

# POSITION PAPER



SOCIAL SECURITY  
ADVISORY BOARD

## The Case for Terminating the Benefit Offset National Demonstration

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### Purpose

This paper is an assessment of merits of the Social Security Administration's (SSA) Benefit Offset National Demonstration's (BOND) ability to address the following: 1) will an offset incentivize more work in Social Security Disability Insurance (SSDI) beneficiaries, and 2) what will be the amount of induced entry from the change in work incentives?

The Social Security Advisory Board finds that the BOND, as it has been implemented, is not adequate to answer these questions. In our view, BOND is a victim of both faulty conceptualization and implementation. Congress owes it to the taxpayers to call a halt to further spending on this project. The questions that were the basis for Congress originally requesting the demonstration should still be addressed, albeit more efficiently.

### Background

As part of the Ticket to Work and Work Incentives Improvement Act of 1999, Congress asked the SSA to conduct a demonstration to test the work incentivizing effect of enabling a beneficiary with earnings to receive a gradual reduction in SSDI benefit payments rather than the current rules in which the beneficiary's payment abruptly stops when his or her earnings reach a predetermined level.<sup>1</sup> The goal of BOND is to determine whether the availability of a benefit offset alone, or in combination with enhanced benefits counseling services, will encourage more SSDI beneficiaries to earn above SGA. The Act required SSA to test variations in the amount of the offset as a proportion of earned income. The amount of income that would be disregarded before benefits are reduced was a decision left up to SSA.

Prior to implementing BOND, SSA contractors conducted the Benefit Offset Four-State Pilot Demonstration (BOPD) in Vermont, Connecticut, Utah and Wisconsin. Despite findings across the four states that there was a 25 percent increase in the percentage of beneficiaries in offset with earnings above the annualized SGA, the pilot study did not result in a reduction in benefit payments (Weathers II and Hemmeter 2011). Issues related to implementation of the pilot, discussed later, may have suppressed an outcome in benefit reduction related to the increase in earnings by the beneficiaries.

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<sup>1</sup> The abrupt loss of the benefit payment is also known as the "cash cliff".

Subsequent to the conclusion to the four-state pilot, SSA decided to proceed with the planned national demonstration. The total projected cost for the BOND (including the pilot, the design, the 5-year demonstration, and the subsequent evaluation) is \$148 million, of which more than \$80 million has already been spent.<sup>2</sup> There are 79,440 study participants eligible to receive the offset. According to the evaluation report, BOND had resulted in the benefit adjustment of only 21 subjects, although the evaluators did project that by the end of the 5 year project, 800 or so might eventually have their benefits offset (Wittenburg, et al. 2012). It is not clear whether the low take-up rate is due to the faulty implementation of the demonstration or the ineffectiveness of the “2 for 1” offset.

## Implementation issues

While Congress requested a demonstration of variations in the benefit offset amount, the demonstration as implemented is testing the specific benefit reduction of \$1 for every \$2 earned.<sup>3</sup> This demonstration, even if completed, will not yield results that have tested which ratio of benefit reduction will have the most work incentivizing results. The “2 for 1” amount would help align the SSDI and SSI work incentives but this demonstration will not further our knowledge of which particular ratio is most appropriate.

The income disregard that SSA was left to determine was set at SSA’s current level of Substantial Gainful Activity (SGA)<sup>4</sup>, an amount that is in stark contrast to the income exemption of \$65 for the SSI program. In practice, using the SGA exemption prevented the undesirable result of at least some of the treatment subjects ending up with less monthly income than the control group. Unfortunately, the results of both the BOPD and ultimately BOND will only pertain to the high and costly income exemption scenario even though we would conjecture that were the Congress to enact a national implementation of the offset, it would set the income exemption somewhere between the extremes of the low SSI amount and the high demonstration amount.<sup>5</sup>

The evaluation of the BOPD found that the benefit offset was often inconsistently and incorrectly applied, leading to delayed entry into the program as well as overpayments and underpayments. In order to address these problems identified in the pilot, the design of the full demonstration changed several administrative features.<sup>6</sup> BOND was intended to test the offset alone, but this demonstration will not be able to distinguish between the effect of the offset and the effect of the administrative changes.<sup>7</sup>

## Alternative methods

A considerable amount of information on the potential effects of benefit offset policy can be found through existing methods. Benitez-Silva et al (2010), for example, test the \$1 for \$2 offset through computer simulation that takes into account various details of the SSDI program. One advantage of employing this method is that it allows the researcher to conduct a type of “controlled experiment” which has proven difficult to implement in the field. This particular simulation allowed the authors to predict, for example, that the individuals already receiving DI would benefit greatly by the offset proposal and that the supposed “induced entry” effect is relatively small (Silva, Buchinsky and Rust 2010). They also concluded that the proposal does not necessarily carry the positive “fiscal” effects that policymakers were hoping for in terms of cost savings in the overall DI program.

The effect of benefit offsets can also be studied by examining other policy environments. For example, a study of

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<sup>2</sup> SSA, Office of Budget. See appendix for a yearly accounting.

<sup>3</sup> Eligibility for the offset in the demonstration requires that the beneficiary has already completed the Trial Work Period (9 months), Cessation (1 month), and the Grace Period (2 months),

<sup>4</sup> For 2013, SGA is \$1040.

<sup>5</sup> While BOND will not provide information on the cost for several more years, the 4-state pilot found that the pilot demonstration as designed did indeed cost – not save – the trust fund monies.

<sup>6</sup> The changes involved simplifying how income is counted and creating an automated system to expedite earnings reporting, as well as creating a dedicated website and call center specifically for BOND participants (Wittenburg, et al. 2012).

<sup>7</sup> The Work Incentives Simplification Pilot (WISP) has been proposed in order to test the effects of simplifying the return-to-work process for SSDI beneficiaries.

veterans conducted for SSA (Autor and Duggan 2008) found that in a context where benefits are unaffected by earnings, even those with high disability rating exhibited a significant amount of work activity. Evidence of this type can inform estimates of the potential for work among SSDI beneficiaries if the possibility of losing benefits based on earnings were removed or significantly reduced.

We further note that that Congress has already implemented a 2-for-1 earnings offset in the Supplemental Security Income (SSI) program that has been in place for over three decades. The offset provides SSI beneficiaries with a clear incentive to work, and indeed between 1987 and 2008, the number of SSI beneficiaries who earned enough to offset their entire SSI cash benefit<sup>8</sup> increased fivefold from 15,532 to 99,481 (U.S. Social Security Administration 2011).

## Findings and Recommendations

The Board has found that

1. a pilot project has already been conducted with informative results,
2. the BOND research design will be unable to discriminate between results due to the offset or program simplification,
3. there are serious concerns about the implementation of the BOND,
4. the project will not produce even early results for another year, and no final results will be produced until after the evaluation is conducted sometime after the conclusion of the demonstration in 2017, and
5. data and methods are already available that could be mined for addressing the research questions posed by BOND or the unspent funds could be redirected to a better designed pilot.

Based on the findings, the Board concludes that the BOND demonstration project is not adequate in testing potential work incentives among Social Security beneficiaries. While SSA has received criticism for not completing research projects, this demonstration is not worthy of continued investment.

The Ticket to Work Act only required that the demonstration

...shall be of sufficient scope and shall be carried out on a wide enough scale to permit a thorough evaluation of the alternative methods under consideration while giving assurance that the results derived from the experiments and projects will obtain generally in the operation of the disability insurance program under this title without committing such program to the adoption of any particular system either locally or nationally (1999, Title III, section 301 a (2))

An argument can be made that the 4-state pilot that has already been conducted meets the requirements of the Ticket to Work Act. The contractors have planned and implemented a costly demonstration that will not yield any more information than is already available.

Despite our reservations about BOND, the questions that were the basis for requesting the demonstration should be addressed. The intent of the Ticket to Work Act was to eliminate barriers to work for the disabled beneficiary. The two elements that are of concern – induced entry and cost to the trust fund – are not being tested by BOND as it has been implemented.

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<sup>8</sup> Under the SSI 1619(b) provision, an SSI beneficiary can reduce their cash benefit to zero as a result of earnings but retain eligibility for the program and retain Medicaid eligibility.

As a safeguard, the offset and accompanying changes could be implemented with a sunset provision, a carefully calibrated reduction in benefits, and a well-reasoned income exclusion amount, with clear criteria for what constitutes success. Elements that should be addressed are:

- Has the overall amount of earnings increased?
- Have more recipients returned to work?
- Is the new policy cost effective?
  - Have more beneficiaries worked their way off a benefit check?
  - Does this savings offset the cost of induced entry?

Once data has been gathered to address these questions, an informed decision can be made about whether to continue the program.

## **Conclusion**

To be clear, we are advocating that this demonstration project be terminated because it is both without merit and costly. In our view, BOND is a victim of both faulty conceptualization and implementation - Congress owes it to the taxpayers to call a halt to further spending on this demonstration project.

## Works Cited

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## Appendix

Total Expenditures on Benefit Offset Demonstrations			
<b>Funds used to date (FY2004-FY2012) and expected (FY2013-FY2015)</b>			
Fiscal Year	BOND	BOPD	Total
2004	\$2,393,000	-	\$2,393,000
2005	\$271	\$3,854,000	\$4,125,000
2006	\$613,000	\$418,000	\$1,031,000
2007	\$2,230,000	\$2,162,000	\$4,394,000
2008	\$5,019,000	\$1,962,000	\$6,981,000
2009	\$2,700,000	\$465,000	\$3,165,000
2010	\$13,511,000	\$277,000	\$13,788,000
2011	\$23,817,000	\$258,000	\$24,075,000
2012	\$29,253,000	\$158,000	\$29,411,000
<b>Total 2004-2012</b>	<b>\$79,807,000</b>	<b>\$9,554,000</b>	<b>\$89,363,000</b>
	Projected future needs (estimates)		
2013	\$18,751,000	-	\$18,751,000
2014	\$17,800,000	-	\$17,800,000
2015	\$16,500,000	-	\$16,500,000
<b>Total 2004-2015</b>	<b>\$132,858,000</b>	-	<b>\$142,414,000</b>

SOURCE: SSA, Office of Budget

NOTE: BOPD completed in the third quarter of FY 2013. No funds were obligated beyond FY 2012

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