

Remarks by Henry J. Aaron¹
to the Committee for a Responsible Federal Budget
on Release of the Report of The Social Security Disability Insurance Solutions Initiative
Washington , D.C.
April 6, 2016

I want to thank Marc Goldwein for inviting me to join you for today's event. We all owe thanks to Jim McCrery and Earl Pomeroy for devoting themselves to the SSDI Solutions Initiative, to the staff of CRFB who backed them up, and most of all to the scholars and practitioners who wrote the many papers that comprise this effort. This is the sort of practical, problem-solving enterprise that this town needs more of. So, to all involved in this effort, 'hats off' and 'please, don't stop now.'

The challenge of improving how public policy helps people with disabilities seemed urgent last year. Depletion of the Social Security Disability Insurance trust loomed. Fears of exploding DI benefit rolls were widespread and intense.

Congress has now taken steps that delay projected depletion until 2022. Meticulous work by Jeffrey Liebman suggests that Disability Insurance rolls have peaked and will start falling. The Technical Panel appointed by the Social Security Advisory Board, concurred in its 2015 report. With such 'good' news, it is all too easy to let attention drift to other seemingly more pressing items.

But trust fund depletion and growing beneficiary rolls are not the most important reasons why policymakers should be focusing on these programs.

The primary reason is that the design and administration of disability programs can be improved with benefit both to taxpayers and to people with disabilities alike. And while 2022 seems a long time off, doing the research called for in the SSDI Solutions Initiative will take all of that time and more. So, it is time to get to work, not to relax.

¹ Bruce and Virginia MacLaury Senior Fellow, The Brookings Institution and Chair, Social Security Advisory Board. The views expressed here are my own and do not necessarily reflect those of the trustees, officers, or other staff of the Brookings Institution or of the members or staff of the Social Security Advisory Board.

Before going any further, I must make a disclaimer. I was invited to talk here as chair of the Social Security Advisory Board. Everything I am going to say from now on will reflect only my personal views, not those of the other members or staff of the SSAB except where the Board has spoken as a group. The same disclaimer applies to the trustees, officers, and other staff of the Brookings Institution. Blame me, not them.

Let me start with an analogy. We economists like indices. Years ago, the late Arthur Okun came up with an index to measure how much pain the economy was inflicting on people. It was a simple index, just the sum of inflation and the unemployment rate. Okun called it the ‘misery index.’

I suggest a ‘policy misery index’—a measure of the grief that a policy problem causes us. It is the sum of a problem’s importance and difficulty. Never mind that neither ‘importance’ nor ‘difficulty’ is quantifiable. Designing and administering interventions intended to improve the lives of people with disabilities has to be at or near the top of the policy misery index.

Those who have worked on disability know what I mean. Programs for people with disabilities are hugely important and miserably hard to design and administer well. That would be true even if legislators were writing afresh on a blank legislative sheet. That they must cope with a deeply entrenched program about which analysts disagree and on which many people depend makes the problems many times more challenging.

I’m going to run through some of the reasons why designing and administering benefits for people determined to be disabled is so difficult. Some may be obvious, even banal, to the highly informed group here today. And you will doubtless think of reasons I omit.

First, the concept of disability, in the sense of a diminished capacity to work, has no clear meaning, the SSA definition of disability notwithstanding. We can define impairments. Some are so severe that work or, indeed, any other form of self-support seems impossible. But even among those with severe impairments, some people work for pay, and some don’t.

That doesn’t mean that if someone with a given impairment works, everyone with that same impairment *could* work if they tried hard enough. It means that physical or mental impairments incompletely identify those for whom work is not a reasonable expectation. The

possibility of work depends on the availability of jobs, of services to support work effort, and of a host of personal characteristics, including functional capacities, intelligence, and grit.

That is not how the current disability determination process works. It considers the availability of jobs in the national, not the local, economy. It ignores the availability of work supports or accommodations by potential employers.

Whatever eligibility criteria one may establish for benefits, some people who really can't work, or can't earn enough to support themselves, will be denied benefits. And some will be awarded benefits who could work.

Good program design helps keep those numbers down. Good administration helps at least as much as, and maybe more than, program design. But there is no way to reduce the number of improper awards and improper denials to zero.

Second, the causes of disability are many and varied. Again, this observation is obvious, almost banal. Genetic inheritance, accidents and injuries, wear and tear from hard physical labor, and normal aging all create different needs for assistance.

These facts mean that people deemed unable to work have different needs. They constitute distinct interest groups, each seeking support, but not necessarily of the same kind. These groups sometimes compete with each other for always-limited resources. And that competition means that the politics of disability benefits are, shall we say, interesting.

Third, the design of programs to help people deemed unable to work is important and difficult. Moral hazard is endemic. Providing needed support and services is an act of compassion and decency. The goal is to provide such support and services while preserving incentives to work and to controlling costs borne by taxpayers.

But preserving work incentives is only part of the challenge. The capacity to work is continuous, not binary. Training and a wide and diverse range of services can help people perform activities of daily living and work.

Because resources are scarce, policy makers and administrators have to sort out who should get those services. Should it be those who are neediest? Those who are most likely to

recover full capacities? Triage is inescapable. It is technically difficult. And it is always ethically fraught.

Designing disability benefit programs is hard. But administering them well is just as important and at least as difficult.

These statements may also be obvious to those who here today. But recent legislation and administrative appropriations raise doubts about whether they are obvious to or accepted by some members of Congress.

Let's start with program design. We can all agree, I think, that incentives matter. If benefits ceased at the first dollar earned, few who come on the rolls would ever try to work.

So, Congress, for many years, has allowed beneficiaries to earn any amount for a brief period and small amounts indefinitely without losing eligibility. Under current law, there is a benefit cliff. If—after a trial work period—beneficiaries earn even \$1 more than what is called substantial gainful activity, \$1,130 in 2016, their benefit checks stop. They retain eligibility for health coverage for a while even after they leave the rolls. And for an extended period they may regain cash and health benefits without delay if their earnings decline.

Members of Congress have long been interested in whether a more gradual phase-out of benefits as earnings rise might encourage work. Various aspects of the current Disability Insurance program reflect Congress's desire to encourage work.

The so-called Benefit Offset National Demonstration—or BOND—was designed to test the impact on labor supply by DI beneficiaries of one formula—replacing the “cliff” with a gradual reduction in benefits: \$1 of benefit lost for each \$2 of earnings above the Substantial Gainful Activity level.

Alas, there were problems with that demonstration. It tested only one offset scenario – one starting point and one rate. So, there could be no way of knowing whether a 2-for-1 offset was the best way to encourage work.

And then there was the uncomfortable fact that, at the time of the last evaluation, out of 79,440 study participants only 21 experienced the offset. So there was no way of telling much of anything, other than that few people had worked enough to experience the offset.

Nor was the cause of non-response obvious. It is not clear how many demonstration participants even understood what was on offer.

Unsurprisingly, members of Congress interested in promoting work among DI recipients asked SSA to revisit the issue. The 2015 DI legislation mandates a new demonstration, christened the Promoting Opportunity Demonstration, or POD. POD uses the same 2 for 1 offset rate that BOND did, but the offset starts at an earnings level at or below earnings of \$810 a month in 2016—which is well below the earnings at which the BOND phase-out began.

Unfortunately, as Kathleen Romig has pointed out in an excellent paper for the Center on Budget and Policy Priorities, this demonstration is unlikely to yield useful results. Only a very few atypical DI beneficiaries are likely to find it in their interest to participate in the demonstration, fewer even than in the BOND. That is because the POD offset begins at lower earnings than the BOND offset did. In addition, participants in POD sacrifice the right to earn any amount for 9 months of working without losing any benefits at all.

Furthermore, the 2015 law stipulated that no Disability Insurance beneficiary could be required to participate in the demonstration or, having agreed to participate, forced to remain in the demonstration. Thus, few people are likely to respond to the POD or to remain in it.

There is a small group to whom POD will be very attractive—those few DI recipients who retain a lot of earning capacity. The POD will allow them to retain DI coverage until their earnings are quite high. For example, a person receiving a \$2,000 monthly benefit—well above the average, to be sure, but well below the maximum—would remain eligible for some benefits until his or her annual earnings exceeded \$57,700. I don't know about you, but I doubt that Congress would favorably consider permanent law of this sort.

Not only would those participating be a thin and quite unrepresentative sample of DI beneficiaries in general, or even of those with some earning capacity, but selection bias resulting from the opportunity to opt out at any time would destroy the external validity of any statistical results.

Let me be clear. My comments on POD, the demonstration mandated in the 2015 legislation, are not meant to denigrate the need for, or the importance of, research on how to encourage work by DI recipients, especially those for whom financial independence is plausible.

On the contrary, as I said at the outset, research is desperately needed on this issue, as well as many others. It is not yet too late to authorize a research design with a better chance of producing useful results.

But it will be too late soon. Fielding demonstrations takes time—

- to solicit bids from contractors,
- for contractors to formulate bids,
- for government boards to select the best one,
- for contractors to enroll participants,
- for contractors to administer the demonstration,
- and for analysts to process the data generated by the demonstrations.

That process will take all the time available between now and 2021 or 2022 when the DI trust fund will again demand attention. It will take a good deal more time than that to address the formidable and intriguing research agenda of SSDI Solutions Initiative.

I should like to conclude with plugs for two initiatives to which the Social Security Advisory Board has been giving some attention.

It takes too long for disability insurance applicants to have their cases decided. Perhaps the whole determination process should be redesigned. One of the CFRB papers proposes just that. But until that happens, it is vital to shorten the unconscionable delays separating initial denials and reconsideration from hearings before administrative law judges to which applicants are legally entitled. Procedural reforms in the hearing process might help. More ALJs surely will.

The 2015 budget act requires the Office of Personnel Management to take steps that will help increase the number of ALJs hired. I believe that the new director, Beth Colbert, is committed to reforms. But it is very hard to change legal interpretations that have hampered hiring for years and the sluggish bureaucratic culture that fostered them.

So, the jury is out on whether OPM can deliver. In a recent op-ed in *Politico*, Lanhee Chen, a Republican member of the SSAB, and I jointly endorsed urged Congress to be ready, if OPM fails to deliver on more and better lists of ALJ candidates and streamlined procedures for

their appointment, to move the ALJ examination authority to another federal organization, such as the Administrative Conference of the United States.

Lastly, there is a facet of income support policy that we on the SSAB all agree merits much more attention than it has received. Just last month, the SSAB released a paper entitled *Representative Payees: A Call to Action*. More than eight million beneficiaries have been deemed incapable of managing \$77 billion in benefits that the Social Security Administration provided them in 2014.

We believe that serious concern is warranted about all aspects of the representative payee program—how this infringement of personal autonomy is found to be necessary, how payees are selected, and how payee performance is monitored.

Management of representative payees is a particular challenge for the Social Security Administration. Its primary job is to pay cash benefits in the right amount to the right person at the right time. SSA does that job at rock-bottom costs and with remarkable accuracy. It is handling rapidly rising workloads with budgets that have barely risen. SSA is neither designed nor staffed to provide social services. Yet determining the need for, selecting, and monitoring representative payees is a social service function.

As the Baby Boom ages, the number of people needing help in administering cash benefits from the Social Security Administration—and from other agencies such as the Veterans Administration—will grow. So will the number needing help in making informed choices under Medicare and Medicaid.

The SSAB is determined to look into this challenge and to make constructive suggestions. We are just beginning and invite others to join in studying what I have called “the most important problem the public has never heard of.”

Living with disabilities today is markedly different from what it was in 1956 when the Disability Insurance program began. Yet, the DI program has changed little. Beneficiaries and taxpayers are pay heavily the failure of public policy to apply what has been learned over the past six decades about health, disability, function, and work.

I hope that SSA and Congress will use well the time until it next must legislate on Disability Insurance. The DI rolls are stabilizing. The economy has grown steadily since the

Great Recession. Congress has reinstated demonstration authority. With adequate funding for research and testing, the SSA can rebuild its research capability. Along with the external research community, it can identify what works and help Congress improve the DI program for beneficiaries and taxpayers alike. The SSDI Solutions Initiative is a fine roadmap.