How Much Work Would a 50% Disability Insurance Benefit Offset Encourage?: An Analysis Using SSI and SSDI Incentives

Phil Armour
RAND Corporation
Overview

• Two US Federal disability programs

• Same Disability Determination Process

• Different average characteristics, but with much overlap

- Completed TWP
- Benefits suspended for work
- Benefits terminated for work

Source: Stapleton et al. (2010a), based on SSA data matched to RSA data.
Rise in Disability Rolls, cont’d

• Interest in changing benefit structure, specifically a $1 benefit for $2 earnings offset (Benefit Offset)

• How much work would this encourage: need labor supply responsiveness with regard to benefit structure

• The (US) literature to date observes labor supply responsiveness with regard to benefit receipt
Estimating Elasticities

• Two Traditional Problems
  – No *de jure* regional variation in DI (personal, temporal, and blind/non-blind variation)
  – Complex interactions with other programs, like SSI

• Use the latter to address the former: study SSI interactions and the resulting variation in disability benefit reduction rates to get at labor supply responsiveness
Monthly Income and SSDI Benefit Schedule as a Function of Monthly Earnings, with a $400 SSDI Benefit in 2000

- **Total Income (Earnings + SSDI)**
- **SSDI Benefit**

- **SGA = $700**
Monthly Income and SSDI Benefit Schedule as a Function of Monthly Earnings, with a $400 SSDI Benefit in 2000, with 50% Benefit Offset

- **Total Income (Earnings + SSDI)**
- **SSDI Benefit**

**SGA = $700**
SSI Benefit Structure

• Individual asset test: $2,000
• Federal Benefit Rate ($698/month in 2012 for individuals)
• Some states have supplements
• Small exclusion for earned/unearned income
• Every $2 of earnings reduces benefit by $1
• Every $1 of other income reduces benefit by $1
• Can earn past SGA, if otherwise SSI-eligible
Monthly Income and SSI Benefit Schedule as a Function of Monthly Earnings, with a $513 SSI Benefit in 2000, Assuming No State SSI Supplement and No Other Income

- **Total Income (SSI+Earnings)**
- **SSI Benefit**
Monthly Income and SSDI Benefit Schedule as a Function of Monthly Earnings, with a $400 SSDI Benefit in 2000

Income

Monthly Earnings

Total Income (Earnings + SSDI)

SSDI Benefit

SGA = $700
SSI Benefit, SSDI Benefit, and Total Income for an Individual with a $400 SSDI Benefit in 2000

- **Total Income (SSDI+SSI+Earnings)**
- **SSDI Benefit**
- **SSI Benefit**
Total Monthly Income for SSI/SSDI Eligible Individual as Function of Monthly Earnings, by June vs. July 1999, With $400 SSDI Benefit and No Other Income
Analysis

• Survey of Income and Program Participation (nationally representative), matched to SSA earnings and benefits records, 1988-2002

• March CPS for expected earnings of similar individuals with work-limiting conditions
Two Questions

• How much less likely are you to work if you expect to face a 50% disability benefit reduction rate (vs. a zero rate)?

• Conditional on working, how much less will you earn if you expect to face this 50% rate?
Fraction Facing 50% Disability Benefit Reduction Rate at each Potential Earnings Level, 1990-1999
<table>
<thead>
<tr>
<th></th>
<th>Participation: Marginal Probit</th>
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<th>Ln(Earnings): OLS</th>
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<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
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<tr>
<td>Facing 50% BRR in Expectation</td>
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<td>-0.567***</td>
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Implications

• Choice of participation not affected
• If working, strongly want to avoid 50% BRR
• Benefit Offset probably won’t encourage entry, and individuals won’t want to earn over SGA
• Explains underlying mechanism behind little BOND reactivity
• Consistent with sociology literature among SSI recipients (benefit loss aversion)
• Shallower BRR? EITC-style structure?