REMOVING THE “CASH CLIFF”

THE SOCIAL SECURITY ADMINISTRATION’S BENEFIT OFFSET NATIONAL DEMONSTRATION (BOND)

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The Benefit Offset National Demonstration (BOND) tested alternative Social Security Disability Insurance (SSDI) work rules designed to increase the incentive for SSDI beneficiaries to work and to potentially lead to a reduction in total benefit payments. Involving some 1.2 million SSDI beneficiaries, BOND is one of the largest public policy experiments ever conducted. Lead contractor Abt Associates, with its study partner Mathematica Policy Research and a team of more than 25 other subcontractors, implemented and evaluated the demonstration.

**Introduction**

Social Security Disability Insurance is the nation’s primary earnings-replacement program for workers who become unable to perform substantial work due to long-term physical or mental conditions. In 2017, the SSDI program paid $143 billion in cash benefits to approximately 9 million disabled workers and 3 million spouses and children of disabled, retired, or deceased workers. SSDI benefits are paid from a trust fund financed by Social Security taxes paid by workers and employers. The trust fund is currently projected to be depleted in 2052.

In 1999, Congress directed the Social Security Administration (SSA) to test whether a benefit offset policy would encourage SSDI beneficiaries to work more (i.e., increase their earnings) and lead to the trust fund paying less in benefits. Under current SSDI rules, when beneficiaries engage in substantial gainful activity (SGA—defined as earnings of $1,220 per month for most SSDI beneficiaries) for more than a year, SSA suspends their entire benefit payment. This rule creates a “cash cliff” at the SGA threshold, where beneficiaries who earn even slightly above the threshold lose their entire SSDI benefit.

**BOND** tested a **$1 for $2 benefit offset applied to annual earnings above the BOND Yearly Amount (BYA)**—

The annual equivalent of SSDI’s monthly SGA amount. The benefit offset reduced yearly SSDI benefits by $1 for every $2 in annual earnings above BYA. Beneficiaries participating in the evaluation were assigned to either a treatment group that was subject to the benefit offset or a control group that was not (i.e., they remained subject to current program rules). This meant that treatment beneficiaries did not face the cash cliff and kept some of their monthly SSDI benefits when they earned above BYA. In place of the “cash cliff,” the benefit offset created a “ramp” at the BYA threshold, gradually lowering SSDI benefits as earnings increased.
Summary of Key Findings

IMPACT ON EARNINGS AND SSDI BENEFITS

The evaluation found no statistically significant evidence of an impact of the benefit offset policy on average earnings either in the nationally representative Stage 1 sample or in the Stage 2 sample of volunteers.

In contrast, the evaluation found that the benefit offset policy increased the average amount of SSDI benefits due to beneficiaries. In the nationally representative Stage 1 sample, the benefit offset increased average SSDI benefits by $143 per year (or about $12 per month) during the five-year period. This impact is an increase of slightly more than 1 percent over the current-law average benefits. In the Stage 2 sample, the benefit offset increased average SSDI benefits by $450-$500 annually during the four years. This impact is an increase of about 4 percent over the current-law average benefits.5

Underlying these impacts on SSDI benefits are factors that had effects in opposite directions:

Two factors pushed average SSDI benefits upward. First, under the offset policy, SSA pays partial benefits to those who would have received zero benefits under the current law—in effect, a windfall to beneficiaries who would already engage in SGA under current law. Second, economic theory predicts that those beneficiaries receiving the benefits windfall will respond by reducing their earnings somewhat, thereby further increasing average SSDI benefits. The evaluation finds evidence in Stage 1 of such a reduction by at least some of those beneficiaries who would engage in SGA under current law.

Conversely, economic theory also predicts that the benefit offset will increase the share of beneficiaries earning above BYA. Those who are induced by the offset to increase their earnings above BYA then receive partial SSDI benefits, rather than full benefits. This pushes average SSDI benefits downward. Consistent with this theory, the evaluation finds evidence in both stages that the benefit offset increased the share of beneficiaries with earnings above BYA—by 7 percent in Stage 1 and by 23 percent in Stage 2, relative to the corresponding control group means.
That SSDI benefits increased in the demonstration shows that the two upward factors outweighed the one downward factor. In fact, the magnitude of the increase in the share of beneficiaries earning above BYA was far from large enough in either stage to bring average SSDI benefits below the average for control group members.

In addition to examining effects of the benefit offset, the Stage 2 evaluation found virtually no evidence of impacts from counseling enhancements on any earnings-related or benefit-related outcome.
**BENEFIT-COST ANALYSIS RESULTS**

In the nationally representative Stage 1 sample, the evaluation's benefit-cost analysis found a **net social cost** of the benefit offset. The very small estimated increases in earnings (not statistically significant) did not outweigh the deadweight loss from tax increases that would be needed to fund larger SSDI benefit payments. Distributional effects were much larger, with SSDI beneficiaries gaining income by receiving larger SSDI benefits and countervailing losses to the Disability Insurance Trust Fund. The benefit-cost analysis for Stage 2 shows that the benefit offset plus standard work incentives counseling had a **net social benefit** in the small subpopulation of beneficiaries who volunteered for the demonstration. In contrast, the offset plus enhanced work incentives counseling had a **net social loss**, largely due to higher counseling costs.

**BENEFICIARIES’ RESPONSE TO THE BENEFIT OFFSET**

The demonstration was to test whether SSDI beneficiaries would work more (i.e., increase their earnings) in response to the opportunity offered by the benefit offset to engage in SGA without losing their full SSDI benefit. A small minority of beneficiaries in each treatment group responded to the work incentive provided by the benefit offset.

1. Of the Stage 1 sample, 3.6 percent of the treatment group earned enough to trigger the offset, resulting in a reduction in their benefits, in at least one year during the follow-up period, and 2.2 percent did so in the final year examined, 2015.

2. The share of beneficiaries in the Stage 2 sample who responded to the offset was higher, as expected. About 15 percent of the treatment groups earned enough to trigger partial benefit payments in any year during the follow-up period, and 10 percent did so in 2015.

3. The evaluation finds no evidence in Stage 2 that enhanced work incentives counseling resulted in more beneficiaries responding to the benefit offset compared with standard counseling.

4. The evaluation also finds that most beneficiaries who earned enough to trigger partial benefit payments would have earned at that level even in the absence of the benefit offset.
Why Were Response to the Offset and Earnings Effects Not Larger?

The BOND evaluation findings offer four potential explanations for why the response to the benefit offset and the effect on share of beneficiaries earning above BYA were not larger in magnitude.

**Limited work capacity of most beneficiaries.**
Because of the nature of the SSDI eligibility criteria, only a fairly small minority of beneficiaries could be expected to earn enough to trigger the benefit offset.

**Insufficient decrease in disincentive.**
The decrease in the disincentive to earn above BYA was not sharp enough to induce some beneficiaries with the capacity to earn above BYA to actually do so. Even with the removal of the cash cliff, the offset still imposes a 50 percent implicit tax on earnings. For some beneficiaries, this implicit tax, perhaps along with the potential for actual tax increases and reductions in other benefits, may make the potential increase in net income from increased earnings smaller than the opportunity cost of their giving up other activities.

**Complexity of benefit offset and current law rules.** The complexity of SSDI work rules muddles beneficiaries’ understanding of the difference in the incentives provided under the offset policy and under current law.

**Implementation of the offset policy, interacted with the complexity of the rules.** The conditions established by the BOND implementation may have resulted in smaller impacts than would be the case under a permanent national benefit offset policy. The findings for Stage 1 suggest that outreach and information provided to treatment group members did not leave them understanding the offset rules as well as control group members understood current law. Further, long delays in making first benefit adjustments may have depressed understanding of the offset rules.

It is possible that the impact on the share of beneficiaries earning above BYA might have been somewhat larger in the nationally representative Stage 1 sample had outreach to the treatment group been more robust and benefit adjustments more timely. However, were the benefit offset an established national policy, there is nothing in the evidence to suggest its effect would reach the magnitude seen for volunteers in Stage 2 (which at 23 percent was more than three times the 7 percent effect found in Stage 1). Further, the results from Stage 2 imply that even its 23 percent effect would fall far short of reducing total SSDI benefits. **Thus, the evidence from BOND shows that a national policy that reduces SSDI benefits by $1 for every $2 in earnings above the SGA threshold would not reduce the total amount of SSDI benefits owed to beneficiaries.**
Notes


2 In 2019, SSA set the SGA level at $1,220 in monthly earnings for non-blind beneficiaries and $2,040 in monthly earnings for blind beneficiaries.

3 Stage 1 random assignment took place in May 2011. Data on earnings are available only on an annual basis, so the evaluation examined earnings in Stage 1 from January 2011 to December 2015. Data on SSDI benefits are available by month, so the evaluation examined benefits in Stage 1 from the month of random assignment (May 2011) to the end of the follow-up period (December 2015).

4 Stage 2 random assignment took place on a rolling basis from March 2011 to September 2012, with 40 percent of volunteers enrolling in the study in 2011 and 60 percent of volunteers enrolling in 2012. The evaluation analyzed both earnings and benefit data covering the period of January 2012 to December 2015.


6 By a rough estimate, the Stage 1 increase in the share of beneficiaries earning above BYA would need to be 30 times as large as that observed in 2014 to drive the positive impact on SSDI benefits to zero. The corresponding multiple for each Stage 2 treatment group is close to 10 times. The increases in shares of beneficiaries earning above BYA would need to be larger than these multiples to yield

7 Deadweight loss results if the tested interventions affect the government’s fiscal position—for example, by causing government to pay a larger amount of SSDI benefits. The assumption is that when government outlays change, some government-imposed taxes at some point must commensurately grow larger or smaller than they otherwise would be. Taxes create economic distortions by affecting incentives to work and invest.
Suggested Citation


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