

**Fiscal Austerity and the
Transition to Twenty-First
Century Disability Policy:
A Road Map**

November 9, 2011

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ABSTRACT

Systemic problems with the current support system for working-age people with disabilities are failing to meet the economic aspirations of this population and driving up governmental expenditures for their support. In this paper we describe the programmatic and financial structure of a support system that has the potential to change these outcomes. We also propose a focused demonstration period to build the evidence base and political consensus needed to support major structural change. This proposal could be incorporated into an effort to address the nation's long-term fiscal problems while protecting those relying on existing programs in the short term.

I. INTRODUCTION

Multiple social, technological, and medical advances over the past half century have raised the aspirations and increased the productivity of people with significant medical impairments. Antidiscrimination and civil rights reforms such as the Americans with Disabilities Act (ADA) and educational policies aimed at integrating those with disabilities have removed barriers and encouraged people with disabilities to obtain education and seek employment. These reform efforts have also influenced social conceptions of disability more broadly, encouraging social integration of the disabled beyond the classroom and workplace. Along with these legal and social changes, tremendous technological and structural changes in the workplace have increased the potential output of people with significant medical impairments. Medical advances improving both life expectancy and quality of life have enabled people with disabilities to devote less time toward maintaining their health and more time toward pursuing other goals.

Despite these major, fundamental changes, the employment aspirations of working-age Americans with disabilities have not been realized, and this group is falling further behind

economically.¹ Over the past 30 years, people with disabilities have had steadily declining household incomes and rates of employment relative to their peers.² At the same time, people with disabilities have become increasingly dependent on governmental support programs that create disincentives to employment by relying heavily on inability to work as the conceptual basis for benefit eligibility.

Unexpectedly rapid growth in the number of workers leaving the labor force and obtaining disability benefits has placed programs such as Social Security Disability Insurance (SSDI) in fiscal trouble. Between 1980 and 2010, the caseload for SSDI grew far faster than did the working-age population, almost tripling from 2.8 to 8.0 million.³ As a result of this growth, the Congressional Budget Office (2011) projects that the SSDI Trust Fund will be exhausted in 2016.⁴ Growth in the reliance of the working-age population on disability benefits has also contributed substantially to the rapid growth in expenditures for Supplemental Security Income (SSI), Medicare, and Medicaid. In total, federal expenditures to support people with disabilities accounted for 12.0 percent of federal outlays in fiscal year 2008, up from 11.3 percent just six years earlier.⁵

We believe that a substantive reworking of disability support programs and their financing could help reverse these troubling trends. Such reforms have the potential to help those with disabilities enjoy more economic success *and* reduce the growth in federal and state expenditures for their support. With this objective in mind, we present a three-part reform proposal. The proposal

¹ The National Council on Disability (2007) reports that two-thirds of those with disabilities who are not employed would prefer to be working.

² See Stapleton (2011) for a summary, Kaye (2010) for recent statistics, and Weathers and Wittenburg (2009) for further discussion.

³ Some of this growth is due to population growth, increases in female labor force participation, and aging of the baby-boom cohort. Stapleton and Wittenburg (2011), however, calculate that these sources alone would have increased the caseload to just 5.8 million over this demonstration period; thus, an increase of 2.2 million is due to other causes.

⁴ A few months earlier, the Social Security and Medicare Boards of Trustees (2011) projected SSDI Trust Fund exhaustion in 2018.

⁵ See Livermore et al. (2011). These trends are not unique to the United States. See World Health Organization and World Bank (2011) and the Organization for Economic Co-operation and Development (2010).

includes programmatic reforms that improve work incentives and integrate supports, financial reforms designed to support the programmatic reforms and control cost growth, and a demonstration period that identifies effective reforms for eventual national implementation. The proposal could be incorporated into an effort to address the nation's long-term fiscal problems while protecting those relying on existing programs in the short term.

The programmatic reforms outlined in the proposal attempt to advance employment and increase support integration. Nationwide eligibility criteria would focus on potential work capacity rather than chronic inability to work. More specifically, those with substantial work capacity would be expected to use that capacity with the assistance of timely employment and supplemental supports. To make support navigation easier for beneficiaries and help correct several systemic inefficiencies, all disability support determination and delivery would be consolidated under new state or regional entities called Disability Support Administrators (DSAs). Efficiency gains achieved by DSAs would enable the reforms to improve supports for those truly unable to work without requiring additional overall funding.

The financial reforms are designed to successfully support the programmatic reforms while containing expenditure growth. Each DSA would receive a fixed amount of federal funding each year that reflects programmatic goals as well as the expected needs of the DSA's population with disabilities. Federal DSA expenditures would be capped in a manner that is consistent with demographic change, the business cycle, and national fiscal objectives. States would also be required to contribute a commensurate amount toward the support of their residents. State obligations would also change over time, but would not be open-ended.

The demonstration period is a time of preparation that will precede passage of reform legislation and a gradual national implementation. States, local governments, and private organizations would use the demonstration period to design and test the key ideas embodied in the

programmatic and financial reforms described in this proposal. Such demonstrations would typically require federal program waivers as well as the cooperation of multiple state agencies. A consumer oversight commission would be established to monitor the demonstration process and make recommendations to policymakers. Changes in federal policy would occur only after sufficient success has been achieved to build the political consensus needed to move forward.⁶

The reforms outlined in this proposal have the potential to address the current disability support system's most problematic features. Many reform details have been intentionally relegated to the demonstration period, however, because it is currently unclear what the details should be. Our expectation is that these details will be developed as the reform evidence base grows and political issues are addressed during the demonstration period. We present this proposal in the hope and expectation that constructive dialog will lead to an extended period of active and successful innovation.

The remainder of the paper is organized as follows. The next section summarizes the failings of the current support system, draws lessons from past reforms, and considers recent proposals that partially address the current system's failings. The subsequent two sections describe the programmatic and financial reforms and set the stage for the penultimate section, which describes the demonstration period. The final section contains concluding remarks.

⁶ We are not the first to call for a demonstration effort around innovations to improve economic outcomes for people with disabilities and reduce their reliance on government support, although our proposal is broader in scope than its predecessors. See, for instance, Social Security Advisory Board (2006), MacDonald and O'Neil (2006), National Council on Disability (2007), Autor and Duggan (2010) and Burkhauser and Daly (2011).

II. BACKGROUND

A. Current Policy

Disability policy in America, as well as in other developed countries, has been heavily critiqued over the past three decades.⁷ Two prominent features of current policy have been identified as especially problematic for the employment of people with disabilities and efficient delivery of support.

First, the eligibility criteria for the primary programs that provide income support and that are the gateway to many other benefits—including public health insurance—are based on inability to work. The result is a policy structure that discourages work and perpetuates the misconception that people with disabilities cannot work. Based on existing evidence, a shift to programs that actively promote, support, and expect employment for those with substantial work capacity would increase employment and economic self-sufficiency. For instance, recent research has found that 18 percent of new recipients of SSDI benefits are able to engage in substantial work (as defined by the program) within two years after program entry, but only 5 percent choose to do so.⁸

It is not difficult to understand why many would make such a choice, given limits on job opportunities and the loss of all SSDI benefits if they engage in substantial gainful activity for 12 months, or even less. It would be a mistake to simply deny all benefits to such individuals, assuming we could identify them. Under that scenario, it seems likely that many would face significant hardship. But such individuals might fare well and return to work or increase their earnings under a policy that supports, rather than undermines, work.

⁷ See World Health Organization and World Bank (2011), Besharov (2011), Organization for Economic Cooperation and Development (OECD, 2010), Stapleton et al. (2006), Government Accountability Office (2006, 2008), Social Security Advisory Board (2006), Mashaw and Reno (1996), and Berkowitz (1987).

⁸ See Maestas et al. (2011). For additional evidence on this point, see French and Song (2011).

Second, fragmentation of support is highly inefficient and contributes to low employment. As the Government Accountability Office (2005) has documented, a plethora of state and federal disability support programs create pervasive inefficiencies, including service overlaps, service gaps, misaligned incentives, and conflicting objectives. Incentives that encourage inefficient behaviors are pervasive. For example, states make initial disability determinations for SSI and SSDI, two programs funded almost entirely by the federal government. Consequently, states have a strong incentive to allow applications to these programs from their own residents with disabilities (Berkowitz 1987) rather than providing state-funded supports that might help such applicants work and maximize their self-sufficiency.⁹ Program and service overlaps also create substantial inefficiencies, such as the dual eligibility of some individuals for Medicare and Medicaid. The differing rules of Medicare and Medicaid discourage service integration and coordination for those with dual eligibility and create opportunities for providers to exploit these programs for their own gain.¹⁰ Furthermore, states have an incentive to help SSI recipients become eligible for SSDI because it partially shifts health care costs from the federal–state Medicaid program to the fully federal Medicare program.

In addition, program fragmentation makes it very difficult to design, test, and implement even modest program innovations. Multiple federal and state agencies have responsibilities for various pieces, as do multiple committees in Congress. Hence, each individual program plods along, trying to improve its part of the overall system in ways that, collectively, add up to very little overall progress. Also, when a program is significantly reformed or its resources are drastically reduced,

⁹ Congress addressed this problem in the 1980 amendments to the Social Security Act, which tasked the Social Security Administration (SSA) with reviewing half of each state’s allowances, and with returning those decisions that were not well supported for further review. SSA’s quality assurance reviews subsequently show a sharp drop in “allowance errors,” but an equal increase in “denial errors” (Stapleton and Pugh 2001). The need for the federal government to ensure that states do not allow cases for those failing to meet the programs’ medical criteria contributes to the long processing times and high expense of the disability determination process.

¹⁰ See Medicare Payment Advisory Commission (2010).

fragmentation allows some beneficiaries adversely affected by the reforms to join another program. Consequently, instead of lowering total expenditures, the reform merely redistributes costs. For instance, the welfare reforms of the 1990s increased incentives for states to help low-income parents with disabilities move from the federal–state family income support program, now called Temporary Assistance for Needy Families (TANF), to SSI and SSDI. Research has documented that a very large shift occurred, effectively segregating many parents with disabilities from other parents receiving supports from the state.¹¹

Offering benefits as open-ended entitlements also helps to explain the rapid rise in program expenditures. Although these programs have cost-control mechanisms, cost control is problematic because it often requires denial of benefits or services to people who are very vulnerable. The lack of better options for people with disabilities might well contribute to the uncontrolled expansion of these programs.

Several other features of current programs are often cited as problematic for employment and participation in other social activities for people with disabilities. Current programs tend to segregate people with disabilities from others in society rather than making supports provided to a broader population also accessible to those with disabilities. For example, employment supports for those with disabilities are provided by vocational rehabilitation agencies rather than through the more broadly based employment service system. Many supports are not well tailored to the specific circumstances of the individual. For instance, SSI benefits are based on an income standard that has no relation to the extra costs associated with the beneficiary's impairments, and Medicare pays for medical equipment that is sufficient for those who stay at home but not for those who work.

¹¹ See Schmidt and Sevak (2004).

B. Lessons from Past Reforms

The proposal we present addresses these limitations in part by drawing on lessons from previous reform efforts. The initial policy response to high disability program expenditures during the early 1980s was to tighten eligibility criteria or reduce benefits. The austerity measures ultimately harmed the population the programs were designed to help and generated a severe political backlash that led to the expansion of eligibility criteria and even more rapid expenditure growth.¹²

More recent reform efforts have also met with little success. One purpose of the ADA in 1990 was to establish the right to work for people with disabilities and to address one cause of low employment—employer discrimination against job applicants and workers with disabilities. Researchers disagree about the effect of the ADA on the employment of people with disabilities, but if there was a net positive impact, it was clearly not sufficient to prevent a substantial relative decline in the employment rate for those with disabilities.¹³ There is also no evidence that recent reforms targeting those already on SSDI or SSI or known to meet the SSDI/SSI medical eligibility criteria have had substantial positive impacts.¹⁴

This proposal draws on the mixed lessons from welfare reform in the 1990s. Welfare reform involved structural changes that addressed work disincentives and pervasive inefficiencies related to how welfare programs were financed. The first lesson from welfare reform is that it took decades for policymakers to figure out an approach that showed promise for achieving the twin goals of improved economic outcomes and less reliance on government support. The development of the evidence base was critical for both designing new policy and building the political consensus to

¹² See Congressional Budget Office (2010).

¹³ See Burkhauser et al. (forthcoming), Houtenville and Burkhauser (2005), Acemoglu and Angrist (2001), DeLeire (2000), and Goodman and Waidmann (2003).

¹⁴ See Livermore and Goodman (2009) and Wittenburg et al. (2008).

move forward. The second lesson from welfare reform is that major structural changes that affect a vulnerable population can have a dramatic positive impact on employment, income, and self-sufficiency. Of course the issues faced by people with disabilities are fundamentally different from those faced by low-income families, so the same reforms applied to people with disabilities would have different, and often negative, effects. For those people with disabilities who can work, however, welfare reform suggests that changing work expectations, increasing the incentive to work, and integrating work support and other services with benefit payments can lead to greater economic success and self-sufficiency.

Welfare reform also showed, however, that the reform's financing mechanism—federal block grants to states—had substantial shortcomings in the long term, at least as implemented. During the strong economic expansion of the late 1990s several states had excess welfare program funding that they spent on other programs rather than saving to fund their welfare programs during an economic downturn. This spending occurred at least in part because of an expectation that Congress would reduce future welfare funding if the excess funds were not quickly spent. As a result of this spending, states have had insufficient funds to pay for welfare benefits following the recent recession. More funds were appropriated under the American Recovery and Reinvestment Act, but states have run through those funds, and it seems unlikely that additional federal welfare funding will become available.¹⁵

Hence, although block grants to states seem the obvious way to integrate federal funding and cap its growth, the experience of welfare reform demonstrates that states cannot necessarily be relied on to use block grants solely for the purposes intended. In addition, a better mechanism is needed to adjust the size of the block grants over the business cycle, or, more broadly, as any external factor

¹⁵ See Pavetti and Schott (2011) and Besharov (2011).

increases or reduces the need for funding. Thus, a new disability support policy should include a funding mechanism that shares the attractive features of block grants—integrated and capped federal funding—but not the unattractive ones—opportunities and incentives for grant recipients to use the funds for other purposes—and a grant amount that is insensitive to important external determinants of need, such as the business cycle.

C. Other Reform Proposals

Several important disability policy reform proposals have surfaced in recent years, but each falls short of addressing the full range of issues for all working-age people with disabilities. Most focus on those who experience disability onset after entering the labor force. MacDonald and O’Neil (2006) propose a new social insurance program called Earnings Support Insurance (ESI), which would provide short-term supports to help people remain at their jobs or find new jobs after the onset of a disability. Autor and Duggan (2010) propose a universal private disability insurance program, cofinanced by workers and employers. Workers would have to receive benefits from this program for at least two years before they could apply for SSDI. Burkhauser and Daly (2011) suggest experience rating SSDI and funding SSI through block grants to states.

All of these proposals contain many potentially effective features, and our proposed structural reforms reflect several of these features. Further, some version of each proposal could potentially be tested in our proposed demonstration period.¹⁶ However, none address the work disincentives and program fragmentation issues we have identified in a comprehensive way.

Besharov (2011) has called for a broader set of work-oriented reforms to a wide range of social programs, including the disability programs, borrowing from comprehensive “labor-activation”

¹⁶ The Social Security Advisory Board (2006) and Autor and Duggan (2010) have recommended tests of early intervention systems via demonstrations involving the five states with mandatory short-term disability insurance programs.

efforts in OECD countries. Readers familiar with the six elements of labor-activation policies identified by Besharov will find that each has at least some role in the disability program reforms presented here.

The next two sections describe what we consider to be the key features of a system that addresses these problems in a comprehensive manner. The reformed system has two interactive parts: programmatic reforms and financial reforms needed to support them. For each part, we first discuss objectives for reform and then describe reforms that would meet the objectives. The reforms are based on logic and, when available, empirical evidence. The demonstration period described later is designed to test the reform logic and fill gaps in the evidence base.

III. PROGRAMMATIC REFORMS

A. Objectives

The programmatic reforms have six objectives:

1. Expect and empower people with sufficient work capacity to work despite their significant impairments.
2. Ensure that those expected to work will benefit from working. More specifically, the reforms should result in increased economic status and independence of individuals with substantial work capacity. Increased earnings must do more than merely replace income support reductions.
3. Protect and improve supports for people who do not have substantial work capacity.
4. Increase the extent to which those with disabilities can control decisions that affect their lives and enhance their capacity to make responsible decisions.
5. Increase integration of programs for people with disabilities with those that serve broader populations.
6. Encourage innovation by rigorously testing new ideas, exploiting new opportunities, disseminating best practices, and encouraging adoption of proven approaches.

The objectives of programmatic reform directly address the problematic features of current policy. For example, by empowering individuals with partial work capacity to obtain employment, public policy will explicitly recognize what many have long known but employers often fail to recognize: those with very significant medical conditions and impairments can, in fact, be

productive. Some of these individuals might need support to address barriers to work or to defray costs associated with their disability, but large numbers of people with disabilities are capable of contributing toward their own support as well as the nation's output. Breaking the connection between eligibility for benefits and the inability to work would enable supports to be reoriented toward promoting employment.

The objectives also target other problematic features of current policy. Greater integration of support would resolve many of the inefficiencies associated with having multiple uncoordinated state and federal programs. In addition, greater integration would simplify beneficiaries' navigation through support programs and reduce their segregation from programs provided to the broader population. By awarding individualized benefits, the reformed program would attend to the diverse needs of beneficiaries, providing work supports to those who can work while providing the appropriate assistance to individuals with exceptional circumstances, such as very severe impairments or diminished life expectancy. Increasing the ease and extent to which individuals are allowed to make decisions that affect their own lives will mean that supports are more tailored to personal needs and goals, such as obtaining employment. Finally, an environment that supports innovation, rather than thwarting it, would further improve the reformed system and address unpredictable future issues.

In the remainder of this section we describe key elements of reforms designed to achieve these objectives: administrative integration at the state or local levels, federal oversight and other responsibilities, consumer oversight, multiple eligibility groups and the types of support for which they would be eligible, and health insurance. We conclude the section with a discussion of federal disability benefits that are not likely to be rolled into the integrated system—benefits for disabled veterans and disabled federal employees.

B. Administrative Integration

The first key element is the integration of responsibility for eligibility determination and the delivery of cash and in-kind supports of all kinds at the state or sub-state level. Statewide or sub-state entities called Disability Support Administrators (DSAs) would determine benefit eligibility and have lead administrative responsibility for all supports. Although some DSAs would be organized at the state level, others might be organized by various entities across sub-state areas. DSA leadership could be a state agency. Alternatively, DSA leadership could be vested in local governments, a private organization or company, or a coalition of multiple entities.

Under the proposed reform, the DSA would be responsible for determining all benefit eligibility based on medical evidence and other information. States are currently responsible for initial SSDI and SSI eligibility determinations as well as eligibility determinations for Medicaid, vocational rehabilitation services, the Supplemental Nutrition Assistance Program (SNAP), and numerous other benefits. Local housing and transit authorities are responsible for housing and transportation benefits. Hence, benefit integration has the potential to dramatically change eligibility determinations as well as the entities responsible for those determinations.

When eligibility is determined, a benefit coordinator assigned by the DSA would help each participant obtain and use the supports to which he or she is entitled. The benefit coordinator would be that beneficiary's primary point of contact with the support system.

It will be each DSA's responsibility to integrate supports for those determined eligible for benefits. The expectation is that the DSAs would typically engage with other public and private organizations that already provide supports to this population, rather than develop their own capacities to provide a wide array of supports. The financial reforms discussed in the next section are critical to the ability of the DSAs to perform this task because the financial reforms give the

DSAs consolidated authority over how federal and state funds are used to support each eligible individual.

The development of the support system will vary from area to area, depending on numerous aspects of the economic and current service environments. We would expect community disability service providers, vocational rehabilitation agencies, Community Rehabilitation Providers, Workforce Investment Boards, mental health clinics, centers for independent living, Work Incentives and Planning Assistance grantees, and developmental disability agencies, among others, to be involved in various ways. The DSAs in the five states with mandatory temporary disability insurance could potentially leverage those programs along the lines proposed by Autor and Duggan (2010). That is, these programs could be revamped with the goals of encouraging and helping employers retain workers after the onset of a significant medical condition or of helping workers obtain new jobs more compatible with their changed circumstances.

Some DSAs might choose to have workers' compensation, private disability insurers, and private disability management vendors play major roles in their support systems.¹⁷ Support integration for workers who experience non-job illnesses or injuries with workers' compensation services might result in substantial efficiency gains, even while maintaining employer financial responsibility for job-related illnesses or injuries. A state could, for instance, pay for a workers' compensation supplement to each employer's coverage that extends workers' compensation return-to-work services to all workers with injuries or illnesses, regardless of cause. This supplement would help employers retain workers who suffer significant injuries or illnesses.

¹⁷ Substantial evidence exists that the services provided by at least some of these companies do help workers return to work quickly and reduce labor force exit. See McLaren et al. (2010) and Tompa et al. (2007) for reviews. We also note, however, that under current law private disability insurers have a strong incentive to help workers obtain SSDI benefits if the worker has a qualifying impairment (Stapleton et al. 2009). Reforms that would change that incentive could potentially be incorporated in the proposed reforms.

To those familiar with the current eligibility determination processes, the DSA program eligibility criteria and determination processes might seem hopelessly complex, error prone, and expensive. Arguably, however, the reformed system would be easier to administer than the current system, which involves multiple state and federal agencies conducting eligibility determinations for multiple programs that sometimes work at cross-purposes. Consider the current initial SSDI and SSI decision process alone. State offices make medical eligibility decisions, but SSA field offices are responsible for adjudicating non-medical issues and effectuating decisions, and SSA regional offices review a large share of initial allowances.¹⁸ The DSA could integrate all of these functions into a single office. The all-or-nothing result of the current disability determination process for SSDI and SSI creates strong incentives for consumers to provide biased information. Such incentives are reduced under the structure we have proposed. Further, compared with current eligibility determination processes, the DSA would be expected to have much better access to electronic medical records for purposes of supporting eligibility determinations and to take advantage of advances in information technology that make it feasible to automate more of the eligibility determination process and reduce adjudicative errors. SSA is already starting to take advantage of these developments and both show promise for greatly improving the efficiency of disability determinations in the fairly near future.

C. Federal Role

Although the reforms would empower states to determine eligibility and administer benefits, the federal government would have several important responsibilities. First, the federal government

¹⁸ See Stapleton and Pugh (2001) for a detailed description of the state and federal functions for initial disability determinations and how they reduce the efficiency and timeliness of the process. SSA's test of the Disability Claims Manager model also demonstrated the potential efficiency gains from consolidating the determination process in a single federal or state office (Stapleton 2002).

would establish national benefit eligibility criteria. These criteria would build on those used for SSDI and SSI today, but would differ very substantially, as discussed further below.

Second, the federal government would have strong oversight responsibilities, including the following:

- Establish requirements and guidelines that (1) ensure each DSA attains minimum national standards; (2) facilitate inter-area activities of DSA, individuals, employers, and providers; and (3) allow and encourage each DSA to innovate for the purpose of improving program outcomes
- Establish and operate an appeals process for disability determinations, similar to that operated by SSA today
- Establish a monitoring system that includes much more robust measurement and public reporting of key beneficiary outcomes at the state or sub-state levels than the monitoring system implemented under welfare reform¹⁹

The federal government would also perform functions that would benefit all DSAs, such as conducting research, providing technical assistance, conducting national outreach efforts (such as national advertising), and providing historical earnings information as needed to determine benefit amounts. The federal government would use SSA's payment system to administer all cash payments, according to the instruction of the DSA, and would continue to administer Medicare benefits for the subset of disability beneficiaries that would be eligible for Medicare under the new system.

D. Consumer Oversight

Careful consideration should be given to the establishment of an independent review board, consisting of consumer representatives. We envision a national board plus a board corresponding to each DSA. A well-designed consumer board system would help ensure that the federal government vigorously exercises its oversight responsibilities and the DSAs continually work toward meeting

¹⁹ See Government Accountability Office (2006) for a critique of federal efforts to monitor state expenditures to support low-income families.

programmatic objectives, rather than diverting resources for other purposes. The National Council on Disability might be an appropriate starting place for the consumer board system. The structure, governance, and responsibilities of this board are key development issues for the demonstration period.

E. Program Groups

The reforms would introduce multiple possible outcomes to the eligibility determination process. Conceptually, the new criteria would focus on work capacity. We envision a system that classifies successful applicants into three groups and provides each group with appropriate supports:

1. **Retirees with Impairments.** This group consists of older workers (perhaps those age 50 or older) meeting the current nonmedical SSDI criteria determined to have minimal or no work capacity, including those with significantly reduced life expectancy.
2. **People with Low Work Capacity.** This group includes those with very little work capacity who are either (1) under the age limit for Retirees with Impairments or (2) over the age limit but not SSDI eligible.
3. **Workers with Disabilities.** This group consists of those individuals with significant impairments but substantial work capacity.

We describe the benefits to be received by each group next, and then consider the question of how many people will be eligible for benefits.

1. Retirees with Impairments

Retirees with Impairments would become eligible for SSDI and eventually Medicare, as under current law. Thus, the reforms essentially preserve current benefits for workers who experience the onset of work-ending impairments at an older age (Retirees with Impairments)—consistent with the intent of the SSDI program when it was introduced in 1956 (Berkowitz 1987). SSDI and Medicare would continue to be administered by SSA and the Centers for Medicare & Medicaid Services (CMS). The DSAs' responsibility for these benefits would be limited to eligibility determination.

2. People with Low Work Capacity

Those individuals determined to have low work capacity would not be expected to work and would qualify for income and in-kind benefits that are at least as generous as those currently available through current federal and state programs. They would also be allowed to work up to an earnings amount that is more generous than under the current law and have the option of obtaining cost-limited work support services.

The best opportunity to improve the lives of People with Low Work Capacity and reduce growth in spending for their support probably lies in the integration of supports and coordination of care.²⁰ The reformed system would replace a constellation of programs for those in this group, almost all of whom would qualify for SSI or SSDI under current law. Integration of supports should make it easier for program administrators to tailor supports to the needs of individuals.

We expect benefits to include income support and a constellation of in-kind supports administered in an integrated fashion. Individuals could potentially receive personal assistance, habilitation, assistive device, housing, nutrition assistance, transportation, independent living training, respite care (for caregivers), and various other services that many now receive from fragmented programs. Existing programs might continue to provide the same supports, but the DSAs would have the responsibility and capability to ensure that they are delivered in an integrated fashion. Continued use of existing programs is also consistent with the objective of increasing the integration of supports with supports provided to broader groups. We anticipate, however, that this eligibility group will continue to receive many services that are not integrated with supports for broader groups.

²⁰ See Medicare Payment Advisory Commission (2010) and Esposito et al. (2008) for reviews of the evidence on coordination and medical services for those with significant long-term medical conditions.

Low-income Retirees with Impairments, or those with exceptional service needs, could potentially be eligible for some of the supports available to those with low work capacity, just as many SSDI beneficiaries receive SSI supplements and Medicaid as well as Medicare today.

3. Workers with Disabilities

The reforms would most dramatically affect those classified as Workers with Disabilities. Many—but not all—people in this group receive SSDI, SSI, or both under current law. Members of this group would be expected to work at or near their capacity or, if not employed, to demonstrate a good faith effort to become employed in order to receive benefits. As part of the eligibility determination process, each worker would receive a capacity rating reflecting the number of hours that he or she would be expected to work, up to a maximum of 40 hours per week. Acceptable employment efforts could include active job search; medical rehabilitation preparatory to work; and goal-oriented, time-limited reeducation and retraining. Criteria for determining work capacity and rules for acceptable employment efforts are critical issues to be developed during the demonstration period.

Under the reformed policy, the DSA would support each beneficiary's work efforts by designing and administering a tailored package of self-sufficiency supports. This package might include one, several, or all of the following types of assistance:

1. A disability allowance
2. Self-sufficiency counseling services
3. A generous earned income tax credit
4. Subsidized disability services, equipment, and accommodations
5. Employment services, including job search assistance and retraining

Each DSA should place a strong emphasis on timely provision of employment supports. This means making sure that workers have access to supports as soon as they encounter long-term medical problems that challenge their ability to work, and that young adults have access to supports

that will lead toward establishing them in the labor force. It also means that the DSAs should aggressively encourage the use of supports by reaching out to individuals, employers, health care organizations, and disability-affiliated local organizations and agencies. To support the transition to adulthood for children with disabilities, the DSAs should also develop a strong relationship with local schools.

Each DSA would be encouraged to integrate the self-sufficiency supports with supports from existing programs, including those that do not specifically target people with disabilities, such as workforce development programs and TANF. Integrating people with disabilities into support programs not traditionally associated with disability would act as a form of social integration and would ensure that people with disabilities receive the same level of support as their peers, though some supports might still be specialized or augmented based on disability status. One example was provided previously: the DSA could work with workers' compensation insurers to integrate supports for all workers who experience injuries or illness.

Increased integration does not mean, however, that every support delivered to those with disabilities would have to be integrated with supports for others. Taken to an extreme, integration would be prohibitively expensive and counterproductive for beneficiaries. We envision a judicious but substantial shift toward greater integration, not complete integration.

The DSA would also be encouraged to adopt models of support that have been demonstrated to produce desired outcomes. Under current policy, state or local adoption of proven models is often limited, perhaps because of inflexible funding or because of incentives that discourage innovation. For instance, substantial, rigorous evidence indicates the positive impact of supported employment for people with severe psychiatric conditions, but disability programs have used the

supported employment model primarily for those with cognitive disabilities.²¹ As effective support models are discovered both during and after the demonstration period, it will be critical that the DSAs use these models to advance program objectives.

Any disability allowance would be designed to partially defray disability-related and other costs. The allowance would usually be less than the income benefit under current law, and its duration would be determined by medical condition and work capacity. If an allowance was initially awarded as permanent but the beneficiary's earnings later exceeded a threshold determined by medical condition and work capacity, the allowance would be reduced or eliminated. Our expectation is that many DSAs would choose to establish an allowance system for those expected to work that draws on the success of cash and counseling programs.²² This approach would provide workers with the flexibility to purchase services that are most compatible with their employment as well as technical assistance in making such purchases. The same approach could potentially be used to provide disability services to other beneficiaries, as it already is in many states. This approach is critical to the objective of providing beneficiaries with more control over decisions that affect their lives, but can also be expected to improve efficiency.

F. The Number of Beneficiaries

Although the exact number will depend on the eligibility criteria and many other factors, we expect the number of individuals who enroll in the new program at some point during their lifetimes to be higher than the number who would receive a benefit under current law. The number of

²¹ See Bond et al. (2008). The Demonstration to Maintain Independence and Employment will soon provide new evidence on the effectiveness of providing integrated health and employment services to workers with disabilities (Gimm et al. 2011).

²² See Carlson et al. (2007) and Foster et al. (2007).

enrollees in any given year might also be higher as many individuals would receive only temporary support.

If the restructured programs are to reduce the growth of federal and state expenditures, benefit savings for those who would receive support under current law must be more than sufficient to pay for the supports provided to those who would receive no benefits under current law. The sources of savings for the former group are increases in lifetime earnings and tax payments, reductions in lifetime expenditures for their support, and program integration.

Projections suggest that the savings for those who would receive benefits under current law could be quite large. Stapleton and Wittenburg (2011) illustrate how large the savings would be if the restructured policies increased employment and reduced SSDI participation to a level comparable to what was observed in 1980—a time when policymakers believed that SSDI participation was too high. If the rate of worker participation in SSDI in 2010 was equal to the 1980 rate, the number of SSDI beneficiaries would have been 22 percent lower than the actual number.²³ Although we do not propose to turn the policy clock back to 1980, this projection and other supporting evidence suggest that better policies could mean at least 20 percent of those who would receive SSDI under current law would be Workers with Disabilities under a restructured program—perhaps by substantially more.²⁴

Under the restructured program, the total number of people eligible for benefits would largely depend on as of yet unspecified details regarding the eligibility criteria for Workers with Disabilities, as this group would include most individuals who might not be eligible for benefits under current

²³ The “rate of worker participation” for each age–sex group is the number of beneficiaries in the group divided by the number who are “disability insured”; that is, the number who meet the earnings history requirement for SSDI eligibility.

²⁴ The Maestas et al. (2011) finding that 18 percent of SSDI beneficiaries would be engaged in substantial gainful activity two years after SSDI entry had they not been awarded benefits adds weight to the expectation that at least 20 percent of those who receive SSDI under current law would be Workers with Disabilities under a reformed structure.

law. Houtenville and Brucker (2011) provide estimates that are suggestive of the potential for expansion. Based on the Current Population Survey (CPS), they estimate that 12 million civilians ages 25 to 61 with disabilities in the household population received benefits from a public program in 2010, or almost 69 percent of the estimated 17.5 million with a disability—including almost 52 percent who received benefits from SSDI, SSI, Medicare, and/or Medicaid. It seems very likely that a restructured program would *increase* expenditure growth if the number eligible for some benefit in each year expanded to include 100 percent of those who would be identified as having a disability by the CPS unless the benefits for those with low work capacity were reduced, which is contrary to our objectives.

These statistics serve to reinforce the importance of proceeding with caution. Although it is plausible that restructured eligibility criteria and benefit design could achieve the goals of policy reform, creating reformed eligibility criteria that are too generous would likely compromise the reforms' ability to improve supports for those with disabilities while reducing growth in federal and state expenditures for their support. A key objective of the demonstration period is to establish the evidence base needed to identify eligibility criteria and program designs that can achieve both goals.

G. Health Insurance

Beneficiaries other than Retirees with Impairments who have attained Medicare eligibility would receive health insurance from the same sources as people without disabilities. Those eligible for employer health insurance would be required to enroll. Those not eligible would either enroll in Medicaid if their household income does not exceed 133 percent of the federal poverty threshold or buy insurance from their state's health insurance exchange (HIE). In the latter case, they would receive a premium subsidy if their household income was less than 400 percent of the federal poverty threshold.

The DSA should work with the state agency to determine the Medicaid eligibility of those eligible for disability benefits under the restructured system. The DSA would be responsible for integrating all Medicaid-covered services with other services available to the beneficiary. Medicaid-covered services include acute care, home and community-based services, and long-term institutional care.

For those not eligible for Medicaid, insurance benefits for acute care services would be administered by their insurers. To the extent feasible, however, the DSA should work with health insurers (including Medicare) to integrate acute care services with other support services provided via the DSA. One option is for the DSA, with the consent of the beneficiary, to assume responsibility for acute care services, financed by a risk-adjusted payment from the insurer. This idea can be seen as an extension of the special needs plans (SNPs), under which Medicare and Medicaid benefits have been integrated for many dual-eligible beneficiaries.

The DSA could potentially collaborate with an insurer to offer its own health insurance product, available only to its participants. Those participants with access to employer coverage could be allowed to purchase one of these plans rather than the employer's plan, with the employer making a premium contribution commensurate with the employer's share of the premium for the employer's own coverage. Such an arrangement would address a significant incentive that employers have to not hire those with high expected health care costs and make it easier for Workers with Disabilities to change jobs.

Current experimentation with Medicaid medical homes is relevant to the issue of integrating acute care services with other services for those with chronic medical conditions or impairments. Medical home models vary across the numerous states that are experimenting with this approach, but typically involve assignment of a professional medical/social service team to each enrollee. Early evidence indicates that medical homes can both improve quality of care and reduce costs, although

success likely depends on the local environment as well as features of the medical home.²⁵ The DSA could potentially expand this model to cover all the health and human service needs of a subset of those eligible for disability benefits.

H. Veterans' and Federal Employee Disability Benefits

We have assumed that the extensive income support, health, and human service benefits available to disabled veterans will not be folded into the DSA support system. We have also assumed that administration of federal employee disability benefits would continue as today, just as administration of private employer's disability benefits will. An efficiency case could be made for folding these benefits into the new support system, in part because the new system would provide the same types of supports available under the veterans' and federal employee programs, and in part because many disabled veterans and federal employees would also be eligible for supports from the DSA system. If these benefits are not consolidated, however, it would be necessary to develop rules concerning the interactions between systems. The Veterans' Administration and/or the Office of Personnel Management could also presumably negotiate arrangements to buy in to the DSA support system at a later date if that is revealed to be an attractive alternative for their programs' beneficiaries.

IV. FINANCIAL REFORMS

A. Objectives

The way in which the programmatic reforms are financed will greatly affect their success, including their ability to control costs. The financing reforms have five objectives:

²⁵ See Takach (2011).

1. Funding should be adequate to pay for the supports needed to meet national program standards.
2. Funding should be provided in a manner that encourages states to make efficient eligibility and support decisions.
3. Federal expenditure growth should be capped without increasing the states' financing burdens and while allowing adjustments for inflation.
4. Federal funding should also be responsive to external factors that affect the magnitude of support needs, most notably the business cycle and demographic change.
5. Precipitous declines in federal or state support should be avoided. Program savings should be achieved gradually through reform.

The financial reform objectives further address the shortcomings of current policy. Adequate funding of program standards would ensure that costs savings are not achieved through stricter eligibility criteria or reduced benefits, as was attempted in the 1980s. Gradual funding reform would prohibit dramatic funding cuts from adding to the economic plight of people with disabilities. Funding that supports more efficient decision making would provide a mechanism for intelligent resource allocation that is less dependent on external oversight. Capping federal expenditures would prohibit program costs from growing at an unsustainable rate. Funding that is responsive to external factors would help ensure that program resources are adequate when macroeconomic conditions deteriorate.

The level of funding under the reforms would initially be comparable to current law funding from both federal and state sources, but funds would be delivered in a dramatically different manner. We describe federal and state funding mechanisms in the next two subsections. We then address how the oversight mechanism would help to ensure that the level of funding is consistent with programmatic objectives. We conclude the section with an illustration of how current law funding might be reallocated under a reformed system.

B. Federal Funding

Federal funding would be reallocated from existing programs toward the restructured programs, as illustrated later in this section. Federal funding would be allocated to support each DSA's

beneficiaries using a formula that initially reflects current funding levels, projected needs, payroll tax revenues, and ability to pay. The formula would also account for demographic change and beneficiary migration between DSA areas. Inflation-adjusted growth in federal funding would be capped based on targets set by Congress, consistent with national fiscal objectives and, critically, with external factors such as the business cycle and demographic change. The development of a flexible federal funding formula is a key issue that will have to be resolved during the demonstration period.

Federal funding for each DSA's population would be allocated in two steps:

- Step 1: SSA would use the funding for residents of the DSA's area to directly pay all income benefits and CMS would pay health care costs for those enrolled in Medicare following Medicare rules. The income benefits would include both SSDI benefits for Retirees with Impairments and any other cash payments determined by the DSA.²⁶
- Step 2: Each DSA would receive all federal funds remaining after the first step in the form of an annual grant that would finance all other supports.

This two-step funding allocation has several advantages. By receiving grants that exclude all income and Medicare payments, the DSA would have incentives to responsibly determine eligibility and efficiently manage the tradeoff between various support types. The more SSDI applications allowed, the lower the per-beneficiary grant amount, and vice versa. Using a national cash payment system already in place (and which must remain in place for retirees) avoids costly duplication of such a system across DSAs and supports federal monitoring of cash payments. Finally, the government health insurance benefit for Retirees with Impairments would continue to be fully integrated with the income benefit for other retirees.²⁷

²⁶ The federal government would continue to pay for and administer any other benefits or programs for which it retains responsibility, such as veterans' and federal employee disability benefits.

²⁷ Our expectation is that the Medicare payment system will evolve as disability policy is reformed; the evolution of that system would have to be coordinated with disability system reforms.

Federal funding sources would be, as they are now, a mixture of revenues from payroll taxes and general revenues. The bulk of general revenues that would be reallocated in this manner are currently used to pay federal SSI benefits as well as the federal share of Medicaid benefits for working-age people with disabilities. Smaller amounts would come from many other sources, including vocational rehabilitation, SNAP, housing subsidies, transportation assistance, a share of TANF block grants, and others. From the DSAs' perspective, there would be no distinction between federal block grant funds originating from general revenues versus payroll taxes.

Financial reforms that create incentives for employers could generate additional funding and promote employment for program participants. For instance, the federal government could “experience rate” payroll taxes (see Burkhauser and Daly [2011]). In essence, SSA would levy payroll tax surcharges on employers whose former employees frequently require disability supports and lower rates for those whose former employees rarely require disability supports. Experience rating could also be introduced to encourage employers to retain employees with significant impairments. Substantial evidence from workers' compensation and reforms in the Netherlands indicate that changing employer incentives in such ways would reduce the number of individuals that exit from the labor force and enter into public disability programs.²⁸ In addition, payroll tax credits could be used to encourage the employment of Workers with Disabilities, although worker privacy issues would have to be addressed. Workers with Disabilities would not have to disclose their eligibility to their employers, as SSA would be able to identify such individuals from administrative records. All else equal, however, the payroll tax credit would create an incentive for people with disabilities to disclose their status.

²⁸ See Burkhauser and Daly (2011), Burton (2009), Thomason (2005), and Krueger (1990).

C. State Funding

States would be required to contribute to the reformed support system, even if the state is not serving as the DSA. Initially each would divert funds currently used to pay the state's share of Medicaid benefits for services that the DSA will henceforth administer, along with much smaller amounts for SSI supplements, mental health services, vocational rehabilitation, and various other programs. Maintenance of effort requirements for state funding would change gradually, as circumstances warrant. Each state's funding requirement would eventually be specified to a percentage of its federal funding allocation. The state's funding requirement could potentially be reduced during recessions and increased during expansions, reflecting the effect of the business cycle on state revenues. A state's funding requirement could potentially be relaxed as the DSAs in the state demonstrate success in improving relevant outcomes. States would always be permitted to provide funding in excess of the required amount.

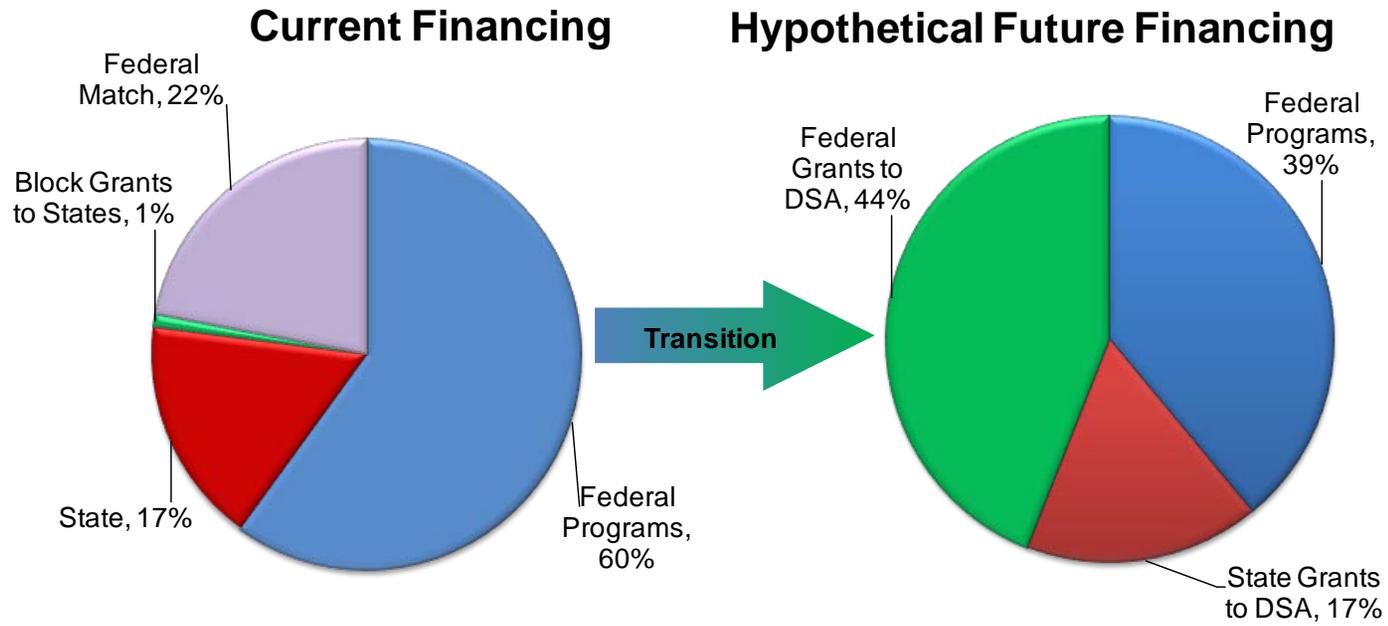
D. Oversight

One of the most important functions of the consumer board system will be to routinely assess the adequacy of federal and state funding. Ultimately, funding will be based on decisions made by federal and state lawmakers who will have to weigh the need for DSA funding against competing demands. The federal and local boards, backed by credible measures of program performance, will be able to point to critical funding needs as well as ineffective use of existing funds by the DSA.

E. Illustration of Funding Allocation Under a Reformed System

The pie charts in Figure 1 illustrate the dramatic nature of the changes in financing that might occur when the demonstration period ends and reforms are fully implemented. The chart on the left shows shares for four types of federal and state funding to support this population, based on fiscal year (FY) 2008 data from Livermore et al. (2011). An estimated 60 percent of the funding is federal funding for federal programs, most notably SSDI, Medicare, and the veterans' programs. Another 22

Figure 1. Illustration of the Financing Transition



percent is federal matching money for federal–state programs—most notably Medicaid. State funding for the same programs accounts for 17 percent of the total. Block grants are only 1 percent of the total, primarily to support parents with disabilities who are receiving TANF and their children, with smaller amounts to support state mental health programs. Table 1 displays the funding by major program or program group. The chart on the right of Figure 1 illustrates how the distribution of funding might appear when the new policy is fully in place. The far right columns of Table 1 show how funds would be shifted by current-law program category; many program categories listed would no longer be meaningful. Under the hypothetical reallocation, federal matching funds shrink to zero and federal funding for federal programs shrinks to 39 percent, as some funds that pay for SSDI and Medicare under current law are reallocated to grants to the DSAs. All state funding and federal block grants to states would be converted to grants to the DSAs. Federal and state grants to the DSAs would comprise 61 percent of total funding under this scenario.

There will be substantial resistance to moving such a large share of funding into grants to the DSAs. There might be compelling reasons to move less, but there might also be compelling reasons to move more. Dramatic programmatic changes will fail to achieve their goals unless there are equally dramatic changes in funding.

V. THE DEMONSTRATION PERIOD

A lengthy demonstration period—perhaps at least 10 years following the enactment of authorizing legislation—is required to build the evidence base and political consensus necessary to support reform legislation and national implementation. During this time, numerous major demonstrations would be initiated collaboratively by federal and state agencies, large municipalities, and various private organizations. This section discusses the authorizing legislation and considers several issues that are critical to disability demonstrations.

Table 1. Funding Allocation, by Program Category

	FY 2008 Funding		FY 2008 Allocation by Funding Type (percentage)				Future Allocation by Funding Type ^d (percentage)			
	\$ (billions)	% of Total	Federal Programs	Federal Match	Block Grant	State	Federal Programs	Federal Match	Federal Grant	State Grant
SSDI	102	23	100	0	0	0	73	0	27	0
Medicare	63	15	100	0	0	0	73	0	27	0
Veterans	35	8	100	0	0	0	100	0	0	0
Other Federal Disability ^a	21	5	98	0	2	0	49	0	51	0
Other Federal Nondisability ^b	15	4	100	0	0	0	14	0	86	0
Medicaid	137	32	0	57	0	43	0	0	57	43
SSI	29	7	91	0	0	9	0	0	91	9
VR	4	1	0	78	0	22	0	0	78	22
Federal/State Nondisability ^c	28	6	0	46	9	45	0	0	55	45
Total	433	100	60	22	1	17	39	0	44	17

Source: FY 2008 data are derived from Livermore et al. (2011).

^a “Other Federal Disability” includes other solely federal programs targeted at working-age people with disabilities, such as several programs that provide disability benefits to former federal workers.

^b “Other Federal Nondisability” includes federal programs targeting populations that do not consist solely of working-age people with disabilities, such as SNAP, federal Unemployment Insurance (UI), and the earned income tax credit (EITC); estimated expenditures are for those in the working-age disability population only.

^c “Other Federal/State Nondisability” includes federal/state programs targeting populations that do not consist solely of working-age people with disabilities, most notably TANF; estimated expenditures are for those in the working-age disability population only.

^d Future allocation is intended to be illustrative. The percentage of SSDI and Medicare in the federal program category following reform is equal to the percentage of SSDI benefits paid to workers age 50 and older in December 2008. Expenditures for the following disability programs are assumed to remain federal: benefits for disabled veterans and disabled federal workers; Voting Access for Individuals with Disabilities; and the National Library Service for the Blind and Physically Handicapped. Expenditures for benefits from the following federal programs to support working-age people with disabilities also continue to be federal: the EITC expenditures received by those with disabilities, federal UI, and federal prisons. All other federal expenditures are included in the grants to the DSAs, including expenditures for SSDI benefits for younger workers, Social Security and Medicare benefits for Disabled Adult Children and Disabled Widows, from the federal share of Medicaid, SNAP, vocational rehabilitation (VR) services, housing, education, and miscellaneous small programs.

A. Authorizing Legislation

Federal legislation would be needed to initiate the demonstration period. The legislation would authorize and encourage demonstrations, define demonstration objectives, establish requirements consistent with those objectives, guarantee the cooperation of pertinent agencies, ensure that the demonstrations proceed without undue risk to working-age people with disabilities, and establish evaluation requirements that will maximize learning. Pertinent federal agencies would have to grant necessary waivers, provide technical assistance, and divert current program funding to finance the demonstrations.

To facilitate the demonstrations and coordinate efforts, the authorizing legislation should call for the establishment of a national disability demonstration commission. For the demonstration period to be successful, the commission would have to strongly encourage federal agencies, states, and private organizations to move forward with innovative demonstration designs while ensuring that risks to demonstration subjects are minimized. The commission will require the backing of Congress and the administration as it navigates the many conflicting interests of those with a stake in the current programs. The commission must also foster a spirit of innovation and learning, with a common long-term goal of improving disability support for the working-age population. Without such a spirit, any reform effort is doomed to fail.

B. Issues with Disability–Related Demonstrations

The demonstrations' designers and evaluators must carefully consider how the reforms to be tested might affect the behavior of many stakeholders: applicants, beneficiaries, program administrators, service providers, employers, private insurers, and others. Careful design will help avoid unintended consequences. For instance, if benefits for older Workers with Disabilities are much less attractive than benefits for Retirees with Impairments, some older workers who do have work capacity will try to demonstrate that they do not. Even with careful consideration and design

of incentives, however, policy reforms inevitably have unintended incentives and consequences. That is why it is essential for the system to continue innovating and evolving even after the demonstration period ends.

A significant challenge to any demonstration will be ensuring that it poses minimal risk of harm to demonstration subjects without undermining its value for purposes of building the evidence base for policy reform. It seems likely that demonstration subjects will have to be volunteers who have completed an informed consent process, but the policy relevance of the findings from such demonstrations are limited by the fact that results might be different for others.

There are several reasons why demonstrations that focus on those with a short history of reliance on government benefits are likely to be more effective than demonstrations that focus on those with extensive histories. Such subjects might be more likely to participate voluntarily. In addition, existing research reveals that those SSDI and SSI beneficiaries who are young and who have been receiving benefits for the shortest period are much more likely to return to work and take advantage of these programs' work incentives.²⁹

Some features of restructured programs and financing might be most easily tested on a more restricted population. In fact, many such initiatives are being planned and tested. The previously mentioned SNP program and medical home initiatives are examples. Disability care coordination organizations, which provide comprehensive health and social services to Medicaid enrollees with disabilities, are another important example of integrated service delivery for working-age people with significant disabilities, and deserve careful attention.³⁰ SSA's Youth Transition Demonstrations are testing how the delivery of employment-focused services and improvements in work incentives

²⁹ See, for instance, Liu and Stapleton (2011).

³⁰ Palsbo and Mastal (2006) coined this title. Another name sometimes used for these organizations is "disability-competent health systems."

affect young adult employment outcomes for youth with disabilities. The Obama administration plans to conduct a multi-agency demonstration called PROMISE that envisions coalitions of local organizations delivering integrated, employment-oriented transition supports to SSI youth with disabilities and receiving a large share of the future savings from lower SSI payments. NISH (formerly National Industries for the Severely Handicapped) is planning a demonstration that would encourage employers to hire and retain SSI and SSDI beneficiaries, or former beneficiaries, via payroll tax incentives.

VI. CONCLUSION

There is little doubt that America's disability support programs are growing at rates that will lead to reductions in benefits, tightening of eligibility rules, or both as fiscal reform efforts proceed and the SSDI Trust Fund approaches exhaustion. At the same time, many working-age Americans with disabilities are falling further behind economically and failing to achieve their employment aspirations. Bolstered by substantial evidence, experts increasingly think that addressing the fundamental structural problems of public supports for this population could have very favorable impacts on both trends. But the fragmented nature of current programs has resulted in a system that is very hard to change. This paper suggests a way to jump-start the process of building the evidence base and political consensus needed to support major structural reforms that gradually move America toward a fiscally sustainable and more work-oriented disability support system. Many people will have significant issues with our vision of what the key reform features should be or how the reform process should start. These are complex issues, and we do not pretend to have all the answers. If we do not start addressing these issues, however, the problematic trends described here will continue and potentially worsen when the SSDI Trust Fund is exhausted in fewer than six years.

It is important to recognize that the proposed reforms should encourage continued innovation even after the demonstration period ends. Under the reformed system, each DSA would have

incentives to adopt innovations that both improve outcomes for people with disabilities and increase program efficiency. The reforms are designed to encourage innovation that cuts across the current responsibilities of all agencies and levels of government while minimizing the risks of harm to the target population or of escalating costs. This is in sharp contrast to the current system, which at best supports only minor innovations to individual programs, places most of the authority for innovation at the federal level, and has failed to either improve economic outcomes for people with disabilities or reduce their reliance on government support.

The nation's long-term fiscal problems are creating an urgent need for structural reform to programs that support working-age people with disabilities. Expenditures for these programs account for a large share of the federal budget and will almost inevitably have to be reduced. Without structural changes, these programs will likely be forced to make cuts within their current structures. The cuts might be made in ways that try to minimize harm, but will likely have severe consequences. By quickly initiating an evidence-based structural reform process, however, policymakers could protect current programs in the short term while a process is started that would eventually lead to a new system that is more effective and fiscally sustainable.

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