

## **5. Using Transitional Jobs to Increase Employment of SSDI Applicants and Beneficiaries**

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### **INTRODUCTION/SUMMARY**

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We propose providing access to Transitional Jobs and an expanded earnings supplement to individuals whose ability to work has been affected by a medical condition. Transitional Jobs are subsidized, wage-paying jobs, typically in the private-for-profit or not-for-profit sectors. We describe how these subsidized jobs would be designed and administered, and propose a pre-pilot to test the viability of this approach. The pre-pilot, if successful, would be followed by a demonstration project in which a statistically valid number of Social Security Disability Insurance (SSDI) beneficiaries, denied applicants, and applicants would be randomly assigned to a control group or an experimental group to determine the effect on SSDI enrollment and costs, employment and earnings, income and poverty, and other measurable impacts.

We also include access to work incentive counselors to help individuals currently receiving SSDI obtain accurate information about how part-time and full-time work affect their benefits and medical coverage. This would ensure that all the current earnings offsets and other incentives are used in helping individuals receiving SSDI to manage a transition back into the workforce.

This proposal focuses on ways to bolster employment outcomes for individuals living with a disability or medical condition that affects their ability to work. It builds on the existing efforts of Ticket to Work and the Enhanced Work Incentive Counselor model now being evaluated as part of the Benefits Offset National Demonstration (BOND).

Our proposal would provide access to work that can accommodate the individual's work capacities, while ensuring, through expanded tax credits, that work will pay more than the SSDI benefit. It is an approach that recognizes the limitations of local job markets, and offers individuals opportunities to remain in the workforce, or return to the workforce. This proposal reflects our values as a society, both to ensure an income for those who cannot work and to encourage those who can work to find appropriate work.

### **THE PROBLEM**

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In the 2010 National Beneficiary Survey of all beneficiaries of Supplemental Security Income (SSI) and SSDI, 41 percent of respondents indicated having work goals or saw themselves working for pay within the next five years (Wright et al. 2012, 18). Yet in the same survey, only about 15 percent were employed, were actively seeking employment, or had worked during the previous calendar year (Wright et al. 2012, 18). Among those who were NOT working, the overwhelming majority said they could not work due to physical or mental conditions. But of the respondents receiving both SSI and SSDI, a substantial minority said they were not working because they were discouraged by previous

attempts, or others did not believe they could work, or they could not find a job accessible to those with their disabilities (Wright et al. 2012, 32).

The bottom lines for SSDI beneficiaries: Very few are able to do substantial work and just 3.9 percent earned more than \$10,000 during the year (Mamun et al. 2011, 16). And less than half of one percent are able to return to work at levels that result in reducing their benefit to zero (Maestas et al. 2010).

The above citations show that while individuals may indicate a desire to continue working or return to work, most SSDI beneficiaries and claimants will not likely return to work. Yet we believe that the number who can and do return to work could be higher, through a combination of making work available and making work pay.

Our proposal aims to target current beneficiaries, individuals who have been denied benefits, and those applying for benefits for intervention through a Transitional Job and Enhanced Earned Income Tax Credit.

### **Current Beneficiaries**

A lesson from current and past efforts to encourage work is that not all beneficiaries are equally likely to respond to work incentives. In a program that has strict eligibility rules,<sup>1</sup> it should not be surprising that if someone qualifies for SSDI, he or she is not likely to be able to work. Yet work incentives have helped some beneficiaries return to work, and it is worth understanding more about who does utilize the Trial Work Period, and whose benefits are suspended or terminated because of earnings beyond the threshold of Sustainable Gainful Activity (SGA). Yonatan Ben-Shalom and Arif Mamun have just published a paper on “Return to Work Outcomes Among Social Security Disability Insurance Program Beneficiaries” (2015).

Here is a summary from the Abstract:

We found that younger beneficiaries are more likely than are older beneficiaries to achieve the milestones [starting, completing Trial Work Period and a return to work] and that there exists substantial variation across impairment types. In addition, the probability of achieving the milestones is higher for individuals with more years of education, for blacks, and for individuals residing in states with low unemployment rates at the time of the award. It is lower for beneficiaries with a high DI benefit amount at award, an award decision made at a higher adjudicative level, and/or Supplemental Security Income or Medicare benefits at the time of DI award.

Rebecca Vallas and Shawn Fremstad recently published a brief, “Social Security Disability Insurance: A Bedrock of Security for American Workers” (2015). They point out the importance of the disability insurance program in keeping individuals and families from economic hardship. Still, they note that:

The amount a qualifying worker receives in benefits is based on his or her prior earnings. Benefits are modest, typically replacing about half or less of a worker’s earnings. The average benefit is about \$1,165 per month—not far above the federal poverty line. For more than 80 percent of beneficiaries, disability insurance is their

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<sup>1</sup> According to the Organization for Economic Cooperation and Development (2010), the United States has relatively strict eligibility rules in comparison to other countries.

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

main source of income. For one-third, it is their only source of income. Benefits are so modest that many beneficiaries struggle to make ends meet; nearly one in five, or about 1.6 million, disabled-worker beneficiaries live in poverty (Vallas and Fremstad 2015, 3).

Before turning to Social Security, most disabled-worker beneficiaries worked at “unskilled” or “semiskilled” physically demanding jobs. About half—53 percent—of disabled workers who receive disability insurance have a high school diploma or less. About one-third completed some college, and the remaining 18 percent completed four years of college or have further higher education (Vallas and Fremstad 2015, 6).

SSDI beneficiaries are a diverse group. But the above statistics indicate that many beneficiaries, even if they are able to work, may lack the educational credentials to compete for higher paying jobs in today’s economy. And if their previous jobs were physically demanding, they will only be able to return to work if they are able to find new kinds of work to do.

We do not know how many current recipients would respond to the offer of subsidized employment and the enhanced earnings supplement, but we would target outreach to those who would most likely see a significant increase in monthly income in combining work and the earnings supplement, those under 40, and those who have been receiving SSDI for less than five years. Of course, we would not deny the offer to any current beneficiaries, but rather we would invest more in reaching out to the above categories of constituents.

### **Denied Applicants**

Currently, more than four out of 10 applicants are denied, even after appeals. Even denied applicants exhibit very limited work capacity. Results suggest that among those living to age 65, those who applied for SSDI/SSI benefits and had their applications denied fared as poorly (if not more so) in old age as those deemed eligible for disability benefits (McGarry and Skinner 2012, 1). If we can help such individuals remain in or return to the labor market, we can help them improve their economic outcomes and possibly reduce some of the workload of the eligibility determination systems.

### **Applicants**

Researchers and policy experts in disability insurance have noted that there is a contradiction in policies that incentivize work only after someone has demonstrated that he is not able to work. We would like to test the waters of offering immediate employment and earnings supplements to applicants.

We anticipate that we would reach out to applicants and those who have been denied through a variety of methods. These might include contacting the organizations and attorneys who specialize in assisting individuals who are applying for SSDI, as well as a cooperative effort with the Wisconsin Disability Determination Bureau to send out letters to individuals informing them of our alternative offer.

## LARGER CONTEXT OF OUR PROPOSAL: THE LABOR MARKET AS OPPORTUNITY AND PROBLEM

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For most working-age adults, working at a job (or more than one) is the way they take care of themselves and their dependents. Becoming unable to work due to illness or injury, whether for the short-term or the long-term, creates multiple crises. They must simultaneously address their medical condition(s), find a way to replace lost income, deal with the stresses of unpaid bills and uncertainty about their future, and handle the emotional pressures brought on by all of the above.

In some cases, some of the medical issues are related to the loss of a job itself. The stresses arising from the job loss may be compounded in situations where an entire industry is in decline or the individual's community is experiencing the disappearance of a large numbers of jobs.

At the same time, there have been seismic shifts in the U.S. economy over the past 30 years. Many low-skilled jobs that paid living wages have been eliminated. The *New York Times* headline from August 2012 was blunt: "Majority of New Jobs Pay Low Wages, Study Finds." The study showed that lower-wage occupations accounted for 21 percent of recession losses, but 58 percent of recovery growth, while mid-wage occupations saw 60 percent of recession losses but only 22 percent of recovery growth (NELP 2012, 1). The larger challenges of making jobs available, and making work pay for all workers, affect the ability of SSDI beneficiaries to return to work—and applicants to remain in the workforce.

Even as the nation has moved out of the recession and into a more sustained recovery over the past two years, there are still approximately twice as many unemployed workers as there are jobs available.<sup>2</sup> The New Hope Project evidence strongly suggests that creating time-limited but widely available Transitional Jobs is critical to ensuring that paid employment is available to all who want to work (Huston et al. 2003).

The severe economic downturn in 2008-2010 provided experience in the use of Transitional jobs with broad populations and the provision of larger numbers of such jobs. The 2009 Recovery Act created a \$5 billion fund over two years for Temporary Assistance to Needy Families (TANF)-eligible families to address growing needs. The funds could be used for any of three categories: basic assistance; non-recurring, short-term assistance; and subsidized employment.

As Pavetti, Schott and Lower-Basch reported in their 2011 paper, "Creating Subsidized Employment Opportunities for Low-Income Parents":

Some 39 states, the District of Columbia, Puerto Rico, the Virgin Islands, and eight tribal TANF programs received approval to use \$1.3 billion from the fund to create new subsidized employment programs, or expand existing ones. [These jobs

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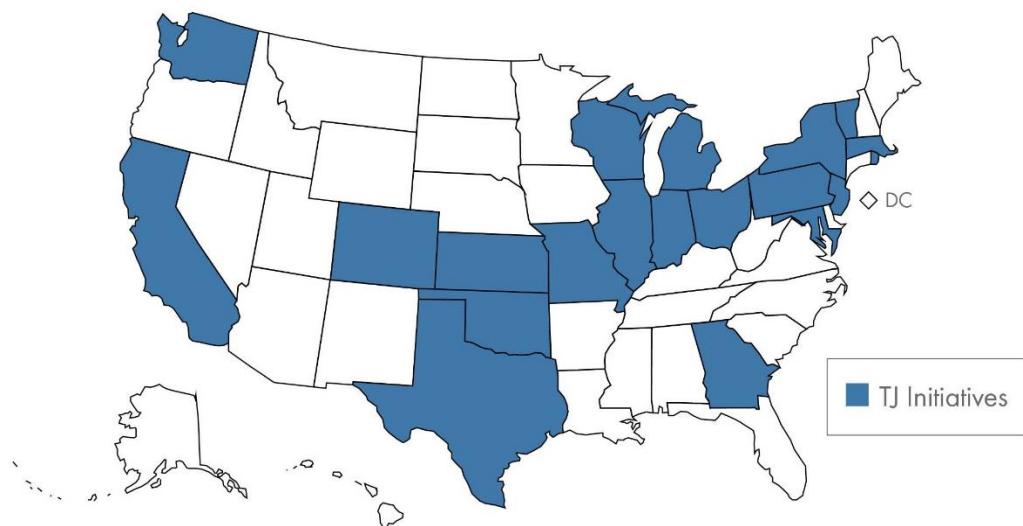
<sup>2</sup> In January 2015, the Bureau of Labor Statistics estimated the number of unemployed 16 years and older to be 8.979 million. In the same month, the number of U.S. nonfarm job openings was estimated to be 4.998 million. See: Bureau of Labor Statistics, "*Labor Force Statistics from the Current Population Survey: Unemployed persons by age, sex, and marital status, seasonally adjusted*" Table A-9, <http://www.bls.gov/web/empsit/cpseaa09.pdf>, and "*Job Openings and Labor Turnover Survey*," <http://data.bls.gov/timeseries/JTS00000000JOL>, data extracted on April 1, 2015.

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

programs] placed more than 260,000 low-income adults and youth in paid jobs during a time of high unemployment.

The 39 states were led by governors from both parties, including governors of Mississippi and Wisconsin who were initially skeptical of the idea but became strong supporters after seeing that Transitional Jobs were embraced by the private sector. Currently, 22 states offer some kind of Transitional Jobs program (as illustrated in the map below from the National Transitional Jobs Network website).

State Support of Transitional Jobs



The premise of this proposal is that Transitional Jobs may be particularly effective in assisting individuals with disabilities to stay in or rejoin the labor market.

All jobseekers and under-employed workers face these challenges in the labor market:

- As noted above, there are frequently not enough jobs available for all those who want to work;
- Even when the overall number of jobseekers roughly approximates the supply of job openings, there are often spatial mismatches that result in large numbers of unemployed individuals clustered in geographic areas of few jobs;
- There are also skills mismatches that result in too many jobseekers who lack the skills or experiences that are in demand by employers;
- Full-time work is not always available, due to business models that rely on part-time and flexible scheduling;
- Not all full-time jobs provide wages high enough to meet basic needs.

The data brings all this home: a very large number of those who are poor in this country are looking for a job or already working, whether part-time or full-time. According to the Census Bureau, in 2013,

in addition to millions of poor adults (ages 18-64) who were unemployed, a total of 8 million adults below the poverty line worked part-time, and another 2.8 million adults in poverty worked full-time (DeNavas-Walt and Proctor 2014, 13).

## OUR PROPOSED POLICY PACKAGE

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### Transitional Jobs

Against the backdrop of a labor market that features periodic job shortages, spatial and skills mismatches, unstable hours, and low wages, Transitional Jobs can serve as an effective tool to help all workers (Roder and Elliott 2013, 51). For those with disabilities, they can help them remain in—or return to—the labor market by creating new work opportunities that can also accommodate individual needs.

Transitional Jobs (TJs) are subsidized, wage-paying jobs, typically in the private for-profit or not-for-profit sectors. They can be full- or part-time jobs, but individuals perform real work and are held to the work rules of the employer. These are jobs of last resort, and should be viewed as a way to help individuals who cannot find work, or who need to identify new kinds of work after an injury or illness.

Our proposed Transitional Jobs program would be administered through an intermediary responsible for developing a variety of Transitional Jobs that can accommodate a wide range of disabilities, as well as recruiting and coaching individuals who wish to apply for work through the TJ program.

The intermediary would be the “Employer of Record,” and the individual businesses or organizations that host a TJ worker the “TJ Host Sites.” The intermediary would be responsible for paying payroll taxes, unemployment insurance taxes and Workers’ Compensation premiums. This design would make the Transitional Jobs program more attractive to businesses and organizations considering hosting a TJ worker, because it would reduce costs and risks associated with adding employees to their payroll who may be temporary. Small businesses, in particular, have noted that they are more willing to give a worker a chance if they do not have to incur the full costs of Workers’ Compensation and unemployment insurance until they know that they can add a position more permanently, or that they will hire the TJ worker permanently. Businesses could have a worker on full subsidy for no more than six months, to protect against exploitation of the individual worker or the program.

The wage subsidy for these jobs would be up to \$10 per hour. Individuals would be covered by Worker’s Compensation and unemployment insurance. Host site employers could choose to “top up the wage,” but that would not be required. TJ workers’ wages would be subject to normal payroll taxation. The wages would be treated like all others for income tax purposes, and could be used to claim the federal Earned Income Tax Credit and the Child Tax Credit.

The jobs would be available to individuals who have been out of work for four weeks or longer. For the purposes of this proposal, Transitional Jobs would be targeted to individuals who are (A) currently receiving SSDI, (B) have been denied benefits; or (C) are applying for SSDI.

The Transitional Jobs would be structured to be available for up to six months, or 1,040 hours. Individuals would work closely with a jobs counselor throughout that period. If the work experience was successful, the counselor would help the TJ worker find unsubsidized work. Sometimes that would occur naturally, through the decision of the Transitional Jobs host site to hire the individual on

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

a permanent basis. In most cases, the TJ worker would look for work elsewhere. If, after four weeks, the individual had not found unsubsidized work, she would be eligible for a new Transitional Job. If the work experience had not been productive, or shown that the individual is not able to work consistently, the individual would continue on the SSDI path.

Each host site would sign a contract with the intermediary spelling out what services the intermediary would provide, what rules would govern host sites' participation, and the rights and responsibilities of all parties. Transitional Jobs host sites would not be allowed to use transitional workers to replace workers in any labor dispute, nor to displace workers in their regular workforce. They would have to provide a job description and ongoing supervision of the TJ employee. They could terminate the TJ employee, using the same disciplinary processes they use for their regular workforce.

TJ employees would be paid only for hours worked. If an individual had concerns about safety or working conditions, she could request a meeting with both the TJ host site and the intermediary's staff person assigned to that company. If such a step did not resolve the concerns, the TJ worker could request access to a different Transitional Job. TJ workers would receive regular feedback on attendance, punctuality, job skills and collaboration.

The intermediary would be responsible for staffing both the ongoing contact with the Transitional Jobs host sites and the Transitional Jobs employees. This would include regular site visits, occasional three-way meetings to discuss performance issues or work place concerns, and regular contact with the TJ worker to assess how she is responding to the job duties and hours.

The intermediary would also be responsible for developing transitional jobs. Recent experience in Wisconsin attests to the wide variety of jobs that can become available in a well-structured TJ program. A report to the Wisconsin state legislature listed 225 different types of jobs filled by TJ workers at 814 businesses and organizations that participated as TJ host sites (Wisconsin Department of Children and Families 2013). Although the barriers to employment are different for SSDI beneficiaries than for the population served by the Wisconsin Transitional Jobs Demonstration Project, there are still a great many opportunities compatible with the work capabilities of SSDI beneficiaries.

### **Enhanced Earned Income Tax Credit**

Making work available through Transitional Jobs is the first necessity if we are to help people with disabilities stay in the labor market or return to work. But it is also critical to make work pay—both to create a powerful incentive to pursue employment and stay in a job, and to ensure that employees obtain through their work enough income to pay the rent, buy food, pay the electric bill, and meet other basic necessities.

Since the 1970s, the Earned Income Tax Credit (EITC) has emerged as the primary U.S. vehicle for making work pay. Supported and increased by every president since Gerald Ford, the EITC was famously praised by President Ronald Reagan as “the best antipoverty, the best pro-family, the best job creation measure to come out of Congress.” (Donosky 1986)

There are two major shortcomings with the EITC, however, that particularly reduce its effectiveness as a tool for incentivizing and rewarding work for people with disabilities. First, many people with disabilities do not have dependent children, and as a result can claim only a very small EITC. (The maximum credit for workers without dependent children in 2014 was \$496, compared to a maximum

of \$3,305 for a worker with one dependent child, \$5,460 for those with two children, and \$6,143 for those with three or more children) (IRS 2014).

The second shortcoming of the EITC is that, for many workers who do have dependent children, it imposes a large “marriage penalty” if they wed. The credit is based on the *total* earnings of the tax-filing unit as reported on Form 1040, the federal individual income tax return. Two unmarried workers who live together, and want to get married, may see a sharp drop in their EITC—thus, their disposable income—if, instead of filing two separate returns of which one is low enough to leverage a very large EITC, they decide to get married. That’s because, in order to claim the EITC at all, the new married couple must file a “married and filing jointly” return. On the joint return, they must combine their earnings, which could push down their EITC to very little or even nothing. In short, in some cases, the rules governing the EITC may cause marriage *not* to pay.

To fix these two shortcomings of the EITC, we propose to model an enhanced EITC that (A) substantially increases the value of the EITC for workers without dependent children, and (B) nearly eliminates the marriage penalty. These changes will substantially increase the incentive to work—and rewards from working—for persons with disabilities. They also would get rid of the marriage penalty that may discourage some workers with disabilities from getting married (or, in extreme cases, contribute to divorce).

The average benefit of this enhanced EITC works out to approximately \$4,500 per recipient as detailed in the Urban Institute’s report. (Lippold 2015, Table B5).

The specific formula we propose to model is to provide participating workers with the difference between the current federal EITC and the following:

### **Revised EITC Formula for Unmarried Individuals**

The following table shows the proposed credit parameters for taxpayers who are not “married filing jointly” (i.e., either “single” or “head of household” for tax purposes).<sup>3</sup> The credit parameters would be indexed for inflation.

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<sup>3</sup> Please note that, while the current EITC for unmarried individuals increases the credit phase-in rate and maximum when the number of qualifying children increases from two to three or more, the proposed EITC for unmarried individuals uses the *same* credit phase-in rate and maximum for *both* the two children category and the three or more children category. Thus, for unmarried individuals, the unique category of “Three or More Qualifying Children” is gone. Despite this, the EITC would deliver (compared to today) larger credit amounts for unmarried individuals with three or more children.

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

### *Earned Income Tax Credit Parameters for Unmarried Individuals*

<u>Group and Parameter</u>	<u>Proposal</u>
<b>No qualifying children</b>	
Phase-in rate	50%
Phase-in ends	\$10,000
Maximum credit	\$ 5,000
Phase-out begins	\$10,000
Phase-out rate	24%
<b>One qualifying child</b>	
Phase-in rate	70%
Phase-in ends	\$10,000
Maximum credit	\$ 7,000
Phase-out begins	\$10,000
Phase-out rate	24%
<b>Two or more qualifying children</b>	
Phase-in rate	90%
Phase-in ends	\$10,000
Maximum credit	\$ 9,000
Phase-out begins	\$10,000
Phase-out rate	25.5%

### **Revised EITC Formula for Married Individuals**

In order to largely eliminate the marriage penalty that is embedded in the current EITC, the proposed policy would make several changes to the EITC for married couples (i.e., “married filing jointly”).

Each married individual would be able to claim a separate EITC based on his or her *individual* earnings. In the computation of each spouse’s EITC, individuals would first compute their separate credits without children; the spouse with the higher childless EITC would then claim any qualifying children, resulting in an enhancement—based on *that spouse’s* individual earnings—of that spouse’s separate EITC that increases with the number of children. When the computation is complete, the two separate credits would be added together.<sup>4</sup> Another policy aimed at eliminating the marriage penalty would allow married couples to claim a larger EITC if they have three, or four-or-more, children.

The following table shows the proposed credit parameters for married taxpayers who file as “married filing jointly.” The credit parameters would be indexed for inflation.

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<sup>4</sup> For example, in the case of a married couple with two children where one spouse has \$30,000 of earnings and the other has \$15,000 in earnings, the family would claim a combined EITC equal to (1) one EITC figured with the \$30,000 amount, plus (2) one EITC figured with the \$15,000 amount. Since the childless EITC is higher at \$15,000 of earnings than at \$30,000, the spouse earning \$15,000 would compute his or her credit using the parameters for two children, while the other spouse would use the childless parameters.

*Earned Income Tax Credit Parameters for Married Individuals*

<u>Group and Parameter</u>	<u>Proposal</u>
<b>No qualifying children</b>	
Phase-in rate	50%
Phase-in ends	\$10,000
Maximum credit	\$ 5,000
Phase-out begins	\$10,000
Phase-out rate	24%
<b>One qualifying child</b>	
Phase-in rate	70%
Phase-in ends	\$10,000
Maximum credit	\$ 7,000
Phase-out begins	\$10,000
Phase-out rate	24%
<b>Two qualifying children</b>	
Phase-in rate	90%
Phase-in ends	\$10,000
Maximum credit	\$ 9,000
Phase-out begins	\$10,000
Phase-out rate	25.5%
<b>Three qualifying children</b>	
Phase-in rate	110%
Phase-in ends	\$10,000
Maximum credit	\$11,000
Phase-out begins	\$10,000
Phase-out rate	27%
<b>Four or more qualifying children</b>	
Phase-in rate	130%
Phase-in ends	\$10,000
Maximum credit	\$13,000
Phase-out begins	\$10,000
Phase-out rate	28.5%

**Access to Enhanced Work Incentive Counseling**

The third component of our proposed policy package would ensure that current and potential SSDI beneficiaries have regular access to a knowledgeable work incentive counselor. There are policies that have been put into place in order to encourage SSDI beneficiaries to consider returning to work. These include, but are not limited to, the Trial Work Period, the Extended Period of Eligibility and Medicaid Buy-In.

However, researchers have learned that individuals often are not aware of these, or do not understand how they apply to their individual circumstances.

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

Because of the complex factors that drive an individual's decision making about SSDI and work, we believe that the Transitional Job and enhanced Earned Income Tax Credit policies would benefit from an Enhanced Work Incentive Counseling component. It is critical to be able to address individuals' questions about how working above the SGA will affect their eligibility, and their receipt of benefits. This would also include the impact of the enhanced Earned Income Tax Credit.

In addition to ensuring that SSDI beneficiaries understand how working in a Transitional Job would affect their benefits, the Enhanced Work Incentive Counseling model can provide a good deal more support for the individual seeking to return to work. In the current Benefit Offset National Demonstration (BOND), running in 10 states, one of the interventions includes Enhanced Work Incentive Counseling (EWIC). In contrast to existing policy with Work Incentive Counseling, EWIC involves more proactive and intensive outreach and counseling with SSDI beneficiaries in one of the BOND treatment groups. EWIC providers administer assessments and use online tools to match skills to occupational requirements. They help develop vocational goals and create a plan that tailors services to overcome barriers. They provide referrals for employment services, and follow up with providers and beneficiaries. Finally, the counselors follow up with the beneficiary and employer after the beneficiary starts a job (CSDP 2015).

Stephen Bell reported that the Enhanced Work Incentive Counseling resulted in a very substantial increase in engagement and enrollment in employment activities, and that both Work Incentive Counselors and EWIC resulted in increased employment effects, compared to the control group. However, the enhanced counseling had not shown impacts relative to the regular work incentive counseling—at least not to date. We would expect that the pre-pilot would utilize the enhanced model, because initial engagement is critical to understanding not just who takes up the TJ offer, but why people do or don't follow through. The enhanced model is more likely to provide more in the way of explanations for follow through—or lack of it.

If, however, in the intervening time between making this proposal and actually setting up the pre-pilot there is more conclusive evidence about one versus the other, we would be open to changing our approach.

In our proposal, the counselors would be part of the intermediary's staff and work with all participants, whether they were applicants for SSDI or current beneficiaries.

## **INTERMEDIATE STEP: TESTING THE VIABILITY OF THE PROPOSED POLICIES THROUGH A PRE-PILOT**

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We propose that a sponsor test the viability of the proposed policies through a pre-pilot of two sites with 500 participants over an 18-month period. If the pre-pilot shows that the proposed policies can be implemented, and participants are responsive to the offers, then we would propose a large national demonstration project.

The authors believe a pre-pilot is necessary before any randomized control study to ensure that the policies can be delivered as intended. When promising ideas are studied, or best practice models are evaluated using random assignment, it can be difficult to distinguish whether any disappointing results are the result of the policies not producing rigorous results, or poor implementation.

The proposed policies are straightforward, and yet implementing them would require working through multiple challenges. They would be working laboratories to test the viability of implementing the

proposal, and getting information on how these policies could be used to address the complex interaction of work and SSDI.

### **Questions/Challenges of This Model**

The challenges of using this model with SSDI applicants and beneficiaries include (but are not limited to):

- Understanding and adapting to the existing rules for determining eligibility, as well as the current work incentives in place for current beneficiaries;
- Creating sufficient numbers of Transitional Jobs appropriate for a wide range of disabling medical conditions;
- Creating sufficient numbers of Transitional Jobs in rural areas;
- Integrating the periodic payment of our enhanced Earned Income Tax Credit with the IRS and SSDI systems;
- Executing memoranda of understanding with appropriate federal agencies (Social Security Administration and Treasury, for example);
- Developing sufficient staff capacity to deliver this model;
- Measuring the costs and benefits of the model.

### **Understanding and Adapting to Existing Rules**

For the most part, the incentives provided for applicants would overlap with those for persons currently receiving SSDI benefits. But there would be some crucial differences.

Applicants would likely be in greater need of immediate income, but also would be more wary of trying work while they await a decision on their application. Our proposal is rooted in the belief that the best way to reduce the growth in SSDI is to slow down the rate of new applicants. We do not wish to accomplish this by changing eligibility rules to make it harder to qualify; we are hoping to accomplish it by helping people find alternative ways to work that accommodate their medical condition. But we need to actually see what happens when we offer the combination of the Transitional Job and enhanced Earned Income Tax Credit. If potential applicants do NOT respond, why? If their lack of response is due to the fact that it is likely to work against their chances of being approved for SSDI, what could we do to address this? Would we be able to work out an agreement to treat their efforts to work in ways that would not lead to automatic denial of their SSDI claim, if they were not successful in finding work they could do?

Under the SSDI program's work rules, current beneficiaries are permitted and encouraged to work if they are able.<sup>5</sup> They may earn an unlimited amount for up to 12 months with no impact on their benefits. Those who earn above the SGA level (\$1,090 per month for 2015) for more than 12 months

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<sup>5</sup> Additionally, SSDI beneficiaries remain eligible for Medicare for seven years, no matter how much they work and whether or not they continue to receive cash benefits through SSDI. For a full discussion of SSDI work rules, see U.S. Social Security Administration, "The Red Book - A Guide to Work Incentives," available at <http://www.ssa.gov/redbook/eng/ssdi-only-employment-supports.htm#a0=3>.

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

enter a nearly three-year “extended period of eligibility” (EPE) during which they receive an SSDI benefit only in months when they earn less than SGA. After the EPE ends, if at any time in the next five years their health declines and they are no longer able to continue working above SGA, they can return to SSDI through “expedited reinstatement.” These work incentives and protections provide a valuable platform for SSDI beneficiaries to test their ability to return to work through a Transitional Job.

### **Creating Sufficient Numbers of Transitional Jobs**

One obvious challenge is the need to create Transitional Jobs that can accommodate a wide range of participants’ medical conditions. In some cases, the intermediary will be working with someone whose disabling condition is obvious, and therefore the TJ host site will be aware of the situation and be able to determine whether there are ways to adapt the job or environment to the individual’s situation.

In other cases, where the condition is not visible or apparent in casual contact, the intermediary will have to balance the need to identify accommodations against the concern that too much information will result in pre-judgment about someone’s ability to be a productive worker. Many SSDI applicants and beneficiaries live with mental illness. Our goal is to provide them with the opportunity to try different kinds of work and environments in order to potentially find a good fit.

Some advisors to our proposal have said they fear this would lead to sheltered workshops. However, Transitional Jobs will pay at least \$10 per hour, and the individual will have some choice about the job. Generally, to mirror the actual labor market, we would have individuals apply and interview for the jobs. The intermediary would get feedback from both the TJ host site supervisor and the worker.

It would also be critical to test the model in a rural area, as the regular job market is generally more limited there.

Multiple Transitional Jobs programs have succeeded in developing large numbers of jobs—in the thousands. Indeed, recent efforts created more than 260,000 TJs nationwide using federal funds appropriated under the American Recovery and Reinvestment Act (Pavetti, Schott, and Lower-Basch 2011, 6). We believe it can be done, but acknowledge that it would be breaking new ground to work exclusively with the SSDI population.

### **Integrating the Periodic Payment of the Earned Income Tax Credit**

We are proposing both an enhanced Earned Income Tax Credit, and a periodic payment of it. The enhanced EITC is crucial to the model; one of our guiding principles is that work and the EITC should make one substantially better off than the SSDI benefit. It is also crucial to understand that the EITC is connected directly to work effort. We have structured the proposed enhancement to reward work, and to avoid income cliffs, such as the current SSDI cliff.

But the current delivery system has reduced the connection to work effort by only paying the EITC once a year, at tax time. People understand that they have to work in order to qualify for the EITC (among other requirements). However, the link to the policy goal of using the tax credit to make up the difference between one’s monthly earnings and one’s monthly expenses has been weakened. There is currently no way to get any of the EITC on a periodic basis, when it might be most useful in meeting ongoing needs. Instead, it comes as a windfall once a year.

While there were good reasons for eliminating the Advanced Earned Income Tax Credit, we believe that we would need to develop a periodic payment option for this model. We have experience in doing this, as the original New Hope Project paid out its earnings supplement on a monthly basis. We would likely adapt the periodic payment model currently being tested in Chicago (Marzahl and Bellisle 2014, 2). We could explore doing this through the IRS, which would require working out a memorandum of understanding (and the negotiation that would entail), or we could run the periodic payment as a separate, stand-alone function handled by the intermediary. For the pre-pilot, we would most likely run it as a function of the intermediary, and use the experience to test the waters with the IRS if a larger demonstration went forward.

### **Developing Sufficient Staff Capacity**

As noted above, one of the critical pieces of our proposal is to ensure that participants and would-be participants have access to work incentive counselors who have solid knowledge of how work interacts with SSDI rules, and have skills to help guide job exploration.

Many times, new programs or interventions are designed and implemented without sufficient thought about how to hire people with the right skills or aptitudes, or how to provide ongoing training to ensure that staff turnover is managed as well as possible. Small pilot sites would be ideal for working this through.

We anticipate that the staff would work for the intermediary, but they might be situated at another organization, such as a disability services organization or vocational rehabilitation office. We expect that staff members would have caseloads of 50-75 active participants, with additional participants who may be sporadically active, for a total caseload of approximately 100 at any time. Again, this would be assessed during the pre-pilot.

### **The Cost of Implementing and Running the Pre-Pilot**

Transitional Jobs models vary in how they build their budgets. We are basing our estimate on the average costs per job in the Wisconsin Transitional Jobs Demonstration, which ran from 2010-13. (The program's successor continues on a somewhat reduced scale, but is recommended for additional funding in the governor's current Wisconsin state budget proposal.)

Under that program, the cost of a yearly Transitional Job slot is \$10,000, which includes the intermediary's operating costs (Davis and Rupisnky 2013, Tables A5 & A6). We add \$500 per participant per year for the Enhanced Work Incentive Counseling.

Our estimate for the enhanced EITC is \$4,500 per household, per Kye Lippold's report.

Therefore, the cost of implementing this proposal is estimated at \$15,000 per participant, assuming full-time work and qualifying for the enhanced EITC. Even if 500 individuals accepted the offer, we know that not all would work full time or for more than six months. For the purpose of this proposal, we estimate that we would utilize full funding for 250 individuals.

There would also be costs associated with setting up and running the pre-pilot. We estimate costs in the range of \$500,000 to \$700,000 for setting up and administering the pre-pilot, depending upon where the pre-pilot would take place. That would cover staffing, contracting (including an evaluation firm to document the outcomes and lessons learned in the pilots), operating costs, and travel.

## TRANSITIONAL JOBS TO INCREASE EMPLOYMENT

### *Budget Estimate for the Pre-Pilot of up to 500 Individuals*

#### **Program Expenses**

Transitional Jobs – wages, taxes and costs of staffing the intermediary:	\$2,500,000
Enhanced Earned Income Tax Credit	1,125,000
Enhanced Work Incentive Counselors	125,000
Subtotal Program Expenses	\$3,750,000

#### **Administering the Pilot – range of \$500,000 to \$700,000**

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