McCrery-Pomeroy SSDI Solutions Initiative
SSDIsolutions.org

POLICY BRIEF

Gokhale, "A New Approach to SSDI Reform"

With the Social Security Disability Insurance (SSDI) trust fund projected to deplete its reserves in 2016, there appears to be increasing interest in identifying improvements to the program. The McCrery-Pomeroy SSDI Solutions Initiative has commissioned 12 papers that will propose possible solutions; however, many proposals already exist. This brief summarizes one such proposal. You can read the full paper here.

Currently, in order to receive SSDI benefits, an individual must medically prove that their disability prevents them from earning above $1,090 per month – an amount considered to show "Substantial Gainful Activity" (SGA). If a beneficiary earns above this level for an extended period of time, benefits are discontinued. This so-called "cash cliff" (loss of benefits) creates a disincentive for beneficiaries to earn above SGA, and it may discourage beneficiaries who would otherwise rejoin the workforce.

In his 2013 article "A New Approach to SSDI Reform," Jagadeesh Gokhale of the Cato Institute proposes replacing this "cash cliff" with a model called the Generalized Benefit Offset (GBO). Although the Social Security Administration (SSA) has already been testing a policy to replace the cash cliff with a "benefit offset" that reduces benefits by $1 for every $2 earned above SGA, Gokhale argues this is unlikely to be effective since it still enacts "a 50 percent marginal tax rate on earnings." He believes the GBO solves this problem and improves work incentives by reducing how benefits change when beneficiaries earn close to or above the SGA earnings limit.

Recommendation – Generalized Benefit Offset (GBO)

Gokhale recommends replacing the one-size-fits-all $1-for-$2 offset with a sliding scale that adjusts an individual's offset and monthly benefit based on their earnings. It is based on the principle that beneficiaries are in the best position to determine how much work they are capable of and can sort themselves into the most efficient category to maximize income. The adjustment would not be permanent, so a beneficiary could work for a while and then return to receiving standard SSDI benefits if their ability to work lessened.

On the sliding scale, as a beneficiary's income increases, both their monthly benefit and the degree of the offset would decrease. For instance, if a beneficiary earns $1,250 a month, their monthly benefit might be reduced by 30 percent and the offset could decrease to 20 percent (losing $1 of benefits for $5 of earnings). In this case, the beneficiary receives more income than they would under traditional SSDI at a lower cost to the program. If they earn even more, the monthly benefit would eventually reach zero, but they would remain eligible for benefits to resume if their employment ended or their condition worsened.

The GBO could also incorporate a feature similar to the Earned Income Tax Credit, providing a wage boost through a tax incentive at certain income levels that would substantially increase monthly income and transition work-capable individuals off of SSDI.

Because one standard GBO will not cover the wide range of capabilities of workers with disabilities, Gokhale suggests offering multiple sliding scales that workers could choose between. For example, beneficiaries with more work capacity might prefer lower offsets, and different circumstances might vary which option a beneficiary chooses. Similar to choosing health insurance packages, individuals can self-sort efficiently based off of their ability to determine their situation.

Gokhale's recommendation aims to increase total output from beneficiaries with work capacity while preserving the system for workers with severe disabilities.

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