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Rehabilitation Research and Training Center
for Economic Research on Employment
Policy for Persons with Disabilities

POLICY BRIEF

Impacts of Expanding Health Care Coverage on the Employment and Earnings of Participants in the SSI Work Incentive Program

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Abstract

While people with disabilities often say that a loss of public health insurance is a deterrent to work, it is rare to find situations in which they might actually exhibit such a behavioral response to a change in access. Expansions in the income threshold for SSI work incentives program (Sections 1619(a) and (b)) provide an opportunity to observe such a response. Section 1619(b) allows SSI recipients to maintain Medicaid eligibility even if their income is above the level that makes them ineligible for SSI payments. If earnings increase beyond the 1619(b) threshold, however, the person loses their SSI and Medicaid eligibility. Section 1619(b) income thresholds vary significantly across states and over time.

Stapleton and Tucker (2000) use the variation in Section 1619(b) income thresholds to examine the employment, earnings and program participation patterns of SSI recipients who have incomes near the threshold level for their state. They find strong evidence that many SSI recipients restrain their earnings to stay below the 1619(b) threshold. It is important to note, however, that the findings only provide evidence on the behavior of a small portion of the population with disabilities (i.e., SSI recipients who work). Nonetheless, this evidence seems to provide strong empirical support for the hypothesis that lack of access to health insurance is an important work disincentive for people with disabilities.

They also find that 1619(b) participation varies significantly from month to month. Consequently, cross-sectional estimates on the share of SSI recipients participating in 1619(b) significantly understate the share of SSI recipients who ever participate. These findings are consistent with previous findings that cross-sectional estimates of employment tend to understate multi-period employment patterns for the broader population with disabilities.

Introduction

A significant portion of people with disabilities receive access to public health insurance from Medicaid and/or Medicare by participating in the Supplementary Security Income (SSI) and/or Social Security Disability Insurance (DI) programs. Surveys of SSI and DI participants often indicate that the potential loss of health insurance benefits is a significant deterrent to increasing their earnings. Recipients often, however, also cite other deterrents (e.g., transportation). Hence, many are skeptical that expansion of access to health insurance would have much of an impact on work outcomes.

While people with disabilities often say that a loss of public health insurance is a deterrent to work, it is rare to find situations in which they might actually exhibit a behavioral response to a change in access. Expansions in the income threshold for SSI work incentives program (Sections 1619(a) and (b)) provides an opportunity to observe such behavior. Section 1619(b) allows SSI recipients to maintain Medicaid eligibility even if their income is above the level that makes them ineligible for SSI payments. If earnings increase beyond the 1619(b) threshold, however, the person loses their SSI and Medicaid eligibility.

This brief summarizes the findings of Stapleton and Tucker (2000), who examined the effect that changes in the Section 1619(b) income thresholds have on the employment, earnings, and program participation patterns of SSI recipients.[1] In addition, they examined variation in 1619(b) participation over time, to determine if cross-sectional estimates understate the number of SSI recipients who ever participate in 1619(b).

SSI Work Incentives

Under Section 1619 of the Social Security Act, SSI recipients who have earnings may still be SSI and Medicaid eligible when their earnings exceed the "substantial gainful activity level" (SGA), which was $500 in 1996.[2] To illustrate how the program works, Stapleton and Tucker present an example of the relationship between earnings and SSI and Medicaid benefits for a non-married individual living in Pennsylvania in 1996 *(Exhibit 1)*. For simplicity, they assume that the SSI recipient has no non-labor income other than SSI, and no deductible income related work expenses (IRWEs).[3] A disabled SSI

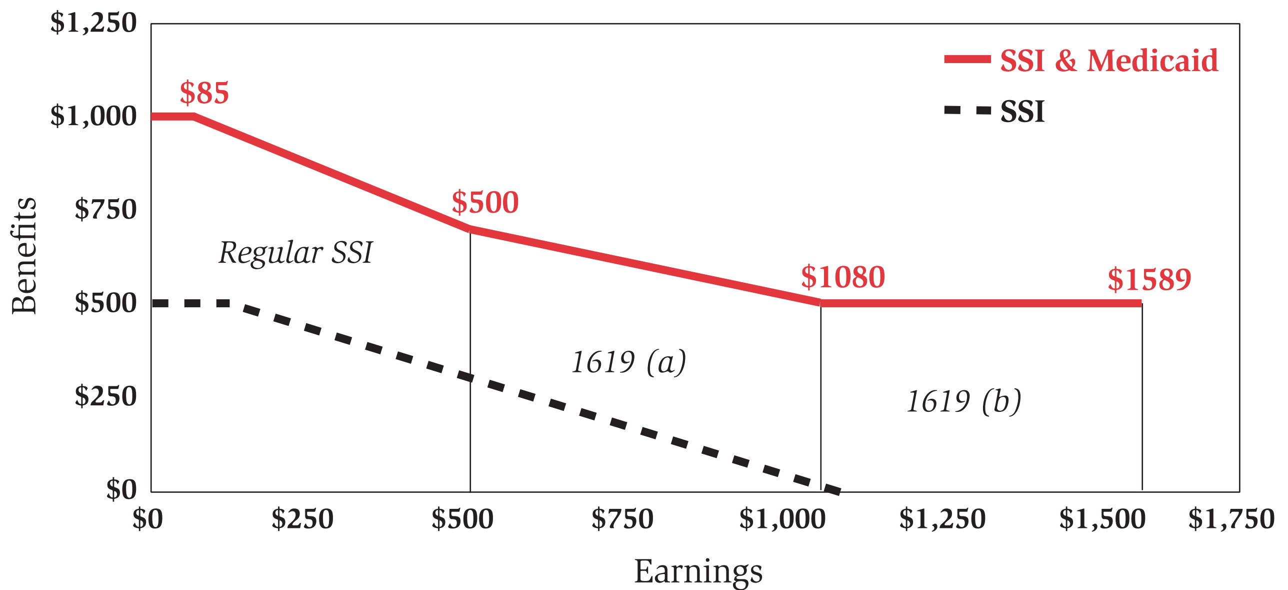
[1]More details of the study can be found in Stapleton et al. (1998). The research was funded by the US Department of Health and Human Services, Office of the Assistant Secretary for Planing and Evaluation

[2] In 1999, SGA was increased from $500 to $700.

[3]Many SSI recipients do have some non-labor income; a significant share qualify for a DI benefit that is below the SSI maximum payment. This non-labor income reduces the SSI breakeven earnings level. Although it does not affect the 1619(b) income threshold, it does affect the level of earnings associated with the income threshold. In addition, many working SSI recipients also have Income Related Work Expenses (IRWEs). The 1619(b) income threshold and associated earnings level are increased dollar for dollar by IRWEs. Stapleton and Tucker's methodology focuses on the expansion of the 1619(b) threshold, holding other things constant, including IRWE.

Exhibit 1

Earnings and Benefits for a Non-Married SSI Recipient Living in Pennsylvania in 1996



recipient with no earnings would receive $497 in SSI cash payments ($470 federal payment and $27.40 state supplement) and, on average, $509 in in-kind Medicaid benefits, for a total of $1,006 in net benefits per month. The SSI benefit calculation disregards an individual's first $85 of earned income per month.[4] Beyond the disregard, SSI recipients lose 50 cents for each additional dollar earned. Once a recipient earns SGA ($500), he or she is no longer eligible for regular SSI, and must transfer to section 1619(a) to maintain SSI eligibility. Section 1619(a) eligibility allows recipients to increase their monthly earnings above SGA without completely losing their SSI cash payments; recipients continue to lose 50 cents in benefits for each additional dollar of earnings until his or her benefits have fallen to zero. The illustrative recipient would lose all SSI cash benefits and transfer to section 1619(b) eligibility once his or her monthly earnings reached $1,080, Pennsylvania's SSI "breakeven point" in 1996. Section 1619(b) eligibility allows the recipient to increase monthly earnings above the breakeven point without losing his or her Medicaid benefit or continuing eligibility for SSI. Eligibility under section 1619(b) continues until an individual's monthly earnings reach a "threshold amount," beyond which a person loses both Medicaid eligibility and continuing eligibility. This amount is equal to the state's SSI breakeven point plus the average Medicaid expenditures for disabled SSI cash recipients in the state—$509 in Pennsylvania in 1996. Thus, the illustrative recipient's threshold amount is $1,589.

Rapid growth in average Medicaid expenditures for disabled SSI recipients has resulted in substantial expansion of the 1619(b) earnings threshold amount in each state since 1990. For a recipient with only the minimum disregards (such as the recipient in the example above), the median state 1619(b) threshold increased from $15,016 in 1990 to $19,455 in 1996. This represents a 19.6 percent increase over the period, or an annual rate of 4.3 percent.[5] There was significant variation in the growth of these thresholds across states. For example, from 1990 to 1996, in Maine the threshold increased by $7,881 (from $14,300 to 22,181), whereas in Washington, the threshold declined by $7,711 (from $25,554 to 17,843).

[4] The $85 in the example includes $20 that applies to any income and $65 that applies to only earned income.

[5] The inflation rate (as measured by the Consumer Price Index) increased by 20 percent between 1990 and 1996.

Methodology

Stapleton and Tucker predict that while most SSI recipients will be unaffected by an increase in the 1619(b) threshold because they do not work, those closest to the threshold might restrain their earnings to maintain their SSI and Medicaid eligibility. Consequently, all else equal, SSI recipients closest to the threshold will likely have a stronger behavioral response to an increase than other recipients, including workers with earnings well below the threshold.

Stapleton and Tucker use Social Security Administrative (SSA) data on SSI recipients to examine Section 1619(b) participation from 1990 to 1996 in two ways. First, they use the variation in Section 1619(b) thresholds across states and over time to analyze the effects that threshold increases have of earnings, SSI income, and SSI participation. They create a study group of adult (under age 50) SSI recipients who had SSA earnings records in 1990.[6] The "full study group" includes individuals whose chargeable incomes are within 50 percent of the state threshold.[7] Within the full study group, they also analyze four subgroups of SSI recipients defined by how close their 1990 incomes are to the threshold (Top 5%, Next 5%, Next 15%, and Next 25%). They expect the effects of threshold changes to be strongest for those with 1990 incomes closest to the threshold, because these are the individuals whose earnings are most likely to be constrained by the threshold. In the second part, they examine variation in 1619(b) participation over time to determine if cross-sectional estimates understate the number of SSI recipients who ever participate in 1619(b).

Effect of Threshold Increases on Employment, Earnings, and Program Participation

Overall, Stapleton and Tucker find very strong evidence that some SSI recipients who work substantially restrain their Social Security earnings to stay below the 1619(b) threshold *(Exhibit 2)*. Based on analysis of data for 1990-91 only, they estimate that a $1,000 increase in the threshold increased mean earnings for those in the full study group by approximately $300.[8] As expected, they also find that the effects for the study groups closer to the threshold are even larger than those in the full study group. For SSI recipients whose chargeable income is closest to the threshold (Top 5%), they find that a $1,000 change in threshold over

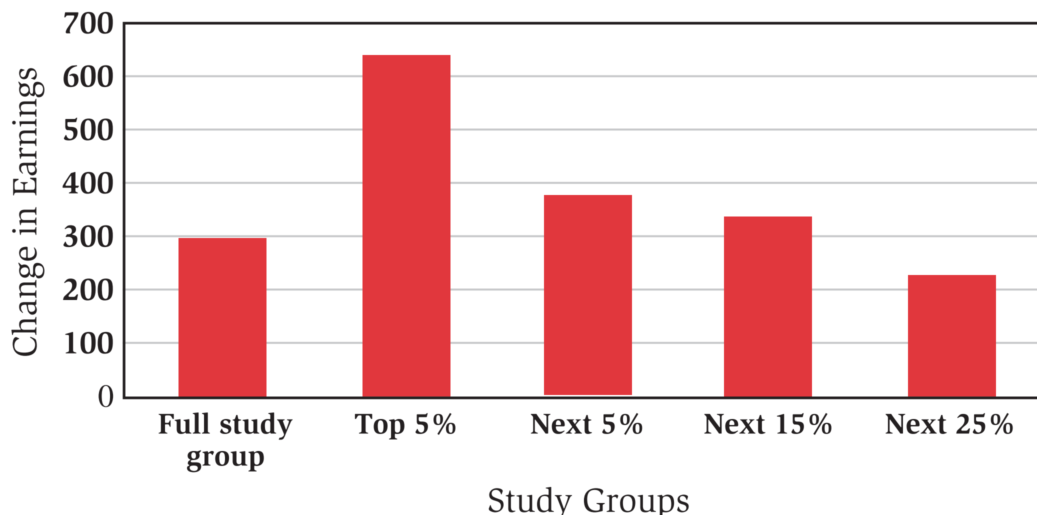
[6] In 1990, only 4.1 percent of adult SSI recipients had SSA earnings.

[7] Stapleton and Tucker use SSI recipients whose earnings were below 50 percent of the threshold as a control group.

[8] The point estimates for the full study group range from $117 to $482. It is difficult to know whether the "true" effect is near the bottom or top of the range indicated, but the midpoint, $300, is a credible value.

Exhibit 2

Average Estimated Effects of a $1,000 Increase in the 1619(b) Threshold on Social Security Earnings, 1990-91



this period increased means earnings by approximately $650.[9] Results for changes in earnings from 1990 to 1996 are weaker, but still consistent with predictions.[10] Stapleton and Tucker also find strong evidence that recipients significantly reduce reported earnings to stay below the threshold when their chargeable unearned income increases.

The findings are also generally consistent with hypotheses regarding the impact of threshold changes on employment and SSI participation. They find some small reductions in SSI payments to those most likely to be restraining earnings. They also find evidence that increases in chargeable unearned income reduce scheduled SSI payments of those whose initial earnings are closest to the threshold by less than statutory requirements, because of induced reductions in earnings. They do not find evidence of effect on either employment or SSI participation. It appears that recipients make marginal adjustments to their earnings because of threshold and unearned income changes, rather than wholesale changes to their participation or employment status.

Longitudinal 1619(b) Participation

Stapleton and Tucker also examine longitudinal patterns in 1619(b) participation to determine whether cross-section statistics understate the share of SSI recipients in 1619(b) within a particular month. It is possible, for example, that significant shares of SSI recipients are only in 1619(b) temporarily because of unstable monthly earnings patterns and/or part-time labor force attachment. This would be consistent with findings that cross-sectional statistics understate employment for the broader population with disabilities (Burkhauser and Wittenburg, 1996).

They find high monthly variability in 1619(b) participation. While only 33,000 of the roughly 128,000 SSI recipients with earnings in 1990 (26 percent) participated in 1619(b) for at least one month in 1990, almost 57 thousand (44 percent) participated in 1619(b) for at least one month during the entire 1990-96 period. The latter number is about 2.4 times the number of SSI recipients reported by SSA as participating in the program in December 1990. Stapleton and Tucker conclude that cross-sectional statistics on the share of SSI recipients participating in 1619(b) are much lower than the share of SSI recipients who ever participate, reflecting high variation in who participates from month to month.

Summary

The findings provide substantial support for the hypothesis that lack of access to health insurance is an important work disincentive for people with disabilities. Currently, several states are expanding Medicaid coverage for people with disabilities, mainly by introducing options that were allowed under the 1997 Balanced Budget Act. The Ticket to Work and Work Incentives Improvement Act (TWWIIA) of 1999 included provisions to encourage states to further expand Medicaid coverage for people with disabilities. TWWIIA also expanded Medicare options for Social Security Disability beneficiaries who work. Based on the findings for 1619(b), these recent policy changes could have a large impact on employment outcomes for people with disabilities. One major caveat, however, is that the finding above only directly apply to a select group of SSI disability recipients who work. Hence, it is difficult to say how large the impacts of the current expansions will be.[11]

The findings also indicate that there is high monthly variability in 1619(b) participation. This finding underscores the importance of examining the dynamics of employment and program participation for people with disabilities.

[9] The point estimates for the Top 5% group range from $272 to $1,025. It is difficult to know whether the "true" effect is near the bottom or top of the range indicated, but as above, the midpoint, $650, is a credible value.

[10] The point estimates for the full study group range from $37 to $233. The weaker results for this period appear to reflect strong negative earnings trends for the recipients in the sample. These trends occur despite substantial overall growth of the economy during the period. It seems likely that deterioration in health conditions is a common explanation of earnings declines, and the weaker results may simply reflect the fact that the number in the sample for whom the threshold is relevant declines over time.

[11] The methodological approach to evaluate the impact of the 1619(b) expansions might also have some applicability to future evaluations of the impact of the recent Medicaid expansions on the employment patterns of SSI (and former SSI) recipients. For example, researchers might analyze the impact of these expansions by comparing the experiences of a cohort of SSI recipients affected by these changes to the experiences of another cohort whom are not affected.

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