How Do Work-Related Overpayments Affect the Earnings of Social Security Disability Insurance Beneficiaries?
Discussion Slides, 2018 DRC Meeting

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Discussant:
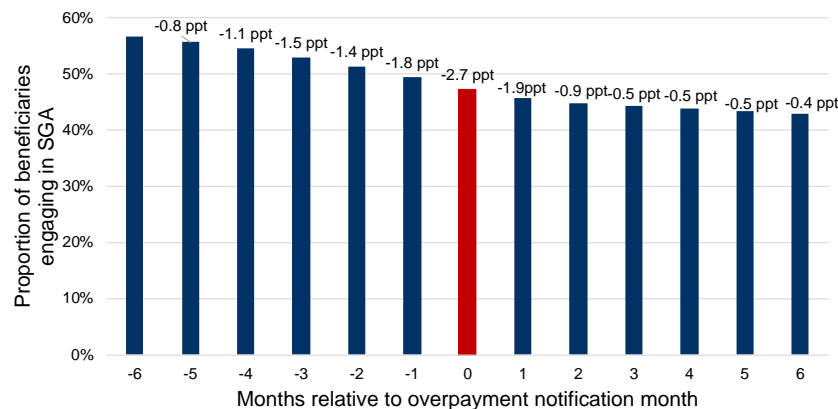*Michael Dworsky (RAND)*

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SSDI Overpayments Warrant Study for a Number of Reasons

- DI overpayments reached $1.6 billion in FY 2014
  - Administrative costs reduce delivery efficiency of SSA
  - Incomplete recoveries affect DI trust fund

- Potential negative impacts on beneficiaries who continue SGA after Trial Work Period
  - Estimates suggest most STW beneficiaries overpaid
  - Overpaid beneficiaries report stopping work

Do Overpayments Reduce Employment?

- Authors measure SGA before, after notification

- Clear reduction in SGA around time of notification

- Exit rate drops afterward
  - Additional exit from SGA?
  - Harvesting workers who were about to exit anyway?

Chart showing proportion of beneficiaries engaging in SGA by months relative to overpayment notification month (-6 to 6). Data labels: -0.8 ppt, -1.1 ppt, -1.5 ppt, -1.4 ppt, -1.8 ppt, -2.7 ppt, -1.9ppt, -0.9 ppt, -0.5 ppt, -0.5 ppt, -0.5 ppt, -0.4 ppt. Y-axis: Proportion of beneficiaries engaging in SGA (0% to 60%). X-axis: Months relative to overpayment notification month.

Additional Control Group Can Disentangle Notification Effect from Other Factors

- Beneficiaries are exiting SGA before notification

- How do reductions observed here compare to patterns expected in absence of notification?

- Compare to SGA exit for beneficiaries with same duration of SGA, but >6 months from notification

Additional Control Group Can Disentangle Notification Effect from Other Factors

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$$P(\text{stop SGA in month } t|\text{SGA at month } t-1) = \theta_0(t)\exp\left(X_i\beta + \sum_{s=-6}^{6} \tau_s \mathbf{1}\{t \text{ is } s \text{ months after notification}\}\right)$$

What Is Happening when Beneficiaries Are Notified of Overpayment?

- Effective tax rate on earnings above SGA goes up *(substitution effect)*

- Reduction in Social Security wealth *(income effect)*

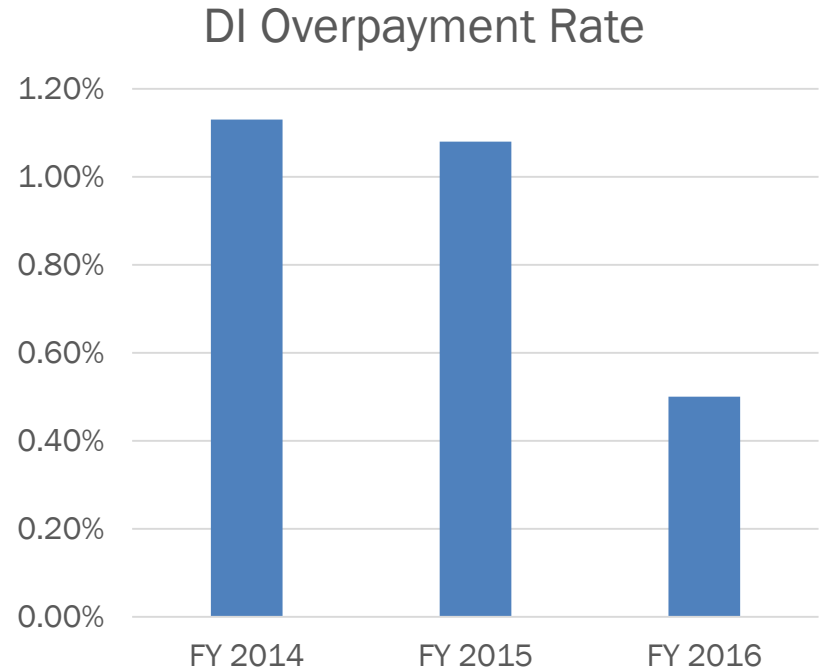# What Is *Really* Happening when Beneficiaries Are Notified of Overpayment?

- Effective tax rate on earnings above SGA goes up *(substitution effect)*

- Reduction in Social Security wealth *(income effect)*

- **No change in program rules or budget constraint**

- **Notification changes beliefs (and attitudes?)**

Modeling Overpayment Notification as Information Is Key to Interpretation

- Possible to model budget set, but only if we know *what beneficiaries believed prior to notification*
  - Narrower bounds with survey data on beliefs?

- Test with information intervention during TWP?

- Notification effect likely differs across subgroups
  - Education level/program knowledge/cognition?
  - Liquidity and non-Social Security wealth?

SSA Has Made Operational Changes to Reduce Overpayments

- Predictive modeling to prioritize work CDRs

- More timely hiring, payroll data to complement W-2

- Sharp changes across cohorts could enable follow-up research?

DI Overpayment Rate

Source: SSA Agency Financial Report, FY 2017, Table 1.1