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DRC BRIEF

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New Evidence on DI Overpayments Following Return to Work and Implications for Initiatives to Reduce Them

Some Social Security Disability Insurance (DI) beneficiaries seek employment to improve their financial or general well-being. In the process, they may become ineligible for a benefit check because of work, which leaves them vulnerable to work-related overpayments. These overpayments occur when the Social Security Administration (SSA) issues a benefit check even though the beneficiary is ineligible due to work. This can occur because SSA was unaware of the beneficiary's work or did not promptly process information on earnings. Regardless of the cause, beneficiaries are typically required to repay any overpayment to SSA. From 2010 to 2012, SSA overpaid 71 percent of working beneficiaries who could potentially have been overpaid. New research has shown that notices of such overpayments are accompanied by a decline in work activity and has sought to understand why. Collectively, the findings point to a growing need for SSA policies that will reduce overpayments. In this brief, we draw on information on the characteristics of overpaid beneficiaries and their reported experiences to suggest broad areas for improvement.

SSDI WORK RULES

- **Trial Work Period (TWP):** SSDI beneficiaries are allowed to test work without affecting benefits for nine months. A TWP month is any month in which an SSDI beneficiary has earnings over the annually-adjusted TWP threshold, $850 in 2018.
- **Grace Period:** The first month in which a beneficiary engages in substantial gainful activity (SGA) after completing the TWP and the following two months comprise a beneficiary's grace period. During this time, beneficiary earnings do not affect SSDI benefits.
- **Suspension or Termination for Work:** After completion of the grace period, SSA suspends benefits in months in which a beneficiary engages in SGA; in some cases, SSA ultimately terminates benefits.

WHAT ARE DI OVERPAYMENTS AND WHY DO THEY OCCUR?

A person's initial and ongoing eligibility for DI benefits depend on being unable to engage in substantial gainful activity (SGA). SGA refers to work activity with a value above a certain annually adjusted monthly threshold: $1,180 and $1,970 in 2018 for non-blind and blind individuals, respectively. To encourage beneficiaries to work and reduce their reliance on disability benefits, certain DI provisions allow beneficiaries to test their ability to work without losing benefits (SSA 2018). These provisions include a nine-month trial work period (TWP) followed by a three-month grace period, during which earnings do not affect benefits. If beneficiaries engage in SGA after the grace period, SSA is supposed to suspend cash benefits; if the SGA occurs more than three years after the TWP ends, SSA is supposed to terminate cash benefits. These and other earnings-related DI rules are complex and challenging for SSA to administer.

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DI WORK REPORTING REQUIREMENTS

SSA instructs DI beneficiaries to notify SSA immediately if they start or stop work; change duties, hours, or pay; or start paying impairment-related work expenses (SSA 2018). Beneficiaries can report work by phone or mail, in person, or online. If beneficiaries do not report earnings, SSA identifies unreported earnings by reviewing annual Internal Revenue Service data, but these data are only available after a lag, sometimes as long as 18 to 24 months after the earnings occurred (SSA 2011).

In practice, when beneficiaries engage in SGA after the grace period, SSA does not always suspend or terminate benefits in a timely manner. These delays lead to work-related overpayments—benefits paid in months when they should have been suspended or terminated due to work. Beneficiaries must repay overpayments to SSA—often gradually, through SSA withholding a small part of each benefit check—although they may appeal the overpayment finding or file a request for SSA to waive the overpayment.

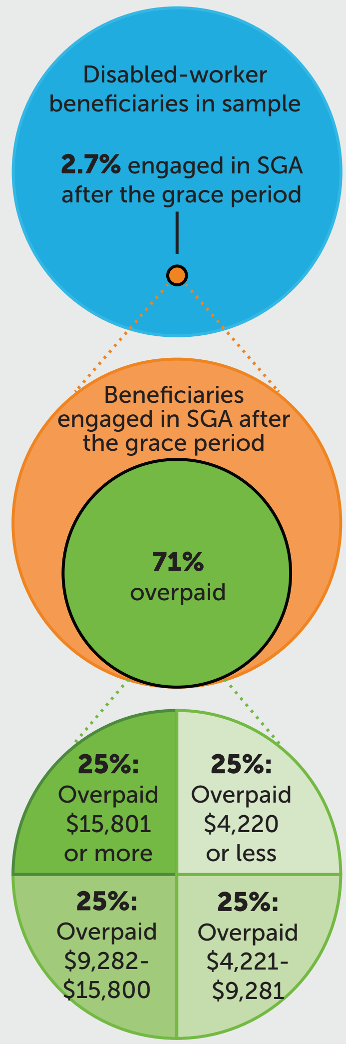
Overpayments occur for two main reasons:

1. **Beneficiaries do not report earnings timely or correctly.** Beneficiaries are required to report earnings to SSA (see box). Using a small random sample, the SSA Office of the Inspector General (OIG) found that 83 percent of beneficiaries who incurred an overpayment had not reported their earnings to SSA timely (SSA OIG 2018). It is possible that some of these beneficiaries attempted to report their earnings but did not follow the correct reporting procedures or that SSA staff who received the reports did not record the information correctly.
2. **SSA does not process the earnings information it receives timely or correctly.** After a beneficiary reports earnings or SSA discovers earnings via Internal Revenue Service (IRS) records, SSA must conduct a work continuing disability review (work CDR) to verify earnings and determine whether it should suspend or terminate benefits. This process can be lengthy and can involve mistakes due to the complexity of DI work rules and SSA backlogs. The SSA OIG attributed 35 percent of overpayment dollars in the sample it studied to SSA processing delays and errors. Reviewing a small random sample of overpayment cases, the Government Accountability Office (GAO) found that SSA delays after receiving IRS records led to nearly half of the cases accruing overpayments for more than a year (GAO 2011).

WORKING BENEFICIARIES AT RISK OF AN OVERPAYMENT WERE OFTEN OVERPAID

Previous evidence about the prevalence, size, and duration of overpayments is limited and came from relatively small samples of beneficiaries (GAO 2013; SSA OIG 2014; SSA OIG 2015). A new report analyzed SSA administrative data for a representative sample of nearly 500,000 DI beneficiaries (10 percent of all DI beneficiaries who met certain eligibility criteria). Findings indicate that, from 2010 to 2012, 2.7 percent of beneficiaries engaged in SGA after completing their TWP and grace period (Hoffman et al. 2018a). These beneficiaries constitute those at risk for earnings-related overpayments during the period. Among those at risk, 71 percent were overpaid in at least one month (Figure 1).

DI beneficiary overpayment status



Source: Hoffman et al. (2018a)

Figure 1

Among beneficiaries who were overpaid, the median number of months with an overpayment was nine and the median total overpayment was

The following characteristics were significant predictors of overpayments:

- Less than a high school education
- SSDI benefit amount of less than $1,000
- Receiving SSDI-only (not concurrently receiving SSI)
- First engaged in SGA during the analysis period

$9,282. Beneficiaries who were overpaid experienced a wide range of overpayment durations and amounts. Beneficiaries at the 25th percentile were overpaid for 4 months, whereas those at the 75th percentile were overpaid for 16 months. Overpayment amounts ranged from $4,221 at the 25th percentile to $15,801 at the 75th percentile (Figure 1). A majority (58 percent) of beneficiaries who were overpaid had a monthly DI benefit of less than $1,000, highlighting the financial burden beneficiaries face when they must repay overpayments.

THE CHARACTERISTICS AND PERCEPTIONS OF OVERPAID BENEFICIARIES PROVIDE INSIGHT ABOUT WHY OVERPAYMENTS OCCUR

Some beneficiary characteristics are associated with overpayments

The analysis of 2010–2012 administrative data also found that several beneficiary characteristics were associated with overpayments, even after accounting for differences in other characteristics (Hoffman et al. 2018a). Some of these characteristics may help explain why overpayments occur. For example, beneficiaries with lower levels of education and smaller benefit amounts—which reflect smaller pre-DI incomes—were more likely to be overpaid than their counterparts with more education and higher benefit amounts. Beneficiaries with low levels of education may be less equipped to understand and adhere to the reporting requirements for earnings or to seek guidance from SSA field offices. Those with small benefit amounts may have trepidation about reporting work activity because of an unstable financial situation.

Several program-related characteristics were also associated with overpayments. Beneficiaries who were concurrently receiving DI and SSI benefits and those who engaged in SGA before 2010 were less likely to be overpaid than those who were receiving only DI benefits and those who began engaging in SGA during the analysis period. SSI earnings reporting requirements are more stringent than those for DI, and beneficiaries with a longer history of SGA-level work have had more chances to report earnings. Hence, beneficiaries with more exposure to SSA reporting requirements may be more likely to correctly report earnings. Finally, beneficiaries in some SSA regions were more or less likely to be overpaid than those in other regions, indicating potential differences across regions in the accuracy of regional staff members' instructions to beneficiaries who had questions or in the rate of SSA processing of earnings information.

Many beneficiaries were surprised to be overpaid

New qualitative findings from interviews with a sample of 84 DI beneficiaries who received overpayments complement the findings on beneficiary characteristics by documenting beneficiaries' experiences and perceptions related to how their overpayments occurred (Kregel 2018). These interviewees were selected from those who sought work incentive counseling after the overpayment had occurred, so they may not be typical of those who were overpaid. Nonetheless, their experiences are instructive.

Many of the interviewed beneficiaries were surprised when they received notice of the overpayment because they thought they had followed the DI rules. Some of these beneficiaries were not aware they had to report earnings and others thought they had reported them properly. A subset of this group said that SSA employees told them they did not need to report earnings or that they had fulfilled their reporting obligations. These beneficiaries may have received inaccurate information from SSA or may have misunderstood what they were told. It is also possible that beneficiaries reported earnings promptly and accurately but still received an overpayment due to SSA processing errors or delays.

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Another group of the interviewed beneficiaries (about 10 percent of the sample) were aware of the reporting requirements but had not followed them. According to Kregel (2018), these beneficiaries did not appear to be trying to deceive SSA. Based on beneficiaries' descriptions of their overpayment experiences, some respondents may have been too overwhelmed with other issues to navigate reporting requirements.

OVERPAYMENTS ARE ASSOCIATED WITH A DECLINE IN EARNINGS

Past research on the relationship between overpayments and subsequent work-related behavior is limited and is based on qualitative research with non-representative samples (Derr et al. 2015; O'Day et al. 2016; Hoffman et al. 2017; Kregel 2018). Preliminary quantitative evidence using SSA administrative data on overpayments identified between 2007 and 2014 points to a negative association between overpayment notification and engaging in SGA (Hoffman et al. 2018b). Figure 2 shows the percentage of beneficiaries who received an overpayment notification and were earning above the SGA limit in each month from the sixth month before to the sixth month after learning of an overpayment. The results show increasingly large declines in SGA engagement leading up to the overpayment notification, peaking in the notification month itself, and smaller declines in the following six months. Between the month before and the first month after the month of overpayment notification, the proportion of overpaid beneficiaries engaging in SGA dropped by 4.6 percentage points.

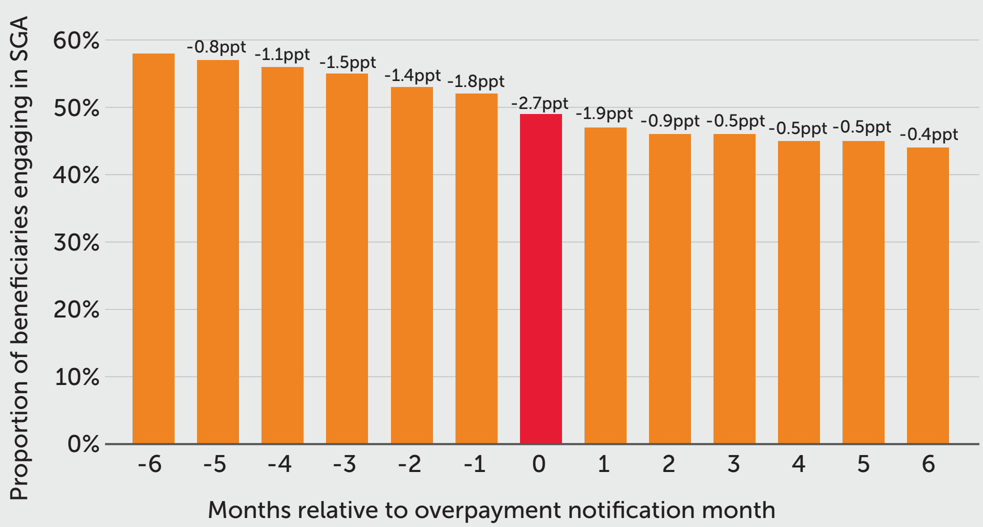
The decline in the proportion of overpaid beneficiaries engaging in SGA before the overpayment notification signals that there are reasons that beneficiaries reduce earnings other than overpayment notices themselves. Beneficiaries may gradually come to realize that they are at risk of losing their benefits if they continue to engage in SGA, possibly due to notices from SSA or for various personal reasons. Indeed, the results show that almost half of beneficiaries had stopped engaging in SGA six months before they received an overpayment notification. However, the reduction following overpayment notification is presumably not due to a new realization that continued SGA engagement has made the beneficiary ineligible for a benefit check, because an earlier notice from SSA provided that information.

The results in Figure 2 demonstrate an association between overpayment notices and disengaging from SGA, but they do not account for the other factors that could cause beneficiaries to change earnings. Pending research by Hoffman et al. will estimate the causal effect of overpayments on SGA-level earnings by accounting for other factors that affect earnings, such as beneficiary characteristics and earnings history.

The findings from the structured interviews with beneficiaries who received overpayments also provide insight into why beneficiaries may subsequently stop engaging in SGA (Kregel 2018). First, some interviewed beneficiaries said they feared that, if they continued to work, they

Between the month before and the first month after the month of overpayment notification, the proportion of overpaid beneficiaries engaging in SGA dropped by 4.6 percentage points.

Proportion of overpaid beneficiaries engaging in SGA in the six months before and after an overpayment notification



Source: Hoffman et al. 2018b.
Note: Figure shows the trend in the proportion of beneficiaries presumably engaging in SGA. If SSA administrative data have information on earnings, we classify those with earnings above the SGA level as having engaged in SGA. Otherwise, we use suspension or termination for work after the grace period as an indicator for SGA. Value labels at the top of each bar show the percentage point (ppt) change from the previous month.

Figure 2

would incur more overpayments in the future. Although this situation would not necessarily occur, these perceptions seem to have affected beneficiaries' decisions. Second, some beneficiaries said they thought they had complied with requirements to report earnings but that SSA had given them incorrect information; as a result, they did not trust SSA to accurately administer their benefits. Third, beneficiaries said that the overpayment debt led to a large emotional strain that made it difficult to continue working. Fourth, by the time they received their overpayment notification, a few beneficiaries had already stopped working for reasons including worsening health, moving, caring for a child or other family member, and retirement.

CHANGES TO SSA POLICIES AND PROCEDURES COULD REDUCE OVERPAYMENTS

SSA has undertaken several efforts to reduce the likelihood and size of overpayments. For example, starting in 2010, SSA dedicated more staff to processing earnings information and prioritized the oldest pending cases to reduce the size of overpayments. In the same year, it also piloted a predictive model during its annual review of IRS earnings records. The model flags beneficiaries who are most likely to have large overpayments; SSA staff then prioritize those cases. After the pilot yielded smaller overpayments, SSA implemented this practice nationwide in 2013. In 2016, SSA began conducting quarterly earnings checks based on the National Directory of New Hires to reduce delays in identifying unreported earnings. Finally, in 2017, SSA introduced an online earnings reporting system to make the reporting process easier for beneficiaries.

Overpayments will remain common as long as most working beneficiaries do not report their earnings promptly and successfully.

Despite these efforts, overpayments will remain common as long as most working beneficiaries do not report their earnings promptly and successfully. The findings described in this brief suggest several steps SSA could take to increase reporting:

1. **Revise how beneficiaries are informed of reporting requirements.** SSA provides some written guidance to all beneficiaries and makes other materials available upon request. Revising the materials, particularly using insights from behavioral science, might increase beneficiaries' understanding of reporting requirements.
2. **Institute more accessible and monitored reporting procedures.** The online reporting system is an example of a recent SSA improvement in this domain. However, its success hinges on beneficiaries' being aware of the tool and the reporting requirements. Monthly reporting reminders, similar to those available to SSI recipients, might improve compliance.
3. **Increase the availability and reach of work incentives counseling services for beneficiaries.** Working with counselors while returning or preparing to return to work could help beneficiaries avoid overpayments. For example, counselors could help beneficiaries understand reporting requirements and report earnings accurately. Even if an overpayment is likely to occur, counselors can help beneficiaries plan for what to do, thereby lessening the financial and emotional consequences of an unanticipated overpayment.

CONCLUSION

Overpayments to DI beneficiaries who work are undesirable for many reasons, and reducing them would help both beneficiaries and SSA. The new research summarized in this brief provides evidence on the scope and nature of overpayments. First, overpayments are common among working beneficiaries who are at risk for them, and these overpayments can be large relative to benefit amounts. Second, vulnerable groups of beneficiaries, such as those with lower levels of education, are most likely to be overpaid and few beneficiaries anticipate overpayments. Third, overpayments are associated with a decline in the proportion of beneficiaries who engage in SGA, and it may be that the overpayments themselves discourage engagement in SGA. These findings suggest that SSA faces systemic challenges in providing clear, accurate, and actionable guidance to beneficiaries on earnings reporting, and has insufficient resources available to process earnings reports. Current and future SSA efforts to reduce the frequency and size of overpayments could substantially improve outcomes for working DI beneficiaries.

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