DRC BRIEF

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Quantifying the Work-Related Overpayments of Social Security Disability Insurance Beneficiaries

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This issue brief documents the results of an analysis of the prevalence, duration, and amount of work-related overpayments that accrued to Social Security Disability Insurance (DI) beneficiaries from January 2010 through December 2012. The analysis, which is described fully in Hoffman et al. (2018), is based on Social Security Administration (SSA) administrative data from a sample of nearly 500,000 beneficiaries. We found that 71 percent of DI beneficiaries at risk for work-related overpayments during the three-year period were overpaid, and the incidence of overpayments among those who first became at-risk during the period was about 80 percent. The median duration of overpayments was nine months, and the median amount overpaid was over $9,000.

Introduction

Work-related overpayments to Social Security Disability Insurance (DI) beneficiaries create administrative and fiscal challenges for the Social Security Administration (SSA), may result in financial hardship for beneficiaries, and may negatively affect beneficiaries' attitudes toward employment. SSA (2013) found that annual work-related overpayments ranged from $831 million to $980 million from fiscal year 2010 through 2012. Interviews of DI beneficiaries have found that overpayments can trigger workers' frustrations with SSA in addition to affecting their employment decisions (O'Day et al. 2016).

Although overpayments account for a substantial sum of money in the aggregate and may be associated with negative reactions from beneficiaries, there is relatively little quantitative information on work-related overpayments at the beneficiary level. Research suggests that work-related overpayments range from about $8,000 per overpayment spell (which may last from a few

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months to a few years) to about $14,000 per overpaid beneficiary over a 10-year period (SSA Office of the Inspector General 2014, 2015). However, these results are based on fewer than 1,000 DI beneficiaries, and the bulk of the analysis period predates recent SSA efforts to reduce overpayments.

This issue brief summarizes new beneficiary-level statistics on work-related overpayments that accrued to DI beneficiaries from January 2010 through December 2012. We used SSA's Disabled Beneficiary and Dependents administrative data files to estimate the prevalence, duration, and size of overpayments during this period. Our sample included 490,193 disabled-worker beneficiaries up to age 59 as of January 2010. More details on our sample and methodology are available in Hoffman et al. (2018).

DI Policy and Procedures on Work Activity

DI benefits are available to former workers if they apply and SSA determines they cannot engage in substantial gainful activity (SGA) because of long-term impairments. In 2016, SGA was defined as monthly earnings above $1,130 for non-blind beneficiaries. SSA suspends and eventually terminates the DI benefits of beneficiaries who engage in SGA over a prolonged period.

To encourage beneficiaries to move into employment and off the disability rolls, the DI program has incentives that allow beneficiaries to test their ability to work. The first is the nine-month Trial Work Period (TWP), in which earnings above the SGA limit do not affect benefits. After the TWP, the beneficiary is allowed to engage in SGA for three more months without loss of benefits, referred to as the grace period. After those three months, benefits are suspended and eventually (three or more years after the end of the TWP) terminated for SGA. Beneficiaries are at risk for overpayments in months when benefits should be suspended or terminated for work.

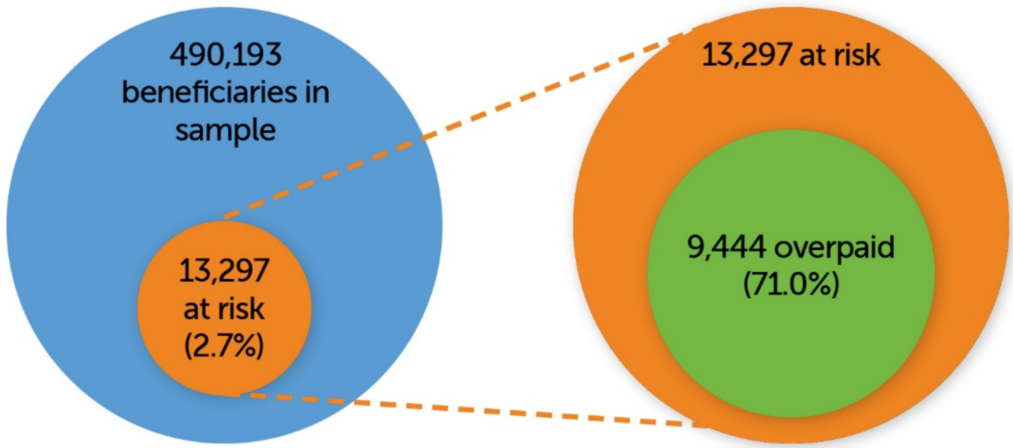
Work-related overpayments occur when SSA pays benefits during months when benefits should be suspended or terminated for work. Overpayments may occur because (1) SSA does not receive information about beneficiaries' earnings timely or (2) SSA does not process the earnings information it receives timely. Beneficiaries are obligated to repay their overpayment debt to SSA.

Results

From January 2010 through December 2012, only 2.7 percent of DI beneficiaries were at risk for overpayments because they engaged in SGA after TWP completion and use of their grace period months (Figure 1). This figure represents an upper bound on the proportion of beneficiaries who could have received such an overpayment during this three-year period. Accordingly, even fewer beneficiaries—1.9 percent of the sample—had a work-related overpayment.

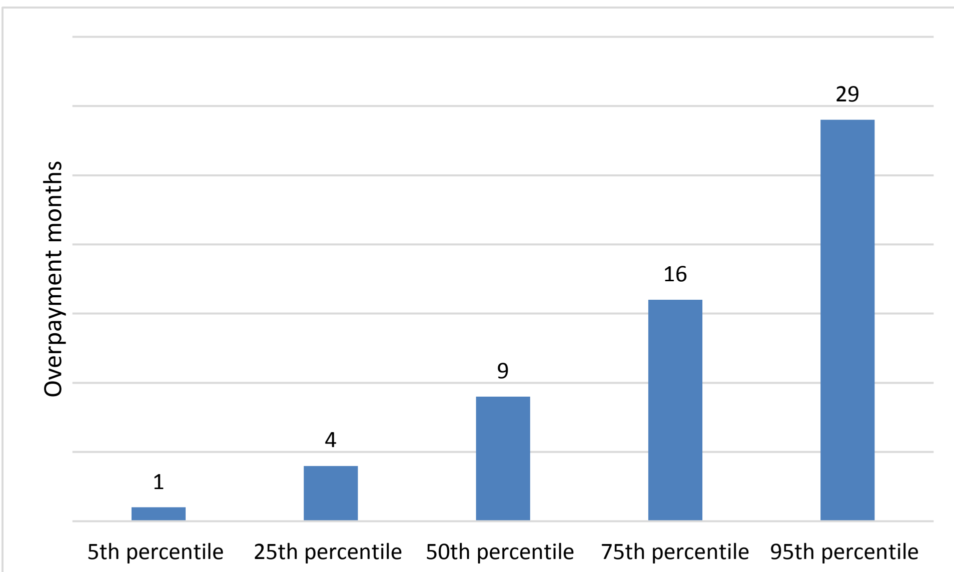
The proportion of beneficiaries who were overpaid among those at risk for a work-related overpayment from 2010 through 2012 was much higher: 71 percent of beneficiaries who were at risk were overpaid (Figure 1). The incidence of overpayments among those who first became at risk for an overpayment during the three-year period was even higher, about 80 percent.

Figure 1. Estimated proportion of beneficiaries who were at risk of overpayment and overpaid in 2010–2012



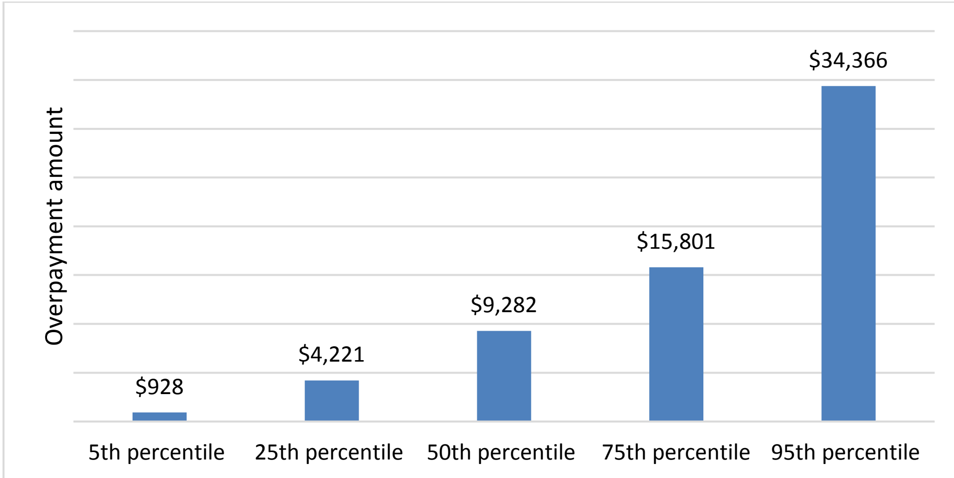
We estimate that half of beneficiaries experiencing an overpayment are overpaid for at least nine months. Beneficiaries with only one month of overpayment make up the 5th percentile of all overpayment durations. At the other end of the spectrum, the 95th percentile of overpayment duration was for 29 months.

Figure 2. Range of total overpayment months in 2010–2012 among overpaid beneficiaries



Among those overpaid, overpayment amounts ranged from $928 at the 5th percentile to over $34,000 at the 95th percentile (Figure 3). The median overpayment amount was $9,282. Overpayment amounts are a function of the duration of the overpayment and the size of the monthly DI benefit. The median overpayment duration and total amounts suggest that the median monthly overpayment amount is approximately $1,030, which is about the size of the median DI benefit amount in 2010 of $1,073 (SSA 2011b).

Figure 3. Range of overpayment amounts among overpaid beneficiaries in 2010–2012



Discussion

Our results indicate that work-related overpayments are common among working beneficiaries at risk for overpayments, and these overpayments can be large relative to DI benefit amounts. Approximately 7 in 10 beneficiaries who were at risk for overpayments in 2010, 2011, or 2012 received a work-related overpayment over the same period. An even higher proportion—8 in 10 beneficiaries—who first became at risk during the three-year analysis period were overpaid. Overpayments accrued for a median of nine months and summed to a median value of more than $9,000. The amount of overpayments ranged widely, from less than $1,000 to more than $34,000. In comparison, in 2010, the median DI benefit was $1,073 a month.

Many overpayments can likely be attributed, at least in-part, to the fact that most working beneficiaries do not report their earnings to SSA timely. In 2010, roughly 75 percent of working beneficiaries failed to report their earnings to SSA (authors' calculations based on SSA 2011a). Instead, SSA discovered unreported earnings through a review of Internal Revenue Service (IRS) data. Overpayments may continue to accrue while SSA awaits IRS data and, according to SSA (2011a), the agency may not receive the data it needs for up to 18 to 24 months after a beneficiary engages in SGA. Any delays in SSA's processing of earnings information will compound the accrual of overpayments. For the remaining 25 percent of beneficiaries who did report their earnings, overpayments likely occurred because of SSA delays in processing that information.

SSA has made a deliberate effort to reduce overpayments by improving its processing of earnings information. Although this effort appears to be effective, it has not addressed the fact that the majority of working beneficiaries fail to report earnings, nearly guaranteeing overpayments because of the gap between when the work activity occurs and when SSA first has access to earnings information from IRS data. A more concerted effort to improve beneficiary awareness of the earnings reporting requirements and processes has the potential to reduce the prevalence, duration, and size of overpayments. In addition, SSA access to a timelier source of earnings information than what is currently available from IRS data has the potential to reduce overpayments among those who do not report earnings.

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