



Office *of the* Inspector General  
SOCIAL SECURITY ADMINISTRATION

*Audit Report*

Oversight of the Benefit Offset  
National Demonstration Project

*A-04-14-14078 / September 2015*

# OIG Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

## MEMORANDUM

**Date:** September 22, 2015

**Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** Oversight of the Benefit Offset National Demonstration Project (A-04-14-14078)

The attached final report presents the results of the Office of Audit's review. The objectives were to determine (1) the status and results of the Benefit Offset National Demonstration (BOND) project, (2) whether the BOND project was meeting the Social Security Administration's goals, and (3) whether the contractor's services and costs for administering the BOND project adhered to contract terms and applicable regulations.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

# Oversight of the Benefit Offset National Demonstration Project

## A-04-14-14078



September 2015

Office of Audit Report Summary

### Objectives

To determine (1) the status and results of the Benefit Offset National Demonstration (BOND) project, (2) whether the BOND project was meeting the Social Security Administration's (SSA) goals, and (3) whether the contractor's services and costs for administering the BOND project adhered to contract terms and applicable regulations.

### Background

With the BOND project, SSA is testing and evaluating the treatment of earnings for current Social Security Disability Insurance (SSDI) beneficiaries in 10 sites nationwide. Under current rules, beneficiaries lose their entire cash benefit if their earnings exceed the substantial gainful activity (SGA) threshold in the month after the trial work and grace periods end. The BOND project provides a gradual reduction of benefits (\$1 for each additional \$2 earned over the SGA threshold). In addition, SSA is offering some participants enhanced work incentives, such as counseling. The goal of the BOND project is to identify and test policies that will assist SSDI beneficiaries resume work, thereby relying less on SSA benefits.

In December 2009, SSA awarded a 9-year contract at an estimated cost of \$121 million to Abt Associates, Incorporated, (Abt) to administer the BOND project.

### Findings

As of January 2015, the BOND project's total cost was approximately \$86.8 million. As of October 2014, only 2,333 (2.7 percent) of the 85,140 BOND project's participants had used the offset for 1 or more months. Also, Abt reported that the BOND project's benefit offset did not have a statistically significant impact on average total earnings in 2012 for Stage 1 participants; and the Stage 2 two treatment groups' average total 2012 earnings increased above the control group by only \$279 and \$301 (about 8 percent), respectively.

SSA officials told us they were satisfied that the project was working as a research study. That is, the BOND project was gathering data to evaluate the effect of a benefit offset and enhanced work incentives counseling on SSDI beneficiaries' work behavior. SSA told us that terminating the BOND project early would cost an estimated \$26.7 million, but it would save about \$8 million in contract costs. As the steward of BOND project dollars, SSA is accountable to Congress and the public on how it spends these funds. The significant contract costs and Social Security Advisory Board's opinion about the value of the BOND project illustrates the importance of developing and applying clearly defined metrics prior to beginning a demonstration project.

Finally, we determined the contractor's services and costs for administering the BOND project generally adhered to contract terms and applicable regulations during our audit period.

### Recommendations

We recommended, for future demonstration projects, SSA develop clearly defined metrics and a business case to justify the project and require an independent executive, or executives, to evaluate and approve the project's planned costs, and throughout the project at established milestones, assess the results and determine whether the project merits continued expenditures. We also recommended SSA pursue collection of the BOND project's \$10,529 in unallowable charges.

Overall, the Agency agreed with our recommendations.

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## ABBREVIATIONS

Abt	Abt Associates, Incorporated
<i>Act</i>	<i>Social Security Act</i>
BOND	Benefit Offset National Demonstration
CY	Calendar Year
EWIC	Enhanced Work Incentives Counseling
OIG	Office of the Inspector General
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SGA	Substantial Gainful Activity
SSA	Social Security Administration
SSAB	Social Security Advisory Board
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income
TWP	Trial Work Period
U.S.C.	United States Code
WIC	Work Incentives Counseling

## OBJECTIVES

Our objectives were to determine (1) the status and results of the Benefit Offset National Demonstration (BOND) project, (2) whether the BOND project was meeting the Social Security Administration's (SSA) goals, and (3) whether the contractor's services and costs for administering the BOND project adhered to contract terms and applicable regulations.

## BACKGROUND

Administered by SSA, Social Security Disability Insurance (SSDI) is the nation's primary earnings-replacement program for workers who become unable to work because of functional limitations caused by physical or mental health conditions.<sup>1</sup> To qualify for SSDI benefits, individuals must have a substantial work history; have a medically determined impairment that has lasted, or is expected to last, for at least 12 months or result in death; and be unable to engage in substantial gainful activity (SGA) because of their medical condition.<sup>2</sup> Under current rules, SSDI beneficiaries lose all benefits if they earn more than the monthly SGA amount<sup>3</sup> for a sufficient period, which includes a 9-month trial work period (TWP)<sup>4</sup> and a 3-month grace period.

Under the *Ticket to Work and Work Incentives Improvement Act of 1999*,<sup>5</sup> Congress requires that SSA test alternative work rules designed to give SSDI beneficiaries an incentive to work and reduce their reliance on SSA benefits. In response to its demonstration authority, SSA initiated the BOND project.<sup>6</sup> Before implementing the project nationally, SSA conducted a Four-State

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<sup>1</sup> Title II of the *Social Security Act* (*Act*) authorizes SSDI benefits. See *Act* § 223, *et seq.*, 42 U.S.C. § 423, *et seq.* SSA also administers the Supplemental Security Income (SSI) program under Title XVI of the *Act*. The SSI program provides a minimum level of income to financially needy individuals who are aged, blind, or disabled. See *Act* § 1601 *et seq.*, 42 U.S.C. § 1381, *et seq.*

<sup>2</sup> *Act* § 1614(a)(3)(A), 42 U.S.C. § 1382c(a)(3)(A). The term SGA describes a specific level of work activity and earnings. SSA considers work "substantial" if it involves engaging in significant physical or mental activities, or a combination of both. SSA, POMS, DI 25501.390A.1 & 2 (October 25, 2013).

<sup>3</sup> SSA, POMS, DI 10501.015B & C (October 24, 2014). The monthly SGA amounts for 2011 were \$1,000 for non-blind and \$1,640 for blind individuals. In 2015, the monthly SGA amounts were \$1,090 and \$1,820, respectively.

<sup>4</sup> The TWP allows SSA to test beneficiaries' ability to work for at least 9 months. During the TWP, beneficiaries receive full SSDI benefits regardless of the amount of their earnings, given they report work activity and have a disabling impairment.

<sup>5</sup> Pub. L. No. 106-170 § 302, 42 U.S.C. § 434 note. The *Ticket to Work and Work Incentives Improvement Act of 1999* required the Commissioner of SSA to conduct a demonstration project to reduce the beneficiary's disability benefits by \$1 for every \$2 earned above a specific level determined by the Commissioner.

<sup>6</sup> SSA, POMS, DI 60099.005A (June 9, 2014). SSA also initiated three additional demonstration projects: Mental Health Treatment Study, Accelerated Benefits Demonstration, and Youth Transition Demonstration.

Pilot Demonstration<sup>7</sup> from August 2005 through December 2008 to test alternative methods of treating work activity in the SSDI program.

In March 2009, we issued a report on the *Contract for the Benefit Offset National Demonstration Project with Abt Associates, Incorporated* (A-05-08-18041). That audit reviewed services provided by Abt Associates, Incorporated, (Abt) and related costs charged to SSA to implement the design phase for the BOND project, which also included the Four-State Pilot Demonstration. The design phase of the BOND project cost an estimated \$10.6 million with an additional \$9.6 million for the Four-State Pilot. We recommended that SSA conduct a detailed cost-benefit analysis of the BOND project's design phase before continuing with Abt for the project's next phase. SSA told us it did not conduct any analysis because it held a full and open competition before awarding the contract.

In December 2009, SSA awarded the BOND project contract (#SS00-10-60011) to Abt. SSA, in conjunction with several subcontractors led by Abt, developed the project's implementation and evaluation efforts, including managing the day-to-day operations and overseeing its implementation. The BOND project's contract is over a 9-year period ending in 2018, with estimated costs of \$121 million. As of January 2015, the BOND project's contract costs were approximately \$86.8 million. The remaining contract funds available total an estimated \$34.2 million. Appendix A provides the BOND project's annual costs as of January 2015.

## Design of the BOND Project

The BOND project's benefit-offset rule tested a \$1 reduction in benefits for every \$2 participants earned over SGA for a 5-year period, in combination with a variety of employment support.<sup>8</sup> The project's goal was to help beneficiaries with disabilities return to work while allowing them a gradual reduction in benefits thereby eliminating the abrupt loss of benefits in the SSDI program when the beneficiary worked and had earnings over SGA. Additionally, participants were permitted to maintain eligibility for health care benefits and other supports linked to SSDI eligibility.

Abt conducted the BOND project at 10 demonstration sites and included over 1.2 million SSDI participants.<sup>9</sup> Eligible beneficiaries at the 10 sites were randomly assigned either a Stage 1 treatment or control group, and the remainder of the population was assigned to the solicitation pool to be recruited for Stage 2. The 10 BOND project sites opened in January 2011

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<sup>7</sup> For the Four-State Pilot or the Benefit Offset Pilot Demonstration Project, SSA contracted with Connecticut, Utah, Vermont, and Wisconsin.

<sup>8</sup> Examples of support include providing work incentives counseling (WIC) and enhanced WIC (EWIC).

<sup>9</sup> To be eligible for the BOND project, beneficiaries in most cases had to be entitled to Title II benefits based on disability; at least age 20 and under age 60; not terminated from benefits; residing in 1 of the 10 demonstration sites; and not currently or previously participating in a treatment or control group of another SSA demonstration.

and closed in September 2012. The BOND project's Call Center<sup>10</sup> remains available to provide support services to BOND project beneficiaries and assist with any questions. Appendix B provides details on the BOND project's demonstration sites, including the project's stages and treatment groups.

**Stage 1:** Stage 1 was designed to examine how a national benefit offset provision would affect the SSDI population as a whole.<sup>11</sup> Stage 1 began in May 2011.

As shown in Table 1, there were 968,713 randomly assigned beneficiaries in Stage 1. Abt randomly assigned these beneficiaries to two groups: treatment and control. The BOND project offered Stage 1 treatment group participants the \$1-for-\$2 offset and WIC. WIC provided the treatment group participants with (1) assistance in explaining SSA disability benefits and work incentives with respect to the BOND project; (2) counseling on healthcare coverage options; and (3) in-depth counseling when beneficiaries were employed, seeking employment, or preparing for employment. Control group beneficiaries<sup>12</sup> received benefits according to current law.

**Table 1: BOND Project's Stage 1 Beneficiaries**

SSA's BOND Project			
Stage 1 Groups	Number of Beneficiaries	Percent of Total Beneficiaries	Incentives Offered
Treatment Group T1	77,115	8	\$1-for-\$2 offset and WIC
Control Group C1	891,598	92	Current law (no offset)
<b>Total</b>	<b>968,713</b>	<b>100</b>	

Source: SSA's Office of Research, Demonstration, and Employment Support

**Stage 2:** Stage 2 was designed to learn more about the impact of the benefit offset for those individuals most likely to use the BOND project's offset. Full implementation of Stage 2 began in June 2011.

Eligibility for Stage 2 was limited to beneficiaries who were receiving only SSDI benefits and volunteered to participate in the project. According to Abt, concurrent beneficiaries were excluded from Stage 2 because the interaction between SSDI and SSI rules substantially diminished the value of the SSDI offset to concurrent beneficiaries, leading to an expectation that relatively few concurrent beneficiaries would use the SSDI benefit offset.

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<sup>10</sup> Beneficiaries use the Call Center to learn more about the BOND project's services, report earnings information, and ask questions about their benefits.

<sup>11</sup> The Stage 1 SSDI population includes some beneficiaries who were concurrently receiving SSI payments.

<sup>12</sup> According to SSA, the treatment and control group results will not be fully available until the BOND project is completed.



The remaining population of 240,773 beneficiaries was solicited for Stage 2, but 227,819 (95 percent) either declined, or did not receive, the solicitation letter or telephone call regarding the BOND project. Abt randomly assigned the 12,954 Stage 2 beneficiaries who volunteered to 1 of 3 groups—2 treatment and 1 control, as shown in Table 2. Abt applied the same methodology used in Stage 1 for one treatment group and the control group. The BOND project offered the second treatment group \$1-for-\$2 offset and EWIC. EWIC provided beneficiaries a more intensive advisement relationship than they received with WIC. EWIC focused on helping BOND project participants determine the best employment path and prepare them for employment and retaining a job.

**Table 2: BOND Project’s Stage 2 Beneficiaries**

SSA’s BOND Project			
Stage 2 Groups	Number of Beneficiaries	Percent of Total Beneficiaries	Incentives Offered
Treatment Group T21	4,936	38	\$1-for-\$2 offset and WIC
Treatment Group T22	3,089	24	\$1-for-\$2 offset and EWIC
Control Group C2	4,929	38	Current law (no offset)
<b>Total</b>	<b>12,954</b>	<b>100</b>	

Source: SSA’s Office of Research, Demonstration, and Employment Support

Stage 1 and 2 treatment groups must participate in the BOND project for a maximum of 60 months (5 years) upon completion of a TWP. Participants must complete their TWP on or before September 30, 2017 to receive the BOND project’s offset.

The BOND project had 85,140 treatment group participants: 77,115 Stage 1 treatment group and 4,936 plus 3,089 Stage 2 treatment groups, as shown in Table 1 and Table 2. Of these 85,140 treatment group participants, 80,326 (94 percent) enrolled in the project in Calendar Year (CY) 2011, and 4,814 (6 percent) enrolled in CY 2012. However, 60 percent of Stage 2 treatment group participants enrolled in 2012.<sup>13</sup> For enrollment figures by CY and treatment group, see Appendix C.

In August 2013, the Social Security Advisory Board (SSAB) issued a Position Paper on *The Case for Terminating the Benefit Offset National Demonstration*. In the Paper, SSAB urged Congress to halt further spending on the BOND project because of faulty conceptualization and implementation as well as project cost. For full text of the Position Paper, see Appendix D.

In response to the Position Paper, SSA’s Acting Commissioner stated that she did not support SSAB’s suggestion of immediately ending the BOND project. The Acting Commissioner stated

<sup>13</sup> Of the 8,025 (4,936 plus 3,089) Stage 2 treatment group participants, 3,211 (1,977 plus 1,234) enrolled in CY 2011 whereas 4,814 enrolled in CY 2012. See Table C–1.

the nearly 90,000<sup>14</sup> beneficiaries “. . . were told the offset would continue for 5 years. The Board’s report is silent on the ethical, legal, and practical problems of immediately changing the rules on these 90,000 participants, who have relied on our previous statement.” The Acting Commissioner further stated that SSA planned to continue the BOND project through completion. For the full text of the Acting Commissioner’s response to the SSAB’s Position Paper, see Appendix E.

To achieve our audit objectives, we contacted or interviewed SSA and Abt staff who executed and managed the contract as well as SSAB representatives. We also reviewed information pertaining to services participants received under the contract and related costs charged to SSA from December 2009 through January 2014. We selected and tested a sample of invoices related to Direct Labor, Other Direct, Subcontractor, and Intercompany Costs. Our audit scope and methodology is in Appendix F, and our sampling methodology is in Appendix G.

## RESULTS OF REVIEW

As of January 2015, the BOND project’s total cost was approximately \$86.8 million. As of October 2014, only 2,333 (2.7 percent) of the 85,140 BOND project participants had used the offset for 1 or more months, although 94 percent had enrolled in the project in CY 2011. Also, Abt reported that the BOND project’s benefit offset did not have a statistically significant impact on Stage 1 participants’ average total earnings in 2012, and the Stage 2 two treatment groups’ average total 2012 earnings increased above the control group by only \$279 and \$301 (about 8 percent), respectively.

The BOND project will continue through 2018. To date, it has only shown a small percentage of participants using the offset and a small effect on participants’ total average earnings. However, SSA does not plan to revise the BOND project’s objectives. SSA stated it was too early in the project to evaluate the effect of the offset. SSA also stated that it was satisfied that the project was meeting its goals of (1) gathering sufficient data to evaluate the effect of a benefit offset and EWIC on the work behavior and earnings of SSDI beneficiaries and (2) determining the impact on benefits and Federal expenditures.

We discussed terminating the project with SSA. The Agency told us that should it terminate the BOND project in May 2015, it would cost an estimated \$26.7 million in early termination costs—a savings of about \$8 million in contract costs. We have not verified these figures.

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<sup>14</sup> The 90,000 BOND project participants is a rounded count of the 85,140 Stage 1 and Stage 2 treatment group beneficiaries, as shown in Table 1 and Table 2.

As the steward of demonstration project dollars, SSA is accountable to the Congress and the public on how it spends these funds. Moreover, the significant contract costs and SSAB's opinion on the value of the BOND project highlights the importance of critical decisions on metrics before beginning a demonstration project.

Finally, while we determined the contractor's services and costs to administer the BOND project generally adhered to contract terms and applicable regulations during our audit period, we did find instances where Abt incorrectly billed SSA for subcontractor employees' non-work hours.

## Status and Results of the BOND Project

We obtained, from Abt<sup>15</sup> or SSA,<sup>16</sup> the number of treatment group participants who were in offset at least 1 or more months during CYs 2011 through 2014. The participants began enrolling in the BOND project in May 2011, and the last participant enrolled in September 2012. As shown in Table 3, CY 2011 and 2012 numbers for participants in offset were much lower. For CY 2013, the BOND project's offset had adjusted 2,329 (2.7 percent) of the 85,140 participants' benefits, while, as of October 2014, 2,333 (2.7 percent) had used the offset for 1 or more months. Comparing the change in the BOND project's participant numbers over this 10-month timeline, we believe only four additional participants received the offset for 1 or more months.

**Table 3: Beneficiaries in Offset—CYs 2011 Through 2014**

SSA's BOND Project				
Treatment Group Participants	CY 2011 (May-Dec.)	CY 2012	CY 2013	CY 2014 (Jan.-Oct.)
Total Beneficiaries in Offset Each Year for 1 or More Months	912	1,657	2,329	2,333

Source: Abt and SSA's Office of Research, Demonstration, and Employment Support

SSA told us the low number of participants who received the offset did not indicate how many participants returned to work. SSA explained BOND project participants must meet three requirements before offset begins: (1) complete a TWP, and/or (2) receive a cessation date,<sup>17</sup> and (3) complete the grace period. However, SSA is allowing participants to complete these

<sup>15</sup> Abt Associates Inc., *BOND Implementation and Evaluation: Process Study Report*, January 8, 2015, pages 50-51. This report stated there were 1,744 Stage 1 and 585 Stage 2 (2,329 in total) treatment group participants in offset for 1 or more months during CY 2013.

<sup>16</sup> SSA provided us with the number of BOND project participants in offset for 1 or more months during CYs 2011, 2012, and 2014 (as of October 2014). SSA told us it had not fully vetted CY 2013 and 2014 numbers, which will not be available until October 2015 or later. SSA also told us that control group data would not be available until the project is completed.

<sup>17</sup> The cessation date is the date a beneficiary's disability ends.

requirements over a 5-year period. SSA also stated the number of participants in offset should be greater after an end-of-year reconciliation.

In June 2014, Abt issued a report on *BOND Implementation and Evaluation, Second-Year Snapshot of Earnings and Benefit Impacts for Stage 1*. The report stated that the BOND project's benefit offset did not have a statistically significant impact on average total earnings in 2012 for Stage 1 participants.

Regarding Stage 2 participants, in August 2014, Abt issued a report on *BOND Implementation and Evaluation, First- and Second-Year Snapshot of Earnings and Benefit Impacts for Stage 2*. The report concluded that the average 2012 earnings for Stage 2 treatment groups T21 and T22 increased above the control group by only \$279 and \$301 (about 8 percent), respectively. Abt also stated, "When combined with the offset, EWIC did not have any detectable effects on 2012 earnings and benefit outcomes relative to WIC." Table 4 details the BOND project's impact on Stage 2 participants' 2012 average earnings.

**Table 4: Stage 2 Earnings Impact—2012**

SSA's BOND Project		
2012 Earnings Results for Stage 2 Groups	Treatment Groups	
	T21 (WIC)	T22 (EWIC)
Treatment Group: Average Earnings	\$3,929	\$3,951
Control Group: Average Earnings	3,650	3,650
Dollar Increase in Average Earnings: Treatment to Control Group	\$279	\$301
Percentage Increase in Average Earnings: Treatment to Control Group	7.6%	8.2%

Source: Abt

SSA explained that the 2012 results for Stage 2 participants could not be relied on solely when concluding on the impact of the BOND project's offset because

- Abt enrolled the majority of Stage 2 participants in 2012;
- participants' significant disabilities must be considered in determining the effect on work and earnings; and
- technical experts, researchers, and informed policymakers would agree the results are not definitive.

## *SSAB's Statement on the BOND Project's Status and Results*

In its Position Paper,<sup>18</sup> SSAB stated that, while Congress requested a demonstration of variations in the benefit offset amount, SSA focused on one method of benefit reduction, which was the reduction of \$1 for every \$2 earned. SSAB also stated that, while the “. . . 2 for 1 amount would help align the SSDI and SSI work incentives . . . this demonstration will not further our knowledge of which particular ratio is most appropriate.”<sup>19</sup> SSAB stated that the results of SSA's Four-State Pilot Demonstration, conducted before the BOND project, provided informative results of the effect a reduced benefit offset would have on beneficiaries returning to work.<sup>20</sup> SSAB also cited two studies that evaluated the effects a reduction in benefits would have on giving individuals an incentive to return to work. SSAB's summaries of the studies follow.<sup>21</sup>

- One study, conducted for SSA, reviewed veterans' benefits with the assumption that benefits are not reduced by earnings. The study found that even those veterans with a high disability rating exhibited a significant amount of work activity. Further, the study's results may help SSA make informed estimates on the potential for SSDI beneficiaries to return to work given their loss of benefits because earnings were eliminated or significantly reduced.<sup>22</sup>
- The other study used computer simulation to test the \$1-for-\$2 offset taking into account various details of the SSDI program. The study concluded that the offset did not necessarily carry the positive fiscal effects that policymakers were hoping for in terms of cost savings in the overall Disability Insurance program.<sup>23</sup>

SSAB's Position Paper further noted that Congress implemented a 2-for-1 earnings offset in the SSI program over 30 years ago. The offset provides SSI recipients with a clear incentive to work. From 1987 to 2008, the number of SSI recipients who earned enough to offset their entire SSI payment increased fivefold from 15,532 to 99,481.<sup>24</sup>

In response to SSAB's Position Paper, SSA's Acting Commissioner stated the Agency carefully considered these studies and the advice of expert consultants, including the Ticket to Work and Work Incentive Advisory Panel, and decided the BOND project should continue. The Acting Commissioner further explained the studies that SSAB cited would not satisfy the congressional

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<sup>18</sup> SSAB, Position Paper: *The Case for Terminating the Benefit Offset National Demonstration*, August 2013. See Appendix D for SSAB's Position Paper.

<sup>19</sup> *Id.* at p. 2.

<sup>20</sup> *Id.* at p. 3.

<sup>21</sup> *Id.* at pp. 2 and 3.

<sup>22</sup> *Id.* at pp. 2 and 3.

<sup>23</sup> *Id.* at p. 2.

<sup>24</sup> *Id.* at p. 3.

requirement to conduct a rigorous, national demonstration of a \$1-for-\$2 offset in the SSDI program.<sup>25</sup>

## SSA's Goals for the BOND Project

SSA officials were satisfied that the BOND project was meeting its goals, which were to gather sufficient data to evaluate the effect of a benefit offset and EWIC on the work behavior and earnings of SSDI beneficiaries and the impact on benefits and federal expenditures.

Although the BOND project will not be completed until 2018, and, to date, has shown both a small percentage of participants using the offset and effect on participants' average earnings, SSA does not plan to revise or terminate the project. SSA stated it was too soon in the project to evaluate the offset's effect. Specifically, SSA explained that one critical issue for any research and evaluation design is the appropriate duration of the treatment, which is key in obtaining enough data to make accurate conclusions. Further, SSA researchers calculated it would take, at a minimum, 5 years of allowing Stage 2 participants to go into offset to achieve the quantity and quality of information necessary for an evaluation. As such, SSA explained that if it terminated the project early and did not complete the research as planned, it would be unable to answer Congress' questions about the offset and sacrifice taxpayers' research investment. Additionally, the BOND project will be complete in about 2 years, and early termination would only save about \$8 million.<sup>26</sup>

We believe the significant contract costs and SSAB's reasonable concerns on the value of the BOND project illustrate the importance of critical decision efforts before beginning a demonstration project. When completed, the project will cost about \$121 million and would have tested only one offset method. SSAB was concerned that, while Congress requested a demonstration of variations in the benefit offset amount, the BOND project only tested one method of benefit reduction, which was the reduction of \$1 for every \$2 earned. SSAB further stated that information was already available on the 2-for-1 earnings offset to evaluate the effects of the offset.

As such, we believe SSA should, for future demonstration projects, develop clearly defined metrics and a business case to justify the project, including estimates of projects costs and an assessment of potential benefits. In addition, SSA should require an executive or executives, independent of the project, to evaluate and approve the project's planned costs; and throughout the project at established milestones, assess the results and determine whether the project merits continued expenditures.

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<sup>25</sup> Appendix E contains SSA's response to SSAB's Position Paper.

<sup>26</sup> As of January 2015, the BOND project's total cost was approximately \$86.8 million of the \$121 million total contract costs. SSA estimated that the contract termination costs at \$26.7 million, which included Fiscal Year 2015 obligated funds of approximately \$11.7 million; \$13 million for beneficiaries remaining in the BOND project after termination for WIC, EWIC, and other operational costs for these beneficiaries; and \$2 million for notifying beneficiaries of the termination of the BOND project. We did not verify these figures.

## Abt Subcontractors Charged SSA for Non-work Hours

We determined the majority of the subcontractor agreements were Time-and-Materials subcontracts subject to the Federal Acquisition Regulation.<sup>27</sup> Accordingly, the Federal Acquisition Regulation permits contractors to bill direct labor hours at fixed hourly rates, as listed in the contract. However, we found three subcontractors that billed SSA for indirect labor costs, such as holidays and personal leave. These subcontractors charged 288 non-work hours on the invoices they submitted for the BOND project. The unallowable charges totaled \$10,529, representing 12.5 percent of the total sampled non-work hours billed during our audit period.

Abt confirmed that two of the three subcontractors directly billed Abt for paid time off on invoices submitted under the BOND project contract. While one subcontractor changed its billing practices in December 2011 and did not bill Abt for paid time off on BOND project invoices submitted after December 7, 2011, there were billing errors before the change in practice. SSA concurred that the subcontractors improperly billed the BOND project for some employees' paid time off. SSA told us that they are in discussions with Abt to resolve this issue. SSA should pursue collection of these unallowable charges.

## CONCLUSIONS

As of January 2015, SSA had expended approximately \$86.8 million (72 percent) of an estimated \$121 million on the BOND project. As of October 2014, only 2.7 percent of the BOND project participants had received the offset for 1 or more months. In 2013, SSAB advocated halting further spending on the BOND project.

SSA officials stated the BOND project was meeting its goals and that appropriate duration of a research project is critical in obtaining enough data to make accurate conclusions. SSA estimated that it would avoid only about \$8 million in contract costs if it terminated the BOND project early.

We believe the significant contract costs and SSAB's opinion on the value of the BOND project highlights the importance of developing and applying clearly defined project metrics at the beginning of demonstration projects. Additionally, as the steward of demonstration project dollars, SSA is accountable to Congress and the public on how it spends these funds and the value it receives in return.

Finally, in general, we determined the contractor's services and costs for administering the BOND project adhered to contract terms and applicable regulations during our audit period.

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<sup>27</sup> Federal Acquisition Regulation 16.601 states that fixed hourly rates listed in a contract should include wages, overhead, general and administrative expenses, and profit for each category of labor.



## RECOMMENDATIONS

We recommend that SSA:

1. For future demonstration projects, develop clearly defined metrics and a business case to justify the project. The business case should include estimates of projects costs and an assessment of potential benefits.
2. For future demonstration projects, require an independent executive, or executives, to evaluate and approve the project's planned costs, and throughout the project at established milestones, assess the results and determine whether the project merits continued expenditures.
3. Pursue collection of the BOND project's \$10,529 in unallowable charges.

## AGENCY COMMENTS

SSA agreed with Recommendations 1 and 3. SSA partially agreed with Recommendation 2 and stated it will explore the possibility of hiring an independent qualified demonstration project reviewer. The Agency's comments are included in Appendix H.



Steven L Schaeffer  
Assistant Inspector General for Audit



# *APPENDICES*

## Appendix A – THE BENEFIT OFFSET NATIONAL DEMONSTRATION PROJECT: CONTRACT COSTS AS OF JANUARY 2015

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On December 7, 2009, the Social Security Administration (SSA) awarded a 9-year contract (#SS00-10-60011) to Abt Associates, Incorporated, to administer the Benefit Offset National Demonstration (BOND) project. The BOND project's contract had an estimated cost of about \$121 million.

As of January 2015, SSA paid contract costs of approximately \$86.8 million and about \$34.2 million remained on the contract. Table A–1 details the BOND project's costs through January 2015 and the dollar amount remaining on the contract.<sup>1</sup>

**Table A–1: BOND Project Costs by Year**

SSA's BOND Project		
Contract Year	Calendar Year	Project Costs
1	2010	\$9,427,987
2	2011	17,900,478
3	2012	27,233,777
4	2013	16,664,578
5	2014	13,903,011
6	2015 (As of January 2015)	1,652,535
<b>Total Costs</b>		<b>\$86,782,366</b>
Total Contract Amount		\$120,967,663
<b>Remaining Contract Amount (As of January 2015)</b>		<b>\$34,185,297</b>

Source: SSA Finance Paid Invoices

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<sup>1</sup> For review purposes, the audit team tested invoices from December 2009 through January 2014. The remaining invoices for Calendar Year 2014 and January 2015 were not available for review when invoice testing commenced.

## Appendix B – THE BENEFIT OFFSET NATIONAL DEMONSTRATION PROJECT: STAGES AND SITES

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On December 7, 2009, the Social Security Administration (SSA) awarded a 9-year contract (#SS00-10-60011) to Abt Associates, Incorporated, (Abt) to administer the Benefit Offset National Demonstration (BOND) project.

The BOND project tested the use of a benefit-offset rule based on earnings as an alternative to certain rules that SSA applied to Social Security Disability Insurance (SSDI) beneficiaries who worked. Under current rules, beneficiaries lose their entire cash benefit if their earnings exceed the substantial gainful activity (SGA)<sup>1</sup> threshold in the month after the 9-month trial work and 3-month grace periods end. Under the BOND project's benefit-offset rule, SSA tested a \$1 reduction in benefits for every \$2 participants earned over SGA for a 5-year period, in combination with employment support.<sup>2</sup> The project was conducted in 2 stages at 10 demonstration sites and included over 1.2 million SSDI beneficiaries.

### The BOND Project's Stages

- **Stage 1:** Designed to examine how a national benefit offset provision would affect the SSDI population as a whole.<sup>3</sup>
- Stage 1 began May 2011 and consisted of 968,713 beneficiaries whom Abt randomly assigned to 1 of 2 groups.
  - **Treatment Group T1:** For 77,115 (8 percent) beneficiaries, SSA made the project's \$1-for-\$2 offset available and offered WIC.<sup>4</sup>
  - **Control Group C1:** The remaining 891,598 (92 percent) beneficiaries were treated the same as other beneficiaries not participating in the BOND project. That is, they received benefits according to current laws.

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<sup>1</sup> SSA, POMS DI 25501.390A.1 (October 25, 2013). The term SGA describes a specific level of work activity and earnings. SSA considers work "substantial" if it involves engaging in significant physical or mental activities, or a combination of both.

<sup>2</sup> Examples of support include providing work incentives counseling (WIC) and enhanced WIC (EWIC).

<sup>3</sup> The Stage 1 SSDI population included some beneficiaries who were concurrently receiving Supplemental Security Income (SSI).

<sup>4</sup> Examples of WIC services provided to beneficiaries are (1) assistance in explaining SSA disability benefits and work incentives with respect to the BOND project, (2) counseling on healthcare coverage options, and (3) counseling on wage reporting requirements for SSA benefits and other benefits and supports.

- **Stage 2:** Designed to learn more about the impacts of the benefit offset for those individuals most likely to use the BOND project's offset.

Eligibility for Stage 2 was limited to SSDI-only beneficiaries who volunteered.<sup>5</sup> The project's remaining population of 240,773 beneficiaries was solicited for Stage 2, but 227,819 (95 percent) either declined or did not receive the solicitation letter or telephone call.

Stage 2's full roll out began in June 2011 and consisted of 12,954 volunteers whom Abt randomly assigned to 1 of 3 groups.

- **Treatment Group T21:** For 4,935 (38 percent) beneficiaries, SSA made the project's \$1-for-\$2 offset available and offered WIC.
- **Treatment Group T22:** For 3,089 (24 percent) beneficiaries, SSA made the project's \$1-for-\$2 offset available and offered EWIC.<sup>6</sup> EWIC focused on helping the BOND project participant to determine the best employment path, prepare them for employment, and retain a job.
- **Control Group C2:** The remaining 4,930 (38 percent) beneficiaries received benefits according to current laws.

## The BOND Project's Demonstration Sites

The BOND project researchers defined potential sites for the project as the coverage areas of individual SSA area offices. Each area office supports a group of local SSA field offices, and each field office is responsible for serving all individuals in its coverage area. Area offices serve multiple field offices over a relatively broad geographic range. Coverage areas are large; most area offices cover entire States, and some cover multiple States. There were 54 area offices in the nation as of 2008, and all but 1—the office that serves Puerto Rico and the U.S. Virgin Islands—were included as candidates for selection. The 10 sites were randomly selected from the 53 candidate areas to ensure the project's findings were nationally representative.

The 10 BOND project sites opened in January 2011. The BOND project site offices served as a resource for T1 subjects by facilitating outreach and collecting information for work continuing disability reviews.<sup>7</sup> These offices also conducted outreach and recruitment for Stage 2 treatment

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<sup>5</sup> According to Abt, concurrent beneficiaries were excluded from Stage 2 because the interaction between SSDI and SSI rules substantially diminished the value of the SSDI offset to concurrent beneficiaries, leading to an expectation that relatively few concurrent beneficiaries would use the SSDI benefit offset.

<sup>6</sup> EWIC provided beneficiaries a more intensive, advisement relationship than what was received with WIC.

<sup>7</sup> A continuing disability review is when SSA periodically reviews a beneficiary's disability or blindness to decide whether the beneficiary is still disabled or blind. A continuing disability review is performed approximately every 3 years, unless SSA determines the beneficiary has a condition that SSA expects will improve sooner than 3 years.

subjects and support for all beneficiaries (Stages 1 and 2) by providing many of the services traditionally provided by SSA field offices.

The 10 BOND project sites closed in September 2012. However, the BOND project's Call Center<sup>8</sup> remains available to provide support services to the project's beneficiaries and assist them with questions. Table B–1 details the BOND project's 10 site locations.

**Table B–1: The BOND Project's 10 Site Locations**

SSA's BOND Project		
Number of Sites	Site Name	Site Locations
1	Alabama	State of Alabama
2	Arizona/Southeast California	State of Arizona, southeastern California
3	Colorado/Wyoming	States of Colorado and Wyoming
4	DC Metro	Washington, DC; suburban Maryland; northern Virginia; northeastern West Virginia
5	Greater Detroit	Southeastern Michigan
6	Greater Houston	Southeastern Texas
7	Northern New England	States of Maine, New Hampshire, Vermont; northern Massachusetts
8	South Florida	Southern Florida
9	Western New York	Western New York, northern Pennsylvania
10	Wisconsin	State of Wisconsin

Source: SSA

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<sup>8</sup> The BOND project's Call Center provides treatment subjects with telephone support. Treatment subjects may telephone the project's Call Center to ask questions about services, report earnings information, and inquire about any problems.

## Appendix C – THE BENEFIT OFFSET NATIONAL DEMONSTRATION PROJECT: TREATMENT GROUP ENROLLMENTS

On December 7, 2009, the Social Security Administration (SSA) awarded a 9-year contract (#SS00-10-60011) to Abt Associates, Incorporated, to administer the Benefit Offset National Demonstration (BOND) project.

Table C–1 presents the number of participant enrollments during the BOND project roll-out period, which began in May 2011 with full roll-out completion in September 2012.

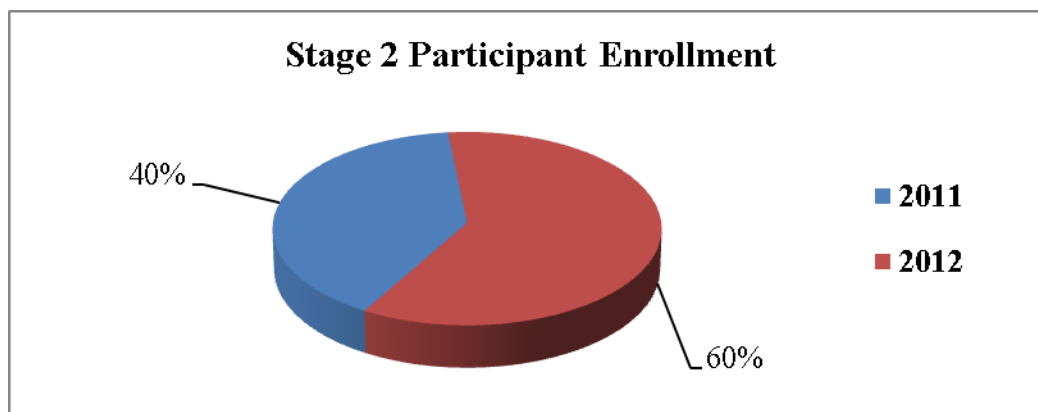
**Table C–1: Total BOND Project Enrollments from May 2011 – September 2012**

SSA's BOND Project					
Enrollment Year	Enrollees by Treatment Group			Total Enrollees By Year	Percent of Total Enrollees
	T1 (Stage 1)	T21 (Stage 2)	T22 (Stage 2)		
<b>2011</b>	77,115	1,977	1,234	<b>80,326</b>	<b>94</b>
<b>2012</b>	0	2,959	1,855	<b>4,814</b>	<b>6</b>
<b>Total</b>	<b>77,115</b>	<b>4,936</b>	<b>3,089</b>	<b>85,140</b>	<b>100</b>

Source: SSA's Office of Research, Demonstration, and Employment Support

While Table C–1 shows all Stage 1 and 2 participants' enrollment, Figure C–1 depicts only Stage 2 participants' enrollment.

**Figure C–1: SSA's BOND Project's Stage 2 Enrollment**



Source: SSA's Office of Research, Demonstration, and Employment Support

# Appendix D– THE SOCIAL SECURITY ADVISORY BOARD’S AUGUST 2013 POSITION PAPER

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## **The Case for Terminating the Benefit Offset National Demonstration**

August 2013

### **Purpose**

This paper is an assessment of merits of the Social Security Administration’s (SSA) Benefit Offset National Demonstration’s (BOND) ability to address the following: 1) will an offset incentivize more work in Social Security Disability Insurance (SSDI) beneficiaries, and 2) what will be the amount of induced entry from the change in work incentives?

The Social Security Advisory Board finds that the BOND, as it has been implemented, is not adequate to answer these questions. In our view, BOND is a victim of both faulty conceptualization and implementation. Congress owes it to the taxpayers to call a halt to further spending on this project. The questions that were the basis for Congress originally requesting the demonstration should still be addressed, albeit more efficiently.

### **Background**

As part of the Ticket to Work and Work Incentives Improvement Act of 1999, Congress asked the SSA to conduct a demonstration to test the work incentivizing effect of enabling a beneficiary with earnings to receive a gradual reduction in SSDI benefit payments rather than the current rules in which the beneficiary’s payment abruptly stops when his or her earnings reach a predetermined level.<sup>1</sup> The goal of BOND is to determine whether the availability of a benefit offset alone, or in combination with enhanced benefits counseling services, will encourage more SSDI beneficiaries to earn above SGA. The Act required SSA to test variations in the amount of the offset as a proportion of earned income. The amount of income that would be disregarded before benefits are reduced was a decision left up to SSA.

Prior to implementing BOND, SSA contractors conducted the Benefit Offset Four-State Pilot Demonstration (BOPD) in Vermont, Connecticut, Utah and Wisconsin. Despite findings across the four states that there was a 25 percent increase in the percentage of beneficiaries in offset with earnings above the annualized SGA, the pilot study did not result in a reduction in benefit payments (Weathers II and Hemmeter 2011). Issues related to implementation of the pilot, discussed later, may have suppressed an outcome in benefit reduction related to the increase in earnings by the beneficiaries.

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<sup>1</sup> The abrupt loss of the benefit payment is also known as the “cash cliff”.



Subsequent to the conclusion to the four-state pilot, SSA decided to proceed with the planned national demonstration. The total projected cost for the BOND (including the pilot, the design, the 5-year demonstration, and the subsequent evaluation) is \$148 million, of which more than \$80 million has already been spent.<sup>2</sup> There are 79,440 study participants eligible to receive the offset. According to the evaluation report, BOND had resulted in the benefit adjustment of only 21 subjects, although the evaluators did project that by the end of the 5 year project, 800 or so might eventually have their benefits offset (Wittenburg, et al. 2012). It is not clear whether the low take-up rate is due to the faulty implementation of the demonstration or the ineffectiveness of the “2 for 1” offset.

## Implementation issues

While Congress requested a demonstration of variations in the benefit offset amount, the demonstration as implemented is testing the specific benefit reduction of \$1 for every \$2 earned.<sup>3</sup> This demonstration, even if completed, will not yield results that have tested which ratio of benefit reduction will have the most work incentivizing results. The “2 for 1” amount would help align the SSDI and SSI work incentives but this demonstration will not further our knowledge of which particular ratio is most appropriate.

The income disregard that SSA was left to determine was set at SSA’s current level of Substantial Gainful Activity (SGA)<sup>4</sup>, an amount that is in stark contrast to the income exemption of \$65 for the SSI program. In practice, using the SGA exemption prevented the undesirable result of at least some of the treatment subjects ending up with less monthly income than the control group. Unfortunately, the results of both the BOPD and ultimately BOND will only pertain to the high and costly income exemption scenario even though we would conjecture that were the Congress to enact a national implementation of the offset, it would set the income exemption somewhere between the extremes of the low SSI amount and the high demonstration amount.<sup>5</sup>

The evaluation of the BOPD found that the benefit offset was often inconsistently and incorrectly applied, leading to delayed entry into the program as well as overpayments and underpayments. In order to address these problems identified in the pilot, the design of the full demonstration changed several administrative features.<sup>6</sup> BOND was intended to test the offset alone, but this demonstration will not be able to distinguish between the effect of the offset and the effect of the administrative changes.<sup>7</sup>

## Alternative methods

A considerable amount of information on the potential effects of benefit offset policy can be found through existing methods. Benitez-Silva et al (2010), for example, test the \$1 for \$2 offset through computer simulation that takes into account various details of the SSDI program. One advantage of employing this method is that it allows the researcher to conduct a type of “controlled experiment” which has proven difficult to implement in the field. This particular simulation allowed the authors to predict, for example, that the individuals already receiving DI would benefit greatly by the offset proposal and that the supposed “induced entry” effect is relatively small (Silva, Buchinsky and Rust 2010). They also concluded that the proposal does not necessarily carry the positive “fiscal” effects that policymakers were hoping for in terms of cost savings in the overall DI program.

The effect of benefit offsets can also be studied by examining other policy environments. For example, a study of

<sup>2</sup> SSA, Office of Budget. See appendix for a yearly accounting.

<sup>3</sup> Eligibility for the offset in the demonstration requires that the beneficiary has already completed the Trial Work Period (9 months), Cessation (1 month), and the Grace Period (2 months),

<sup>4</sup> For 2013, SGA is \$1040.

<sup>5</sup> While BOND will not provide information on the cost for several more years, the 4-state pilot found that the pilot demonstration as designed did indeed cost – not save – the trust fund monies.

<sup>6</sup> The changes involved simplifying how income is counted and creating an automated system to expedite earnings reporting, as well as creating a dedicated website and call center specifically for BOND participants (Wittenburg, et al. 2012).

<sup>7</sup> The Work Incentives Simplification Pilot (WISP) has been proposed in order to test the effects of simplifying the return-to-work process for SSDI beneficiaries.



veterans conducted for SSA (Autor and Duggan 2008) found that in a context where benefits are unaffected by earnings, even those with high disability rating exhibited a significant amount of work activity. Evidence of this type can inform estimates of the potential for work among SSDI beneficiaries if the possibility of losing benefits based on earnings were removed or significantly reduced.

We further note that that Congress has already implemented a 2-for-1 earnings offset in the Supplemental Security Income (SSI) program that has been in place for over three decades. The offset provides SSI beneficiaries with a clear incentive to work, and indeed between 1987 and 2008, the number of SSI beneficiaries who earned enough to offset their entire SSI cash benefit<sup>8</sup> increased fivefold from 15,532 to 99,481 (U.S. Social Security Administration 2011).

## Findings and Recommendations

The Board has found that

1. a pilot project has already been conducted with informative results,
2. the BOND research design will be unable to discriminate between results due to the offset or program simplification,
3. there are serious concerns about the implementation of the BOND,
4. the project will not produce even early results for another year, and no final results will be produced until after the evaluation is conducted sometime after the conclusion of the demonstration in 2017, and
5. data and methods are already available that could be mined for addressing the research questions posed by BOND or the unspent funds could be redirected to a better designed pilot.

Based on the findings, the Board concludes that the BOND demonstration project is not adequate in testing potential work incentives among Social Security beneficiaries. While SSA has received criticism for not completing research projects, this demonstration is not worthy of continued investment.

The Ticket to Work Act only required that the demonstration

...shall be of sufficient scope and shall be carried out on a wide enough scale to permit a thorough evaluation of the alternative methods under consideration while giving assurance that the results derived from the experiments and projects will obtain generally in the operation of the disability insurance program under this title without committing such program to the adoption of any particular system either locally or nationally (1999, Title III, section 301 a (2))

An argument can be made that the 4-state pilot that has already been conducted meets the requirements of the Ticket to Work Act. The contractors have planned and implemented a costly demonstration that will not yield any more information than is already available.

Despite our reservations about BOND, the questions that were the basis for requesting the demonstration should be addressed. The intent of the Ticket to Work Act was to eliminate barriers to work for the disabled beneficiary. The two elements that are of concern – induced entry and cost to the trust fund – are not being tested by BOND as it has been implemented.

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<sup>8</sup> Under the SSI 1619(b) provision, an SSI beneficiary can reduce their cash benefit to zero as a result of earnings but retain eligibility for the program and retain Medicaid eligibility.

As a safeguard, the offset and accompanying changes could be implemented with a sunset provision, a carefully calibrated reduction in benefits, and a well-reasoned income exclusion amount, with clear criteria for what constitutes success. Elements that should be addressed are:

- Has the overall amount of earnings increased?
- Have more recipients returned to work?
- Is the new policy cost effective?
  - Have more beneficiaries worked their way off a benefit check?
  - Does this savings offset the cost of induced entry?

Once data has been gathered to address these questions, an informed decision can be made about whether to continue the program.

## **Conclusion**

To be clear, we are advocating that this demonstration project be terminated because it is both without merit and costly. In our view, BOND is a victim of both faulty conceptualization and implementation - Congress owes it to the taxpayers to call a halt to further spending on this demonstration project.

## Works Cited

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- Silva, Benitez-Silva, Moshe Buchinsky, and John Rust. "Induced Entry Effects of a \$1 for \$2 Offset in SSDI Benefits." June 2010. [http://gemini.econ.umd.edu/jrust/crest\\_lectures/induced\\_entry.pdf](http://gemini.econ.umd.edu/jrust/crest_lectures/induced_entry.pdf) (accessed June 17, 2013).
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- Wittenburg, David, David Stapleton, Michelle Derr, Denise W. Hoffman, and David R. Mann. "BOND Implementation and Evaluation: BOND Stage 1 Early Assessment Report." May 17, 2012. <http://www.socialsecurity.gov/disabilityresearch/documents/BOND%20Stage-1%20Early%20Assessment%20Report%20%28Deliverable%2024-1%29.pdf> (accessed June 17, 2013).

## Appendix

Total Expenditures on Benefit Offset Demonstrations			
<b>Funds used to date (FY2004-FY2012) and expected (FY2013-FY2015)</b>			
<b>Fiscal Year</b>	<b>BOND</b>	<b>BOPD</b>	<b>Total</b>
2004	\$2,393,000	-	\$2,393,000
2005	\$271	\$3,854,000	\$4,125,000
2006	\$613,000	\$418,000	\$1,031,000
2007	\$2,230,000	\$2,162,000	\$4,394,000
2008	\$5,019,000	\$1,962,000	\$6,981,000
2009	\$2,700,000	\$465,000	\$3,165,000
2010	\$13,511,000	\$277,000	\$13,788,000
2011	\$23,817,000	\$258,000	\$24,075,000
2012	\$29,253,000	\$158,000	\$29,411,000
<b>Total 2004-2012</b>	<b>\$79,807,000</b>	<b>\$9,554,000</b>	<b>\$89,363,000</b>
	Projected future needs (estimates)		
2013	\$18,751,000	-	\$18,751,000
2014	\$17,800,000	-	\$17,800,000
2015	\$16,500,000	-	\$16,500,000
<b>Total 2004-2015</b>	<b>\$132,858,000</b>	<b>-</b>	<b>\$142,414,000</b>

SOURCE: SSA, Office of Budget

NOTE: BOPD completed in the third quarter of FY 2013. No funds were obligated beyond FY 2012

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## Social Security Advisory Board

In 1994, when the Congress passed legislation establishing the Social Security Administration as an independent agency, it also created a 7 member bipartisan Advisory Board to advise the President, the Congress, and the Commissioner of Social Security on matters relating to the Social Security and Supplemental Security Income (SSI) programs. Advisory Board members are appointed to 6 year terms, made up as follows: three appointed by the President (no more than two from the same political party); and two each (no more than one from the same political party) by the Speaker of the House (in consultation with the Chairman and the Ranking Minority Member of the Committee on Ways and Means) and by the President pro tempore of the Senate (in consultation with the Chairman and Ranking Minority Member of the Committee on Finance).

Presidential appointees are subject to Senate confirmation.

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# Appendix E – THE SOCIAL SECURITY ADMINISTRATION'S RESPONSE TO THE SOCIAL SECURITY ADVISORY BOARD'S AUGUST 2013 POSITION PAPER

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## SOCIAL SECURITY

The Commissioner

November 12, 2013

Mrs. Barbara B. Kennelly, Acting Chair  
Social Security Advisory Board  
400 Virginia Avenue, SW  
Suite 625  
Washington, DC 20024

Dear Mrs. Kennelly:

I am writing in response to the Social Security Advisory Board's (Board) August 2013 position paper, "The Case for Terminating the Benefit Offset National Demonstration." While I appreciate the Board's recommendations, I do not support an immediate end to the Benefit Offset National Demonstration (BOND) project.

BOND is authorized by law. Given this authority, we notified approximately 90,000 disabled Americans that they could retain some Social Security Disability Insurance (SSDI) benefits even if their earnings exceed substantial gainful activity levels. We told them that the offset would continue for 5 years. The Board's report is silent on the ethical, legal, and practical problems of immediately changing the rules on these 90,000 participants, who have relied on our previous statements. I believe these problems would be substantial.

The Board offers four alternatives to BOND; however, for reasons outlined in the enclosed document, I do not believe these are suitable research avenues to measure the effects of a national \$1-for-\$2 offset in the SSDI program.

Had we had the opportunity to review and comment on the Board's position paper prior to its release, we could have offered background on the decision points in the BOND project and potentially addressed many of your concerns. We made practical, well-informed, and extensively vetted decisions when we launched the national demonstration in 2011. We intend to complete the BOND project.

If you would like additional information on the BOND project, please contact David Weaver, our Associate Commissioner for Program Development and Research, at (202) 358-6252.

Sincerely,

A handwritten signature in cursive script that reads "Carolyn W. Colvin".

Carolyn W. Colvin  
Acting Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001



**The Social Security Administration's Concerns with  
the Social Security Advisory Board's Position Paper:  
"The Case for Terminating the Benefit Offset National Demonstration"**

In the position paper, "The Case for Terminating the Benefit Offset National Demonstration," the Social Security Advisory Board (Board) offers the following alternatives to the Benefit Offset National Demonstration (BOND):

- Study the Supplemental Security Income (SSI) program;
- Study programs administered by the Department of Veterans Affairs (VA);
- Study a computer simulation in an unpublished paper; and
- Review findings from a benefit-offset pilot involving a few States.

We carefully considered these alternative methods for estimating the potential effects of a benefit offset and acquired advice from expert consultants as well as the Ticket to Work and Work Incentives Advisory Panel (Panel).<sup>1</sup> In fact, the BOND design follows the recommendations presented by the Panel (panel members included: Richard Burkhauser, Kris Flatten, Thomas Golden, Stephanie Smith Lee, Bryon McDonald, and Susan Webb). Based on our analyses, we concluded that the Board proposed alternatives would not satisfy the congressional requirement to conduct a rigorous, national demonstration of a \$1-for-\$2 offset in the Social Security Disability Insurance (SSDI) program. Below, we summarize some of the shortcomings with each method.

There are several problems with relying on a study of SSI program participants to estimate the effects of a benefit offset on SSDI beneficiaries. First, SSI recipients are different from SSDI beneficiaries in several ways. Most notably, work histories, types of impairments, and financial resources differ, which may affect behavioral responses to financial incentives. Second, the financial incentives in the SSI program do not replicate a potential \$1-for-\$2 offset in the SSDI program; rather, the \$1-for-\$2 reduction in SSI payments for earnings over \$65 a month is just one part of a set of complex counting rules for outside income. SSDI beneficiaries, under all plausible benefit offset policies, would not face rules resembling the means-testing features of SSI. Third, the Board presents data to support its argument, noting that the number of SSI recipients who have payments fully offset due to work increased in the 1987-2008 period. We do not believe this is material to a discussion of research approaches regarding the measurement of the effect of a benefit offset for SSDI. The \$1-for-\$2 reduction in the SSI program has existed

<sup>1</sup> The expert consultants' report on research designs for a national benefit offset demonstration titled, "Approaches to Evaluating Induced Entry Into a New SSDI Program with A \$1 Reduction in Benefits for Each \$2 in Earnings," is available at: [http://www.ssa.gov/disabilityresearch/documents/ind\\_entry\\_110501.pdf](http://www.ssa.gov/disabilityresearch/documents/ind_entry_110501.pdf). The Panel's recommendations are in the following report: Ticket to Work and Work Incentives Advisory Panel. August 2002. "Advice Report to the Commissioner of the Social Security: Statutory Requirements and Design Issues Related to SSDI \$1 for \$2 Benefit Offset Research." Washington, DC: Social Security Administration.

prior to 1987; it cannot plausibly account for trends over the 1987-2008 period. In general, when we look at the trend data on SSI recipients who work, we see a small percentage of SSI recipients with earnings in a given year (in the range of approximately 4-6 percent); year-to-year fluctuations in this range show no clear trend and likely reflect changes in the macroeconomy, changes in the makeup of the SSI population, and many other factors.<sup>2</sup> Finally, we note that many experts (our actuaries, technical panel members, and academic researchers) have concluded that studying SSI participants is not suitable as a basis for studying SSDI benefit offsets.

The same problems exist for a study of VA programs. The Board-referenced paper on VA programs by David H. Autor and Mark Duggan clearly reveals that the baseline characteristics of their VA sample differ substantially from the SSDI population (for example, the sample of VA beneficiaries was almost exclusively male). The VA also has a fundamentally different statutory definition of disability than the definition in the Social Security Act. Finally, the financial incentives facing VA recipients do not match any plausible benefit offset policy being considered for SSDI. For example, individuals with a “100 percent” rating from VA do not face any benefit offset due to work. Autor and Duggan report that only 15 percent of these “100 percent” disabled veterans had earnings during 2005. This rate is roughly comparable to the percentage of SSDI beneficiaries who have earnings in a given year.<sup>3</sup> Regardless, in our view, comparing general outcomes from different programs and populations will not provide any usable information to Congress on the effects of a \$1-for-\$2 offset in the SSDI program.

We considered computer simulation models similar to the one in the Board-referenced paper by Hugo Benitez-Silva, Moshe Buchinsky, and John Rust. In fact, John Rust began this work as a member of our expert panel. We note that the authors of the paper state: “there is a very important complementarity between survey data collection, randomized experiments, and econometric modeling. We believe that the government should be investing in all three areas, and that these ‘R&D expenditures’ will have a very high long term payoff in enabling the government to develop more cost-effective policies, particularly with respect to welfare and Social Security.”<sup>4</sup>

Benitez-Silva, Buchinsky, and Rust note that the predictions from their computer simulations vary substantially when they use different assumptions on the behavior of SSDI beneficiaries. The BOND results will provide information on the actual behavior of SSDI beneficiaries under a benefit offset, and the information can reduce the range of predicted outcomes from computer simulation models. In fact, we believe that the information provided by BOND combined with computer simulation models might be very useful for predicting the potential impact of: induced

<sup>2</sup> Please see table 40 in the following publication for trend data on SSI recipients who work:  
[http://www.ssa.gov/policy/docs/statcomps/ssi\\_asr/](http://www.ssa.gov/policy/docs/statcomps/ssi_asr/).

<sup>3</sup> Please see table 1 at: <http://www.ssa.gov/policy/docs/ssb/v71n3/v71n3p11.html>.

<sup>4</sup> Please see pages 30-31 of Benitez-Silva, H., Buchinsky, M., and Rust, J. 2011. “Induced Entry Effects of a \$1 for \$2 Offset in SSDI Benefits,” accessed October 31, 2013 from:  
[http://ms.cc.sunysb.edu/~hbenitezsilv/jpam\\_2011new.pdf](http://ms.cc.sunysb.edu/~hbenitezsilv/jpam_2011new.pdf).



entry into the SSDI program, changes in the sliding scale offset, or changes in the earnings disregard amount. Benetiz-Silva, Buchinsky, and Rust recognize this potential and state that their model would provide an excellent complement to the BOND research design. We support a broad range of studies, including computer simulations, but we need hard data from a national demonstration such as BOND to assess whether simulations are realistic and to provide policymakers with the information they need as they consider policy changes that could have major cost implications for the SSDI program.

Finally, the purpose of the four-State pilot was to test, on a small scale, the process of providing beneficiaries with accurate notices and adjusting benefit payments. While the pilot results are very informative for developing automated notices and benefit adjustments for BOND, they are limited to a small group of individuals carefully selected for the pilot because they were either already employed or ready to re-enter the labor market. Thus, the results from the pilot are not representative of the broader group of SSDI beneficiaries who may benefit from BOND, and the pilot does not meet the requirements of a national demonstration as directed by Congress. Moreover, while the Board's paper cites the increase in earnings by some pilot participants, it does not mention that others decreased their earnings to receive partial benefits.

We have substantial experience in conducting demonstrations that yield clear results. For example, our Accelerated Benefits Demonstration found that providing health benefits to uninsured SSDI beneficiaries in the 24-month Medicare waiting period sharply improved their health status. The results indicate that provisions within the Affordable Care Act could reduce dependency on the SSDI program. Our Youth Transition Demonstration interventions in West Virginia and Florida found that providing employment supports and benefit counseling substantially increased paid employment among SSI youth. These findings have helped shape the Promoting Readiness of Minors in SSI project, in which we are participating with the Departments of Education, Labor, and Health and Human Services. Our Mental Health Treatment Study found employment supports and coordinated-care services increased employment and reduced hospitalizations for individuals with schizophrenia and other disorders. Results from our demonstrations are published in top, peer-reviewed journals. We consult with our actuaries and researchers, as well as outside expert consultants, on issues relevant to our demonstrations. Our success with past demonstrations gives us confidence that BOND will provide policymakers with the information they need to assess the merits and costs associated with benefit offsets in the SSDI program.

## Appendix F – SCOPE AND METHODOLOGY

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On December 7, 2009, the Social Security Administration (SSA) awarded a 9-year contract (#SS00-10-60011) to Abt Associates, Incorporated, (Abt) to administer the Benefit Offset National Demonstration (BOND) project. We selected the contract's first 4 years for our review.

To accomplish our audit objectives, we:

- Reviewed the contract between SSA and Abt.
- Reviewed various Abt reports and the Social Security Advisory Board (SSAB) August 2013 Position Paper (see Appendix D).
- Obtained invoices paid under this contract.<sup>1</sup> We reviewed the invoices to ensure SSA paid invoices timely and accurately and made payments in accordance with the contract terms.
- Determined whether SSA received the contracted services and Abt met the contract's deliverable schedule.
- Selected and tested a sample of Abt employee, Abt Intercompany employee, and subcontractor timesheets from selected invoices (see Sampling Methodology in Appendix G).
- Selected and tested a sample of Abt employees' suitability determinations and security access.
- Contacted or interviewed SSA and Abt staff who executed and managed the contract, including the following.
  - SSA's project officer
  - SSA's contracting officer
  - SSA's finance officer
  - Abt's staff who oversees the BOND project
- Reviewed the applicable sections of SSA's Program Operations Manual System and the Federal Acquisition Regulation.
- Interviewed SSA representatives to determine the results of the BOND project.
- Interviewed SSAB representatives.

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<sup>1</sup> For review purposes, the audit team tested invoices from December 2009 through January 2014.

We conducted our audit from January 2014 through March 2015 in Atlanta, Georgia. We determined the data used for this audit were sufficiently reliable to meet our audit objectives. Our review of internal controls was limited to obtaining an understanding of the services required under the contract, SSA's oversight and monitoring of those services, and verification and payment of costs charged the Agency.

The principal entity audited was SSA's Office of Research, Demonstration, and Employment Support. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix G – SAMPLING METHODOLOGY

On December 7, 2009, the Social Security Administration (SSA) awarded a 9-year contract (#SS00-10-60011) to Abt Associates, Incorporated, (Abt) to administer the Benefit Offset National Demonstration (BOND) project. We selected the contract’s first 4 years for our review.

For the 4 contract years<sup>1</sup> selected for review, SSA was billed 47 invoices totaling approximately \$72 million. Abt charged costs in seven major cost categories. Table G–1 details the project costs charged by cost category.

**Table G–1: BOND Project Costs Charged by Cost Category**

SSA’s BOND Project		
Cost Category	Costs Charged	Percent of Costs Charged
<b>Direct Labor</b>	<b>\$7,687,453</b>	<b>10.7%</b>
Standard Domestic Site Labor	2,213,081	3.1
Standard Regular Labor	5,295,457	7.4
Temporary Domestic Site Labor	8,770	0.0
Temporary Regular Labor	170,145	0.2
<b>Fringe &amp; Overhead—Labor (Percent of Costs)</b>	<b>\$7,225,268</b>	<b>10.0%</b>
<b>Other Direct Costs</b>	<b>\$3,110,425</b>	<b>4.3%</b>
Communications and IT	897,797	1.3
Other Costs	302,187	0.4
Printing	63,582	0.1
Purchases Services	362,299	0.5
Site Operations	1,243,890	1.7
Travel	240,670	0.3
<b>Subcontractors, Consultants, and Materials</b>	<b>\$36,962,184</b>	<b>51.3%</b>
Consultants	56,989	0.1
Subcontractors	36,665,475	50.9
Government Property	239,720	0.3
<b>General &amp; Administrative and Handling Charges (Percent of Costs)</b>	<b>\$4,570,822</b>	<b>6.3%</b>
<b>Intercompany</b>	<b>\$7,226,229</b>	<b>10.0%</b>
<b>Contract Fee (Percent of Completion)</b>	<b>\$5,295,842</b>	<b>7.4%</b>
<b>Totals</b>	<b>\$72,078,223</b>	<b>100.0%</b>

Source: SSA BOND Project Invoices

<sup>1</sup> For review purposes, the audit team tested invoices from December 2009 through January 2014.

We did not perform sample testing in the cost categories for (1) Fringe and Overhead—Labor, (2) General & Administrative, and (3) Contract Fee because these costs are based on a percentage of direct labor costs or percentage of contract completion.

For Direct Labor Testing, we randomly sampled 50 unique employees from the highest direct labor invoice charges, which occurred in Calendar Years (CY) 2010 through 2012. To ensure that we had adequate coverage for all 4 years, we judgmentally selected the highest direct labor invoice for CY 2013 and randomly selected 10 unique employees for testing.

For Other Direct Costs Testing, we judgmentally selected five invoices with the highest amount of other direct costs. Using a weighted average of costs, we selected 10 transactions with the highest amount on each invoice.

For Subcontractor Costs Testing, we selected one invoice with the highest amount of subcontractor charges for each of the 4 contract years, for CYs 2010 through 2013. For each invoice selected, we identified all unique employees for the 4 years reviewed. We randomly sampled 50 employees to test who worked for subcontractors with total charges equal or greater to \$1 million and 50 employees who worked for subcontractors with total charges less than \$1 million. Our test of subcontractors resulted in testing 100 distinct employees' timesheets for each of the 4 years.

For Intercompany Costs Testing, we selected one invoice with the highest amount of intercompany charges for each of the 4 years, for CYs 2010 through 2013. For each invoice selected, we identified all unique employees and randomly selected 50 employees to test timesheet records.

## Appendix H– AGENCY COMMENTS

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### MEMORANDUM

**Date:** August 13, 2015 **Refer To:** S1J-3

**To:** Patrick P. O’Carroll, Jr.  
Inspector General

**From:** Frank Cristaudo /s/  
Counselor to the Commissioner

**Subject:** Office of the Inspector General Draft Report, “Oversight of the Benefit Offset National Demonstration Project” (A-04-14-14078)--INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,  
“OVERSIGHT OF THE BENEFIT OFFSET NATIONAL DEMONSTRATION  
PROJECT” (A-04-14-14078)**

Thank you for the opportunity to work with your staff on the above subject audit. We appreciate your insight on this very important initiative. Below please find our responses to the recommendations.

**Recommendation 1**

For future demonstration projects, develop clearly defined metrics and a business case to justify the project. The business case should include estimates of projects costs and an assessment of potential benefits.

**Response**

We agree.

**Recommendation 2**

For future demonstration projects, require an independent executive, or executives, to evaluate and approve the project's planned costs, and throughout the project at established milestones, assess the results and determine whether the project merits continued expenditures.

**Response**

We partially agree. Due to the unique and complex nature of research projects, we believe that specialized experience would be required to fulfill the objective to “evaluate and approve the project’s planned costs, and throughout the project at established milestones, assess the results and determine whether the project merits continued expenditures.” We will explore the possibility of hiring an independent qualified demonstration project reviewer. As has been done elsewhere in the Federal government, we may consider using the Intergovernmental Personnel Act to initially fill such a position with a recognized expert from outside the agency.

**Recommendation 3**

Pursue collection of the BOND project's \$10,529 in unallowable charges.

**Response**

We agree. We began collection on July 17, 2015. On July 21, 2015, Abt Associates confirmed the unallowable charges and will issue a credit on the next invoice.

## Appendix I – MAJOR CONTRIBUTORS

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Theresa Roberts, Director, Atlanta Audit Division

Frank Nagy, Senior Auditor, Atlanta Audit Office

Valerie Ledbetter, Auditor-in-charge, Atlanta Audit Office

Mike Leibrecht, Senior Auditor, Atlanta Audit Office

Shelley Guimond, Program Analyst, Birmingham Audit Office



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