Creating Financial Incentives to Serve Partial Benefit Recipients in the Ticket to Work Program

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by

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Executive Summary

The Social Security Administration's most recent employment initiative for people with disabilities, the Ticket to Work program, creates incentives for employment service providers (called "employment networks," or ENs), including state vocational rehabilitation (VR) agencies, to serve individuals receiving federal income support who have the potential to leave cash assistance through increased earnings. Recipients perceived as unlikely to leave the Supplemental Security Income (SSI) program might not be served, however, even when able to benefit from Ticket services and reduce—but not eliminate—their cash benefits. At present, recipients are required to leave cash assistance entirely before most provider reimbursement can take place. Concerns have arisen about this gap in incentives to serve less-employable SSI recipients, along with calls to reform the Ticket program by adding payments for partial benefit reductions, consistent with the priority given to hard-to-serve individuals in the Ticket legislation.

This paper examines the rationale for expanding reimbursement to ENs that serve partial benefit recipients. Specifically, it considers reforms that add to the payments already issued on behalf of working recipients (by Ticket's "milestone-outcome" reimbursement component, which pays for only higher-earning SSI recipients and for at most 12 months) to provide more universal, long-term incentives. It concludes that:

- The arguments for making long-term payments to ENs that help partial benefit recipients succeed in work substantially outweigh the drawbacks of such a reform (Section 1: pages 6 through 18).

- The design of new partial benefit reduction payments requires specification of a number of interrelated, complex rules that together determine eligibility for and amounts of the EN reimbursement provided (Section 2: pages 18 through 22).

- The expected economic incentives of different partial benefit payment plans, along with Ticket to Work's overall policy goals, define better and worse options in each area where rules must be set (Section 3: pages 22 through 28).

- Examining different combinations of design features to see how they might work together leads to the identification of a number of constraints and possible steps toward an attractive overall design (Section 4: pages 28 through 38). This analysis, and its extension to more practical aspects of program implementation (Section 5: pages 38 through 44) determine that:

1. A number of the goals of payment plans that promote services to partial benefit recipients (and of the Ticket program generally) are at odds with one another.

2. A good compromise among goals puts protection of the Social Security Administration (SSA) budget and incentives for ENs to keep serving partial benefit recipients for as long as they can benefit ahead of other goals.

3. One such payment plan with the potential to appeal to providers and prompt services to some of the hardest-to-serve SSI recipients would:
   - Condition monthly payments to providers serving partial benefit recipients on the gain in SSI countable earnings accomplished since the month of ticket assignment
   - Pay providers a monthly dollar amount equal to 40 percent of the implied SSI benefit reduction stemming from the countable earnings gain since the month of assignment, with some exceptions
   - Pay *more* than 40 percent of the implied benefit reduction for those making the smallest earnings gains to encourage services to the hardest-to-employ partial benefit recipients, but less than 100 percent
   - Pay *less* than 40 percent of the implied benefit reduction for recipients approaching benefit exit, to assure that no EN ever earns more in stopping short of that goal for a given client than in assisting her or him to leave benefits entirely
   - Make the rules applicable to all partial benefit recipients, including those who received full benefits at the outset because they did not work but who have since begun to do so
   - Allow providers to move from partial benefit reimbursement to "outcome only" exit-based reimbursement in months following exit
   - Cap lifetime payments issued on behalf of a single partial benefit client to the dollar cap on current participants in the outcomes-only payment approach….or not at all
   - Explain the payment system's features to each of Ticket's three constituencies (recipients, providers, and SSA administrators) by (i) covering only what each individual group needs to understand to properly carry out its part and (ii) relating the new rules to what providers and SSA administrators are already dealing with in implementing the "milestone-outcome" payment system.

The top challenges in refining and implementing this payment system are (i) setting reimbursement terms that are sufficiently profitable that ENs want to serve this new target population and (ii) making the plan administratively feasible at SSA and comprehensible enough to other actors in the system—ENs, recipients, and advocates—to both gain their trust and allow them to participate fully. Interestingly, these also represent the two main challenges still facing the broader Ticket program.

The suggested design is offered as a starting point for future debate on the best way to reform Ticket to Work to reach the more difficult-to-serve recipients who may depend on partial SSI benefits for a considerable time. These are individuals who, like benefit exiters, can contribute to Ticket's social goals of increased earnings and reduced fiscal burdens if given the opportunity to access program services through expanded provider incentives. Suggested priorities for additional analysis that would help accomplish this goal appear at the end of the paper (Section 6: pages 43 through 45).

Creating Financial Incentives to Serve Partial Benefit Recipients in the Ticket to Work Program

Many people receiving Supplemental Security Income (SSI) from the U.S. Social Security Administration (SSA) because of disabilities want to work and are believed capable of working with proper supports. SSA's most recent employment initiative for people with disabilities, the Ticket to Work program, creates incentives for employment service providers (called "employment networks," or ENs) including state vocational rehabilitation (VR) agencies to serve individuals with the potential to exit cash assistance through earnings. But other SSI recipients who could increase their earnings and reduce but not eliminate dependence on cash benefits are unlikely to be able to access Ticket-supported services, since ENs (i) can choose whom they serve and (ii) receive no reimbursement for clients who never reach $0 benefits.[2] This despite the fact that these individuals substantially reduce overall SSI benefit costs and contribute to the social goal of helping low-income families rely less on government benefits and more on self-sufficiency through work.

Commentators on Ticket's design have pointed out this limitation, in some instances calling for changes to Ticket's authorizing legislation to create financial incentives to serve partial benefit recipients who work.[3] Among these was the recommendation of the Ticket to Work and Work Incentives Advisory Panel in its *2001 Advice Report to the SSA Commissioner* that:

> *"The Panel… believes all beneficiary employment outcomes in the Ticket program are valued and that any savings to the Trust Fund or the general funds should be viewed as a positive outcome… The Panel recommends SSA interpret 'benefits not payable' [in the Ticket to Work legislation, for the purpose of issuing provider payments] as a reduction in benefits rather than zero cash benefits." (page 31)*

[2] The requirement of $0 in cash benefits before providers receive their first reimbursement for a given client applies to Ticket's outcomes-only reimbursement option. Under the alternative milestone-plus-outcomes system—providers choose which of these two systems they prefer—a provider receives some payment in the first month that a Ticket participant's earnings reach the substantial gainful activity (SGA) level ($800 in 2003) and for up to 12 total months of SGA employment in total—whether cash benefits continue or not. Further payments under the milestone-outcomes system—which constitute 75 percent of the long-term reimbursement a provider can receive—do require recipients to leave SSI cash assistance altogether, and are issued only in months when cash benefits equal $0 due to earned income as opposed to other reasons (e.g., failing the SSI asset test). State vocational rehabilitation agencies have the option of opting out of Ticket and submitting their service costs for a given SSI recipient to SSA for full reimbursement, as long as the recipient earns SGA wages or higher for nine consecutive months; none of this reimbursement hinges on the end of cash benefits. This paper deals with only the first two options, which can apply to all Ticket to Work providers not just state vocational rehabilitation agencies. See Huynh and O'Leary (2003) for a concise summary of these different reimbursement systems.

[3] See for example Salkever (2003, page 349) and Wehman and Revell (2003, page 386).

Moreover, persons working while receiving partial cash benefits form one of the four “hard to serve” groups singled out for special attention in the Ticket to Work and Work Incentives Improvement Act of 1999.[4] This paper examines the rationale for including partial benefit recipients in the Ticket to Work EN payment system for periods longer than provided for by the current milestone-outcome payment system[5] (Section 1). It then reviews the inputs that could be used to guide the design of such a system (Section 2) and develops options for that design, comparing advantages and disadvantages (Sections 3). An illustrative plan with desirable features in all these areas appears next (Section 4) and is examined in terms of its implementation feasibility (Section 5). Conclusions and future directions for research appear in a brief final section (Section 6).

Prior to beginning it is useful to note that partial payment options could be applied to people receiving Social Security Disability Insurance (SSDI) payments if gradual benefit reductions as earnings rise were initiated in that program, or tested on a trail basis. At present, the SSDI program does not pay partial benefits—payments are “all or nothing” each month based on whether beneficiary earnings exceed a fixed threshold defined as “substantial gainful activity” (SGA). For SSDI beneficiaries who make partial progress toward this goal, SSA cannot share benefit savings with providers since there are no savings to share. Currently, a beneficiary must earn at least $800 in 13 months of a 60-month period before benefits change and drop to $0.[6] SSI benefits on the other hand decline in value as earnings rise, eventually reaching $0 on a graduated basis.

The issues explored in this paper apply already to one special group of SSDI beneficiaries—those who receive SSI cash assistance as well as SSDI, called concurrent beneficiaries. Presumably, making progress in lowering SSI payments is worthy of provider reimbursement even if SSDI benefits are neither reduced nor eliminated. This presumption, plus the fact that earnings affect SSI benefit amounts in the same way for concurrents as for SSI-only recipients, means the same general principles apply to both groups. However, providers may pursue concurrent beneficiaries more aggressively than other SSI recipients because the former would receive the higher reimbursement amount provided for SSDI exit should they exit that program as well.

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[4] The other three groups are Social Security Disability Insurance (SSDI) beneficiaries and SSI recipients (i) with a need for high-cost accommodations, (ii) with a need for ongoing support and services, or (iii) who earn a sub-minimum wage. These last two groups may overlap considerably with those who work and receive partial cash benefits.

[5] As noted above, SSI cash recipients can briefly generate payment under the milestone-outcome payment option currently in place. However, lifetime payments under this payment are capped at $2,004 if the individual never does leave benefits and confined to a 12-month period. Here we examine whether larger or longer-term payments to ENs than provided by this system are justified for clients combining SSI benefits and work.

[6] The 13-month total includes nine months of SSDI’s “trial work period” (TWP) and three added months, plus the first month in which cash benefits are not paid. In the first nine of these months, earnings need only exceed SSDI’s TWP standard of $570 rather than the SGA level of $800.

1. <u>Reasons to Consider Payments to ENs for Partial Benefit Cases</u>

To understand the rationales for paying providers when an SSI client partially reduces her/his benefit amount, we must first see what current EN payment rules look like and how they create incentives that encourage ENs to be selective among the ticket-holders who come to them asking for assistance. It is only by seeing what is wrong with existing incentives that skew services toward certain subsets of SSI recipients that one can understand why expanding payments to other groups may be justified.

<u>Providers Act on Economic Incentives</u>

Service providers that must recover their investment in services to stay in business have difficulty accepting clients with a low probability of generating revenue. If clients are accepted who never meet the Ticket provider reimbursement criteria, ENs are forced to draw on surpluses generated in serving other clients or on general funds provided by outside supporters (e.g, fixed budget allotments from other programs, government or private grants to support the organization's general mission) to cover investments not recovered through "pay for results" funding from SSA.

State VR agencies have a good deal more additional funding to fall back on should they accept a risky client who does not generate payment, since these agencies receive federal Rehabilitation Act (Title 1) funds from the U.S. Department of Education for general service delivery support, in addition to any revenues garnered from SSA. In addition, the probability of reimbursement from SSA is much higher for state VR agencies if they channel ticket-holders into SSA's traditional cost-reimbursement system—an option not available to other ENs. This means that the need to create financial inducements to serve the most-difficult-to-employ cases is not as strong among VR agencies. But it remains nonetheless, since even under traditional VR payment rules SSA reimbursement comes only if a client sustains a minimum level of earnings for nine months.[7]

In contrast, both ENs and state VR agencies may be eager to enroll recipients who look near the earnings point SSA has established for Ticket reimbursement—i.e., close to leaving cash assistance through work. *By tying provider revenues to the ability of individual recipients to leave benefits, Ticket to Work creates uneven incentives to accept or reject Ticket clients depending on a recipient's starting characteristics and likelihood of leaving benefits through work.* Both scholars and practitioners have pointed out this feature[8], mirroring concerns raised in the law itself about incentives to serve hard-to-serve populations.

[7] That level, known as "substantial gainful activity" or (SGA), is not as high a level as the earnings required to leave SSI entirely.

[8] For example, see Salkever (2003), Livermore et al. (2003), and proposals from the May 2003 summit convened by the Ticket to Work and Work Incentives Advisory Panel on increasing EN participation (Livermore, 2003(a)).

An EN may always expect to increase exit rates through the services it offers. However, business managers and clinicians at these organizations have the ability—and the motivation—to anticipate better or worse results in individual cases. They probably ask themselves "If we serve this person, how far will s/he get?". When concerns about cost recovery exist, ENs have no other way to contain financial risks except through selective admissions or (which is much harder) coming up with more effective or less costly services. In this framework, it is likely that some potential Ticket clients will be seen as poor bets even should they receive the EN's best, most cost-efficient services.

Why SSA Should Reward ENs That Contribute to Partial Benefit Reductions

A notable group that brings meager or no financial rewards to ENs under current law is the set of SSI recipients who—with the help of Ticket services—succeed in lowering their monthly SSI checks through earnings but do not reach $0 benefits for any sustained period. The language of the current Ticket law, following careful legal scrutiny, does not allow SSA to provide reimbursement to ENs in such cases except the relatively small "milestone" payments for earnings at a threshold level insufficient to leave benefits (see footnote 2 above). This omission, which from examination of the legislative history may have been inadvertent, keeps Ticket to Work from realizing its full potential to benefit SSA, disability beneficiaries, and society as a whole. Collectively, it is this restriction on the social gains achieved by Ticket that generates the reasons for adding an additional payment component. The rationales involved are summarized in Exhibit 1 and discussed now in the text. For balance, a later display considers the reasons for not reimbursing providers until SSI benefits fall to $0.

In considering whether an expansion of the payment rules is warranted, a previous payment refinement sets an important precedent: the milestone-outcome option created by the original Ticket legislation. Under this option, Ticket pays providers for increases in countable earnings when full benefit exit has not been achieved. These payments are made during the milestone phase when earnings exceed the substantial gainful activity (SGA) level ($800 in 2003) but do not eliminate all SSI cash assistance. This provision adds to the rationale for a new partial benefit payment system in two ways. First, the willingness to begin paying providers ahead of full benefit exit has already been established. Second, providers and SSA are already accustomed to administering payments that hinge on more complex criteria and data than benefit exit—in particular, the achievement of countable earnings that exceed the SGA level. A partial benefit payment plan can be seen as an expansion of the current milestone-outcome payment system, extending payments prior to exit to *all* situations where incomplete but valuable recipient progress has been made, not just those above SGA earnings and for at most 12 months.

Exhibit 1

Reasons for Paying ENs when SSI Benefits Are Reduced, but Not Eliminated

1. Partial benefit cases contribute to Ticket's overall goals of increasing earnings and reducing benefit dependence

2. Costs to ENs of serving partial benefit cases may equal or exceed those for other ticket-holders

3. Social benefits of Ticket participation go beyond direct benefit reductions and earnings gains; regardless of benefit exit status they also include
   - lower costs for other assistance programs as earnings rise
   - fewer *non-Ticket* employment services and resources used
   - increased sales and payroll taxes paid
   - improved quality of life for SSI recipients who find work because of EN assistance, and possibly for their families

4. Congress identified those who work and receive partial cash benefits as a hard-to-serve group needing special attention in the Ticket program

5. SSI recipients who cannot leave benefits may put in work effort equal to those who can, but face added labor market constraints beyond their control

6. Making it more economically attractive to serve more (or different kinds of) clients will draw more providers into Ticket, thereby increasing competition and choice and benefiting *all* ticket-holders

7. Employers may be better served if services to partial benefit recipients increase their options to hire qualified workers, especially for part-time job openings

8. Though expected by ENs not to go off benefits, some of those accepted by providers only because partial benefit reduction will be reimbursed *will* in fact go off benefits and provide even more social benefits than expected and listed above, including contributions to the general welfare through payment of income taxes

(1) Partial Benefit Cases Contribute to Program Goals. Ticket to Work seeks to reduce dependency and encourage work among SSI recipients and to save taxpayers money on SSI cash outlays. Individuals whose benefit amounts drop as a result of Ticket participation contribute to all these goals, whether the benefit level ever reaches $0 or not. For that reason, recipients capable of partial benefit reductions with the help of EN services should receive *some* priority in constructing Ticket's reimbursement rules, though perhaps not equal priority to those ending benefits entirely. At present, by paying nothing for partial benefit reductions except temporarily through the milestone-outcome system, the program puts little priority on serving this group. Almost all emphasis is placed on another set of recipients who contribute to the same social goals—ticket-holders who are actually capable of leaving benefits entirely.

(2) EN Costs for Recipients Unlikely to Leave Benefits Are Commensurate with or Above Those Incurred in Serving Other Clients. This proposition has not been tested from Ticket to Work experience, since the clients at issue have not yet been served by the program. Opinions among providers who have spoken out on this issue, and among researchers studying the hardest-to-employ SSI recipients,[9] suggest that it will take *more* resources to support those individuals at the same level of earnings success, including earnings while still on benefits. They point out that the costs of long-term tracking for reporting purposes and administering the provider side of the SSA reimbursement process will be little different from what ENs are incurring now with full benefit exiters. And services, if not more intensive, are likely to be longer-term for clients whose initial progress leaves them nearer their starting point than for those who gain full economic independence.

(3) Social Benefits of Ticket Go Beyond Benefit Reductions and Earnings Gains. This point has been recognized with regard to current Ticket participants who advance to full economic independence but applies in large part to anyone who increases his/her earnings and reduces benefit dependence without reaching full independence. The most frequently mentioned "side benefit" of Ticket-induced changes is the savings they produce for other government programs such as Medicaid and Medicare, food stamps, and federal housing assistance.[10] If overall income rises for Ticket participants—i.e., earnings gains exceed SSI benefit losses (as they must whenever earnings rise and benefits decline along SSI's 2-for-1 payment schedule)—food stamp benefits automatically decline for those enrolled in that program since food stamp entitlements are computed taking all other sources of income into account. Programs such as Section 8 housing and Temporary Assistance to Needy Families (for the children of SSI recipients, not the recipient her/himself) do not track as directly with changes in net income but have some dependence thereon.

A further (and largely unrecognized) social savings from successful Ticket participation concerns *alternative employment supports* that are not needed once Ticket is

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[9] See for example Wehman and Revell (2003), page 362.

[10] See for example Frank and McGuire (2003), pages 169-171, who focus particularly on government savings on health insurance coverage.

in the picture. In expecting the program to reduce overall SSA outlays when reductions in SSI costs are compared to the added cost of paying ENs, it is often overlooked that either SSA or the Department of Education (through its state Vocational Rehabilitation programs) or other funders of employment services for people on SSI (e.g., charitable foundations, local governments) have *saved* money on the services they otherwise would provide out of non-Ticket budgets. Depending on the utilization of other sources of employment assistance were Ticket not available, this savings could be considerable and constitutes a real benefit to society in the sense that the resources provided by other funders can now be put to alternative uses or returned to taxpayers. This could arise for partial benefit recipients as well as benefit exiters.

Ticket to Work may also provide a further, more frequently mentioned side benefit: added tax contributions of participants whose earnings rise. A major portion of potential tax benefits to federal, state, and/or local governments do not apply to individuals whose expanded earnings still leave them short of SSI exit; incomes low enough to retain SSI eligibility will never be subject to personal income taxes—though some of these revenue gains might occur for those whose earnings rise well above the SSI exit point. Still, the partial benefit cases of current interest will pay more payroll and sales taxes as their incomes switch from cash assistance to earned income and increase in total, leading to more spending.

Another intangible but potentially large gain may arise from expanding Ticket to serve more SSI recipients: improved quality of life for Ticket participants and their families. The intellectual and personal gratification of having a job, and the increased self-esteem and "social connectedness" that come with it, seem likely to lead to higher quality lives for successful Ticket participants and the family members with whom they interact most frequently…above and beyond any financial gains to the family or government through increased income. Though harder to quantify than other gains of expanded employment, we would expect quality of life gains to occur for anyone working more and feeling more productive, whether all SSI cash assistance is ended in the bargain or not. Moreover, as individuals with more functional limitations and greater severity of conditions than those able to leave SSI entirely, standards of social equity may indicate that partial benefit recipients deserve *greater* improvements in life quality than standard ticket users. If one of Ticket's goals is to improve inter-family equity, added importance should be attached to lifestyle gains for these individuals in particular—individuals now left out of the program entirely due to insufficient provider incentives.

(4) Congress Identified Partial Cash Benefits Recipients for Special Attention. Perhaps reflective of added concern for the welfare of the most challenged and hard-pressed of SSI's working recipients, the Congress wrote into the Ticket legislation a requirement that SSA examine the adequacy of incentives in current law to get providers to serve beneficiaries who work and receive partial cash benefits. Two of the other three groups singled out for special attention also overlap the working beneficiary population to some extent: those who earn a subminimum wage and those who need ongoing support and services in order to work. It is ironic that the law, having flagged these groups as particularly at risk of being unserved due to inadequate EN financial

inducements, provided no financial incentive at all to serve this core group….except in cases where ENs expected to help recipients in this group actually get them to exit benefits on a sustained basis.

(5) Work Effort May Not Be Lacking while Opportunities to Succeed Are. It is believed that many SSI recipients who work and receive cash assistance (i) work full time or (ii) put as much time into their work effort as non-disabled workers while technically employed just part-time.[11] For example, some SSI recipients cannot earn a high enough hourly wage in competitive employment to reach the threshold where cash assistance ends even with full-time work hours.[12] Or the added time needed to prepare for work (e.g., personal grooming) and/or get to work (i.e., commuting) with a disability require 40 or more hours per week of work effort even though paid hours spent on the job are much lower. In addition, some SSI recipients earn above the benefit cut-off threshold in some months but not in most months over a sustained interval. This can occur due to variable health conditions or involvement in self-employment, which is known to produce uneven monthly incomes for any worker and is a not uncommon choice for people with disabilities who want to work. A reasonable question under these circumstances is whether, with commensurate effort but more restricted labor market opportunities, recipients who work steadily but still receive cash benefits most months should be excluded from Ticket's provider service incentives?

(6) Expanding the Number and Types of Recipients Served Profitably by Ticket Will Draw in More ENs and Benefit All Ticket Users. The goal of Ticket from a consumer standpoint is to expand the range of providers a ticket-holder can choose from and thus allow her/him to obtain the best-matched services from the most effective source. When providers are added to the choices available by becoming interested in the program for the first time, all ticket users potentially benefit. If Ticket's reimbursement incentives are changed to create revenue potential for more SSI recipients (i.e., recipients who reduce benefits but do not leave cash assistance entirely), providers can access a larger customer base by joining Ticket as ENs. This—plus the possibility that providers that specialize in serving mostly hard-to-employ recipients have avoided the program entirely to this point—suggests that the range of choices for existing Ticket participants will expand if payment is offered for helping recipients reduce their benefit amounts without eliminating them.

(7) Employers May Be Better Served by a Program that Engages a Wider Range of Workers. If payment for partial benefit cases leads to more Ticket participants (as we would expect), employers will have a wider range and larger number of Ticket-assisted workers to choose from in their hiring decisions. This may be especially helpful to

[11] Evidence on the prevalence of, and reasons for, part-time employment among SSI recipients is not easily obtained. For example, the most extensive source of recent information on the work patterns of SSI recipients (Newcomb et al, 2003) does not provide any information on part-time jobs. Nor is any information available on self-employment among SSI recipients, a category also of interest later in the paragraph.

[12] This is especially the case once the various SSI work incentive provisions (which ignore certain components of earnings when calculating benefits and allow a more gradual decline in benefits as earnings rise under the 1619(a) provisions) are taken into account.

companies seeking part-time help—an increasingly popular staffing approach—especially if the supply of such workers from the non-disabled workforce is inadequate to cover emerging employer needs in this area. Presumably, more SSI and SSDI beneficiaries who worked part-time prior to Ticket will seek to work full-time with Ticket's assistance. What workers will replace them if incentives to serve those capable of only part-time work are not expanded? This factor could go the other way, however, if increased work hours for those leaving SSI through Ticket services reduces employers' needs for part-time help.

<u>(8) Some of the Added Recipients Served Due to Expanded Provider Incentives Will Fully Exit Benefits and Achieve All of Ticket's Goals</u>. Of those individuals who look like bad business risks to ENs and hence are not now served, some would in fact be able to permanently exit SSI cash assistance with the help of an EN. Provider judgments of future potential are not perfect. If paying for partial benefit reductions brings more high-risk recipients into the Ticket program, some of the added cases will prove capable of not just reducing cash support but of ending it in total. For these cases, the addition of partial-benefit payments to ENs will extend Ticket to individuals who fully achieve the program's goal of economic self-sufficiency: a win-win-win situation for SSA, the recipients involved, and the cognizant providers.

<u>What's the Down Side of Partial Benefit Payments?</u>

Despite the above arguments, there are some down sides to incorporating partial benefit reductions in Ticket's provider payment incentives. As a practical matter, deciding what constitutes a "benefit reduction" worth compensating will be problematic—and it's important that a reasonably simple way of establishing payment eligibility for such cases be found.[13] Deciding the right level of payment may be equally difficult. Presumably payment amounts should relate to the degree of forward progress made in reducing benefits or increasing earnings since the ticket was first assigned to the EN. Putting in specifics around this will not be easy. (We look at both these questions, and other technical issues in crafting a workable partial benefit payment system, later in the paper.)

There are also more fundamental reasons to question the desirability—or more accurately, the potential side effects—of payment for partial benefit reductions. Exhibit 2 summarizes these for discussion. As a group, these considerations do not outweigh the reasons given above for attempting payments of this sort.

<u>(A) Buying the Base</u>. Although attention has focused to this point on financial risks to providers, probably the most important downside of payment for partial benefits concerns the financial risk to SSA. Issuing EN payments under a wider range of circumstances inevitably means issuing *more* payments, even if providers do nothing

[13] Recent research illustrates the difficulties SSA has in consistently determining if EN payments are due when the conditions for eligibility reimbursement work off a conceptually simpler concept—reduction of cash benefits to $0. See Livermore (2003(b)).

Exhibit 2

Possible Down-Sides to Paying ENs for Benefits Reduced but Not Eliminated

A. “Buying the base”

B. Difficult to make cost-neutral to SSA

C. If cost neutral, difficult to interest ENs

D. Not socially efficient to pursue work for some of the hardest-to-serve

E. Moves away from Ticket’s clear message and original intent

F. Creates an incentive for ENs to hold some recipients below their full potential

G. Potential “double dipping” from multiple payment streams differently. Some of the ticket-holders ENs are already serving achieve lower, but non-zero, benefits than when they enrolled. These cases will automatically generate provider payments under a partial payment system, yet do not represent an advance in program goals. In addition, it is likely that ENs will seek out additional clients who—without any new employment assistance—will qualify for partial benefit payment by taking actions on their own to reduce their benefits.

Payments to both of these groups is what's called "buying the base". This situation occurs when no SSI recipient moves to a better outcome (on earnings or benefits) than if there were no expanded reimbursement—resulting in no cost savings to SSA—yet some recipients trigger EN payments that SSA must finance. These individuals are the "base" that SSA cannot avoid paying for if it wants to extend EN reimbursement to partial benefit cases. The same was true for the original Ticket program—it had to "buy the base" of beneficiaries headed off benefits due to work *without* Ticket services before it could do anything to spur *added* benefit exits through provider service incentives—no one can tell which are which.

(B) The Challenge of Cost Neutrality. Buying the base of itself clearly is not a cost neutral change for the federal budget: more money goes out as a result of payment reforms, while no savings come in for cases in the "base." Given this net fiscal loss, cost neutrality of the entire policy will be achieved only if the benefit reductions *caused by* the establishment of partial benefit reimbursement offset the costs of buying the base. To do this, the "induced benefit reduction" cases must be moneymakers for SSA; their cash benefits must fall enough due to EN services to offset the EN payments needed to produce this result. While we cannot know the number of such cases created by any payment reform, this does tell us that EN reimbursement must be set below the benefit reduction achieved if cost neutrality is to be upheld.

(C) Attracting ENs with a Cost-Neutral Payment Scheme. Once constraints on payment levels are recognized as part of the cost-neutrality objective, the problem of designing a system that will attract providers becomes harder. SSA must provide *enough* reimbursement for partial benefit reduction cases to get ENs to (i) accept tickets from recipients they think will not exit benefits and (ii) invest in their employment services. This of course is the same challenge facing the existing Ticket program. If a middle ground can be found there—combining acceptable financial risks for SSA and EN payments adequate to attract providers—presumably it can be found for partial benefit reduction cases as well. It may be, however, that payments above the cost-neutrality standard will be needed to create provider interest, as dicussed later in the paper.

(D) May Not Be Any Socially Efficient Way to Pursue Work for Some of the Hardest-to-Serve. It is possible that no service compensation system can be found that simultaneously breaks even for the government and yields a viable return on investment for service providers—i.e., that no socially efficient Ticket program for partial benefit recipients exists that can help at least one segment of society while harming no other. The original instigator of the Ticket to Work concept, Professor Monroe Berkowitz of Rutgers University, acknowledged this by suggesting that the economically rational approach for providers—and possibly for society—was to begin by focusing on those most likely to return to work, at least if those who would achieve this result on their own can be screened out.[14] Those least likely to return to work should perhaps never be served from a social efficiency standpoint.

If no win-win payment design can be found for the partial benefit population, one should perhaps question the social value of a Ticket-like intervention in that population. Putting this the other (more positive) way around, if we find a system for paying ENs when benefits are reduced but not eliminated that simultaneously:

- attracts providers;
- has positive—or at worst neutral—effects on government finances; and
- inspires SSI recipients to participate voluntarily;

we can be sure it is socially efficient. By appealing to the first and last groups, who presumably act only in their own self-interest, it necessarily provides net benefits in both quarters. If it also does no harm to the government (i.e., taxpayers), the reform must yield overall gains to society as a whole. Absent one or more of the bulleted conditions, however, we cannot be sure of this result.

Still, with participation voluntary for providers and ticket-holders, these groups will not participate if they perceive a net loss to themselves. Thus, the worst that can happen in implementing a partial benefits payment plan that assures government cost neutrality is that nothing happens. Either ENs won't "play", SSI recipients won't come, or both. Neither group will voluntarily choose actions that make it worse off. On the basis of social efficiency, something of this sort is worth trying whether in the end it attracts participants and providers or not.[15]

(E) Movement Away from Ticket's Clear Message and Original Intention. Berkowitz has also emphasized that Ticket was conceived as a system for paying providers only when they produce the single result most desired by SSA, permanent benefit exit.[16] Paying for anything else (such as short-term earnings above the SGA level in the milestone-outcome payment system)—particularly something defined by its *failure* to reach the penultimate goal of $0 cash benefits—departs from the original intent and philosophy of the Ticket concept, makes the system more complex, and dilutes SSA's central message to recipients and providers: "We're interested in getting people permanently off benefits, period."

It is difficult to assess the claim that this message will be diluted by offereing payments for partial benefit reductions. Will this weaken Ticket's message to recipients and ENs already in the program? If so, would this interfere with the progress toward self-sufficiency that might have been made otherwise? To test this, we would have to know whether some of the SSI recipients who earn their way off benefits under current rules would not do so once they "hear" the message that partial benefit reductions are

[14] See Berkowitz (2003), pages 19-20.
[15] Berkowitz (2003) also strikes this theme for the Ticket program as a whole.
[16] See Berkowitz (2003), pages 17-18.

“OK” and will be rewarded. This is extremely hard to determine even after the fact, and cannot be known ex ante.

(F) Incentive to Keep Some Recipients on Cash Benefits Longer. By increasing provider reimbursement for partial benefit reductions (from $0 to a positive amount) without changing reimbursement terms for benefit elimination, SSA runs a risk of providers deliberately replacing full benefit exit cases with partial benefit reduction cases. In rare instances, a provider may find it is more lucrative to “hold back” a Ticket client who would otherwise exit benefits in order to continue receiving partial benefit payments. However, with the right alignment of the two payment levels, one for exits and one for benefit reductions, it should be possible to avoid this result.

(G) Possibility of ENs “Double Dipping” from Multiple Payment Streams. Another potential risk in providing EN payments for partial benefit reduction concerns the possibility that a Ticket participant will inappropriately generate two sources of revenue for the EN. One will come while the client is receiving reduced but still positive cash benefits, and the other after exiting SSI entirely, with total reimbursement exceeding what either system alone could produce. Carefully crafted rules governing the transition from partial to full benefit reduction can prevent this result by reducing total reimbursement attainable from benefit exit by the amount issued while on partial benefits (see discussion in a later section).

As a group, these considerations do not outweigh the arguments in favor of paying ENs for partial benefit reductions in Ticket to Work. Some of these concerns have clear solutions noted above, while others are highly speculative or would involve little risk to SSA should they emerge.

2. Inputs to Designing Partial Benefit Reduction Payment Rules

If the balance of considerations favors paying ENs when they help a ticket-holder reduce but not eliminate her/his dependence on cash assistance, the challenge becomes one of finding the best possible partial benefit payment system for this purpose. This challenge infuses the remainder of the paper, beginning with the delineation of characteristics sought in the ideal partial-benefit payment regime. The current section also identifies the generic factors, or parameters, that must be specified to define a complete payment approach. Also, in preparation for choosing these parameters well, the section reviews the evidence of SSI recipients combining work and benefits prior to Ticket.

Characteristics of an Ideal Partial Benefit Payment System

Exhibit 3 summarizes the qualities sought in the “perfect” payment structure to induce providers to get recipients part way off benefits when full exit is not attainable. Many of the most sought-after characteristics emerge from the discussion above of the pros and cons of paying ENs for partial benefit reductions and will not be discussed

Exhibit 3

Ways to Judge Various Partial Payment Approaches – the Sought-After Features of the Ideal Design

- Brings into Ticket SSI recipients for whom gains from investments in added employment services exceed the cost of those services (i.e., represents an efficiency gain for society)

- Encourages the largest possible reduction in dependency (i.e., cash benefits) through the largest possible increase in earnings for each participating partial-benefit recipient

- Does not remove the incentive for ENs to get participants entirely off cash assistance

- Attracts many new ENs, maximizing the number of provider options for all Ticket participants

- Is cost neutral or better for SSA and government agencies as a whole

- Causes no SSI recipient to be worse off (e.g, does not give ENs an incentive to under-serve individuals who could have left SSI entirely)

- Is simple to understand and administer further here. Two others concern the highest-level policy goal of Ticket to Work and the most practical aspect of its implementation, the desire to:

- Encourage the largest possible reduction in dependency (i.e., cash benefits) and the greatest possible earnings gain for each participating partial-benefit recipient; and

- Be simple to understand and administer.

The advantage of this first characteristic is obvious—the best payment changes are those that contribute most to the penultimate goals of the Ticket to Work program. The second trait—simplicity of understanding and administration—also has self-evident advantages all other things equal. Less obvious is that simplicity may be worth pursuing in its own right, even at the expense of some other desirable features. No new payment system can yield benefits unless providers and ticket-holders (i) understand the benefits it can bring for them and (ii) see the “mechanics” of the system clearly enough to feel confident that participation carries little or no risk. This latter feature has often been lacking when work incentives and employment services have been added to SSA disability programs in the past. This leaves the critical constituents of the intervention, particularly SSI or SSDI beneficiaries, wary of the harm it might do them as concerns (i) future cash benefit and/or health care eligibility and (ii) potential ill effects on their health or burdens for other family members. This will be a particular problem if ticket-holders are unaware that Ticket participants can withdraw from the program at any time with a guarantee that no adverse consequences will follow.

To counter these uncertainties and fears, we need a design that makes apparent, or better yet *transparent at first glance*, that no harm can come from participating. If unable to instill this confidence in recipients, a payment system carefully crafted in other ways may get few “takers” and have little value to SSA or society.

<u>Payment Parameters to Be Specified in Any Design</u>

Any service delivery and provider payment system will have many components that should mimic the ideal characteristics in Exhibit 3. Of this full set of payment parameters, the current paper looks only at rules for payment eligibility and formulas for determining payment amounts when ENs serve partial benefit recipients. Like those of existing Ticket components, EN payment rules for partial benefit reductions must define:

- eligibility of SSI recipients to participate in the system
- a payment trigger (an event that initiates the first EN payment for an eligible recipient)
- basis for payment—client’s earnings outcomes, SSI benefits, or other milestones
- payment amount in months with EN reimbursement
- limit on cumulative EN payments for a given client
- reimbursement procedures when a recipient moves from one EN to another

- payment implications of a partial benefit reduction client getting clear off SSI and transitioning to traditional Ticket reimbursement rules

Before considering how one might define partial benefit payment rules in each of these domains, a broader discussion of each category may prove helpful to readers. This is provided in Appendix A, which explores the complexities of defining and comparing partial benefit payment parameters in each of these areas and makes some preliminary suggestions on how these might be resolved.

<u>Past Patterns of Combining Work and SSI Cash Benefits</u>

In addition to conceptual considerations, a good partial benefits payment design should be informed by knowledge of how work and benefits currently come together in the SSI program. We need to understand the starting point for partial benefit recipients if we hope to design payment rules that move more recipients into this status and help them forward in their work efforts. Among the aspects of partial benefit payment reform discussed to this point, the factors most capable of being informed by data on current work patterns include:

- "Buying the base" of people who would work to lower their benefit amounts even without EN assistance (e.g., how big might "the base" be?);
- Potential for reducing benefit payments below where partial benefit recipients now stand (e.g., how many partial benefit recipients are already near the SSI exit point due to earnings?)
- The maximum EN payment amount (assuming this will be based on benefit size or recipient earnings);
- Likelihood that some SSI recipients do not have the potential to benefit from work assistance in a cost-effective way; and
- The size of the pool from which Ticket is likely to draw participants who can successfully combine work and benefits.

We review what evidence can be found on these factors in work and benefits data from the SSI's pre-Ticket era in Appendix B.[17] There, we conclude that:

- Non-workers so outnumber workers that "buying the base" of current workers may not carry a high cost relative to the potential for inducing more recipients to work and produce *new* benefit savings—though the cost may be high relative to the cost of "buying the base" in the *current* Ticket program;

[17] Going back to the pre-Ticket era, rather than looking at where things stand given the current Ticket program has both a conceptual and a practical advantage. On the conceptual level, it will compile a "baseline" that reflects long-standing and comparatively well-understood phenomena in the SSI program nationally (the only geographic unit for which work data are available), rather than the new work and benefit patterns that emerge in specific states due to Ticket's staggered implementation and ever-changing administrative procedures. On the practical side, the most recent comprehensive data on work patterns of SSI recipients comes from 1999, a point prior to implementation of Ticket to Work in any state.

- Even without adding new workers through partial benefit recipient service incentives, the great diversity of earnings levels for those already working prior to Ticket suggests that partial benefit payment rules will need to be established for a broad range of initial earnings levels;
- While data on benefit amounts for SSI recipients working prior to Ticket are not available, a substantial share must have been near the benefit exit point given that 10 percent earned over $1,000 per month in 1999.
- Based on demographic and work history variables from the pre-Ticket era, it is difficult to anticipate whether recipients brought into Ticket through provider payments for partial benefit recipients will (i) be those for whom newly-provided investments in employment assistance are likely to be successful and socially efficient and/or (ii) constitute the "most deserving" of previously unserved SSI recipients.

All of these considerations will influence the desirability of the particular partial benefit payment parameters discussed in the next section.

3. Setting Monthly Payment Parameters in a Partial-Benefit-Reduction Plan—What Are the Options?

With the design dimensions and past evidence clearly laid out, we can now proceed to the core of the payment redesign effort—specifying specific options for defining each of the main payment parameters identified in Section 2. Put in less abstract language, it is time to say just what features might be built into a partial-benefit-reduction payment plan to maximize results? which payment trigger to use? how to set monthly payment amounts? and so on. This will set the stage for combining later in the paper the most attractive features in different domains to form a fully specified payment plan—i.e., set of rules—for paying ENs that serve SSI recipients receiving partial benefits.

Options for Defining Recipient Eligibility

We begin with the logically first issue when defining reimbursement rules for any added group of SSI recipients not well-served by current Ticket program. We ask "Do any special circumstances have to be present at the time a ticket is assigned to a provider for the EN to qualify for SSA reimbursement during subsequent months in which the recipient combines earnings and SSI cash benefits? If so, what are those circumstances, to the extent they differ from the conditions that must apply for reimbursement to take place under the current Ticket system?"

These questions arise because a partial benefit payment system could choose to target its new service incentives on just a portion of the recipients ENs now do not want to serve because of financial risks, or on the entire group. It is not clear whether people advocating or inquiring about expanded EN payment for partial benefit recipients mean "recipients *who currently receive* partial SSI benefits" or the broader group that *someday might become* partial benefit recipients if they get jobs and receive countable income.

Inclusion of the latter group seems more attractive. All of the reasons put forth in Section 1 for expanding Ticket payments to individuals still receiving SSI benefits (see Exhibit 1 above) apply equally to those currently receiving full SSI benefits without earnings and those starting with countable earnings and partial SSI benefits.[18]

This choice also makes any partial benefit component added to Ticket easier to understand and administer. Why force ENs to screen on current benefit status—whether benefits are full or partial—when someone asks them to accept a ticket in order to determine their eligibility for reimbursement? And why force SSA to police whether the individuals for whom an EN is claiming payment really were partial benefit recipients at the time of assignment? Keep it simple, allowing ENs to concentrate on finding candidates they think can achieve some degree of financial independence at some point in the future, whether they have already started toward that goal or not. And let SSA concentrate on its many other administrative challenges when running Ticket.

Perceptions of Ticket among providers and beneficiaries should also become clearer due to this simplicity: "Ticket is a program to help disability recipients whose work and earnings can lessen their dependence on SSI." That's the whole story; participants' level of dependence when the help begins—their benefit status at assignment—does not matter. As long as the desired results take place *following* ticket assignment, providers should be eligible for reimbursement, irrespective of whether anything good was already happening.

<u>Using Level or Change-Since-Baseline as the Payment Trigger</u>

Having accepted a ticket from a beneficiary capable of generating EN payments, when should an EN's payments actually begin? This is central to the payment-for-partial-benefits concept: EN revenues start flowing when benefits decline and/or earnings increase appreciably, not when benefits fall all the way to $0. The trick, then, is deciding when benefits have declined and/or earnings risen enough for payments to begin. This actually involves three related decisions:

- whether to base payment start-up on the dollar level of some indicator or the change in that indicator since the EN accepted a ticket;
- what indicator measure to use in this way; and
- what magnitude of the indicator is required for payment to begin.

[18] To the extent that the motivation for reimbursing ENs for partial benefit clients stems from the views of Ticket's creators—the U.S. Congress—it might be necessary to consider a narrower service population. As noted previously, Congress identified those who work and receive partial cash benefits as a hard-to-serve group needing special attention in the program. Though this reference is somewhat ambiguous, it seems to be speaking to the subset of SSI recipients who *already* (i.e., at the time the legislation was written) combine work and partial benefits, not to those who might *become* partial benefit recipients further down the line—either because of services provided by an EN or some other factor affecting earnings. It is probably not necessary to dig into legislative intent to resolve this matter. If most of the motivations and expected benefits of extending Ticket to partial benefit recipients apply to all recipients that the current payment rules do not favor, the most useful reform—the one with the widest value—would encourage ENs to serve this *entire* group, not just those already combining work and partial benefits.

We will eventually get to all of these elements. The first two are closely related—whether the threshold for payment should be stated in terms of SSI benefits, earnings, or some other indicator (e.g., an intermediate milestone) and whether the indicator should be measured in terms of level or change since baseline. Hence we introduce both of these dimensions at once in a technical discussion in Appendix C.

Whatever indicator variable is used, issuance of the first EN payment could be made dependent on…

…. the indicator moving in the desired direction from its starting value in the month of ticket assignment; or

…. the indicator improving by a minimum amount, from $X in the month of ticket assignment to $Y in the current month with $Y - $X (the amount of improvement) equaling or exceeding a pre-specified amount; or

…. the indicator reaching a certain level—that it meet or exceed a certain pre-specified dollar amount regardless of where it started (at ticket assignment) or how much it has improved since then.

Exhibit 4 provides examples of each of these concepts, in the case where monthly benefit amount rather than earnings is the basis for the trigger. Each translates readily to a payment system in which monthly earnings or hours worked provide the trigger.

The discussion in Appendix C identifies the most attractive option among the three trigger mechanisms considered, a trigger based on a minimum amount of improvement in the indicator variable since the month of ticket assignment. How large an improvement to require depends on what indicator measure we choose, the topic of the next subsection.

<u>Indicators on Which to Base the Trigger Point</u>

For partial benefit recipients, SSI benefits move up or down in step with changes in countable earnings through work (and other changes in countable income). So in theory either indicator could be used as the basis for EN payments and achieve the same results. This is especially the case when the payment trigger—and, potentially, the payment amount—is determined based on *changes* from baseline levels as is recommended above. Countable income from sources other than earnings need not complicate matters if income from those sources does not change. In this situation, the countable earnings change associated with any given change in SSI benefits can be calculated using the established benefit reduction formulas of the SSI program, once the starting points for each indicator are taken into account.

Exhibit 4

Illustrations of Alternative Trigger Points for Provider Payments in a Partial Benefit Reduction Payment System

Example A: Trigger = Any Movement in Desired Direction

Recipient assigns ticket to a provider in month with SSI benefit of $431.

First EN payment issued when monthly SSI benefit drops below $431 for the first time, to $430 or less

Example B: Trigger = Sufficient Improvement

Recipient assigns ticket to a provider in month with SSI benefit of $431.

First EN payment issued when monthly SSI benefit drops to $331 for the first time (sufficient improvement threshold = $100 reduction).

Example C: Trigger = Exceed Fixed Threshold

Recipient assigns ticket to a provider in month with SSI benefit of $431.

First EN payment issued in first month after that that SSI benefit is $300 or less (fixed threshold = $300).

Hours worked has a much different character. Its connection with both countable earnings and benefit amount depends on the individual's hourly wage rate. Those with very low wage rates could qualify their ENs for reimbursement based solely on the hours worked; this would not happen with an earnings- or benefit-based trigger. The hours-based approach has appeal in creating incentives to serve those with the most meager earnings power per hour, arguably the most difficult to employ of all SSI recipients. However, in so doing it divorces payment amounts from SSA's benefit savings, violating the basic tenant of the Ticket program—that SSA can reduce SSI costs by sharing back with providers a portion of any benefit savings achieved. There are other ways to shift incentives in the direction of recipients with low wage rates when they work a substantial number of hours, by rewarding earnings increases and/or benefit reductions more heavily when clients begin with low initial earnings (in dollars) for whatever reason.

The reverse concern—that providers could receive reimbursement for people who have made very little progress in hours worked simply because their hourly and thus total earnings for any hours changes are especially high. Again, it is the total income produced by the extra hours, not the number of hours per se, that generates SSI savings, so large earnings in few hours seems at least as good from a social standpoint as the same dollar gain through many work hours. Moreover, few recipients of SSI have large potential wage rates even if helped in finding and maintaining employment, given their lack of work experience and often limited education.

Returning to earnings and benefits as the top candidates for triggering EN payment, we have noted that these two approaches can produce identical incentives for providers due to the tight dollar translation between them. That being the case, the choice between earnings and benefits should hinge on the relative practicality and simplicity of the two options. Appendix D concludes that countable SSI earnings provides the best basis for triggering payments in this respect.

To complete the specification of the trigger point, one more standard must be established: the particular amount, in dollars, by which countable earnings must increase relative to the month of ticket assignment for provider payments to begin. Given the close correspondence between this standard and the size of the EN payment that should follow we examine triggers and payment levels together in the next subsection.

<u>Trigger Amounts—How Large?</u>

The most fundamental question in expanding Ticket reimbursement to motivate service provision to partial benefit recipients—how hard to make it for ENs to get paid when they serve such clients—is also possibly the most difficult to determine. The entire point of adding EN payments for clients still receiving partial benefits is to make it *easier* for ENs to serve these individuals profitably. When the payment trigger keys off improvements in countable earnings (as recommended above), payments must begin before countable earnings rise so far that SSI benefits fall to $0—the point where current rules already supply EN payments. So the question here is: How much *less* improvement in countable earnings is appropriate for rewarding ENs serving partial benefit recipients?

The literature on Ticket to Work's incentives and design features focuses little on *change measures* as the basis for deciding if a provider should be paid—or, to anticipate the next subsection, how much it should be paid. It mostly considers *levels* of an indicator, not changes since assignment, as the basis for payment. How much progress in raising clients' earnings should be required for EN payments to begin? The answer depends on several difficult-to assess factors:

- The strength of increased incentives to serve partial benefit recipients—and hence the number of such people served by the program—that policy makers desire.

- How much of the "base"—the people who reduce their benefit amounts without Ticket assistance—policy makers are willing to "buy". Larger required earnings gains mean "buying the base" for fewer people.

- How much change in countable earnings is possible before reaching $0 benefits for those receiving partial benefits at baseline. One would not want to set an earnings increase requirement so large that it puts total countable earnings above the benefit exit point for most partial-benefit recipients.

- The size of the EN payment that goes out once the "trigger" fires. Larger earnings gains would be needed to justify the initiation of larger provider payments.

The first two of these factors reflect the basic philosophical disagreements over Ticket that have existed for some time. Translated to the partial benefit issue, they point in opposite directions. We want a *lower* earnings trigger to motivate ENs to serve more partial benefit recipients. However, a higher earnings trigger is better since it reduces the number of recipients capable of reaching this benchmark on their own—the "base" for which SSA must pay even though ENs contribute nothing to this success. The same tension afflicts the last two factors, but at a more practical level; they suggest that we simultaneously seek (i) a lower trigger to create incentives for ENs to serve a wider swath of the partial benefit recipient population and (ii) a higher trigger to justify larger initial payments to ENs (which helps ENs deal more effectively with their cash flow problems and thereby potentially attracts more providers into the program).

Clearly a compromise will be needed, one that becomes clearer when we consider the dollar amount that might be set for monthly EN payments once the trigger is reached.

Monthly EN Payment Amount

Several questions must be answered in order to set the monthly amount paid to ENs that assist partial benefit recipients reach the selected trigger point:

- On what indicator should monthly payment amounts be based? Do the arguments stressed above for basing the payment trigger on changes in countable earnings apply as well to the monthly payment amount?

- Should payment amounts be the same for all qualifying clients?

- Should payment amounts be constant over time or vary with the client's circumstances (including her or his countable income level) or by pre-defined formula?

- What would payment levels look like if we choose to make them conceptually consistent with the existing Ticket rules for reimbursing ENs when their clients completely leave SSI? Should we choose to do so?

Answering the first three of these questions puts us in a position to propose particular payment amounts for each countable earnings increase … and in the process settle the question of how large to make the threshold for the initial payment trigger. We provide these answers in Appendix E, concluding that:

- Changes in countable earnings since the month of ticket assignment should form the basis for calculating monthly payment amounts.

- The best approach to paying for partial benefit reductions is to vary payments across individuals and over time to reflect the size of earnings gains achieved in each month.

Based on these conclusions, we next suggest a partial benefit payment plan that matches all of the preferences identified in this section and consider how it stacks up against current payment rules as well as other design parameters and goals not yet discussed in detail.

4. Suggested Plan for Rewarding ENs for Assisting Partial Benefit Recipients

Of the many parameters in a partial benefit reduction payment system, the last three discussed in the previous section—trigger amount, payment amount, and payment variations across individuals and time—come together in this section. They provide the basis for describing a complete partial benefit reduction payment plan, including for the first time specific dollar amounts for provider payments. We integrate these three factors with the other preferred payment parameters identified in Section 3 in describing a fully-formulated partial benfit approach of considerable promise. This does not mean that other designs could not be found with equivalent or greater appeal. Rather, it illustrates one direction that reforms of the Ticket program might take to better assist hard-to-employ recipients. A final section of the paper examines several payment parameters not yet discussed, including lifetime payment limits and payment rules for beneficiaries who shift providers.

Priority Goals and Main Parameters of the Suggested System

Except for the question of service effectiveness—i.e., ENs'impact on client outcomes compared to what would have happened without Ticket—which we will leave to the eventual Ticket to Work evaluation,[19] the two greatest concerns in setting up a partial benefit payment system are:

- Creating access to Ticket services (i.e., willing providers) for as many additional SSI recipients as possible, being careful not to leave out the hardest-to-employ.

- Not costing SSA money on net, but instead keeping EN payments equal to or lower than the SSI benefit reductions produced.

The system described here seeks to maximize the first of these goals—the range of recipients served—by avoiding incentives for ENs to prefer tickets from the most promising partial benefit recipients. It minimizes the second concern—the risk of creating net costs at SSA—through steps that address some of the financial issues raised in previous sections.

From the earlier discussion, Ticket payments to ENs serving clients who reduce but do not end their dependency on SSI benefits should

1. Begin when SSI countable earnings rise above their level in the month of ticket assignment by a sufficiently large amount without taking the individual completely off SSI, and

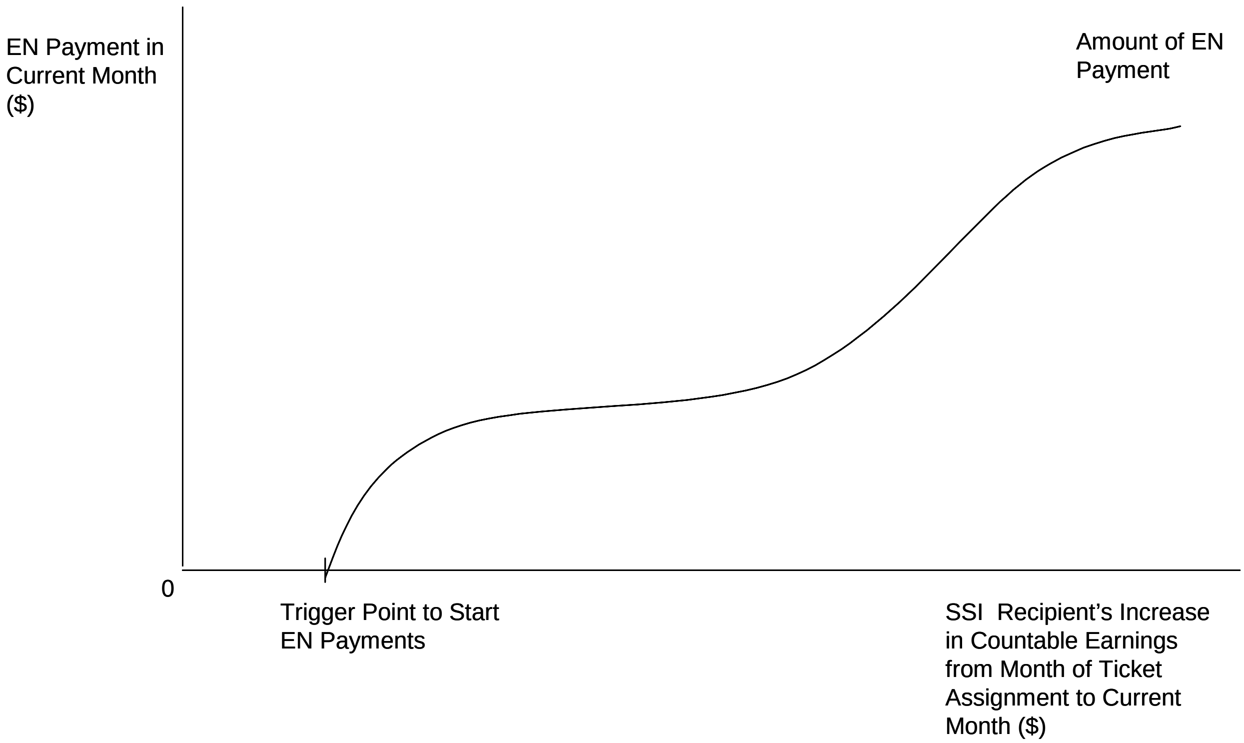
2. Vary among individuals and across months based on the extent to which countable earnings in any month exceed those in the month of ticket assignment.

The most convenient way to represent a payment system of this sort involves a graph relating the dollar increase in countable earnings since baseline to the dollar amount of the associated EN payment. Figure 1 provides such a graph, depicting a sample payment system designed not to be particularly attractive from a policy standpoint but to illustrate certain features we would like to include in all the payment designs considered.

The trigger point for starting EN payments appears on the horizontal axis of the graph. This axis represents the increase in recipient countable earnings since baseline

[19] See The Lewin Group (2002) for details of the evaluation plan.

Figure 1: Example of EN Payments that Key off Increases in Countable Earnings



(month of ticket assignment). SSA issues no provider payments (i.e., $0) for any earnings gain below this level. When earnings gains exceed the trigger amount provider payments become positive (>$0), as shown in the line to the right of the trigger point that rises above the horizontal access. Provider payments also should increase or at least hold constant as countable earnings gains increase toward the right side of the graph. This reflects the principle that SSA pay providers more when earnings gains (and hence benefit reductions) increase.

Finding the Hardest-to-Serve Recipients in the Payment Diagram

Before we can consider how the EN payment line might be shaped to meet the second goal listed above—avoiding financial incentives that lead providers to neglect the hardest-to-employ partial benefit recipients and serve only those with better initial prospects—we need to know where to find each type of recipient on the graph. If the hardest-to-employ concentrate near the righthand side of Figure 1, the line shown provides the strongest incentives for ENs to pick that particular subset of recipients through the higher payments offered by SSA on that side. If those individuals concentrate mostly in the left half of the figure, the opposite is true: the payment line as shown gives ENs less reason to serve the hard-to-employ population compared to other recipients.

We cannot assume that the most difficult clients are found toward the left, as would be the case if initial earnings *level* determined left-to-right positioning on the graph. Instead, recipients sort out according to the size of their earnings *gains* following assignment of their tickets to providers. The relationship of this factor to greater or lesser difficulties finding employment *prior to Ticket entry* is not so clear-cut. Even so, the tendency remains for the initially hardest-to-employ to concentrate toward the left side of the graph where smaller earnings increases take place. Appendix F explains why this is the case. The argument hinges on providers' need to spend more on rehabilitation and employment services to move the hardest-to-serve upward in countable earnings as much as other partial benefit recipients.

Conflicting Objectives and How Each Might Be Favored when Designing Payment Rules

The concentration of hardest-to-serve recipients toward the left side of Figure 1 creates a conundrum for defining the exact contours and dollar amounts of the EN payment line. Given our prediction that the hardest-to-serve beneficiaries will concentrate near the lower end of the countable-earnings-increase scale, we would like for equity reasons to pay ENs just as much—and possibly more—for a comparatively small earnings gain as for a large one. This feature is needed to encourage greater acceptance of hard-to-serve clients on the part of ENs.

But strong reasons also have emerged for ensuring that EN payments do not *decline* as countable income gains increase—i.e., in moving from left to right in the graph. First, we want payment amounts to track with benefit savings for SSA, which rise in step with countable earnings gains. Also, if the payment line ever declines ENs would have an incentive to stop advancing partial benefit clients at that point so as not to see their revenues drop. This would keep the recipients involved from reaching their potential to increase earnings and become self-sufficient…and preclude SSA from reaping the largest possible benefit savings.

Just as in the main Ticket program, we cannot achieve all of SSA's goals at once. Conflicts exist between the four goals that have been the focus of discussion to this point:

1. Avoiding incentives that tempt ENs to stop assisting recipients short of reaching their full earnings potential;

2. Never making EN payments that exceed the associated benefit savings to SSA;

3. Giving ENs as much incentive to serve hard-to-employ recipients as possible; and

4. Getting more providers to serve as ENs and to accept tickets.

Balancing these goals will require a hybrid design combining aspects of several different plans, each intended to maximize one or more of these objectives. We will not know what this design looks like until we establish the best payment structure for pursing the combinations of goals on the list that *do not* have conflicting design implications. Appendix G does this. It concludes that:

- A low, upward sloping EN payment line would best serve goals 1 and 2;

- A high, upward sloping EN payment line would best serve goals 1 and 4; and

- A high, downward sloping EN payment line would best serve goals 3 and 4.

The appendix also explains why all other combinations of goals have conflicting design implications.

Arriving at a Balanced Design

How do we compromise between a low, upward sloping EN payment line, a high upward sloping EN payment line, and a high downward sloping EN payment line to achieve a good balance of all four goals without necessarily meeting any of them completely? One way is to start with a design that upholds the principles of never paying more than the SSI savings returned and never encouraging premature service cessation—i.e., a low upward-sloping EN payment line—and then consider altering it to more closely resemble the other two designs.[20] For want of a better standard, suppose one begins with a version of a low upward-sloping payment line that pays ENs 40 percent of the SSI benefit savings produced by their clients prior to benefit exit. This seems philosophically consistent with the current Ticket system that encourages the client outcome it most wants—elimination of all SSI benefits—by paying providers 40 percent of the average benefit savings produced.[21] And it improves on that system by computing payment amounts as a percentage of an individual's benefit savings rather than an average of many individuals. Such a payment line appears in Figure 4,[22] sloping upward from $0 at a steady clip equal to .4 times the increase in benefit savings. The benefit savings resulting from increased countable earnings are shown along the line rising to the right at 22.5 degrees, reflecting the $1 decline in benefits for every $2 rise in countable earnings that characterizes the SSI benefit calculation.[23] Forty percent of 22.5 degrees is 9 degrees.

To match the graph used to illustrate this design in Appendix G, the straight-line design shown in Figure 4 s it approaches the payment level for benefit exiters (shown as a flat line parallel to the horizontal axis) when countable earnings gains reach $1,104, the point at which all participants leave SSI, including those who began with $0 earnings. The dotted line curving below the solid payment line in Figure 4 reflects this change. It assures that no partial benefit recipient generates a payment larger than the $196 per month awarded when a recipient leaves SSI cash assistance entirely; indeed, it deliberately caps partial benefit payments at 90 percent of this amount, $176. This leaves a reimbursement incentive of $20 per month for ENs to help their best-paid partial benefit clients achieve the final goal of going off benefits entirely. A still larger incentive applies to almost all clients, since much smaller earnings gains—points further to the left on the graph—produce benefit exits for recipients who start with more countable earnings. As

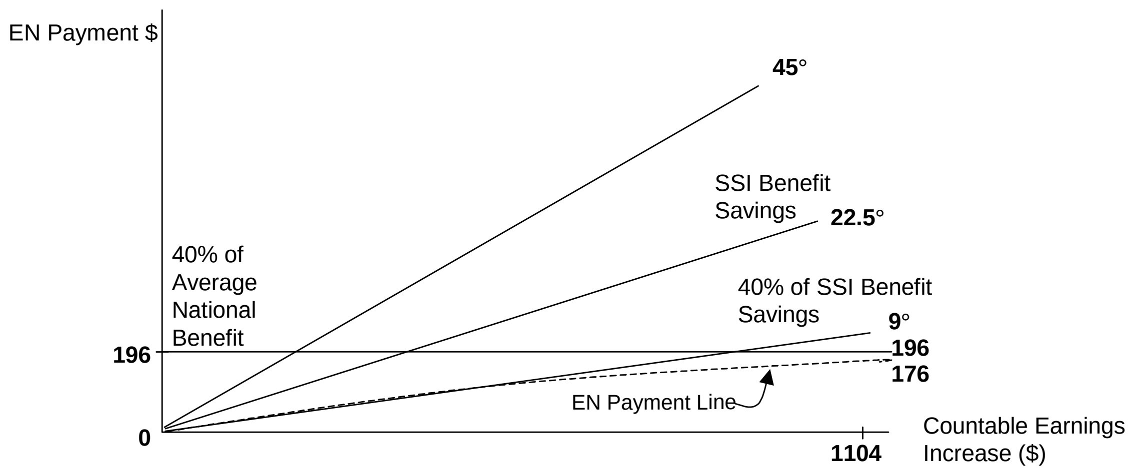
[20] One could instead reduce the emphasis on budget neutrality by arguing that government payments in excess of the SSI savings returned are acceptable if other social goals are achieved—goals judged more important than just minimizing taxpayer burden. This perspective may be worth considering in the Ticket redesign deliberations. A good example of how much this can matter comes from the arena of welfare reform which, though prompted by budgetary concerns, has caused more government money to be spent on low-income families rather than less—principally for more subsidized child care, education and training services, and make-work-pay measures such as the Earned Income Tax Credit. Yet political support for this reform, now in its seventh year—on the part of both legislators and the public—remains strong. This may be because of the value taxpayers put on getting more people to work, helping people to help themselves even if this increases costs to taxpayers. The same may be true regarding policies to increase the work involvement of recipients of federal disability benefits: the public may be willing to pay more than the budgetary returns in order to see social goals such as universal inclusion in the economic mainstream and the value of work for its own sake upheld.

[21] Orr (2003, p. 236), building on the theoretical analysis of Frank and McGuire (2003), calculates that the socially optimal level of EN payments in the current Ticket system is four to five times higher than currently paid. He argues that *all* of the earnings gains needed to get an SSI recipient from the maximum benefit of $552 a month down to $0 have social value, if not to SSA then to the recipient herself or himself. This suggests that paying 40 percent of the benefit savings produced—which themselves are but half of the earnings increase achieved—is far too low as a basis for EN payment in the existing Ticket program or in other payment systems that might be added.

[22] Figures 2 and 3 appear in appendices.

[23] The 45 degree line would indicate benefit savings equal to countable earnings increases—i.e., a $1 decline in benefits for every $1 increase in earnings.

Figure 4: Paying ENs 40 Percent of SSI Benefit Savings Since Month of Ticket Assignment, Without Exceeding Current Payment for Exiters



these cases approach the $0 benefit goal, partial benefit payments will peak somewhere below $176, creating a larger incentive to move clients entirely off benefits—the vertical distance between the partial benefit payment line and the dotted line representing the fixed $196 payment for benefit exit.

Despite this careful detailing, we have accomplished only two of our four goals: incentives to improve client outcomes at all points up to benefit exit, and maintaining the fiscal integrity of the plan by SSA never taking a loss. Are there further ways to change the payment line to do better with respect to our other two goals, drawing in more providers and getting them to serve the hardest-to-employ?

Yes there are, by raising the entire payment line in Figure 4, and raising its left-hand side where the hardest-to-serve concentrate more than the rest. But this would sacrifice some or both of our first two goals: fiscal integrity and incentives to continue services to reach benefit exit. |Moreover, we judge these two outcomes to be the highest-order objectives of a partial benefit payment system. Other goals seem less urgent because:

- Progress toward getting more of the harder-to-employ into EN-provided services has already been made in creating a partial benefit recipient reimbursement system in the first place. After all, this entire system creates incentives to serve SSI recipients with less promising labor market prospects than ENs are prepared to take on now with payments covering only months completely off benefits. In addition, the release of Title 1 funds (from the Rehabilitation Act mentioned above) to other uses once state VR agencies receive steady revenues from their relatively successful partial benefit clients may further expand services to the hardest-to-employ at those agencies.[24]

- The great challenge of getting more ENs to participate in Ticket (and to accept more tickets) has begun to be addressed for the Ticket program as it now exists, paying just for benefit exit and a few initial milestones.[25] If this effort succeeds in expanding services for those expected to leave benefits—and if that of itself does not induce enough providers to also serve people expected to remain on partial benefits—a parallel strategy likely can be devised for the partial benefit group. If no solution is found, the question of overcoming this same challenge for partial benefit recipients becomes moot, since Ticket would still be hamstrung by a lack

[24] That these cases are not reimbursed for outcomes achieved may be viewed as a violation of the Ticket philosophy. Yet others might say that the underlying social objective is still adhered to: pay for results where there is a solid hope of producing them; where more constrained circumstances call this possibility into question (e.g., for the hardest-to-employ ticket-holders) pay for the social inclusion and enhanced equity produced by serving those least likely to advance in the labor market. The author is grateful to David Stapleton for this insight.

[25] Efforts here include the May 2003 Employer Network Summit (see Livermore, 2003(a), and other conference materials published by SSA) and SSA's Adequacy of Incentives Advisory Panel created by the original Ticket Act.

of provider response to the economic incentives in the existing $0-dollar payment structure.

In contrast, any plan that violates one of our initial objectives, such as creating incentives for ENs to halt services that have proven effective *short of achieving benefit exit,* will be viewed as a folly or greeted with incredulity, if advanced as a recommended plan. And any plan that includes sharing more than 100 percent of SSA's savings with providers by paying more than the benefit reductions achieved will face serious challenges from budget managers at SSA and a Congress fighting the burgeoning federal deficit. This despite the fact that the existing Ticket program has this same obvious flaw—it pays 40 percent of the average national benefit at exit even for recipients who enter Ticket with less than that amount of SSI benefits to shed. Having noticed this fiscal shortcoming of the current system, no one concerned about program costs will be anxious to repeat it when expanding coverage to partial benefit recipients.

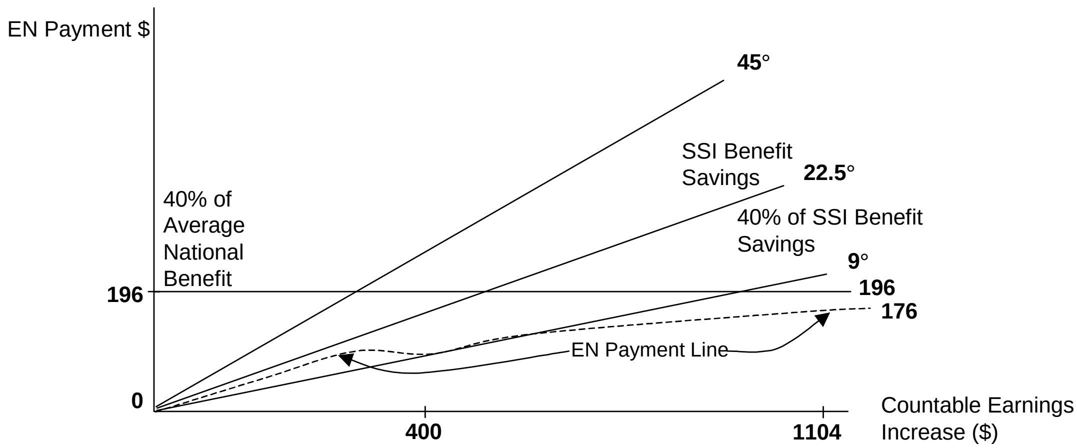
Within these constraints, some adjustments can be made to the design in Figure 4 to improve its performance on second-order priorities without sacrificing its strengths in other areas. Figure 5 shows a design that differs from that in Figure 4 by paying providers more for smaller countable earnings gains. Beneficiaries who increase their countable earnings by a relatively modest amount—say no more than half the substantial gainful activity level, or by $400 per month—generate EN payments greater than 40 percent of the associated benefit reduction (but still less than 100 percent). This increases incentives for providers to participate in the partial benefit payment system in general and particularly encourages them to serve the more disadvantaged recipients in this population—but probably only by a little. An important feature of this adjusted payment line is its continued adherence to the proposition that EN payments must increase with each successively larger earnings gain—i.e., the line must still slope upward at all points as it moves to the right.

This modified payment plan would pay providers almost all of SSA's benefit savings when recipients increase their countable earnings only slightly. This added generosity serves to both (i) soften incentives for providers to avoid serving partial benefit recipients who cannot do better than this and (ii) underline sharply the basic philosophy of partial benefit payment: that Ticket should not be just about producing dramatic earnings gains and generating large net savings for SSA but should reward progress whenever it is made. This form of Ticket expansion would declare the value of all work, as a social standard and for helping those facing the most serious challenges in their work efforts but trying and moving forward nonetheless.

Checking the Model—and Refining It Where Necessary—to Address Issues Not Previously Resolved

Having developed a fully specified EN payment system for those receiving partial SSI benefits, we can now examine how that system relates to the design questions we raised in Section 3 but have not yet fully resolved.

Figure 5: Previous EN Payment Plan with Stronger Incentives to Serve the Hardest-to-Employ



Trigger Amount in Dollars. Most importantly, the suggested plan finally answers the question of what size earnings gains should trigger the first EN payment. Figure 5 above shows a system that pays ENs for client earnings gains of any size, down to a single dollar of added countable income….assuming ENs are willing to go to the trouble of filing for such a small payment. Since this seems unlikely, and certainly non-optimal from the program administration point of view at SSA, it might be best to require a minimum $50 increase in countable earnings before payments initially begin or are issued in any given month, resulting in a $25 reduction in SSI benefits and a provider payment of nearly that much (e.g., $22).

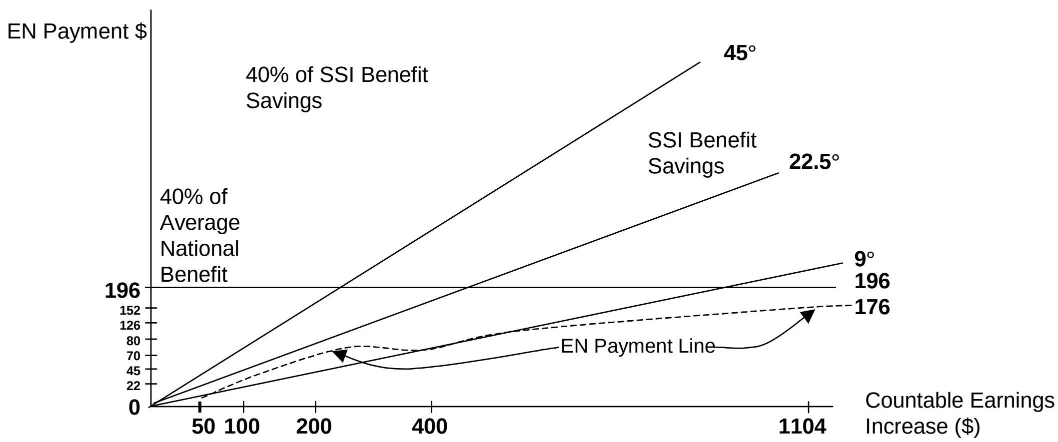
While this may seem a small amount of recipient progress, not every SSI recipient has the potential to increase monthly earnings by more than $50. Moreover, setting the trigger for payment at a low threshold reinforces the program's philosophy that everyone can and should work, and that all work is valued. In addition, it more fully accords with reason payment for partial benefit recipients is being considered at all: to give a fuller meaning to the government's implicit pledge that "as soon as we gain, you gain." Of course, providers that do not want to bother with payments as low as $25 (or any other small amount) do not have to file for reimbursement, or they can wait until they are eligible for bigger payments in later months or can file for payment for a whole series of eligible months.

Monthly Payment Amount in Dollars. This same point of view motivates the proposed plan's answer to the question of how to set the monthly EN payment amount for partial benefit recipients. Having established clients' countable earnings as the basis for payment, the curved payment line in Figure 5 indicates a specific EN payment amount (the height of the curve) for each gain in countable earnings. The largest countable earnings gains at the right end of the curve, gains in the $900 to $1,104 range (the latter amount representing the largest countable earnings gain possible without leaving SSI) produce EN payments to $176, as high as one dare go if concerned about maintaining a meaningful incentive for providers to continue working with these individuals in search of a benefit exit payment of $196 per month.

Switching to the extreme left of the payment line, monthly payments rise quickly as countable earnings gains move up from $50. At first, they equal nearly 100 percent of the implied benefit savings. If 90 percent is chosen as the maximum rate, SSA would share 90 percent of its benefit savings with ENs as partial benefit cases begin to improve, keeping 10 percent. This heavy tilt toward providers may be essential in getting ENs to even begin to serve this population, especially recipients with the least earnings potential long run. Once underway, the balance of savings from larger earnings gains shifts toward SSA.

All this is achieved by setting EN payments to gradually decline as a share of implied benefit savings as earnings gains increase (i.e., when moving rightward) though they continue to rise in absolute dollars. Starting at 90 percent, the payment percentage drops to 40 percent of implied benefit savings at $400 in countable earnings gains—half the SGA level. It drops below 40 percent at higher countable earnings gains, reaching 36

Figure 6: Selected Countable Earnings Gain Amounts, and the EN Payments They Produce in the Suggested Plan



percent (90 percent of 40 percent) at the point of benefit exit. With these additional refinements, EN payments for partial benefit recipients can be defined in dollar terms for every possible countable earnings gain short of benefit exit. Figure 6 (otherwise identical to Figure 5) illustrates this by showing dollar payment amounts for selected countable earnings increases.

5. Additional Parameters and Issues for the Suggested Plan

Three more design parameters from our original list of seven I(see Section 2) have not yet been addressed: the limit on lifetime EN payments for a given recipient, reimbursement procedures when a recipient moves from one EN to another, and the transition in payment rules when partial benefit recipients move entirely off SSI and transition to traditional Ticket reimbursement rules. Before visiting these issues briefly, one desired characteristic of an ideal payment plan identified in Exhibit 3 above—simplicity of understanding and administration—has to be considered. As does the importance of mimicking the rules of existing EN payment regimes when constructing a new one for partial benefit recipients. We cover all of these topics in this section.

The Simplicity Concern

The goal of making any new payment system simple to understand and administer may be jeopardized by the approach illustrated in Figure 6. Based on the extensive discussion and explanation of this design in this paper, readers may think it anything but simple. As a result, the earlier observation that simplicity may be worth pursuing in its own right, even at the expense of some other desirable feature of the approach, may need to put into practice here. The litmus test of simplicity described in Section 2 asked whether providers and ticket-holders would be able to (i) understand how they can benefit from participating in the new system and (ii) see the mechanics of the scheme well enough to feel confident that participation carries little or no risk. Given how often past work initiatives at SSA have been hung up on the same factors, one would wish that these features are transparent on first glance to potential participants.

In fact, the operative rules of the proposed design *are* reasonably straightforward for each of the players involved: the ENs that must understand it, the recipients who must trust it, and SSA which must administer it. The transparency level of the design roughly matches that of the current milestone-outcome payment approach, with both centering on countable earnings rather than benefit amounts. The complexities of the new design lie principally with the designers, who must develop the payment approach in full detail and build a rationale for choosing each of its parameters ahead of the alternatives—essentially, the process we have gone through in this paper. None of the actors who will actually use the system need to understand these nuances in order to effectively participate, as we explain in the next three subsections.

Conveying the System to ENs. The payment design in Figure 6 can be presented simply to ENs and potential ENs. What counts most in motivating their behavior is getting them to understand their revenue potential when working with clients who have not yet left cash assistance. Under the suggested partial benefit reduction payment plan this incentive can be condensed into three brief sentences addressed to providers:

> *"If a Ticket client earns more than when you accepted his or her ticket, you get paid. As long as this is true you will get paid for up to 60 months regardless of the individual's benefit status, on or off cash assistance. Payments will get bigger as earnings continue to rise."*

When EN managers want to know more than this—e.g., the specific payment amounts—and they face in precise dollar amounts—they can refer to just such a schedule provided by SSA on its internet site and printed materials. Other operational aspects of the new system will become apparent in working with the Ticket Program Manager to process claims. Workshops similar to those done in rolling out the original Ticket program will also be important.

Two caveats probably need to be added to this summary of the new provisions for providers:

> *"As earnings approach the point where benefits would end, monthly payments level off at $176 per month to ensure that the familiar $196 payment following benefit exit remains an incentive to get clients completely off cash benefits—which is still the ultimate goal of Ticket to Work."*

> *"The measure used to determine payment eligibility and monthly amounts is SSI countable earnings, not total earnings—just as it is for the first 12 months of the current milestone-outcome payment approach."*

<u>Communicating with Recipients</u>. Beneficiaries likely will trust the new payment system more than the original Ticket provisions once they understand that they *will still be on SSI whenever using it.* This should convince them that the new provisions do not threaten their benefits in the way the current Ticket provisions do when based on benefit exit. What recipients need to know to feel this assurance, along with the information needed to participate, is paraphrased below:

> *"SSA is increasing access to Ticket to Work by encouraging Employment Networks to serve more SSI recipients who want to work while still receiving SSI benefits. This should expand your options for getting an EN to accept your ticket, but it will not affect you in any other way."*

> *"Your participation in this new Ticket component, should you choose to use it, is purely voluntary. You may end it or switch ENs at any time with no repercussions."*

> *"Your continued SSI and Medicaid eligibility are assured while participating in this new component since the new provisions apply only to people who remain on*

SSI. We encourage you to seek the assistance of an EN in your area if you have an interest in work but are not sure if leaving benefits is right for you."

New Understandings and Administrative Challenges at SSA. SSA will face the largest adjustments in perceptions procedures should the proposed reforms be adopted. Even so, they do not need to go into new territory to administer the program. Information on SSI countable earnings is already central to reviewing and paying EN claims in Ticket's milestone-outcome approach. And like that already-existing system, SSA administrators will have to deal with at most one transition between payment regimes per recipient. For milestone-outcome payments the transition is from an earnings-based payment structure to a benefit-exit-based payment structure after 12 months. The same two components may be encountered in administering the new partial benefit option when recipients switch from partial benefit payments to exit-based payments.

Likely the biggest operational challenges in adding partial benefit payment rules are the need to (i) educate other actors about the new payment regime and (ii) handle the sheer volume of added EN claims that may emerge if the reforms proposed here are adopted and successful in getting ENs to serve a larger share of the SSI caseload. These changes will pose major management and capacity challenges to the agency and may need to be studied in pilot sites before moving to national implementation of the reforms.

Should Payments for Partial Benefits Mimic Existing Ticket Rules?

The answer to this question is yes, but not out of blind fealty to the existing Ticket design. Rather, we have found that certain aspects of a partial benefit payment system would work better to achieve that system's goals if structured like exiting Ticket rules for recipients who leave SSI. This realization popped up at various places during the development of the payment model suggested here, but always as an outgrowth of what was needed at that stage rather than a pre-existing desire to mimic anything that came before. Readers are welcome to go back and pick out these similarities but really there is no point in doing so. If what works best for the goose works best for the gander, similar components will wind up in both designs. Where the new rules do *not* parallel Ticket's original rules, there is no value now to checking whether they should. Indeed, the trend in our deliberations suggests that they should not: several parameters were set differently from current rules *specifically because of recognized weaknesses in how current payment rules are structured.*

Any similarities that do arise between the new and old payment plans have at least one consequent advantage: they make it easier for all actors to understand and absorb intuitively how the new payment structure will work, having dealt with similar provisions under the previous approach.

Options for Handling Shifts in Providers and Setting a Lifetime Payment Limit

These two design issues must be tackled simultaneously since any lifetime payment limit has to accommodate recipients who change providers. And it must accommodate payments made to ENs under both a new partial benefits reimbursement system and exiting payment rules for benefit exiters. While there is not enough space in this paper to examine these issues in depth, a first thought for specifying and integrating the two payment systems over a lifetime is to establish a lifetime limit on total EN reimbursement for a given participant in dollars, not months as in the existing payment rules.

With this approach, the specific monthly structure of payments under different reimbursement regimes does not need to be reconciled when recipients move between payment systems—outcomes-only, milestone-outcomes (a switch that could occur when a recipient changes providers), and partial benefit reductions. The critical question is not what path does a given recipient follow but whether he or she ever reaches this dollar total.

In designing such an approach, the most important decision is whether to vary the lifetime dollar limit across the different payment regimes. This would cause considerable difficulties in monitoring, given that some recipients will move through more than one regime. In this circumstance, what lifetime limit applies? As long as individual payments are set up to protect SSA from costs exceeding benefit savings in each individual month, and all payment systems use roughly the same standard for determining amounts in most months—40 percent of SSA's savings—it does not seem necessary to agonize over whether some Ticket participants should have access to more total reimbursement dollars over a lifetime while others do not. Most Ticket participants will never reach this limit in any case. Nor would it be worth the burdens involved in monitoring different recipients against different lifetime totals, particular those who move between payment regimes.

The simplest and best course might be to use the maximum lifetime payments allowed for a single SSI recipient under current benefit rules—$11,760 in 2003 dollars—as the lifetime limit for all recipients, regardless of what payment regimes an individual passes through. This universal standard would establish a limit on EN payments in all cases. The maximum amount of provider reimbursement could only be accumulated while serving partial benefit recipients over a span of more than 60 months. But staying longer with individuals who have progressed but not yet earned their way off benefits may be a good idea—both because some of these individuals may eventually reach that goal and because others may require ongoing supports to keep from slipping back to lower earnings and higher SSI benefits. Paying to avoid this latter outcome could be a smart investment.

<u>Segueing to Existing Payment Rules Once Benefits Reach $0</u>

This has already been handled in the design in Figure 6 and discussed in earlier sections. The recommended approach makes the transition in payment procedures intuitive and relatively easy to understand, as well as administratively feasible and. It also creates strong incentives for providers to get recipients completely off benefits, yet at the same time offering substantial payments to ENs for serving recipients short of this goal.

6. Conclusions and Next Steps

The thinking in this paper represents a starting point for deciding how the Ticket to Work program might be expanded to include SSI recipients who, to providers, appear less likely to reach Ticket's ultimate objective and main basis for payment: leaving the SSI rolls through work. The strategy for assisting these "partial benefit recipients"—recipients who currently do or could in the future combine earnings with reduced SSI benefits—involves creating new incentives to serve them by paying Employment Networks for any partial benefit reductions achieved. While there is broad interest in expanding Ticket to Work in this direction, a clear delineation of the goals and tradeoffs in adding a partial benefit payment system has been lacking, as have concrete suggestions for what the payment rules might look like and how they might affect SSI recipients, service providers, and the SSA budget.

This paper addresses these gaps, offering a complete design for partial benefit payments to providers that will not cost the government money on net. The rationale for each of the different elements of this design is presented, along with rejected alternatives. Tradeoffs and reasons for our choices could have greater importance to the future policy debate than any specific approach suggested, since they provide the "building blocks" for proposing—and understanding—a wide range of additional designs that may also merit consideration in the future. In addition to these contributions to the formative process for future policy, the paper takes a look at three related questions:

Q1: Are we sure payments to ENs for helping recipients combine work and benefits should be instituted at all?

A: Yes, for a variety of reasons provided in Section 1 that outweigh identified limitations.

Q2: Can a payment plan be created that (i) has a chance of attracting ENs, (ii) dovetails with current payment rules for benefit exiters, and (iii) protects the SSA budget?

A: Yes, an example of which is provided in Section 4.

Q3: What will be the biggest challenges in designing and implementing an effective system for getting Ticket services to more hard-to-serve recipients in the SSI caseload?

A: Creating payment rules that will (i) make the additional clients profitable enough for ENs to choose to serve the added client group to a sufficient degree and (ii) be administratively feasible at SSA and sufficiently comprehensible to the other *constituencies involved —ENs, recipients, and advocates—to gain their trust and inspire full participation.*

Perhaps not coincidentally, these two great challenges in extending Ticket to new client groups constitute the major stumbling blocks of the current Ticket program as it seeks to increase the number of ENs and recipients participating. The partial benefit payment approach suggested here likely has not found the best ways to meet these challenges. But it has carved out the challenges as the areas for future attention.

In closing, a number of topic areas and analytic extensions seem important to improving the design of a partial benefit payment system beyond this initial thinking. Assuming that a reimbursement approach based on changes in countable earnings becomes widely accepted as the best approach (as is argued here), priority areas for future research include:

- Understanding better the capabilities of the SSI data system (the SSR file) to compute benchmark levels of countable earnings on a timely basis and track changes against those benchmarks over many subsequent months, in order to calculate EN payments.

- Considering further the potential for providers to "game" the system to increase their revenues by influencing the baseline measure of countable earnings.

- Projecting likely recipient and EN responses to a new set of rules at a more detailed level, to better assess risks and potential unwanted consequences of any given approach and anticipate how EN and recipient behaviors and outcomes may differ from those emerging under the main Ticket to Work payment rules.

- Adding interactions between SSI benefit rules, SSDI benefit rules, and the suggested partial benefit payment plan for individuals who concurrently receive both types of benefits or who cycle between the two programs over time.

- Estimating the budgetary costs and potential gains from specific payment plans (best left to SSA's Office of the Actuary and the Congressional Budget Office).

As its final contribution, the investigations begun here could produce heightened attention to conceptual flaws in the *existing* Ticket system for reimbursing ENs based on client benefit exits. At a number of junctures, the pros and cons of different partial benefit payment options pointed out ways in which existing rules may stop short of the ideal for the Ticket program as a whole. Though much research has already been done on the strengths and weaknesses of the current Ticket parameters, with more underway, the effort to envision a sensible companion approach for partial benefit recipients has sparked many questions regarding existing Ticket rules—and provided a fresh perspective for finding their solutions. It is hoped that researchers and policy makers engaged in this larger effort to make Ticket to Work "work" will consider and benefit from the ideas offered by the current paper.

Appendix A

Defining and Comparing Different Partial Benefit Payment Features

This appendix describes the seven areas in which EN payment rules for partial benefit reductions must be fully defined if Congress adds a component to the existing Ticket to Work program to encourage services to SSI recipients who can work but are unlikely to exit benefits. The seven areas come from a list in Section 2 of the text, which raises the issue of defining design parameters but does not explore options in depth as is done here.

1. **Initial recipient eligibility** rules determine the conditions necessary for a recipient to receive and assign a ticket to a provider. As in the current program, we assume that anyone getting and using a ticket must be in active pay status and satisfy other conditions under the law. Other conditions for using a ticket under new partial benefit rules may need to be added as part of the partial benefit payment design process. Most importantly, we need to stipulate whether only individuals who have already reached partial benefit status can enter the program by this route, or whether those with no SSI "countable" income as yet—and thus still in receipt of full SSI cash benefits—may be admitted as well.

2. Once a ticket is assigned, the partial benefit **payment trigger** determines when a recipient not yet off benefits has nonetheless advanced far enough to trigger a first payment to her or his EN. While seemingly simple, this rule has many dimensions that designers have to consider. For example, the trigger can be a single criterion (e.g., SSI benefits below $X) or a combination of indicators all met in a single month. In addition, SSA has the option to base the trigger on the same indicator that will determine monthly payment amounts once reimbursement begins, or to base these two dimensions of payment on different indicators (e.g., the trigger could depend on an SSI benefit reduction of a certain size while calculation of payment amounts hinges on the size of the accompanying earnings gain).

3. Out of these considerations grows a need to define the **basis for setting the payment amount** once the trigger has "fired." Is the payment to be calculated from the dollar amount of earnings in a given month, or the change in that measure since ticket assignment? Still further bases of payment might be considered (e.g., reaching an intermediate milestone related to other program goals, such as a certain numbers of hours worked per week).

4. Once the indicator or basis for payment is established, the actual EN **payment amount** in any month must be decided. In addition to dollar amounts, structural aspects of month by month payments must be addressed—e.g., whether to vary payments with the characteristics of the client served or, for any given client, over time. Current Ticket payment mechanisms work from a payment amount that is fixed across individuals except for the universal distinction between SSI recipients and SSDI beneficiaries.

Constancy of payment amounts over time is nearly as strong under current rules: in the outcomes-only system, ENs receive the same dollar amount each month for recipients at $0 in SSI cash benefits: $196, derived as 40 percent of the average monthly SSI payment nationally in the prior calendar year. The milestone-outcomes approach currently varies payments over time during the initial "milestone interval," providing $167 in EN reimbursement for a client's first month of earnings above the SGA level and three other milestone payments of progressively larger amounts (topping out at $835) during the first 12 months of SGA earnings. After that point, however, monthly outcomes payments are fixed over time for a given recipient, as in the outcomes-only system.

The overall level of payments probably plays the most crucial role in determining the economic viability to ENs of a partial payment approach, and the cost exposure to SSA from adopting any particular reforms in this area. As has emerged in the existing Ticket program, payment amount may be the most controversial and consequential of all design parameters—and potentially the most difficult to specify.

5. The **cumulative payment limit** for individual Ticket users could be simple and guided by the criterion used in the current payment system: no more than 60 monthly outcome payments over a lifetime (for both the outcomes-only and milestone-outcomes approaches). Or partial-benefit payments to providers may need to be capped at a different point, limited in another dimension over a lifetime such as total dollars paid, or not constrained at all. If a dollar limit is adopted, it could vary by individual (based on personal characteristics) or be set uniformly across all Ticket participants who receive partial SSI benefits. The partial benefit cap could be smaller or larger than what can be realized cumulatively by ENs when recipients go entirely off cash SSI (the former, for example, in order to strengthen EN incentives to get a client to $0 in benefits. Perhaps the true ideal would place *no* limit on cumulative payments if each month's benefit reduction exceeds what SSA pays to the EN that month. (The same could be said of lifetime limits in Ticket's current $0-benefit payment rules.)

6. The appropriate way to **transition** payments—and especially the cumulative payment limit over a lifetime, if any—**from one EN to another** when the recipient decides to switch providers is still being debated for the main Ticket program. The rules for recipients who leave benefits and then change ENs have become complex, or at least difficult for clients to keep in mind—they depend on how the ticket was first assigned, the type of organization providing Ticket services (e.g., state VR agency versus other EN), and the use of outcomes-only versus milestone-outcome payments. Making this simpler and more intuitive for partial benefit recipients would likely increase recipient understanding of this program element and consequently their mobility among providers.

Conversely, it may be important to adopt rules that parallel as much as possible existing "change-of-provider" rules for recipients who have reached $0 in benefits, to avoid blurring EN and beneficiary perceptions of this part of the payment system by introducing a conceptually different approach for partial benefit cases. The tension between these objectives runs through the design of many reimbursement parameters:

should we adopt simpler, more intuitive payment rules for partial-benefit recipients—which would help make this *added* payment system more efficient and comprehensible—or take an approach more consistent with the rules already in place for $0 benefit cases to help everyone keep track of a well-integrated overall set of rules.

7. Nowhere is this dichotomy more evident than in setting payment rules for clients who **transition from partial benefit reduction** reimbursement **to complete benefit cessation**. EN payments following benefit exit will continue under existing Ticket provisions, no matter how different they are than the approach selected for partial benefit clients. This puts some premium on reflecting the parameters of the current rules when choosing new parameters for partial benefit recipients…as long as this does not excessively compromise the incentive and fiscal properties of the latter.

Appendix B

Evidence of SSI Recipients Combining Work and Benefits Prior to Ticket to Work

Understanding how certain SSI recipients combined work and benefits prior to Ticket to Work will help policy makers design provider incentives that will encourage more recipients to move into work even when not expected to leave benefits entirely. Most empirical evidence on SSI recipients combining work and benefits comes from a recent, comprehensive summary of available data compiled by Newcomb et al. (2003). Unfortunately, information on the month-to-month progression of earnings and benefit amounts for individual SSI recipients—the pattern that will ultimately determine how much EN reimbursement will be issued under any partial-benefit payment system and how much progress that system makes toward the overall goals of the Ticket program—is nowhere to be found.[26] Instead, we review in this appendix cross-sectional information on the employment, earnings, and benefits of SSI recipients and consider the characteristics of recipients who worked pre-Ticket and how these might change in a partial benefit reduction Ticket scheme.

Employment Rate. In calendar year 1999, roughly 1 in 13 SSI cash recipients obtained some of their income by working—or about 7.5 percent. In the same year, 9 percent left benefits due to “excess income”, which may or may not have involved earned income (evidently it did not for at least 1.5 percent of the caseload, those with excess income but no earnings). We can infer that more than 7.5 percent had combined earnings with cash benefits at some point in their lives, given the sporadic nature of work for this population. But no direct data are available on this question.

Though not the pattern policy makers would like to see, the relatively low work rate of SSI recipients constitutes good news regarding the potential for payment reforms to induce more people to combine work and benefits without paying unduly for recipients who already reach this milestone. It suggests that “buying the base”—SSA’s largest cost concern for the Ticket program and any expansion to it—cannot cost terribly much in relation to the potential for benefit savings as added recipients move into work. On the other hand, benefit exit through work prior to Ticket—the “buying the base” concern for the main Ticket program—was much smaller on an annual basis, around 2 or 3 percent. So more people will be part of the “base” bought with a partial benefit payment plan, but volume alone does not determine SSA’s costs in this regard; they depend as well on the payment amounts provided to ENs for each respective population.

[26] A thorough search of published articles and SSA data supplements—along with discussions with knowledgeable researchers in the area—produced no examples of longitudinal data that could be used to accurately predict outcomes under different partial benefit payment methodologies. No data were found over time regarding number served, initial and longer-term employment and benefit costs, or financial risks for the government.

We have no way to anticipate how many of the 92.5 percent of recipients not working in a given year will be able to do so once ENs are induced to accept tickets from people they see as unlikely to fully exit SSI. Nor do we know whether the overall employment rate of SSI recipients has already moved up under current Ticket to Work rules as ENs serve the non-workers thought capable to moving completely off benefits.

Earnings and Benefit Amounts. In 1999 the 7.5 percent of SSI recipients who worked earned an average of $279 per month, or at most $3,350 per year for those who worked in every month. Given that 3,646,000 people age 18 to 64 received SSI benefits that year due to disability or blindness, the upper bound on combined annual earnings for partial benefit recipients is $870 million (.075 x 3,646,000 x $3,350), a non-trivial amount. Of the roughly 275,000 individuals who combined earnings with SSI benefits in 1999, 10.5 percent earned over $1000 per month.[27] At the opposite end of the spectrum, 48 percent of working recipients earned less than $200 dollars per month in 1999. The remaining 41.5 percent earned between $200 and $1,000 per month. Clearly, the partial benefit recipient group contains a diverse lot of individuals, with very different actual earnings—and perhaps potential earnings—in the pre-Ticket era. This means that payment rules have be established for a broad range of initial earnings and potential future earnings levels.

Unfortunately, data on SSI benefit amounts for working recipients could not be found in any publications at SSA or from any other source the author was able to identify. From the range of monthly earnings amounts just reported, however, it is likely that the target population for partial benefit payment reform is also quite diverse in terms of monthly benefit amounts.

Characteristics of Earners. In terms of demographic characteristics, those who worked for pay while on SSI in 1999 were more likely than other SSI cash recipients to be

- men
- under the age of 40
- well educated
- relatively new to SSI
- recipients of both SSI and SSDI benefits, the latter implying a considerable (though low paid) work history
- individuals with mental retardation or congenital anomalies

All of these traits except the last associate with higher earnings potential in the general population and among SSI recipients. This suggests that new participants brought into Ticket through expanded EN payment rules may be better equipped for employment success than the caseload in general…and perhaps much better equipped if providers are selective in the tickets they accept. However, it is hard to predict from pre-Ticket data how much the partial benefit recipients brought into Ticket will look like this group. If most of the clients made eligible for provider reimbursement work when they enter

[27] These were mostly recipients whose benefit cut-off was extended above the SGA level by SSI's 1619(a) work incentive provision.

Ticket, those served under partial-benefit rules should tilt in this direction (assuming that 1999 data are still valid). But they may not, depending on who in the already-working population wants to work with an EN and which of those ENs are willing to accept. If Ticket participation rates are quite low for those meeting both of these criteria, participants from this pool could differ strikingly from the full group from which they are drawn in terms of baseline characteristics. On the other hand, to the extent that recipient participation depends on provider preferences, the higher earnings potential associated with the above traits might skew the participant group even more in the direction shown.

There is another reason why the partial-benefit cases added to the Ticket rolls through enhanced payment incentives might look quite different than the profile of those previously working, and potentially lean in the opposite direction. SSI recipients drawn into the program by new rules may come predominantly from those who *did not work at all* in pre-Ticket days. This is the 90+ percent of recipients more likely to be women, over 40, less educated, long-term SSI recipients, not concurrent beneficiaries of SSDI, and have a variety of disabilities other than mental retardation or congenital anomalies. On the other hand, the option of starting work under Ticket may appeal most strongly to recipients similar to those already working; this would happen, for example, if the added workers already possessed most of the motivation needed to work based on the traits they have in common with existing workers.

Given the varied indictors provided by this assessment, it is difficult to anticipate whether the added people served by Ticket if reimbursement is expanded will (i) be those for whom newly-provided investments in employment assistance are likely to be successful and socially efficient and/or (ii) constitute the “most deserving” of previously unserved SSI recipients. Both of these considerations factor into the desirability of any particular partial benefit system.

Appendix C

Assessment of Alternative Bases for Initiating EN Payments in a Partial Benefit Reduction Payment Plan

The text identifies the two intertwined aspects of defining the trigger level at which EN payments begin in a partial benefit reduction payment plan for Ticket to Work: the type of threshold that must be met for payments to begin and the specific indicator variable with which attainment of the threshold is measured. Exhibit 5 in this appendix depicts the most likely options in each instance, crossing the three ways of setting a threshold described in the text (rows of the matrix) with three main candidate indicators (columns)—SSI benefit amount, monthly countable earnings, and monthly hours worked.

The first threshold standard considered—any movement in the right direction following ticket assignment to a particular EN—has the drawback of triggering payments for trivial improvements in recipient circumstances unless some minimum improvement is set. Absent a minimum, SSA and the EN involved would have to do a great deal of paperwork for the sake of very small payment transactions. The second trigger avoids this problem by staying with a movement-in-the-right-direction trigger but requiring a minimum, non-trivial amount of movement before the first EN payment goes out. While it will be difficult—and necessarily somewhat arbitrary—to establish the minimum dollar or hours-worked improvement necessary for payment, this trigger has substantial advantages over the first in terms of operational costs and burdens. It also gets the right message out to providers: “You have to improve things at least this much (e.g., $50 per month) before you can begin recovering your costs through SSA payments.”

A problem with “gaming” the system may arise under the second approach, however. When approached by recipients with relatively large initial earnings seeking to assign their tickets, a provider may encourage them to *reduce* their work effort for one month and then assign the ticket.[28] This would make initial benefit amounts artificially high, so that simply returning to pre-existing work arrangements in the months following assignment would lower benefits and look like an improvement. Here, the EN will have made no effort to help the client in his or her work and SSA will have received no benefit savings in return for the Ticket payments issued. Though one cannot anticipate how common this pattern might become, there are several reasons to think a recipient working for limited wages might go along with this ploy proposed by an EN…or simply find herself or himself in a down-and-up cycle without ever thinking about it:

- Reducing work in the month of assignment may be made a condition for entry at some EN organizations, if the provider chooses to be selective and strategic in picking its clients. If the recipient has been turned down before in attempting to assign her/his ticket, this kind of suasion may prove effective.

[28] The author is indebted to David Stapleton for raising this issue and suggesting the various scenarios discussed in this paragraph.

Exhibit 4: Six Possible EN Payment "Triggers"

Minimum Requirement for Payment	Indicator on Which EN Payments are Based	
	SSI Benefits	Countable Earnings
Improved since month of ticket assignment.	Benefits down since month of assignment. ①	Earnings up since month of assignment. ④
Improved at least $___ since month of ticket assignment.	Benefits down at least $___ since month of assignment. ②	Earnings up at least $___ since month of assignment. ⑤
Reached $_____ per month.	Benefits at or below $______. ③	Earnings at or above $_____. ⑥

- The provider might offer to "make up for" the low earnings month by giving the recipient some of the increased revenues that result,[29] either just initially or on an ongoing basis;

- The recipient may have no direct control over his or her earnings amount each month, yet the organization that serves as the EN does; for example, this could happen if a provider of supported employment becomes an EN and uses its control over SSI recipients' work schedules and paychecks to achieve the earnings decline/benefit increase it seeks in the month of ticket assignment; and

- Month-to-month variation in SSI benefit amounts due to fluctuating earnings may already be common and at times sizeable, leaving the opportunity for an EN not to influence these amounts but to alter the timing of ticket acceptance to obtain clients in months of relatively low earnings and high benefits.

Unless partial benefit payment rules are set to preclude an EN benefiting from a single poor month at the point of ticket acceptance, all of these scenarios will be perfectly legal and may not be distasteful to the providers or ticket-holders involved.[30] One step to preclude all but the last scenario is to consider the month a ticket was issued to the recipient by SSA as the baseline point for measuring and rewarding change. No EN, nor even the recipient him/herself, could see a way to "game" this system until it is too late to manipulate the SSI benefit amount in the month of ticket issuance. ENs could still decide whether to accept a ticket based on circumstances at that time (and presumably would favor those ticket-holders who were at high levels of economic dependence at that time and had since improved), but they could not *make* that situation more common through strategic behavior.

The final trigger considered releases the first EN payment when a sufficiently good outcome occurs, irrespective of the degree of improvement this represents over baseline. This has the drawback of providing equal rewards to ENs that overcome very different levels of challenge. It should be much easier to get a client to a threshold amount of, say, $300 or less in monthly SSI benefits if that client starts at $350 than if the client starts at $500 or $552 (the maximum federal benefit for people with no countable income). This creates an incentive to serve the least dependent SSI recipients that present themselves, among those one expects to remain at least partially dependent over a long stretch. The most disadvantaged partial benefit recipients—those with the highest initial benefits, or equivalently the lowest countable income—may benefit little from this kind

[29] Stapleton and Livermore (2003, p. 75) raise the potential for EN revenues to be shared with recipients within the regular Ticket program, to the benefit of both parties and SSA's disadvantage if no long-term improvements are generated.
[30] An example of this type of behavior is already (and unabashedly) taking place in the standard Ticket program, with the internet "provider" TakeCharge offering to pass along to the recipient the majority share of any EN payments received should the individual choose to assign her or his ticket to TakeCharge and later manage to go off benefits on her/his own, with the internet firm doing nothing but providing a conduit for the money. This suggests that some degree of "gaming" is inevitable in a partial benefit payment system as long as financial incentives exist to assign tickets in poorer than average months.

of reform. Ironically*, this is the very trigger mechanism today's Ticket program uses to initiate outcomes-only payments* (and to continue milestone-outcome payments beyond 12 months): get benefits down to a certain level—in that case $0, not $300—and EN payments begin. Many of the potential disadvantages of such a system, particularly its arbitrariness and built-in "cream skimming" incentives for providers, are well known.[31] SSA buys into the same problems if payments to ENs for partial benefit recipients use this same type of trigger—monthly SSI benefits equal to or below a fixed threshold level common to all partial benefit Ticket participants. Moving the threshold above $0 by providing payments for partial benefit recipients does not affect this undesirable feature.

Actually, adopting a benefit threshold of $300 or some other amount above $0 does change the broad characteristics of the payment plan slightly…and in an unwanted direction. Once an SSI monthly benefit at or below $300 suffices to start reimbursement *ENs can start receiving payments immediately without seeing their clients main any improvement, as long as they pick their clients carefully*. A sure-fire moneymaking strategy is to sign up recipients whose monthly benefits are already below $300. Eligibility to begin receiving payments starts immediately, at the point of ticket assignment. (Note that this is also true of the current milestone-outcome payment system: recipients do not need to *improve* their earnings to the SGA level for the initial milestone payment to take place—they could be there already when the recipient assigns her/his ticket.) The same generic ticket mechanism does not produce this fiscally and motivationally shaky result when the threshold is $0 in the outcomes-only payment system because anyone already at this benefit level, those not receiving SSI cash benefits at baseline, are ineligible to receive or use tickets in the first place. And of course there are no eligible participants who begin *below* that particular threshold.

This aspect of the exceed-fixed-threshold trigger says that it could only be adopted if restricted to recipients whose initial benefits are *above* the chosen threshold. However, restrictions of this sort limit the inclusiveness and value of any new payment system. Avoiding a fixed threshold trigger in the first place seems the better course.

The same points and concerns—and conclusions—apply when considering systems that trigger a first EN payment off of earnings rather than monthly benefit amounts: if the requirement is to produce an earnings gain, it needs to be a nontrivial gain; if a fixed earnings threshold will determine first payment eligibility, those recipients already earning that much will have to be excluded from the partial benefits payment approach. So we are again left with only one attractive option, a "sufficient improvement" trigger. How large an improvement to require depends on what indicator measure we choose, a topic discussed in Appendix D.

[31] See, for example, the various papers and commentaries contained in Rupp and Bell (2003(a)).

Appendix D

Indicators that Could Trigger EN Payments in a Partial Benefit Reduction Payment Plan

This appendix compares recipient earnings to benefit amount as the basis for triggering EN payments for recipients who combine work and benefits. Total, or gross, earnings cannot serve as the trigger, since no reliable measure of gross earnings exists on the one source available to monitor achievement of the trigger level—SSA's Supplemental Security Record (SSR) database. Thus, if SSA uses a measure of earnings to trigger EN payments, it will necessarily be the "countable earnings" variable on the SSR used to calculate cash benefit eligibility and amounts.[32]

As noted in the text of Section 3, the choice between countable earnings and benefit amount as the basis for initiating payments depends on their relative practicality and simplicity of use. Both have substantial drawbacks in this respect, though on balance countable earnings seems the better choice. At first, this might not appear to be the case. The countable earnings concept used to determine the amount of SSI benefit paid is not easy to compute. It depends not only on gross earnings, but also on the influence of different SSI work incentive set-asides of certain types of earnings. These hinge both on how the money is earned and how the money is *spent*.[33] Due to incomplete information in these areas, the "countable earnings" variable in the SSR database used to administer SSI benefits—from which a countable earnings payment trigger would have to be calculated—has uneven reliability.[34]

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[32] Reliance on countable earnings also has two conceptual advantages over reliance on gross earnings even if a measure of the latter were available. First, a system based on countable earnings will mesh better with existing Ticket provider rules, which either directly or indirectly base provider payments on countable earnings rather than gross earnings. (Current outcomes-only payments to ENs depend entirely on countable income—including its countable earnings component—reaching the point that beneficiary payments end; gross earnings do not enter into this determination. Similarly, milestone-outcome payments relate EN reimbursement for the first 12 months to achieving the SGA level of earnings, which is defined in terms of countable earnings. It then switches to $0 benefits as the criterion for further provider payments, which depends on countable income as well.) This will be particularly important when we consider how EN payments under new partial benefit rules might be made to segue smoothly into existing payment rules when recipients reach $0 in benefits. Second, the use of countable earnings for EN payment eligibility purposes already has precedent and wide provider support…in the front-end payment standards of the milestone-outcome system.

[33] For example, impairment related work expenses (IRWEs) paid by the recipient are deducted from countable earnings, as is the first $85 in earned income regardless of its use.

[34] Moreover, countable earnings can be manipulated by recipients to "hide" as much of their earnings as possible from benefit calculations by putting earnings into various non-countable categories of income such as Impairment Related Work Expenses (IRWEs) or deposits to Plan for Achieving Self Support (PASS) accounts. However, there is no reason to think such behavior will increase if provider reimbursement is tied to countable earnings, since recipients have a strong interest in "gaming" the countable income system already for their own benefit. The increased incentive of enhancing EN payments should add little to this motivation.

In contrast, SSA benefit amount as an EN payment trigger has the advantage of reflecting the "money going out the door" to the recipient, independently of anything else that might have happened or been misreported or miscalculated to produce that payment. However, using SSI benefit amount as the trigger for EN reimbursement has one potentially large disadvantage: benefit levels change for reasons other than work and earnings. Unearned income also counts when calculating benefit amounts, an amount that can change over time independently of any improvement in work results produced by EN services. An efficient partial benefit payment plan would not reward providers for such a change. Yet any EN payment system that keys off benefit amount will necessarily pay providers on this basis, rewarding benefit declines not of their making.[35]

No option remains if one wants use benefit declines as the payment trigger but to look at the detailed sources of countable income each month and how they change, so as to reward only changes resulting from increased earnings. This would be a prohibitively costly and complex exercise when simplicity and clarity to beneficiaries ranks high in the payment design. We conclude therefore that, despite its limitations, countable earnings should serve as the basis for triggering the first EN payment for each client. This variable is among those needed to parse the various sources of benefit decline each month—and the only source Ticket to Work seeks to act on—so why not just go to it directly even when of less than perfect reliability?

[35] The current Ticket program avoids this difficulty by basing all EN payments on the *end* of cash benefits—i.e., on reaching $0—and the SSR data system does capture the reason for the final step to $0 benefits. However, this reason gets full credit for all benefit reductions leading up to exit, even when other sources of increased income or changes in family composition account for most of them. In this sense, the EN payment trigger for the current Ticket reimbursement system is conceptually flawed. It bases EN reimbursement on the reason for the *final* step from positive to $0 benefits. This is in part a data limitation, since reasons for benefit decline prior to reaching $0 are not coded in the database. But countable earnings is, allowing EN payments for benefit exit to key entirely off changes in this measure.

Appendix E

Determination of Monthly Provider Payment Amounts: Basis, and Variation over Time and among Individuals

The final paragraphs of Section 3 of the text raise three questions concerning EN payment amounts in a system that rewards providers for increasing the countable earnings of their clients without eliminating SSI benefits entirely. This appendix answers those questions.

<u>Should Provider Payment Amounts Be Based on Changes in Countable Earnings?</u>

In the text discussion, decreases in SSI benefit amounts were rejected as the basis for triggering a first EN payment because benefits can go up and down for reasons that are neither coded in SSA's administrative data system nor related to earnings. Changes in unearned income from month to month would have the greatest confounding influence of this sort. This makes benefit level equally unsuited for calculating EN payment amounts. We need to focus instead on earnings.

In exploring possible payment triggers, we settled on a standard that requires a minimum increase in countable earnings since the month of ticket assignment. The same indicator—increase in countable earnings since the month of ticket assignment—would provide a good basis for computing monthly payment amounts. In particular, it moves in step with reductions in SSI benefits through earnings, ignores benefit changes caused by changes in unearned income, and can be measured from the SSR data system used to administer the SSI program. The last factor is essential if we want EN payments to vary by individual rather than stay constant as a percentage of average SSI benefits as in the current Ticket program (see next subsection).

<u>Should EN Payment Amounts Vary among Clients and/or Over Time?</u>

Reimbursing ENs the same amount for all SSI recipients who meet the initial payment threshold has many drawbacks. Many of these have been raised in the literature that examines payment rules fir the existing Ticket program. First and most fundamentally, a system paying a uniform amount to all providers in all months for each successful client would sometimes pay an EN more than SSA can recoup through benefit reductions.[36] In such an approach, clients with the smallest initial SSI benefits generate payments as large as those generated by high-benefit recipients and exceeding any possible SSI benefit savings that could be achieved. For example, an SSI recipient drawing just $20 per month in cash assistance can trigger a provider payment many times that size ($196 at present) by leaving benefits, clearly a losing proposition for SSA

[36] Rupp and Bell (2003(b)) make this point concerning existing Ticket rules, which pay ENs 40 percent of the average national SSI benefit for each client that earns his or her way off cash assistance. Those who began with benefits below 40 percent of the average benefit could not possibly generate savings equal to this expenditure even if able to completely eliminate cash assistance for a prolonged period.

financially. The same thing could happen using uniform payments for partial benefit recipients: both large and small countable earnings gains would generate the same fixed EN payment. It could also happen if payment amounts for a given recipient are made constant over time: months with smaller countable earnings gains compared to baseline would generate smaller reductions in SSI benefits yet require the same dollar payment to the provider.

A possible way to solve this problem is to make the fixed EN payment so small that anyone who meets the earnings gain requirement would return at least that much to SSA in benefit savings. But this would greatly diminish the new payment plan's ability to attract ENs to serve less work-ready clients.

Uniform payments to all ENs in all months would also increase the cost to SSA of "buying the base"—i.e., paying providers for recipients who would have increased their earnings anyway.[37] If instead EN payments key off the *size* of the earnings gains achieved by a given individual in a given month, the cost of "buying" the least financially successful members of the "base" would come down considerably. However, the SSA savings so generated would have to be compared to the added cost of making *larger* payments to ENs for clients whose earnings gains *exceed* what might be chosen as the common payment level such as a percentage of the national average benefit.

Finally, the partial benefit clients most likely to be served with fixed provider payments are those who ENs think can most easily reach the labor market benchmark required for payment. If Ticket provides a fixed amount of revenue regardless of the type of client involved, uniform payments encourage ENs to focus on the differential expenditures needed to get different types of recipients to the common earnings gain requirement. Since partial benefit recipients with more limited labor market prospects tend to be the most costly to serve, this would interfere with bringing Ticket services to the more disadvantaged portions of the SSI caseload. In addition, with payments fixed as long as the client meets the original payment threshold ENs will have no incentive to assist clients to an even higher level of earnings once the threshold is met (except of course clients thought capable of leaving SSI entirely and thus generating even larger payments under the outcomes-only or milestone-outcome systems.

Taken together, these considerations suggest that a far better EN payment system for partial benefit recipients would vary payments across individuals and over time to reflect the size of earnings gains achieved in a given month compared to earnings in the month of ticket assignment.

[37] The author is grateful to David Stapleton for making this point.

Appendix F

Relating Countable Earnings Gains to Different Gross Earnings Starting Points: Where Do We Find the Hardest-to-Serve in a Graph of Countable Earnings Gains?

This appendix explains the assertion in Section 4 of the text that the hardest-to-serve SSI recipients are likely to have the smallest countable earnings *gains* when different types of individuals are served by Ticket ENs. This assertion allows us to see the incentives to serve different types of recipients in the partial benefit reduction plan described there and depicted again here in Figure 1 from the text. To make this leap, something must be added to the diagram that links countable earnings gains on the horizontal axis to a measure of clients' limited potential for success in employment at the outset—the essence of the hard-to-serve notion. Once such a connection is established, we can relate the potential EN payment amounts plotted vertically in Figure 1 to the types of clients most likely to generate them. By this means, designers of a partial benefit reduction payment plan can seek to avoid paying ENs more when they serve better-off recipients rather than harder-to-employ individuals.[38]

Gross earnings at baseline provide the best proxy for potential future earnings gains, and give a direct measure of the need for labor market assistance at program entry. Presumably, SSI recipients who already earn more have the greatest potential to increase their earnings when assisted by an EN and have a less extreme need for employment assistance than those starting with lower gross earnings. But how do *changes* in countable earnings in Figure 1—and hence the size of EN payments—relate to different gross earnings starting points? Figure 2 provides a link between these two measures, based on a hypothetical increase in gross earnings. It shows how the gain in countable earnings caused by a $400 increase in gross earnings relates to a recipient's gross earnings starting point. In conjunction with Figure 1, this informs how EN payment size might vary with differences in clients' initial earnings and future earnings potential under different payment rules.

Gross earnings, measured along the horizontal axis of Figure 2, move upward toward the right-hand side of the graph. The countable earnings amounts that correspond to each level of gross earnings are measured on the vertical axis and reflect the solid sloping line connecting gross earnings with countable earnings. As can be seen, countable earnings stay at $0 for the first $85 in gross earnings[39] due to SSI's initial earnings set-aside of $85. Once gross earnings pass this threshold, however, countable earnings rise dollar for dollar until gross earnings reach the benefit exit point for a person with no unearned income, $1,189. Additional gross earnings beyond that point do not

[38] In effect, we seek to avoid a situation that many perceive as a major stumbling block of the current Ticket program: by paying ENs the same dollar amount for every exiter, it encourages ENs to accept tickets from those thought to be easy to remove from the rolls at the expense of the harder-to-employ.
[39] We assume here that the individual has no unearned income.

Figure 1: Example of EN Payments that Key off Increases in Countable Earnings

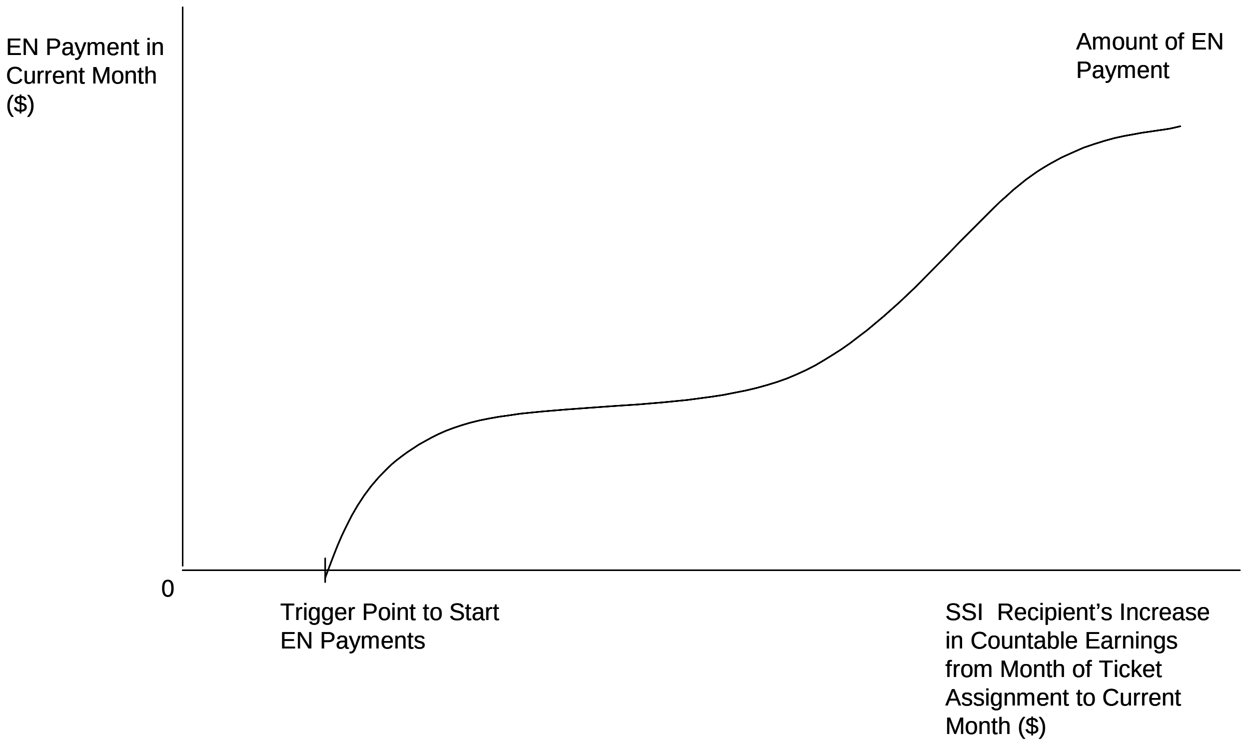
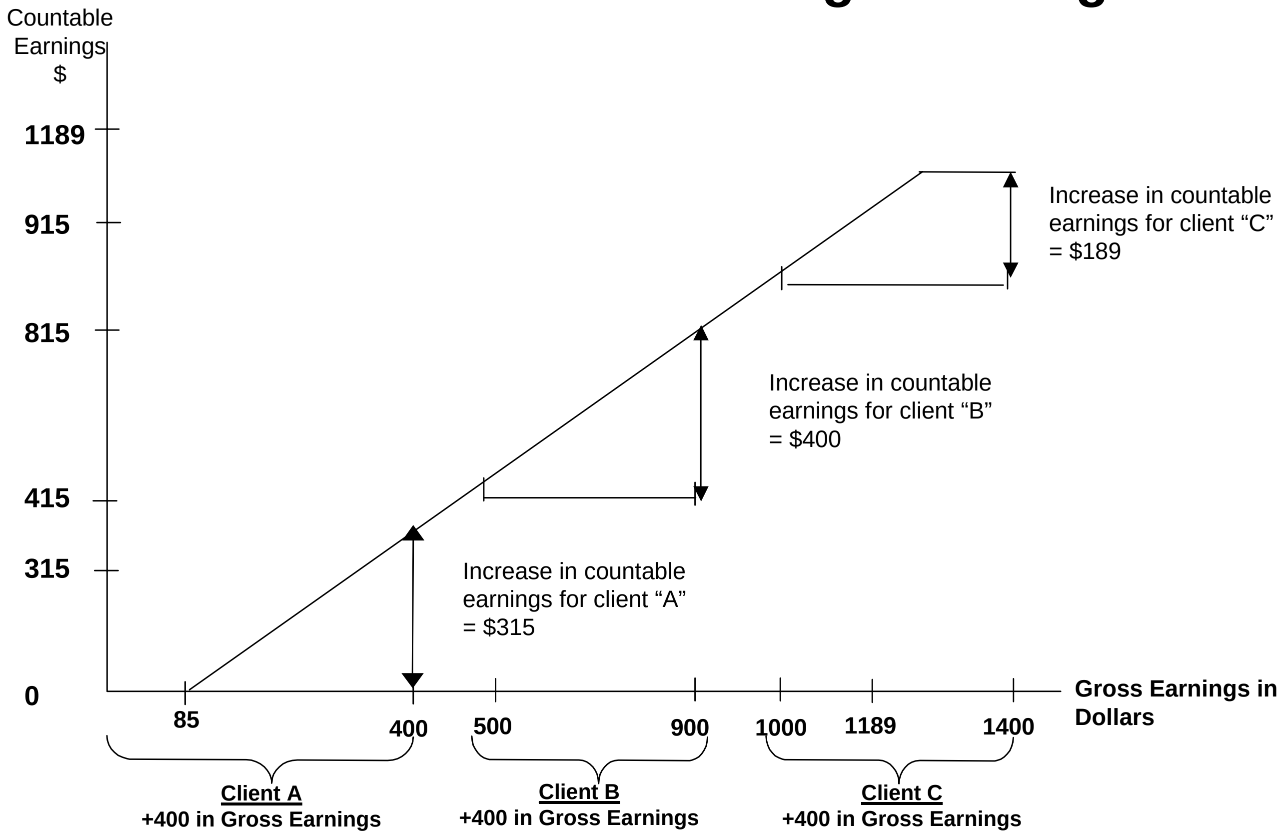


Figure 2: Increases in Countable Earnings for Different Gross Earnings Starting Points



affect the amount of earnings countable in computing SSI benefits, since benefits have reached $0.

The more complex part of Figure 2, the smaller labeled line segments below the sloping line, are needed to convert earnings levels into *changes* in earnings between the month of Ticket entry and the current month. We need to break the line down in segments to sort this out. Where gross earnings rise but countable earnings do not—the flat stretches of the line before reaching $85 in gross earnings and after passing $1,189 in gross earnings—there should be no EN payment, since SSA cannot realize any benefit savings in those cases. Everywhere else the size of the countable earnings change, and hence the level of payment to the EN, depends on both the gross earnings starting point and the gross earnings change.

The smaller line segments illustrate how the starting point affects the change in countable earnings, assuming a $400 increase in gross earnings for recipients starting at different levels of gross earnings. We impose the $400 span on the horizontal axis at various places and ask how much countable earnings rise in each instance. The answer depends on the level of gross earnings at which the ticket-holder began. Three different scenarios are considered: clients who start at $0 in gross earnings (client A), $500 in gross earnings (client B), and $1,000 in gross earnings (client C). The horizontal line segments below the continuous upward sloping line represent each of these hypothetical individuals and are labeled accordingly. (Note that the line segment for client A lies on the horizontal axis, reflecting its $0 countable earnings starting point, and is not separately visible.)

Client A illustrates how an increase of $400 in gross earnings can translate into a smaller increase in countable earnings. As gross earnings rise from $0 toward $400 the first $85 do not count in the SSI benefit computations; they are not considered countable earnings under SSI rules. As indicated by the height of the sloping line at the righthand endpoint of this segment, designated with a vertical double-headed arrow, countable earnings reach only $315 because of this set-aside. In contrast, client B gets the full effect of her or his $400 increase in gross income: a $400 increase in countable earnings. This occurs because the entire gross earnings increase falls in a range where there are no earnings set-asides for purposes of calculating SSI benefits. Client C, like client A, experiences a smaller increase in countable earnings than in gross earnings—this time because gross earnings pass the cut-off point for SSI benefits to cease well before the $400 increase is completed, at $1,189. None of the further increase in gross earnings along this segment "counts" for computation of SSI benefits, since benefits have ended (reached $0). Thus, for this particular $400 rise in gross earnings, the rise in countable income stops at $189, at which point a client who started with $1,000 in gross income hits $1,189 and SSI benefits cease.

Further illustrations could be done in Figure 2 showing how countable earnings change with gross earnings gains of other sizes and starting points. Generally speaking, clients who start at higher gross earnings levels (e.g., client C) experience smaller countable earnings gains for a gross earnings gain of $X, since that gain is enough to take them to the benefit exit point. Fortunately, we do not need to understand the highly varied relationship between the two earnings measures for these individuals because they go off benefits entirely. New partial benefit rules do not need to be applied to these cases, since existing $0 benefit rules govern EN payments for those leaving cash assistance. We shall need to ensure that their payment amounts—$196 in every case—mesh well with payments to recipients not reaching the exit point, but for now we can set these cases aside.

This leaves only the very left-hand portion of Figure 2 as a place where countable earnings increases vary for a given gross earnings increase. Recipients who begin with less than $85 in gross earnings will not see their countable earnings go up as fast as their gross earnings. The vast majority of these people will not be working at all and drawing full SSI benefits. Thus, they begin with no ($0) gross earnings. Countable earnings changes will be attenuated by $85 for these recipients because of this initial set-aside in calculating benefits. Anyone that starts between $0 and $85 will experience a somewhat smaller attenuation. Above that point, gross earnings gains translate dollar-for-dollar into countable earnings gains for almost all recipients who both begin and stay on SSI benefits.

A noteworthy feature of this translation is that it converts people with very different starting points into a common amount of countable earnings change. Cases in Figure 2 that show, say, a $300 increase in countable earnings can come from anywhere on the initial gross earnings spectrum. They will include recipients who began with no earnings and increased to $385, people who began at $888 and rose to $1,188, and everyone in between. Thus in terms of reimbursement, the illustrated payment system—as well as any other system using countable earnings as the basis for determining EN payments—creates somewhat smaller incentives to serve recipients that begin with the largest labor market challenges and very small or $0 earnings than it does for those with less severe workplace challenges and a modest amount of earned income.

One factor further differentiates recipients of partial benefits from one another: the *cost* to ENs of achieving an increase in countable earnings of any given size. Those with greater labor market difficulties and lower initial earnings presumably will be the more difficult to advance by $300 (or any other fixed amount). This means spending more on rehabilitation and employment services,[40] leaving ENs with a potentially strong incentive to favor less-disadvantaged ticket-holders for cost reasons. If providers are unwilling to exceed their usual spending levels to get the hardest-to-serve to move forward as far as or somewhat farther than other partial benefit recipients, those participants will be disproportionately concentrated at the low end of the gross and countable earnings gain scales.

[40] Higher service costs for the hard-to-employ are discussed in Wehman and Revell (2003).

Appendix G

Optimal Payment Structures for Achieving Different Combinations of Partial Benefit Reduction Program Goals

Section 4 of the text identifies the four primary goals associated with creating a partial benefit reduction payment plan for ENs:

1. Avoiding incentives that tempt ENs to stop assisting recipients short of reaching their full employment potential;

2. Never making EN payments that exceed the associated benefit savings to SSA;

3. Giving ENs as much incentive to serve the hardest-to-employ recipients as possible; and

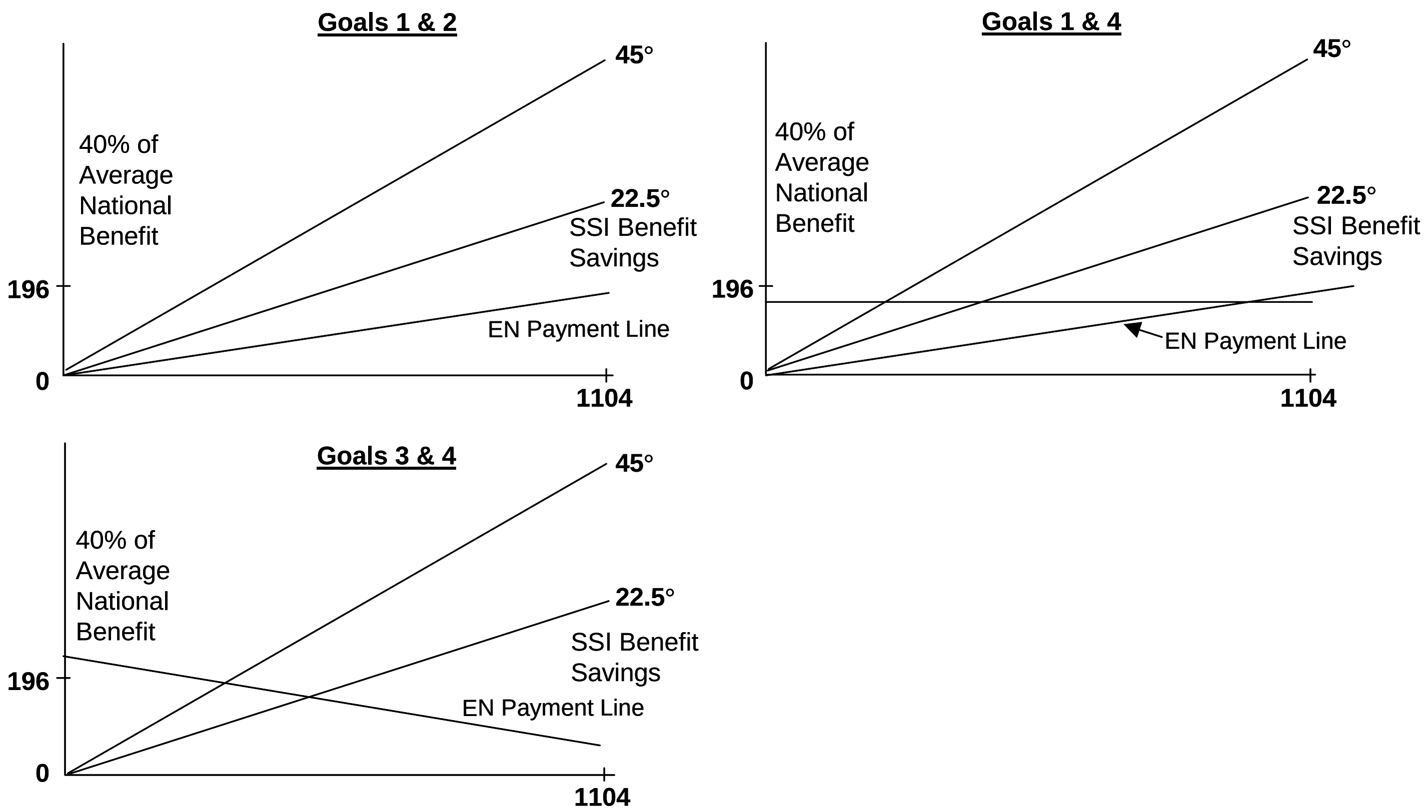
4. Getting more providers to serve as ENs and to accept tickets.

As noted in the text, conflicts exist between these goals. Balancing them will require a hybrid provider payment plan combining aspects of several different plans, each ideal for pursuing one or more—but not all—of these objectives. To arrive at this hybrid design we must first determine the best payment structure to support each combination of goals that *do not* have conflicting design implications. Figure 3 does this, combining three different versions of Figure 1 from the text—three different ways of converting countable earnings gains into EN payments—on a single page. We consider each of these designs in turn.

The first two goals—avoiding incentives to halt services and keeping all payments below the associated benefit savings—can be pursued simultaneously as long as goals 3 and 4—maximizing incentives to serve the hardest-to-employ and increasing the number of ENs—are ignored. A payment design that does this appears in the upper left-hand corner of Figure 3. In this set-up all payments fall below the SSA savings they accompany. Savings on SSI benefits are represented in the picture by the lower of the two straight slanted lines, derived by reference to the higher line of the two.[41] The EN payment, shown on the lowest sloping line, never exceeds the benefit savings shown at the same point on the horizontal axis (i.e., the same countable earnings gain).

[41] The higher line has a height equal to the countable earnings increase shown on the horizontal axis—i.e., it angles up at 45 degrees. From this, the lower line is set as half that height, representing the savings to SSA produced by the countable earnings gains on the horizontal axis. (SSI benefits fall by $1 for every $2 increase in countable earnings.)

Figure 3: EN Payment Lines that Meet Non-Conflicting Goals



Moreover, along its full length, the EN payment line rises at successively higher countable earnings gains. Because it rises steadily, there is no incentive for ENs to halt services at any point just to avoid a decline in reimbursement. In addition, the maximum possible earnings gain prior to leaving benefits, $1,188, produces a payment below what an EN receives when a recipient leaves SSI cash benefits entirely. The latter equals 40 percent of the average national SSI benefit in the previous year and is shown in the diagram on the vertical axis as $196.[42] A value higher than the largest possible partial benefit payment assures that ENs will want to help clients reach this final program objective.

A second pairing of compatible goals appears in Figure 3's upper right-hand corner. Here, all ENs are rewarded more generously than before at all levels of benefit reduction to achieve goal 4—maximizing provider participation in the partial benefit reduction payment plan. We can raise payments to this level because goal 2 concerning net effects on SSA's budget (benefit savings minus EN payments) has been dropped; indeed EN payments exceed SSA's benefit saving at every point. However, this design still meets goal 1—avoiding incentives to stop services prematurely—by moving payments steadily upward as countable earnings increases get larger. This is true up to the point where benefits reach $0 and current provider reimbursement terms take over at $196 per month. This payment level is well above $196 for much of the right-hand end of the EN partial benefit payment line, leaving providers with no incentive to move clients in that range completely off benefits—indeed, with a financial incentive to *not* do so.

Only one other combination of goals can be pursued without internal conflict, goals 3 and 4—incentives to serve the hardest-to-employ and expansion of the number of ENs accepting tickets from partial benefit recipients. As in the previous case, payments are set at a generous level in this instance to expand provider interest. They are depicted in the lower left-hand corner of Figure 3. In this graph, the EN payment line starts high and slopes *downward* as larger and larger earnings gains are achieved. While encouraging more providers to open their doors to the hardest-to-serve (who, as argued in Appendix F, will be relatively more numerous in the low earnings gain range) it creates strong perverse incentives for providers to try to keep earnings gains as small as possible for every client (once the $50 minimum gain is achieved to allow any payments at all) to maximize their revenues. Net fiscal effects on SSA are again ignored, and in the left-hand portion of this diagram EN payments exceed SSI benefit savings.

[42] The jump to the EN payment amount for those who leave SSI cash assistance can occur at any point along the (partial benefit recipient) EN payment line depicted in the graph, depending on the recipient's countable earnings at baseline. Those with higher initial earnings will leave benefits after relatively small earnings gains and so will jump to the full exit payment level near the left end of the partial benefit payment line. Those with lower initial earnings will need comparatively large earnings gains to leave benefits; they will make the jump toward the right end of the payment line.

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