

As a result of this option, federal disability expenditures would be cut without causing significant hardships for disabled persons, since disability pay would still provide adequate benefits compared with previous incomes. Proponents suggest that high-income workers receiving FECA benefits would also be motivated to return to work more quickly than under current provisions since disability income would no longer exceed pre-injury after-tax income and thus be preferred to earned income. Finally, by defining the same limit on total family benefits as individual benefits, more disabled persons would be treated in a similar fashion. It has also been suggested, however, that the proposed reduction in benefits would result in harsh treatment for some severely disabled workers, in order to promote work incentives among temporarily disabled persons.

Extending Limitations on Combined Federal Disability Benefits

This option would extend the megacap--a ceiling on total benefits established by the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35)--to the veterans' compensation program. To be consistent with the current megacap, combined benefits could be limited to 80 percent of average current (predisability) earnings, which usually reflect highest earnings before disability.

In 1983, the proposal would affect about 3,000 veterans first eligible for SSDI benefits and save about \$6 million in that year. Savings would amount to \$200 million through 1987. Average benefit reductions per recipient would be about 20 percent of the combined payments based on initial awards.

Extending the megacap to recipients of veterans' compensation would bring about uniform treatment of federal disability beneficiaries. Moreover, proponents suggest that for veterans eligible for both SSDI and the veterans' benefit, the veterans' compensation payment was by itself designed to be adequate compensation, so that the combined SSDI and veterans' compensation benefit is more than adequate by all program standards. Opponents argue that veterans who enlisted or were drafted into the military directly from school often have no predisability earnings record other than their military pay, so that the workers' compensation offset might not be as appropriate for them as it would be for civilian workers.

Additionally, the 1981 megacap could be extended to cover current beneficiaries and therefore bring about uniform treatment of current and future beneficiaries, as well as much larger budgetary savings. Although the megacap establishes what may be considered an adequate benefit level, some would oppose reducing benefits to current recipients regardless of their receiving duplicative payments.

Taxing a Portion of Disability Benefits

Federal and state disability benefits are usually not subject to taxation. Social Security benefits, workers' compensation, veteran's benefits, and means-tested program benefits are not taxed at all. A totally and permanently disabled recipient of a disability annuity may, however, be taxed on the disability retirement pay beyond an exclusion amount,⁷ although this amount is large enough that it prevents most disability benefits from being taxed. Taxing benefits from some programs, but not others, means that some persons who are identically impaired may be treated differently.

One way to reduce work disincentives resulting from tax-free benefits would be to tax a portion, such as half, of disability benefits, but exclude all means-tested payments. Taxing all of disability income would equate cash benefits to earnings. By including only 50 percent of disability cash assistance in taxable income, recognition is made of the difference between the two types of incomes, in part because disability benefits are generally far lower than previous earnings, and in part because some beneficiaries have already contributed a small portion of their previous after-tax earnings to pay for disability benefits.

Beneficiaries with incomes other than their disability benefits would probably pay increased taxes under this proposal, whereas those whose benefits represent their only source of income would probably not. If one-half of SSDI and workers' compensation

7. If the taxpayer's adjusted gross income, before the exclusion, exceeds \$15,000, the excess reduces the exclusion amount dollar-for-dollar. Only a portion of military disability benefits--the part that exceeds the amount determined by the disability rating times base pay--is subject to federal income taxes.

benefits were taxed in this manner, less than 10 percent of disabled beneficiaries would probably have to pay taxes due solely to the new requirement, although most new taxpayers would have taxable incomes of \$10,000 or less; the average increase in taxes per family paying 1983 taxes would be about \$240. If all nonwelfare disability benefits were taxed in this manner, tax revenues would increase by \$1.8 billion in 1983 and \$14 billion in 1983-1987.

The goal of taxing disability benefits rather than reducing benefits across-the-board is to target high benefits on those most in need. Moreover, the general tax-free status of disability benefits promotes work disincentives by increasing the value of benefits. High cumulative benefits that are tax-free may exceed after-tax earned income, so that disabled persons who are able to work are discouraged from doing so. On the other hand, some persons might be induced to sacrifice other family income, such as earnings of other family members, if benefits were taxed.

Opponents argue that most programs already take the tax-free status into account when benefit levels are determined. But this does not hold for combined benefits from nonintegrated programs, such as SSDI combined with veterans' compensation. Others suggest that instead of this option, only benefits beyond an exclusion amount--similar to the current requirement for public and private disability annuities--should be subject to the tax. In this manner, benefits for about three-fourths of beneficiaries--those with taxable incomes below \$15,000--would not be taxed.

OTHER OPTIONS

To improve the adequacy or efficiency of benefits to disabled persons and improve the chances for recovery among many disabled workers, three additional options are considered:

- o Raising the SSI guarantee level;
- o Imposing stricter definitions of total disability in federal programs; and
- o Improving and expanding vocational rehabilitation services.

Although these options can be considered apart from those reviewed earlier in this chapter, they may be looked upon as ways of improving or augmenting options discussed earlier. For example, SSI payment levels could be raised at the same time veterans' pensions and SSI were consolidated.

Raising SSI Benefits

SSI payment levels for individuals could be raised to 80 percent of the national poverty level, thereby improving the adequacy of benefits for most SSI recipients. After June 1982, the federal payment level for individuals living independently with no countable income is 73 percent of the poverty level, but 82 percent for couples. Those who also receive Social Security benefits and food stamps can have incomes equal to about 87 percent (100 percent for couples) of poverty thresholds. Total income for most recipients, however, remains low relative to poverty thresholds for a number of reasons: less than 4 percent of federal SSI recipients have earned income; about 40 percent do not receive other unearned income; and less than half get state supplementation.

If the federal SSI guarantee for individuals was raised to 80 percent of poverty levels in 1983, maximum benefits for individuals, particularly those living in states that do not provide supplements, would increase about \$28 per month, costing the federal government about \$1.3 billion in that year.

Along with providing higher benefits to those most in need, this option would make benefits to single persons comparable to those of couples. Some would oppose this option because of its costs or because couples' benefits would not rise relative to current levels or the poverty threshold.

Alternatively, SSI benefit levels for both individuals and couples could be raised to the poverty levels, costing considerably more in 1983 outlays.⁸ Besides raising the standard of

8. The costs would be high--about \$4 billion in 1982 dollars--since about 25 percent of those not currently receiving SSI, but with countable income below poverty levels, would probably begin to participate in the program. Additional costs to the Medicaid program from increased eligibility would be roughly offset by reductions in costs of food stamps to SSI
(continued)

living for poor disabled persons, this option would also provide benefits closer to veterans' pensions or average SSDI benefits. It would also provide some fiscal relief to states. The main drawbacks of the proposal are its high costs and the possibility that higher benefit levels might reduce some disabled persons' incentives to work.

Imposing Stricter Definitions of Disability

Another general option for changing federal disability programs is to impose stricter requirements for disability determinations. In programs that currently have occupational definitions of total disability--requiring only that the disabled person be unable to do the same type of work as before disability, a new definition patterned after the SSDI definition could be used. This would make eligibility for nonwork-related disability benefits more uniform and cause similar treatment for similarly disabled persons. It would, in addition, target benefits on the most disabled.

Programs that would be affected by a stricter definition of disability would include veterans' compensation (for total disability) and the civil service, military, and railroad disability retirement programs. In 1983, the new standards for disability determinations would be applied to more than 30,000 disability applicants.

Those opposed to stricter definitions argue that the current requirements are already strict enough, since most applicants are required to be totally disabled for useful and efficient work. Moreover, they suggest that the SSDI definition would be met by all but a few persons for whom work at any job in the national

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8. (continued)
recipients. Because 25 states and the District of Columbia provide optional supplementation to federal SSI payments, raising the federal guarantee would result in fiscal relief to states currently paying above the federal level (California, Connecticut, and Massachusetts, for example), as well as to states paying below that level, unless legislation was enacted to require total payments to rise in a passthrough fashion. Federal SSI payment costs from raising the guarantee to poverty levels were estimated by Michael Staren of the Social Security Administration.

economy would cause extreme hardships. Others suggest that less strict definitions be used in all programs, but that benefits be awarded for only a temporary period--for example, three years for total disabilities.

Alternatively, definitions of disability in the SSDI or SSI program could be made stricter still--options proposed by the Administration in its May 1981 budget initiatives and its 1983 budget.⁹ Stricter definitions would require more severe or lengthy disability prognoses than under current provisions. For example, less consideration, if any, could be given to vocational factors than under current provisions. The rationale for such proposals is that they would limit benefits to the most severely disabled--those permanently disabled due to medically determined problems. At the same time, proponents allege that the stricter definitions would simplify administrative determinations of disability and make these procedures more uniform.

Opponents of stricter disability definitions in SSDI and SSI believe that it is impossible to determine with accuracy whether or not a person can work on the basis of medical characteristics alone. Also, such proposals would disproportionately affect elderly persons who have total, work-limiting disabilities.

Improving and Retargeting Vocational Rehabilitation

Improving vocational rehabilitation programs is an alternative method for helping to overcome existing problems within the disability system--that is, increasing expenditures and work disincentives. Rehabilitation programs operate on the premise that money is invested now for expected returns later; hence, the more successful these programs, the greater the returns--reduced disability expenditures and more productive, though disabled, workers.

The cost of implementing specific rehabilitation services, however, has a major impact on policy decisions. In past years, the costs per recipient served have increased in proportion to the number and type of services offered. For example, it costs more

9. See an analysis of these and other Administration proposals in David Koitz, Social Security: Disability Budget and Financing Proposals, Congressional Research Service, IB81110 (September 1981).

to educate or retrain persons than to provide only assistance in the use of prosthetic devices. Many disabled workers who receive rehabilitation services are given only medical services and are not retrained to obtain new jobs that would accommodate their handicaps.¹⁰ Also, more education and retraining of severely disabled beneficiaries may prepare some for jobs that are not readily available except in sheltered workshops, and hence make their gainful employment less likely.¹¹

Expanding and improving job placement services could cause reductions in both federal and state costs. Moreover, a greater emphasis on early job placement could result in renewed work effort.

While expanding job placement activities in state or private rehabilitation programs might discover more jobs for disabled persons, better targeting of vocational services might also be required in order to develop more savings from the program. The objective of targeting rehabilitation services on certain disabled persons is to provide the most cost-effective operation of the programs. Benefits to disabled persons and to society in terms of added productivity and increased earnings and tax revenues could be generated by selecting those most likely to recover and profit from rehabilitation services and intensifying efforts in their direction. Assuming this could be done, two alternative target groups for expanded vocational rehabilitation would be: older, experienced workers and partially disabled persons.

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10. Rehabilitation Services Administration, "Characteristics of Persons Rehabilitated in Fiscal Year 1979, State-Federal Program of Vocational Rehabilitation," unpublished paper, 1980. In 1979, about 65 percent of an active caseload of only 445,000 persons were rehabilitated; about 14 percent of these rehabilitated cases were rehabilitated as homemakers.
 11. For more discussion, see Sar A. Levitan and Robert Taggart, Jobs for the Disabled (Johns Hopkins University Press, 1977), pp. 64-68; and Aaron Krute and Ralph Treitel, "Reintegration of the Severely Disabled into the Work Force: The United States Experience," Social Security Disability Issues in Policy Research (Geneva: International Social Security Association, 1981), p. 121.

Older, Experienced Workers. Vocational rehabilitation services to older workers could encourage them to remain in the work force. Proponents suggest that such services would especially be needed in future years, particularly if the normal retirement age was raised to age 68. Promoting the retraining of older persons--for example, those between ages 50 and 55--could extend their working careers by 10 or 15 years. Moreover, older disabled workers often already have skills or work attitudes that enable them to work at other jobs after retraining. Opponents argue that the probability of returning to the disability rolls is greater for older workers and that it is often difficult to find jobs for older workers in tight labor markets; therefore, for them the costs of rehabilitation might outweigh the savings.

Partially Disabled Persons. Expanded services could be targeted toward a higher portion of partially or occupationally disabled persons. By doing so, those with gradually worsening impairments could be retrained much earlier for new occupations that would allow them to work while impaired. Often partially disabled persons are unable to return to former jobs or to find more suitable jobs quickly.

Proponents suggest that the degree to which partially disabled persons are being rehabilitated today could be expanded so that most partially disabled persons could become self-supporting. Since partially disabled persons--for example, those who have suffered work-limiting back injuries--maintain a large amount of functional capability, such persons are likely to return to work if they are given limited medical and vocational services. Those opposed to expanding services for partially disabled persons suggest that it would diminish rehabilitation services for the totally disabled--those most in need of assistance--while many partially disabled persons can return to work without rehabilitation services, although the process may be slow.

APPENDIX A. BRIEF DESCRIPTIONS OF BASIC PROVISIONS OF MAJOR
FEDERAL DISABILITY PROGRAMS

APPENDIX A. BASIC PROVISIONS OF MAJOR FEDERAL DISABILITY PROGRAMS

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Social Security Disability Insurance (SSDI)			
<p><u>Eligibility:</u> Must be fully insured under Social Security and must have 20 quarters of coverage during the 40 quarters before disability if age 31 or older. Fewer (but at least six) quarters of coverage are required of younger workers. A waiting period of 5 months is required.</p>	<p><u>Benefit:</u> Average Indexed Monthly Earnings (AIME) are computed over years after 1950 or age 21, if later, and before the disability, less allowable (a maximum of 5) years of lowest earnings. The Primary Insurance Amount (PIA or worker benefit) in 1981 set at 90% of first \$211 of AIME + 32% of next \$1,063 of AIME + 15% of rest of AIME.</p>	<p><u>Average Worker Benefits:</u> In September 1981, the average worker benefit was \$414 per month.</p> <p><u>Average Family Benefit:</u> An estimated \$802 per month at the end of 1981 for a disabled worker with spouse under age 65 and one or more children.</p> <p><u>Cost-of-Living Adjustments:</u> Once a year, based on Consumer Price Index (CPI) change for first quarter over first quarter of previous year (provided the change is greater than 3%).</p>	<p>Combined benefits from SSDI and certain other disability programs are reduced if they exceed 80% of average current earnings, unless the other program reduces benefits for receipt of SSDI. Combined benefits cannot be reduced below the amount of the total SSDI benefit, however. Means-tested benefits, veterans' benefits, government pensions based on Social Security covered employment, and disability benefits received under a private plan are excluded from this offset provision.</p>
<p><u>Definition:</u> Inability to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment expected to result in death or last for a continuous period of not less than 12 months.</p>	<p><u>Family Benefit:</u> Additional 50% of PIA for each qualifying dependent with total benefit for worker and family limited by smaller of 150% of PIA and 85% of AIME. The benefit cannot be less than 100% of the PIA described above, however.</p>		

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Veterans' Disability Compensation			
<p><u>Eligibility:</u> Honorably discharged from service and having an impairment incurred in or aggravated in the line of duty.</p>	<p><u>Benefit:</u> Payments are rated by the severity of disability and, in October 1981, range from \$58 per month for 10% disability to \$1,130 per month for total disability. Additional benefits for multiple injuries or special needs can bring benefits up to \$3,223 per month.</p>	<p><u>Average Benefit:</u> In fiscal year 1981, average benefit to veteran was \$254 per month; average benefit to survivors was \$359 per month.</p>	<p>Military disability retirement benefits cannot be received concurrently.</p>
<p><u>Definition:</u> A service-connected impairment causing a partial or total (100%) disability rating. The rating represents the average loss in earnings capacity.</p>	<p><u>Family Benefits:</u> Pre-set amounts added to veterans benefit, provided veteran has a disability rating of at least 30%. A total disability payment, for example, would include \$116 per month for wife and dependent child in October 1981.</p>	<p><u>Cost-of-Living Adjustments:</u> Annual adjustment is set by legislation.</p>	
<p><u>Termination:</u> A review of cases with 10% or less disability rating can result in terminations after medical recovery.</p>			

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Civil Service Disability Retirement (CS)			
<p><u>Eligibility:</u> Must have completed 5 years of service and become disabled while employed. Eligible persons include civilian officers or employees under the executive, legislative, or judicial branches of federal government, the District of Columbia, and Gallaudet College, except for certain employees excluded by law such as the President, federal judges, and certain temporary employees.</p>	<p><u>Benefit:</u> Set at larger of: minimum guarantee of lesser of</p>	<p><u>Average Benefit:</u> \$753 per month in fiscal year 1981.</p>	<p>Cannot concurrently receive federal Workers' Compensation benefits for the same disability.</p>
<p><u>Definition:</u> Totally disabled for useful or efficient service in current position or any other vacant position of the same grade level in the same agency in the same competitive area.</p>	<p>(1) 40% of average of highest 3 consecutive years of salary (high-3) or (2) high-3 times 1-1/2% for each of 5 years of service + 1-3/4% for each of next 5 years of service + 2% for each year thereafter projected to age 60; <u>and</u> regular annuity based on (2) for actual number of years in service.</p>	<p><u>Cost-of-Living Adjustments:</u> Once a year based on the CPI change for December to December.</p>	
<p><u>Termination:</u> Medical recovery, restoration of earnings for two consecutive years.</p>	<p>Benefit is subject to a maximum of 80% of the high-3 salary.</p>		

 (continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
<p>Military Disability Retirement</p>			
<p><u>Eligibility:</u> Must be a member of the Armed Services on active duty and have (1) 8 years of service; (2) a disability resulting from active duty; or (3) a disability that occurred in line of duty during a time of war or national emergency.</p>	<p><u>Benefit:</u> Set at larger of (1) Percentage disability rating times base pay or (2) 2.5% times the number of years of service times base pay.</p>	<p><u>Average Benefit:</u> \$745 per month in fiscal year 1981.</p> <p><u>Cost-of-Living Adjustments:</u> Once a year based on the CPI change for December to December.</p>	<p>Military disability cannot be received concurrently with civil service disability benefits unless the disability is a result of war activities.</p>
<p><u>Definition:</u> Disability rating of 30% or more. Must be permanently disabled for lifetime benefits. Temporary disability status may be awarded on an 18-month basis for up to 5 years, when a final determination is made.</p>	<p>The benefit is subject to a maximum of 75% of base pay, and, for temporary retirement, a minimum of 50% of base pay.</p>		
<p><u>Termination:</u> Recovery from temporary disability.</p>	<p>Base pay is basic pay in the last grade or the average of the highest 3 years of basic pay if service began after September 8, 1980.</p>		

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Black Lung Benefits			
<p><u>Eligibility:</u> Must have worked in the nation's coal mines.</p>	<p><u>Benefit:</u> 37.5% of federal salary at GS-2 grade level, step 1.</p>	<p><u>Basic Benefit:</u> In October 1981, \$293.20 per month for a primary beneficiary.</p>	<p>Black lung benefits are reduced for receipt of workers' compensation payments or state disability benefits for black lung disease.</p>
<p><u>Definition:</u> Totally disabled by black lung disease due to employment in underground or surface mines and unable to work as a miner or in similar capacity.</p>	<p><u>Family Benefits:</u> Increased by 50% for one dependent, 75% for two dependents, and 100% for three or more dependents.</p>	<p><u>Cost-of-Living Adjustments:</u> Benefits are increased when federal pay increases.</p>	
<p><u>Termination:</u> Return to work as a miner or in same capacity as before disability.</p>	<p>As under the Social Security retirement test, benefits are reduced by 50% of earned income in excess of about \$370 per month for persons under age 65.</p>		

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Federal Employees Compensation Act (FECA) Benefits			
<p><u>Eligibility:</u> Federal employees disabled from work-related causes (or their survivors). A 3-day waiting period is required for periodic cash benefits, unless the disability lasts more than 14 days beyond a 45-day continuation-of-regular-pay period.</p>	<p><u>Benefit:</u> For total disability, set at 2/3 of regular pay; 75% of regular pay when there are dependents. Payments are subject to a minimum of 75% of grade GS-2 pay (unless total wages are less) and a maximum of 75% of highest grade GS-15 pay. For partial disability, compensation is based on loss of wage-earning capacity.</p>	<p><u>Average Benefit:</u> \$923 per month in fiscal year 1980.</p> <p><u>Cost-of-Living Adjustments:</u> Once a year based on the CPI change for December to December.</p>	<p>Cannot receive civil service disability or veterans' compensation payments concurrently for the same disability.</p>
<p><u>Definition:</u> Total or partial disability for gainful employment.</p>			
<p><u>Termination:</u> Recovery or return to work at full earning capacity.</p>			
	<p><u>Schedule Payment:</u> Payment equals cash benefit for a number of weeks based on loss of body member(s).</p>		

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Railroad Disability Retirement Benefits			
<u>Eligibility:</u> Disabled after 10 or more years of railroad service.	<u>Benefit:</u> Set at the sum of 4 components:	<u>Average Benefit:</u> \$476 monthly in August 1980.	Tier I benefits are reduced for receipt of Social Security benefits based on nonrailroad employment. Tier II benefits are reduced for receipt of other railroad annuity or pension benefits.
<u>Definition:</u> Permanent and total disability condition that prevents regular employment of any kind. Workers age 60 and over or workers with 20 years of service and recent connection with the railroad industry, must be unable to perform their regular railroad jobs. Disability is defined as a condition expected to last at least a year.	(1) Tier I is roughly equivalent to the SSDI benefit over railroad and other Social Security covered employment.	<u>Cost-of-Living Adjustments:</u> Once a year adjustment to the first component of benefit, based on the CPI change (first quarter over first quarter). Tier II benefit increase is 32.5% of the corresponding CPI change.	
<u>Termination:</u> Recovery or return to work.	(2) Tier II Railroad Retirement pension is based on railroad service and is approximately 0.7% of average of 60 months of highest earnings multiplied by the number of years of service.		
	(3) Additional "windfall benefits" and (4) supplemental annuities are paid to persons meeting special service criteria.		

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Supplementary Security Income (SSI) for Disability			
<p><u>Eligibility:</u> Under age 65 and having income and resources that are less than prescribed amounts.</p>	<p><u>Federal SSI Benefit:</u> Set at the basic benefit minus all countable income.</p>	<p><u>Basic Benefit:</u> In July 1981, single guarantee was \$264.70 per month; couple guarantee was \$397 per month. A maximum monthly payment of \$25 is paid to institutionalized persons who receive more than 50% of the cost of their care from the Medicaid program.</p>	<p>All other benefits are offset except state or local assistance based on need.</p>
<p><u>Definition:</u> Determined as blind or unable to engage in substantial gainful activity due to a medically determined impairment expected to result in death or last for at least 12 months.</p>	<p>Living in another's household reduces the regular guarantee by one-third.</p>	<p><u>Cost-of-Living Adjustments:</u> Basic payment is raised once a year based on the CPI change (first quarter over first quarter).</p>	
<p><u>Termination:</u> Recovery or receipt of other income in excess of prescribed amounts. (For the next 3 years, some SSI recipients, as part of a demonstration project, may continue to receive special cash benefits while earning more than prescribed amounts.)</p>	<p>Benefit levels for children and for adults living with ineligible spouses are based on special "deeming" of household income.</p>		
	<p><u>Exclusions:</u> Excluded from countable income are impairment related work expenses, earned income or unearned income of \$20 per month, and \$65 per month of earned income plus 1/2 of remaining earned income.</p>		

(continued)

APPENDIX A. (Continued)

Eligibility/Termination Criteria	Benefit Formula	Benefit Levels	Coordination with Other Disability Programs
Veterans' Non-Service-Connected Pensions			
<p><u>Eligibility:</u> Veterans with 90 days or more wartime service or wartime veterans age 65 or older--with income and net worth below a qualifying level. Veterans must be discharged under honorable conditions.</p>	<p><u>Benefit:</u> Preset basic benefit amounts are reduced dollar-for-dollar in relation to other countable income.</p>	<p><u>Basic Benefit:</u> In July 1981, guarantee of about \$4,960 per year for singles or, if married with dependents, \$6,499 plus \$840 for each additional dependent in excess of one.</p>	<p>Reductions in benefits received from other programs except when the other program reduces benefits for receipt of a veterans' pension (SSI, for example).</p>
<p><u>Definition:</u> Needy veterans under age 65 must be permanently and totally disabled or permanently disabled so that an average person would be unable to follow a substantially gainful occupation.</p>	<p><u>Exclusions:</u> Excluded from countable income are certain resources which are for medical or educational expenses. A dependent child's income below that requiring an income tax return is also excluded.</p>	<p><u>Cost-of-Living Adjustments:</u> Basic benefit is raised once a year based on the CPI change for first quarter over first quarter of previous calendar year.</p>	
<p><u>Termination:</u> Annual qualification for benefits is required.</p>			

APPENDIX B. PRIVATE DISABILITY PROGRAMS

There are three principal types of private disability programs: pensions with an option to retire on disability; employer- or association-sponsored disability insurance; and individually-purchased disability insurance. Private pensions operate in much the same way as Social Security--eligibility for disability compensation or benefits requires a certain number of years of employment and participation in the program; benefits are usually accumulated account values or accrued benefits, or may be deferred until normal retirement.¹ Employer-sponsored disability insurance is usually provided to all employees, but benefits are based on longevity and salary level. Individuals often purchase their own disability insurance from private insurance companies; benefits are determined at the time of insurance purchase, but often are limited to a fraction of current earnings.

Disability coverage in the private sector has grown rapidly since the mid-1960s. Since about 1910, many large companies, unions, and associations have provided life insurance, accidental death and dismemberment insurance, and other employee disability benefits through private insurance carriers. This coverage has been supplemented in recent years by an increase in the number of private pension plans offering disability retirement options. Today, almost all corporate pension plans include provisions for disability retirement with age and length of service as the primary eligibility criteria; most of these plans pay benefits at the fully-accrued pension benefit level.² Private long-term

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1. Health Insurance Association of America, Compensation Systems, p. 30.
 2. William J. Mischo, Sook-Kuen Chang, and Eugene P. Kaston, Corporate Pension Plan Study: A Guide to the 1980's (Bankers Trust Company, 1981). According to a survey by the Bureau of the Census, about 60 percent of the 60 million full-time wage and salary workers in private industry had pension coverage in May 1979 and about 30 million of these workers met the formal participation requirements; approximately two-thirds of these persons also have long-term disability coverage under the private plans. See U.S. Depart-

disability insurance began about 1965 when annual expenditures were about \$7 million; current expenditures are estimated at \$600 million.³

Continuing issues concerning private disability programs are the amount of overlap or interaction with public programs, the resulting adequacy of benefits to low-income workers, and cost-of-living adjustments. Private pensions are often designed as supplementary benefits, since all workers are assumed to be eligible for Social Security. Private pension plans that relate their benefit formulas to Social Security benefits are called "integrated" private pensions. About 60 percent of 400,000 active private pensions are estimated to be integrated.⁴ Integrated private pension plans must conform to Internal Revenue Service (IRS) guidelines, which are intended to prevent discrimination in favor of high-salaried employees, stockholders, or corporate officers. Since Social Security benefits are weighted to provide higher wage-replacement rates to lower-income workers, IRS guidelines allow integrated plans to tilt their benefit formulas in favor of higher income workers--up to a maximum level.

Pensions have increased generally since 1975 and are replacing higher levels of previous wages for low-income workers. In the Bankers Trust Company studies, for example, between 1975 and 1980, replacement rates from combined SSDI and corporate pension benefits increased from 68 and 57 percent to 85 and 73 percent for employees earning \$9,000 and \$15,000, respectively, in their last year of work.⁵ Current trends toward more noncontributory pension plans and disability compensation based on final pay should also benefit lower-income workers.

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2. (continued)
ment of Labor, Patterns of Worker Coverage by Private Pension Plans (1980).
 3. Jonathan Sunshine, Disability, Working paper for the President's Commission on Pension Policy (August 1980), Table 1.
 4. Ray Schmitt, "Integrated Pension Plans: An Analysis of Earnings Replacement," Social Security and Pensions: Programs of Equity and Security, Special Study of the Joint Economic Committee, U.S. Congress (December 1980).
 5. Mischo and others, Corporate Pension Plan Study, p. 7.