

## ***Deeming Rules and the Increase in the Number of Children With Disabilities Receiving SSI: Evaluating the Effects of a Regulatory Change\****

*by Greg P. Hannsgen and Steven H. Sandell*

This article examines a source of the growth in the SSI children's program: a relatively minor and little-noticed change in the financial eligibility rules. The way parental earnings were counted as income, or "deemed" to children (to use SSA language) was changed. The new, more generous financial eligibility rules added a small but significant number of recipients to the rolls after 1992 and also increased the benefit amounts for many of those already receiving SSI. Using SSA administrative data and a simulation technique, this article estimates how much the deeming policy change contributed to the expansion of the rolls and the cost of the program. We estimate that program costs of the deeming rule change were approximately \$63 million annually in 1993 dollars. The change led to a 2-percent increase in the number of children on the rolls.

\*The authors are, respectively, from the University of Notre Dame, and with the Office of Research and Statistics, Social Security Administration.

*Acknowledgments:* We would like to thank Charles Scott and Clark Picket for providing estimates from administrative records and for helpful discussion. Arthur Kahn, Morris Kleiner, Sanders Korenman, Howard Oberheu, Kalman Rupp, Karen Sherif, and Peter Wheeler provided helpful comments on earlier drafts. This article solely reflects the opinions and interpretations of the authors, and does not necessarily represent the official positions of the University of Notre Dame or the Social Security Administration.

## ***Background***

The number of children with disabilities on the Supplemental Security Income (SSI) rolls, the federally administered need-based cash assistance program for the aged, blind, and disabled, has recently surged. Social Security Administration (SSA) data show that the number of children under age 18 on SSI grew from 296,298 recipients in 1989 to 770,501 in 1993. Meanwhile, the costs associated with children on the program rose from about \$1.2 billion to \$4.5 billion.<sup>1</sup> The growth has generated substantial policy interest in the SSI program (see, for example, National Academy of Social Insurance 1995). Substantial changes to the program were incorporated in the Personal Responsibility and Work Opportunity Act of 1995.<sup>2</sup>

The evidence suggests that a confluence of several trends has increased the SSI caseload in the past several years. The expansion coincided with a period of growth for the adult caseload,<sup>3</sup> and can probably be explained, in part, by some of the same factors, such as increases in the poverty rates and broad Agency outreach efforts. However, several factors unique to the children's portion of the SSI program caused it to grow faster than the adult caseload. The most important of these was the 1990 *Zebley v. Sullivan* Supreme Court decision, which loosened the medical eligibility criteria for children. Regulations promulgated in compliance with the Court decision require that medical adjudicators consider if an impairment limits a child's ability to function in an age-appropriate manner even if the impairment was not on the Agency's list of disabling conditions. One recent study found that 31 percent of the children added to the SSI rolls in 1992 were approved on the basis of the new post-*Zebley* functional criteria (U.S. Department of Health and Human Services 1994 (a)).

Another source of program growth was a change in the regulations guiding childhood mental impairment decisions. In 1990, in accordance with legislation passed in 1984, SSA incorporated functional criteria and additional impairments, such as attention deficit hyperactivity

disorder and eating disorders, into the standards. Also, the *Zebley* decision and the mental impairment changes may have created ripple effects on parents not directly affected by increasing public awareness of the availability of children's SSI. Finally, the inflation-adjusted value of Aid to Families with Dependent Children (AFDC) cash benefits has been declining (U.S. House of Representatives 1994, p. 378), possibly encouraging recipients to search for alternative sources of income.

This article examines yet another source of the growth in the children's program—a relatively minor and little-noticed change in the financial eligibility rules for children. The way parental earnings were counted as income, or “deemed” to children to use the statutory language, was changed. The new, more generous financial eligibility rules added a small but significant number of recipients to the rolls after 1992, and also increased the benefit amounts for many of those already receiving SSI. Using SSA administrative data and a simulation technique, this article estimates how much the deeming policy change contributed to the expansion of the rolls and to the cost of the program. We estimate that program costs of the deeming rule change were approximately \$63 million annually in 1993 dollars. The change led to a 2-percent increase in the number of children on the rolls.

### ***The SSI Program and the Deeming Rule Change of 1992***

In December 1993, the SSI program paid \$24 billion in cash benefits to approximately 6 million needy disabled, blind, and aged recipients (U.S. House of Representatives 1994, p. 209). Payments include a Federal benefit, funded from general revenues and, sometimes, a supplement provided by the recipient's State of residence. In 1995, the Federal benefit rate (FBR), which is the amount paid to most recipients with no other income, was \$458 per month. Aged, disabled, and blind individuals are eligible if they meet limits on assets and countable income, as well as citizenship, residency, and living-arrangement requirements.

The regulatory change under consideration here involves the rules for deeming income from parents<sup>4</sup> to children on SSI. To elucidate these provisions requires some explanation of the SSI rules regarding income. (For a more thorough and precise explanation, see the Appendix.) The maximum benefit for an applicant depends on his or her living arrangements and State of residence. The person's payment amount is determined by subtracting his or her countable income from the maximum benefit level. If income exceeds the maximum, the person is not eligible.

Children living in their parents' households are subject to a similar set of income rules. However, there is no direct limit on the income of their parents; instead, there is an income limit for the child. A portion of the income of the parent(s) is deemed to be available for the child's needs. The deemed income is counted as if it were the child's own and is, therefore, subtracted from the maximum payment. The main exception to the deeming process is that no income is deemed from

parents who receive public assistance payments, such as AFDC. The deeming rules reflect the notion that parents should be responsible for the support of their minor children.

The Social Security Act (Section 1614(f)(2)) gives SSA the authority to specify the exact formula used to calculate the deemed amount, stating simply that deeming will occur “except to the extent determined by the Secretary to be inequitable under the circumstances.” It was this formula that was changed in 1992.<sup>5</sup>

The specifics of the change were as follows: Both the original and revised formulae begin with a series of deductions from the earned and (nonpublic assistance) unearned income of the parent. (For example, SSA subtracts a certain amount for each sibling of the SSI-eligible child who does *not* receive public assistance.) The change involved the last step in the original deeming computation, in which any remaining earned income was sometimes divided by two. This final step was applicable only if both earned income *and* unearned income remained after the initial set of deductions. Thus, having a small amount of unearned income could actually help a family get a *higher* SSI check by allowing them to reduce their deemed earnings by one-half.

The old deeming rules were problematic because they occasionally created illogical outcomes. For example, in some situations, a *rise* in unearned income led to a *decrease* in the deemed amount and an *increase* in the SSI payment because it enabled the parent to qualify for more favorable treatment of his or her earned income. Similarly, a fall in unearned income could sometimes result in a reduction of the SSI check. Also, in certain situations, the birth of a sibling of the SSI-eligible child could result in a reduction in the SSI payment.<sup>6</sup>

While such anomalous cases were fairly rare, they were bothersome. There seems to be no record of the rationale for the original rule. Almost from the inception of the SSI program in 1974, the Agency received complaints both from advocates representing persons with disabilities and from SSA field office employees. One parent, whose payments were reduced due to the presence of an additional child, took HHS to court. In the 1984 case of *David Parker v. Secretary*, a Massachusetts District Federal Court found that the deeming formula bore “no rational relationship to the manifest purpose for which the deeming statute was enacted” (U.S. District Court, District of Massachusetts 1984, p. 10). Partly because of the criticism from clients, advocates, front-line employees, and the courts, some SSA officials strongly pushed for a change. However, due to various administrative hurdles, such as expenditure caps, it was not until 1992 that the rules were revised.

In the new regulations,<sup>7</sup> promulgated in October 1992, the final stage of the deeming computation, which originally occupied three parallel columns on the form, was simplified to one column. The new rules required that any earned income remaining after the deductions be divided by two, regardless of whether unearned income was also involved. In other words, the more favorable treatment of earned income previously enjoyed only by parents with a significant amount of unearned income was extended to those without unearned income or

with very little unearned income. The new, more generous deeming rules were free of the quirks of the old formula, but they enabled more children to qualify for SSI and allowed many recipients to receive higher benefits.

### Estimating the Effects of the Change

To estimate the cost and caseload effects of the rule change, we posed the following counterfactual: If the old, less generous rules were still in effect, how many current recipients would no longer be eligible; and for persons still eligible, how much would their benefit be reduced?

### Methodology

The data set used was an extract from a 10-percent sample from SSA's Supplemental Security Record (SSR) as of December 1993. The SSR contains data on all SSI recipients and is used to generate their monthly payments. The extract includes fields indicating current amounts of various types of income, as well as household composition.<sup>8</sup> This information was used to recompute current recipients' benefits under the rules in effect prior to November 1992. The change in program costs due to this simulated return to the old deeming rules was used as an estimate of the yearly impact of the rule change. This methodology assumed that behavior (application for benefits and labor-force participation) remained constant, even though the deeming rules were changed.<sup>9</sup>

### Effects on Program Eligibility

We first identify the group of children who are eligible under current regulations but would be ineligible under the old rules. Chart 1 shows both the old and new deeming rules for the affected group of recipients. A detailed discussion of the deeming rules and the algebraic derivation of the effects of the rule change are presented in the Appendix. Essentially, the "affected group" referred to here are families without unearned income.<sup>10</sup>

For families represented in chart 1, parental unearned income is fixed: thus, deemed income depends only on parental earnings. It is assumed that the child has no income other than SSI. The X axis measures parental earnings, while the Y axis measures *countable* deemed income, which is the amount of deemed income deducted from the child's SSI benefit. This variable is equal to the deemed amount minus \$20, because all SSI recipients are allowed to exclude

\$20 of unearned income, including any deemed amount.

Line (WP) shows the relationship between countable deemed income ( $D_0 - 20$ ) and parental earnings under the old rules. It intersects the X axis at a positive dollar earnings amount because certain deductions and disregards are subtracted from earnings to obtain the earnings measure used in the calculation of countable deemed income. The slope of (WP) is unity because earnings in excess of deductions reduced a child's SSI check by \$1 for each \$1 earned.

Line (XQ) represents the new rules ( $D_1 - 20$ ). Its slope is one-half, indicating benefits are reduced 50 cents for each \$1 earned, a 50-percent tax rate on parental earnings over and above the deductions.

The child's eligibility and payment depends on countable deemed income: The child is eligible if countable deemed income is less than the maximum payment rate. The maximum benefit rate, which is a constant, is represented by horizontal line (NPQ) on the chart. The benefit paid, the maximum benefit minus countable deemed income, is the vertical difference between (NPQ) and the countable deemed income lines (WP) under the old rules, and (XQ) under the new rules.

If countable deemed income exceeds the maximum payment rate, that is, if it is to the right of point Y in chart 1, the child becomes ineligible under the old rules. To be *eligible* under

Chart 1.—Deemed income, under old and new rules

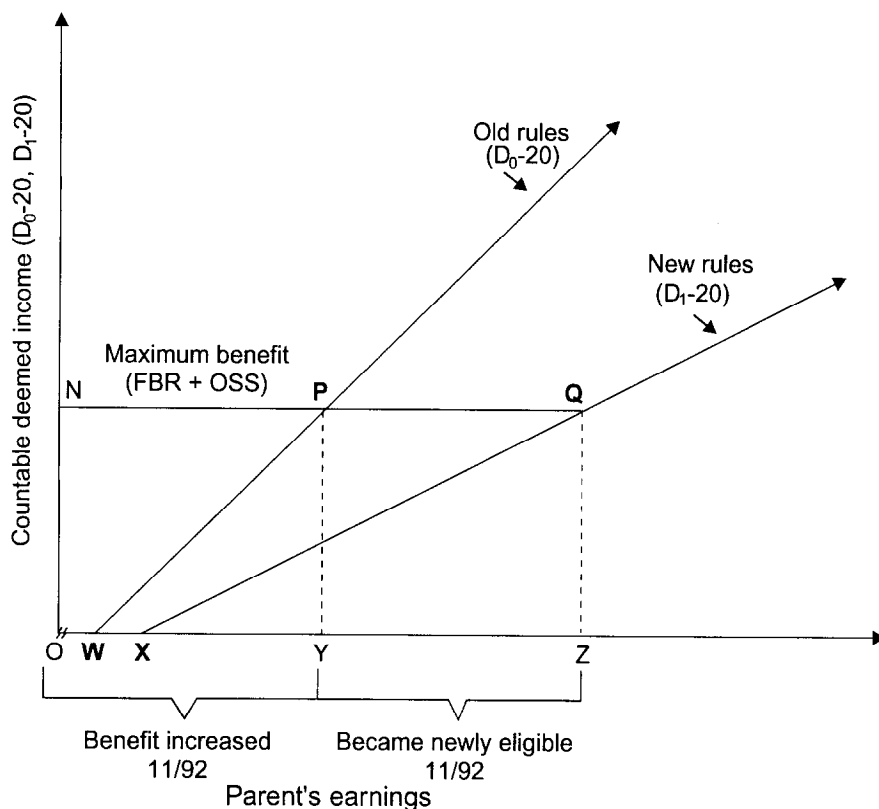


Table 1.—Maximum monthly income for SSI eligibility under the old and new rules, by parental earnings and number of siblings, 1995

Number of sibling	One parent		Two parents	
	New rules	Old rules	New rules	Old rules
No siblings.....	\$1,957	\$1,479	\$2,425	\$1,937
One sibling.....	2,186	1,907	2,644	2,166
Two siblings.....	2,415	1,937	2,873	2,395

Source: Authors' calculations.

the new rules, earnings must be less than Z; to the right of that point, countable deemed income exceeds the maximum payment. The children who became eligible by virtue of the rule change are those whose parents' incomes fall between points Y and Z. We can estimate the effect of the rule change on the caseload by calculating the dollar amounts corresponding to points Y and Z in different families, and then by using administrative data to ascertain the number of cases in these earnings ranges.

To provide a sense of the income levels involved, we present the 1995 maximum income levels for a variety of household sizes under both the old and new rules.<sup>11</sup> For simplicity, it is assumed that the only income for each household is from the earnings of the parent(s). The results are reported in table 1.

Table 1 demonstrates two key facts: First, compared with other programs, SSI has relatively high maximum income levels.<sup>12</sup> Thus, those children who became eligible for SSI because of the 1992 deeming rule change are better off than most recipients of AFDC. Second, the magnitude of the change in maximum income levels is fairly large; the difference between the eligibility thresholds under the old and new rules is \$478.

The income levels in table 1 should be considered in context.<sup>13</sup> First, since they are *maxima*, they are not typical for SSI recipients. Second, families with incomes near the maximum

levels receive very small checks, so that even if there were a large number of such families, they would account for only a small fraction of total SSI expenditures. Furthermore, in SSI and other means-tested programs, many people eligible only for small benefit amounts do not apply and thus do not receive any benefits.

### *Benefit Amounts and the Total Cost Effects of the Change*

Many individuals would still have been eligible, but would have received less money under the old rules. Point W in chart 1 illustrates the earnings level at which the countable deemed amount exceeded zero under the old rules and, therefore, affected the child's payment. As can be seen, the countable deemed amount was reduced under the new rules for all levels of earnings to the right of point W. Therefore, the benefit payment differs between the two sets of rules for those parents with earnings greater than W. Because Y is the point at which the child became ineligible under the old rules, the region between W and Y is where the payment rate, but not eligibility, was affected by the change in rules.

The costs of the rule change for affected cases can also be seen in chart 1. It is represented as the vertical distance between WPQ and WXQ, the top and bottom of the quadrilateral highlighted in bold ink (WXQPW).

Chart 1 illustrates that the effects of the rule change on a particular child's eligibility and payment amount depend on the level of earnings, relative to several key thresholds, labelled W, X, Y, and Z. The dollar amount of these thresholds depends on the composition of the family and, therefore, varies from case to case.

Table 2 illustrates the effects of the deeming rules change for a child with disabilities living in a no-supplement State with one parent and two siblings receiving no income other than the earnings of the parent(s). The first column refers to the relevant points on chart 1 and shows the actual threshold dollar amounts for children with disabilities. The last three columns show the impact of the rule change for children whose parents' earnings are in the particular intervals.

Table 2.—Effects of the 1992 change in deeming rules within key earnings thresholds<sup>1</sup>

Earnings thresholds <sup>2</sup>	Eligibility status	Payment amount	Tax rate on earned income
0 to \$1,479 (O-W).....	Eligible, no change	No change	No change (0%)
\$1,479 to \$1,499 (W-X).....	Eligible, no change	Increase	Change from 100% to 0%
\$1,499 to \$1,937 (X-Y).....	Eligible, no change	Increase	Change from 100% to 50%
\$1,937 to \$2,415 (Y-Z).....	Newly eligible	Increase from 0	Change from 0% to 50%
\$2,415 or more (Z and up).....	Not eligible, no change	No payment	No change (0%)

<sup>1</sup>These calculations are for a child living in a no-supplement State with one parent and two siblings, and receiving no income other than the parent's earnings.

<sup>2</sup>Letters in parenthesis represent chart notations for comparisons.

## Estimate of Total Costs

The 1992 change in the deeming regulations affected only children whose parents had earned income. Table 3 presents the income and earnings data for recipients in December 1993. The group potentially affected by the rule change is children whose parents had only earned income or both earned and unearned income, represented by the first and third rows in table 3. Table 3 shows that 30 percent of children under age 18 living with one or both parents were in the first category; that is, they had parents with earned income, but no unearned income of any kind. An additional 4 percent had parents with both earned income and unearned income other than public

Table 3.—Income of parents of children of SSI, December 1993

Type of parental income	Number of children <sup>1</sup>	Percent of children <sup>2</sup>
Total number of children <sup>3</sup> .....	627,280	100
Earned income only.....	181,850	30.0
Unearned income only (other than public	46,530	7.4
Both of above.....	24,890	4.0
Public assistance <sup>4</sup> .....	161,840	25.8
No income <sup>5</sup> .....	191,320	30.5
Income unknown <sup>6</sup> .....	20,850	3.3

Source: Authors' calculations are based on a 10-percent sample of a December 1993 extract from SSA's Supplemental Security Record.

<sup>1</sup> Includes all SSI children under age 18 living with parents receiving no income other than the parent's earnings.

<sup>2</sup> Standard errors for the population proportion estimates in this table never exceeded .002 because the sample size exceeded 60,000. Thus, only point estimates are reported.

<sup>3</sup> The total universe of cases considered here is the set of SSI records, either in current pay status or not in pay due excess income. The latter groups is not the one of interest here, since it only includes about 20,000 individual cases, or 3 percent of the total. The inclusion of: (1) cases not in current-pay status; (2) some children aged 18-21 who are paid as children, but are not subject to deeming; and (3) children not in the custody of their parents explains why the total reported in this table does not match statistics presented earlier in the paper.

<sup>4</sup> Public assistance includes AFDC and Veterans' pensions based on need. This category includes some parents who receive other income in addition to public assistance. Such additional income is usually used to reduce the public assistance grant and is not deemed to the child on SSI.

<sup>5</sup> This group is strikingly large. Their nonreceipt of AFDC may reflect parents not wanting to bother with the paperwork required, preferring to rely on the SSI payment. In many cases SSA claims personnel may not have posted the AFDC to the record. This is a common shortcut, which does not affect the computation of the payment.

<sup>6</sup> In manual deeming cases, in which the claims specialist simply posts the deemed amount to the system, parental income was not known. In automated cases, which include virtually all recipients, the claims specialist simply posts the parental income to the system, which automatically computes the deemed amount.

assistance. Thus, based on this information alone, we knew that approximately one-third of the children on SSI could have been affected by the change. This is an overestimate because the earnings of some parents are so low that they would not have affected deemed countable income in (OW) chart 1.

We estimated the cost effects by using the old rules to perform a hypothetical deeming computation on all cases in the sample. Table 4 shows the estimated effects of the rule change. The first row of the table relates to children currently on the rolls who would be due less money, but would still be eligible, if the old rules were reimposed. This group represents 4.4 percent of children under age 18 on SSI. If the old rules were still in force, payments to this group would be reduced by an estimated \$40.8 million. The second row of table 4 shows the number of children currently on the rolls who would lose eligibility completely if the old rules were reimposed; this category includes about 2.0 percent of the children under age 18 currently on the rolls. The third row shows that 6.4 percent of those children on SSI would receive either less SSI or no SSI at all if the old rules were still in effect. That row also shows an estimated yearly cost of the rule change of \$63.0 million.<sup>14 15</sup>

## Summary and Conclusion

The results of this analysis show how small changes in rather technical and somewhat obscure program rules can have an important effect on program cost and participation. The regulatory change eliminated an inequity in the old rules. However, by increasing eligibility and benefits, it increased SSI expenditures.

To determine the magnitude of the cost and caseload effects of the deeming change we applied the old and new deeming

Table 4.—Estimated effects of 1992 change in deeming regulations, December 1993<sup>1</sup>

Effects of change	Number of children	Percent of children under 18 on SSI <sup>2</sup>	Yearly cost (in millions of dollars)
Total affected.....	46,180	6.4	\$63.0
Payment increased.....	32,070	4.4	40.8
Became newly eligible.....	14,110	2.0	22.2

Source: Authors' calculations based on 10-percent sample of a December 1993 extract from the SSA's Supplemental Security Record.

<sup>1</sup> Only point estimates are reported, since the sample size is very large. Standard deviations for the population proportion estimates in this table were estimated by the author, and in no case did they exceed .002.

<sup>2</sup> In this table, as in table 3, only point estimates are reported, as the sample size exceeded 60,000. The standard deviations for the estimates of the population proportions in this table were calculated by the author—none exceeded .001. The denominator for these proportions is from the U.S. Department of Health and Human Services (1994)(b).

formulae to SSA administrative records on the income of parents of children receiving SSI. Based on our algebraic formulation, SSA staff performed a hypothetical deeming computation on each child in the sample file to determine the dollar amount of SSI payments the child would have received if the old rules were still in effect. By comparing these amounts with the amount of SSI actually paid, we were able to determine the cost and caseload effects of the 1992 change.

About 2 percent of the children receiving benefits in December 1993 would not have been eligible under the old rules. An additional 4.4 percent of these children would have received a lower payment. The change implies an increase in cost of \$63 million per year. The SSI deeming rule change did and continues to have a significant impact, but it only accounts for a small portion of the recent growth in the SSI program for children with disabilities. The change explains about 3 percent of the growth in the rolls.

By liberalizing the treatment of the earned income of parent(s), the new deeming rule provides a greater incentive for parent(s) without unearned income to work. Our estimates did not take into account changes in parental earnings. The rule change lowers the marginal tax on earned income from 100 to 50 percent.<sup>16</sup>

## Notes

<sup>1</sup> The monetary figures—but not the caseloads—may be slightly inflated because they include some back payments made under the recent *Zebley v. Sullivan* Supreme Court decision. Estimates provided by the ORS/REMICS-generated data from Department of Health and Human Services (DHHS 1994(a)).

<sup>2</sup> See Aron, Loprest, and Steuerle (1996) for a conceptual framework for examining Government policy towards children with disabilities and a comprehensive description of programs currently in place.

<sup>3</sup> The total SSI disabled and blind caseload, including both adults and children, grew from 3,363,086 in December 1990, to 4,509,478 in December 1993, an increase of about 34 percent. (Calculated from ORS/REMICS-generated data reported in U.S. House of Representatives 1994.) Indeed, AFDC caseloads also increased during the same period (U.S. House of Representatives, p. 325).

<sup>4</sup> For SSI purposes, a parent is defined as a natural or adoptive parent, or the spouse of a natural or adoptive parent who lives in the same household as the child.

<sup>5</sup> The deeming formula is found in the POMS Part 5, Supplemental Security Income (SSI), Section 1320.

<sup>6</sup> This occurred when allocating some unearned income to the ineligible child reduced the unearned income for the eligible child sufficiently to result in less favorable treatment of earned income.

<sup>7</sup> Published in final form in the *Federal Register* (Vol. 57, No. 208, October 27, 1992).

<sup>8</sup> The data include only the income posted to the Supplemental Security Record (SSR) as of the month prior to the month in which it was earned. For example, the December 1993 data extract used in this study reflects the income for January 1994 as it appeared on the system in December. The accuracy of the data, therefore, depends on the accuracy of SSA claims specialists' projections of recipients' future wages. This presents a problem because even *current* income is not

always posted in an accurate and timely fashion to the SSR. Current income postings can be incorrect if a parent fails to report earnings on time or if SSA fails to post reported earnings on a timely basis. SSA often uncovers such errors only after computer interfaces with earnings records reveal unreported earnings. Earnings are then posted to the record retroactively, resulting in an overpayment, which must be collected from the recipient. (Newly discovered overpayments in the SSI program amounted to about \$400 million in 1990, compared with \$12.5 billion in total program outlays (U.S. General Accounting Office 1992, p. 16; U.S. House of Representatives 1994, p. 262)). Such retroactive changes are not captured on the SSR extract, which contains projections of the future, rather than retrospective data. Because wages are more likely to be underreported than overreported, this limitation of the data probably biases the estimated cost and caseload effects of the rule change downward.

<sup>9</sup> There is a body of research on the incentive effects of program rules. See, for example, Danziger, Haveman, and Plotnick 1981, and Hoynes and Moffitt 1994.

<sup>10</sup> Persons with unearned income less than the total amount of any child allocations that they were entitled to are also affected. For details, see the Appendix.

<sup>11</sup> It should be noted that the income levels are for Federal benefits; they do not include any applicable State supplements. However, relatively few States supplement SSI for children who live with their parents. Using SSA's publication on State supplementation (U.S. Department of Health and Human Services 1994 (c)), we determined that the median State's SSI supplement for such children in 1994 was zero. Even California, which has a relatively generous program, provides a State supplement of only \$63.40 for children who are not in institutions.

<sup>12</sup> This article does not discuss the appropriateness of the size of SSI benefits or other welfare programs. It just examines the effect of the changes in the program rules. A useful discussion of issues related to benefit size is contained in Aron, Loprest, and Steuerle 1996.

<sup>13</sup> We thank Susan Goodman, Attorney-at-Law, for this point.

<sup>14</sup> The initial SSA cost estimate for the change was \$15 million, with a caseload increase of 1,000 cases. (Commissioner of SSA 1992, pp. 3-4).

<sup>15</sup> It should be noted that as of December 1993, when the data were collected, the new rule had only been in effect for about 1 year. The full effect of the change may not have been felt by that time. Typically, it takes several months for an initial decision to be made on an SSI disability claim. In California, for example, the average processing time for a new claim is about 6 months. If appeals are involved, 2 years can easily pass between the time of application and the first payment. Thus, even if all affected individuals found out about the rule change and applied for SSI immediately, many of them would still have been waiting for a decision as of the time of our data. So, the effect of the change may be larger than is indicated by the results above.

<sup>16</sup> The ramifications of this are discussed in Hannsgen 1995.

## References

Aron, Laudan Y., Pamela J. Loprest, and C. Eugene Steuerle. 1996. *Serving Children with Disabilities: A Systematic Look at the Programs*. Washington, DC: The Urban Institute Press.

- Danziger, Sheldon, Robert Haveman, and Robert Plotnick. 1981. "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review," *Journal of Economic Literature*, Vol. 19, No. 3 (September), pp. 975-1027.
- Hannsgen, Greg. 1995. "The Price of Equity: How Two Columns Cost the Social Security Administration \$63 Million." Unpublished paper. Humphrey Institute of Public Affairs: University of Minnesota.
- Hoynes, Hilary Williamson and Robert Moffitt. 1994. "The Effectiveness of Work Incentives in DI and SSI: Lessons from Other Transfer Programs." Unpublished paper. Institute for Research on Poverty.
- National Academy of Social Insurance, Committee on Childhood Disability. 1995. *Restructuring the SSI Disability Program for Children and Adolescents*. Washington, DC: National Academy of Social Insurance.
- U.S. Department of Health and Human Services, Office of the Inspector General. 1994(a). *Concerns About the Participation of Children with Disabilities in the Supplemental Security Income Program* (Final Report, A-03-94-02602, October 13) Washington, DC.
- \_\_\_\_\_. Social Security Administration. 1994(b). "Current Operating Statistics," *Social Security Bulletin*, Vol. 57, No. 1 (Spring), pp. 115-160.
- \_\_\_\_\_. 1994(c). "State Assistance Programs for SSI Recipients: January 1994." Baltimore: SSA.
- U.S. District Court, District of Massachusetts. 1984. Judge's memorandum and order, February 7. *David Parker v. Secretary of HHS*. Civil Action No. 82-0147-F.
- U.S. General Accounting Office. 1992. *Social Security: Causes of Increased Overpayments, 1986 to 1989*. Washington, DC: General Accounting Office. (September.)
- U.S. House of Representatives, Committee on Ways and Means. 1994. *1994 Green Book: Overview of Entitlement Programs*. Washington, DC: U. S. Government Printing Office.

## Appendix: The SSI Deeming Rules

The SSI financial eligibility rules take into account two aspects of an applicant's financial situation: resources and income. Under the resource rules, an applicant is found to be ineligible if the value of his or her assets, other than certain excluded items, exceeds limits of \$2,000 for an individual and \$3,000 for a couple. There are also limits on recipients' income, but as with resources, certain types of income are excluded from consideration. In addition, the regulations direct the SSA not to count certain amounts of nonexcluded income: the \$20 "general disregard" is applied first to any unearned income and then to earned income; the "earned income disregard" applies to the first \$65 of earned income and half of any earnings above that amount. Any income left after taking into account these exclusions and disregards is considered "count-

able income" for SSI purposes. The determination of countable income, then, assuming that the person has no earned income,<sup>1</sup> can be summarized by the following equation:

$$CI = TU - \text{MIN}(20, TU), \quad (1)$$

where

CI means countable income, and

TU means total unearned income. (This amount includes any income deemed from the parent(s), which will be explained below.)

The SSA computes SSI payment amounts and eligibility using countable income and the maximum payment rate, which is composed of up to two parts—the Federal benefit rate (FBR) and the optional State supplement (OSS).<sup>2</sup> The FBR is an amount guaranteed by the Federal Government. All but seven States provide an OSS to at least some of the SSI recipients within their borders. Eligibility for and the amount of the OSS may vary depending on living arrangements and the county of residence. The amount of SSI due is determined by subtracting countable income from the sum of the FBR and any OSS. If countable income is greater than the FBR, plus any applicable OSS, the person is not eligible for SSI.

The SSI payment amount, then, can be computed using the equation:

$$SSI = \text{MAX}(0, \text{FBR} + \text{OSS} - CI), \quad (2)$$

where

SSI means SSI payment due,

FBR means Federal benefit rate, and

OSS means optional State supplement.

How does the income of the parent or parents of a child on SSI enter into the computation? This is the role of deeming. The regulations do not set a direct limit on the income of parent(s); instead, children themselves have a maximum benefit rate similar to that of adults. Part of the income of the parent(s) is deemed to be available to the child and counts against this limit along with the child's own income.<sup>3</sup> That is, for a child,

$$TU = CU + D, \quad (3)$$

where

CU means child's own unearned income,

D means income deemed to the child, and

TU is as defined above.

The deemed amount is determined by subtracting several exclusions and disregards from the income of the parent(s), using a formula specified in the regulations. The Social Security Act gives the Department of Health and Human Services broad authority to determine this formula.<sup>4</sup>

Prior to November 1992, three different computations were used for parent-to-child deeming, depending on the amounts of earned and unearned income received by the parent. To begin with, the parent was granted an "allocation"—equal to one-half the individual FBR—for each ineligible child in the household. These allocations can be thought of as the amounts of money the parents were assumed to use each month for the support of any children in the households who were not eli-

gible for SSI. Each ineligible child's allocation was reduced by any countable income received by that child. The procedure for deeming was:

- I. First, the total amount of the allocations described above was deducted from the unearned income of the parent(s). Then, any remaining allocation amount was subtracted from the earned income of the parent(s). (If this step exhausted the income of the parent(s), the computation stopped here, and no income was deemed.)

From this point on, different rules were applied, depending on whether any remaining parental income was earned, unearned, or a mixture of both:

IIA. If the remaining income was all earned, an \$85 disregard was subtracted. Then a parental living allowance (a deduction for the living expenses of the parent(s)) equal to twice the FBR<sup>5</sup> was deducted. Any remaining income was deemed to the child(ren) on SSI.

IIB. *If the remaining income was all unearned*, a \$20 disregard was subtracted initially. Then a parental living allowance equal to the FBR was subtracted. Any remaining income was deemed to the child(ren) on SSI.

IIC. *If the remaining income was a mixture of both earned and unearned income*, a \$20 disregard was subtracted from the unearned portion. The remainder was considered the *countable unearned income* of the parent(s). If the \$20 disregard was not completely used up on unearned income, the rest of it was applied to the earned income. Then a \$65 disregard was applied to the rest of the earned income. Then, the earned income was divided by two. The resulting figure was the *countable earned income* of the parent(s). The countable unearned and earned income were added together. A parental living allowance equal to the FBR was subtracted from the resulting sum. The remaining amount was deemed to the child(ren) on SSI.<sup>6</sup>

The most salient part of this set of rules, for our purposes, was the following: If the amount remaining after step I was a mixture of earned and unearned income, the earned income was divided by two after a deduction of the \$65 earned income disregard; on the other hand, if only earned income remained after step I, it was not divided by two. There were several problems with this more favorable treatment of certain parents with unearned income.

First, it complicated field office payment computations. Second, the formula as written created illogical situations, such as cases in which the SSI payment *increased* as a result of an *increase* in parental income.<sup>7</sup> The 1992 deeming rule change dealt with such problems by eliminating step IIA, and replacing it with step IIC. In other words, cases with earned income only remaining after step I are now treated the same as those with both earned and unearned income. The new formula eliminates the anomalous situations, but it is more generous than the old one, resulting in a higher number of eligible children and higher payment amounts.

We can summarize the changes in the SSI rules with some equations. Children were affected by the change only if:

$$A \geq U, \quad (4)$$

where

A means sum of all applicable ineligible child allocations, each reduced by the ineligible child's income, U means nonexcluded unearned income received by the parent(s).

This is just another way of describing the children who had no unearned income left after step I in the deeming procedure above. These were the ones whose deemed income was formerly computed according to step IIA above, which was eliminated in the 1992 change.

For the cases that meet (4), the equations for determining the deemed amount under the old and new rules are as follows:

$$D_0 = \text{MIN}\{U + E - A - 85 - 2\text{FBR}, 0\} \quad (5)$$

$$D_1 = \text{MIN}\{(U + E - A - 85 - 2\text{FBR})/2, 0\} \quad (6)$$

where

$D_0$  means deemed amount under old rules

$D_1$  means deemed amount under new rules

E means parental earnings

and the rest of the variables are as defined above. This is simply an algebraic version of the rules described above. These equations show that, for the affected cases, the amount of deemed income, if any, is half as much under the new rules as under the old rules. Therefore, we know that any effects of the rule on individuals were positive; no one was adversely impacted by the rule change.

Our first objective was to identify the group of children whose eligibility was affected by the change. These are the children who were ineligible under the old rules but are eligible under current regulations. By combining equations 1 (assuming  $TU > \$20$ ), 2, 3, and 5, we can see that a child was ineligible under the old rules if:

$$3\text{FBR} + \text{OSS} + A - \text{CU} - U - E + 105 \leq 0 \quad (7)$$

By combining 1, 2, 3, and 6, we can arrive at a similar inequality for those who are eligible under the new rules:

$$2\text{FBR} + \text{OSS} - \text{CU} + 62.5 - (U + E - A)/2 > 0 \quad (8)$$

The cases in which eligibility would be lost in a return to the old rules are those which meet conditions 4, 7, and 8.

Next, we need to identify all the cases that would be affected by the rule change. This includes those (as identified above) who would be ineligible under the old rules, as well as those who would still be eligible under the old rules but would receive less SSI. Now, we already know that for the affected cases, the amount of deemed income was reduced by half. Thus, all cases with countable deemed income meeting conditions 4 and 8 experienced a change under the new rules. From equations 1, 2, 3, and 5 we know that for those cases meeting condition 4 there was countable income when:



$$U + E - A - 85 - 2\text{FBR} - \text{MAX}(0, 20 - \text{CU}) > 0 \quad (9)$$

Thus, the affected cases are those that meet 4, 8, and 9. On chart 1 we can see that these are cases in which parental earnings exceeded W.

The change in payment due to the rule change for a given case is the difference between the amounts charged due to deeming under the two different sets of rules. This amount can be represented by the following equation:<sup>8</sup>

$$\text{Cost} = \text{MIN}\{D_0, \text{FBR} + \text{OSS} - \text{CU} + \text{MAX}(20 - \text{CU}, 0)\} - \text{MAX}\{D_1, \text{MAX}(20 - \text{CU}, 0)\} \quad (10)$$

## Appendix Notes

<sup>1</sup>This simplification is reasonable here, considering the population under study—disabled and blind children on SSI. SSA statistics (*Social Security Bulletin*, Vol. 55, No. 2 (Summer), 1992) show that, as of December 1991, only 1 percent of this group received earned income. (However, the group under study is not a random sample of children on SSI; rather, it is a group whose parents have a significant amount of earned income. If a child's receipt of earned income is correlated with parental earnings, it is possible that more than 1 percent of the children under study here had earnings.) We will assume that the children had no earnings throughout the expository parts of this article in order to simplify the analysis. However, the actual results were computed without making any such assumptions.

<sup>2</sup>There are exceptions to the use of the FBR. One such exception is the special payment rate, which applies to individuals living in Medicaid-funded institutions. But for the vast majority of cases, payment is computed as outlined here.

<sup>3</sup>Of course, deeming only applies to a parent who actually lives in the same household as the child. The income and assets of noncustodial parents are not taken into account, although child support is. For deeming purposes, a parent is defined as a natural or adoptive parent or the spouse of a natural or adoptive parent. Income is not deemed from parents who receive AFDC or certain other types of income based on need. The deemed amount counts as income to the child regardless of whether or not it is used for the child's needs.

<sup>4</sup>Social Security Act, Section 1614(f)(2).

<sup>5</sup>All references to the FBR in steps IIA, IIB, and IIC of the deeming computation refer to the FBR for an individual if there is only one parent in the household, and to the FBR for a couple in cases where the child lives with both parents.

<sup>6</sup>Step IIB is really the same as IIC, except that since only unearned income is involved, the \$65 earned income exclusion is not deducted.

<sup>7</sup>A rise in parental unearned income could *reduce* deemed income if it pushed the case over the threshold for more favorable treatment. An example, adapted from one in the regulations, may help illustrate this possibility. Suppose there is a family with one eligible child and two parents earning \$1,800 monthly. Under the old rules, the amount of deemed income would be computed as follows:

\$1,800	earned income
-85	income disregards
\$1,715	parental living allowance
-1,338	
\$377	deemed income

Now, consider a family that is identical, except that the parents also have \$5 of unearned income:

\$5	unearned income
-20	general income exclusion
\$0	
\$1,800	earned income
-15	remainder of general income disregard
\$1,785	
-65	earned income disregard
\$1,720	
+2	
\$860	
-669	parental living allowance
\$191	deemed income

The family with \$5 more income would have much less income deemed to the child, and would, therefore, receive more SSI.

<sup>8</sup>For cases in which the deemed amount is computed differently under the new rules, it can be seen from equations 4 and 5 that any amount deemed under the old rules is double that deemed under the new ones. It is tempting to conclude from this that the cost of the rule change is equal to the amount currently deemed to this group of children. But this is not true, since not every dollar deemed to a child leads to a dollar reduction in his or her payment. There are two reasons for this:

- (1) The first \$20 of the child's income, including any income deemed from the parent(s), is not counted against the child and, therefore, has no effect on the SSI payment; and
- (2) the potential cost of the rule change for any particular case is limited to the amount that was actually paid prior to the rule change (that is, the deemed amount cannot reduce the payment below zero).