

# **THE ECONOMIC IMPACT OF NEW YORK STATE'S PREFERRED SOURCE LEGISLATION**

Prepared for:

**New York State Industries for the Disabled, Inc.**

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**Center for Governmental Research Inc (CGR)**  
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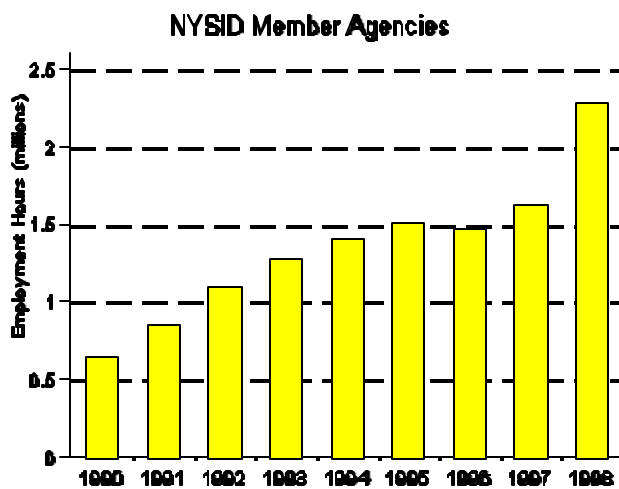
# THE ECONOMIC IMPACT OF NEW YORK STATE'S PREFERRED SOURCE LEGISLATION

November, 1999

## Summary

For more than fifty years, New York State's Preferred Source Purchasing Program has provided job opportunities to disabled and blind residents who would otherwise face countless obstacles to securing employment. A recent national survey confirms that most Americans with disabilities continue to lag far behind non-disabled Americans in most aspects of life. Employment statistics clearly illustrate this point. Only 30 percent of working age adults with disabilities are employed full- or part-time, compared to 80 percent of non-disabled adults.\*

### Disabled Employment Opportunities



Source: NYSID Annual Report, 1998

Enacted in 1945 for the blind, the Preferred Source program has grown into a statewide network of sheltered workshops, supported employment facilities, and rehabilitation programs. The program is no longer exclusively for the blind, and now benefits individuals with a variety of mental health and developmental disabilities.

New York State Industries for the Disabled, Inc. (NYSID) was designated in 1976 by the state Commissioner of Education to secure and administer contracts

on behalf of its member community rehabilitation agencies which serve people with disabilities. As of 1998, NYSID had grown to include nearly 130 member agencies which collectively employed over 5,500 disabled New York State residents under NYSID contracts. In 1998 alone, this network of workshops and supported employment programs performed

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\* 1998 N.O.D./Harris Survey of Americans With Disabilities.

work on 621 state and local government contracts valued at \$71.1 million. Since its inception nearly a quarter-century ago, NYSID has successfully enhanced the number and quality of employment opportunities for disabled New Yorkers.

NYSID engaged the Center for Governmental Research (CGR) to assess – both in a quantitative and qualitative fashion – the benefits which the Preferred Source program affords the state and the individuals it serves, as well as the program’s costs. CGR explored the program’s tax and public assistance impacts on New York State and the Federal government, as well as the individual impacts of providing employment to disabled residents.

CGR modeled the economic impacts of NYSID employment by analyzing individual payroll figures for more than 2,770 workers (both disabled and non-disabled) who participated in NYSID contracts during 1998. The survey of payroll included nearly 2,130 disabled workers, nearly 40 percent of NYSID’s total disabled worker population. Payroll data totaling \$17.22 million were examined for eight NYSID-member agencies, collectively representing more than 200 contracts (one-third of NYSID’s total) and \$39.45 million in value, more than half of NYSID’s total contract value in 1998.

## **Benefits**

In modeling the financial impact of NYSID contracts, CGR considered the effects of NYSID employment on selected taxes paid to local, state and federal governments plus reductions in public assistance program costs to the State and Federal governments that result from the increasing financial independence of program beneficiaries. CGR estimates that in 1998, individuals employed through NYSID generated approximately \$2.94 million in Federal income tax, and \$0.34 million in New York State income tax. New York State also saw an additional \$0.77 million in combined State and local sales tax revenue. Federal Medicare and Social Security taxes totaled \$0.98 million and \$4.20 million respectively.

By creating income opportunities for people who are disabled, NYSID contracts also reduced Federal and State government public assistance payments to these individuals. Supplemental Security Income (SSI), the needs-based benefit generally received by most disabled individuals, is subject to gradual reduction as an individual’s income rises. Social Security Disability Insurance (SSDI), an entitlement based on an individual’s (or his/her

parents’) Social Security contribution record, is also subject to earnings thresholds. CGR estimates that 1998 Federal and State SSI savings totaled nearly \$8.07 million and \$0.60 million respectively. Federal SSDI savings totaled an additional \$0.44 million.

Finally, the preferred source program reduces the cost of procurement for State and local government agencies. Agencies contracting with a preferred source avoid the significant costs associated with public bidding procedures. Well-intentioned public procurement regulations, designed to protect taxpayer dollars, often result in inefficient and costly purchasing processes. A recent study by the State of Texas Comptroller of Public Accounts found that the purchasing process used in the public sector is more costly than in the private sector. Some components of the re-engineered process described by the Texas Performance Review are incorporated into the relationship between NYSID and its government agency customers. The savings from reduced procurement costs could total nearly \$0.73 million dollars for 1998 service contract volume.

Through a series of interviews with clients and vocational counselors, CGR documented the types of individual opportunities NYSID affords disabled residents of New York State. Clients employed in sheltered workshop and supported employment settings receive a variety of benefits, both tangible and intangible. Preferred source contracts provide thousands of disabled people with an outlet for earning a living, honing employment skills, dealing with personal obstacles to development, and reducing dependence on publicly-funded income support programs. Supported

<b>1998 Economic Impact of NYSID</b>		
On Total Contracts Valued at \$71.1 million		
	<u>NYS</u>	<u>Federal</u>
<b>Income Taxes</b>	\$340,000	\$2,940,000
<b>Sales Taxes*</b>	\$770,000	n/a
<b>SSI Reduction</b>	\$600,000	\$8,070,000
<b>SSDI Reduction</b>	n/a	\$440,000
<b>Medicare Revenue</b>	n/a	\$980,000
<b>Social Security Revenue</b>	n/a	\$4,200,000
<b>Avoided Cost of Contracting</b>	\$730,000	n/a

employment settings were also found to be a springboard to competitive employment positions in a variety of cases.

## **Costs**

The preferred source program's statute\* requires that contracts through NYSID agencies cost no more than 115 percent of the price that could be secured in the open market, recognizing the lower productivity levels and higher supervisory costs associated with employing people with disabilities. CGR estimated the cost of the preferred source purchasing program to New York State by considering the cost implications of different assumptions about commodity and service pricing. CGR estimated the range of commodity contract costs through information provided by the State Office of General Services and audited NYSID price comparisons. Due to their customized and individual nature, service contract costs were difficult to estimate with precision, in the absence of current competitive bids or price data for identical services. CGR estimates that commodity purchases through New York's preferred source program cost the State about \$1.30 million.

## **Conclusions**

Findings show that the preferred source legislation more than pays its own way when all financial benefits and costs are considered. Benefits in revenue generated and costs foregone for local, State and Federal taxpayers total at least \$12.70 million plus increased social security revenue of \$4.20 million, Medicare revenue of \$0.98 million, and possible reductions in SSDI payments of \$0.44 million. The cost of the program is impossible to estimate with accuracy but is unlikely to exceed \$7.8 million (assuming that service costs are estimated at 115% of service contract values). Costs of contract administration avoided by use of NYSID preferred sourcing are estimated at \$730,000.

The program's significance becomes even more apparent when the less tangible, but even more valuable, "human benefits" are added to the net financial picture. Through its member agencies, NYSID affords people with disabilities – who generally face a higher risk of unemployment – the opportunity to work in a supported environment, receive vocational training, and earn a living by their own efforts.

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\*State Finance Law Article II, §162.6(b).

## Table of Contents

<b>Summary</b> .....	i
Benefits .....	ii
Costs .....	iv
 <b>Conclusions</b> .....	 iv
 <b>Table of Contents</b> .....	 v
 <b>Acknowledgments</b> .....	 vii
 <b>The Preferred Source Program in NYS</b> .....	 1
 <b>New York State Industries for the Disabled, Inc. (NYSID)</b> .....	 2
 <b>Impacts of NYSID</b> .....	 2
Tax Revenues Increased by NYSID Workers .....	3
Federal and State Income Taxes Paid .....	3
State and Local Sales Taxes Paid .....	5
Federal Medicare and Social Security Withholdings .....	6
NYSID Payroll Reduces Public Assistance Payments .....	7
Supplemental Security Income .....	8
Social Security Disability Insurance .....	10
Other Forms of Public Assistance .....	12
 <b>The Cost of the Preferred Source Program to Taxpayers</b> .....	 13
Measuring Cost .....	13
Commodity Cost Comparison .....	13
Service Cost Comparison .....	15
Public Sector Procurement Alternatives .....	15
 <b>Findings from Interviews With NYSID Clients &amp; Agency Staff</b> .....	 17
Client Benefits .....	17

<b>Conclusion</b> .....	20
Benefits .....	20
Costs .....	21
Procurement Savings .....	22
Non-Financial Benefits to People With Disabilities .....	22
<b>Appendix</b> .....	23
Federal & NYS Effective Tax Rates .....	23
Federal Earned Income Tax Credit (EITC) .....	23
Federal Withholdings (Social Security and Medicare) .....	24
Supplemental Security Income .....	24
Social Security Disability Insurance .....	25
<b>New York State Finance Law Article 11 §162 &amp; 1998 National Organization on Disability Survey (selected portions)</b> .....	26



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CGR is grateful to those NYSID member agencies who provided payroll data for use in the study. We are particularly thankful for the help of Robert Breitbart (Fedcap Rehabilitation Services), Robert Postiglione (Human Technologies Corp.), Sanford Weinstein and Patricia Rowland (Goodwill Industries of Greater New York), Mark Farrington (Montgomery County ARC), Joseph Gugliuzzo (Otsego County ARC), Jeff Klein and Dawn Sivalls (Albany County ARC), Floyd Moon (JM Murray Center), and Bob Colombo, Laurie Jaquin, and Christopher Semler (Continuing Developmental Services – Unistel).

Several others provided extremely valuable information and data throughout the report. Hugh Mater, Benefits Specialist at the State Office of Mental Retardation and Developmental Disabilities, helped conceptualize the public assistance analyses and consulted with CGR on relevant data issues. Pat D'Addio and Mike Buckley, at the State Office of General Services, provided information for program cost estimation. Paul Pfrommer (Vocational and Educational Services for Individuals with Disabilities) and Stephen Dungan (Monroe County Office of Mental Health) consulted with CGR on benefits and related public assistance issues. Tom Malvey at the State Office of Disability Determination provided valuable statistics on SSI payment distributions. Jeff Jablow and George Crowley (Wildcat Service Corp.) provided additional payroll data.

Finally – and of vital importance – are those clients, vocational counselors, case managers, and administrative staff at NYSID member agencies who were interviewed in conjunction with this project. The time and insight of clients and staff at Goodwill Industries of Greater NY, JM Murray, and Continuing Developmental Services is greatly appreciated.

## Staff Team

Joseph Stefko played the key staff role in this project. He helped conceptualize the project, was responsible for gathering and analyzing data and drafted the final report. Susan Sauers, MSW, took lead responsibility for interviews with NYSID agency clients and their vocational counselors.

## The Preferred Source Program in NYS

The preferred source purchasing program in New York State dates back more than five decades. In 1945 – seven years after the Federal preferred source program began through the Wagner-O’Day Act – New York became the first to enact a State-level program designed to give preference to products made by agencies employing the blind. Products made by rehabilitation agencies employing disabled New Yorkers were added to the preferred source program through legislation enacted in 1974. In response, New York State Industries for the Disabled, Inc. (NYSID) was designated in 1976 by the State Commissioner of Education to secure and administer contracts on behalf of member rehabilitation agencies.

In the case of blind and disabled New Yorkers, the preferred source purchasing program provides supported or sheltered employment opportunities to thousands of New York State residents who would otherwise find personal obstacles difficult to overcome in securing meaningful work. The 70 percent unemployment level seen nationally among persons with disabilities illustrates the need for these types of work opportunities.

Today New York State’s preferred source program gives preference to a series of entities, including:

- Qualified, charitable, non-profit agencies for disabled persons approved by the State Commissioner of Education;
- Qualified, charitable, non-profit agencies for the blind approved by the Commissioner of Children and Family Services; and
- Special employment programs serving mentally ill persons, operated by facilities within the Office of Mental Health and approved by the Commissioner of Mental Health.

The program’s legislation also establishes preferential purchasing for the Department of Correctional Services’ Correctional Industries Program (CORCRAFT).

Under the law, all State agencies, public benefit corporations, and local government entities are required to purchase approved commodities and services from state-approved preferred sources where available, and which meet the buying agency’s “form, function, and

utility” requirements. Procurement of commodities and services from preferred sources takes precedence over all other methods of supply and competitive procurement methods. The legislative intention is clear: to direct the normal procurement activity of the State to benefit disabled residents.

## **New York State Industries for the Disabled, Inc. (NYSID)**

NYSID represents approximately 130 not-for-profit member rehabilitation agencies, and in 1998 distributed over 620 contracts associated with 78 agencies valued at \$71.1 million. Member agencies create a statewide network of sheltered workshops, supported employment facilities, and rehabilitation programs. In 1998, NYSID provided goods and services to more than 2,600 State and local government agencies, generating dollar sales of \$64.2 million. More than 5,500 New York residents with disabilities were employed under these contracts.

NYSID’s central mission is to provide an opportunity for vocational training and employment for New York State’s disabled residents.

## **Impacts of NYSID**

CGR analyzed the tax and public assistance impacts on New York State by reviewing pay received by a large number of individuals engaged in NYSID contracts during 1998. Eight of NYSID’s largest member agencies participated in the payroll survey. CGR worked with NYSID to select agencies that would reflect statewide geography and the diversity of service and commodity contracts member agencies are engaged in. The following agencies – collectively representing over 2,700 disabled and non-disabled employees – are included in the payroll analysis:

<b>Agencies in Payroll Survey</b>		
<b>Agency Name</b>	<b>Location</b>	<b>Type of Contract</b>
Albany County ARC	Albany	Service
Continuing Developmental Services – Unistel	Rochester	Commodity
Fedcap Rehabilitation Services	New York City	Service
Goodwill Industries of Greater New York	New York City	Service
Human Technologies Corporation	Utica	70% Commodity 30% Service
JM Murray Center	Cortland County	Commodity
Montgomery County ARC	Amsterdam	92% Commodity 8% Service
Otsego County ARC	Oneonta	Commodity

The payroll sample includes nearly 2,130 disabled workers and an additional 640 non-disabled employees employed on NYSID contracts in supervisory and other direct labor functions. CGR examined payroll data totaling \$17.23 million from these eight NYSID-member agencies, collectively representing more than 200 contracts (one-third of NYSID’s total) and \$39.45 million in value, more than half of NYSID’s total contract value in 1998.

## **Tax Revenues Increased by NYSID Workers**

### *Federal and State Income Taxes Paid*

Wages earned at NYSID member agencies have a direct and beneficial fiscal impact on the Federal and State governments. First, earnings are subject to the income tax. In New York State, wage earners not exceeding \$10,000 in a given year are generally not subject to income tax. Beyond this total, earnings are taxed according to a schedule. The current tax rate schedule for New York ranges from 0.43 percent for earnings between \$10,000 and \$19,999 up to 4.81 percent for earnings of \$60,000 to \$74,999. Federal income tax operates in a

similar fashion. Beyond a standard deduction of \$4,250 (below which earnings are not subject to Federal income tax) the effective rate schedule ranges from 15 percent for earnings of less than \$25,350 up to 31 percent for earnings of \$61,400 to \$128,100. Income tax tables appear in the appendix.

Based upon the tax rate schedules outlined above, most disabled individuals are exempted from Federal and State income tax as a function of their lower average earnings. This is reflected in the payroll sample; approximately one-quarter of disabled clients had earnings substantial enough to be subject to Federal income taxes, while 11 percent had sufficient earnings to be state taxable. Income taxes paid at NYSID member agencies also come from supervisory and other direct labor personnel responsible for NYSID site and workshop operations. While not disabled, these New York State residents also benefit from employment on NYSID contracts.

CGR derived the income tax impacts of NYSID employment by analyzing payroll data for 2,770 disabled and non-disabled employees and applying the effective State and Federal tax rates. The relationship between estimated tax liability and payroll was used to estimate tax liability for all NYSID workers. CGR estimates total 1998 NYS and Federal income tax revenues resulting from NYSID employment to be \$0.34 million and \$2.94 million, respectively. A larger proportion of income tax revenue is attributable to NYSID service contracts, reflecting a higher proportion of labor to raw materials than is generally seen in commodity contracts, and generally higher wages.

Federal income taxes paid by NYSID earners are affected by two different schedules, depending on individual earnings. Above \$10,000, individual tax liability rises as income rises in three tax brackets, 15%, 28% and 31%. Below \$10,000 in income, however, the Earned Income Tax Credit (EITC) actually supplements an individual's earnings. Enacted in 1975, the EITC is designed to offset any disincentive to work for people who receive cash assistance (formerly Aid to Families with Dependent Children, now Temporary Assistance to Needy Families). The value of the EITC grows as earned income increases up to about \$10,000, at which point the individual begins to pay income tax instead of receiving financial support from the income tax. CGR estimates that EITC payments to individuals were about \$630,000 as a result of NYSID earnings. This reduces, of course, the fiscal benefit to the Federal government of NYSID contracts by the same amount.

**State and Local Sales Taxes Paid**

People employed in NYSID contracts spend their earnings in the marketplace. Federal Consumer Expenditure Surveys (published by the U.S. Department of Commerce, Bureau of the Census) indicate that individuals in these income brackets actually spend slightly more than they earn (by accumulating debt). For purposes of this study, CGR assumed that NYSID-related personnel at the member agencies spend all of what they earn. Interviews with vocational counselors confirmed this pattern for their clients.

Further analysis of Consumer Expenditure Survey data suggested that CGR assume taxable spending to be 25 percent of total spending. Food, generally the single largest spending category, is largely non-taxable in New York State.

Using these assumptions, CGR estimates the 1998 total State and local sales tax impact from NYSID employment to be approximately \$0.77 million. New York State and local counties split this total (as seen in the accompanying table), given the 4 percent state sales tax base rate and, in most counties, a 4 percent local county rate.

<b>Sales Tax Impacts of NYSID</b> (on 1998 total contract value)		
<b>Contract Type</b>	<b>NYS</b>	<b>Local</b>
<b>Service</b>	\$300,000	\$300,000
<b>Commodity</b>	\$85,000	\$85,000
<b>TOTAL</b>	<b>\$ 385,000</b>	<b>\$385,000</b>

Service contracts are also responsible for a larger portion of the total sales tax revenue. This occurs for two reasons. First, many service contracts secured by NYSID include a New York State requirement to pay workers the “prevailing wage,” which is generally higher than the wage paid to those employed in the production of commodities. Wages paid under commodity contracts may be adjusted according to worker ability and productivity levels. Furthermore, the cost of providing a service (such as janitorial or clerical services) is largely labor. Many commodity contracts (such as a repackaging or assembly operation) require a significant expenditure on raw materials, thus the payroll share of the contract is much lower.

**Federal Medicare and Social Security Withholdings**

Earnings are also taxable for both Medicare and Social Security, regardless of whether an individual is disabled and/or receiving Social Security benefits.

Some disabled workers, however, are covered under agency exemptions known as “Letters of Determination.” A Letter of Determination exempts an entire organization, or portions of it, from Social Security and Medicare withholding and employer contributions. Letters are

<b>Federal Medicare &amp; Social Security Impacts of NYSID</b> (on 1998 total contract value)		
<b>Contract Type</b>	<b>Medicare</b>	<b>Social Security</b>
<b>Service</b>	\$860,000	\$3.7 million
<b>Commodity</b>	\$120,000	\$500,000
<b>TOTAL</b>	<b>\$980,000</b>	<b>\$4.20 million</b>

generally awarded in cases where worker productivity is lower and earnings are not expected to be substantial. CGR found that agencies with commodity-based contracts tended to have Letters of Determination, while those with service contracts did not. This likely reflects wage differentials between clients engaged in commodity and service contracts. Even in member agencies where both services and commodities are contracted, clients in workshops are generally exempt from FICA and Medicare withholding while those performing outside services are not. Therefore, CGR assumes that clients engaged in commodity contracts are exempt from FICA and Medicare withholding, while those on service contracts (and non-disabled personnel) have Social Security and Medicare withheld from their earnings.

For an individual, 1.45 percent of earnings are paid in Medicare taxes, and an additional 6.2 percent in Social Security. Both of these figures are matched by employers. Based on the payroll sample of member agencies, CGR estimates that the Federal government received an additional \$0.98 million and \$4.20 million in Medicare and Social Security intake from NYSID employment in 1998.

The basic Medicare program is a pure entitlement, meaning that benefits do not depend on contributions. Money received in Medicare payroll taxes represents an unambiguous increase in Federal revenue. Social Security needs to be viewed differently. The contributions of NYSID agency employees will usually increase the Social Security benefits they are entitled to receive when they retire. Whether their increase in benefit is less than or more than their increased contribution is impossible to determine.

## **NYSID Payroll Reduces Public Assistance Payments**

A large proportion of disabled Americans supplement their monthly income through both Federal and State benefit programs. Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) are the two largest forms of aid available to people with disabilities. A disabled individual who is not working will be more dependent on benefits like SSI and SSDI for monthly income. Earnings garnered through work at NYSID member agencies reduce a disabled individual's level of dependence on Federal- and State-funded benefit programs and, as a result, save Federal and State dollars that would otherwise go toward such programs.

Both SSI and SSDI benefits are subject to reductions – or elimination – as an individual's income rises. Beyond certain earnings thresholds, benefit schedules consider a disabled wage-earner to require a lower benefit level than a non-wage-earner. As a result, the more a disabled worker earns through employment the lower his/her benefit level is likely to be. A variety of Federal work incentives are in place, however, to assure that the earned income does not displace benefits on a dollar-for-dollar basis. These incentives encourage employment among people with disabilities.

CGR estimated total Federal and State savings – in terms of reduced SSI and SSDI benefit levels – which directly result from wages earned at NYSID-member agencies. The benefit estimates which follow are based solely on the disabled payroll from NYSID-member agencies, with the assumption that NYSID clients are the only member agency workers eligible for such aid (i.e. supervisory and other direct personnel are assumed to be largely non-disabled, and therefore do not qualify for SSI or SSDI).



**Supplemental Security Income**

Supplemental Security Income (SSI) is the most common form of income assistance to disabled individuals. As a needs-based program, an individual’s monthly SSI payment is based on the amount of other income (earned or benefit) which he or she receives. Those with higher levels of total earned and benefit income are subject to reductions in the amount of their SSI benefit. Benefit level also depends on an individual’s living arrangement and the state of residence. Disabled persons living with family or in household situations with others are eligible for the lowest levels of SSI benefits, since it is assumed that available family and financial supports reduce an individual’s need for assistance. On the other hand, disabled persons in a family care facility or residential care facility – without such supports – are eligible for greater levels of SSI support.

Similarly, the amount which the Federal SSI base level of \$500/month is supplemented by state programs varies from state-to-state. The state supplement amount in New York ranges from \$23 to \$405/month, again contingent on an individual’s living arrangement. Monthly SSI benefit levels, effective January 1, 1999, appear in the following table:

**SSI Benefit Levels (New York State)**

<u>Living Arrangement</u>	FEDERAL	NEW YORK STATE	TOTAL
Residential Care Facility	\$500	\$405	<b>\$905.00/mo</b>
Family Care Facility	\$500	\$228.48	<b>\$728.48/mo</b>
Living Alone	\$500	\$87	<b>\$587.00/mo</b>
Living With Others	\$500	\$23	<b>\$523.00/mo</b>
In Household with Others	\$333.34	\$23	<b>\$356.34/mo</b>

Source: New York State Office of Mental Retardation and Developmental Disabilities

The State Division of Disability Determinations (Office of Temporary and Disability Assistance, Department of Family Assistance) provided breakdowns of the disabled population for current SSI recipients by benefit level. CGR verified these breakdowns with vocational

counselors and coordinators at several member agencies and adjusted them to more accurately reflect the living arrangements of the NYSID client population. Disabled individuals working on NYSID contracts fall mainly within the “Living With Others” (50 percent), “Living Alone”(20 percent), and “Living in Household With Others” (20 percent) categories. The remainder are considered to be in high-benefit family care facilities or residential care facilities (5 percent each).

Based on this distribution, CGR devised a weighted average SSI benefit level, taking into account the adjusted breakdown of living arrangements. The weighted average SSI benefit level is \$531.84/month. For this level we consider the first \$441.67 to be the weighted average Federal base level and the remaining \$90.17 the state supplement.

The Social Security Administration uses a formula to determine the monthly SSI benefit level that a person receives. According to the formula, the initial \$65 of a disabled person’s monthly earnings are ignored as a work related exemption. Beyond this “disregard amount,” one-half of remaining earnings are considered “countable income.” An individual’s monthly benefit is then reduced by the amount of countable income they have. In other words, less than half of an individual’s earned income is counted when determining the SSI benefit level. Aside from this benefit reduction schedule, there is no explicit earnings threshold beyond which a disabled worker will lose all SSI benefits. The benefit level is simply reduced in this fashion as income rises until the point at which the benefit level reaches zero.

<b>SSI Reduction Impacts of NYSID</b> (on 1998 total contract value)		
<b>Contract Type</b>	<b>NYS</b>	<b>Federal</b>
<b>Service</b>	\$590,000	\$6.41 million
<b>Commodity</b>	\$10,000	\$1.66 million
<b>TOTAL</b>	<b>\$ 600,000</b>	<b>\$8.07 million</b>

The Federal base amount is the first portion of the SSI benefit which is affected when an individual’s earnings surpass the disregard threshold. In the case of this weighted average example, an individual’s benefit level can be reduced by nearly \$442 before the State begins to see a reduction in the amount of its supplement. As a result, Federal savings in SSI benefit

reductions from NYSID contract workers are much higher relative to State savings.

Reviewing the payroll data for nearly 2,130 NYSID workers with disabilities, CGR found nearly 70 percent with income levels substantial enough to be subjected to SSI benefit reductions. This directly impacts Federal (and potentially State) dollars that would have otherwise been directed to SSI payments. CGR estimates that New York State and Federal SSI benefit reductions from NYSID employment in 1998 totaled \$0.60 million and \$8.07 million, respectively.

Savings are higher on service contracts, again reflecting a higher proportion of labor to raw materials, higher earned income, and, therefore, larger benefit reductions. State savings from commodity contracts are lower because fewer individuals see reductions beyond the Federal base level amount.

### ***Social Security Disability Insurance***

Social Security Disability Insurance (SSDI) is another benefit available to some disabled workers. SSDI is not a needs-based benefit, but rather an entitlement based on the work and Social Security contribution record of a disabled worker or disabled individual's parents. Nor is benefit level contingent on the severity of a person's disability. Disabled persons are eligible for SSDI if they have contributed to Social Security throughout their lifetime or if their parents have contributed through work in the past.

There is, however, an earnings threshold beyond which disabled workers are no longer eligible for SSDI benefits. The Social Security Administration uses the "Substantial Gainful Activity" (SGA) level to determine whether a disabled individual is capable of performing significant and productive work for pay or profit. The current SGA level is \$700/month, up from \$500/month effective July 1999. As with SSI work incentives, the recent increase in SGA level allows workers with disabilities to earn more without losing SSDI benefits. The higher threshold gives disabled persons a greater opportunity to participate in the workforce and improve their economic well-being.

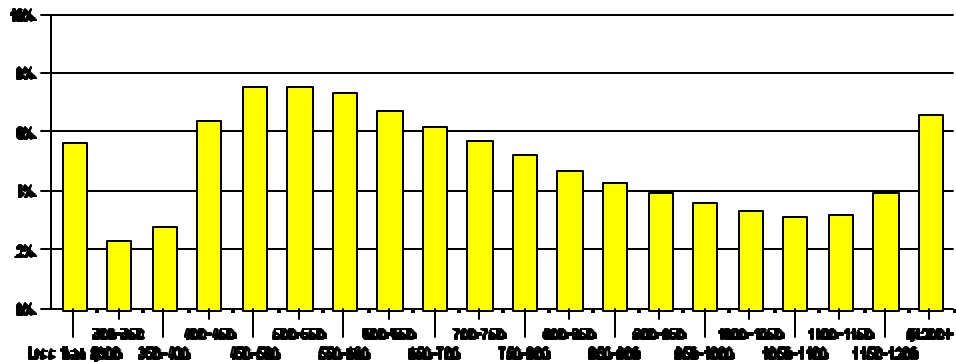
SSDI is wholly funded by the Federal government, unlike state supplements to SSI. Therefore, any savings that result from increases in earned income and loss of SSDI eligibility are realized by the Federal government.

SSDI benefit levels are not determined according to a specific benefit level schedule, a fact that makes estimating SSDI benefit reductions very difficult. It is impossible to estimate an individual’s SSDI level without knowledge of his/her earnings history and that of his/her parents. One disabled individual may receive greater SSDI benefits than another (who may not receive any at all), solely because his/her parents contributed substantially to the system throughout their working lifetimes.

This results in a rather uniform distribution of SSDI benefit levels, as indicated in the following chart. No

single \$50 range captures more than 7.5 percent of the entire distribution of benefit ranges. The uniformity of the SSDI benefits distribution – verified by benefits specialists at New York State’s Office

**SSDI, Current Pay Benefits for Disabled Workers**  
**Distribution, by Level of Monthly Benefit**



Source: Social Security Administration

of Mental Retardation and Developmental Disabilities (OMRDD) – prevents CGR from making precise assumptions about SSDI benefits levels and Federal savings.

Understandably, fewer disabled workers earn enough to surpass the SGA level of \$700/month (\$8,400/year). Of the 2,130 disabled individuals included in the model, fewer than 20 percent had 1998 earnings exceeding the SGA level. Nearly all of those who surpassed the SGA level worked on NYSID service contracts, reflecting the tendency for higher earnings among service workers.

For rough estimation purposes, CGR assumed the average SSDI benefit level to be \$500/month. This is a conservative estimate, reflecting what appears to be the median of the lower end of the SSDI distribution. The conservative estimate of monthly benefit level is

balanced by the assumption that all disabled workers in the model are eligible for SSDI benefits. At the \$500/month level, CGR estimates total 1998 Federal SSDI savings from NYSID to be about \$0.44 million.

***Other Forms of Public Assistance***

A series of other traditional public benefits were excluded from the model since they are rarely lost through higher income levels (e.g. Medicaid) or generally do not apply to NYSID’s disabled worker population (e.g. Food Stamps, TANF).

<b>SSDI Reduction Impacts of NYSID</b>	
<b>(on 1998 total contract value)</b>	
<b>Contract Type</b>	<b>Federal</b>
<b>Service</b>	\$430,000
<b>Commodity</b>	\$10,000
<b>TOTAL</b>	<b>\$440,000</b>

Most disabled workers who qualify for SSI also qualify for Medicaid. Medicaid benefit levels are, however, rarely reduced or eliminated as the result of individual earned income. In most cases, Medicaid benefits continue while a disabled individual is working, even if he/she earns at a level which reduces (or even eliminates) their SSI payment. CGR verified this with both OMRDD and through a series of interviews with vocational counselors at NYSID member agencies. Not a single instance of Medicaid benefit loss was found in CGR’s interviews with seven vocational counselors and case managers at various rehabilitation agencies who collectively represent approximately 300 NYSID clients. Counselors reported a small number of clients experiencing “spend down” reductions in Medicaid benefit levels, the result of unusually high earned income or spousal income.

Interviews with disabled workers and vocational counselors at NYSID member agencies indicated that few clients receive other forms of public assistance, particularly Food Stamps or Temporary Assistance to Needy Families (TANF). Most state-based forms of welfare and public assistance are generally available before an individual is classified as disabled. Counselors told CGR that there is usually an attempt to certify clients as disabled as soon as possible so that they can begin receiving the greater benefits available through SSI. As a result, few clients remain on public assistance or welfare for extended periods of time.

## The Cost of the Preferred Source Program to Taxpayers

### Measuring Cost

The preferred source program confers benefits on NYSID agency clients through the employment opportunities it affords and on taxpayers by increasing tax revenues and reducing the cost of public assistance programs providing financial support for people with disabilities. A preferential purchase program may cost the taxpayer something, however, and CGR also conducted an analysis of the cost of the preferred source program in New York State. The preferred source program's statute\* requires that contracts through NYSID agencies cost no more than 115% of the price that could be secured in the open market. The Office of General Services (OGS) is charged with the responsibility for monitoring prices and determining whether the contract prices applied for by NYSID satisfy this requirement.

CGR approached the Office of General Services for assistance and was provided with a table of recent commodity contract awards approved by OGS through the preferred source program and the result of OGS' price analysis. CGR also audited a study conducted by NYSID staff that compares prices of NYSID commodity products to prices of comparable products from the Staples New York City government contract catalog. In the case of services, the task of comparing prices is more difficult due to the individualized nature of each contract – including the agency's unique specifications, terms and conditions.

### Commodity Cost Comparison

CGR estimated the cost of the commodity component of the preferred source purchasing program to New York State by considering the cost implications implied by the best data at our disposal. The table on the following page summarizes \$1.5 million in recent commodity contract awards for commodities whose prices were evaluated by OGS. Based on this sample, the weighted average difference between market prices and NYSID contract prices is 4.7%. By applying this standard, the total NYSID commodity contracts value would cost the taxpayer about \$1.30 million above market.

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\*State Finance Law Article II, §162.6(b).

In comparing commodity costs, CGR also reviewed the price comparison NYSID recently performed between items its member agencies produced and analogous items that New York City government agencies can purchase through the Staples StockPlus catalog. Slightly more than half of the approximately 100 items analyzed by NYSID were found to be less than 115 percent of the Staples price. On most of these

Commodity Item	Annual Sales (\$000)	Share of Sample	Relation to Market Price (%)
Sharps Containers	50	3.4%	at market
Surge Suppressors	18	1.2%	at market
Paper Toilet Seat Covers	43	2.9%	-10%
C-Fold Paper Towels	230	15.6%	12%
LED Exit Signs	60	4.1%	3.6%
Copier Labels	50	3.4%	at market
Wall Clocks	13	0.9%	6%
Prescription Container	50	3.4%	at market
Scratch Pads	400	27.0%	1.3%
Desk Calendar	105	7.1%	9%
Vinyl Gloves	175	11.8%	8.6%
Messenger Envelopes	125	8.5%	2.7%
Office Tape	150	10.1%	6%
<b>TOTAL</b>	<b>1,469</b>	<b>100.0%</b>	
<b>Weighted Average</b>			<b>4.7%</b>

items, NYSID prices were lower than those for comparable items at Staples. CGR audited the NYSID findings for most of the products listed in the NYSID Office and School Supplies Price Comparison list and verified that the prices presented coincided with the corresponding prices listed in the StockPlus catalog. The median price differential for listed products showed the NYSID price to be 7% higher. CGR has not used this statistic in any of its analysis because the *price* analysis is not meaningful without information about the amount purchased for each product. Clearly, if purchase volumes are high for items priced low by NYSID, this average cost differential would be too high, or *vice versa*. Furthermore, most consumers (and State agencies are unlikely to be exceptions to this rule) pay attention to the prices charged by different vendors for similar products and economize by purchasing from the lower-priced vendor. We would expect that the weighted average price differential is lower than the median price differential between two vendors. CGR’s analysis of the NYSID/Staples price comparisons confirms that the 4.7% figure obtained through review of the OGS analysis is reasonable.

## Service Cost Comparison

Estimating the cost differential of service contracts is more difficult, as discussed earlier. NYSID and OGS have begun to obtain more detailed and customized market price comparison information when applying for and reviewing service contracts for approval. Comparable market prices for individual services are therefore unavailable.

Most contracts negotiated between NYSID and its State and local government agency clients were previously bid to a private firm. Further, many of the service contracts are relatively recent. As a result, it is likely that purchasing officers at government agencies have a good sense of previous cost and can effectively judge market price comparisons for particular services. At the present time, CGR assumes that the cost of service contracts is within the preferred source program's 115% market cost guideline.

In the absence of a current competitive bid for a specific customized task, it is difficult to find price data for truly comparable, let alone identical, services. Janitorial services, for example, vary in cost by the nature of the facility being cleaned and the nature of the services required by the customer to be provided at each site. In an internal memorandum from OGS provided to CGR dated August 10, 1999, OGS notes that 482 of NYSID's new and renewed service contracts were approved for 1998 and 1999. No contracts were denied during this period (although OGS, NYSID and customers frequently negotiate the terms of individual contracts before approval is granted). While not wholly satisfactory as an approach, OGS does compare hourly wage rates paid to NYSID employees to ensure payment of legally-required prevailing wages, and that these rates and total contract pricing do not exceed 115% of the comparable prices in the region in which the contract will be exercised.

NYSID is committed to gathering better information on the cost of services, and CGR applauds it for such foresight.

## Public Sector Procurement Alternatives

State procurement laws and procedures are intended to reduce the potential for corruption and misuse of taxpayer dollars. The unintended consequence of a well-intentioned



procurement law, however, may be a public procurement process that is cumbersome, time-consuming and costly. A recent study in the State of Texas found that the procurement process costs the public sector, on average, four percent more per dollar of purchases than the private sector.\*

The public sector therefore stands to save dramatically by setting up an improved procurement system, part of which would include a “preferred vendor” contracting process. A number of advantages result from purchasing from pre-selected vendors, each of which effectively deal with the costly process and quality concerns. Some of the savings included in the Texas Performance Review (TPR) study do not apply to the preferred source program, of course. TPR noted that by consolidating purchasing with a smaller number of suppliers, agencies can realize considerable savings as the volume of purchases represented by a single large state contract creates an incentive for vendors to pursue long-term purchasing relationships. At the same time, some “bulk” cost savings would certainly result from a unified state purchasing agreement which includes a number of agencies. TPR also points out that long-term purchasing relationships with approved vendors would almost certainly guarantee better quality goods and services.

What does apply directly to the preferred source program is the estimated administrative cost savings. An approved purchasing process would reduce the expenditure of time and resources that result from public bidding (e.g. delays from bidding routine contracts, continually certifying new vendors, regularly updating market price comparisons, and so on). TPR estimates assume that reduced prices account for 58% of the cost savings from a re-engineered procurement process and that administrative cost savings account for the remainder. CGR estimates of the procurement cost savings attributed to the preferred source program would be limited to the administrative portion, or about 1.7% of the value of the contract total.

CGR applies this savings only to the service contract component of NYSID contracts. The commodity contracts are integrated with the well-established NYS supplies contracting procedure. Agencies have long been able to reduce procurement costs for commodities by

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\* Texas Comptroller of Public Accounts, Texas Performance Review. 1993. *Procurement Re-engineering Project: Final Report*. Austin, Texas, p. 5, pp. 63ff.

purchasing directly off statewide contracts for a wide array of products. Reductions in administrative procurement costs from service contracts negotiated through the preferred source program total about \$730,000, assuming that the Texas findings hold true in New York State.

## **Findings from Interviews With NYSID Clients & Agency Staff**

The New York State Legislature did not pass the preferred source legislation to obtain lower prices for State agencies. The sole purpose of this study is not to demonstrate that the State of New York saves or loses money by sourcing products and services from NYSID member agencies. On the contrary, the principal purpose of the legislation is to provide gainful employment for a unique group of New York State residents, the vast majority of whom are unable to obtain competitive employment or require vocational training before entering competitive employment. The first section of this report explores the purely financial benefits and costs of the preferred source legislation. This section reports on the other benefits – the human benefits – of the legislation.

CGR interviewed a series of NYSID clients and vocational counselors at member agencies to both verify the assumptions implicit in the economic impact model and identify the non-financial individual benefits of employment opportunities for people with disabilities. Interviews were not intended to be exhaustive but to validate assumptions and to add a human dimension to the review of program benefits.

### **Client Benefits**

Clients employed in sheltered workshop and supported employment settings receive a variety of benefits, some tangible, some intangible. The tangible benefits include the value of work – especially for those in residential placements who must be participating in some type of day program – and pay earned for that work, the same benefits received by all employees in workplace settings everywhere. Tangible benefits for these clients also include on-site continual supervision and aide assistance for those who need help with personal hygiene and meals, on-site counseling for behavioral problems, and on-site training in social

skills, daily living skills, problem solving skills, time management, and the work ethic. Member agencies also provide some transportation, to either the rehabilitation agency's workshop or a customer's job site, for those unable to negotiate public transportation services.

The intangible benefits are much harder to calculate and list, but even more valuable to the people served. From the point of view of the vocational counselors and case managers CGR interviewed, these intangibles include

- having a purpose in life, to come to work each day and complete the job;
- developing friendships they might not otherwise have an opportunity to develop;
- a feeling that they are giving back to the community;
- being productive rather than idle;
- being more physically and mentally active and challenged than they would otherwise be; and
- having a workplace that is "theirs," where no one will make fun of them for their inability to keep up with others, their appearance, or their inability to interact socially.

The clients employed in sheltered workshop and supported employment settings have a wide variety of disabilities. Some disabilities were present from birth, such as mental retardation, developmental disabilities, severe learning disabilities, or physical disabilities. Others have physical or mental disabilities that came on during youth or adulthood, such as disabilities caused by mental illness, strokes, head injuries, or accidents. Some have medical problems such as epilepsy, heart problems, or renal failure. Some have more than one disability, in any and all combinations.

Some of these clients walk under their own power, while others are confined to wheelchairs. Some are able to learn quite complex tasks, while others can barely learn one small task that they repeat all day long. Some can work well without direct supervision, while still others must be almost constantly supervised. Still others need assistance with personal hygiene and meals. Some can work a full day, while others are limited in the number of hours they can work each day.

Vocational counselors interviewed by CGR report that, for their clients, while there are some clients who can and are eventually mainstreamed into a competitive workplace setting, many are employed in sheltered workshops because their disabilities prevent them from interacting positively in competitive positions. The counseling and support offered at a sheltered workplace include policies and procedures designed to deal with all of those problems. There is an emphasis on the individual, and helping each client choose their employment outcomes and achieve their goals. The sheltered workshop counselors also work closely with physicians to determine the work setting that best meets a client's physical and/or mental limitations. The counselors we interviewed listed a variety of problems they encountered with these clients that prevented the clients from entering the competitive workforce. NYSID employment provides them with vocational training and work opportunities that would otherwise be unavailable.

## Conclusion

The preferred source program was designed and passed into law by the New York State Legislature to provide gainful employment for persons with disabilities. The value of work is deeply ingrained in American culture. NYSID agencies provide opportunities for disabled individuals who cannot obtain employment in traditional business firms to participate in the working world. While some argue that a disability should not prevent employability in any setting, others believe that sheltered employment has a place in a community that creates a range of opportunities for its citizens, regardless of ability.

A principal purpose of this study is to estimate the costs of the preferred source legislation and also to identify that, in addition to the substantial benefits conferred on disabled New Yorkers, NYSID agency contracts have a financial payback to taxpayers as well. Recognizing the lower productivity levels and higher supervisory costs associated with employing people with disabilities, the Legislature anticipated that preferred sourcing would increase the cost of State government to some degree, although a “cap” of 15% was placed on that cost differential.

## Benefits

This study shows that the preferred source legislation more than pays its own way, when aggregate State and Federal benefits are included. The aggregate fiscal impacts from the program appear to be substantial. On total service and commodity contracts of \$71.10 million in 1998, CGR estimates that the program generated \$2.94 million in Federal income taxes. Resulting income and sales taxes in New York State exceeded \$1 million, including about \$0.38 million in local sales tax. Through benefit reductions caused by disabled worker income, the Federal government saved over \$8 million. New York State saved approximately \$0.60 million through reductions in Supplemental Security Income payments. Medicare and Social Security withholdings constituted an additional \$5.18 million of 1998 Federal impact from NYSID.

## Costs

Total Federal and State impacts more than balance any additional costs resulting from the preferred source program. Given a commodity contract value of \$27.68 million, CGR estimates the cost of the commodity contracts at \$1.30 million. Price comparison information for service contracts was unavailable, and further analysis of these contracts is beyond the scope of this study. Given the nature of the contractual relationship between the procuring agencies and NYSID member agencies, CGR believes the total cost to be within the guidelines applied by the Office of General Services. Many of the existing service contracts are relatively new and replace pre-existing contracts with private vendors. Procurement officers are thus well-aware of market prices for the services provided by NYSID agencies and are competent to judge the bid price negotiated through NYSID. Were all of these contracts to cost agencies the full 15% over market prices, the cost (\$6.5 million) would still be much less than the aggregate value of the benefits.

### 1998 Economic Impact of NYSID

	<b>New York State</b>	<b>Federal</b>	<b>TOTAL</b>
Income Tax Revenue	\$0.34 million	\$2.94 million	<b>\$3.28 million</b>
Sales Tax Revenue (shared between NYS & local county)	\$0.77 million	n/a	<b>\$0.77 million</b>
SSI Benefit Reduction Savings	\$0.60 million	\$8.07 million	<b>\$8.67 million</b>
SSDI Benefit Reduction Savings	n/a	\$0.44 million	<b>\$0.44 million</b>
Medicare Withholdings	n/a	\$0.98 million	<b>\$0.98 million</b>
Social Security Withholdings	n/a	\$4.20 million	<b>\$4.20 million</b>
Avoided Cost of Contracting (service contracts)	\$0.73 million	n/a	<b>\$0.73 million</b>

## Estimated Costs to NYS of Preferred Source Program

(based on 1998 Commodity & Service Contract Values)

	Commodity Contracts	Service Contracts
Cost of Contracts	\$1.30 million	Not Available

### Procurement Savings

Results of a recent State of Texas study suggest that public sector purchasing costs far exceed those in the private sector. Well-intentioned public procurement regulations often result in inefficient and costly purchasing processes. According to the study, public sector purchasing activities cost nearly four times as much as in the private sector. The potential savings from reducing the administrative costs of the public bidding process are substantial. Agency procurement costs avoided, given 1998 contract values, would total roughly \$730,000.

In summary, the costs of the preferred source program (surely less than a total of \$7.8 million across both service and commodity contracts) are far out-weighed by the benefits. Benefits in revenue generated and costs foregone for local, State and Federal taxpayers total at least \$12.67 million plus increased social security revenue of \$4.20 million, Medicare revenue of \$0.98 million, and possible reductions in SSDI payments of \$0.44 million.

### Non-Financial Benefits to People With Disabilities

When the “human benefits” of the preferred source program are added to the net financial picture, the program’s significance becomes apparent. NYSID offers state residents who are disabled a variety of sheltered workshop and supported employment opportunities. Member agencies give individuals who are disabled the opportunity to participate in the workforce, improve job-related skills and contribute to the State’s economy. Sheltered and supported employment enables persons who are disabled to be more productive than they might otherwise be, gives them a sense of purpose, and teaches them how to accept the physical and mental challenges which work requires. These opportunities include the satisfaction of earning a paycheck, and in turn improve the local and State economies.

## Appendix

### Federal & NYS Effective Tax Rates

State Income Tax Rate (Effective Tax Rate)		Federal Income Tax Rate	
Less than \$5,000	<b>0%</b>		
\$5,000 to \$9,999	<b>0%</b>		
\$10,000 to \$19,999	<b>0.43%</b>	\$4,251 to \$25,350	<b>15%</b>
\$20,000 to \$29,999	<b>2.66%</b>	\$25,351 to \$61,400	<b>28%</b>
\$30,000 to \$39,999	<b>3.71%</b>	\$61,400 to \$128,100	<b>31%</b>
\$40,000 to \$49,999	<b>4.20%</b>		
\$50,000 to \$59,999	<b>4.53%</b>		
\$60,000 to \$74,999	<b>4.81%</b>		

### Federal Earned Income Tax Credit (EITC)

The following is *a sample* of the EITC schedule by income level, for individuals with no children. Credit amount is determined based on the income category an individual falls into. Categories are \$50 increments, ranging from \$1 to \$10,050 in earned income.

Earned Income Tax Credit (by individual's income)	
\$1 to \$50	<b>\$2</b>
\$1,000 to \$1,050	<b>\$78</b>
\$2,000 to \$2,050	<b>\$155</b>
\$3,000 to \$3,050	<b>\$231</b>
\$4,000 to \$4,050	<b>\$308</b>
\$5,000 to \$5,050	<b>\$341</b>
\$6,000 to \$6,050	<b>\$306</b>
\$7,000 to \$7,050	<b>\$230</b>
\$8,000 to \$8,050	<b>\$153</b>
\$9,000 to \$9,050	<b>\$77</b>
\$10,000 to \$10,050	<b>\$1</b>



## Federal Withholdings (Social Security and Medicare)

Workers with disabilities are subject to Federal withholdings of 7.65 percent, regardless of whether they also receive Federal SSI or SSDI assistance. Of the total, 1.45 percent is withheld for Medicare and 6.2 percent for Social Security. These totals are matched by employers. CGR determined the withholdings which result from NYSID employment using this 7.65 percent figure per employee, plus the employer match.

## Supplemental Security Income\*

The amount of SSI payment to an eligible individual is usually calculated using the person's actual income from two months earlier, less appropriate disregards and exclusions. However, for a new SSI applicant (recipient), payments for the first two months are based on the income in the first month of eligibility. Under "Retrospective Monthly Accounting," the same income from the first eligibility month is also used to calculate the SSI payment in the third month.

Social Security's "Earned Income Exclusion" allows most of a person's earned income, including pay received in a sheltered workshop or work activities center, to be excluded when figuring SSI payment amount. The Social Security Administration excludes the first \$65 of earnings in a month plus one-half of the remainder. This means that less than one-half of a person's earnings are counted when figuring his/her monthly SSI payment amount. It provides an additional incentive for SSI recipients to earn outside income without fear of losing public assistance benefits dollar-for-dollar. CGR considered the impact of *earned income* on SSI payment savings to the State and Federal governments.

For example, a disabled individual living with others would be eligible for a maximum monthly benefit rate of \$523. If that individual were earning income of \$500 per month, their actual benefit level would be \$315.50, determined in this fashion:

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\* "Calculating SSI Payments," Office of Mental Retardation and Developmental Disabilities; *Red Book on Work Incentives: A Summary Guide to Social Security and Supplemental Security Income Work Incentives for People With Disabilities*, Social Security Administration.

<b>\$500.00</b>	Earned Income (from sheltered workshop, supported employment, etc.)
– <b>20.00</b>	General Income Exclusion
– <b>65.00</b>	Earned Income Exclusion
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<b>= 415.00</b>	Countable Income
÷ 2	
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<b>= 207.50</b>	SSI Payment Reduction

$$\text{SSI Payment Level} - \text{Payment Reduction} = \text{Monthly Amount}$$

$$(\$523.00) - (\$207.50) = \$315.50$$

### Social Security Disability Insurance\*

The SSDI payment amount is based on a worker’s lifetime average earnings covered by Social Security. While the payment may be reduced by workers’ compensation payments and/or public disability payments, it is not *incrementally* affected by other income or resources. Eligibility for SSDI is contingent on an individual’s (or parents’) contributions history and the Substantial Gainful Activity (SGA) threshold. SGA is the performance of significant and productive physical or mental work for pay or profit. The SGA level is average countable earnings over \$700 per month (as of July 1999) for non-blind beneficiaries. Social Security deducts from gross earnings the cost of items a person needs in order to work and the value of support a person needs on the job due to the impairment before determining if work meets SGA levels.

For the purposes of this study, CGR assumed all disabled workers to be eligible for SSDI. A constant SSDI monthly benefit rate of \$500 was also assumed. Given the SSDI benefit level distribution, \$500 appears to be the median of the lower-end of the benefit level distribution. Therefore, an SSDI reduction of \$500 was counted for disabled individuals whose earned income surpassed \$8,400 for the year, or the \$700 monthly SGA level multiplied by twelve months.

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\* *Red Book on Work Incentives: A Summary Guide to Social Security and Supplemental Security Income Work Incentives for People With Disabilities*, Social Security Administration.

**New York State Finance Law Article 11 §162**

**1998 National Organization on Disability Survey (selected portions)**