

Social Security Disability Insurance: Action Needed to Address Finances

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Summary

Currently, 8.8 million disabled workers (and nearly 2 million of their children) receive Social Security Disability Insurance (DI) benefits. For many, DI benefits are nearly all the income they have. The DI trust fund reserves are projected to be depleted in 2016, after which tax revenues coming into DI would cover only about 80% of scheduled benefits. Congress has never permitted such a drop in Social Security benefits to occur. A temporary reallocation of part of Social Security's 6.2% tax rate from the Old-Age and Survivors Insurance (OASI) trust fund to the DI trust fund would ensure that both funds can pay full benefits until 2033, after which scheduled taxes would cover about 77% of scheduled benefits. Congress has reallocated the tax rate 11 times in the past, making it what one expert has called "a traditional and noncontroversial action." Alternatively, a 0.2% increase in the tax rate for DI would make DI solvent for the next 75 years.

What is Social Security Disability Insurance (SSDI)?

Disability insurance is insurance against loss of earnings due to a significant work incapacity. It is part of the Social Security program. Workers earn disability insurance protection by having worked and paid Social Security taxes.¹ The test of work incapacity is very strict: benefits are paid, after a 5-month waiting period, only to individuals who have a medically determinable physical or mental impairment that precludes any substantial work activity and that is expected to last at least a year or result in death in less than a year. Applicants meet the test only if their impairments are of such severity that they are not only unable to do their prior work, but also unable – considering their age, education, and work experience – to engage in *any other* substantial gainful work that exists in the national economy.²

Who receives SSDI?

In January 2013, 8.8 million workers received disabled worker benefits, as did 1.9 million of their children and 0.2 million of their spouses.³ People who receive benefits are a subset of the 29.5 million adults ages 21 to 64 who reported having some type of disability in 2010.⁴ The average disabled worker benefit is modest: \$1,130 a month in January 2013, or about \$13,560 a year, which is just above the federal poverty guideline for an individual living alone (\$11,490). The average benefit for a disabled worker with one or more dependent children is \$1,735 a month, or about \$20,820 a year, which is close to the poverty guideline for a family of three (\$19,530). For many, Social Security is all or nearly all the income they have. Nearly half (46%) of disabled worker beneficiaries rely on these benefits for 90% or more of their total income.⁵

What are the characteristics of disabled worker beneficiaries?

Because the risk of work-disabling health problems rises sharply with age, most people receiving SSDI are in their 50s or early 60s. Fully 7 in 10 are over age 50, including 3 in 10 who are over 60.⁶ Many have life-threatening conditions: about 1 in 5 men and nearly 1 in 6 women who enter the program die within five years.⁷ Many beneficiaries have multiple health conditions. Of new beneficiaries, nearly 1 in 5 has a mental impairment as the main disabling condition.⁸ Musculoskeletal conditions – such as arthritis, back injuries and other disorders of the skeleton and connective tissues – were the primary diagnosis for nearly 1 in 4 new disabled worker beneficiaries over the age of 50.⁹

Who pays for SSDI?

Workers and employers pay for disability protection through their Social Security taxes. For the whole Social Security program, workers pay 6.2% of their earnings up to a cap (\$113,700 a year in 2013) and employers pay a matching amount. Of that 6.2% of earnings, 0.9% goes to the Disability Insurance (DI) trust fund, and the remaining 5.3% goes to the Old-Age and Survivors Insurance (OASI) trust fund. The trust funds also receive income from taxes that higher-income beneficiaries pay on their benefits and from interest earned on the trust fund reserves, which are invested in Treasury securities. The two trust funds are often considered together as the OASDI, or Social Security, trust funds – but by law they are separate and cannot borrow from each other.

What is the status of the trust funds?

The 2013 projections of the Social Security trustees found that the two funds, if combined, can pay all benefits in full until 2033. After that, taxes continuing to come into the system would cover about 77% of scheduled benefits. Viewed separately, the DI fund can cover scheduled benefits only until 2016, while the OASI fund can do so until 2035.¹⁰ Combining the two illustrates what would happen if lawmakers reallocated the 6.2% tax rate to equalize the status of the two funds.

Has Congress reallocated the tax rate in the past?

Yes, many times. Since DI began in 1957, the combined tax rate has been reallocated 11 times.¹¹ Some reallocations increased the tax rate going to the OASI trust fund and decreased the rate going to the DI trust fund, while other reallocations did the opposite. In introducing the 1980 reallocation legislation, Representative J. J. Pickle – then the chairman of the Social Security Subcommittee of the House Committee on Ways and Means – noted that reallocation “has been the traditional way of redistributing the OASDI tax rates when there have been changes in the law and in the experience of programs and in order to keep all the programs on a more or less even reserve ratio.” The latest reallocation occurred in 1994 when funds were shifted to DI. The last one before that, in 1983-84, shifted funds from DI to OASI.

What happened in 1994?

The DI trust fund had deteriorated quickly and unexpectedly between 1990 and 1993 for reasons not well understood at the time. Its projected exhaustion date moved from 30 years away in 1990 (i.e., projected for 2020) to just 2 years away in 1993 (i.e., projected for 1995).¹² Policymakers were taken by surprise. They did not know whether the abrupt change was temporary or the beginning of a long-term trend. The Social Security trustees recommended, and Congress enacted, a reallocation of the tax rates that would extend the DI program to meet their test of short-range financial adequacy and to allow time for a study of why recent DI costs had risen so unexpectedly.¹³

What caused the rapid increase in the early 1990s?

The study, issued in 1996, found that the DI program had temporarily spiked in 1991-92, but had since stabilized.¹⁴ The growth in applications peaked in 1991, as the economy dipped into a recession and unemployment rose. The incidence of disability (new benefit awards as a percent of the eligible population) peaked in 1992 – as unemployment remained high. Two other factors at the time also contributed to the increase. First, a Congressionally-mandated outreach campaign that began in 1989 and continued through 1993 sought to inform low-income individuals about the availability of Supplemental Security Income (SSI) disability benefits.¹⁵ In response, more people applied for SSI and some were found to be entitled to SSDI.¹⁶ Second, in early 1992 the Social Security Administration (SSA) implemented a temporary administrative initiative to reduce backlogs by expediting the evaluation of applications that were likely to meet eligibility criteria.¹⁷ This initiative led to a temporary increase in awards in 1992. As these two administrative initiatives ended and the economy improved, DI incidence declined gradually through 2000.

Why is the DI trust fund running short today? Is it a surprise?

No, it is not a surprise. The DI trust fund is running short today because the 1994 reallocation was designed to keep DI solvent just for the short term – and it did. In fact, in 1995, right after the reallocation was enacted, the trustees projected that the DI trust fund would be solvent through 2016. That estimate has proved remarkably accurate.

Why are more people receiving DI today?

After the 1994 reallocation, the trustees estimated in 1995 that the number of people receiving disabled worker benefits would nearly double between 1995 and 2010 – from 4.2 million to 7.9 million.¹⁸ This predicted increase was based largely on known demographic trends, including:¹⁹

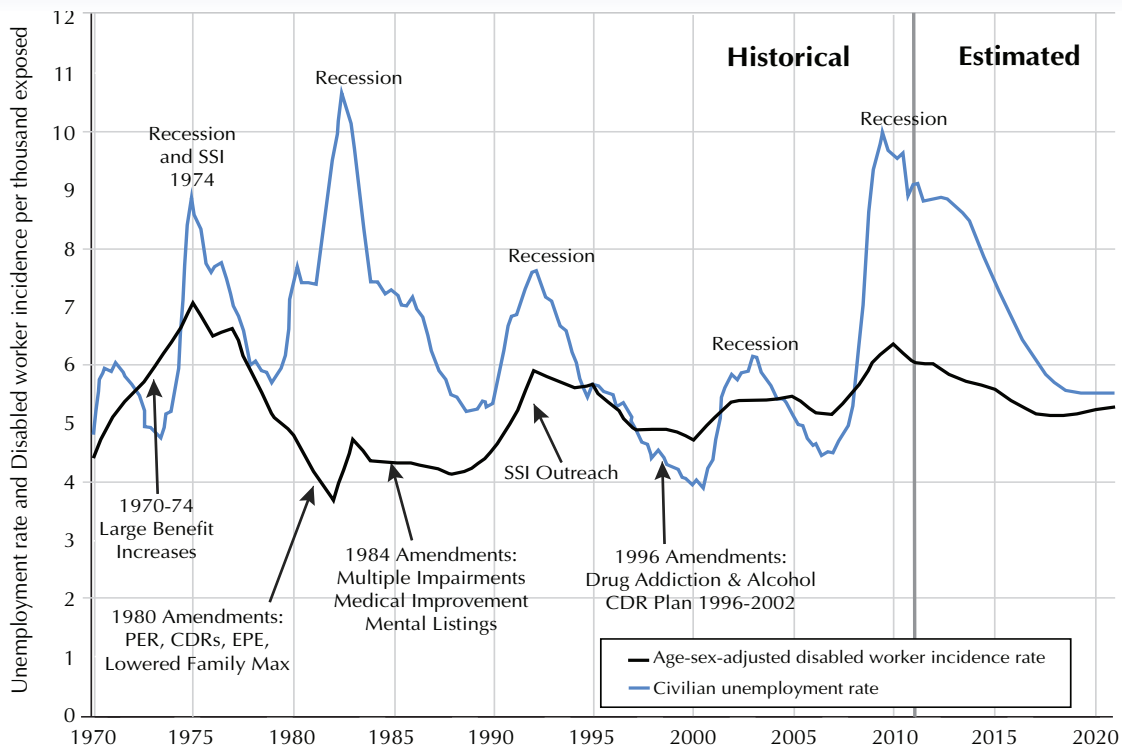
- *A growing labor force*, including the continuing increase in women's employment: As more women acquire enough work experience to make them eligible for disability benefits, more workers overall have disability insurance protection.
- *The aging of the baby boomers* (born from 1946 through 1965): The risk of disabilities that meet the DI test rises sharply with age.²⁰ As baby boomers age into these disability-prone years (they turn ages 49 to 67 in 2013), more people become disabled and thus receive benefits.
- *The increase in Social Security's full retirement age from 65 to 66*: When DI beneficiaries reach the full retirement age, they shift from disability to retirement benefits. The increase in the retirement age from 65 to 66 has delayed that shift. In December 2012, 455,700 disabled workers aged 65 and 66 – more than 5% of all disabled worker beneficiaries – received disability benefits, whereas under the rules of 10 years ago they would have received retirement benefits instead.²¹

In 2010 the actual number of disabled worker beneficiaries – 8.2 million – was slightly higher than the 1995 projection of 7.9 million. This difference was due in large part to two economic recessions after 2000.

How do recessions and high unemployment affect DI?

As Figure 1 shows, high unemployment rates associated with recessions are also associated with a modest temporary increase in the DI incidence rate (the number of workers awarded DI as a percent of the eligible population).²² The deep recession of 2008-2009 and continuing high unemployment during the slow recovery are associated with a peak in DI incidence in 2010 that has since begun to decline and is expected to continue declining as the economy improves.

Figure 1. Effects of Economic Cycles and Policy Changes on DI Incidence Rates



Source: Goss, 2013.

Does an increase in DI incidence when unemployment is high mean the program is being misused?

No. Many workers with significant impairments or serious health problems work despite their limitations. They and their employers find ways to accommodate their conditions and maintain their productivity. Moreover, when jobs are plentiful and employers are competing for workers, employers have an incentive to accommodate existing workers or qualified new job-seekers with disabilities. In contrast, when jobs are scarce and firms are laying off workers, older workers in declining health who lose their jobs have few prospects for finding work. Some turn to disability benefits as a last resort.²³ While many do not meet the strict test of disability, some do.

What will happen in 2016 if Congress does not act?

At some point in 2016, the DI trust fund's reserves would be depleted and current taxes coming into the trust fund would not be enough to pay all benefits owed to disabled workers and their families. Funds would be sufficient to pay only about 80% of scheduled amounts.²⁴ Congress has never permitted such a drop in Social Security benefits to occur. It would cause extraordinary and unnecessary hardship for millions of very vulnerable individuals and families.

What would it take to make DI solvent or to equalize the solvency of OASI and DI?

One approach to make DI solvent is to raise the DI tax rate that workers and employers each pay by 0.2%. Raising the rate from 0.9% to 1.1% for workers and employers each would make DI solvent over the next 75 years, according to the Social Security actuaries and the Congressional Budget Office together with the Joint Committee on Taxation.²⁵

Alternatively, relatively small changes in the allocation of the 6.2% tax rate for OASDI could equalize the DI and the OASI trust funds. Table 1 shows a reallocation plan developed by the Social Security actuaries based on projections in the 2013 Trustees Report. It was designed to:

- Equalize the status of the two funds so that both are solvent until 2033, after which tax income would cover 77% of combined costs; and
- Ensure that both funds meet the trustees' test of short-range financial adequacy for the 10-year period 2013 through 2022.

Table 1. Social Security Tax Rate (workers and employers each)				
Year	Total OASDI	OASI	DI	Shift from current law
Current Law:				
2013+	6.2	5.3	0.9	0.0
Reallocation Plan:				
2013	6.2	5.3	0.9	0.0
2014-2015	6.2	4.8	1.4	0.5
2016	6.2	5.0	1.2	0.3
2017-2019	6.2	5.1	1.1	0.2
2020-2025	6.2	5.2	1.0	0.1
2026+	6.2	5.3	0.9	0.0

Source: Chaplain, Schultz, and Nickerson, 2013 (Social Security Administration, Office of the Chief Actuary).

Would reallocation harm the OASI trust fund?

Reallocation as outlined above would move up the projected insolvency date for the OASI fund by about two years, according to the Social Security actuaries. Because the OASI trust fund is so much larger than the DI fund, the reallocation would significantly help DI while producing a relatively small change in the projected OASI reserve depletion date.

Would reallocation affect Social Security's long-term financing?

No. Reallocating part of Social Security's tax rate to the DI trust fund to equalize the two funds would not affect the long-term financing of the combined Social Security, or OASDI, system. The two funds are usually discussed together, and the combined funds' reserve depletion date would remain 2033.

Many options are available to close the OASDI system's long-term financing gap.²⁶ For example, NASI recently conducted a national survey to find out how Americans would prefer to balance Social Security's finances for the long term. The study, *Strengthening Social Security: What Do Americans Want?*, found that Americans would rather pay more than see benefits reduced.²⁷ In particular, more than 7 in 10 Americans across generations and income groups preferred a package of changes that would raise revenues in two ways (by gradually eliminating the cap on taxable earnings and by gradually increasing the payroll tax rate from 6.2% to 7.2%). The preferred package would also increase the minimum benefit for low-paid workers with long work records, and adopt a COLA based on price increases experienced by seniors. This package of four changes would convert the program's projected long-term revenue shortfall into a modest surplus, providing a margin of safety.

Policymakers have many options to remedy the Social Security program's financing gap over the next 20 years. In the meantime, a temporary reallocation to the DI trust fund in the near term would ensure that Social Security can continue to pay all legislated retirement, survivor, and disability benefits for the next two decades.

Some Experts' Thoughts on Reallocation

"Even a simple tax-rate reallocation between OASI and DI, as was done in 1994, could equalize the financial prospects of the trust funds avoiding reserve depletion until 2033."

– Stephen C. Goss, Chief Actuary, Social Security Administration
Testimony to the House Committee on Ways and Means, Subcommittee on Social Security, March 14, 2013

"I see little merit in doing anything less than financing OASI and DI on approximately equal terms. But the most important point, of course, is [...] action this year to maintain confidence in the Social Security system as a whole. It is damaging to have news stories about DI running out of money in two years. We know it won't be allowed to happen, but some opponents of Social Security have a heyday with this kind of news story."

– Robert M. Ball, Commissioner of Social Security from 1962-1973
Testimony to the House Committee on Ways and Means, Subcommittee on Social Security, April 22, 1993

"[Reallocating] taxes between the retirement and disability funds [is] a traditional and noncontroversial action that has occurred often in the past."

– Kathy A. Ruffing, Senior Fellow, Center on Budget and Policy Priorities
"Social Security Disability Insurance Is Vital to Workers With Severe Impairments," Center on Budget and Policy Priorities, August 9, 2012

Endnotes

- 1 To be insured, one must have worked at least one fourth of the time since age 21 and in at least five of the last 10 years (or in at least half of the time since age 21 if that is less than 10 years).
- 2 Mashaw and Reno, 1996a: Pages 89-90; Social Security Act: Title II, §223 (d).
- 3 Social Security Administration (SSA), 2013a.
- 4 U.S. Census Bureau, 2012: Table 1.
- 5 DeCesaro and Hemmeter, 2008: Table 2.
- 6 SSA, 2012a: Table 19.
- 7 Zayatz, 2011: Table 13.
- 8 SSA, 2012a: Table 40.
- 9 SSA, 2012a: Table 42.
- 10 Board of Trustees, 2013: Table IV.B3.
- 11 This count defines “reallocation” as any year in which either the OASI or the DI tax rate *decreased* while the other fund’s tax rate increased. NASI calculations based on SSA, 2013b. See also Ruffing, 2013.
- 12 Board of Trustees, 1990: Table 31; Board of Trustees, 1993: Table II.F.19.
- 13 The short-range test requires that each trust fund have reserves at least equal to the next year’s outgo throughout the next 10 years (i.e., reserve ratios of 100%), or that the fund reach that level within 5 years and remain at or above that level for the rest of the next 10 years. See “Report to Congress,” 1996; SSA, 2012b; and Social Security Domestic Employment Reform Act of 1994.
- 14 “Report to Congress,” 1996.
- 15 Supplemental Security Income (SSI) provides means-tested subsistence payments to individuals who meet the DI test of disability, but who lack sufficient work experience to be insured for DI or who have DI benefits that are less than the SSI benefit rate (\$710 a month in 2013, plus a \$20 disregard for non-wage income such as Social Security benefits). When people apply for SSI benefits, they are automatically screened for DI eligibility as well.
- 16 With special funds appropriated by Congress in 1989-1993, SSA collaborated with community-based groups to reach out to the homeless, ethnic and linguistic minority groups and other underserved groups to help potentially eligible individuals apply for SSI. See Mashaw and Reno, 1996b: Page 80.
- 17 Board of Trustees, 1993: Pages 18-19.
- 18 Board of Trustees, 1995: Table II.H3.
- 19 Goss, 2013; Manchester, 2013; and Ruffing, 2013.
- 20 People are roughly twice as likely to be disabled at age 50 as at age 40, and twice again as likely to be disabled at age 60 as at age 50.
- 21 SSA, 2013c.
- 22 The only exception was in the early 1980s, when the economic recession coincided with sharp retrenchment policies and allowance rate on new claims reached an all-time low. Congress unanimously enacted corrective legislation in 1984 designed to halt the discredited retrenchment policies. See Mashaw and Reno, 1996b, and Ruffing, 2013.
- 23 Mashaw and Reno, 1996a.
- 24 Board of Trustees, 2013: Table IV.B3.
- 25 Board of Trustees, 2013: Table IV.B4; Manchester, 2013: page 7.
- 26 See Reno and Lavery, 2009, and the website of the Office of the Chief Actuary of the Social Security Administration, <http://www.ssa.gov/OACT/solvency/provisions/index.html>.
- 27 Tucker, Reno, and Bethell, 2013.

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