Reassessing the Relationship Between Disability Insurance and Workers’ Compensation

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I am pleased to join with Jerry Mashaw, president of the National Academy of Social Insurance, to introduce this policy research seminar on the relationship between Social Security Disability Insurance and workers’ compensation. I would like to express our appreciation to the staff of Social Security and the Academy who put together this excellent program.

The Social Security Administration (SSA) and the National Academy have worked together for many years to improve our knowledge and understanding of workers’ compensation. Since 1997 the National Academy has compiled much of the basic national data on workers’ compensation that was previously prepared by our agency. The Social Security Administration has provided both financial and analytical support to this effort, which is part of the Academy’s larger research initiative on workers’ compensation. Thus, this seminar continues a longstanding partnership.

The relationship between Social Security Disability Insurance (DI) and workers’ compensation is important to my agency for many reasons. And it is also of personal interest as I have worked in companies that have been a buyer, broker, insurer, and reinsurer of workers’ compensation as well as being a banker to several workers’ comp companies.

Disability Insurance and workers’ compensation are the country’s two largest disability programs. In 2002, the DI program paid $66 billion in benefits to 5.5 million disabled workers and their dependents. In the same year, workers’ compensation paid out $53 billion—$29 billion in wage-loss compensation and $24 billion in medical benefits. It is vital that these two big programs work in tandem.

Because Disability Insurance and workers’ compensation are so large and have overlapping goals, it is not surprising that many people receive benefits from both. In some cases, however, overlapping benefits can create excessive wage replacement rates and the resulting disincentives for achieving self-sufficiency. For this reason, the Social Security Amendments of 1965 established the workers’ compensation offset. The offset assures that the combined amount of a disabled worker’s and family’s benefit from Social Security and workers’ compensation (or another public disability benefit) will not exceed 80 percent of the worker’s average current earnings.

Although the issue of excessive wage replacement remains salient today, many things have changed in the past 40 years. For example, in 1965, total cash benefits paid by workers’ compensation were three-fourths of those from Disability Insurance. Today, they are less than half as large. Since 1993, up to 85 percent of Social Security benefits have been subject to federal income taxation, while benefits from workers’ compensation have remained tax-exempt. This disparate tax treatment can create horizontal inequities. The policy issues surrounding appropriate levels of wage replacement have not received serious attention since the Disability Amendments of 1980, and it is surely time for them to be reviewed again.

Program integrity and administrative efficiency have also become much higher priorities since that time. Over the years, evaluations by the General Accounting Office (GAO, now known as the Government Accountability Office) and SSA’s Office of the Inspector General have identified problems related to administration of the offset provision. Although SSA has
taken major steps to repair those deficiencies, further improvements may require arranging
carried out the workers’ compensation offset represents a substantial workload for the
social Security Administration. During fiscal year 2003, staff at SSA’s regional processing
centers devoted 515 work years to the offset. Staff at SSA’s local field offices spent a
similar amount of time. Thus, even in an agency with 64,000 employees, the administrative
cost of the offset is significant.

In addition to Social Security Disability Insurance, SSA also administers the third largest
disability program—Supplemental Security Income (SSI)—which is a means-tested pro-
gram for the elderly, the blind, and persons with disabilities. Last year, SSI paid $26 billion in
benefits to disabled persons under age 65. A year and a half ago, GAO removed SSI from
its list of high-risk federal programs, in recognition of improved management. At the same
time, GAO added all federal disability programs as a group to its high-risk list, saying that
federal disability programs are based on outmoded concepts. Any comprehensive review of
federal disability benefits should certainly encompass the interaction with workers’ compen-
sation.

Finally, we must recognize that Disability Insurance is contributing more than its share to
Social Security’s looming insolvency. The Disability Insurance Trust Fund will start to
experience cash-flow deficits in only 4 years, and the fund will be exhausted by 2029—15
years earlier than the retirement fund. Social Security Disability Insurance plays a critical
role in the lives of almost 6 million beneficiaries and 156 million covered workers. As Social
Security’s trustees have said, “With informed discussion, creative thinking, and timely
legislative action, we will ensure that Social Security continues to protect future genera-
tions.” In particular, we need to think creatively about ways that Disability Insurance and
workers’ compensation could be made to work together more simply and effectively.