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Protecting Benefits for the Disabled in Social Security Reform

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In a January 2001 analysis, *Social Security Reform: Potential Effects on SSA's Disability Programs and Beneficiaries* (GAO-01-35), the U.S. General Accounting Office (GAO) asserts that several Social Security reform plans that include personal retirement accounts could have an inadvertently negative effect on disability benefits. But this conclusion is misleading. A closer reading of the report makes clear that the plans actually would offer higher benefits to the disabled than they could receive under the current program without reform. The reason: Under current law, Social Security will cease to pay full benefits around 2037 when the trust funds become insolvent. The reform plans would ensure that those benefits continue. Moreover, Congress could easily remedy any inadvertent effect that reforming Social Security's retirement program could have on disability payments.

The Troubled Disability Insurance Program. The Social Security Disability Insurance program (SSDI) will pay about $55 billion in benefits to about 5 million disabled workers and 1.6 million spouses and dependent children in fiscal year 2001. Like the Social Security retirement program, SSDI is funded by an explicit payroll tax. The first 0.85 percent of Social Security taxes collected from the employer and from the employee (1.7 percent total) goes into SSDI's trust fund and is kept separate from funds used to pay Social Security's retirement and survivors' insurance benefits.

SSDI, however, faces serious fiscal problems and operational challenges. Unless changes are made, Social Security has reported that the Disability Insurance trust fund will be exhausted in 2023. Current law allows the fund to borrow money from the retirement and survivors insurance trust fund, which could extend its life until about 2037. But the retirement and survivors program also faces chronic funding problems. The GAO estimates that an SSDI tax rate increase of 50 percent would be necessary to keep the program operating through 2073.

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According to a January report by the independent Social Security Advisory Board, SSDI costs about $5 billion annually to administer, while the much larger retirement program costs only about $2 billion. The board reported that the quality of service, even with this high cost, is uneven and declining, and concluded that rapid action is needed to avoid even greater problems.

How Changing the Retirement Program Could Affect SSDI. Monthly SSDI benefits are determined

using the same formula that Social Security uses to calculate retirement benefits. Thus, changing the formula to strengthen the retirement program would also affect disability payments. Reforms such as changing the annual cost-of-living (COLA) formula or speeding up the already mandated change in the full retirement age to 67 also would reduce disability payments unless Congress explicitly exempts SSDI from those changes. Moreover, because disabled adult children of retirees receive benefits through the retirement program and not SSDI, any changes in government-paid retirement benefits would affect them. To avoid affecting their benefits, this group of individuals could be moved into SSDI.

GAO's Misleading Report. Although understanding how Social Security reform could affect disability payments is a serious issue that reformers must address, the GAO report also contains questionable assumptions that make its conclusions unreliable.

Among the reform proposals examined by the GAO were bills introduced during the 106th Congress, including a bipartisan Senate bill (S. 1383) and the bipartisan Kolbe–Stenholm plan (H.R. 1793), and non-legislative plans suggested by former Representative John Kasich (R–OH), former Representative William Archer (R–TX) and Representative Clay Shaw (R–FL), and former President Bill Clinton. The GAO report suggests that certain of these reform plans would reduce lifetime disability benefits from between 4.2 percent and 17.7 percent, but the GAO came up with this by comparing these plans to a nonexistent option: significantly raising taxes. Current law prohibits increasing taxes, holding payroll taxes at today's levels. Under current law, SSDI's trust fund will be unable to pay full benefits after about 2037.

Instead of reducing lifetime disability benefits as the GAO estimates, the plans actually would *increase* lifetime benefits over those provided by current law by as much as 25 percent to 45 percent. The reason: Paying the benefits that the GAO implies are mandated by current law would require a 50 percent tax increase, but that is not an option under current law. The GAO appears to say that the reform plans would hurt SSDI recipients more than doing nothing. However, doing nothing will result in even greater SSDI benefit reductions.

The GAO correctly points out that changing government-paid retirement benefit formulas *without retaining the existing formula for SSDI benefits* would reduce disability payments. It also correctly states that a legislated change in annual COLAs would have the long-term effect of reducing disability benefits. However, there is no inherent reason why the existing formula cannot be retained—an easy remedy to avoid the unintended consequences of reform noted by the GAO.

What Reformers Must Do:

- **Don't confuse the programs in discussing reforms.** Reforming the Social Security retirement program will require very different measures from preserving SSDI. Legislation dealing with one should not affect the other.
- **Exempt SSDI from benefit changes.** Retirement reform bills should explicitly exempt SSDI from any changes in benefit formulas. The Senate bipartisan plan of the 106th Congress set up a separate benefit formula for each program. Future legislation should follow this example.
- **Avoid unintended consequences.** Speeding up the increase in the full retirement age to 67 or legislatively reducing COLAs would both affect SSDI benefits. If reformers insist on including such features in their plans, SSDI recipients should be exempted from the changes.

Conclusion. It is fairly simple to create a Social Security retirement reform bill that would leave SSDI untouched. Although the fiscal and operational problems of the retirement program also require attention, legislative efforts for both programs should be kept separate. The GAO's misleading report on how certain reforms could affect SSDI merely proves how serious that program's fiscal problems are. The report should serve to caution reformers on the need to avoid unintended consequences.

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NOTE: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.