



The
Heritage Foundation
Executive Memorandum

No. 883

May 28, 2003

SOCIAL SECURITY REFORM MUST PROTECT THE BENEFITS OF THE DISABLED

DAVID C. JOHN

Establishing personal retirement accounts within Social Security does not require any changes in Social Security's Disability Insurance program. Even though both that program and Social Security's retirement program use the same benefit formula, it would be relatively simple to create a separate formula for each program.

Similarly, it is a mistake to assume that current law would allow the disability program to continue to pay all of the promised benefits indefinitely. Just like Social Security's retirement program, the disability program is financed by a trust fund that will eventually run out of money. At that point, existing law requires it to reduce disability payments to the amount that can be financed by the taxes that it receives. Current law does not allow for automatic tax increases or any other way to pay full benefits.

The Troubled Disability Insurance Program. The Social Security Disability Insurance (SSDI) program paid about \$71.4 billion in benefits to about 5.3 million disabled workers and 1.6 million spouses and dependent children in calendar year 2002. Like the Social Security retirement program, SSDI is funded by an explicit payroll tax. The first 0.85 percent of the 7.65 percent Social Security tax collected from the employer and a matching amount from the employee (1.70 percent total) goes into SSDI's trust fund and is kept separate from funds used to pay retirement and survivors insurance benefits.

SSDI, however, faces serious fiscal problems and operational challenges. The Social Security Trustees

have reported that the Disability Insurance trust fund will be exhausted in 2028. Current law allows the fund to borrow money from the retirement and survivors insurance trust fund, which could extend its life until about 2041, but the retirement and survivors program also faces chronic funding problems. In 2001, the U.S. General Accounting Office (GAO) estimated that keeping the program operating through 2073 would require a 50 percent increase in the SSDI tax rate.

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. Similarly, changing the annual cost-of-living-adjustment (COLA) formula or speeding up the already mandated change in the full retirement age to 67 would also reduce disability payments unless Congress explicitly exempts

Produced by the
Thomas A. Roe Institute for
Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., NE
Washington, D.C.
20002-4999
(202) 546-4400
<http://www.heritage.org>



This paper, in its entirety, can be
found at: [www.heritage.org/
research/socialsecurity/em883.cfm](http://www.heritage.org/research/socialsecurity/em883.cfm)

SSDI from those changes. Moreover, because disabled adult children of retirees receive benefits through the retirement program, 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. In a January 2001 analysis, *Social Security Reform: Potential Effects on SSA's Disability Programs and Beneficiaries*, the GAO asserted that several Social Security reform plans that include personal retirement accounts could inadvertently reduce disability benefits. But this conclusion is misleading. A closer reading of the report shows that the reform plans would actually offer higher benefits to the disabled than they could receive under the current program because, under current law, Social Security will cease to pay full benefits around 2041 when the trust funds become insolvent. However, the reform plans would provide funding to ensure that those benefits continue.

Among the reform proposals examined by the GAO were bills introduced during the 106th Congress, including a bipartisan Senate bill (S. 1383), the bipartisan Kolbe–Stenholm plan (H.R. 1793), and several non-legislative plans including one suggested by Representative Clay Shaw (R–FL) and another proposed by former President Bill Clinton. The GAO report suggests that certain of these reform plans would reduce lifetime disability benefits by 4.2 percent to 17.7 percent. However, the GAO compared these reform plans to a nonexistent option that assumed that payroll taxes would automatically increase when SSDI needs more money. Eventually, those taxes would climb by 50 percent. In reality, current law prohibits increasing taxes, meaning that SSDI could not pay full benefits after about 2041.

Instead of reducing lifetime disability benefits as the GAO estimates, the reform plans would *increase* lifetime benefits over those provided by current law by as much as 25 percent to 45 percent. Once SSDI's trust fund runs out, current law requires the program to reduce benefits automatically to a level that can be financed from SSDI taxes. Even though the GAO appears to say that the reform plans

would hurt SSDI recipients, doing nothing would 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, the existing formula could easily be retained—a remedy that avoids the unintended consequences of reform noted by the GAO. Reformers therefore should:

- **Avoid confusing the programs when discussing reforms.** The measures needed to reform the Social Security retirement program are very different from those needed to preserve SSDI. Legislation dealing with one should leave the other untouched.
- **Exempt SSDI from benefit changes.** Retirement reform bills should explicitly exempt SSDI from any changes in benefit formulas. This is best accomplished by setting up a separate benefit formula for each program. SSDI would continue to use the current benefit formula, while the retirement program would use a new one.
- **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. Creating a Social Security retirement reform bill without touching SSDI would be fairly simple. Although the fiscal problems of the disability program also require attention, this effort should be kept separate from legislation reforming Social Security's retirement programs. The GAO's misleading 2001 report that certain reforms could affect SSDI merely proves that the program has serious fiscal problems. The report should serve to caution reformers on avoiding unintended consequences.

—David C. John is Research Fellow in Social Security and Financial Institutions in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.