BACKGROUNDER

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Social Security Trustees: Disability Insurance Program Will Be Insolvent in 2016

Rachel Greszler

Abstract

The Social Security Disability Insurance (SSDI) Trust Fund is on course to run dry in 2016, at which point it will be able to pay only about 80 percent of current benefits. Despite health improvements and technological advancements, the SSDI rolls have continued to rise, with more than 5 percent of working-age individuals now receiving benefits. Substantial inefficiencies, adverse incentives, outdated standards, and widespread fraud and abuse plague the program. These problems should not be ignored by allowing SSDI to raid the Old-Age and Survivors Insurance (OASI) Trust Fund through a payroll tax reallocation. Lawmakers should provide limited borrowing for SSDI—conditioned on the enactment of substantial reforms to improve the integrity and long-run solvency of the SSDI program.

According to the 2015 Social Security Trustees Report, the Social Security Disability Insurance (SSDI) Trust Fund is on course to run dry in 2016, six decades after the program began in 1956.[1] Absent reform, disability benefits will be cut across the board by almost 20 percent, and the average disabled worker's benefit will fall below the federal poverty level.

For nearly 60 years now, SSDI has provided critical income support for disabled workers and their families. Over time, however, the program has increasingly become an early retirement and long-term unemployment program serving not only the disabled who truly cannot work, but also the marginally disabled who, while having a harder time working, are able to hold down certain jobs or work part time. Furthermore, the program is impaired by outright

Key Points

- According to the Social Security Trustees, the SSDI Trust Fund will run dry in 2016. At that point, the disability insurance program will only be able to pay about 20 percent of current benefits.
- Despite health gains and technological improvements, SSDI rolls have been rising for decades. Since 1990, the percentage of the working-age population that receives SSDI benefits more than doubled from 2.3 percent to 5.1 percent.
- SSDI suffers from a multitude of problems and inefficiencies, including adverse incentives, outdated standards, and widespread fraud and abuse.
- The OASI program should not be drawn upon as a backstop for the disability insurance program.
- Lawmakers should require substantial reforms to increase SSDI's integrity and financial solvency *before* granting the program temporary borrowing authority.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3033**

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214 Massachusetts Avenue, NE
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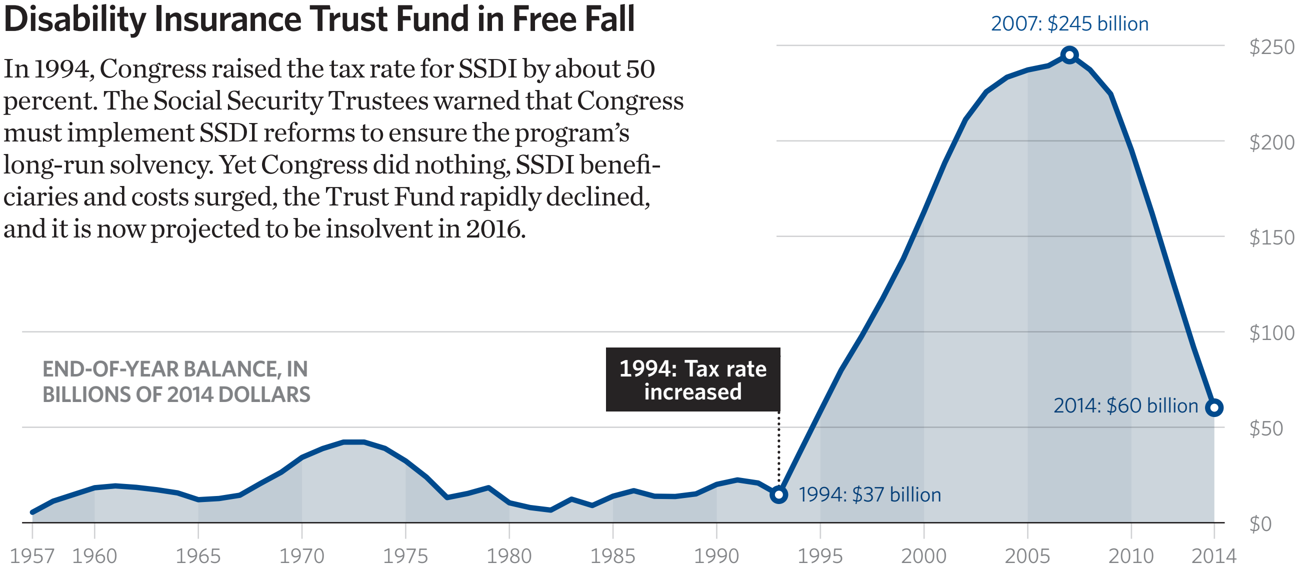
CHART 1

Disability Insurance Trust Fund in Free Fall

In 1994, Congress raised the tax rate for SSDI by about 50 percent. The Social Security Trustees warned that Congress must implement SSDI reforms to ensure the program's long-run solvency. Yet Congress did nothing, SSDI beneficiaries and costs surged, the Trust Fund rapidly declined, and it is now projected to be insolvent in 2016.



Notes: The SSDI tax rate shown is the combination of employee and employer contributions as a percent of taxable payroll. In 1994, the rate was increased from 1.2% to 1.88% for 1994–1996, 1.7% for 1997–1999, and 1.8% for 2000–current.
Source: Social Security Administration, "Disability Insurance Trust Fund, 1957–2014," http://www.ssa.gov/oact/STATS/table4a2.html (accessed July 14, 2015). Figures are adjusted for inflation in 2014 dollars using the Consumer Price Index.

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fraud and abuse. Such misuses and abuses undermine the integrity and financial stability of disability insurance.

Millions of truly disabled Americans and their families rely on SSDI benefits as their primary source of income. A 20 percent cut in benefits would be devastating to individuals who are not able to work, and have little or no outside income. While it is too late to implement reforms that would prevent the Trust Fund from running dry in the near term, Congress should limit financial relief to borrowing that is conditioned on reforms that will preserve the long-run solvency of the disability Trust Fund. Social Security's Old-Age and Survivors Insurance (OASI) program should not be drawn upon as a backstop to SSDI.

Status of the SSDI Trust Fund

SSDI registered its sixth straight deficit in 2014 as the Trust Fund declined by $30.2 billion, from $90.4 billion in 2013 to $60.2 billion. Each dollar in benefits was met with only 77 cents in payroll tax contributions.

Although 2014 marks the sixth year of net deficits for the Trust Fund, the program has been running cash-flow deficits for 10 years, bringing in less tax revenue than it pays out in benefits. This has been possible because the program has been cashing in on interest payments that are due to be paid to the Trust Fund as a result of previous borrowing. However, since those interest payments come out of general revenues, they add to the federal deficit. Over the past decade, SSDI cash flow deficits have added $213 billion to federal deficits.

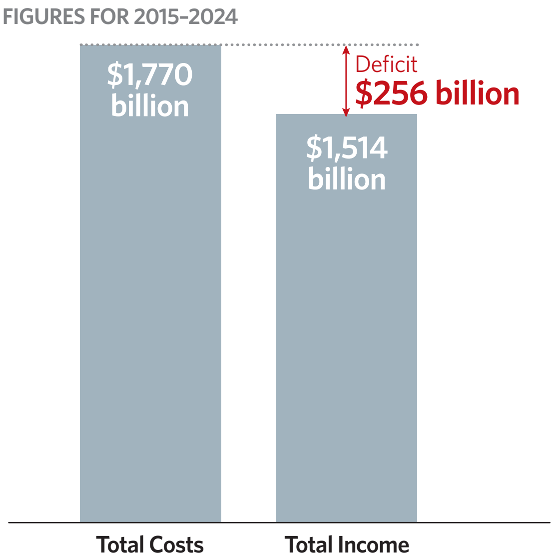
Over the next 10 years, SSDI faces a $256 billion shortfall, according to the Social Security trustees' intermediate projections. Keeping the Trust Fund solvent over the next 75 years would require an immediate cut in benefits of nearly 20 percent, or a 17 percent increase in the SSDI payroll tax rate. If growth in the program exceeds the trustees' projections, as it has in the past, these estimates may understate the true shortfall.

The little revenue that remains in the SSDI Trust Fund (as a result of interest payments paid to the Trust Fund based on previous borrowing) is quickly

1. Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 22, 2015, http://www.socialsecurity.gov/OACT/TR/2015/index.html (accessed July 22, 2015).

CHART 2

Disability Insurance Program Faces $256 Billion Shortfall Over Next 10 Years



Source: Social Security Administration, *2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 22, 2015, http://www.socialsecurity.gov/OACT/TR/2015/index.html (accessed July 22, 2015).

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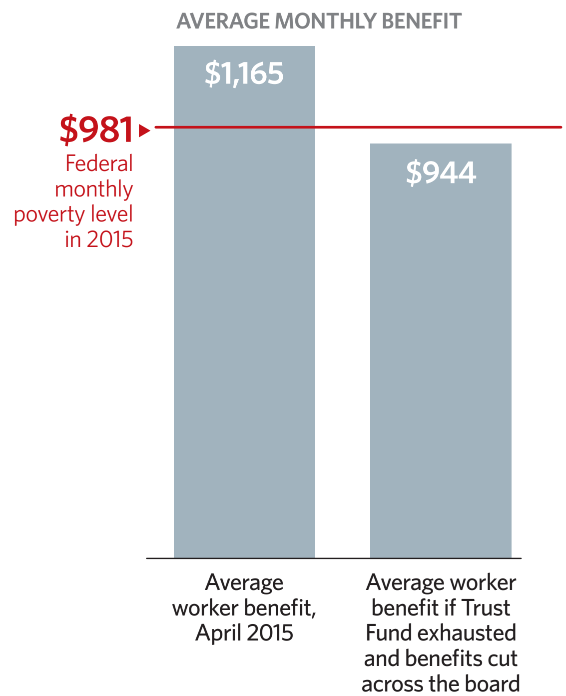
CHART 3

Absent Reform, Average Disability Benefit Could Fall Below Poverty Level



Source: Social Security Administration, *2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 22, 2015, http://www.socialsecurity.gov/OACT/TR/2015/index.html (accessed July 22, 2015).

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diminishing. Absent reforms, the Trust Fund will run dry by the end of 2016, and incoming payroll taxes will be sufficient to cover only 81 percent of SSDI benefits. Across-the-board benefit cuts would reduce the average disabled worker benefit from $1,165 to $944, bringing it below the federal poverty level ($981 for a single person in 2015).

Growth of the Disability Insurance Program

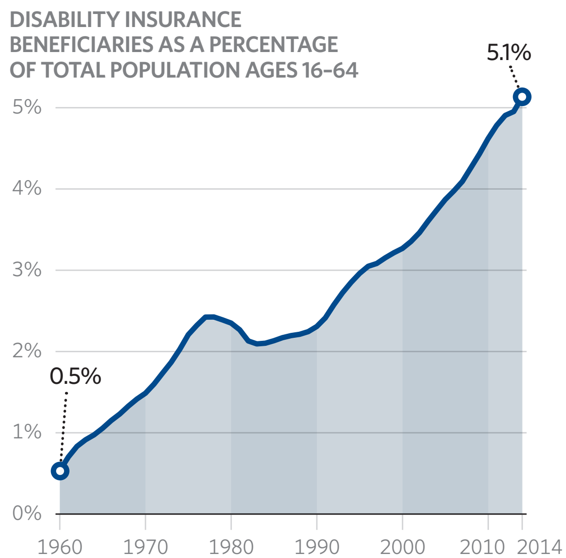
Workers are healthier today, people are living longer, and jobs are less physically demanding.[2] So why has the percentage of the working-age population (ages 16 to 64) who receive SSDI benefits more than doubled from 2.3 percent in 1990 to 5.1 percent in 2014?[3] A good portion of the growth has to do with demographic factors, such as the aging of the baby boomers, women's increased labor force participation (and SSDI eligibility), and the increase in Social Security's standard retirement age.

Even after accounting for these factors, a study by the Federal Reserve Bank of San Francisco found that roughly half of the increase in SSDI beneficiaries

2. David H. Autor and Mark G. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, Vol. 20, No. 3 (Summer 2006), pp. 71–96, http://www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71 (accessed June 22, 2015).
3. Author's calculations using data from the U.S. Census Bureau Population Estimates and the 2013 *Annual Statistical Report on the Social Security Disability Insurance Program*, Table 3. "All Disabled Beneficiaries," http://www.ssa.gov/policy/docs/statcomps/di_asr/ (accessed July 8, 2015). The recipiency rate equals the percentage of the population ages 16 to 64 that receives worker, widower, or adult-children disability insurance benefits. The 2014 rate is an estimate obtained by applying the average growth rate in beneficiaries from 2004 to 2013 to the number of beneficiaries in 2013.

CHART 4

More People Receiving Disability Insurance from Social Security



Notes: 2014 is an estimate based on 10-year growth rates in beneficiaries. Beneficiaries include workers, widowers, and adult children of workers.
Source: Author's calculations based on data from the U.S. Census Bureau, "Annual Population Estimates, Ages 16 to 64"; and Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2013,* December 2014, http://www.ssa.gov/policy/docs/statcomps/di_asr/ (accessed June 23, 2015).

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since 1980 remains unexplained.[4] This unexplained growth—roughly 3 million SSDI beneficiaries ($42 billion in benefits each year)—is likely the result of greater accessibility to benefits and a higher relative value of benefits.[5]

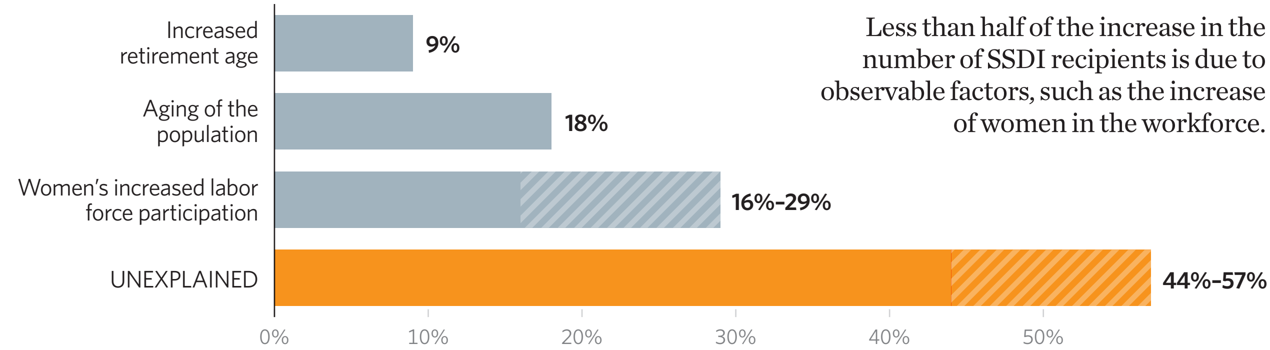
Greater access to SSDI benefits began in 1978 when Congress added non-medical, vocational factors (so-called grid factors), such as age, education, and ability to speak English, to the list of SSDI qualifications. Today, about 43 percent of all SSDI awards are based on these vocational grid factors.[6] With these new qualifying criteria (that is, more ways to be designated as disabled) came rising SSDI claims and costs in the 1980s. In response, Congress initially tightened SSDI-qualification standards, but then, amidst a public backlash, Congress reversed course and further liberalized them. Consequently, a higher portion of SSDI claims are the result of more subjective, difficult-to-verify claims, such as depression and musculoskeletal pain. Vastly different approval rates across different hearing levels and judges attests to the problem of subjective measures of disability; some truly disabled applicants are denied benefits, while some able-bodied individuals receive them.

Higher benefit values stem from the fact that rapid income growth at the top has driven up the index used to calculate SSDI benefits. From 1980 to 2013, the real average wage used to calculate SSDI benefits increased by 29 percent, while median usual weekly earnings of workers with less than a high school degree fell by 23 percent.[7] This translates into higher replacement rates (the percentage of income replaced by SSDI benefits) for lower-wage workers. From 1980 to 2013, SSDI's replacement rate for workers without a high school degree increased from 43.7 percent to 54.4 percent.[8] Higher replacement rates have made SSDI more attractive over time. A Heritage

4. Mary C. Daly, Brian Lucking, and Jonathan A. Schwabish, "The Future of Social Security Disability Insurance," Federal Reserve Bank of San Francisco *Economic Letter*, June 24, 2013, http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/ (accessed June 22, 2015).
5. Author's calculations: The estimated 3 million beneficiaries were calculated by adjusting the current total number of beneficiaries to that which would exist if the recipiency rate today were equal to that of 1980. The difference between this figure and actual DI recipients is the growth in beneficiaries. Multiplying this growth by the midpoint of the Federal Reserve Bank study's 44 percent-to-57 percent range (50.5 percent) yields 3.01 million DI recipients. Total spending of $42 billion is the product of 3.01 million beneficiaries multiplied by the average disabled-worker benefit of $1,165/month in April 2015. See Social Security Administration, "Monthly Statistical Snapshot," Table 1, April 2015, http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/2015-04.pdf (accessed May 26, 2015).
6. David R. Mann, David C. Stapleton, and Jeanette de Richemond, "Vocational Factors in the Social Security Disability Determination Process: A Literature Review," Mathematica Center for Studying Disability Policy *Working Paper* No. 2014-07, July 21, 2014, http://www.disabilitypolicyresearch.org/~/media/publications/pdfs/disability/drc_wp_2014-07_voc_factors_determinations.pdf (accessed June 4, 2015).
7. Author's calculations using data from the U.S. Bureau of Labor Statistics on median usual weekly earnings by education level and the Social Security Administration's national average wage index.
8. Author's calculations using data from the U.S. Bureau of Labor Statistics on median usual weekly earnings by education level, and the Social Security Administration's national average wage index and annual average indexed monthly earnings (AIME) bend-point levels.

CHART 5

Factors Behind Increase in Number of SSDI Recipients



Source: Mary C. Daly, Brian Lucking, and Jonathan A. Schwabish, "The Future of Social Security Disability Insurance," Federal Reserve Bank of San Francisco, June 24, 2013, http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/ (accessed June 11, 2014).

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Foundation study showed that more than 11 percent of typically low-wage workers (those with less than a high school degree) receive SSDI benefits, compared with less than 2 percent of higher-wage workers (those with a college or graduate degree).[9]

SSDI Is Broken

SSDI was enacted as a safety net for people who became permanently disabled after having had a work history. As evidenced by the growth in SSDI rolls, from less than 0.5 percent of the working-age population in 1960 to more than 5 percent today, SSDI has expanded far beyond its original intent and now faces imminent insolvency.[10]

Marc Goldwein of the nonpartisan Center for a Responsible Federal Budget aptly sums up the problems of the SSDI program:

> Not only is the program financial[ly] insolvent, but the system is wrought with fraud, needlessly complex, difficult to navigate, inconsistent and unfair in determining eligibility, inflexible to changes in the structure of the workforce, administratively overburdened, almost completely uncoordinated with other government policies, and unable to help or reward those who are interested in reentering the workforce.[11]

Simply pumping more money into a broken system is the wrong approach. Allowing the SSDI program to continue unchecked not only harms taxpayers who finance the program, it is also a disservice to truly disabled individuals who are often stigmatized as a result of fraud and abuse in SSDI that goes largely unchecked.

Reallocation Is Robbery

The President and some policymakers want to "reallocate" a portion of taxes devoted to the OASI Trust Fund to the SSDI Trust Fund. OASI and SSDI are two distinct programs, with separate purposes, separate payroll taxes, and legally separate trust

9. James Sherk, "Not Looking for Work: Why Labor Force Participation Has Fallen During the Recession," Heritage Foundation *Backgrounder* No. 2722, September 5, 2013, http://www.heritage.org/research/reports/2013/09/not-looking-for-work-why-labor-force-participation-has-fallen-during-the-recession.

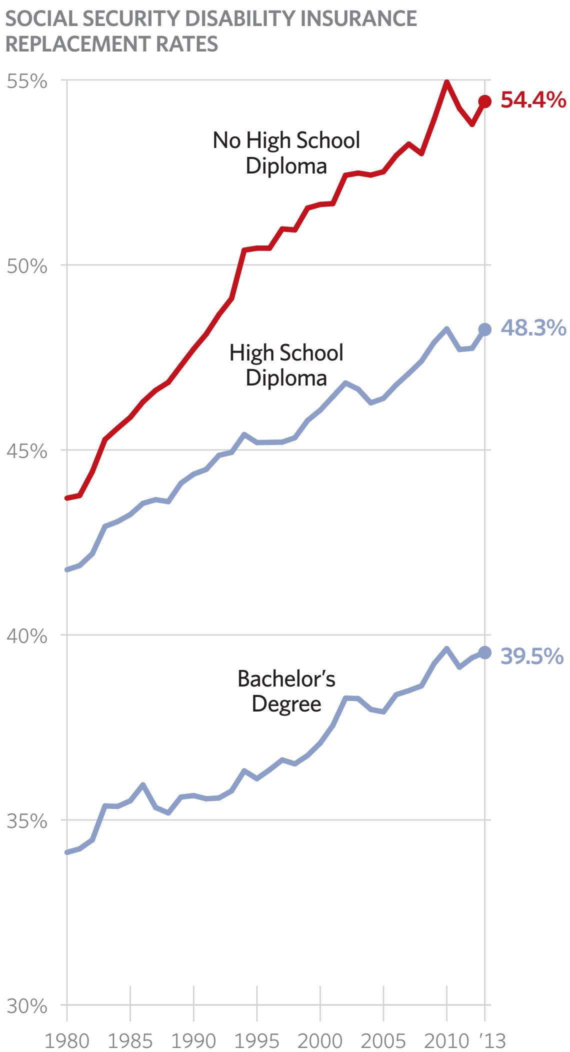
10. Author's calculations using data from the Social Security Administration on number of and total DI benefits as well as population estimates from the U.S. Census Bureau. In April 2015, a total of 10.922 million individuals received DI benefits. This amounts to 5.24 percent of the working age population (ages 16 to 64). Of the 10.922 million DI recipients, 1.837 million were children. Children can receive DI benefits on behalf of their parents up to age 18 (19 in some cases). Excluding 16/18ths of the child DI recipients (those ages 15 and younger) brings the "working age" number of DI recipients to 9.289 million, 4.46 percent of the working age population.

11. Marc Goldwein, "Social Security Disability System Is Broken," *The Hill*, May 1, 2012, http://thehill.com/blogs/congress-blog/economy-a-budget/224795-social-security-disability-system-is-broken (accessed June 22, 2015).

CHART 6

Disability Insurance Grows More Attractive to Low-Income Workers

The value of disability insurance has risen since 1980, and as a result, the SSDI replacement rate—the percentage of income replaced by SSDI benefits—has also grown. For workers without a high school diploma, the SSDI replacement rate is now above 54 percent.



Source: Author's calculations based on data from the U.S. Department of Labor, Bureau of Labor Statistics, "Median Usual Weekly Earnings by Education Level," http://www.bls.gov/cps/earnings.htm (accessed July 8, 2015), and Social Security Administration, "Annual Bend Points for Primary Insurance Amount (PIA)," http://www.ssa.gov/oact/cola/bendpoints.html (accessed July 7, 2015).

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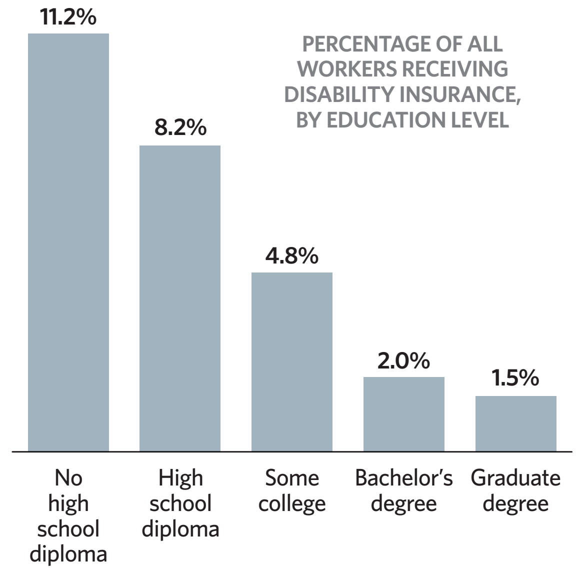
CHART 7

Less-Educated Workers More Likely to Receive Disability Insurance



Source: James Sherk, "Not Looking for Work: Why Labor Force Participation Has Fallen During the Recession," Heritage Foundation *Backgrounder* No. 2722, http://www.heritage.org/research/reports/2013/09/not-looking-for-work-why-labor-force-participation-has-fallen-during-the-recession (accessed June 11, 2014).

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funds. A payroll tax reallocation would rob OASI of about $330 billion in tax revenues and force the program into even earlier insolvency. It could also set the stage for Medicare's Hospital Insurance (HI) program to similarly tap the OASI Trust Fund, as the Trustees currently project that the HI Trust Fund will become insolvent in 2030, four years before the OASI Trust Fund runs dry. The fact that the OASI Trust Fund will be the last man standing should not mean that it has to bail out other insolvent programs. This type of race-to-the-bottom approach would encourage moral hazard and delay or prevent necessary entitlement reforms.

Additionally, reallocating money from the OASI Trust Fund to the SSDI program would increase near-term budget deficits. Despite the existence of a $2.8 trillion Trust Fund, the OASI program has been running cash-flow deficits since 2010. Thus, financing the SSDI deficit with paper IOUs from the OASI Trust Fund would increase near-term budget deficits on a dollar-for-dollar basis, and each of those dollars would need to be borrowed from the public, raising the public debt even higher.

It Is Not Too Late for Reform

With less than a year and a half before the SSDI Trust Fund runs dry, it is too late to enact and implement reforms that will make the SSDI Trust Fund solvent by 2016—but that does not mean that it is too late to enact reforms that will make the SSDI program solvent over the long term. The SSDI program is ripe for reform, and many scholars and organizations, such as the McCrery Pomeroy SSDI Solutions Initiative, are actively engaged in thoughtful research and advocacy of measures to improve the effectiveness, integrity, and financial stability of the SSDI program.[12]

A multitude of problems and inefficiencies plague SSDI. Multiple reforms will be necessary to improve its efficiency, integrity, and financial stability. Some promising reforms are:

- Providing incentives and support to help disabled individuals return to work;
- Establishing needs-based disability periods;
- Offering optional private disability insurance as part of the public program;
- Modernizing the disability definitions and qualifications;
- Implementing more effective and regular continuing disability reviews;
- Applying a flat benefit structure; and
- Improving the efficiency and integrity of the adjudication process.

Regardless of which reforms policymakers ultimately enact, it would be reckless to allow the SSDI program to take or borrow money from the OASI Trust Fund without requiring reforms that increase SSDI's solvency. Just as federal lending standards prevent individuals and businesses from obtaining loans that they will never be able to repay, the SSDI program should not receive any additional funding until it has established a credible plan for long-term solvency. The time for establishing that plan is now.

*—**Rachel Greszler** is Senior Policy Analyst in Economics and Entitlements in the Center for Data Analysis, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation.*

12. The Committee for a Responsible Federal Budget, "McCrery Pomeroy SSDI Solutions Initiative," http://ssdisolutions.org/ (accessed June 22, 2015).