

**PROJECTED DEPLETION OF THE
SOCIAL SECURITY DISABILITY
INSURANCE TRUST FUND**

HEARING
BEFORE THE
SUBCOMMITTEE ON
SOCIAL SECURITY AND FAMILY POLICY
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS
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PROJECTED DEPLETION OF THE SOCIAL SECURITY DISABILITY INSURANCE TRUST FUND

MONDAY, APRIL 27, 1992

U.S. SENATE,
SUBCOMMITTEE ON SOCIAL SECURITY
AND FAMILY POLICY,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:06 a.m., in Room SD-215, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan, Chairman of the Subcommittee, presiding.

Also present: Senator Riegle.

[The press release announcing the hearing follows:]

[Press Release No. H-19, April 20, 1992]

**MOYNIHAN ANNOUNCES HEARING TO EXAMINE DISABILITY INSURANCE, SENATOR SAYS
TRUST FUND MAY RUN OUT IN 5 YEARS**

WASHINGTON, DC.—Senator Daniel Patrick Moynihan, Chairman of the Senate Finance Subcommittee on Social Security and Family Policy, announced Monday a hearing on the projected depletion of the Social Security Disability Insurance Trust Fund.

The hearing will be at 10 a.m. Monday, April 27, 1992 in Room SD-215 of the Dirksen Senate Office Building.

"The recently released report of the Social Security Board of Trustees indicates that the Disability Insurance Trust Fund will be exhausted in 5 years," Senator Moynihan said. "The Trustees have provided Congress with notice of the situation, with a recommendation for congressional action. We will look into the economic, financial, and programmatic causes of the imbalance and chart a course of action," he said.

Earlier this month, Social Security Trustees released their annual report to Congress on the financial health of the Social Security system. The report shows that while the retirement trust is financially solvent for the next 45 years, the disability program will fall short of money needed for benefit payments by 1997.

"It should be noted that in my bill to reduce Social Security contribution rates, I provided for shifting a portion of FICA tax dedicated to the retirement program over to the disability trust fund," Senator Moynihan said. "Clearly this kind of action is needed, and other steps may be needed as well," he said.

The subcommittee will hear testimony from the administration and experts on Social Security programs and financing.

**OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN,
A U.S. SENATOR FROM NEW YORK, CHAIRMAN OF THE SUB-
COMMITTEE**

Senator MOYNIHAN. Good morning to our guests. This is a regular oversight hearing of the Subcommittee on Social Security and Family Policy to discuss the recent report of the Social Security

Board of Trustees that projects a depletion of the Disability Insurance Trust Fund.

Let me, first, on behalf of everyone here, welcome Bob Ball back to our counsel. He has not been as well as we would like, but he is now altogether back in trim shape and we look forward to hearing from him with the other Bob, Bob Myers. Those valiant public servants.

I have a statement here which I would like to place in the record, with appreciation to Ed Lopez, who crafted it so carefully, and, in order to move forward, to make a fairly simple point, but one which seems to me to be of large consequence.

[The prepared statement of Senator Moynihan appears in the appendix.]

And that is to say, I hope we would learn to get rid of the language of crisis where the Social Security system is concerned.

The only thing in the U.S. Government that is working in any financial sense is the Social Security system. It is in full and ample circumstance, I am sure our very able Commissioner will tell us.

The surpluses are running at \$1.5 billion a week. The surplus in prospect between now and the year 2015 would buy you the New York Stock Exchange.

It is a scandal that we are using this surplus as general revenue and not saving it. But, on the other hand, we have never got it over to the public that there is a surplus.

In 1977, as my good friend, Senator Riegle, knows, we in effect, and more or less unintentionally, moved Social Security financing to a partially funded basis. But there weren't 15 people outside of this committee who knew we had done it. And we went into a time of some very temporary difficulties, easily fixed.

But, then, in 1981, I believe, the then head the Office of Management and Budget said that the Social Security Trust Funds would produce the largest bankruptcy, the most devastating bankruptcy in history any hour now, which was a massive misstatement. Those funds were about to go into a huge surplus, as they promptly did, and as they are.

And now, we have learned from the trustees in a very able report that the Disability Insurance Trust Fund is expected to be exhausted in 1997 and could possibly be exhausted in 1995.

It is like a household where there are two checking accounts and one is running down and needs to have an infusion from the other. I mean, most of us have had that experience.

And it needs to be clear that there's no question about the overall solvency of the Social Security system. There are questions about management, questions about policy decisions.

We do not do a lot of chart talk around here, but because I really want our situation to be clear—and Senator Riegle, excuse my back—we just have a simple chart. This is to the year 2001. And we're now at 100 percent reserve, 100 percent of a year's outlays, and we go up to 250 percent by the year 2001 for the Old-Age and Survivors Insurance Trust Fund. The Disability Trust Fund goes down at our present allocation between checkbooks. I see the Commissioner agreeing.

But when you combine them, they go up to over 200 percent. They are going up, up, up, up. There is no problem of funds here.

There is a problem with policy and decisions, and we are going to hear about that. But this is just an arbitrary allocation.

We put this amount of money into this checking account, the rest to that one. And, if you have to adjust the allocations, you have the same upward trend. I just wanted to make that point.

We want to hear Senator Riegle, who was kind enough to come today.

OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN

Senator RIEGLE. Mr. Chairman, thank you for letting me sit in this morning. This is a matter of keen interest to me, as it is to you, as well.

Let me thank you, by the way, for your leadership and stewardship on all of the Social Security programs and issues. I do not know where we would be without it. And I feel a great sense of gratitude as a Senator and as a citizen for the leadership you give in this area.

Also, I want to say to our assembled witnesses this morning, this is really all of the home run hitters at one time in terms of those that can discuss these issues.

And I want to join you in welcoming Bob Ball back, with or without the Indiana Jones cap that he was wearing earlier. I'm delighted to see him.

And I am very interested in the issue of the administrative side of this question that has arisen here, both in terms of how the administrative process is working; is it doing what it should be doing? I quite agree with you that the fund, as a whole, is solvent, it is growing, the balances are growing.

I have the same concern that you do that we are tapping it for general revenue, which I think is improper and should be stopped. But we have not had the votes necessary to put a stop to that practice.

With respect to who is eligible and making sure that those that are properly seen as such and designated as such by the government, and also these changes in the review process that I see a number of the witnesses have spoken about. I am very interested in what they have to say on those points. And I thank you for letting me participate this morning.

Senator MOYNIHAN. Yes, sir. We thank you for coming, and, as always, bringing a very rich experience in these matters to the committee, as you have done.

We have the great privilege, of course, of having our opening witness, the Honorable Gwendolyn S. King, who is Commissioner of Social Security.

And with her, her very able colleague, Harry Ballantyne, who is the Chief Actuary of Social Security. We also have later on Robert Myers, a former Chief Actuary. We have a whole history of Social Security right here in front of us. It's one of those rare activities which, even to this moment—Bob Myers, were you not on the staff of the committee that drafted this legislation in 1935?

Mr. Myers. Yes.

Senator MOYNIHAN. In case any of you youth—that is to say, anybody under 60 over there—would like to know, you are in the

presence of a gentleman who helped draft this legislation in the administration of Franklin D. Roosevelt.

There is nothing equal in our government to the loyalty, the tenacity, and the effectiveness with which this group of public-spirited persons have stayed with this program for so long.

And, now, in a right honorable succession, Ms. King, we welcome you. We will put your testimony in the record and you proceed exactly as you wish.

STATEMENT OF HON. GWENDOLYN S. KING, COMMISSIONER OF SOCIAL SECURITY, ACCOMPANIED BY HARRY C. BALLANTYNE, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION, BALTIMORE, MD

Commissioner KING. Thank you, Mr. Chairman.

Senator MOYNIHAN. You have charts.

Commissioner KING. Yes, indeed.

Senator MOYNIHAN. Good.

Commissioner KING. I think you have preempted me on the one that seems to get everyone's attention.

Senator MOYNIHAN. Oh. There you are. There you are. Sure. Sure.

Commissioner KING. I appreciate the opportunity to join you today and I must congratulate you, as well, for your continued oversight of this very important program.

Mr. Chairman, you have, in your letter of invitation, posed a number of questions. And, in the interest of time and to keep within my 5 minute time limit—

Senator MOYNIHAN. No, no. You are the Commissioner. You get all the time you want.

Commissioner KING [continuing]. I will submit my full written testimony for the record. My oral testimony this morning will give you an overview of the current Disability Insurance financing situation, the reasons why the Disability Insurance Trust Fund does not meet the Social Security Board of Trustees financial solvency standards, and some of the options available to us to restore the Disability Insurance Trust Fund's financial solvency.

I think it is first important, though, that I repeat a critical point that you made earlier. While it is true that the Disability Insurance Trust Fund does not currently meet the long-term or short-term tests of adequacy used by the Board of Trustees, the public should not be given the impression that their Social Security benefits are in any danger. There is no state of emergency taking place.

As the chart indicates, the assets of the DI trust fund, under immediate demographic and economic assumptions, are estimated to decline steadily until 1997.

But the combined Old Age/Survivors Insurance and Disability Insurance Trust Funds are quite healthy; adequately financed for many years to come.

In fact, they are quite healthy, even if we assume not the intermediate assumptions, but very adverse conditions. Even under alternative III assumptions, the combined trust funds are in a quite healthy state.

And I think it is important that, if no other point, we make that point.

There are several reasons for the imbalance in the Disability Insurance Trust Fund; the differences between last year's trustees' report and this year's.

Let me just cite three of those significant reasons for you. First, is declining trust fund revenues. Because economic performance in 1991 resulted in higher unemployment and slower wage growth than had been anticipated, estimated tax income in 1992 and later years is projected to be significantly lower than the estimates in the 1991 trustees' report.

A second reason is the much greater increase in the number of disability applications and awards than had been anticipated in last year's report.

Under intermediate assumptions in last year's report, the disability incidence rate among insured workers was expected to rise from 4.1 per 1,000 in 1990 to 4.2 per 1,000 in 1991.

In actuality, it rose to 4.6 per 1,000. That is, 542,000 awards versus the prior estimates from 466,000 to 512,000. The incidence rates for the 1992 annual report and for future years have been revised accordingly.

And, third, the DI trust fund has been affected by the decline in disability termination rates. That is, the percentage of beneficiaries who leave the rolls because of medical recovery, a return to work, the attainment of normal retirement age, or death.

Disability termination rates due to retirement age and death have gradually decreased in recent years, in part because of the lower average age of new beneficiaries. This is, in fact, a baby boom-related factor.

Senator MOYNIHAN. Yes.

Commissioner KING. Increasing numbers of baby-boomers are reaching the age at which they are more likely to become disabled. The first members of this generation are now in their mid-40s, and the rest will follow over the next two decades. This has resulted in a general lowering of the average age of disability beneficiaries.

The younger beneficiaries, aided by medical and technological advances that increase life expectancy, tend to stay on the disability rolls longer, leading to lower termination rates and higher program costs.

I would add, Mr. Chairman, that this trend for disability beneficiaries to be younger and to live longer heightens the importance of programs designed to encourage persons who are disabled who wish to return to work to do so.

Helping more of our beneficiaries to re-enter the work force is a high priority of mine, and I anticipate increasing success in this area in the future as a result of some new and innovative initiatives that we have currently under way.

To answer your question about how best to address the DI trust fund imbalance, there are several options available. One, would be to reallocate a larger share of the OASDI tax rate to the DI fund. Reallocation, as you know, is not unprecedented.

And, in fact, the percentage of Social Security taxes allocated to the DI fund is already scheduled to increase, under present law, from 0.6 of a percentage point to 0.71 percent beginning in the year 2000.

Under intermediate assumptions—

Senator MOYNIHAN. Would you mind if I just pause for a moment there to make the point that we have two checkbooks here and we make distributions between them, depending on whether the car has to get fixed or the mortgage has to get paid. And there is nothing out of the ordinary in this.

We have the present rate, the Social Security contribution is 6.2 percent of payroll for employees and employers each. And we just, on our own here in Congress, say we will use 5.6 percent for old age and survivors benefits, and 0.6 percent for disability.

And if it turns out to be that we could use a little more in one and a little less in the other, there is nothing unusual. It is just a financial decision.

Now, there are policies that you have to pay attention to, whether the rate of disability allowances are going up or down, and how do you think about that.

But you made the point, we are responding here, in some measure, to a demographic change. The baby boom is entering the age group where you have hearing loss. So, we will pick up here, tack down there. We are not talking about changing the basic tax rate one bit, and there is no need to.

That language of exhaustion and insolvency; there is nothing insolvent here. And we have to tell this to a people who are not still sure after half a century and all that Bob Myers has done. Go ahead.

Commissioner KING. The Chairman is absolutely correct. We have already made the decision that 60 cents out of every \$6.20 collected will go for disability; \$5.60 for old age and survivors. That could be changed at any time.

I think it is important to note that in order to meet the short range test of solvency over the next ten years, we know that we will need some \$78 billion in the Disability Insurance Trust Fund.

And even if we accelerate the current allocation in the law that is not scheduled to kick in until the year 2000, if we accelerate that so that it kicks in in the year 1993, we will only bring some \$49.4 billion into the DI trust fund. So, it still would not meet the short range test.

If the percentage allocated to DI were increased to 0.8 percent beginning in 1993, then the Disability Insurance Trust Fund revenues over the next 10 years would increase to about \$104.5 billion, and that would meet the short range test.

There are, of course, other alternatives, including reducing program expenditures, increasing DI trust fund revenues in other ways other than reallocation, or some combination of increases and spending cuts.

The Board of Trustees, Mr. Chairman, has indicated that a careful review of the DI program financing should take place before any specific legislative recommendations are submitted. SSA will conduct that careful analysis, and the trustees expect to submit recommendations to the Congress when that process is completed.

Therefore, because of that charge to really consider this issue and all available alternatives thoroughly, we have no specific recommendations for you today.

Mr. Chairman, I would be pleased to answer any of your questions at this time.

[The prepared statement of Commissioner King appears in the appendix.]

Senator MOYNIHAN. All right. Well, let me just say, first of all, fine; that you are going to respond to this situation and do it carefully, as you do and as you ought. The trustees asked that we do get recommendations by the end of the year.

Commissioner KING. And we will do so.

Senator MOYNIHAN. And you will do so. Fine. May I just once again say, we need a new language to discuss these things? There is no issue of solvency here. There is no issue of exhaustion here.

There is an issue of how we handle our disability program, which begins in the 1950s and has had a bit of an up and down experience. I think, Senator Riegle, you may know this.

In the 1970s, the Office of Management and Budget began to be worried about whether too many people were getting Disability Insurance.

And, in the 1980s, with more influence from the Office of Management and Budget than this committee would like to see, they suddenly just started turning people down who, at enormous rates once they got an appeal, were told that you were turned down wrongly. And that is not much consolation to someone who has been. And such that the Second Circuit of the U.S. Court of Appeals based in New York has ordered the Commissioner to review the cases of these people. I mean, the court said that is outrageous.

There came a time—I do not know about Michigan—in the mid-1980s when the United States Attorney for the Southern District of New York refused any longer to represent the U.S. Government, the Social Security Administration, in these cases. He said, what is going on is outrageous. And he was proven right; the court has decided it was.

Now, that is the kind of thing that we want to address. At this point, you are satisfied that the determinations of disability, which have to be made fairly, are just that.

I mean, we have standards, we have a law, and you are applying it without any pressure from OMB to save money by telling people, no, you have not got a hearing problem, go away.

And when they cannot hear what you said and they will not go away, you have that kind of problem. I mean, how do you feel about it, Commissioner?

Commissioner KING. Well, there are two points I would make, Mr. Chairman. The first is, that on initial determinations—that is, the first time someone is allowed a benefit or turned down for a benefit—we are now reviewing 50 percent of all of those determinations before they go into payment status.

So, we are doing something quite different from what people did in the past, which is why I would say that history may not be repeating itself in every aspect.

Our Office of Program Integrity Review conducts a complete, thorough review of 50 percent of the allowance cases. And we are sure, especially in the insurance programs, that with a 98 percent accuracy rate we are making the right decisions.

The State Disability Determination Services, under some difficult circumstances I might add, because nobody has all the funding that

they would like to have, but they are making decisions accurately at the initial determination level.

That is, with the information and all the evidence that are available to them when they make the first decision, they are making that decision accurately in an overwhelming number of cases.

So, we are very confident that the people who are going on the rolls are eligible for benefits, and should be getting those benefits.

The second point I will make involves benefit terminations. While I have given you the major reasons for terminations, I think it would be fair criticism to say that Social Security is probably not conducting all of the continuing disability reviews (CDRs) that we are supposed to.

Senator MOYNIHAN. Yes.

Commissioner KING. Now, let me, for those who do not understand the term, CDR, continuing disability reviews, just say that we are required to look at the cases of people who are on the disability rolls after a period of time to determine if they should remain on the rolls. That requires a full and thorough review—medical review—because we now have a medical improvement standard, of those cases.

Mr. Chairman, our budget and our activities reflect reality. We know that it is important when people come to us for the first time that we look at their applications as quickly as possible. So, we really have been looking more at initial determinations than at continuing determinations. We, in last fiscal year, did perhaps the lowest number of continuing disability reviews in a long while; some 60,000.

Senator MOYNIHAN. Yes. Yes. You were down. This is the one problem. Of the programs, the one that has the most troubled history is disability. In 1983, you were doing 425,000 a year. And, by 1985, you were down to zero. And then, in 1988, you were up to almost 300,000. Now you are down to, what did you say, to about 50,000.

Commissioner KING. 74,000 in the last year, and we scheduled some 60,000 this year.

Senator MOYNIHAN. Which is not to say that you have to do the same thing every year exactly the way you did it the year before. But there is a certain sort of roller coaster here. And the court is coming in and the U.S. Attorneys say, I will not even defend our government here.

Commissioner KING. Yes.

Senator MOYNIHAN. Are you getting enough money from the Office of Management and Budget to do this work? That is a hard question to ask anybody. But you are Commissioner and we hold you in great respect. We need to know. You are getting \$950 million a year from OMB. That is not OMB's money. Right? It is trust fund money. Are they giving you what you need?

Commissioner KING. Mr. Chairman, our budget, of course, reflects budget reality. For disability, our 1993 budget request for the State Disability Determination Services (DDSs) is an increase of 10 percent over this current fiscal year's budget for the State DDSs. Overall, Social Security's increase in the 1993 budget request is 6 percent higher.

In fact, because we are all under the Budget Enforcement Act, and that does reflect reality, the circumstances across the board generally are that increases in the 1993 budget are far lower than that.

Are we getting enough? I think we are getting more than other programs. They would probably love to have 6 percent. Could we do more with more? Of course.

Social Security is a production-driven agency, if you will. When we get more applications coming in, we need to be able to handle more work, unlike many of the Federal programs.

Senator MOYNIHAN. I am not going to cause you any more discomfort. [Laughter]

But let me say that the term, budget reality, is what this committee is so concerned about. These are not general revenues that the Office of Management and Budget is giving you, these are your trust funds.

And the Social Security Administration, thanks to a long tradition, of which you are an exemplar, does a very good job. You have run this great program with one percent of your revenue. Just 1 percent administrative cost. What, about 40 million checks a month. And you do that on 1 percent.

It is your money, not OMB's money. But they have taken unto themselves the right to tell you how much of it you can spend and say, no, you cannot do—well, I am not going to ask you to answer this.

But they are quite prepared to say, you are spending too much money giving people benefits which the Congress intended them to have and for which they pay, and we want that money for other purposes. And that is sinful.

About a year ago, January, our beloved colleague, John Heinz, were on the Today Show one morning and we were talking about the use of the trust funds as general revenue. And I cited an editorial in a New York paper that said what was going on was thievery.

And Deborah Norville, up in New York—we were sitting together at a desk downtown here in Washington. Deborah says, Senator Heinz, do you agree that what is going on with Social Security trust funds is thievery? And he said, certainly not. It is not thievery, it is embezzlement. [Laughter]

As a businessman, he made these distinctions. But I do not think you are getting enough. And I do not ask you to respond, but make the point that these are trust fund monies. And if you need them to carry out the law, they are there. And OMB has not done you any favor to the contrary. Now, do not answer. Senator Riegle.

Senator RIEGLE. Thank you very much, Mr. Chairman. I think there is a problem in that area and I have great respect for the job that Commissioner King does. So, the comment I make will be in that context.

In Michigan today, we are finding that the Disability Determination Service is taking about 100 days to process a disability claim. I mean, the time period is really quite long.

And the indication I get from our State people is, is that there are severe staff shortages and that is what makes the time run as

long as it does. I assume that that is not just a Michigan problem, that the problem may exist other places, as well.

Now, there may be something else going on with respect to people seeking to establish their eligibility, but I am concerned about the budget pressures. And I think it is important that there be enough money available to do the administrative work on a timely basis, especially, I think, for people who are in a disability situation.

I am struck by the fact that while most people think of Social Security in terms of retirement benefits, and importantly so, I think the disability benefits available for younger workers is really one of the key aspects of Social Security and it is one of the things that tie our whole country together across age groups and across generations. Because you can be struck down at an early age and not be able to work.

And the whole idea of an insurance system is that everyone else who does not have that misfortune puts a small amount of money into a fund and then the person who has the disability can continue to maintain some semblance of a decent life, at least with respect to income. So, I think it is terribly important.

And, I must say, I am concerned about this chart, Mr. Chairman. Let me just indicate the concern that I have. I think it is quite right to say that this figure has come down now in terms of the projections into what looks like an under-funded position. That if you take all of the accounts, we are still up here in a good, solid surplus position.

But, nevertheless, we are not up here where we thought we would be. We are down lower than that. We are lower than that, as I listened to the Commissioner, for two reasons. One, is we are having a higher incidence of claims, and then people not getting off disability and into work situations. And that is part of the financial issue here.

The other is, we have got a sick economy. And we all know we have got a sick economy. So, the projection of revenues coming in, I take it from your statement, is less than what you had earlier projected.

So, there is less money coming into the fund overall than we thought, because the economy has been weak, unemployment has been high, and so forth.

Can you give me a measure of what the shortfall and revenue is in whatever way it is most clearly expressed, whether you want to do it over a five-year period, or year-by-year. But give us a sense, if you will, as to how much revenues themselves are down just because of fewer payments in than we had projected at an earlier time.

Mr. BALLANTYNE. Senator Riegle, I will answer the question. Over the next 10 years, revenues are down, in part, because of a lower rate of inflation that we are assuming also.

Senator RIEGLE. I see.

Mr. BALLANTYNE. That also reduces benefit payments.

Senator RIEGLE. I see.

Mr. BALLANTYNE. So, the net effect of those factors is to reduce net income, the assets of the funds. We have looked at the effect as a percentage of the entire effect of including the other two rea-

sons as well—the incidence rates and termination rates—and the effect of the economy and the effect on revenues is about one-fifth of the total effect over the next 10 years.

Senator RIEGLE. One-fifth is the revenue being less than you expected.

Mr. BALLANTYNE. Right. The economic effect on revenues. So, the majority of it—

Senator MOYNIHAN. And the fourth-fifths is—

Mr. BALLANTYNE. Is due to the other two reasons: the incidence rates and the termination rates.

Senator RIEGLE. Yes. And split that 80 percent, if you would.

Mr. BALLANTYNE. Well, it is about half and half. Termination rates are slightly higher than the incidence rates.

Senator RIEGLE. Yes. So, now, the inflation expectation, let us hope that is right. You have changed the inflation expectation, and that is part of your model.

Mr. BALLANTYNE. Part of the model. It is a little lower, so that reduces revenues. But it also has some effect on the outgo.

Senator RIEGLE. No, I understand. But it sounds like it is a significant item, because it sounds like it is 40 percent of the adjustment that you make.

Mr. BALLANTYNE. Not the rate of inflation. That is an offsetting effect on revenues.

Senator RIEGLE. I see.

Mr. BALLANTYNE. There is still some loss in real wage gains over the period. That is, the rate of increase in wages over inflation and a little higher unemployment rate which reduces the number of people employed.

And the combined effect of all those is to have an effect of about 20 percent over the next 10 years of the difference from last year's report.

Senator RIEGLE. Well, in my mind, recognizing that you have got these different contributing factors in this puzzle, the weak economy, the inability of our economy to perform up to a higher level—and, in fact, even to perform up to the level that we anticipated the last time we really did a forward estimate—is another indication of the cost to us when, in fact, the economy is not performing well.

And there is a cost in the Social Security system, and we are projecting a lower total amount of money quite apart from the separate accounts within the fund question.

I am also concerned, too, that even if we were doing a perfect job of identifying people who properly qualify and then if they recover and can go back into the work force, that we do, again, a perfect job in identifying that person so that they come on at the right time, and those that can come off come off at the right time, I am not sure that people today are able to find jobs even if they recover.

I mean, that is part of the problem. I got a letter the other day from someone who wrote in, watching one of the hearings, that has gone through job retraining. This is not a person with disability, but it helps make the point.

They have been through, now, three separate retraining programs in three different areas of work and still cannot find work. I mean, this is obviously somebody who is very serious about wanting to work and has gone through retraining programs.

I am wondering if we are finding, when the unemployment levels are as high as they are, if someone coming off disability is as able to slot back into the work force as might have been true at another time, or when the economy was operating at a more robust level.

I am wondering if one of the reasons people are maybe not getting slotted back in who can go back to work is that it is a very difficult situation out there to find work these days. I mean, the unemployment rate in Michigan right now is 9.3 percent.

Senator MOYNIHAN. Yes.

Senator RIEGLE. So, if you are coming off a disability situation, or if you are coming out of school, or even if you just lost your job because a plant has closed, it is very, very difficult to find a replacement job. Is that part of our problem here?

Commissioner KING. In the disability area, Senator, I would point out that, while people may not be able to return to work full-time, it is important to note that the level of substantial gainful activity has also increased from \$300—that is, where people could earn up to \$300 and still keep their disability benefits—to \$500.

Senator MOYNIHAN. That is \$500 per month.

Commissioner KING. Per month.

Senator MOYNIHAN. Yes.

Commissioner KING. So, that, indeed, people who are not able to work full-time may be working a little bit part-time to try to re-enter the work force.

Senator RIEGLE. Right.

Commissioner KING. And that may have some effect as well. We are not really sure how much.

Senator RIEGLE. Do you maintain statistics on the ability of a person that comes off disability to, in fact, find and hold gainful employment? I mean, do we have in effect an unemployment rate that we calculate for the person that comes off disability?

And the reason I ask is that I think this may be part of our problem. And, to the extent that it is, it is important to identify. Because I am strongly of the view that we are not making the economy as strong as we should.

And we are seeing damage all over the place. We are seeing it in the form of homeless people, we are seeing it in the form of plants closing, and then distress to communities that have to take those.

I think we are now seeing it in terms of the balances—the projected balances—in Social Security being less than what we anticipated them to be. Now, that is an economic effect.

Now, granted, we are still in surplus. But we are in less a surplus position than we anticipated. Now, part of that, of course, is the disability story, which is what we are here talking about today.

But for that aggregate line to be coming down is not a helpful sign. We would like to see that line stay as high as it is. I would like to see it go higher, in the sense that I would like to see even a more robust economy than the one that we were projecting. We are not seeing that.

And, within that, you are seeing a change in the performance statistics with respect to people on disability. I was surprised that your rate has jumped from 4.1 percent per 1,000, as you said, up to 4.6. I mean, that is a big jump.

Commissioner KING. The incidence rate. That is right.

Senator RIEGLE. Yes. That is a pretty substantial jump. And I think that is a 1-year change.

Commissioner KING. Correct.

Senator RIEGLE. Now, that, percentage-wise, is quite significant. And, granted, you have got baby-boomers in this picture. That seems to me to be an unusual increase.

Are there more people who understand they are eligible to seek this kind of help, or are more people getting hurt at work, or falling off motorcycles without helmets, or what is happening here?

Commissioner KING. I will let Harry speak to that as well. But the incidence rate tends to increase as the applications increase and awards increase. And what we saw over the last year was a huge increase in the number of people coming to us with applications for the first time.

Senator MOYNIHAN. I wonder if I could just ask Mr. Ballantyne to amplify. Which is to say, we have had Disability Insurance for about 35 years. President Eisenhower signed the bill. Do we have enough experience now to know how the cycle of employment affects the disability rates?

Mr. BALLANTYNE. Mr. Chairman, we believe that has some effect, but probably not a very large effect on the incidence rate.

Senator MOYNIHAN. Not a large effect.

Mr. BALLANTYNE. The incident rate, over the last 35 years, has gone up and down. And we do not fully understand the reasons why it does it. During the 1970s, it rose to over six per 1,000. And then, in the early 1980s, it fell to about three per 1,000. It is difficult to explain.

Senator MOYNIHAN. It is much more volatile than we can explain. The changes in the economy that are very important to individuals, very important to us, do not make that much change in something as massive as the Social Security trust funds. They just roll on. And we appreciate it.

For the record, let me make it clear that Mr. Ballantyne is giving his professional position. The actuary calls it exactly as he sees it. And being that, and being of his quality, he is quite capable of saying it is something we do not understand. I think, probably, we do not, do we?

Mr. BALLANTYNE. We do not fully understand.

Senator MOYNIHAN. Yes.

Mr. BALLANTYNE. Although, as you know, there have been court cases during the 1980s, and I think awareness of the program has increased. So, they may be contributing.

Senator MOYNIHAN. I want you to answer Senator Riegle. I did not mean to interrupt.

Senator RIEGLE. Can you tell us something about the profile of this burst of activity? I mean, is there a story in that in terms of what the composition of the kinds of disabilities are? Are we seeing more of a certain kind? Is there something that is causing that number to rise that dramatically in a single year's period of time?

Now, I am also mindful of the fact that I see lawyers advertising on television to take someone's case if they think they have a case. So, maybe we are seeing more people coming forward partly for that reason, as well. I do not know. But is there something in the

data that explains why it is that we are having what looks to me to be an acceleration here in a short space of time?

Mr. BALLANTYNE. Well, there is some lag in the time that we get data on the number of awards and the causes for the disability. I believe, as far as we know, that the increases are pretty well disbursed over different causes. There seem to be increases over all age groups. There does not seem to be any heaping at any—

Senator RIEGLE. So, it is not work place related more than it is something else away from the work place?

Mr. BALLANTYNE. I do not think it is. No, I do not think it is.

Senator RIEGLE. Do you know, or are you guessing?

Mr. BALLANTYNE. Well, we can look into that more fully. But my impression is that it is not.

[The information requested follows:]

The attached table shows the number of disability insurance awards in selected calendar years from 1970 through 1991. The awards in each year are classified by the worker's age in the year of award and, separately, by the nature of the disabling condition. The table shows increases in 1990 and 1991 in all age groups and in all disabling conditions (except in the "other and unknown" category). Although we do not have good data on the incidence of disability in the work place, the increased numbers of awards across the ranges of ages and disabling conditions suggest that work-related disabilities have not increased at any substantially different rate than disabilities that are not work-related.

NUMBER OF AWARDS TO DISABLED WORKERS, BY AGE AND BY DISABLING
CONDITION, IN SELECTED CALENDAR YEARS 1970-91

[In thousands]

	1970	1975	1979	1982	1985	1987	1988	1989	1990	1991
Total number	350	592	417	299	377	418	409	426	468	538
By age:										
Under 35	32	65	57	43	63	71	62	69	73	84
35 to 44	39	59	48	37	57	67	68	76	88	105
45 to 54	91	154	113	79	97	95	95	105	116	135
55 to 59	84	136	113	81	90	86	84	87	93	105
60 and over	105	178	86	59	70	86	100	89	98	108
By disabling condition:										
Infective and parasitic diseases	11	6	4	3	4	4	0	4	28	32
Neoplasms	35	59	59	51	56	50	66	76	78	84
Allergic, endocrine system, metabolic, and nutritional diseases	14	18	13	12	19	21	12	13	14	21
Mental, psychoneurotic, and person- ality disorders	39	65	46	33	67	96	90	93	106	126
Diseases of the nervous system and sense organs	21	41	34	27	30	33	33	38	41	42
Circulatory system	109	189	118	75	71	71	74	72	73	79
Respiratory system	25	41	25	21	19	21	20	21	23	26
Digestive system	11	18	8	6	7	4	8	8	9	11
Skeletal musculo	53	101	72	48	49	58	57	48	55	68
Accidents, poisonings, and violence ..	28	56	25	18	15	21	20	17	18	21
Other/unknown	7	18	13	6	41	37	29	38	23	26

Notes:

1. Detailed numbers may not add to totals because of rounding.

2. Beginning in 1990, AIDS/HIV cases are included in infective and parasitic diseases. Before 1990, such cases were included primarily in neoplasms or respiratory system, depending on the manifestation of the condition.

Source: Social Security Administration, Office of the Actuary, June 16, 1992.

Senator MOYNIHAN. Well, why do you not do that? Take your time, because you will do it. Take the time to do the kind of quality work you do. We have been at this for 35 years. There are administrative practices that change the rates of acceptance.

Mr. BALLANTYNE. Yes.

Senator MOYNIHAN. But the rates do not seem to change a very great deal. Is that right?

Mr. BALLANTYNE. Well, the number of applications has increased.

Senator MOYNIHAN. Yes. Yes.

Mr. BALLANTYNE. And allowance rates are higher. Incidence rates, therefore, are higher. So, they had been increasing during the 1980s, but that followed a decrease in the early 1980s. So, it is difficult to say where.

Senator MOYNIHAN. I would like to say that I am sure that Senator Riegle would like to see kind of a series on application rates and see if you pick any cyclical function up there.

Mr. BALLANTYNE. Right. Right.

[The information requested follows:]

Data on disabled-worker applications and awards are shown in the attached table for 1960 and 1965 and for each year 1970-91. The data show that awards per thousand insured workers were 4.5, 4.7, and 4.8, in 1960, 1965, and 1970, respectively. After 1970, the ratio increased each year to a peak of 7.1 awards per thousand insured workers in 1975 then declines each year until it reached a low of 2.9 awards per thousand in 1982 and has been rising since.

DISABLED WORKERS' APPLICATIONS AWARDS AND RATIO OF AWARDS TO APPLICATIONS AND AWARDS PER 1,000 INSURED WORKERS FOR 1960, 1965, 1970-1991

	Number of applications (in thousands)	Total awards	Total awards divided by total applications (percent)	Awards per 1,000 insured workers
1960	418.6	207,805	50	4.5
1965	532.9	253,499	48	4.7
1970	868.2	350,384	40	4.8
1971	924.4	415,897	45	5.6
1972	947.8	455,438	48	6.0
1973	1,066.9	491,616	46	6.3
1974	1,330.2	535,977	40	6.7
1975	1,285.3	592,049	46	7.1
1976	1,232.2	551,460	45	6.5
1977	1,235.2	568,874	46	6.5
1978	1,184.7	464,415	39	5.2
1979	1,187.8	416,713	35	4.4
1980	1,262.3	396,559	31	4.0
1981	1,161.3	345,254	30	3.4
1982	1,020.0	298,531	29	2.9
1983	1,017.7	311,491	31	3.0
1984	1,035.7	357,141	34	3.4
1985	1,068.2	377,371	35	3.5
1986	1,118.4	416,865	37	3.8
1987	1,106.9	415,848	37	3.7
1988	1,017.9	409,490	40	3.6
1989	984.9	425,582	43	3.7
1990	1,067.7	467,977	44	4.0
1991	1,207.8	536,434	44	4.5

Source: Office of the Actuary, Social Security Administration

Senator MOYNIHAN. And, also, there is a point you made implicitly, which is, it takes a generation to learn about programs such as this. It takes a long time for people to—well, we have had Social Security in place, we have had Survivor's Insurance in place for 50—let me see.

You sent out your first checks in 1940, did you not? Not you, personally. Survivor's Insurance has been there for half a century.

And I do not think a third of respondents in public opinion polls are aware that they are covered.

Mr. BALLANTYNE. That is right.

Senator MOYNIHAN. And a great point to make is that this is a contributory insurance system.

Mr. BALLANTYNE. Yes. That is right.

Senator MOYNIHAN. You do not get disability benefits because the government is being nice to you, you get them because you pay for them.

Mr. BALLANTYNE. That is right. In a big insurance pool, along with everybody else.

Senator MOYNIHAN. A big insurance pool. Yes. Yes.

Commissioner KING. Mr. Chairman, I will point out that we try to get a handle on some of the causes when we saw the applications increasing.

We did some quick studies—exit studies, if you will—of applicants who showed up at our offices.

We asked them questions and found out a little more than anecdotal information, but nothing that is really so substantial that we could present it as fact.

We saw instances where State and county offices were recommending that people try first at Social Security, to see if they were eligible for supplemental security income. And many of them are entitled also to insurance payments under old age, survivors, or disability. So, we looked at some of that.

We have seen an increase in the number of disability awards due to AIDs, but, of course, that is a phenomenon that is growing and so we are mindful of that.

We have several initiatives under way to identify cases that are going to be obvious allowances and move those along and not have people held up. Also, we are giving priority attention to claims from people with terminal illness so that we are able to quickly get benefits to them.

Senator RIEGLE. Yes. That would be very helpful. I appreciate hearing you say that. And, in that regard, having interrupted you momentarily here, I would appreciate it, too, if you could take a look at the problem that we are having in Michigan just in terms of the length of time to process disability claims. And I do not know whether that is on the norm/off the norm with respect to the rest of the country.

Senator MOYNIHAN. Well, I guess I have to tell you a little sheepishly that if it takes 100 days in Michigan, then the estimated average for next year is 7 months in the country. So, somebody is doing their job.

Senator RIEGLE. Is that right? Well, it depends—

Senator MOYNIHAN. That may not be—

Commissioner KING. That is not initial, Senator. Your number for initial determinations—how long it takes the State Disability Determination Service to do its job—really does average anywhere from 65 days in North Carolina, up to 123 or so days in a couple of other States.

Michigan has just had a blip. They do a superb job. In fact, if we look at the so-called backlogs—we do not even call them backlogs anymore, we have so many cases, we call them pending loads

work—we were concerned a little bit ago that we saw some States had pending loads work in excess of 20 weeks. Michigan is currently at 11.7 weeks work pending. They are doing a superb job in Michigan. They are also doing a very good job in New York.

Because they are big States, you would expect that they would be problem States. The State DDSs do a tremendous job in a number of those States.

We are looking at a lot of that. We think perhaps even our own outreach efforts have some impact on the number of people who say, "Well, gee, I might be eligible for that," so they come in and apply. So, we are really looking at the causes behind some of the numbers.

Senator RIEGLE. I do want to say again, though, for the record, that our director in Michigan has made it a point to say to us that they feel that they are under a severe staff shortage situation and they are having a very hard time.

So, it sounds like a new term, a "pending work load." I mean, it sounds like it is somebody on the hold button, but is several calls down the line. And I am concerned about it.

I like what you said about the fact that apparently the extreme cases, you have got some way to be able to move quickly. Am I right?

Commissioner KING. That is correct. That is correct.

Senator RIEGLE. Well, I would sure hope so. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you. Before you leave, may I just make a point to Harry Ballantyne that I am sure you worked with the public health service in terms of epidemiological studies. I mean, what a great fund of information about who gets impaired. Have automobile crashes accounted for more or less, is there a change in consequence of our efforts to deal with that crash injury prevention? You are a real resource, are you not?

Mr. BALLANTYNE. Well, we have access to information like that.

Senator MOYNIHAN. I mean, but it is your information.

Mr. BALLANTYNE. Right.

Senator MOYNIHAN. I mean, over 35 years, how much has tuberculosis come in or gone out.

Mr. BALLANTYNE. Right.

Senator RIEGLE. Now AIDs, as she says.

Senator MOYNIHAN. Yes. Yes.

Mr. BALLANTYNE. Right. And we study those trends. We could provide some information on that.

[The information requested follows:]

The trends in disabled-worker awards by disabling condition are shown in the table on page 14. The number of workers awarded disability insurance benefits because of tuberculosis is very low. The number of such allowances at the initial determination and reconsideration levels was only 111 in 1988 and 152 in 1991. Similar data for earlier years are not available. Before 1990, AIDS/HIV cases were classified according to the disabling conditions that were manifested in each case. As of 1990, such cases were included in infective and parasitic diseases—accounting for the relatively large increase in that category from 1989 to 1990.

Senator MOYNIHAN. The committee would like that and would appreciate it. Commissioner, we very much appreciate your coming. We have kept you much of the morning, but you have been thoroughly responsive.

Budget realities are a problem that you have to deal with. We do not think you are getting as much resources to run this program as you should have.

We make the point that these are trust fund monies. We make the point that you spend them very sparingly and very well: More we cannot ask. And we thank you for coming once again.

Commissioner KING. Thank you, Mr. Chairman. May I just make one closing point? And that is, that I have been assured, even though our funds are subject to the appropriation process, we are looking at these numbers very carefully.

And if these numbers of applications continue to trend upwards, we will be coming back with an additional request for funds.

Senator MOYNIHAN. Good. Good. And you are going to give us some recommendations before the year is out.

Commissioner KING. Before the end of the year. Absolutely.

Senator MOYNIHAN. Thank you very much.

Commissioner KING. Thank you.

Senator MOYNIHAN. One of the large changes that have been made in Social Security system in the 1980s was the addition of two Public Trustees to the Board of Trustees for the trust funds, which has always been the Secretary of Treasury, Secretary of Labor, and Secretary of Health and Human Resources.

And we enacted in 1983 the idea of having two Public Trustees. And, after a shaky beginning, it has been a real example of persons able to do public service of very high quality.

And we have two of the most distinguished members in that sequence.

And here to speak for us and report on their recent report on disability is Stanford G. Ross, who is not only the former distinguished Commissioner, but a trustee now; and David Walker.

I think I might just point out that there is a Republican and Democratic member, as is only proper. Mr. Ross, you are the Democratic member. And, therefore, up here, you come first. Downtown, Mr. Walker, you come first. We welcome you both, gentlemen, and will take your testimony.

STATEMENT OF STANFORD G. ROSS, PUBLIC MEMBER, SOCIAL SECURITY BOARD OF TRUSTEES, WASHINGTON, DC

Mr. ROSS. Thank you very much, Mr. Chairman. It is, indeed, a great privilege to be here today and to appear before this committee. This is the first time that we have testified since our confirmation hearings.

Senator MOYNIHAN. Oh. May I just interrupt to make a comment? You are giving us a joint statement.

Mr. ROSS. Yes. We have a joint statement for the record.

[The joint prepared statement of Mr. Ross and Mr. Walker appears in the appendix.]

Senator MOYNIHAN. Yes. Which is very impressive that you come together as the two Public Trustees. And this is your statement.

Mr. ROSS. And in our way, since we so far have been able to do everything together, we have sort of divided the areas we are going to talk about. I will make a few remarks, and then David Walker will make a few remarks and we will be available for your questions.

It is an opportunity for us to be here today, since it gives us a chance to report on some of the things we have been doing since we were confirmed into this job roughly 18 months ago.

First of all, in our statement, we note the findings that led the Board of Trustees to submit the Section 709 Disability Insurance Trust Fund Report.

You have heard that report described here today by the Commissioner of Social Security. We endorse the report and we believe that the notification at this time should provide adequate time for Congress to examine the situation and take corrective action.

I would make the point that we participated in the interpretation of this statute, which came into effect in 1983. And, since this is the first time it has been used, precedents are created and there were certain issues which required interpretation.

One was the time period that was relevant in finding this dip below the 20 percent reserve level. It was decided that if that happened within the 10-year short-term estimation period, since the statute said due regard should be given to giving Congress adequate time, that once that trigger was seen within our short-term focus, we thought it was proper to give the notification.

The second point of interpretation that we think is important is that the Public Trustees have a somewhat independent role as the eyes and ears of the public to make sure that provisions like this are acted upon and that Congress and the public hear about things in a timely and proper manner.

The statute calls for specific legislative recommendations. We felt it would not be appropriate for the Public Trustees, given their independent role, to be making specific substantive legislative recommendations on the disability program.

We do not have the resources, frankly, to conduct the kind of examination and analysis that would be required. And, so, we appended a separate statement to the Section 709 report to emphasize our independent role and our watch dog function, as opposed to a substantive legislative function.

The other two points I would like to make about the report are that, to get up to a 20 percent reserve level, would take around \$40 billion over the 10-year short-term period.

However, to meet the 100 percent solvency test for the short-term period would take approximately \$78 billion.

I think we feel that, since we do have this short-term test of 10 years, that as Congress and the administration study how to take care of this problem, that they focus more on the \$78 billion number than the \$40 billion number.

Because it seems to us that having institutionally adopted a short-term test, changes ought to put things back in shape to meet the short-term test.

Having said that much about the disability report, I would like to just take a couple of minutes to give you a little information on how we have been discharging our functions over the past 18 months in which two trust fund report rounds have taken place and two sets of reports have been issued.

We regard our core function as participating in the review of the short-term and long-term economic and demographic assumptions, and in the decision-making process based on those assumptions.

In addition to meeting with economists and actuaries from the staffs of all three *ex officio* members of the board, namely, the Managing Trustee, which is the Secretary of the Treasury, and then the Secretary of Labor and the Secretary of Health and Human Services, we considered the views of outside sources, such as those presented by the technical panels of the Social Security Advisory Counsel which recently issued its report.

We have been spending approximately 45-50 days a year on this, and the bulk of our time is devoted to this core function of being an independent voice in the preparation of these important reports, which are a form of public accountability.

We see as our second function being there to make statements as required and as needed to better protect the public interest and to bring things to the attention of the public and Congress.

Thus, in our first year, we pioneered the short, blue summary, which it took us—

Senator MOYNIHAN. And, as you say in your joint statement, it is written in English.

Mr. ROSS. Yes.

Senator MOYNIHAN. An innovation that is needed.

Mr. ROSS. It is reduced to approximately 10 pages, so even a busy person can get the gist of this enormous amount of very detailed and important material in a usable fashion.

Senator MOYNIHAN. Nice going.

Mr. ROSS. Well, we thank you. It took us from, frankly, May to November the first time. But this year, the decision was made to institutionalize the summary to get it out with the reports. It came out April 2nd. And all of the trustees have now endorsed it and signed off on it so it has equal dignity with the rest of the reports.

However, David Walker and I appended a short, two-page statement on the end to, again, provide a voice for the Public Trustees to the public and the Congress to bring certain things to their attention which we felt were of unusual importance in not only the report, but the summary.

The other things we have been doing are mindful of the points that you made at our confirmation hearings. We have been diligent in checking into the handling of the investments of the trust funds.

We have met with the Treasury technical staffs that supervise the investment and roll-over of bonds. We have another meeting scheduled. We cooperate with the Office of the Actuary of SSA, which is also very diligent in this regard.

And we feel that that area is one in which we are doing our due diligence. And we are very mindful that if there were ever a problem, we would come here and tell you about it just as soon as we noticed it to get your continued help and support in making sure that these reserves are properly invested and managed.

Finally, the other thing we have done is we have attempted, within the limited time available to us, and being cognizant of our role as financial experts, to do some public outreach to bring the important findings and information in these reports to the public.

And we have divided our time so that David Walker will give you a full report on those activities. I thank you and will be happy to answer any questions either now, or when he finishes with the balance of the report.

Senator MOYNIHAN. You are here together, and very importantly together. Mr. Walker, you take up the next half.

STATEMENT OF DAVID M. WALKER, PUBLIC MEMBER, SOCIAL SECURITY BOARD OF TRUSTEES, WASHINGTON, DC

Mr. WALKER. Thank you, Mr. Chairman. Chairman Moynihan, Senator Riegle, it is a pleasure to be here this morning. We do try to act together as much as possible, even though one is a Democrat and the other is a Republican. These programs are too important, really, to be the subject of partisan politics.

Senator MOYNIHAN. Exactly. Exactly.

Mr. WALKER. And we try to operate in that fashion. I am also the de-facto baby boomer representative on the Board of Trustees. This is very important since we need to instill public confidence in these programs many years into the future.

Stan and I have provided a statement for the record which we would ask to be submitted.

The Chairman. It will be placed in the record.

[The joint prepared statement of Mr. Walker and Mr. Ross appears in the appendix.]

Mr. WALKER. Thank you, sir. I would now like to briefly summarize a few points contained in that statement and to reinforce a few points regarding the Section 709 Disability Insurance (DI) Trust Fund Report.

With regard to the Section 709 report, while the statute is not clear as to what timeframe is appropriate for applying the 20 percent test, the trustees felt that it would be appropriate to submit the report at this time in order to provide the Congress with adequate time to consider appropriate legislative actions.

We believe that any Congressional action should be designed to meet at least the short-range test of financial solvency for the DI Trust Fund. That would require changes to improve the DI trust fund by approximately \$78 billion over the next 10 years.

The trustees were reluctant to recommend a reallocation of current payroll tax rates from the Old-Age and Survivors Insurance Trust Fund to the DI Trust Fund at this time. While this may ultimately be an appropriate action to take, we believe that a careful review of the DI program should be conducted prior to determining what, if any, additional legislative actions might be appropriate.

The department of Health and Human Services has been asked to conduct a review of the DI program and to report back to the Board of Trustees by December 31, 1992.

As Stan mentioned, as Public Trustees, we believe that we have an important role to play to make sure that the required notification is provided to the Congress and to assure that a process is in place to assure that legislative recommendations will be made to the Congress for consideration.

At the same point in time, we believe that those legislative recommendations should be made by the *ex officio* trustees, although we are available to the Congress for testimony and comment as appropriate.

There are a few other activities of the Public Trustees which I would like to briefly mention, Senators. These have been designed

to improve public access to and understanding of the information that is contained in the annual reports of the trust funds.

Stan touched on the fact that we, as Public Trustees, created in 1991 the first-ever Public Trustees Summary of the four trust funds, that is, the Social Security and Medicare trust funds.

This is a clear, concise, and plain English summary of the Social Security and Medicare Annual Reports. And, in 1992, this summary was joined in by the other trustees, and we have appended a two-page public trustees statement.

It is a 10-page summary of a 370-page set of reports. It has larger type to facilitate all Americans being able to read it. It has charts and graphs, and, we believe, provides a succinct analysis of the current and projected financial condition of these important Federal programs.

We also recently sponsored a work group to reorganize and plan a new layout for the 1992 Annual Reports, the more comprehensive reports, to make them more usable and easier to read for those individuals who are interested in a more comprehensive understanding of these programs.

There is a new overview section that has been placed in the front that includes the most significant information and the typeface, as well, has been enlarged to help assure that most Americans would be able to read it. And, again, lay-outs, such as graphs and charts that help to improve understanding and meaning have been improved.

We have also made a number of presentations to convey information about the financial status of these important Federal programs to groups with a professional interest, as well as to executives and top management of the Social Security Administration (SSA). We plan to continue these various outreach efforts in order to fully discharge our responsibilities in this area.

Mr. Chairman, that concludes my summary. We would be more than happy to answer any questions that either you or Senator Riegle may have at this time.

Senator MOYNIHAN. I just want to say hurrah. We put in place something that is working so well. Now, first of all, the public never says its thanks very well.

On behalf of this committee, and I am sure Senator Riegle will join me, to thank you two gentlemen. You are doing everything we had hoped you would do, which is to think about this Social Security system and how it could be better understood, how it could be better managed. It is very well managed, and it is not very well understand.

For the record, Mr. Ross is a partner of Arnold & Porter, that most distinguished law firm here in town. And you are a partner of Arthur Andersen, the worldwide accounting firm, and I believe you are in charge of compensation and benefit practices. We could not pay you, but thank God we have you.

Now, I want to get clear now. You think that before we simply pick up the allocation to disability within the 6.2 percent payroll contribution, we ought to look at the program itself and its practices to decide whether there are not changes that ought to be made on the ground first. Are you are telling us that?

Mr. ROSS. Yes. We, frankly, would be uncomfortable to have recommended a reallocation of the tax from OASI to DI without that study. In the first place, how much you reallocate is, in itself, a policy decision.

Do you bring it back to the 20 percent level, do you bring it to a 100 percent level, do you do something in addition? Until there is more analysis and study done of why we have had this fairly major change within 1 year, we thought it would be difficult even if one were in favor of reallocation to know exactly what reallocation means.

Senator MOYNIHAN. Good. We are not in any rushed circumstance here. We have a 75-year projection of revenues, we think, in terms of large populations and programs. I will address Mr. Walker. When we get this study from the administration, can we hope to have your comments on it?

Mr. WALKER. Well, we are always available, Senator, to provide comments.

Senator MOYNIHAN. Yes. And we will feel free to call you up and say, well, now, here, this is what you said should be done, do you think it was done well, just as we will soon as our—

Mr. ROSS. We would look at that as our function—to pass on whether the recommendations meet the tests of financial adequacy that have been established for the trust funds. And, in that role, we would expect to participate.

Senator MOYNIHAN. Good. And one of these days you are going to give us some views on the whole question of our present partially-funded system and whether we should return to pay-as-you-go.

I think the trustees in 1972 said, let us establish a pay-as-you-go basis, and then 5 years later we went to this partially-funded system which Mr. Myers has urged us to abandon on the grounds that we will just debase the surplus. Do you have any plans to advise us in this regard?

Mr. ROSS. Well, there are aspects of it that I think we can address, and aspects that we cannot address. I think we can address whether certain changes would, for example, in the long-term, meet the long-term financial tests of the program.

However, most proposals also have fiscal and economic policy effects, which are profoundly important and which really would go beyond what we see as our role. So, we could address parts of it, but perhaps not the whole issue.

Senator MOYNIHAN. I do not want you to anything that might jeopardize the rock-solid basis of your judgment offered within the specific confines of the subject. Mr. Walker.

Mr. WALKER. Senator, to regress just for a second on the DI program, we do believe that congressional action should be taken, at least in the next Congress with regard to this issue, given the period of time you are talking about.

Senator MOYNIHAN. Well, I think that is about where we are getting, is it not? We are going to hear from the administration by December. Well, that means next January or February we will start the new Congress and start this legislative cycle.

And I just think it has been first-rate that you are there. You are taking initiatives, you are thinking up things, and you are no-

ting that people's eyes get a little weak as they get older. A little large type does not do any harm.

Mr. ROSS. There is one additional long-range initiative that is related to what you mention we are undertaking. That is, with the support, particularly, of SSA, we are trying to launch a study to see whether some of the measurement techniques which are used with these important Social Security and Medicare programs can relate and can be extended to private sector and other related programs so that, as people project out the resources that are required for retirement income and health purposes over the next 20-30 years, perhaps more accurate financial information and data can be produced on a coordinated basis of both the public and private sectors, and that this will be a resource for policy-makers.

We do not intend to get into the policy dimensions of those issues in the debate, but we would like to improve the data base on which those policy debates do take place.

Senator MOYNIHAN. I want to turn to Senator Riegle here, but just before I do, to say that I would hope the two of you would consider the thought that there are enormous policy implications in the fact that a majority of non-retired adults do not think they are going to get Social Security retirement benefits.

After half a century, never a day late nor dollar short. The original benefits were to have started in 1942, then 1939 amendments moved them up to 1940. And still, that mood of skepticism.

If you do not think the government is going to keep your money and pay you back your insurance, if you cannot trust your government in that regard, what else can you trust, or is there anything else you can trust?

We have seen in this political year proposals coming from all across the spectrum, and one in particular would abolish the payroll contributions.

A flat tax would just eliminate all of those matters. It would seem to me to put in jeopardy the very idea that this is a contributory insurance system.

President Roosevelt was absolutely fierce on that point. There was a celebrated occasion in 1940, just as these things were coming on line. Luther Gulick, who was a member of the Committee on Administrative Management, came around to see him and said, you know, it does not make a lot of sense to have all of those millions of weekly contributions being posted by pen in hand.

Should we not just collect the money and pay it out? And Roosevelt, as Gulick recorded, said, oh, I am sure you are right on the economics there, Luther.

But those contributions have nothing to do with economics, they are there to make sure that every individual has a legal, moral, and political right to their retirement. And while they are there, no damn politician can take Social Security away.

And, may I make the point that if you are skeptical of what I have to say, you can call up Luther Gulick and talk to him. He is alive and well, aged 100, living up in Pottsdam, NY, sir.

Mr. WALKER. Senator, I think it is important to note this. We believe that we have an important responsibility to try to instill public confidence in these programs to the extent appropriate.

And, as you know, the reserves, the surpluses in Social Security and Medicare, are invested in special issue government securities which Stan and I have both seen and touched as recently as the last 6 weeks.

Senator MOYNIHAN. Good.

Mr. WALKER. And those government securities, in fact, are being converted to cash to pay benefits for the DI program and for the Supplementary Medical Insurance (SMI) program, so they are real.

They are backed by the full faith and credit of the United States. And, if you do not trust the full faith and credit of the United States, then have more fundamental problems, quite frankly.

Senator MOYNIHAN. Well, there you are. Again, with great thanks for what you do, my one thought here is we could send out to everyone paying Social Security once a year a statement of their contributions, their accumulated benefits, the payments, and what they could expect in retirement.

Senator RIEGLE. We ought to do it.

Senator MOYNIHAN. The largest cost in sending it out once a year would be the stamp. And we have in the statute that we begin it in 1997, or something like that. But something in the administration does not want to do it.

I mean, I can tell you my example. I entered Social Security, God in heaven, 50 years ago. And serving as I am on this committee and I am interested in this subject, I could be sitting here—well, I would have heard from them now because I have turned 65.

Otherwise, you could go 50 years and never know they know your name; never know they got your money, logged it, recorded it. Everybody gets a report from their insurance company once a year. But this most important of all insurance systems does not.

So, you have thought about that and I do not ask you to comment. I just want you to know that I think public confidence and understanding needs to be heightened so that people will know when something is putting the system in jeopardy. Senator Riegle.

Senator RIEGLE. Senator Moynihan, just a personal observation. I think the Hudson River tradition is alive and well in more ways than one. I think Franklin Roosevelt's commitment back years ago, as you cite, is in direct lineal connection to your own leadership now in these issues.

And it is so appropriate that the State of New York has been vigilant on these issues over a vast length of time and with a number of important leaders, you being the most recent.

I am struck by two or three things that are in your report, and I commend you, too, for putting this in plain language and getting it to 10 pages. That, by itself, is an achievement.

I am struck by two things. And let me back up to your full report before going to the summary. I notice that in the full report, in the overview on page four, you say the following: "The assets of the DI trust fund are estimated to decline steadily from \$12.9 billion at the beginning of 1992 until the fund is exhausted in 1997, based on the intermediate assumptions. Based on alternative I, which is the more favorable one, the DI Trust Fund would grow to 72 percent of annual expenditures by 2001. However, under the more pessimistic assumptions of alternative III, the DI Trust Fund would become exhausted in 1995."

So, you have got a range of estimates. Let me just finish and then I would be happy to have your comment. I take that, unless there is a meaning here that is between the lines, that it is conceivable under the more pessimistic assumption of alternative III that the fund could, in an accounting sense—obviously this is the checkbook issue within the larger collection of money that Senator Moynihan just said—could, in fact, be empty by 1995. Is that right?

Mr. WALKER. That is correct, Senator. I think that is an excellent point. One of the things that we do in preparing these reports is have three range of estimates: an optimistic, which is alternative I; pessimistic, which is Alternative III; and the trustees' best estimate, which is alternative II. All of these are plausible.

Senator RIEGLE. Right.

Mr. WALKER. And, in fact, this past year has shown that that can be the case. Because last year, under the best estimate, we had estimated that we would have adequate funds for the DI Trust Fund until 2015.

Interestingly, the alternative III assumptions in 1991 projected exhaustion in 1997. Because of some things that occurred during the last year, in fact, now our best estimate is that it is 1997; all the more reason why we feel it is important that the next Congress act on this issue. It is an excellent point.

Senator RIEGLE. Well, I think so. Because your trend line, even though you have got these ups and downs over time, we do not know that the history that is occurring now and will occur just ahead of us will necessarily follow the old patterns.

I mean, that is why I think we need to have some of this analytical data from the inside as to what may be at work that may be changing it.

Also, I am struck by the fact, also in reading your 10-page report, that we have got another checkbook that is in trouble. And that is the hospital checkbook that is in trouble.

When I read here, on page seven of the blue report, it says, "Although the trust fund ratio for hospital insurance is over the 100 percent level at the beginning of the 10-year period, it falls below that level by 1999."

Now, this is the 10-year look that you take, which is sort of the shorter run look. "As a result, it does not meet the short-range test," continuing on here. And then you go on in that vein.

I look at the chart that comes before that on page six. You see the same distressing curve on the hospital insurance. Now, bear in mind, that goes out further in time, so that is an important fact to make.

But, nevertheless, what you see here is a trend line that is taking you in a direction that obviously you are flagging because you are now saying it does not fall at the level that you would require within, now, the 10-year timeframe. Has that one also changed within the last year?

Mr. ROSS. It has changed, but not as dramatically. However, it is entirely possible that if the present trends continue, we would be sending a Section 709 report on that trust fund to the Congress next year, because the rate of decline and the slope will be very dramatic.

The reports, as you know, refer to the alarming trends in the Hospital Insurance Trust Fund costs. And you have correctly interpreted us.

There is one major difference, I would say, from the Disability Insurance program, in that there is not an associated well-financed program like OASI to combine it with to make a reallocation.

In Medicare the SMI program which is financed on a year-to-year basis also displays this same alarming trend in increased costs.

And either with specific program legislation, or as part of comprehensive health care reform, the problems of the Medicare program, we believe, should be addressed.

Senator RIEGLE. Well, I take it that that trend line, since last year, has now fallen into this flashing red light zone where you now have to say that it does not meet the short-range test. I assume a year ago it did meet the short-range test.

Mr. ROSS. It did. That is a change from last year to this year.

Senator RIEGLE. If I can, Mr. Chairman, I do not want to take more time now because you have other witnesses coming and you have been very kind to indulge my participation today, I want to relate a story in this that is very powerful.

It will just take a minute, and I think it will be worth our while. I have great emotional feeling about it. I am going to try to speak about it without the emotion.

My father just spent 3 months in a hospital and died at the end of that period of time and needed very intensive care, and fell under the Medicare coverage, and, therefore, would be a person, like many others, that would have received this kind of coverage.

I must say, I got an opportunity in personal terms and up and down the ward where he was in Flint, Michigan to see a number of cases similar to his, of other people who were on Medicare and receiving very intensive care.

And it is remarkable what the doctors and nurses can do with their dedication and advanced medicines that we have, although, in many cases, as older age comes on, there are problems that we can fend off for awhile, but not always for a great length of time.

But there was one situation that happened, Mr. Chairman, that I would just like to cite that I think relates in part to why this trend line is developing.

I mean, we are seeing people living longer, we are having a bulge in that population; medical care of that kind is very expensive, especially hospital care that is intensive in nature.

My father began to lose weight and was not able to eat. He was having kidney failure, among other things. And they finally had to feed my father with a feeding tube with a daily bottle of food supplement that came in a bottle about this size and was about this big around that was yellow, and you could see through it.

And, so, every day they would bring in this bottle, and it had a drip line that would come down, and, at a rate that he could tolerate, was holding his weight as best as they could do so.

But the bottle of this size and this big around only would last for 24 hours in terms of how long it could be used. Even if only part of it was used, it had to be taken down and a new bottle brought in to replace it.

And my father could only tolerate a speed at which this liquid was going into his body at a rate that, within the 24-hour period that the bottle was good, they were only using about one-third of it.

So, at the end of 24-hours it was still two-thirds full. They had to take it down, discard it, and start with a new bottle. And I asked the nurse one day how much these bottles cost.

And she checked to find out, because I could see that we were throwing more away than we were using, so I was wondering if there was a way that we could get a smaller bottle.

And the answer came back, the bottle was \$900. I could not believe it. I said, well, I think we need a bottle half this size. Can we get a bottle that is half this size, whether it is \$450 or \$500, or some premium, to move it into a smaller bottle.

And I was told, after they checked, that it cannot be had in a smaller bottle. It was just one of these answers that takes your blood pressure right through the top of your head.

And I have the feeling that, despite the wonderful quality of care that people can get, if they are in a fortunate enough situation where they have specialists and good nurses, and so forth, that there is tremendous premium cost in place.

I mean, I came away with the conclusion that somebody who was providing a \$900 bottle would rather provide the \$900 bottle, whether it was used or not, rather than a \$450 bottle for the difference in the size of a glass container.

I suspect, Mr. Chairman, that part of the reason that this line has this ominous drift to it is not just that we are living longer and the cost of medical care is high, but there is imbedded in the system tremendous cost premiums that we need to do something about.

And we need national health insurance. We need a plan of some kind that controls costs in a different way, undertakes to control it.

And if we do that in the broad health care system, we will get a payoff in the hospital insurance area here. Because all this cost shifting that is part of it is clearly one of the things that has caused your hospital insurance line to drop below your short-range test trigger point.

So, I cite that only as one illustration, Mr. Chairman. I mean, there are countless others. But we have got another checkbook problem here that we are not here to focus upon today. And I suspect, and I forecast as I sit here, that this is the way that line looks today.

You will be back a year from now, and I think I can virtually guarantee that that line will look worse with the next projection a year from now than it looks today.

And there will be a new chart that will probably paint a more ominous picture because of just the things that I see and the fact that you cannot reach this by yourselves.

I mean, you can do a wonderful job and work 24-hours a day as the Public Trustees, and you are doing a fine job, and I commend you for it. You cannot solve that problem.

I mean, all you can do is report on the status of the depletion of the fund balances. But we have to solve that problem and the

President has to help us. And the failure to do it is putting all of our balances, in some degree, in jeopardy.

Mr. WALKER. Can I comment very briefly, Senator?

Senator RIEGLE. Well, you wanted to comment, Mr. Walker. Now I am finished.

Mr. WALKER. Thank you, sir. We are very concerned about the Medicare side. We know that this hearing is primarily focused on DI. And we do expect that if our best estimates turn out to be the case next year, that you will be receiving the 709 report on the Medicare program, the HI program, next year.

In fact, we think we have three alarms we can send off to the Congress. The first alarm is when any of the programs do not meet the 75-year test, and none of them do at the present time.

The second alarm is when one of the programs does not meet the 100 percent short-term test of financial adequacy. And right now, OASI and HI do not.

The third alarm is when a program fails the 20 percent test, which DI failed this year, and we expect HI to fail next year. And you properly point out that the costs are escalating at a rapid pace in the Medicare program. Medicare represents a subset of our broader health care challenge. We have got to change with incentives, improve information, and enhance accountability to get control of these costs, whether it be Medicare or the broader health care challenge.

Senator MOYNIHAN. I could not more agree. I guess my own view is that we are dealing here with a problem of Baumol's disease, which is another subject, another hearing, another time. Gentlemen, we thank you so much. Do not go away.

Mr. WALKER. Thank you.

Mr. ROSS. Thank you very much.

Senator MOYNIHAN. The other watch dog of our financial integrity and is indispensable in these regards is the General Accounting Office.

And in the GAO, which is, of course, a branch of the Congress itself, no one has been more indefatigable and more resourceful over the years than Joseph Delfico, who is the Director of the Income Security Division of the GAO.

And, once again, we turn to you, and once again you arrive with a report, and your thoughts all together. We are very happy to have you again, sir. You have an associate with you?

Mr. Delfico. Yes, I do. This is Mr. Barry Tice. He is our Assistant Director for Disability Issues in GAO.

Senator MOYNIHAN. Mr. Tice, we welcome you to the committee. Have you been before us before?

Mr. Tice. Yes, sir. I have.

Senator MOYNIHAN. I thought that. It is nice to have you here. Sir.

STATEMENT OF JOSEPH F. DELFICO, DIRECTOR OF INCOME SECURITY, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY BARRY TICE, ASSISTANT DIRECTOR, DISABILITY ISSUES, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Mr. DELFICO. Thank you, Mr. Chairman. I would like to submit the full testimony for the record.

Senator MOYNIHAN. Of course. Of course.

Mr. DELFICO. I will give you a brief 5 minute summary of the points that—

Senator MOYNIHAN. Now, you have waited all morning, sir. Take your time.

Mr. DELFICO. All right. Thank you. Also with me today is Mr. David Fisk, who helped prepare this testimony. He is sitting in the audience, and is prepared to help us out if needed.

Senator MOYNIHAN. Mr. Fisk. Where?

Mr. DELFICO. He is here.

Senator MOYNIHAN. There is Mr. Fisk. Good. Sir.

Mr. DELFICO. In the first part of my testimony, I will briefly highlight some of the underlying factors that have contributed to the DI trust fund situation. I will then discuss problems with DI program administration.

To a greater or lesser degree, several factors have led to increases in trust fund expenditures. You asked that we address these factors in your letter.

The first is the application rates. As we have heard this morning, disability application rates have risen, in part, as a result of recent increases in unemployment rates.

Senator MOYNIHAN. You are prepared to say that. Harry Ballantyne did not feel he—

Mr. DELFICO. Yes.

Senator MOYNIHAN. He said 20 percent, maybe. But you find that a fact.

Mr. DELFICO. We find that the application rates and unemployment rates have tracked pretty closely. But I agree with Mr. Ballantyne in that they have cycled over the years. There is not a continuing trend here, but we believe they are affected by unemployment rates.

Hard economic times make it more difficult for severely impaired people to find jobs. And hard times may also provide an incentive for even less severely impaired people without work to apply for disability. We are finding that many working persons have physical conditions that meet or equal SSA's disability standards. Many of these new applicants will qualify for benefits.

There are other factors, such as increased outreach efforts, that also affect application rates. And, frankly, the effect of outreach efforts is very difficult to measure. But the Commissioner has increased her outreach efforts and this may be affecting the application rates.

Another factor is the allowance rates. Once one applies, we found that between fiscal years 1988 and 1991, the initial DDS allowance rate for DI applicants rose from 40-46 percent.

Senator MOYNIHAN. Yes.

Mr. DELFICO. Although these rates are not the highest ever experienced, they are substantially higher than those experienced over the past decade.

Senator MOYNIHAN. Give us that again. In the 1970s you were getting up towards 60 percent?

Mr. DELFICO. I think the highest—Barry, you can correct me—was about 48 percent.

Mr. Tice. The allowance rate?

Mr. DELFICO. The allowance rate.

Mr. TICE. It was as high, as I recall, as 48 percent was the highest in the mid-1970s.

Mr. DELFICO. Right.

Senator MOYNIHAN. 48.

Mr. DELFICO. 48, in the mid-1970s.

Senator MOYNIHAN. So, we are getting back up there.

Mr. DELFICO. We are getting close to it. Unfortunately, the reasons for these increases are not fully understood. Perhaps one of the most difficult factors to understand is the general administrative environment.

Now, that is a soft term, but I would like to clarify it a bit. Disability decisions—especially the marginal cases—require difficult judgments. Therefore, changes in examiners' attitudes, as influenced by their work and management environment, may affect allowance rates.

The extent to which this occurs is very difficult to determine, but it could be significant, particularly in the long-run.

Trends in appeal levels have also caused increases in the rolls. Administrative law judges' allowance rate has been rising, from 50 percent in 1985, to about 66 percent in 1991. In 1990, over 15 percent of the new entrants into SSA's disability program came from the appeals process.

The size of the rolls is also affected by termination rates, the rate people leave the rolls. These rates are affected by such factors as individual motivation toward rehabilitation, and removal because of medical improvement or death.

Movements off the rolls has slowed as the average age of disability applicants has been going down, as you heard from the Commissioner this morning.

Senator MOYNIHAN. Yes. Yes.

Mr. DELFICO. One contributing factor has been the virtual cessation of continuing disability reviews, and we will get into that point a bit later.

Class action law suits may become significant sources of new awards. As you pointed out earlier, there have been two cases in New York covering both SSI and DI that have potential class sizes of 200,000 or more. SSA is currently tracking over 45 class action law suits at various stages of the legal process.

Now, these law suits may lead to growth in the rolls. I do not know how you can account for them, and I do not think they have been accounted for in any of the actuarial projections to date, because these are all potentials.

With regard to program administration, SSA's disability programs are currently experiencing administrative problems, including inordinate delays in processing initial disability applications. Also, as Senator Riegle has pointed out, he has heard from his constituents in Michigan that there are indications of deterioration in the quality of the determinations. In addition there are insufficient numbers of CDRs to maintain the integrity of the rolls.

Senator MOYNIHAN. Yes.

Mr. DELFICO. The average time needed to process an initial disability determination is growing rapidly. In 1993, a DI applicant

can expect to wait an average of 7 months for a disability determination.

SSA's work load has implications for future delays in the appeals process, also. ALJ decisions now take over 7 months on the average. In the near future, many denied applicants who appeal will have to wait 14 months or longer for a final decision.

With regard to the quality of decisions, SSA's quality assurance data point to another problem. Error rates have increased, and almost all of this increase has come from errors on denied cases. We think it noteworthy that—

Senator MOYNIHAN. Now, that is important. You are finding that there is no random distribution of error, the error has a bias toward denial.

Mr. DELFICO. The increases have been for the denials. The allowance error rates have stayed fairly constant over the years.

Senator RIEGLE. There are some things that they are not being credit for and they are being turned down and not getting the benefits. Is that right?

Mr. DELFICO. Senator, the increases have been for people who have been denied. Eventually some go through the appeals process and get allowed.

Senator RIEGLE. But they actually should have been certified as having the disability and have had their eligibility established, but were turned down. So, they have had to go through the grief of actually having a disability, been told that they did not qualify when, in fact, they did.

They have had to make do as best they can and then you are finding that eventually, in some cases at least, they get this remedied in the courts. But I think that is a key finding.

Mr. DELFICO. There is one point that I would like to clear up. The error rates for denials include paperwork errors that may or may not cause someone to be unjustly denied. And then there are errors that directly affect the denial itself.

People that do reapply, in some cases, and are allowed. But you are right, there are some that are adversely affected by this increase in denial rates.

And the point here is that the increases in errors seem to track the increased work loads in the DDSs. And, although we do not have a cause/effect relationship here, we do have a correlation.

A major cause of increased processing time is the increases in the applications coupled with the decreases in DDS resources. I think this is a key point.

Application rates have increased by 36 percent between 1986 and 1992, while DDS budgets fell 11 percent in the same period. So, they are trying to do more with less. And from the statistics, it looks like their productivity is starting to flatten out.

To address these work load issues, perhaps as much as a \$500 million would be required to handle the new applications and stop the backlogs from increasing in 1993, reduce the fiscal year 1993 starting back log to an acceptable level, and to process the overdue CDRs. We made that estimate just to show you the magnitude of the work load problem.

Senator MOYNIHAN. Now, just so I get a sense here, you are asking for a 50 percent increase. You are saying that is what is in order.

Mr. DELFICO. That is what is required to do the three things I have mentioned.

Senator MOYNIHAN. Yes. So, this is not on the margin. This is not saying, well, come on, loosen up a little. You are saying that this program needs half again what OMB has allowed to spend the money properly.

This is an insurance program, it is not an optional expenditure. That is a powerful statement, of which kind we have learned to expect from you, sir.

Mr. Tice. Mr. Chairman, I should point out that over half of that estimate is due to the huge backlog of CDRs. So, what we factored into that calculation was the SSA estimate of over 1 million CDRs that were pending and have not yet been worked. So, that is obviously a very large—

Senator MOYNIHAN. So you have a problem to work down. If you have got that behind you, why, the increase might not be that big.

Mr. Tice. That is correct.

Senator MOYNIHAN. But to do it, you need that money.

Mr. DELFICO. And the related point is, the estimate does not include any savings in future benefit costs because of the processing of CDRs. If you process the CDRs and people leave the rolls, benefit payments will drop mitigating the trust fund problem. But our estimate does not include any reduction in trust fund expenditures because of that.

SSA's efforts to cope with increasing work loads within the existing budgetary constraints has led to them de-emphasizing CDRs, as you heard this morning, from the Commissioner.

As Mr. Tice stated, over a million such cases are backlogged at present. CDRs are important beyond the dollars involved, we feel.

The failure to do the CDRs means that increasing numbers of ineligible remain on the rolls and may erode public support programs.

Mr. Chairman, that concludes my brief statement and I will be pleased to answer any questions you or other members of the committee may have.

Senator MOYNIHAN. Well, you were too brief. The value of testimony is measured in its length around here. No. That was a succinct and superb job you have done.

To be clear, we will, in this committee, be thinking about persons who are denied benefits who do deserve them. The rhetoric of this political year is directed much more to people who get benefits who do not deserve them. Let us be clear about what the climate is out there.

In any event, we do not, in fact, have a bias either way. We simply want that insurance program effectively administered. And, on that point, the disability reviews, the continuing disability reviews—and that is a process where, what, about every 5 years—

Mr. DELFICO. Three years.

Senator MOYNIHAN. Every 3 years they call you in and say, how are you doing. People get better. You have to believe that, at our

age. And they do, and that is good. In therapy, and things like that.

We want people to get better. And if they are better, they do not need their insurance and they should not get it. For a period there, you see the politics of it.

The Reagan Administration came in from about 100,000 cases a year. They zoomed up to 400,000, and people said, what are you doing? And they stopped, crash, down to none. And they zoomed up not quite so high again, and now, inexplicably, we have thought they crashed.

But what you and Mr. Tice tell us is that they are so short of resources up there, the first responsibility is to handle the people entering the system that they do not have the review. And you save money through that process, do you not? What would you all think should be about the average in an annual rate?

Mr. DELFICO. Annual rate of processing CDRs?

Senator MOYNIHAN. Yes. Yes. Number, not rate. Sorry.

Mr. Tice. I think about 300,000 to 400,000.

Senator MOYNIHAN. 300,000 to 400,000 is about right. And you could say we save about \$4 for every dollar spent.

Mr. DELFICO. That is correct. That is an estimate that is about 2 years old, but I think it holds up pretty well.

Senator MOYNIHAN. Well, this is a sort of incomprehensible. I mean, the integrity of the program requires the public to know that persons who are entitled to benefits get them, and persons who are not do not.

And we have ceased the review process, the checking up every 3 years, how are you doing, where you think you would save \$4 for every dollar you spend. But what is the problem, is it OMB? Or has this always been kind of a troubled aspect of the Social Security Administration?

I mean, it is clear that it is a lot easier to certify that you have turned 65 and that you have a 40 percent loss of hearing. The judgmental aspect of disability insurance is always going to be there. You, gentlemen, are experienced at public administration. Is this a troubled organization?

Mr. DELFICO. I think there are many factors that are starting to come together and affect the program, Mr. Chairman. We have been watching this and have been concerned, now, for over 5 years.

The first one is the resources for the DDSs. For 5 years we have been saying that they have been awfully low, resulting in long processing times.

Also, because of a lack of resources, the continuing disability reviews are not being done. In addition to that, there are factors outside of the program that are starting to have an effect.

The SSI program has been growing quite rapidly. The disability examiners are one and the same. Since the same disability examiners deal with both SSI and DI, they are affected by both work loads. It is not only the DI work load, it is the SSI work load that also affects processing time. We are very concerned about the SSI work load having an impact on the DI work load.

And, finally, the impact of the courts are concerning us. The decisions of the courts are concerning us since they could increase the

work load for the DDSs. Without increases in resources, the DDSs are not going to be able to handle it.

Senator MOYNIHAN. Well, there is something the matter with an administration that is this erratic. One year you are reviewing 400,000, the next year, none. The year after that 300,000, and 3 years later, none.

This is not the kind of steadiness you want to see and you ought to have in a large organization with plenty of resources. I mean, the trust funds have all the resources in the world to see that you can carry out responsible reviews, and the economy and savings that go with it.

Would you give some thought sometime to the whole arrangement that we put together for the disabilities reviews? We say it is State activity. Is it efficiently that? I do not have a view one way or the other.

But in that they deal with SSI, as well as DI may make for complexity. We are going to have a hearing on SSI, which is Supplemental Security Income. It is the one thing that came out of the Family Assistance plan.

Do you get the feeling that over at the Social Security Administration which is located in Baltimore, and not necessarily the best idea having it in Baltimore; you would like to have them closer to the capital, are they aware they have a problem here?

Mr. DELFICO. Yes, Mr. Chairman. They are aware of the problem. They have been trying to deal with the problem. Over the years they have been trying to make inroads with the DDSs and vice versa to improve communications.

The one area where I think they really need to focus now is on increasing the technology and technological support to the DDSs. Some of the DDSs, quite frankly, are running with antiquated computer systems and processes that are quite primitive. And, I think with SSA's efforts in that area, they are starting to—

Senator MOYNIHAN. The record on old age is very good.

Mr. DELFICO. Yes.

Senator MOYNIHAN. And the general administrative performance is very high. For 1 percent of cost, this system is in place. You would agree?

Mr. DELFICO. It is a low number. Comparatively speaking 1 percent is a low number.

Senator MOYNIHAN. And this is kind of anomalous over here. There is no doubt about it, there was a level of sort of political instruction in the early 1980s to get people off the rolls.

And they did. The courts have so stated. When a U.S. Attorney said, I am sorry, I am not going to defend the government on this anymore, you know that something is out of order.

Thank you very, very much.

Mr. DELFICO. Thank you, sir.

Senator MOYNIHAN. Senator Riegle.

Senator RIEGLE. No questions, Mr. Chairman.

Senator MOYNIHAN. I mean, we just want to thank you. We cannot tell you how important it is, Mr. Tice and Mr. Fisk, that we have you there. You are the friend of these programs, and, therefore, when you are a critic, we listen.

We are going to get those recommendations and early in the next year we will be taking up legislation. I want to ask you back. Can I just sort of put you on notice that it will be helpful if we could hear your view of the recommendations when they come in?

Mr. DELFICO. Yes, of course.

Senator MOYNIHAN. Because we want to hear that in testimony.

Mr. DELFICO. I appreciate your invitation.

Senator MOYNIHAN. We appreciate it more than you can say. Thank you very much.

Mr. DELFICO. Thank you.

Senator MOYNIHAN. May I say to Mr. Ross and Mr. Walker, that when I said do not go away, it was only meant, do not leave Washington. [Laughter]

But do not miss this opportunity to meet two of the legends of our time. There are no two men who have done more to put this program in effect, keep faith with it over the years.

Everything that we would like to be in a senior citizen you see before you. And Robert M. Ball, the former Commissioner of Social Security; Robert J. Myers, the former Chief Actuary, one of the persons who helped draw up the legislation in 1935, and both of you have done so much since. We have your testimony.

Gentlemen, I guess Mr. Ball is alphabetically first. Again, it is good to see you looking so well. Welcome back to the committee. When whichever of you gets to your 50th anniversary before this committee first, let us know. We will give you a golden gavel of some kind. Bob Ball.

STATEMENT OF ROBERT M. BALL, COMMISSIONER OF SOCIAL SECURITY (1962-1973), WASHINGTON, DC

Mr. BALL. Thank you very much, Mr. Chairman. At the risk of seeming impetuous, I would like to begin with the point that I do not see a need to wait for studies in order to take action to move a part of the OASI rate over to DI. I think that will be the inevitable conclusion of any study.

It would strengthen the country's faith in the program if the shift were made now. I recognize it is probably not going to happen, given the trustees' recommendations for delay, and I am not going to make a big point of it.

But you introduced legislation in 1990, you will remember, to move part of the rate from OASI to DI, anticipating this problem.

And if, by any chance, the House wants to do that and the Senate wants to do it, I think it is fine. I would not take this view if I thought the cause of the disability financing difficulty was primarily an administrative or policy problem. It may be partly that, but the increase in costs in disability is primarily the result of an objective factors and can not be made by administrative changes.

I would recommend that you move enough of the rate so that both OASI and DI would be adequately financed for about the same length of time, about the mid-2030s, under the present combined contribution rate.

Senator MOYNIHAN. Thank you at least for pointing out that we have no shortage of resources in this income stream.

Mr. BALL. I agree. The combined OASI/DI rate is estimated to be adequate for well over the next 40 years.

Senator MOYNIHAN. We are going to have to deal with some issues in the year 2030. No doubt, someone will be around to do it. But we are talking about making adjustments in a perfectly ample basis.

If the administration wants to look at the question of how this program is being run, I think we would defer to that if only to encourage it. But, go right ahead, sir.

Mr. BALL. Yes. As I said, I am not going to make a big point of immediate action, but there is an advantage in terms of public faith in both programs to avoid a story each year that the disability program is somehow getting close to running out of money.

And the reallocation would, of course, avoid that. You will remember that this contribution rate shift has occurred many times in the program. Disability is quite volatile.

And, in 1982 in the National Commission on Social Security Reform, and then reflected in the 1983 amendments, we went the other way. It looked then as if the OASI program was the one that was on the edge. So we moved over from the 1.1 percentage points increase in the rate for disability in the 1977 amendments—

Senator MOYNIHAN. Down to the present point.

Mr. BALL. Yes. You actually moved a whole half of a percentage point in the contribution rate from disability to OASI.

Senator MOYNIHAN. Yes.

Mr. BALL. Giving some of that back, is what the present proposal amounts to. If you moved about 0.85 or 0.86, you would then have the two programs estimated to be equally well financed on into the future.

But I would like to spend most of my time, Mr. Chairman, on the fact that I think that Social Security should stop bragging about how little they spend on administration—0.9 percent of income for both OASI and DI together—less than 1 percent of the money taken in and start spending some more so as to do an adequate job administrating.

It is not just disability. At the moment it is primarily inadequate funds for disability administration that is having an effect on program costs. It is very hard to understand how the President could have submitted a budget that acknowledges an 800,000 pending load, way too high now, and in 1993 plan for the pending to go to 1.4 million under the amount of administrative money being requested.

Senator MOYNIHAN. Yes. Those are the numbers.

Mr. BALL. But I would like to make even a broader point. And that is, well-run private insurance companies have a ratio of administrative costs to benefit outgo several times what Social Security spends. I am not suggesting that Social Security should come up to them, but less than 1 percent of total income just is not enough to do a good job.

I do not know where it should go to but it is clear that it should be, I think, somewhere between 1 and 2 percent of income, at least. There are delays in payment, there are complaints about the 800 number, there is one thing after another. An organization which has always prided itself on good service is, in many areas, not giving as good service as it should.

Social Security is an insurance program. As you have pointed out, the money comes from deductions from workers' earnings, employer's matching amounts, and the self-employed. These contributors deserve service that is at least comparable to private insurance. You do not have to spend as much, but you have to give as good service. And I would like to emphasize that point.

Now, how can we be sure this will happen? Two steps would help a lot. One, would be to take the administrative budget of Social Security out of the general budget, just as you have taken the program money out of the budget, and treat the administrative money as what it is: A specially dedicated amount coming from workers' and employer's contributions.

Then a lot of the pressure to cut administrative funds would be relieved. I can speak from some experience on that. We had, I have to say, an easier time in the appropriation process back when I was Commissioner than other agencies. Because cutting Social Security did not make the money generally available. It was an authorization to spend from the trust fund and if the authorization was cut, the money stayed in the Fund. Cutting did not make it easier for the rest of Government. Thus we had an easier time than an appropriation from general revenue.

Senator MOYNIHAN. Senator Sasser, as Chairman of the Budget Committee, has proposed this. I certainly support the idea. This money belongs to the contributors.

And whatever else, the decisions about resources spent on running Social Security should not be driven by the Budget Director's desire to raise or lower Federal outlays, generally.

Mr. BALL. I think if the Congress could follow through on that, it would make a tremendous difference in the long-range confidence that people had in this program, as well as a reduction of waiting times.

They need in many places, better Social Security offices, and more convenience for the public. There is no reason to run this program on a bargain basement approach. The relatively tiny amounts of administrative money that are spent just ought to be increased.

Another way that would help on this—the most important would be to get it out of the general budget—but, in addition, making the Social Security Administration an independent agency would help.

And an independent agency bill, such as you have proposed in the past, would give more control to the people who had major responsibility for the well-being and running of this program, as against saving money, which OMB, these days, seems to consider its major job.

Senator MOYNIHAN. Ed Lopez, who was formerly of the SSA, hands me a note which I realize is quite right, as always. Actually, we intended that administrative spending be off budget when Senator Heinz and I, and Senator Hollings took the trust funds off budget.

But guess what? The Office of Management and Budget interpreted the statute otherwise. They will not let go. They are treating this as a mode of saving money by running the Social Security Administration badly, if need be. And that is just not good.

Mr. BALL. Yes. But it ought to be possible, next time around, to write the language in three different ways so they cannot interpret it differently.

Senator MOYNIHAN. Now, you know Dick Darman, and I know Dick Darman.

Senator RIEGLE. Fortunately, you are no Dick Darman. [Laughter.]

Mr. BALL. I think I had better not comment on that. I actually worked very well with Dick back when he was in HEW with Elliot Richardson.

Senator MOYNIHAN. Right.

Mr. BALL. And he was a good negotiating partner, Senator, in the 1982-1983 negotiations that we had.

Senator MOYNIHAN. He could not have been more prepared. He understood the facts, and that drove the process, once Bob educated some of our colleagues.

Mr. BALL. But, on this issue, I do not think his interpretation ought to be allowed to stand. And the administrative expenses ought to be treated like the program expenditures, as I am sure you believe, also, I do think it is terribly important that in addition to the transfer of some of the OASI rate to the DI rate, that great attention be paid to a continuation of very careful adjudication and the continuation of the review of people who are on the rolls.

We cannot afford a repeat of what happened in the 1970s—a feeling that adjudication was too lax—and then a backlash in the 1980s when just thousands and thousands of people were taken off the rolls and then had to be restored to the rolls on appeal after a long period of suffering on their part.

But the first cause was the concern that many people had about the increase in the rates of incidence in the 1970s. And it should be kept in mind that it is much easier to make an allowance than a disallowance. The present large backlogs may lead to lax adjudication.

In running a disability program, you spend less time and less money to allow a case than to disallow it. And the huge pressures from an 800,000 backlog—and with the idea of it going up much higher—is to get the cases out.

Although I do not know yet that there has been a major deterioration in initial adjudication, already they have greatly reduced the continuing disability reviews. That is terrible. And the pressure will be, if it has not occurred already, to become somewhat less careful about initial adjudication.

So, I find all of these administrative matters extremely important—in addition to switching over some of the OASI rate to DI.

Mr. Chairman, those are the main points that I wanted to make.

Senator MOYNIHAN. And very vigorously stated, as usual.

[The prepared statement of Mr. Ball appears in the appendix.]

The Chairman. Sir.

STATEMENT OF ROBERT J. MYERS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION (1947-1970), SILVER SPRING, MD

Mr. MYERS. Thank you, Mr. Chairman.

Over the many years that I have been associated with the Social Security program, I have always been proud of the Social Security

Administration for its philosophy as to payment of benefits and treatment of beneficiaries.

The staff has always—the present staff, too, and particularly the present Commissioner—been very diligent and very caring this way. But the difficulty is that the Social Security Administration does not have enough money for administrative expenses. That is to put it bluntly.

I think that the Social Security Administration has always had the belief that it should search out people who are due benefits if it knows them. And this is like any good insurance company does. If it knows that benefits are payable to people, it is only too glad to pay them. It is not trying to keep money away from them.

And, in the same way, the Social Security Administration operates always with the intention that it should help beneficiaries perfect claims; not try to find ways not to pay them, but rather to try to find ways to pay them when people are justly entitled to them.

As has been pointed out several times by preceding witnesses, the administrative expenses of the Social Security program, both relative to benefit outgo or to contribution income, have been very low over the years.

In fact, they are probably too low at present to provide satisfactory service to the beneficiaries and to have proper claims control. This is particularly so with regard to disability benefits, both as to initial determinations and as to continuing disability reviews.

At the end of my statement, I have attached a reprint of a paper that I have just recently had published, studying the administrative expenses of both the Social Security and Medicare programs over the years.

Senator MOYNIHAN. Oh, yes. "Can the Government Operate Programs Efficiently and Inexpensively?" Yes.

Mr. MYERS. Yes. That is the title of my paper. And my conclusion is, "Yes, it can." And the figures back it up.

I think that if you ask somebody who did not know too much about the Social Security program how much of the money went for administrative expenses, you would get a surprisingly high answer. Many people would say 15–20 percent, or even more.

I think that part of the lack of confidence which has been so well pointed out arises from the fact that many people think so much of the money is being used for government waste and inefficiency, whereas the administrative expenses are less than 1 percent for OASDI, and for Medicare they are not too much higher.

I am not trying to say that, because insurance companies have higher administrative expenses than Social Security, they are not being operated properly. It is just a different type of operation.

Individual insurance has much higher administrative expense ratios because of all the necessary costs involved in dealing on a one-to-one basis. Group insurances that are run by insurance companies have fairly low administrative expense ratios, too.

Some years ago, a study was made by a group of people from private business as to the operations of the Social Security Administration, and it came forth with the conclusion, "SSA was being operated quite efficiently, and on a par, as far as efficiency is concerned, with what the private insurance industry was doing."

Having administrative expenses that are too low can cut both ways. Sometimes, people who should be getting disability benefits either get them very much later than they should, or they get denied, or people get poor service.

On the other hand, as Mr. Ball suggests, it is quite possible that some disability claims are approved that should not be, because it is easier to approve a claim than to disallow it and then have to give all the reasons why.

In a sense, as Mr. Delfico said, it is a question of being penny-wise and pound foolish. If a little more is paid for administration, far more in benefit costs which should not properly have been paid would be saved.

What are possible solutions to this problem with the DI system? The most obvious one is that there should be more administrative-expense funds. I think that there should be a very considerable amount more—something on the order of 50 percent more.

Senator MOYNIHAN. Which is what the GAO just came and told us.

Mr. MYERS. Yes.

Senator MOYNIHAN. They do not come and tell us to spend more money routinely. They are very careful on that. Yes.

Senator RIEGLE. Excuse me, if you will. They gave one citation of the fact that, in terms of the reviews, for every dollar they spend they save \$4.

Senator MOYNIHAN. Yes.

Senator RIEGLE. So, I mean, that is to find claims that are not valid ones. But the fact of the matter is, you could make money by spending money. I mean, you could make more money than you spend.

Mr. MYERS. Yes. I certainly agree that is being penny-wise and pound-foolish.

Another possible solution to help beneficiaries who have to wait so long to get benefits when they rightly deserve them is to begin benefit payments after 6 months following the adequate filing of a claim. Thus, there would be "a sword hanging over the head" of the Social Security Administration to get these claims out in a timely manner, because they are going to have to pay them anyhow.

Another solution that I have—and I will not go into detail—is to simplify the claims process. I think that there are too many layers of review and appeal.

I have great faith and trust in Federal civil servants. If there are enough of them, and they are adequately trained, they will do an impartial job with the beneficiaries. They will try to help them prove that they are disabled, if they really are. On the other hand, they will look through any ruses that are done to get people on the rolls.

One other step which I would take in this direction is to prohibit disability lawyers. These are people who advertise in the newspapers and TV that they will get disability claims approved for applicants. I think that they really clog up the system.

The manner in which they are recompensed is that the longer that the person waits, the more money is there for the lawyers, because their payment is based on the retroactive lump sum. So, if a claim goes through quickly, they do not get paid very well.

At the same time, too, I think that some disability lawyers may well coach people to give the "right" answers to get the claim approved, even though they may be false.

I think that disability lawyers should not be allowed within the disability claims process. The only time when they should enter in is if a case gets to a Federal court.

Senator MOYNIHAN. Can I just ask, is that possible, administratively? Can we say to a person that you may not bring an attorney? How do you keep the lawyers out of anything, much less this? [Laughter]

Mr. MYERS. I believe that it can be done. I realize that some public-advocacy people will criticize me and say, "These people need help and they should be able to have lawyers get their claims approved."

Senator MOYNIHAN. Stanford Ross, of Arnold & Porter, which does not do much disability insurance, he is visibly nervous over there, Bob. [Laughter]

They do not have many claims in their firm.

Mr. MYERS. I just have such great faith and trust in the Federal civil servants that they will do an impartial job and that it is not a case of antagonism, or that the one side should be represented because the Federal and State bureaucrats are trying to turn them down. I think that the Federal and State bureaucrats will try to help people, and they should help people.

I think that, certainly, a number of steps could be taken to curb these so-called disability lawyers who take such a large proportion of the retroactive benefits, and whose actions very much lengthen the time that it takes to adjudicate claims by bringing evidence in later and later so as to increase their compensation. I think that problem can be handled.

Senator MOYNIHAN. It certainly can be inquired into.

Mr. MYERS. As some of the previous witnesses said, Section 709 was invoked by the Board of Trustees. I think that there is a technical weakness in this provision, as Mr. Ross said, namely that there is no time limit as to when the 20-percent limit is breached, and reporting to the Congress is required from the Board.

The provision merely says that if, the 20-percent fund ratio will be breached at some time in the future, then there should be a report. But it does not say within what period.

The Board of Trustees has said that it really means within 10 years. I think that would be a reasonable procedure.

I suggest that, at some point, the law should be changed to have it say what the Board of Trustees is doing, rather than to have this open-ended basis.

In my view—and I agree with Mr. Ball—action to reallocate the OASDI tax rate so that the DI Trust Fund receives a larger portion, ought to be taken right away. I do not see any need to wait until next year. It is clear that the DI allocation rate should be higher. However, I would not allocate it quite as large as some have recommended.

I would do the simple thing of changing the present 0.6 percent rate to the ultimate rate of 0.71 percent which will apply under present law in 2000 and after. It is a very simple legislative change, and, certainly, that much will be needed.

Whether more will be needed depends upon whether the Disability Benefits program will be straightened out, as I think it should be. If the present high experience continues, then a larger allocation will be necessary.

But, if the present unfavorable experience is due to administrative reasons, then it is a different matter. In any event, I would just do it a step at a time and move the present ultimate rate up to the present year. It is quite feasible to do that if it were legislated this year, because this has been done in the past—namely, legislation in the year providing for reallocation effective back to January.

Actually, Section 709 should have been invoked earlier by the Board of Trustees because both OASI and DI Trust Funds have failed to meet the 20-percent requirement for several years, when one looks many years into the future.

I think that the solution to this problem is to revise the financing to a responsible pay-as-you-go basis, as you have proposed, Mr. Chairman. Then, Section 709 would be satisfied.

At the same time, I think that public confidence would be greatly increased, because there have been critics of the Social Security system, such as a recent past Commissioner of Social Security, who have said that Social Security is a ticking time bomb, and that in the next century, the retirement checks for millions of Americans will not be there. That statement would no longer be valid if we had a responsible pay-as-you-go financing basis, as you have proposed, Mr. Chairman. Thank you, Mr. Chairman.

[The prepared statement of Mr. Myers appears in the appendix.]

Senator MOYNIHAN. Well, that is my kind of elder. It is very important when the two of you come before us with your experience and say, if need be, spend more money on administration to get it right.

Particularly when you have a backlog of a million cases and things like that, get it out of the way. These are trust fund monies. And it is one thing to have a very lean administration; it is another thing to have one that is anemic, and there you are.

Can I ask you, this whole question of the time bomb ticking away, that is from a Commissioner, and it is not so. And the difficulty we, as a people, have in understanding Social Security is important to me in trying to understand our country right now.

I have been wanting to ask you, and we have this opportunity and it does not come that often. In 1977, in the Social Security amendments of that year—and I was then on the committee way down there—but I was a member of the committee of conference between the House and the Senate. We moved to a partially-funded system.

As I recall, in 1972, the two of you had us put in place a very sharp increase out in the year 2011 when the baby boom would begin to retire. And that was good actuarial, 75-year kind of thinking.

But then, in 1977, we moved that 2011 rate up to 1990, and it is now in effect, which meant we went to a partially-funded system. But did you tell anybody at the time? Because I want to be very clear, I signed those papers and it did not sink in what we had

done. Mind you, it would not have come about for another 14 years, or so.

But here we are with this surplus that no one ever expected, half the people do not believe. And persons such as Bob Myers and I think really gives us more trouble and puts in jeopardy the integrity of the funds because they are not being used as a reserve. Bob Ball.

Mr. BALL. Mr. Chairman—

Senator MOYNIHAN. Are you the one who did it? Somebody did. Who did?

Mr. BALL. Mr. Chairman, could I back up a little for an historical comment on this?

Senator MOYNIHAN. Would you, please? Yes. Yes.

Mr. BALL. Social Security has, as an institution, been somewhat ambivalent on this pay-as-you-go versus partial reserve financing from way back, even before 1972.

And what I mean by that is that there were always contribution rates in the law, that, if they had been allowed to go into effect, would have produced partial reserve financing.

But, in practice, every time the Congress came up to an increase that would have produced large surpluses, the increases were postponed.

So that for years we had a real dichotomy—you had actuarial estimates and a law which were on a sort of partial reserve principal but, in practice, we operated on a pay-as-you-go basis because the rates were always postponed if they were expected to produce large reserves.

Senator MOYNIHAN. Yes. And in 1972, the advisory council said, go on a pay-as-you-go basis.

Mr. BALL. Yes. They said, let us be frank about it.

Senator MOYNIHAN. And 5 years later, in a fit of absent-mindedness, we did just the opposite.

Mr. BALL. Well I will take responsibility for that 2011 rate in the 1972 amendments. It was what I called a balancing rate to show that the system was adequately financed over a 75-year period, even though we were on a pay-as-you-go basis. We wanted to be able to say that for 75 years, the system was soundly financed.

Senator MOYNIHAN. Yes. Yes.

Mr. BALL. So, we put in a 2011 rate that we did not expect to be implemented as a single rate increase in 2011, but rather when you got to 2011 to space it out and have a continuation of pay-as-you-go.

Well, in 1977, with that rate already in the law and increased costs to be met—both short-term and long-term—it was an easy device for meeting part of the shortfall to take that 2011 rate and move it up to 1990. I do not believe that it was a commitment to change from a pay-as-you-go basis to a reserve basis. I think that was a—

Senator MOYNIHAN. I see. We did not think of it in that way and we had the prospect of slicing those increases out after that point.

Mr. BALL. And you could have done it in 1990, too. I just do not think the Congress or the Executive Branch gave serious consideration to the pros and cons at that point between partial reserve financing and pay-as-you-go.

It was rather, how do you get a financing system that you can say, with the least possible change, "Now we have adequate financing."

I might point out that the 1977 financing was not for 75 years, incidentally. It was the first time—maybe the only time—that deliberately the program was balanced only for 50 years instead of 75.

So, we had a hang over of about 1.8 percent of unfunded liability for the whole 75 years. And, looking at just the last 25 years, that translate into a considerably larger deficit of about 4.4 percent.

Senator MOYNIHAN. Our problem is, and you two gentlemen have worked so wonderfully with it for so long, Social Security thinks in terms of 50 years, 75 years, and you sit about and make very thoughtful decisions. You were Commissioner in 1972, were you not?

Mr. BALL. Yes.

Senator MOYNIHAN. In 1972, you said, I want to have an increase in the year 2011. And that is the time perspective you all bring to this work.

And you deal with the political world which can not think past next November, period. And if you just get through 5 years, or 3 years, or 25 months, it will serve the purpose of the time perspective of the election cycle.

Bob, do you want to tell us what we did in 1972? You two are the institutional memory, here.

Mr. MYERS. Yes. I agree, on the whole, with what Mr. Ball said. But I can augment it a little.

Senator MOYNIHAN. Yes.

Mr. MYERS. The way that I view the situation, what was done in 1972 and in legislation several times before 1977, where there were slight changes, was essentially to have pay-as-you-go financing. This was indicated by providing a level tax rate up through 2010, and then having an increase in 2011.

Then the 1977 Act moved up the increase in 2011 to 1990. I think that this was done without realizing exactly what was being done as to the underlying financing basis. But it was certainly partially necessary.

As Mr. Ball said, the 1977 legislation, for the first time in history, did not handle the entire existing long-range deficit. But, I am very happy to tell you that the Senate bill did so. The Senate bill was not accepted by the House. Rather, the final legislation was very much like the House bill.

In the Senate bill in 1977, the pay-as-you-go approach was recognized because the tax rate stepped up over future periods of years, not just in 1990. There was another small increase in 1995, another one in 2001, and then still another one in 2011.

The year 2011 is very important, because that is when the baby boomers begin to reach retirement age, and the higher costs involved occur. And, so, I think that the pay-as-you-go concept was still largely contained in the Senate bill in 1977.

I happen to have with me two tables that show these tax rates.

Senator MOYNIHAN. Could we put them in the record?

Mr. MYERS. I would be very appreciative if you would put them in the record.

Senator MOYNIHAN. No, we would be very appreciative. Because Gaylord Nelson, Senator Nelson, of Wisconsin, was the chairman and manager of the legislation. And, as I say, here, I am glad my memory has not completely lost, but I do not ever remember us doing this. We did not. In conference, that is the way it came out. It never really sunk in. But I thank you for these, as always.

[The information follows:]

Table 1.—OASDI COMBINED EMPLOYER-EMPLOYEE TAX RATES ACCORDING TO VARIOUS LAWS

Year	Act					
	1971	197 ¹	1973	1977 ²	1980	1983
1971	9.2%	—	—	—	—	—
1972	10.0	—	—	—	—	—
1973	10.0	9.7%	—	—	—	—
1974-75	10.0	9.7	9.9%	—	—	—
1976-77	10.3	9.7	9.9	—	—	—
1978	10.3	9.6	9.9	10.1%	—	—
1979-80	10.3	9.6	9.9	10.16	—	—
1981	10.3	9.6	9.9	10.7	10.7%	—
1982-83	10.3	9.6	9.9	10.8	10.8	—
1984	10.3	9.6	9.9	10.8	10.8	11.40% ³
1985-87	10.3	9.6	9.9	11.4	11.4	11.4
1988-89	10.3	9.6	9.9	11.4	11.4	12.12
1990-2010	10.3	9.6	9.9	12.4	12.4	12.4
2011 & after	10.3	11.7	11.9	12.4	12.4	12.4

¹ These data are for the legislation enacted on October 30, 1972, which as to the tax-rate schedule over-rides the legislation enacted on July 1, 1972.

² Legislation in 1980 changed the allocation between OASI and DI, but not the total rate.

³ This is the total rate received by the trust funds, but 0.3% came from general revenue (5.7% from employers and 5.4% from employees).

Table 2.—OASDI COMBINED EMPLOYER-EMPLOYEE TAX RATES UNDER VARIOUS VERSIONS OF 1977 AMENDMENTS AND UNDER PREVIOUS LAW

Year	Previous law	1977 amendments		
		House bill	Senate bill	Final law
1977	9.9%	—	—	—
1978	9.9	10.1%	10.1%	10.1%
1979-80	9.9	10.1	10.17	10.16
1981	9.9	10.5	10.7	10.7
1982-84	9.9	10.7	10.8	10.8
1985-89	9.9	11.3	11.4	11.4
1990-94	9.9	12.4	12.3	12.4
1995-2000	9.9	12.4	13.4	12.4
2001-2010	9.9	12.4	14.6	12.4
2011 and after	11.9	12.4	15.6	12.4

Analysis:

(1) The final law in 1977 (and the House bill too) shifted away from the pay-as-you-go funding basis under the previous law, by moving the ultimate tax rate up from 2011 to 1990, with the result that large fund balances would be accumulated after the 1980s (but would eventually be drawn down to exhaustion).

(2) At the same time, the final law (and the House bill too)—for the first time in the history of the program as to legislation at the time of enactment—left the system with a significant lack of actuarial balance.

(3) The Senate bill would have restored the system to long-range actuarial balance.

(4) The tax rates in the House and Senate bills were quite similar for 1978-94.

Senator MOYNIHAN. So, you basically would agree with Bob Ball that it was not so much as a decision to move from one mode of financing to another, as the de facto consequence of what happened.

Mr. MYERS. Yes. I certainly would agree. In addition, I think that there is the important fact that the 1977 Senate bill really did continue to reflect the pay-as-you-go financing philosophy.

Senator MOYNIHAN. Yes. That is hugely important. Well, we have kept you. You have been here faithfully all morning, as you have been for a half century.

I would like to have the record show that Bob Myers has slipped yet another two actuarial and tax rate tables to Bob Ball. All is right, all is well in the world, and God is in His heaven. We thank you very much for this testimony.

Mr. BALL. Mr. Chairman, could I make one other statement?

Senator MOYNIHAN. Please. Yes, sir.

Mr. BALL. And that is, I may have become associated in some people's minds with the idea of maintaining a partial reserve financing in present law as against pay-as-you-go. But I have never really taken that view.

Senator MOYNIHAN. Yes.

Mr. BALL. It has always seemed to me that you could do it either way; that pay-as-you-go has worked right along in practice, and it is a perfectly valid way to finance this system.

There are arguments for partial reserve financing if you believe that the country would actually pay high enough taxes to come toward a fairly close balance in the budget while maintaining present Social Security contribution levels and meeting other essential needs. Then it would be true that building a reserve on Social Security would do some good, and actually increase savings.

Senator MOYNIHAN. There would be true savings.

Mr. BALL. Right. So, you could do it either way.

Senator MOYNIHAN. Yes.

Mr. BALL. But I am pretty much convinced that the practical situation now is for OASDI to be put more or less on a pay-as-you-go basis.

And the only difference that I would have with your previous proposal is not on the pay-as-you-go issue, but that instead of reducing the total overall contribution rate, I would like to see the excess rate that arises after you have gone on pay-as-you-go in OASDI used to strengthen our health insurance system.

Senator MOYNIHAN. Yes. Sure. A perfectly clear position. Can I just say that something does bother me in the political winds that are blowing.

The number of new tax proposals that are about, flat tax, and so forth, which would abolish the payroll contribution, it seems to me—and people are doing this with no sense that they have anything to explain why we need that.

It is regressing. It is over on the liberal end of the spectrum now, Mr. Ball. Seventy-one percent of American families pay more in Social Security contributions than in income tax.

And it is now being held that we are financing our government through this regressive system. There is nothing regressive about an insurance contribution that you pay. It is a contribution. But it is regressive as a form of general revenue. I think we all agree on that.

I would not want to have us look up 1 day and find that there is a balanced the budget amendment, and a cap on entitlements, and a flat tax.

And the next thing you know, the whole notion of a contributory pension insurance system has just disappeared. Does it not? I mean, once you do not have FDR's name and number on your money, it becomes welfare. That is what it is.

Mr. BALL. Absolutely.

Mr. MYERS. Mr. Chairman.

Senator MOYNIHAN. Sir.

Mr. MYERS. May I just add one other thing. This is with reference to the 71 percent figures that you quoted about the proportion of people who pay more in Social Security taxes than in income taxes.

Senator MOYNIHAN. Yes.

Mr. MYERS. This statement is true, when the combined employer/employee tax is considered. From the standpoint of economists, they usually say that the employer tax really comes from the employee.

Senator MOYNIHAN. Employee. Yes.

Mr. MYERS. However, I think that many of the general public just look at the Social Security tax that they are paying themselves. On that basis, only around 35-40 percent pay more Social Security tax than income tax.

Senator MOYNIHAN. I am sure you are right. You are always right.

Mr. MYERS. The difficulty, from an economist's standpoint in the area of macroeconomics, is that it is true that, in the aggregate, the employer tax is paid for by employees. But I would argue it is not paid for by each employee separately, but rather in the aggregate.

Senator MOYNIHAN. You do not. Yes.

Mr. MYERS. If Social Security were abolished, it is not certain that every employer would give each employee that additional amount of money. Rather, the employer would probably set up a pension plan that would give more money to some of the employees than to others.

Senator MOYNIHAN. Sure.

Mr. MYERS. So, it is a very tricky sort of economic figure.

Mr. BALL. Sometimes Mr. Chairman, part of the misunderstanding derives from the shorthand of using the phrase "payroll taxes."

Senator MOYNIHAN. I am about to raise this subject. I was paying my income tax about 3 weeks ago and I was looking here at my income tax return. And I had my W-2 form and it says there, there are three lines, "Federal Income Tax Withheld, Social Security Tax Withheld, Medicare Tax Withheld."

Mr. BALL. Yes.

Senator MOYNIHAN. And I just, on an impulse, called the Commissioner of Internal Revenue. She was getting a lot of friendly calls that day. Here is another irate taxpayer. I said, is that properly described as a tax? It says, the Federal Insurance Contributions Act.

And, in a perfectly nice conversation, as you would expect with our Commissioner, she said, well, you know, that is a fair question. Let me think about that. Would you have any views? While it is

being called a tax, you sort of forego taxes. It is not yours anymore, as against Federal insurance contributions. Well, yes, you are paying. Any thoughts, wise men?

Mr. BALL. They are really deductions from workers' earnings for a dedicated purpose.

Senator MOYNIHAN. Yes. Now, that is not a tax.

Mr. BALL. I was not so much arguing about whether to name it a tax. But the confusion that arise from calling it a payroll tax; workers do not have payrolls. That is just shorthand for a combined employer-employee contribution.

Senator MOYNIHAN. Sure.

Mr. BALL. For us to call it a payroll tax all the time obscures—

Senator MOYNIHAN. But that is a usage, a convenient shorthand usage.

Mr. BALL [continuing]. Yes. But it obscures the fact that it is a deduction from workers' earnings. Because they do not have payrolls.

Senator MOYNIHAN. Yes.

Mr. BALL. So, even if it is going to be called a tax, it ought to be called the kind of tax that workers pay, not a payroll tax.

Senator MOYNIHAN. Not a payroll tax. Bob, do you have anything to add?

Mr. MYERS. I would agree with both of you on that point. These are really contributions for a social insurance program.

Senator MOYNIHAN. Yes.

Mr. MYERS. Technically, they are taxes because they are in the Internal Revenue Code, but they are a different kind of tax than an income tax.

Senator MOYNIHAN. We could say Social Security contribution withheld.

Mr. MYERS. Yes.

Senator MOYNIHAN. You know why we are in the Tax Code, do you not? Just for the record, you are a great friend, Bob, of Frances Perkins, in 1935, when the issue of how would you ever get this legislation through.

The Supreme Court was finding all these things unconstitutional. A member of the Supreme Court—I do not know if they do that anymore, but people would do anything for Frances Perkins. I would, certainly.

They heard about it and said, the taxing power, my dear. That is what you need, the taxing power. So, instead of this coming out of the Labor Committees, the bill that was passed in 1935 was introduced by the Chairman of Ways and Means, and Senator Wagner over here.

And, indeed, I guess it was in 1937 that you passed muster in the court. Because the constitution says the Congress has the power to lay and collect taxes. That is why we are here in the Finance Committee. Well, we try to take good care of you.

Once again, with greatest appreciation to two great public servants, I want everybody to know how much we value and care what you do for us. We want you to keep on doing it for years, and years, and years. And poor Ross and Walker over there, they are sitting in awe that you all know so much and have done so much. Be like them. Thank you very much, sir.

Mr. BALL. Thank you, Mr. Chairman.

Mr. MYERS. Thank you, Mr. Chairman.

Senator MOYNIHAN. And now we have our final witness, and a very warm welcome to Stan Kress, who has been very patiently waiting through the morning. Mr. Kress is the President of the National Council of Disability Determination Directors. And you are from Idaho. Nice to have you here, sir. I will put your statement in the record, of course. You proceed exactly as you wish.

STATEMENT OF STAN KRESS, PRESIDENT NATIONAL COUNCIL OF DISABILITY DETERMINATION DIRECTORS, BOISE, ID

Mr. KRESS. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you on behalf of the National Council of Disability Determination Directors.

Senator MOYNIHAN. I now realize you are from Idaho.

Mr. KRESS. That is right. I was reading a book last night and they were making a derogatory comment about where they were sending the mythical Vice President, and he said, "probably to a fund-raiser in Idaho." So, at any rate, I am quite proud to be from the great State of Idaho.

Senator MOYNIHAN. I am sure you are.

Mr. KRESS. I appreciate the opportunity to come back here and visit with you. We appreciate the opportunity to share with you our views on disability.

The recession, higher unemployment, more homeless people, and a lack of adequate health care has brought about more disability claims being filed.

This fiscal year, the Social Security Administration expects 3,200,000 disability claims to be filed, compared to 2.5 million just 3 years earlier.

Senator MOYNIHAN. It is that big a leap?

Mr. KRESS. That is a pretty good sized leap.

Senator MOYNIHAN. Yes.

Mr. KRESS. 700,000 more claims are expected this year than just 3 years earlier. And, as I said, it was the recession, higher unemployment, more homeless people; along with not having adequate health care, which have brought that increase about, in my opinion.

In addition to these demographic and economic changes, the courts, the 1984 amendments, and public pressure has caused allowance rates to rise.

The courts have mandated changes in the continuing disability review process, in the psychiatric or mental area, and childhood listings through the *Zebley* court case.

During the past 2 years, SSA has responded to the public's wishes and made changes in how widows and widowers are evaluated, speeded up the disability process for HIV-AIDs claimants, started an outreach program for the homeless, and implemented streamlining measures for obvious allowances to help alleviate the backlog of cases.

The adjudicative climate is certainly different today than it was during the early 1970s or the early 1980s. During the 1970 to—

Senator MOYNIHAN. Did you mean early 1970s or the late 1970s?

Mr. KRESS. The early 1970s.

Senator MOYNIHAN. Early 1970s. And then again in the early 1980s.

Mr. KRESS. Yes. Mr. Delfico, in his testimony, said that the highest allowance rate had been about 47 percent. That is because he had not gone back far enough. If he had gone back to the early 1970s, actually the allowance rate during that period of time went as high as 57 percent during 1973.

Senator MOYNIHAN. Well, that was our understanding. I think I said 60, but it was up above 50. Yes.

Mr. KRESS. It was close to 60 percent.

Senator MOYNIHAN. Yes.

Mr. KRESS. He just did not go back far enough in his statistics as he was reviewing that.

Senator MOYNIHAN. I think we ought to get that series, and we will. Thank you. That is a good point.

Mr. KRESS. During the 1980s, of course, we had just the reverse that was occurring. During the 1981 through 1985 period, the adjudicative climate was one of cutting off the benefits of many who were receiving them, and keeping off as many of the new applicants as possible.

The allowance rate for that period of time ran from approximately 27 percent, into the low 30s. The climate of that period did not hold up in court, as you pointed out, nor did it sit well with the public.

Last year, the DDSs allowed 39 percent of the claims. As you can see, that is an increase over the early 1980s, but it is certainly not reminiscent of the early 1970s.

Senator MOYNIHAN. Yes.

Mr. KRESS. I think it is safe to say that the allowances being made today are far more just than were the denials and the cessations of the early 1980s. Or, for that matter, the high number of allowances of the early 1970s. Let us hope we learn something from those two periods and do not repeat either one of them.

To the question, is SSA conducting an appropriate number of continuing disability reviews, CDRs, the answer is, no. There are approximately 400,000 CDRs which are past due in which medical improvement is expected.

Actually, there is over 1 million CDRs that are past due, but 400,000 of them are cases on which medical improvement was expected to occur.

Senator MOYNIHAN. And that is where the \$4 for \$1 ratio that the GAO told us about comes in.

Mr. KRESS. That is correct. If another of the issues being addressed by this hearing is, does the agency have adequate resources to properly administer the DI program, the answer is a simple and unequivocal, no.

The budget of \$955 million presented by the administration for fiscal year 1993 for the administrative costs of the disability program is, in fact, a serious decrease, not an increase.

Senator MOYNIHAN. It is what? Walk us through that, now. I mean, it is a decrease.

Mr. KRESS. All right. I would be happy to do that. Last year, the disability program got \$868 million in their basic budget. A \$955 budget for 1993 would appear to be an increase.

But, in reality, the disability determinations got another \$78 million from the Zebley supplemental 3-year phased-in appropriation, and another \$80 some million from the contingency fund release. That means that this year the disability program is going to get over a billion dollars.

Next year, there is going to be more claims and we are going to get \$955 million, according to the administration budget. And, in reality, it is going to be a budget decrease, not an increase.

Senator MOYNIHAN. That is a very powerful point.

Mr. KRESS. Thank you.

Senator MOYNIHAN. You are saying, just so I have it clear, that on top of the, what is it, \$850,000 that they got last year—

Mr. KRESS. \$868 million.

Senator MOYNIHAN. \$868 million. There was the contingency fund that was made available to them, and the Zebley court case monies were made available. So, in fact, they have a billion dollars in this current year.

Mr. KRESS. A little over a billion dollars will be spent by the disability program this year. So, \$955 million is less money.

Senator MOYNIHAN. It is a reduction, cogent, clear.

Mr. KRESS. If that budget is implemented, the pending case load will grow to well over a million. In addition, using SSA's own official estimates, the overall processing times for disability claims will increase dramatically.

By the time a claimant who is denied at the initial level pursues his claim through the administrative law judge level, literally years will have passed. Thousands of the disabled will die or find themselves in dire straits before their claim for benefits is decided.

Service at the level possible with the projected funds for fiscal year 1993 is simply not acceptable. Americans with disabilities deserve better.

It will take a budget of approximately \$1.25 billion in 1993 for the DDSs just to stay even with the backlog that will have accumulated by the end of 1992.

If we are to start reducing the backlog cases, as I feel we must, it will take a minimum of \$1.3 billion. If, in addition, we wish to process an additional 200,000 backlogged CDRs, the ones that get the savings of whenever \$1 spent you get \$4 in savings, it will take another \$60 million.

Senator MOYNIHAN. Yes.

Mr. KRESS. This means SSA's funding should be at least \$5.3 billion, not \$4.8 billion in 1993. In order to make this level of funding possible, it may be necessary to move the administrative costs of the Social Security Administration off budget. The NCDDD would support such a move, since it would mean improved service to millions of Americans.

And, just before I close, may I say, the Associate Commissioner of Accuracy quickly tapped me on the shoulder and handed me some figures that got brought up a little earlier when they were talking about the accuracy of claims, and that there were more inaccuracies in the denied claims than there were in the allowed claims.

Senator MOYNIHAN. Yes.

Mr. KRESS. And those facts are accurate. However, I think there is a problem that occurs with this data. You may have noticed somebody mentioned that, in addition to the decisions that are made incorrectly, there are also technical inaccuracies and those sorts of things that are included in that.

Our organization has recommended that Social Security start using a net accuracy rate that talks about those people who are paid or not paid inappropriately instead of including in those figures these technical, paper kinds of inaccuracies, as well.

We have some figures on those, and maybe that will be a little reassuring to you. During the past 6-month period of time, the overall accuracy of just whether or not somebody was paid correctly was 96.6 percent.

Senator MOYNIHAN. Oh.

Mr. KRESS. And if you break that down into allowances and denials, there was a slight difference, but neither of them are terribly bad. The allowance accuracy was 98.3 percent for that period of time.

Senator MOYNIHAN. That is good.

Mr. KRESS. And the denial accuracy was 95.3. So, if we stop talking about the little paper errors, or the coding of something wrong and talk about, did somebody get benefits when they should have or when they should not have, rightly or wrongly, our accuracy is much better than what is often reported. And I think it is time we started reporting just that net accuracy on the correct payment of claims.

Senator MOYNIHAN. A fair point, and we will take it up with the administration.

Mr. KRESS. By the way, they are working with us on proposing that. So, we have already apprised them of it.

Senator MOYNIHAN. You feel you have a good working relationship with them.

Mr. KRESS. Absolutely. We are very appreciative of the progress we have made in that area.

Senator MOYNIHAN. That is the real issue, the Federal system, is it working. Good. Good. I am glad to hear that.

Mr. KRESS. Just a final summary, then. The NCDDD stands ready to help this committee and SSA find answers in those areas that need to be addressed. We are the ones on the firing line and we welcome the opportunity to be involved in charting a course of action for the disability program. I would be happy to answer any questions, Mr. Chairman.

[The prepared statement of Mr. Kress appears in the appendix.]

Senator MOYNIHAN. Thank you, Mr. Kress.

Mr. KRESS. Thank you for the opportunity of letting me testify.

Senator MOYNIHAN. We thank you, sir. That is a powerful point. It has taken us till 1:00 o'clock to learn that, in effect, the administration has proposed to decrease this budget in actual outlays for the next year.

Now, you have come before us and said this does not happen every day in a sequence of this kind. We first heard from the General Accounting Office, which has no dog in any fight. They are just trying to tell the Congress what they are up to.

The General Accounting Office said the monies available to administer this program should be increased by 50 percent. These are trust fund monies. The Social Security works on a 1 percent administrative cost, very tight. And along came GAO. GAO does not normally tell us to spend more money, they almost invariably tell us to spend less. But we are not reviewing cases when, as you say, there are 400,000 cases out there where you expect if they were reviewed, less disability would be paid, or no disability would be paid. We are not finding that out.

Then, too, the two great leaders in this field for a half century, Bob Myers and Bob Ball came before us, and Bob Ball said, I think we are not spending enough money.

I think we should stop bragging that this program only costs you nine-tenths of one percent. Any well-administered program will cost a little more than that. It is your money; it is an insurance contribution. Bob Myers agreed.

And now you have come along as the practitioner out in the State, and your proposal, which I do not think you knew when you came in here this morning was what the General Accounting Office, Mr. Delfico, was going to propose.

They came in and proposed about \$1.45 billion. Yes. And you have come in from Boise, Idaho and said, by very careful sequence, if this, then this, then this. And you have come up with \$1.4 billion. That is a lot of coherence.

I mean, we are all looking at the same thing with enough sense of what the regularities are in this process, what would be optimal. If we spend money to make sure people do not get benefits who do not need them and are not entitled to them and spend money to make sure that people do get benefits who do need them, that is what our program is for. That is why we put this in place.

Mr. KRESS. That is why most of us who work in the field out there are in those fields, is because we want to see those sorts of things happen.

Senator MOYNIHAN. Yes.

Mr. KRESS. And when, all of a sudden, you stack up the cases in storerooms because you do not have the staff or the money to work them, then those people are not being served. We feel responsible when that happens.

But if you do not have the staff and you do not have the money to order the medical evidence, and you do not have the money to have a consultive examination performed and that case is sitting in a storeroom, those of us out in the field feel pretty guilty about that.

And we would like to have the money and the staff to be able to work those cases in a timely and accurate manner and see that those people that deserve the benefits, get them to them, and let the other folks know that they are not going to be getting them so they can get on with looking for a job and get on with running their lives.

Senator MOYNIHAN. That is a very powerful point. The need for a timely answer. You come in and you say, I have a disability. And let the administrators say fairly quickly, yes, you do, or no, you do not.

Mr. KRESS. People tend to put their lives on hold when they are in these periods of time.

Senator MOYNIHAN. Yes. If it is going to take 7 months, then I will wait 7 months before I look for a job.

Mr. KRESS. Right.

Senator MOYNIHAN. Only to find out that I should have started looking for a job the day after I went in there.

Mr. KRESS. Absolutely.

Senator MOYNIHAN. It is a very powerful point. We should let people know what they can expect and get their answers early. It is outrageous.

The whole Social Security integrity of our system is being brought into question by decisions made at the Office of Management and Budget that have nothing to do with the law, nothing to do with resources.

This system is not in any financial crisis. To the contrary, it adds a \$1.5 billion that you suggested that we needed to run the whole program for a year. That is one week's surplus.

Mr. KRESS. For what it is worth, Mr. Chairman, I think I feel it is necessary to just comment that Commissioner Gwendolyn King, I have been associated with her quite a bit in the last 2 or 3 years.

And I firmly believe that she wants to run a good program and she wants to see good service provided to the people.

And the people she has working for her in Social Security, I think, want to see this happen. Unfortunately, I feel like she has got somebody with a thumb on her saying what she has to say when she comes before this committee when it comes to money. But deep down inside her heart, she knows that this program needs that money too, and it is needed to serve the public.

Senator MOYNIHAN. Yes. Well, I hope you noticed that we did not press her too hard.

Mr. KRESS. Yes. I thought you were very kind.

Senator MOYNIHAN. Well, I want to thank you very much, sir. And thank the association, or the council. I think you are the founder of the council, and obviously an important public service and we much appreciate it.

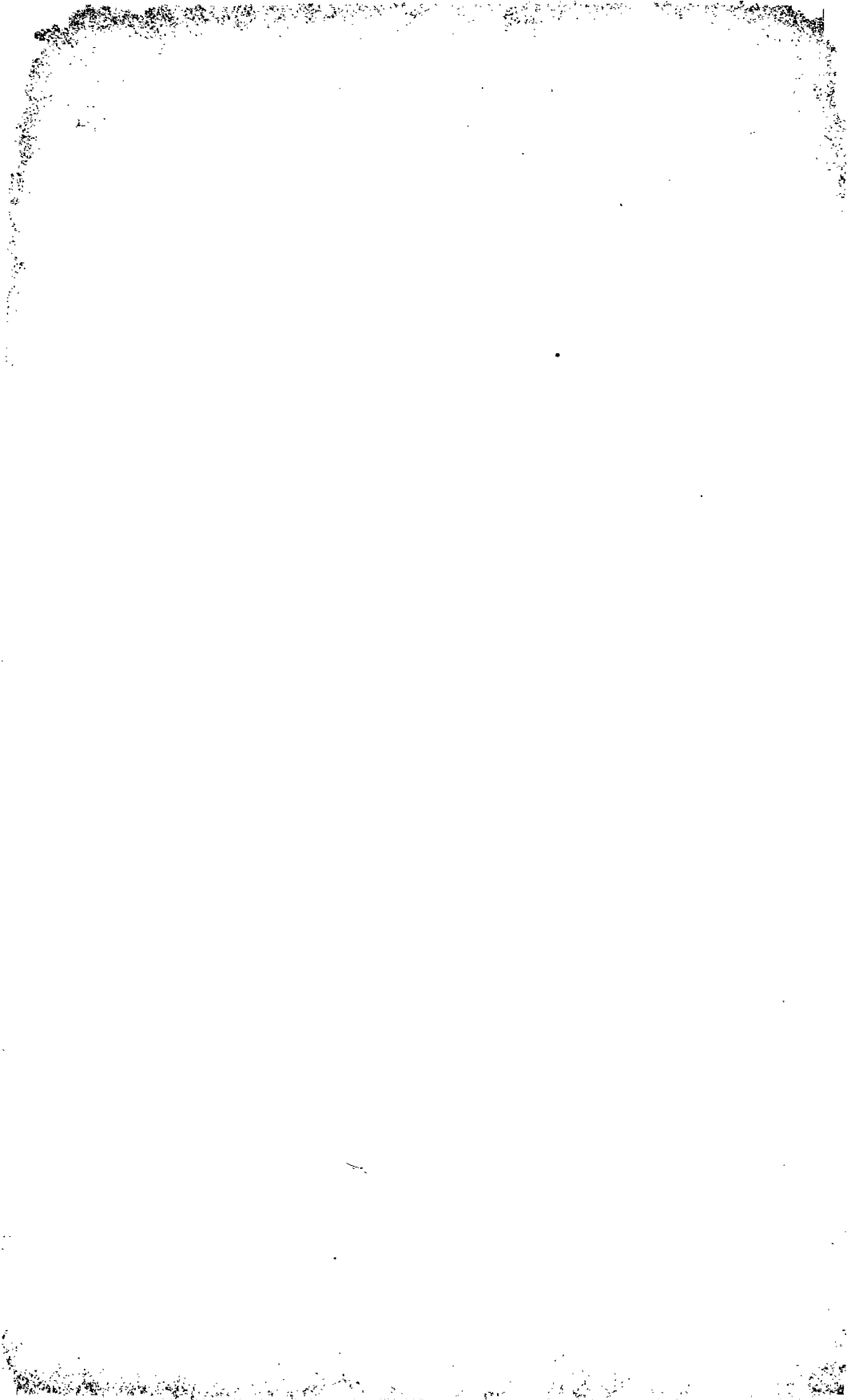
Mr. KRESS. Well, thank you. Another thing I thought was interesting, was that I happened to call a few folks for advice on the testimony I should give.

And two of the people I talked to were Lloyd Moses, who runs the disability program in New York, and Chuck Jones, who runs the disability program in Michigan.

So, the two members of your committee that were here asking the questions today, their DDS directors back home had quite a bit of input into this testimony.

Senator MOYNIHAN. Good. The more, the welcome. We thank our staff. We particularly thank our indefatigable reporter, who has all this taken down. And I want to express my appreciation to Ed Lopez, Margaret Malone, and all who have made this a very important hearing. And, now, it is for us to legislate.

[Whereupon, the hearing was concluded at 1:08 p.m.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF ROBERT M. BALL

Mr. Chairman and members of the committee: My name is Robert Ball. I was Commissioner of Social Security from 1962 to 1973. Prior to my appointment by President Kennedy, I was a civil servant at the Social Security Administration for about twenty years. Since leaving the government I have continued to write and speak about Social Security and related programs. I was a member of the 1978-79 advisory council on Social Security, the National Commission on Social Security Reform (the Greenspan Commission) whose recommendations were included in the 1983 Amendments, and the 1991 Quadrennial Advisory Council on Social Security established by statute.

First, Mr. Chairman, I would like to congratulate you on having foreseen the problem we are dealing with today and introducing legislation to fix it. The proposal you first made in 1990 to shift part of the contribution rate from old-age and survivors' insurance (OASI) to disability insurance (DI) is, I believe, the right solution to the DI deficit problem.

The combined OASI and DI programs are adequately financed for many decades and it makes sense to move some of the OASI rate to the DI program. Without such a shift it is estimated that DI may have difficulty making full payments as due by the latter part of 1997.

Beginning in 1992 or 1993, I would favor a reallocation of the contribution rate between OASI and DI which would increase the DI rate from the present 0.6 percent to 0.85 percent or 0.86 percent for workers and a matching amount from employers. The OASI rate for each would be reduced to 5.35 percent or 5.36 percent, but the combined amount would be 6.2 percent as under present law. These rates without changes in benefits, would be enough to fund the combined systems and each program separately until the mid-2030s, well over 40 years from now, under the best-guess intermediate assumptions in the recently issued trustees report.

Reallocation of Social Security contribution rates between OASI and DI has occurred many times in the history of the two programs and is a completely reasonable way to adjust to changing estimates of the cost of one or the other of the two programs. As you will undoubtedly recall, in the 1983 Amendments following the work of the National Commission on Social Security Reform, there was a reallocation the other way. At that time it looked as if OASI would be closer to the line than DI and 0.5 percentage points of the 1.1 percent contribution rate provided by the 1977 Amendments was shifted from DI to OASI. It was recognized at the time that the DI rate would need to be increased later on, and present law provides in the year 2000 for an increase in the rate from the present 0.60 percent to 0.71 percent.

I would not favor reallocation if it were clear that the DI financing problem was created entirely by administrative slackness. If the larger number of allowed claims and the expected drop in termination rates were caused only by lack of adherence to strict standards of disability determination or lack of review of beneficiaries on the rolls, then I would favor going at the root causes and not bailing out bad administration by allocating more money to the program. It is very important that strict standards be maintained and that we avoid a replay of the past. As you will recall, when in the mid- to late-seventies it appeared that the disability rolls were growing because of more lenient adjudication there was strong criticism leading to an over reaction in the 1980s. The result was a highly regrettable elimination from the rolls of thousands and thousands of people with valid claims to disability benefits. And

then a high proportion of them had to be put back on the rolls after appeal and much suffering by the beneficiaries.

I do have a concern that the big backlog of disability claims today, some 800,000 pending cases, and the shortage of personnel at Social Security might be leading to a lowering of adjudicative standards. It is much easier to process allowances than disallowances. And I have a concern that, also because of personnel shortages, the current rolls are not being examined as carefully as they should be for possible terminations.

Social Security needs more staff to run the disability program well. It is almost unbelievable to me that the President would submit a budget which assumes the backlog of disability claims today of 800,000—far too high—will go to 1.4 million in 1993. We are talking about disabled people who need the money to live on!

I believe Social Security needs to spend more money on administration in general. Less than 1 percent of benefit outgo goes for administrative expenses. This is just not enough to do the kind of job that should be done. Well administered private insurance companies, on average, have an administrative-to-benefit payment ratio several times Social Security's. No wonder there are complaints about Social Security operations.

I believe the solution for the inadequate financing of Social Security administrative expenses is to take them out of the general budget just as benefit payments have been taken out. Administrative expenses, like benefit payments, come out of the dedicated contributions of workers, employers, and the self-employed, and these contributors deserve topnotch service. It would also help, I believe, to make Social Security an independent agency.

The causes of the present problem in disability financing are complex. There has been an increase in the incidence rate of disability and a lowering of the average age of those on the disability rolls which means that there are fewer terminations as a result of beneficiaries reaching retirement age or dying. Some of the increase in incidence rates may be due to the fact that the first wave of baby-boomers are reaching the age at which disability rates begin to increase. Some of the increase may be due to the recession because in times of unemployment more people will file disability claims. Some of the increase may also be due to court cases such as the one requiring Social Security to give more weight to the findings of the beneficiary's own physicians as compared to the findings of the government consultants, a somewhat dubious requirement in my view. In fact, at some point the Congress may want to review recent court cases to see if they reflect congressional intent and, if not, whether the Congress should consider changes in the law that would make congressional intent clearer. It would not be the first time that it has been necessary to do this.

In summary, the increased costs reflect a variety of factors, not solely administrative changes. Thus, the solution has to be an increase in financing although staff increases are also necessary if the program is to be run well. As I said at the beginning, the simplest way to provide for additional financing is a relatively minor reallocation of the contribution rate from OASI to DI correcting what has turned out to be a somewhat too enthusiastic reallocation in the other direction in 1983. The recommended rate of 0.85 percent or 0.86 percent is substantially below the rate of 1.1 percent provided by the 1977 Amendments.

Mr. Chairman, I do not consider that we have a major problem here; it can be taken care of by a reallocation of the Social Security contribution rate as has been done many times before. However, the Congress does need to act since the DI fund is entirely separate from the OASI fund and the disability program will have an early problem under the present contribution rate allocation.

One more point, as I recommended at the beginning of my statement, it seems to me desirable to reallocate an amount estimated to be fully adequate far into the future. I see little merit in considering alternative reallocations that are estimated to do only part of the job.

Mr. Chairman and members of the Committee, I thank you for the opportunity to present my views.

PREPARED STATEMENT OF JOSEPH F. DELFICO

Mr. Chairman and Members of the Committee: Thank you for inviting me to testify today on financial and administrative problems facing the Social Security Administration's (SSA) disability programs.¹

¹SSA has two disability programs, the DI program and the Supplemental Security Income (SSI) program. State disability determination services (DDSes) make disability determinations for

In their April 1992 report, the Trustees of the DI fund projected that the fund will be exhausted in 1997. The Trustees have recommended that unspecified legislative action be taken to strengthen the fund's financing and have asked HHS to study the situation and provide a report in December 1992.

In the first part of my testimony, I will briefly highlight some of the underlying factors that have contributed to the current DI trust fund situation. I will then discuss problems with program administration, which also need attention.

CURRENT FACTORS AFFECTING TRUST FUND EXPENDITURES

To a greater or lesser degree, several factors have led to increases in trust fund expenditures. You asked that we address these factors.

Application Rates

Disability application rates have risen in part as a result of the recent increase in unemployment rates. Hard economic times make it more difficult for severely impaired persons to find or keep jobs. Hard times may also provide an incentive for even less severely impaired persons without work to apply for disability. Many working persons have physical conditions that meet or equal SSA's disability standards, and many of these new applicants will qualify for benefits.

Allowance Rates

Between fiscal years 1988 and 1991, the initial DOS allowance rate for DI applicants rose from 40 to 46 percent. Although these rates are not the highest ever experienced, they are substantially higher than those experienced over the past decade. Unfortunately, reasons for the increases are not fully understood, although changes in program criteria may have played a role.

Perhaps the most difficult factor to assess is the general administrative environment. Disability decisions, especially in marginal cases, require difficult judgments. Therefore, changes in examiners' attitudes, as influenced by their work and management environment, may be affecting allowance rates. The extent to which this may occur is difficult to determine.

Trends in the appeals level have also caused increases in the rolls. The Administrative Law Judge (ALJ) allowance rate has been rising: from 50 percent in 1985 to about 66 percent in 1991. In 1990, over 15 percent of the new entrants into SSA's disability programs² came from the appeals process. Reasons for increases in ALJ allowances are not clearly understood.

Length of Stay on the Rolls

The size of the disability rolls is also affected by termination rates—the rate people leave the rolls. These rates are affected by such factors as individual motivation towards rehabilitation, and removal because of medical improvement or death. Movement off the rolls has slowed, as the average age of disability applicants has been going down. One contributing factor has been the virtual cessation of continuing disability reviews (CDRs).³ Absent an increase in termination rates, average time on the rolls will increase and the number of beneficiaries on the rolls at any given time will be correspondingly higher.

Legal Environment—A Future Consideration

Class action lawsuits may become significant sources of new awards. SSA and the DDSs are still working on compliance with the Supreme Court's *Zebley* decision, which will require an estimated 240,000 SSI re-adjudications. Although *Zebley* is the largest such case, and is limited to SSI claims, other large cases which involve DI are on the horizon. For example, two cases covering both SSI and DI in New York state have potential class sizes of 200,000 or more. SSA is currently tracking over 45 class action lawsuits at various stages of the legal process.

PROGRAM ADMINISTRATION

SSA's disability programs are also currently experiencing administrative problems including: (1) inordinate delays in processing initial disability applications, (2) indications of deterioration in the quality of disability determinations, and (3) insufficient numbers of CDRs to maintain the integrity of the rolls.

both DI and SSI cases using the same criteria, personnel, and work methods. DDSs also perform continuing disability reviews (CDRs) of current beneficiaries. DDSs are completely funded by the federal government from SSA's administrative expense budget.

²Data include both SSI and DI combined.

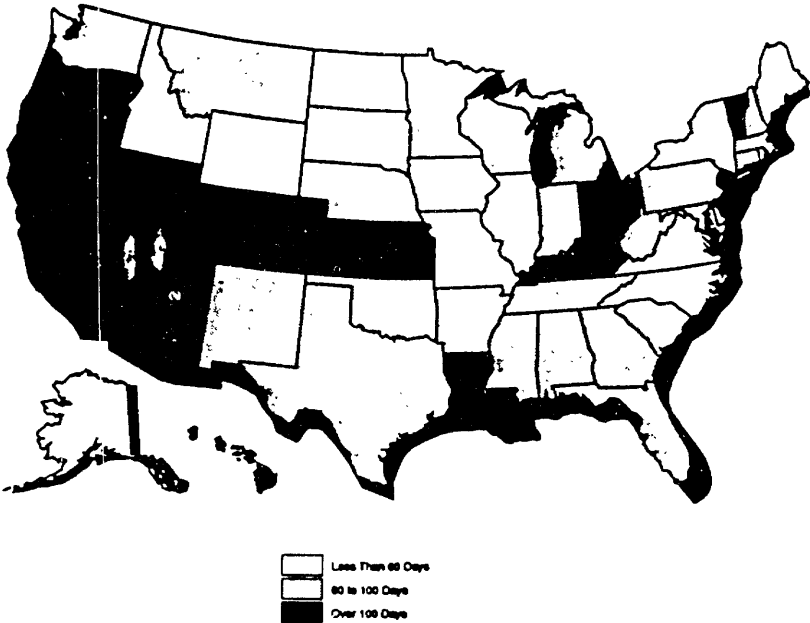
³In CDRs, SSA refers cases of existing beneficiaries to DDSs, who re-determine if they continue to meet disability criteria.

Processing Time Increases

The average time needed to process an initial disability determination is growing rapidly. In 1989, an average of less than 64 days were needed. Today, the average is 91 days and SSA estimates overall processing times will increase to about 162 days in fiscal year 1992, then about 213 days in fiscal year 1993.

These processing times are averages and thus do not fully reflect individual claimants' experiences, which depend on the state they live in and the complexity of their case. For example, claimants in California already wait an average of more than 136 days to obtain an initial determination. Figure 1 shows how average processing times vary by state.

Figure 1: Average Processing Time by State



SSA's burgeoning workload also has implications for future delays in the appeals process. At current appeal rates, ALJs, who hear disability appeals, will also experience growing workloads. As a consequence, we expect that waiting time for an ALJ decision should grow; such appeals already took 227 days in fiscal year 1991. Thus, many denied applicants who appeal will have to wait 14 months or longer for a final decision.

Decisional Quality

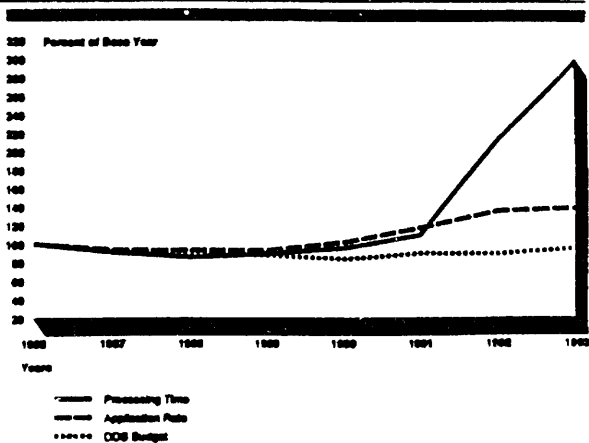
SSA's quality assurance data point to another problem. Error rates, as reported by SSA's quality assurance review process, have increased. In fiscal year 1985, 3.7 percent of cases contained errors. By the end of fiscal year 1991, this had risen to 5.6 percent of all cases. However, almost all of this increase came from errors on denied cases. Thus, while accuracy on initially allowed cases (where the applicant receives benefits) has remained relatively steady, denied cases are more likely to contain errors.

Our work to date has not progressed far enough for us to fully analyze these developments. We do not know what connection, if any, they have with overall allowance rates. But we think it noteworthy that this increase in error rates is occurring at the same time that DDSs are experiencing increased workloads and constrained resources.

Origins of the Workload Problem

A major cause of the increased processing time is the increase in applications. As shown in Figure 2, disability application rates (DI and SSI combined)⁴ began to grow in 1989, but DOS administrative budgets did not increase at the same rate. Application rates increased by 36 percent between 1986 and 1992 while DDSs' budgets fell 11 percent in the same period. In 1986 dollars, the DDSs' budgets fell from \$756 million in 1986 to an estimated \$673 million in 1992. Subsequently, the time needed to process applications began to rise.

Figure 2: Relation of Processing Time, Application Rate, and DOS Budgets



Assuming no change in the resources required to complete each action, perhaps as much as half a billion dollars⁵ would be required to (1) handle projected new applications and stop backlogs from increasing in 1993, (2) reduce the fiscal year 1993 starting backlog to an acceptable level,⁶ and (3) process overdue CDRs.

Some of this may be offset by reductions in future benefit costs. For example, SSA's Office of the Actuary recently projected a return of \$4.00 from every \$1.00 spent doing CDRs where medical improvement is expected.

Continuing Disability Reviews

SSA's efforts to cope with increasing workloads within existing budgetary constraints has led to deemphasizing CDRs. As part of its strategy to cope with the volume of new applications, SSA has ceased referring CDR cases to states for redetermination, except in very limited circumstances. Current law mandates CDRs at least once every three years for cases where medical improvement is either possible or expected.

SSA staff now estimate that over a million such cases are backlogged at present. We estimate that about 6 percent of these cases will receive a CDR in fiscal year 1992.⁷

CDRs are important beyond dollars involved. The failure to do CDRs means that increasing numbers of ineligible remain on the rolls and may erode public support for the program.

⁴SSI applications have also increased, causing the SSI budget to grow 57 percent in two years, from \$11.6 billion in fiscal year 1990 to \$18.2 billion in fiscal year 1992.

⁵Caution should be used in applying this estimate. Our purpose in making it was to demonstrate that SSA's recent budget request is insufficient to achieve timeliness goals and its legal mandates.

⁶SSA does not have an official goal for case processing times. We based our estimate on a 60 day time frame.

⁷We have noted SSA's continued failure to achieve the full cost-saving potential of CDRs since we testified on the subject in 1987. Again, in 1991, we testified that overdue CDRs were piling up at the rate of 250,000 per year.

PREPARED STATEMENT OF GUENDOLYN S. KING

Mr. Chairman and members of the subcommittee: Thank you for the opportunity to appear here today to discuss the financing and administration of the Social Security Disability Insurance (DI) program.

In my testimony this morning, I would like to focus first on the financing problems facing the DI Trust Fund as reflected in the 1992 Trustees Report and the "Section 709" report released by the Board of Trustees. Then, I will discuss some issues we face in meeting the challenge of administering the disability program.

1992 OASDI TRUSTEES REPORT

As you stated in your letter of invitation, Mr. Chairman, the 1992 Trustees Report shows the financial condition of the DI Trust Fund to have changed significantly from what the trustees had estimated in last year's report. In the 1992 report, the DI fund fails to meet the Trustees' tests of financial adequacy in both the short-term (1992-2001) and long-term (1992-2066).

As you know, the Trustees develop three alternative sets of economic and demographic assumptions to show a range of possibilities. Alternative II, the intermediate set of assumptions, reflects the Trustees' best estimate of what the future experience will be. Alternative I is more optimistic; alternative III is more pessimistic. These alternatives show how the trust funds would operate if economic and demographic conditions are better or worse than anticipated.

Under the 1992 Trustees Report's intermediate assumptions, the assets of the DI Trust Fund are estimated to decline steadily from \$12.9 billion at the beginning of 1992 until they are exhausted in 1997, without corrective legislation. Under the pessimistic set of assumptions, the assets of the DI Trust Fund would be exhausted in 1995.

Let me emphasize, however, that the Old-Age and Survivors Insurance (OASI) and DI Trust Funds are adequately financed for many years on a combined basis. (Attached to my testimony is a chart showing the status of the OASI and DI Trust Funds under the alternative II assumptions.) Under all three sets of assumptions used for the 1992 Trustees Report, the assets of the combined OASI and DI Trust Funds will exceed one year's expenditures at the beginning of next year and will remain above that level through the turn of the century. Thus, overall program financing is considered adequate in the short range, even under very adverse conditions.

While we need to be concerned about the financial condition of the DI Trust Fund—and need to begin considering alternatives to address DI financing—Social Security beneficiaries should be confident that their benefits will be paid timely, just as they have since Social Security benefits were first paid in 1940.

The unfavorable financial outlook for the DI program reflected in the 1992 Trustees Report is primarily attributable to an increasing trend in the proportion of workers who file for and are awarded disability benefits, and a decreasing trend in the proportion of beneficiaries whose disability benefits cease. Generally, disability benefits end when a person reaches normal retirement age (currently age 65), medically recovers, returns to work, or dies.

People with disabilities are coming onto the rolls at younger ages, partly because of an increase in the number of younger insured workers. Also, people with disabilities are living longer. And medical recovery rates have been very low over the last 6 years, in part, because of a provision in the 1984 disability amendments that established a separate standard for terminating benefits—medical improvement—for those already on the rolls.

In recent years, the effects of the rapid growth in the disability rolls on DI Trust Fund financing were offset by better-than-anticipated economic growth. Currently, however, benefits are growing much faster than revenues.

For several years, the Trustees have been expressing concern about the near-term financial outlook for the DI Trust Fund. Trustees Reports since 1985 have warned that DI Trust Fund assets might be exhausted if the number of disability beneficiaries grew rapidly, and we experienced adverse economic conditions.

CHANGES IN THE TRUSTEES REPORT

In your letter of invitation, Mr. Chairman, you asked that we address the reasons why the financial outlook for the DI fund appears worse this year than it had in 1991. The key reasons are: economic performance in 1991; the unusually rapid increase in disability benefit awards in 1991; and the continued decline in the benefit termination rate experienced in 1991. This experience necessitated changes in assumptions about future disability incidence (the rate at which insured workers be-

come disabled and qualify for disability benefits) and benefit termination rates. I will now discuss each of these factors in turn.

Declining Trust Fund Revenues

The economic performance during 1991 resulted in higher unemployment and slower wage growth than had been anticipated. These effects were partly offset by a lower than anticipated level of inflation. Overall, however, estimated tax income in 1992 and later years is projected to be significantly lower than the estimates in the 1991 Trustees Report. This effect accounts for a little over one-fifth of the change in the short-range financial projections for the DI Trust Fund.

Increased Disability Incidence Rates

At the same time, the DI program has experienced a much greater increase in the number of new disability awards to insured workers in 1991 than had been anticipated in last year's report.

- Last year's report assumed that the rate at which workers insured for disability benefits become entitled to disability benefits would, under intermediate assumptions, increase from 4.1 per thousand for such workers in 1990, to 4.2 per thousand in 1991. Under pessimistic assumptions, the rate was estimated to increase to 4.4 per thousand.
- The disability incidence rate for 1991 actually rose to 4.6 per thousand.
- Just under two-fifths of the change in the DI short-range financial projections in the 1992 Trustees Report is attributable to the experience in 1991 and associated revisions in assumed future rates.

Termination Rates for DI Beneficiaries

The third major factor cited in the 1992 Trustees Report for the worsening condition of the DI Trust Fund is the disability termination rate. This rate reflects the percentage of disability beneficiaries each year who have their benefits converted to retirement benefits because they reach age 65 or whose benefits end because of medical recovery, return to work, or death.

Disability termination rates have been relatively low since the mid-1980's. Prior to the 1992 report, the Trustees had assumed that these rates would rise somewhat, to about the levels the program had experienced during the mid-to-late 1970's. The termination-rate experience of 1988-1991, however, prompted revisions in our short-range actuarial estimates to more adequately take account of the downward trend. The revised estimates reflect more accurately the downward trend in termination rates due to death and attainment of age 65, which are caused, in part, by the lower average age of new beneficiaries.

The presence in the workforce of the post-World War II "baby boom" generation, those born between the mid-1940's and the mid-1960's has had, and will continue to have, a number of effects on the DI program.

- Increasing numbers of baby boomers are reaching the age at which they are more likely to become disabled. The first members of this generation are now in their mid-40s, and the rest will follow over the next 2 decades. This situation will contribute to a slow but steady increase in the portion of the population that is at the age where the incidence of disability rises.
- The size of the baby boom cohort already has affected the DI program, contributing to a general lowering of the average age of disability beneficiaries. Just 10 years ago, the average age of disabled beneficiaries was over 53; today, it is slightly over 50. Because younger beneficiaries tend to stay on the disability rolls longer, each award leads to higher program costs than would be the case, on average, for an older disability beneficiary.

Other factors involved in the decline in termination rates are:

- the relatively small size of the age cohort for those born between 1920-1925, when birth rates were quite low, which has resulted in declining age-65 conversion rates in 1986-1991;
- beginning in 1986, more awards to people with mental impairments who tend to be younger and physically healthier;
- declining termination rates under the medical improvement standard; and
- medical and technological advances that increase life expectancy.

As a result of the recent declines in termination rates and a better understanding of the causes of the decline, the assumptions for future termination rates in the short-range were revised downward in the 1992 Trustees Report. The actual experience in 1991 and the revised assumptions for the future together account for slightly

more than two-fifths of the change in the short-range financial outlook for the DI Trust Fund.

I would add, Mr. Chairman, that all of these trends—for DI beneficiaries to be younger on average, to live longer, and for fewer of them to leave the rolls under the 1984 amendments' medical improvement standard—underscore the importance of initiatives designed to encourage persons who are disabled to receive rehabilitation services and return to work.

In fact, SSA is undertaking tests of several new initiatives designed to increase employment opportunities for DI beneficiaries. One of these initiatives, called Project Network, is testing several approaches to provide access to a wide range of rehabilitation and employment services needed for beneficiaries to return to work.

RESTORING THE FINANCIAL SOUNDNESS OF THE DI FUND

You asked about our recommendations concerning the best approach for addressing the imbalance in funding that is projected to occur in the DI fund. As you know, Mr. Chairman, section 709 of the Social Security Act requires the Board of Trustees to report to the Senate and the House of Representatives when the Board determines that the assets of a Trust Fund for any calendar year may become less than 20 percent of that year's expenditures.

On April 2, 1992, the Board sent each House a report indicating that, under the intermediate set of economic and demographic assumptions used in preparing the 1992 Trustees Report, the DI fund would begin to decline in 1992 and would fall below 20 percent by the beginning of 1996. The Board of Trustees also indicates in its report that, although the DI Trust Fund alone does not meet the short-range test of financial adequacy, the OASI and DI Trust Funds combined pass the short-range test of financial adequacy by a wide margin.

The Board of Trustees estimates that under intermediate assumptions about \$39 billion in additional tax income or reduced spending would be required over the next 10 years just to keep the balance in the fund at 20 percent of annual outlays. Under these same assumptions, about \$78 billion would be required to restore and maintain a reserve in the DI fund equal to 100 percent of annual expenditures—the minimum level generally recommended to provide an adequate reserve against adverse contingencies.

In its report on the anticipated shortfall in the DI fund, the Board of Trustees indicates that a careful review of the DI program financing should be undertaken before any specific legislative recommendations are submitted. The Board has asked Secretary Sullivan to conduct a careful analysis and to report his findings later this year. The Trustees expect to submit recommendations to the Congress by the end of the year.

We want to take advantage of the Board's early warning about the DI Trust Fund to consider fully how the financing issue should be addressed. Thus, we do not have specific recommendations at this time.

There are several options for addressing the financial needs of the DI Trust Fund. The financial inadequacy for the DI Trust Fund could be addressed in the short range through a reallocation of tax rates between the OASI and the DI programs. Reallocation has frequently been used in the past to help improve a trust fund's financial status without having to increase overall tax rates. In the Social Security Amendments of 1983, a substantial portion of the scheduled tax rate for DI was reallocated to OASI to help bring that trust fund back into balance. Part of this reduction in the DI rate is to be restored by a scheduled increase in the DI allocation from .6 percent to .71 percent beginning in the year 2000.

Under intermediate assumptions, about \$78 billion in additional income or reduced spending would be required over the next 10 years to restore and maintain a DI reserve equal to 100 percent of annual expenditures, the minimum level required to provide an adequate reserve against adverse contingencies. If we change the allocation ratios in 1993 instead of the year 2000, income to the DI trust fund would increase by \$49.4 billion over the next 10 years. If the percentage allocated to DI were increased to 0.80 percent beginning in 1993, DI Trust Fund revenues over the next 10 years would increase an estimated \$104.5 billion. If the percentage allocated to DI were increased to 0.87 percent in three steps beginning in 1993 and ending in the year 2000, DI Trust Fund revenues over the next 10 years would increase an estimated \$141.8 billion.

Other alternatives for restoring the financial condition of the DI Trust Fund include reducing expenditures through program modifications, increasing DI Trust Fund revenues in ways other than reallocation, or some combination of revenue increases and spending cuts.

DISABILITY PROGRAM ISSUES

Having discussed the 1992 Trustees Report and the reasons underlying the decline in the financial projections for the DI Trust Fund between the 1991 and 1992 reports, let me turn now to the implications of these trends for the administration of the DI program.

The DI program is growing rapidly, both in terms of the number of applications filed and the number of applicants who are found to be eligible for benefits.

- In FY 1991, initial DI worker applications increased by nearly 12 percent over the FY 1990 level, to nearly 1.2 million applications in 1991.
- For FY 1992, we are projecting an increase of 11 percent over the FY 1991 level, to about 1.3 million applications for DI benefits.

The tremendous upsurge in the number of applications being filed for DI benefits exceeded all of the projections in last year's Trustees Report, and has played an important role in drawing down the DI Trust Fund.

While we do not know with certainty which factors played the largest role, there are several factors that we believe contributed to this recent growth in applications.

- One reason for the growth is the economy. As the economy has continued to perform below levels assumed in last year's Trustees Report, unemployment and applications have risen.
- While most of our SSI outreach efforts have been directed to the potential SSI population, they also resulted in increased DI applications. Many SSI applicants are also eligible for DI benefits.

ALLOWANCE RATE LEVELS

Since the early 1980's, the proportion of applications for DI workers that are approved has gradually increased. More recently, the allowance rate for initial claims from DI workers has risen slightly, from 38 percent in 1990 to 39 percent in 1991. And, again, while we cannot say with certainty the extent to which individual factors have contributed to this increase, the following have contributed to this increase:

- Some regulations have had the effect of liberalizing the DI program. For example, effective in January 1990, a regulation increased the limit for determining whether a person was performing "substantial" work from \$300 to \$500. This means that people can earn somewhat more and still be considered disabled. As a result, more people qualify for benefits.
- Legislation has been enacted which has liberalized the program. For example, as required in the 1984 Disability Amendments, SSA revised the standards it uses to adjudicate disability applications based on mental impairments. These new standards were developed in consultation with recognized authorities in the field of evaluating and treating mental conditions. However, they have had the effect of increasing the number of people who qualify for DI benefits based on mental impairments.
- Another factor is implementation of Federal court orders. SSA has implemented a number of class action cases which have required readjudication of tens of thousands of claims. Numerous other class action cases are being implemented.
- Applications for DI benefits based on AIDS have increased slowly but steadily over the past decade, and virtually all of these cases are approved.
- And last, some of this increase is attributable to State and Federal initiatives to better manage the backlog of disability claims pending in State offices. For example, in many States, special units have been established to identify and expedite processing of cases from people whose medical conditions are obviously disabling. In addition, SSA recently established a procedure requiring the DDSs to give priority attention to claims from people with terminal illnesses. The temporary effect of these practices has been to temporarily elevate allowance rates.

In your letter of invitation, Mr. Chairman, you asked whether allowance rates are too high. While we are concerned about the effect of increasing allowances on the DI Trust Fund, we are confident that the decisions being made by the disability adjudicators in the State DDSs are accurate. This confidence is based on a number of safeguards that were put in place in the 1980's:

- Before benefits are paid, we review 50 percent of all favorable initial DI decisions to make sure that the decisions made by the DDSs are accurate. We target cases involving medical conditions that are most prone to adjudicator error.

- We review a statistically reliable sample of DI decisions made in the DDSs and in SSA's disability adjudicating components. This review assesses the accuracy of all aspects of disability case processing. Results from this review indicate that the accuracy of DI disability determinations remains consistently high—even in the face of the very high workloads that we now have in the DDSs.
- The results of our quality assurance reviews indicate that the State DDSs continue to make highly accurate disability determinations. Our most recent reports indicate that approximately 98 percent of the title II allowance decisions made by the State DDSs are made accurately.

As a result of these safeguards, we believe our determinations are accurate, and that only those who meet the requirements of the law qualify for benefits.

CONTINUING DISABILITY REVIEWS

Mr. Chairman, you asked whether we are conducting an appropriate number of continuing disability reviews (CDRs). We are limiting our CDR workloads in the DDSs to a total of 60,000 cases for this fiscal year. This was a very difficult decision because we are keenly aware of the importance of periodically reviewing the medical condition of disability beneficiaries to ensure that only those who continue to be disabled receive benefits.

However, providing needed benefits to eligible applicants must remain our first priority. Therefore, as initial applications have escalated over the past few years, we have targeted our resources on them by limiting the number of CDRs.

We are looking at ways to make the CDR evaluation process more efficient, so that those who are no longer disabled can be identified more quickly. At the same time, we want to ensure the vast majority of beneficiaries who continue to be eligible are not required to go through the same type of comprehensive review process that is currently in use. The decision to limit CDRs was reinforced by the low cessation rate that we have been experiencing in recent years. Since the medical improvement review standard in the 1984 amendments was implemented, more than 95 percent of all individuals who undergo a CDR have their benefits continued.

To accomplish our objectives, we are using new criteria for deciding when to schedule beneficiaries for a CDR, which are based on the nature of the beneficiary's medical condition, or impairment. Our intent is to focus the CDR process more effectively, and the criteria are based on the results from over 1 million CDRs that we have conducted since 1986.

We are also currently testing more efficient approaches for conducting the CDR. As you know, Mr. Chairman, a CDR starts with an interview by one of our field office employees and requires a complete reevaluation of the beneficiary's medical condition by staff in the State DDS. The approach we are testing in 26 states involves the use of a questionnaire concerning the beneficiary's current health and whether he or she has worked at any time in the recent past. Disability beneficiaries will be able to complete the questionnaires in the privacy and convenience of their own homes and mail the form to us.

When we receive the questionnaire, we will evaluate the response together with beneficiary information to determine whether there is a likelihood that the beneficiary's medical condition has improved. Only then will the beneficiary be asked to undergo a full medical CDR. (Under the test, we are completing full medical CDRs in every case. Thus, we can compare the results of the CDR and the questionnaire so we can refine our criteria and make sure that under the new process only those people requiring a full medical CDR undergo one.)

We expect to complete our testing of this procedure and the assessment of the results in time to implement an improved review process before the end of the year. We believe that this approach will enable us to make the most efficient use of our administrative resources and be least disruptive to disabled beneficiaries. Preliminary results are encouraging.

ADEQUACY OF SSA'S ADMINISTRATIVE BUDGET

You have asked, Mr. Chairman, whether we have adequate resources to administer the DI program. One of my top priorities, and one that is increasingly vital as our disability workloads continue to grow, is to maintain resources for the DDSs. In fact, just as the 3-year one-time special appropriation for *Zebley* (SSI childhood disability cases) winds down next year, the President's FY 1993 budget provides a 10 percent increase over the FY 1992 appropriation for the DDSs.

In comparison, the FY 1993 budget includes a 6 percent increase in SSA's total administrative expenses. Also, the full \$100 million contingency reserve for FY 1992 has been released by the Office of Management and Budget (OMB). These additional

funds are being used to increase the number of disability cases that are processed this year by SSA.

Essentially, then, our challenge in the disability area is to deal successfully with a dramatic workload increase within the resource limits we face under the Budget Enforcement Act. This requires us to use our available resources accordingly and has required us to make some hard choices about our priorities.

In response to your question, I ask that you support the President's full request for SSA's FY 1993 administrative expenses. If we reach the point where we believe that we need additional funds, we will alert you, Mr. Chairman, and the other appropriate committees.

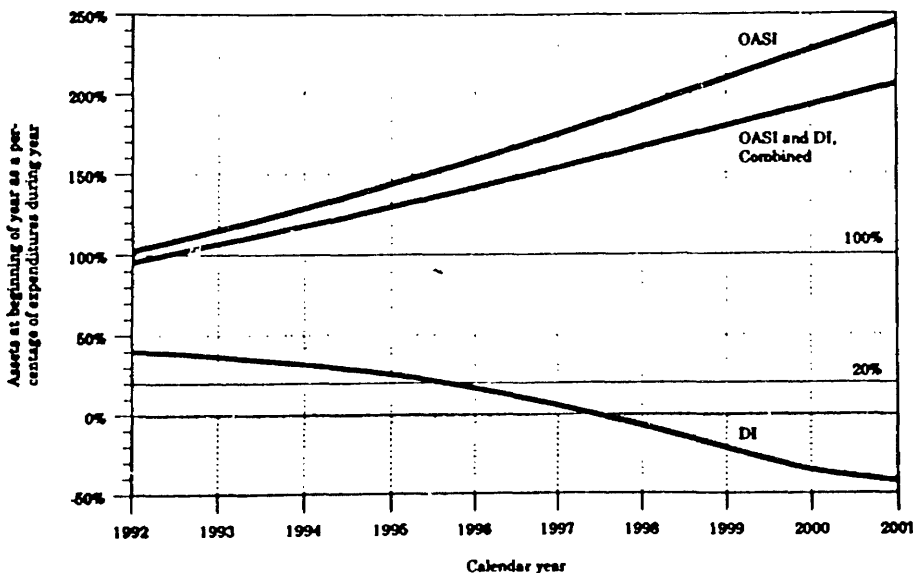
CONCLUSION

In conclusion, Mr. Chairman, we are concerned about the financial condition of the DI Trust Fund. We will work closely with our colleagues in the Department of Health and Human Services and, as appropriate, with members of the Board of Trustees to develop alternatives to address the financial problems facing the DI Trust Fund.

On the administrative front, we are committed to ensuring that the resources available to administer the DI program are used as effectively and efficiently as possible. We will also do everything necessary to ensure that we pay benefits quickly and accurately and administer the disability program in a manner that is fair and compassionate.

Attachment.

**OASI and DI Trust Fund Ratios:
1992 Trustees Report Alternative II**



Office of the Actuary
Social Security Administration
April 15, 1992

RESPONSES OF COMMISSIONER KING TO QUESTIONS SUBMITTED BY SENATOR BENTSEN

Question No. 1. Please provide the Committee with your views as to what are the most significant causes of the increases in disability allowance rates that are occurring at all levels of adjudication?

Answer. While we cannot say with certainty the extent to which individual factors have contributed to the increase in disability allowance rates, the following have contributed to this increase:

- Some regulations have resulted in increases to the DI program. For example, effective in January 1990, a regulation increased the limit for determining whether a person was performing "substantial" work from \$300 to \$500. This means that people can earn somewhat more and still be considered disabled. As a result, more people qualify for benefits.
- Legislation has been enacted which has affected the program. For example, as required in the 1984 Disability Amendments, SSA revised the standards it uses to adjudicate disability applications based on mental impairments. These new standards were developed in consultation with recognized authorities in the field of evaluating and treating mental conditions. However, they have had the effect of increasing the number of people who qualify for DI benefits based on mental impairments.
- Another factor is implementation of Federal Court orders. SSA has implemented a number of class action cases which have required readjudication of tens of thousands of claims. Numerous other class action cases are being implemented.
- Applications for DI benefits based on AIDS have increased slowly but steadily over the past decade, and virtually all of these cases are approved.
- And last, some of this increase is attributable to State and Federal initiatives to better manage the backlog of disability claims pending in State offices. For example, in many States, special units have been established to identify and expedite processing of cases from people whose medical conditions are obviously disabling. In addition, SSA recently established a procedure requiring the State disability determination services to give priority attention to claims from people with terminal illnesses. The temporary effect of these practices has been to temporarily elevate allowance rates. (NOTE: Since the April 27 hearing, the disability allowance rate has declined from the rates that were experienced earlier in the year.)

Question No. 2. Are there data available, or can you provide estimates of the effect of court decisions or agreements on class action suits and of acquiescence rulings on awards of disability benefits during the past five years? For example, can you provide actual data or estimates on the number of individuals included in disability classes, the number who requested that their cases be reviewed, and the number of awards resulting from these reviews?

Answer. While we do not have data concerning the effect of acquiescence rulings on the overall incidence of disability in the Social Security Disability Insurance and SSI programs, we do have some information concerning class action suits that relate to the adjudication of disability.

Currently, there are about 50 active class actions that relate to disability. In reaching settlements in these cases, SSA has agreed to review the disability claims of about 2 million persons. So far, we have reviewed about 400,000 of these cases, all of which were initially denied, and have awarded disability benefits to about 50,000 people.

Question No. 3. The law provides that the cases of individuals who receive disability benefits and are not considered to be permanently disabled should be reviewed every 3 years. I understand that SSA, because of workload pressures, is not conforming to this schedule. Please provide the Committee with the number of cases that SSA has reviewed or currently plans to review in each of the years 1990-1993, compare these with the numbers required under a 3-year review cycle, and estimate the effect on benefit costs of failure to perform reviews on a 3-year cycle.

Answer. In fiscal years (FYs) 1990-1993, because of the need to devote resources primarily to higher-than-expected disability claims workload, we estimate that we will have conducted slightly fewer than 100,000 continuing disability reviews (CDRs) per year. Under a 3-year review cycle, we would have conducted approximately 400,000 CDRs per year.

We also estimate that reduced administrative expenses from doing fewer CDRs in FYs 1990-1993 will result in savings to the disability insurance (DI) trust fund of about \$1.0 billion. However, these savings will be partially offset by the estimated costs of about \$0.7 billion of paying benefits to people who would have been terminated from the DI rolls if CDRs had been conducted. Thus, the net financial effect for this 4-year period is a small net savings of roughly \$0.3 billion.

Over the long run, the net cost to the trust funds of not performing reviews on a 3-year cycle during the FYs 1990-1993 would be about \$1.4 billion. We recognize that this net cost is a trade off, resulting from the allocation of available resources

to processing initial claims at the expense of continuing reviews. If SSA processed 400,000 CDRs within current budget constraints, the initial claims backlog could increase by about 320,000 cases, and the average time a disabled claimant would need to wait for a medical decision could increase by about 50 days.

Question No. 4. I realize that it requires some time for the actuaries to obtain operational data and make estimates, and that the estimates contained in the Trustees Reports are therefore based on data that may not reflect the most recent operational experience. What have been the trends in the first quarter of calendar year 1992 for disability applications, awards, incidence rates, and other factors particularly relevant to the estimation of disability costs? How do these latest trends conform with or depart from those used to produce the Trustees estimates? On the basis of this latest experience, do you believe that the alternative II estimates for the Disability Insurance program are optimistic, pessimistic, or about right?

Answer. The primary factors affecting the financial status of the Disability Insurance Trust Fund are (i) economic conditions, including the rates of growth in real Gross Domestic Product (GDP) and inflation, and the level of unemployment, (ii) the rate at which insured workers become disabled and qualify for Disability Insurance benefits, and (iii) the rate at which benefits paid to disabled workers terminate as a result of recovery, death, or conversion to retirement benefits at age 65. The Trustees Report projections are based on assumptions concerning each of these factors.

At the time the financial estimates were prepared for the 1992 Trustees Report, actual data on key economic factors were available (on a preliminary basis, in some cases) through the fourth quarter of calendar year 1991. Data on program operations were available through the same period.

The following table compares the actual data for the first quarter of 1992 with the Trustees Report estimates for each of the key factors. Data is shown for the numbers of benefit awards and terminations, rather than award and termination rates, since such rates are normally only calculated on an annual basis.

Factor	Estimated, based on alternative			
	Actual	I	II	III
Economic factors:				
Growth in real GDP ¹	2.0%	1.8%	0.7%	-0.5%
Inflation rate ¹	2.4	2.5	3.0	3.5
Unemployment rate	7.2	7.0	7.1	7.1
Program experience:				
Number of benefit awards to disabled workers	153,800	130,600	141,700	150,600
Number of terminations of benefits to disabled workers	96,100	101,300	99,400	97,400

¹ Seasonally adjusted, annualized rate.

² Preliminary. Advance estimate from Bureau of Economic Analysis.

As indicated in the table, the rates of economic growth and inflation in the first quarter were both somewhat more favorable than assumed under the intermediate (alternative II) assumptions from the Trustees Report. The unemployment rate, however, was slightly less favorable. Thus, the economic factors, which primarily affect tax revenue to the DI Trust Fund, appear to be doing slightly better overall than assumed.

On the other hand, the actual number of benefit awards to disabled workers in the first quarter of 1992 was significantly greater than anticipated, exceeding even the alternative III assumption. Some of the increase is attributable to SSA's recent administrative efforts to accelerate the adjudication of disability applications expected to result in allowances. As such, the higher level of awards may be temporary and the longer-term trend may return to the levels estimated for the Trustees Report projections. If the number of awards continues to exceed the projections, however, the financial projections in the Trustees Report could understate the actual future cost of the DI program.

The number of benefit terminations in the first quarter was very close to the Trustees Report projections. Although the actual number was outside of the range of estimates under the alternative sets of assumptions, the difference is not sufficiently large to be of concern at this time. Should the difference continue and expand, however, the impact on the financial projections could become more significant.

Overall, because of the continuing rapid increase in the number of benefit awards to disabled workers, the alternative II projections for the DI Trust Fund may prove somewhat optimistic. Since the other factors are reasonably similar to the alter-

native II assumptions to date, it does not seem probable that the actual experience would be as adverse as projected under the alternative III assumptions. Due to the sensitivity of the financial status of the DI program to these factors, and because of the current relatively low level of DI Trust Fund assets, it will be necessary to continue to monitor the experience of the program closely.

Question No. 5. The President's Budget for FY 1993 estimates that disability backlogs and processing times will continue to grow in FY 1992 and FY 1993. Since that budget was submitted, OMB has released \$100 million in contingency funds for disability administration. In addition, the Trustees' Report may be projecting less favorable experience than was assumed in the budget. Given these and other relevant factors, what is your current estimate of disability backlogs and processing times in FY 1992-93, what would you consider to be "normal" or "acceptable" levels, and what kind of increases in funding and staffing would be required to achieve these "acceptable" levels by no later than FY 1994?

Answer. We have set a goal for ourselves in the Agency Strategic Plan to move towards having a disability claim decision made and initial payment made, or denial issued, for the Disability Insurance program before the end of the sixth month after the onset of disability, or within 60 days of filing for the benefits, whichever is later. For SSI blind and disabled claims the goal is 60 days after filing for benefits.

With the release of the \$100 million contingency funds in FY 1992, SSA estimated that the disability backlog in the Disability State Agencies at the end of September 1992 would be about 963,000 cases—including 780,000 initial claims—representing about 16 weeks work on hand. SSA also estimated that the backlog at the end of September 1993 would be about 1.4 million cases—including about 1.2 million initial claims—representing about 23 weeks work on hand. At the same time, it was estimated that initial claims processing times would increase substantially from 99 days at the end of FY 1991, to 127 days at the end of FY 1992, and 189 days at the end of FY 1993. At this time we are unable to furnish information for FY 1994.

We are continuing to monitor the disability workloads. Because of the contingency release and several initiatives we have undertaken in FY 1992, the pending workloads will be lower than previously estimated. At the end of September 1992, there were approximately 678,000 non-Zebley cases pending in the Disability State Agencies—including 534,000 initial claims. This represented about 12 weeks work on hand. The average overall processing time for disability claims was about 104 days in August 1992. While the situation has improved somewhat in FY 1992, pending workloads in the Disability State Agencies and processing times at the end of September 1993 will still be significantly higher than the FY 1992 level.

We will do the best we can with the funds available to use in FY 1993. For every 100,000 additional cases that are processed (including any related appeals), about 1,000 federal workyears and \$100 million for SSA and the Disability State Agencies are needed.

Question No. 6. In its "section 709" letter of April 2, the Board of Trustees states that it has asked the Department of Health and Human Services to undertake a careful analysis of the disability program. The Board will use this analysis to develop appropriate recommendations for statutory changes to the Disability Insurance program which, according to the letter, will be submitted to the Congress by December 31, 1992. Are you charged with actually conducting this analysis? Can you tell us where it stands and when you expect it to be completed? Will this provide sufficient time for Board to formulate its recommendations and report to the Congress by the end of the year?

Answer. The report from the Board of Trustees to Congress, required under section 709 of the Social Security Act, indicates that:

- Based on the intermediate estimates in the 1992 Trustees Report, the assets of the DI Trust Fund would be below 20 percent of annual expenditures at the beginning of 1996 and would become exhausted in 1997 in the absence of corrective legislation.
- Legislative changes that improve the short-range financial status of the DI program by at least \$40 billion over the next 10 years are likely to be necessary to assure that the assets of the DI Trust Fund do not fall below the level of 20 percent of annual expenditures.
- The Board of Trustees believes that a careful analysis of the DI program, including the allocation of the OASDI tax rate between QASI and DI, should be undertaken before any legislative recommendations are submitted.

The Social Security Administration has initiated such an analysis. I have appointed a special SSA work group to complete the analysis and expect the analysis will be completed by early October. We anticipate that this schedule will be ade-

quate to allow the Board of Trustees to review the analysis and submit recommendations for statutory adjustments by the deadline of December 31, 1992.

PREPARED STATEMENT OF STAN KRESS

Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you on behalf of the National Council of Disability Determination Directors (NCDDD). We welcome the opportunity to share with you our views on Disability Insurance (DI) programmatic issues.

If you look at the number and rate of disability allowances over the past 12 years you will find that 494,000 people were allowed disability benefits in 1976 and 216,000 were allowed in 1982. Last year a mid-range of 389,000 were allowed disability benefits. If you look at the allowance rate, it follows a similar pattern, with 57.1% of the applicants being allowed in 1973 and 27.3% being allowed in 1981 and 1982. Last year the state operated Disability Determination Services (DDSs) allowed 39.2% of the disability applicants. This is an increase of 3% over the past two years. Most of this increase can be attributed to demographic and economic changes that have occurred nationwide. These changes have been more dramatic in some regions of the country than others.

In 1987 and again in 1988 the Social Security Administration (SSA) conducted studies on the factors influencing DDS initial allowance rates. A number of demographic factors were found to have high correlations in explaining the differences in allowance rates between various state DDSs. Some of the key factors were the different mix of cases from state-to-state, i.e., the number of Title II only claims vs. the number of Title XVI only claims vs. the Concurrent Title II/XVI claims. In other words, the proportion of low income people who were found disabled in a given state.

There has been a surge in the filing of new claims over the past two years. The slump in the economy has definitely been a factor. The fact that we have a higher percentage of people earning lower incomes has created more Title XVI receipts. Another significant factor in the 1987 and 1988 studies was the unemployment rate. Once again, there has been a rise in the rate of unemployment, as well as a rise in the number of people who are no longer looking for work or are homeless. This also brings about higher filing rates. This is because the first people layed off are those who are the least productive due to physical or mental impairments. The percent of people filing for disability historically impacts on allowance rates by generating a decreasing allowance rate. However, this factor does not seem to have had the usual impact over the past two years. However, just as most of the differences in allowance rates between states could be explained by the differences in demographics, most of the recent changes in national allowance rates can also be explained using these same factors.

Key factors not addressed in the SSA studies, because of a lack of available data, were the health of state populations and the impact of not having adequate, available, affordable health care for significant portions of the population. The absence of adequate access to health care may significantly motivate an individual to file for disability benefits if the benefits also provide access to health care. We feel these are important factors that are difficult to measure but important nonetheless. If we had adequate, reliable data in these areas, there is little doubt it would substantiate additional portions of the allowance rate. Overall, these demographic and economic changes would appear to have impacted actuarial projections for the DI program.

The answer to the question, "Why have DI allowance rates risen?" contains several facets. I have addressed part of that question while discussing demographic and economic changes of the recent past. Other factors also influence the allowance rates. The Courts have mandated changes in the Continuing Disability Review (CDR) process, in the psychiatric/mental area and the childhood listings (Zebley Court Case). The 1984 amendments have been implemented. SSA has in the past two years responded to the public's wishes and made changes in how widows and widowers are evaluated, speeded up the disability process for HIV/AIDS claimants, started an outreach program for the homeless and developed streamlining measures for obvious allowances to help alleviate the backlog of pending cases. These measures coupled with the demographic and economic changes, have expedited the receipt of benefits, helped disabled applicants get the benefits they deserve and increased allowances.

The "adjudicative climate," is certainly different than it was during the early 70's and early 80's. During 1973-75, in the rush to implement the SSI program, people were put on the rolls with little or no objective medical evidence. There isn't much doubt that during that period some people were put on who could have gone to

work. During the '81-'85 time frame the adjudicative climate was one of cutting off benefits for many of the people who were receiving them and keeping off as many of the new applicants as possible. The climate of that period didn't hold up in court or sit well with the public.

Have the courts and public pressure taken the pendulum too far in the other direction? Is the allowance rate now too high? Our organization has not taken a position on these issues. However, I think it's safe to say that you would get a variety of answers depending on who you asked. It's also safe to say the allowances being made today are far more "just" than were the denials and cessations of the early 80's or the high number of allowances of the early 70's. Let's hope we learned something from those two periods and don't repeat either one of them.

When you have court mandated liberalizations in CDRs, psychiatric cases and children's cases, there is, undoubtedly, some spill-over into the other areas of disability. However, the DDSs have long been criticized for denying claimants who Administrative Law Judges (ALJs) later allowed. Perhaps we are just getting benefits more uniformly to worthy applicants at an earlier stage of the process. I would guess that we are closer to the "right number" of allowances than we were during either of the earlier periods discussed.

To the question, "Is the Social Security Administration conducting an appropriate number of CDRs?" The answer is, "NO!"

There are approximately one million CDRs past their scheduled review date. Forty percent of these are cases in which medical improvement is expected. If funding was available to process these claims, this could produce a considerable savings to the trust fund and help offset the current imbalance. In a moment I am going to speak to resource issues and, in case someone asks, "Why are the CDRs not considered until your last option, since for every \$1 you spend doing them you get \$4 returned to the trust fund?" our answer is, our first priority must be to give our initial claimants adequate service. We don't believe it is prudent to use our limited resources to work large numbers of CDRs until this has been accomplished.

While on the subject of CDRs, I would like to briefly address the review standard used prior to the 1984 amendments and the medical improvement review standard used after the 1984 amendments. There is little doubt that the standard used during the 1981-83 period was overly restrictive and resulted in people with significant impairments being cut from the rolls. The new medical improvement standard is a good one for claimants with severe impairments, with good medical documentation in their file and/or of advanced age. However, in the instances where younger individuals were put on with little medical evidence or for minor impairments it makes it extremely difficult to remove these people from the rolls even if they are capable of returning to work. Perhaps Congress should consider some middle ground for these cases.

If one of the issues to be addressed by this hearing is the question, "Does the agency have adequate resources to properly administer the DI program?" the answer is simply; "NO!"

A budget of \$955 million for the FY '93 administrative costs of the disability program of the SSA does not represent a real 10% increase. In reality, during FY '92 the DDSs have been funded in the amount of \$868 million, plus \$78 million from the multi-year Zebley Supplemental Appropriation and we were allotted another \$86 million from the contingency fund release. Therefore, in 1992 over \$1 billion will be spent on administering the disability program. The '93 budget request is, in fact, a budget decrease for the disability program.

In 1986 the pipeline of disability cases was filled with 320,000 Americans. On the average it took about two months to get them a decision on whether they would receive benefits at the initial level. Today, there are nearly 800,000 claimants awaiting a decision. Recently, clearances have been higher than receipts due to Commissioner King's implementation of the streamlining initiatives. However, we do not know how long this can hold. Assuming a budget of \$955 million for FY '93, these backlogs will grow to well over a million by September, 1993. SSA "estimates that the overall processing times for disability claims will increase dramatically in FY '93." That means people with disabilities will wait, on the average, five to seven months to receive an initial disability decision. In some cases it will take over a year. By the time a claimant who is denied at the initial level pursues his claim through the Administrative Law Judge (ALJ) level, literally years will have passed. Thousands of the disabled will die, or find themselves in dire straits, before their claim for benefits is decided. When all of this is considered, the price tag on human suffering becomes much more relevant.

In spite of staff and budget cuts, DDSs have tried to give good service. During the period 1986 through 1990, the DDSs increased their production by over 30% while the real dollars available to service the claimants decreased by over 20%. The

years of budget cuts, coupled with more than a 30% increase in claims receipts, has caused the disability program and its claimants to suffer. Service at the level possible with the projected funds for FY '93 is simply not acceptable. Americans with disabilities deserve better.

I don't think there is much disagreement that Social Security and the DDSs have been underfunded the past several years. Nor is it debatable that this underfunding is impacting growing numbers of disabled and aged persons. With your permission I would like to detail my projections for adequate financing for the DDSs for FY '93, financing that would stop the growth in pending disability cases and the deterioration of service. I would also like to outline what it will take to begin to repair the damage created by the 1986-1990 reductions.

In order to understand my projections for what I think the budget for disability cases should be during FY '93, it would be helpful if I spelled out my premises.

1. In FY '91 the DDSs worked 2,556,147 cases at an average cost of \$344.52.

2. The FY '92 budgeted cost of \$321/case is unreasonable and unrealistic in view of last year's costs. (Part of the contingency fund release will go to make up this short-fall.)

3. An inflationary factor of 4% was used for determining reasonable costs per case for FY '92 and used again in '93, i.e. \$358 and \$373.

4. The pending caseload in the DDSs is now approximately 800,000. (This compares with 320,000 pending cases at the end of FY '88.)

5. Even with the contingency fund release, the Zebley Supplemental Appropriation and several SSA streamlining procedures being implemented this year, the DDSs will close FY '92 with more cases pending than when the year began. The pending will rise significantly under the Administration's budget during FY '93. This will be due to the fact that receipts are far outstripping the budgeted clearances.

6. The SSA actuaries projected that 3,281,478 disability cases will be received during FY '92.

7. Receipts of disability cases during FY '93 will be approximately 3,300,000. (233,000 fewer Zebley cases will need to be worked in '93 but they will likely be replaced by other court cases. This estimate is based on the FY '92 actuarial figures.)

8. Reduction of pending cases and working an appropriate number of CDRs needs to be a high priority.

9. The DDSs not yet modernized with up-to-date electronic data processing (EDP) equipment must be modernized over the next 2-3 years.

10. The President's budget of \$955 million for the DDSs will create such a tremendous backlog of cases that the disability program will be in danger of sinking from its own weight.

11. In response to a question posed by Representative Andy Jacobs as to what she would do with an additional \$500 million, Commissioner Gwendolyn King responded that an additional 500,000 cases could be worked, if that amount was made available. Therefore, I assume the real needs of SSA for FY '93 is \$5.3 billion.

12. Listed below are our projections, first for a status quo budget; second, a plan for beginning to reduce the backlogs; and third, a plan that includes the working of CDRs.

3,300,000 Cases x \$373 per case = \$1,231,000,000 + \$20,000,000 new EDP = \$1,251,000,000 Total.

If we were to start reducing the backlog of cases (say at the rate of 150,000 per year).

3,450,000 Cases x \$373 per case = \$1,287,000,000 + \$20,000,000 EDP = \$1,307,000,000 Total

If we were to include an additional 200,000 backlogged CDRs (this would result in a net savings to the trust fund).

3,650,000 Cases x \$373 per case = \$1,362,000,000 + \$20,000,000 EDP = \$1,381,000,000 Total

In order to make possible this level of funding, it may be necessary to move the administrative costs of the Social Security Administration off-budget. The NCDDD would support such a move since it would mean improved service to millions of Americans.

Governor Cecil D. Andrus of Idaho, recently wrote to Secretary Sullivan, OMB Director Darman, the National Governor's Association (NGA) and all the other Governors about the "diminishing quality of service being provided to our most vulner-

able citizens." He went on to say that lack of proper funding "will result in irreparable harm to this program's ability to deliver responsive public service."

Since writing, Governor Andrus has received numerous letters from other Governors expressing concern and offering to support an action by the NGA to encourage and/or demand proper funding for the disability program. I offer a sample of their comments: from Governor Howard Dean, M. D., Vermont, "I agree that disabled citizens deserve better service than they are receiving and that we should demand adequate funding for these programs . . . ;" from Governor Stan Stephens, Montana, "I agree with you that the disability programs (of SSA) have been severely underfunded during the past several years . . . Persons with disabilities in our states deserve the best possible services, . . . ;" from Governor Fife Symington, Arizona, "lack of adequate resources has been a problem in qualifying eligible citizens . . . ;" and from Governor Ann Richards, Texas, "Federal funding has lagged farther and farther behind the need and demand for assistance, leaving growing numbers of people with disabilities without the support they should be receiving."

In conclusion, demographic changes, the graying of the babyboomers, outreach programs and the economic recession have brought about a very significant increase in the DI application rates. The courts, the 1984 amendments and public pressure have mandated a changed adjudicative climate. There is a backlog in CDRs that need to be worked and there is insufficient resources to adequately address these concerns. The NCDDD stands ready to help this committee and SSA find answers in those areas that need to be addressed. We are the ones on the firing line and we welcome the opportunity to be involved in charting a course of action for the disability program.

Thank You.

Attachments.

EXHIBIT 1

DISABILITY CLAIMS, TOTAL CLOSING, FYS 1989-1991 NATIONAL

Year	Initial	Recon	OHA HR	CDR	Total
09/30/88					321,570
09/30/89	308,717	75,554	8,630 87,872	478,773	
09/30/90	384,909	91,708	9,400	52,325	538,340
09/30/91	523,468	113,260	10,709	45,366	692,803
04/10/92	632,907	115,578	11,511	34,159	784,155
09/30/92 ¹					Approx. 1,000,000
09/30/93 ¹					Approx. 1,400,000

¹ Estimates based on SSA budget document for FY 93.

TOTAL RECEIPTS, FYS 1988-1991, NATIONAL

Year	Initial	Recon	OHA HR	CDR	Total
1989	1,589,852	472,551	69,181	415,009	2,546,593
1990	1,737,533	525,689	69,702	186,881	2,519,805
1991	2,014,194	546,294	73,447	76,675	2,710,610
1992: ¹ Total Non-Zobley 3,047,602; Zobley 233,876					3,281,478

¹ Estimates based on SSA actuarial projections of 01/08/92.

NATIONAL DDS WORKYEARS AND PRODUCTIVITY

FY	WYs	PPWY
1986	13,302	167.6
1987	12,502	194.9
1988	11,995	209.5
1989	11,639	214.5
1990	11,168	220.4
1991	11,718	217.8

DDS FUNDING LEVELS, FYS 1986-1992

FY 1986	\$766,206,000
FY 1987	\$741,208,000
FY 1988	\$747,088,350
FY 1989	\$748,000,000
FY 1990	\$754,500,000 (12 million less than 1988)
FY 1991	\$841,000,000 (Excludes \$24.7 million for Zebley)
FY 1992	\$868,000,000 (Excludes Zebley & Contingency Fund Release)

Year	Medical consumer price index	Consumer price index (Urban)
1986	7.3	2.5%
1987	7.0	2.9
1988	6.3	4.1
1989	7.2	4.8
1990	8.8	5.0
Totals '86-'90	38.4	19.3

Simple addition, not compounded

EXHIBIT 2

Calendar year	Number of initial medical determinations (in thousands)	State workyears	Determinations per workyear (in thousands)	Initial allowance (in thousands)	Substantive allowance rate
1970	599.9	2,600	23.1	322.8	53.8
1971	733.6	3,200	22.9	375.9	51.2
1972	697.0	4,400	15.8	380.6	54.6
1973	727.0	6,300	11.5	415.3	57.1
1974	843.6	10,300	8.2	458.2	54.3
1975	830.7	10,100	9.2	494.1	53.1
1976	900.6	9,300	9.7	431.4	47.9
1977	897.1	9,400	9.5	382.7	42.7
1978	789.5	9,600	8.0	308.1	40.0
1979	842.6	9,600	8.8	301.3	35.8
1980	788.2	9,700	8.1	254.1	32.2
1981	826.7	10,800	7.7	225.5	27.3
1982	786.4	12,500	6.3	214.9	27.3
1983	782.7	12,900	6.1	243.7	31.1
1984	809.7	12,776	6.3	272.2	33.8
1985	724.4	12,607	5.7	255.5	35.3
1986	833.4	13,379	6.2	299.6	35.9
1987	684.8	12,517	5.5	245.0	35.8
1988	770.8	11,983	6.4	287.8	34.7
1989	828.0	11,834	7.1	303.8	36.7
1990	884.8	11,177	7.9	333.7	37.7
1991	983.3	11,739	8.5	389.0	39.2
1992 ¹					40.0

¹ Thru March 1992

PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

We meet this morning for an oversight hearing of the Subcommittee on Social Security and Family Policy for the purpose of considering issues and options related to the depletion of the Social Security Disability Insurance Trust Fund.

Just over three weeks ago, on April 2, the Social Security Board of Trustees sent to the President of the Senate and the Speaker of the House a special report on the status of the Disability Insurance Trust Fund. The letter of transmittal states that "the Disability Insurance Trust Fund is expected to be exhausted in 1997 and could possibly be exhausted as early as 1995." The Trustees urged legislative action.

This report was submitted to Congress pursuant to Section 709 of the Social Security Act. Section 709 provides that if the Board of Trustees determines that the reserve in any of the four Social Security and Medicare Trust Funds may fall below 20 percent of annual outlays, then the Trustees shall promptly report the situation to Congress with recommendations for statutory adjustments. Section 709 was added to the Act by the Social Security Amendments of 1983, and this is the first time the Trustees have had to submit a report in compliance with the provision.

It is hardly necessary to note the importance of the disability insurance program as a part of our Social Security system. The program provides monthly benefits to 3 million disabled workers who have paid contributions to the system but are now unable, by reason of physical or mental impairment, to perform work of any kind. The disability insurance program was enacted in 1956, but those who erected our Social Security system in the 1930s always viewed disability insurance as a desirable and important piece of the system to be added later. We act today to ensure that the disability insurance program will be kept stable and that benefits will be kept secure.

There are a number of factors to examine with regard to the depletion of the Disability Insurance Trust Fund. It appears that there is a basic financial imbalance in the way Social Security taxes are allocated between the Old-Age and Survivors Insurance trust fund, on the one hand, and the Disability Insurance trust fund on the other. To some extent, this is a consequence of our actions in 1983, when we, among other things, shifted a portion of the DI tax over to the then-ailing retirement trust fund. The annual Trustees Reports have noted for some time now that we could allocate a larger portion of Social Security taxes to the DI trust fund without harm to the retirement trust fund. The overall OASDI tax rate is sufficient to fund both programs for the next 45 years.

It should be noted that in our bill to reduce Social Security contribution rates, S. 11, we proposed a larger allocation to the DI trust fund, effective this year. We also proposed future increases in the payroll taxes dedicated to each trust fund, on a traditional pay-as-you-go basis, in order to ensure the long-term, 75-year soundness of each fund separately. Under current law, not even the Old-Age and Survivors Insurance trust fund is adequately financed for the long-term.

But this imbalance in the tax allocation between trust funds is not the whole story. Costs for the disability program have risen sharply, as have the Trustees' estimates for the program's future outlays. Most notably, last year's Trustees Report estimated the DI trust fund would be exhausted in 2015, but in this year's report the estimated year of exhaustion is 1997, under the intermediate assumptions.

This dramatic change in the projected status of the program is due to revised assumptions, based on changing program experience, regarding the percentage of applicants who will be found disabled and the length of time they will remain on the rolls. In general, allowance rates for the DI program—that is, the number of claimants who are allowed benefits as a percentage of total claimants—have been rising for the past several years, after falling to a low point in the early 1980s. Allowance rates are now getting back to where they were in mid 1970s. This may be an appropriate adjustment. But we will have to be watchful if this trend continues.

Rising allowance rates may also be a result of legislative and judicial changes in the definition of disability, particularly with respect to mental impairments. The economic recession may be playing a role as well. We generally expect more disability applications in times of recession, and the recession may have pushed up allowance rates too.

We must further consider the future effect of the aging of the population. The incidence of disability becomes higher as people reach their 50s, and the baby boomers will begin reaching this age bracket later in this decade.

Finally we must consider whether the Administration is committing sufficient resources to the task of properly administering the disability program. Understaffed offices cannot be expected to make the most reliable disability determinations. Also, it would appear that the Social Security Administration has not been conducting an appropriate number of continuing disability reviews.

In 1980, we enacted a statute to require the Administration to periodically review the condition of disability recipients to determine whether they were still eligible.

The Reagan Administration took this to extremes by removing from the rolls hundreds of thousands of recipients who were still disabled. Finally the Administration was stopped by the public outcry and Congressional intervention. But now it seems the Administration has gone too far the other way, and is practically neglecting to conduct the reviews at all. So we will hear testimony today on the various economic, demographic, programmatic, and administrative factors that are contributing to this unfavorable trend in disability financing and on how we might best deal with them.

Attachment.



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**BACKGROUND INFORMATION ON THE
DISABILITY PROGRAMS OF THE
SOCIAL SECURITY ADMINISTRATION**

**Prepared at the Request of the
Committee on Finance
U.S. Senate**

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April 24, 1992

FOR COMMITTEE USE ONLY

BACKGROUND INFORMATION ON THE DISABILITY PROGRAMS OF THE SOCIAL SECURITY ADMINISTRATION

OVERVIEW OF THE SITUATION

The social security Disability Insurance (DI) program is facing financial problems again. For more than two decades following its enactment in 1956, the program was plagued by higher than expected costs, and its tax rates were raised periodically. However, with passage of program reform amendments in 1980 and 1983,¹ the trend appeared to be broken. The 1983 amendments cut the long-range tax rate for the program, and for almost a decade, the near- to intermediate-term outlook remained favorable. Financial difficulties were projected for the long run, but they had more to do with the looming demographic shifts in society--the aging of society generally--than with anything specific about the DI program itself. The 1992 social security trustees' report changed this.²

The trustees now project that, without corrective action, under pessimistic economic and demographic conditions, the DI trust fund would become exhausted in 1995. Under their so-called intermediate forecast--the one most often viewed as the likeliest path--the fund would be exhausted in 1997. Even under their optimistic scenario, the fund would have a reserve equal to less than 9 months' worth of benefits throughout the 1990s.

Supplemental Security Income (SSI)--a means-tested income benefit program for needy aged, blind, and disabled people--is similarly experiencing rapid growth. It is not facing a financing dilemma like the DI program, because it is funded by general revenue rather than payroll taxes, but its rapid growth contributes to the strain on the Government's deficit-ridden general fund.

These programs have administrative problems too. Caseloads and backlogs are rising; the average time it takes to reach disability decisions is lengthening; and certain tasks to assure quality and ascertain continued eligibility have been given lower priority. These problems are caused in part by an unexpected increase in applications and budget limits on administrative resources, but the basic manner in which the programs operate cannot be ignored. Moreover, although appearing to be separate and distinct from the programs' financial problems, administrative practices may be a contributing factor to the financial problems.

¹The Social Security Disability Amendments of 1980 (P.L. 96-265) and the Social Security Amendments of 1983 (P.L. 98-21).

²Social Security Administration. Office of the Actuary. *1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Apr. 2, 1992.

Rising Awards and Declining Terminations

The percent of DI claims resulting in an award, or allowance rate, has risen substantially since 1985. It has risen at all major stages of adjudication: from 36 percent in 1985 to 40 percent in 1991 at the initial application stage, from 14 percent in 1985 to 16 percent in 1991 at the reconsideration stage, and from 55 percent in 1985 to 69 percent in 1991 at the hearing stage.³ At the same time, terminations from the rolls have fallen. These changes are due in part to the decline in the average age of entry to the DI program and the increase in the length of time people stay on the rolls. Predictably, the rates of termination per thousand disabled recipients due to death or conversion to the social security retirement program (which occurs automatically at age 65) have fallen. Unpredictably, however, the termination rate for recovery from disability also has fallen, even though people are coming on at lower ages (and thus presumably have a greater potential to recover).

Proclivity Toward Appeals

The way the programs work has always been controversial, whether or not there were imminent financial problems. Under the law, the Social Security Administration (SSA) is responsible for the programs, but the most important decisions—those that determine whether or not someone has a disabling condition—rest mostly with State government agencies. These agencies work under "agreements" with SSA, but are responsible to and report to their respective governors. The claims themselves, if initially denied, may journey through four (or more) "appeal" layers, and evidence can be introduced at almost any time, even when it may have little to do with the previous decisions that were rendered on them. In other words, in many cases appeals are simply "new" application decisions, not reviews of prior determinations. Moreover, the heaviest workload stage of decisionmaking, i.e., the initial application stage, is mostly a "paper review" process where claimants are rarely observed by a disability decisionmaker. In most instances, claimants do not see a decisionmaker until they have been denied twice. Hence, the process encourages "appeals," and appeals lend themselves to attorney representation.

Variable Standards

The law spells out a national definition of disability—that the impairment is so severe it precludes an individual from doing "substantial" work—but the inherent difficulty of making disability determinations leaves considerable room for interpretation. As attorney representation has grown, class action suits against the agency's interpretations of the law have become routine, with 100 now pending, and SSA has issued a string of so-called "acquiescence" rulings in which it often abides by circuit court decisions only within the jurisdiction of the court. The result is that multiple disability standards are now in operation across the country. *There is no national legal standard for disability when different rules apply to different groups of people depending on whether they are*

³ Allowance rates on SSI-disability claims have shown a similar pattern.

party to a class action or in what court circuits they reside. In other words, a person's affiliation with a court case or where he or she lives can be the most important factor in whether he or she will become entitled to disability benefits.

Climate for Decisions

Thus, the disability decisionmaking process has become increasingly complex, and when coupled with the inherent subjectivity of deciding whether an impairment prevents someone from working, it is perhaps not surprising that the system seems, at times, to lean toward allowing people benefits, and, at other times, toward denying them. It may be described as "laxness" or "administrative convenience," but the perspective that adjudicators have about whether to allow or deny a marginal claim can be influenced by pressures they feel "from above." Past experience with the program has led many experts to conclude that this so-called "adjudicative climate" influences program trends, and may even be the most important factor. With awards and allowance rates rising, the climate may have shifted again toward "erring on the side of approval."

The Administration has an obvious and perhaps the largest role in setting the climate for disability decisionmakers. It does so through regulations and operational policy changes that at times are issued on a daily basis. The influence of the changes is often subtle and not easily noticed, even to those who design them, and may sometimes be observed only after their cumulative impact has emerged. Workload pressures are thought by many to be the primary catalyst for changes in the climate. For example, when SSA was given responsibility in the early 1970s for enrolling former coal miners with pneumoconiosis into the Black Lung program and a few years later for launching the SSI program and enrolling State-aid recipients into it, allowance rates and the accompanying number of DI awards rose significantly. Enrollment procedures were expedited and reviews of State-agency decisions were curtailed sharply. At one time, every State-agency decision was reviewed by SSA. In 1972, a sample process was implemented, and the rate of reviews fell to 5 percent. Speaking about the "massive" increases in SSA's disability workloads during this period, the social security actuaries commented in a 1977 study:

tremendous pressure [was placed] on the disability adjudicators to move claims quickly. As a result the administration reduced their review procedures to a small sample, limited their continuing disability investigations on cases which were judged less likely to be terminated, and adopted certain expedients in the development and documentation in the claims process. Although all of these moves may have been necessary in order to avoid an unduly large backlog of disability claims, it is our opinion that they had an unfortunate effect on the cost of the program.⁴

⁴U.S. Dept. of Health, Education, and Welfare. Social Security Administration. Office of the Actuary. *Experience of Disabled Worker Benefits Under OASDI, 1965-1974*, by Francisco R. Bayo and John C. Wilkin. Actuarial Study No. 74, Jan. 1977.

Conversely, when attention to quality control was intensified in the late 1970s, particularly to curtail inaccurate awards, workload pressures may have led to a much tighter adjudicative climate. Under the quality assurance process in place then, a State-agency examiner was more likely to have an award questioned than a denial. When the Reagan Administration initiated a major review of the disability rolls in 1981, following legislation in 1980 calling for more examinations, the "tighter" State-agency climate set the stage for a large number of terminations. The peak occurred in 1982 and 1983, when more than 800,000 reviews of disabled social security recipients were conducted, and almost 45 percent of the cases reviewed were found ineligible at the initial review stage by the State agencies.

In the last 3 years, circumstances have again changed. DI applications rose by 23 percent between 1989 and 1991, and in 1991 applications were 14 percent higher than the annual average number in 1985-1989. The number of decisions rendered on initial claims, including those for SSI-disability, rose from about 1.4 million in 1985 to more than 1.8 million in 1991—a 30-percent increase, half of which occurred from 1990 to 1991. However, in the tight budget conditions of the last 6 years, administrative resources to handle the cases have lagged, and in turn the backlog of pending claims and hearings has grown. SSA has taken a number of steps to deal with the rising claims workload. It sharply curtailed reviews of the eligibility of current recipients (in 1991), and, in a recent major "action plan" the Commissioner of Social Security transmitted to the field, numerous changes in decisionmaking policies were adopted to "expedite" awards. Evidentiary and documentation requirements were loosened, selective reductions in "consultative" medical exams were permitted, and quality assurance units were instructed to ease up.⁶ Hence, workload pressures may again be influencing the adjudicative climate, in a manner that, at least on the surface, resembles the "looser climate" that existed in the early and mid 1970s.

Congressional Actions

If a looser climate is a factor, Congress also may have played a role. Congress always has reacted when backlogs of claims have built up in SSA's disability programs. DI and SSI-disability cases are among the heaviest forms of congressional constituent casework. As more and more cases enter SSA's pipeline and the time it takes to process them lengthens, constituent requests for congressional assistance increase and congressional inquiries to SSA grow. Committees are eventually asked to investigate, and the pressure builds for the agency to expedite claims. This kind of pressure appears to be building now.

⁶Memorandum from Commissioner Gwendolyn King to all Deputy and Regional Commissioners, *Plan for Disability Program Initiatives-ACTION*, Jan. 31, 1992. Quality assurance units were told "to secure additional documentation only in cases when it is likely that such documentation will change the [State agency's] claims decision," and Federal quality reviewers were told that they "must avoid substituting their judgment for the judgment of adjudicating component physicians and examiners."

In addition, the legislation that Congress enacted in 1984 to deal with the disability termination crisis may now be having a greater than intended influence on the program.⁶ Strong and continuous criticism was levied against SSA over the large number of recipients terminated from the disability rolls in the early 1980s. Numerous instances of wrongfully terminated recipients received wide publicity, and many of those terminated at the State-agency level were subsequently reinstated on appeal by SSA's administrative law judges (ALJs) and the Federal courts. Thus, congressional concern mounted that administrative "pressures" to terminate were resulting in many poor decisions. After 2 years of intensive review of the rolls, the Administration imposed a moratorium on the process, and in 1984 legislation was enacted changing the rules for terminating benefits. Under the new rules, a recipient could be removed from the rolls only if his or her condition had improved since the previous decision. Simply put, the basic standard for assessing a recipient's eligibility changed. *Whether or not the condition changed became more important than whether or not the impairment currently precluded an individual from working.*

Very few social security disability recipients were examined in 1984 and 1985 while the new standard was being implemented, and when the reviews resumed in 1986, only 5.6 percent of the cases reviewed were terminated.⁷ Since then, no more than 12 percent have been terminated in any year. This is much lower than the 40- to 45-percent termination rates that existed in the 1977-1980 period (before the termination crisis emerged). The actual number of recipients reviewed rose for a couple of years, but was sharply reduced in 1990 and 1991 because of other workload pressures. The result has been that the number of people dropped from the rolls in the past 5 years as a result of the reviews is lower than it was in the pre-crisis period, even though the number of disabled recipients was larger in the more recent period.

Other changes enacted in 1984 also may be contributing to the program's recent growth, either directly or through their effects on the adjudicative climate. The legislation required SSA to revise criteria for claims based on mental impairments "to realistically evaluate a person's ability" to do substantive work "in a competitive workplace environment." It further required that the combined effects of multiple impairments be taken into account when none of them alone is severe enough to render a decision favorable to the claimant (at least one impairment needed to be severe under the regulations that prevailed before the change). It also codified existing criteria for evaluating "subjective evidence of pain" (stating more or less that the existence of pain alone was not sufficient for a finding of disability). None of these provisions was projected to carry significant cost for the program when enacted, but it is

⁶The Social Security Disability Benefits Reform Act of 1984 (P.L. 98-460).

⁷Does not include disabled SSI recipients who only receive SSI payments.

possible that their impact may have been underestimated.⁸ Awards based on mental impairments, in particular, have risen substantially over the past decade, and mental disorders now represent the largest impairment category for new awards. In 1982, awards based on mental impairments represented 11 percent of all DI awards; by 1991, they had risen to 24 percent. The biggest increase occurred in 1986, the year after the criteria were revised.

The change in evaluating multiple impairments and the codification of criteria for evaluating pain both involve relatively "subjective" aspects of disability decisionmaking. Increased attention given to these criteria in administrative policy issuances following their enactment in 1984 may have caused a greater degree of "leniency" to enter the equation in reaching decisions on claims where multiple impairments and pain are alleged.⁹ Although less observable than the impact of revision of the mental impairment criteria, these changes also may be contributing to the growth in DI awards.

Impact of the Courts

The Federal court system also has to be considered a possible source for the upturn in enrollment. Since the early 1980s, the courts' influence over the program has been growing. Social security disability claimants always have been permitted to appeal adverse decisions to the courts, and they have and continue to comprise a major portion of the court system's caseload. The termination crisis of the early 1980s greatly increased the number of these cases taken to court. Although that caseload since has fallen back, attorney representation of disability cases has grown at all levels of adjudication. With it, the number of challenges to the agency's interpretation of the law has risen, and the list of major class action disputes between the Administration and the courts continues to grow. Among them are disputes dealing with the weight to be given to evidence furnished by a claimant's physician, with how pain is to be evaluated, and with the extent that functional limitations are to be considered when the medical condition alone is not severe enough to render a finding of disability. At its highest level, the number of individual cases pending before the courts reached 52,000 in 1984. Today, the pending workload stands at 23,000. However, the number of pending class action suits stands at 100, which matches the high that was reached during the termination crisis of the early 1980s. They all seek interpretations that are favorable to claimants. In addition, although not as far reaching in policy setting as the class action suits, SSA had issued (as of April 12, 1992) 15 "acquiescence" rulings dealing with disability issues in which it has changed its policies to abide by circuit court rulings

⁸Estimates of the legislation's potential impact on the program were provided to Congress by SSA and the Congressional Budget Office throughout the period in which legislative remedies were being debated. The impact of the changes finally agreed to are contained in a September 18, 1984 memorandum by Eli N. Donkar, of SSA's Office of the Actuary, *Estimated Additional OASDI Benefit Payments Under the Conference Agreement on H.R. 3755*.

⁹While the codification of criteria for evaluating pain was not in itself a policy change, it may have caused disability adjudicators to be more sensitive, and give greater weight, to allegations of pain.

selectively (it does so by applying them only within the jurisdiction of each court). Ten of them are still in force.

SSA said it was unable to provide data on the number of claimants that have been allowed into the program as a result of court decisions over the past few years. However, a possible manifestation of the court's influence is the increase in allowance rates occurring at the administrative hearing stage. In 1986, SSA's ALJs overturned 51 percent of the appeals they heard; by 1991, they overturned 66 percent of them. This rate had hit 56 percent in the midst of the termination crisis 10 years ago, but last year's 66-percent rate is far above the 41- to 49-percent rates that prevailed in the 1970s.¹⁰ Some in SSA believe that the influence of court decisions has even penetrated the lower levels of adjudication, as the States have become sensitive of the extent to which the courts are altering SSA's policies.

Economic Conditions

Changes in the adjudicative "climate" are a likely cause of the program's recent growth trends, but the current economic downturn may also be a factor. The rise in the number of new DI claims, up 23 percent from 1989 to 1991, coincided with the current recession. The rise in unemployment and layoffs during this period may have influenced previously employed disabled workers to file for DI. In addition, SSA's increase in the maximum amount of earnings a person could have and still be considered for disability--from \$300 a month in 1989 to \$500 a month in 1990--may have provided an incentive to apply among those who were marginally employed.¹¹

For the 8-year period before 1990, DI applications remained relatively flat, hovering in a range from 1 million to 1.1 million claims per year. Thus, it does not appear, at least in the aggregate, that economic conditions influenced the program's growth. However, factors that affected certain regions of the country and sectors of the economy may have caused the overall allowance and award rates to rise. Mergers and acquisitions displaced many workers in the 1980s, and, while economic conditions on a national level were generally favorable from late 1983 through 1989, various regions of the country suffered setbacks from time to time. In other words, "regional recessions" may have played a part.

The idea that regional economic conditions influenced the program's recent trends may be reflected in the variances among the Federal regions in allowance rates over the past few years. From fiscal years 1988 to 1991 the allowance rate

¹⁰These figures reflect allowance rates for all forms of cases brought before the agency's ALJs--including retirement and SSI aged cases. The vast majority of cases brought to a hearing, however, involve disability disputes.

¹¹This level, technically considered to be the point at which a person is presumed to be able to do "substantial gainful activity" (SGA)--and therefore not be eligible for DI--had remained constant at \$300 throughout the 1980s. Taking inflation into account, the "true" value of the SGA level had been eroded over the decade, and it is possible that raising it in 1991 may have triggered a spurt in claims.

on initial DI claims in the San Francisco region rose from 40 to 56 percent, and in the Seattle region, it rose from 37 to 52 percent.¹² For both regions, this represents a 40-percent increase in their allowance rates. In the New York, Philadelphia, and Denver regions, they grew by only 15 percent, and in the Boston and Atlanta regions, they grew by 5 percent or less.

On the other hand, economic conditions may have little to do with these regional differences. They might be related to how policy changes are perceived and adapted to within the regions. The rise in the rate of mental impairment awards represents the largest change in the composition of new awards over the past 10 years. Perhaps the psychiatric medical communities in some regions have adapted to SSA's new disability criteria more aggressively than in others. They also could be related to the influence of district and circuit court decisions, particularly in those regions seeing the heaviest class action activity. Another possibility is that they are due to regional variances in the incidence of certain impairments. The AIDS epidemic, for instance, is most pronounced in California, New York, Texas, Florida, and New Jersey. Still another possibility is that they are the result of how each State reaches out to the disabled. Some may be attempting to enroll their disabled populations into Federal programs more vigorously than others. Finally, they may be related to the operations of the individual State disability determination agencies. Studies by SSA in the past have shown wide variances in the effectiveness and efficiency of the State agencies. Recent changes--in management, turnover of employees, training practices, and the like--may be at work.

In sum, the recent pattern of rising disability applications, awards, and allowance rates and declining terminations may be the result of many factors. However, as yet there does not appear to be a clear-cut explanation of what is happening. The change in the outlook for the DI program provided in the 1992 trustees' report--from having a program that was potentially solvent until 2015 to being solvent only until 1997--is an abrupt one. However, on closer examination this change appears simply to be a delayed reaction to patterns that have been emerging for a number of years. While the trustees offer no explanation for the underlying causes, they have clearly identified significant changes in the trend of DI awards and terminations, neither of which would appear to be temporary.

¹²The rates cited here do not incorporate the changes that have occurred with "concurrent claims," i.e., DI claims where SSI benefits were sought simultaneously; however, the regional patterns with them are similar.

HOW THE PROGRAM WORKS

What Is Disability Insurance and What Is Supplemental Security Income?

The SSA administers two national disability programs: the social security DI program and the SSI program. The DI program, the larger of the two, provides benefits to disabled workers under age 65 (and to their spouses, surviving disabled spouses, and children) in amounts related to the disabled worker's former earnings in covered employment. Funding is provided through the social security payroll tax, a portion of which is credited to a separate DI trust fund maintained by the Treasury Department, and from the revenue derived from the income tax levied on a portion of DI benefits.

The SSI program provides cash assistance to the needy aged as well as to the needy blind and disabled, many of whom do not have recent attachment to the labor force. As a needs-based program, SSI provides payments only to individuals who have very limited income and assets. Unlike DI, SSI is funded through appropriations from general revenues.

Characteristics of the Programs

The DI program, enacted in 1956, is similar in many ways to the other social security cash benefit programs, Old-Age and Survivors Insurance (OASI). Workers receive protection by working in jobs covered by social security and, like OASI, benefits are meant to replace income from work that is lost by incurring one of the risks the social program insures against. The DI program has 4.5 million recipients, 3.2 million of whom are disabled workers. There are about 3.4 million SSI disability recipients, accounting for 69 percent of the overall SSI population. There are about 80,000 blind SSI recipients. About three-fourths of new SSI awards are for disabled or blind recipients.

Benefits. Similarly to the way OASI benefits are computed, DI benefits are based on the worker's past average monthly earnings, indexed to reflect changes in national wage levels (up to 5 years of low earnings are excluded). The benefits are adjusted annually for increases in the cost of living, as measured by the index of consumer prices. Benefits are also provided to dependents, subject to certain maximum family benefit limits. They may be offset if the disabled-worker recipient is simultaneously receiving workers' compensation or other public disability benefit.

As of January 1992, the average monthly benefit for disabled workers was \$609 and, for disabled workers with dependents, it was \$1,052. (See table 1 below.) The DI program cost \$27.8 billion in fiscal year 1991 and, under current law, the Administration projects it will cost \$30.6 billion in fiscal year 1992.

In addition, Medicare protection is provided to disabled recipients after they have been entitled to disability benefits for at least 24 months.

TABLE 1. Disability Recipients and Average Benefits, 1991

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Disabled workers	3,195	\$609	536	\$615
Wives and husbands of workers	266	153	73	155
Children of disabled workers	1,062	168	318	156

Source: SSA, Office of Research and Statistics, Apr. 1992.

Under SSI, there is a flat monthly Federal payment standard of \$422 for an individual and \$633 for a married couple with little or no other income (which is supplemented by many States). As under the DI program, benefits are increased automatically each year to reflect changes in the cost of living. The actual payment to an individual is determined by the individual's other income--the greater his or her income, the lower the SSI payment. As of June 1991, the average monthly benefit of disabled SSI recipients receiving federally administered payments was \$353 a month.

Eligibility. To be eligible for DI benefits, a worker must be both "fully" and "disability" insured--that is, have credit for having worked in covered employment for a certain period of time. In 1992, a worker receives one quarter's credit for each \$570 of annual earnings (up to a maximum of four quarters). To be fully insured for life, a worker must have credit for working 40 calendar quarters in covered employment. If a person has not worked 40 quarters, he is still fully insured if he has at least 1 quarter of coverage for each year after 1950, or if later, after the year in which he reached 21, up to the onset of disability. To be insured for disability, the worker must have 20 quarters of coverage in the 40 quarters preceding onset of disability. (There are exceptions for younger workers and the blind.) Currently 122 million people are insured for DI benefits.

Under the law, disability is defined as the inability to engage in substantial gainful activity (SGA) by reason of a medically determinable physical or mental impairment expected to result in death or last at least 12 months. Generally, the worker must be unable to do any kind of work that exists in the national economy, taking into account age, education, and work experience.

A person must be disabled continuously for 5 full months before he or she can receive DI benefits. However, benefits may be paid for the first full month of disability to a worker who becomes disabled within 60 months (for a disabled widow or widower the period is 84 months) after termination of DI benefits from an earlier period of disability.

The SSI program generally uses the same criteria for determining disability. There are no prior work requirements, however, and no waiting period for benefits. Instead, the individual must meet a means test.

How the Social Security Administration Operates the Programs

Unlike the OASI program, which is administered solely by Federal employees in Federal installations, the social security and SSI disability programs are administered both through Federal social security offices and 54 State disability determination services staffed by State employees. These State agencies are responsible for making the medical determination of disability. They operate under agreements with SSA and are fully reimbursed for their administrative expenses from the DI trust fund or, for SSI, general revenues.

The process begins at the local district offices, where claimants apply for entitlement to disability benefits under either the DI or SSI program. There are more than 1,300 district offices (including branch offices) throughout the United States, and they handle about 2 million claims for social security and SSI disability benefits each year.

Claimants are interviewed to obtain relevant medical and work history and to see that required forms are completed. The case may be denied at that point because the applicant does not have insured status or is earning too much money from work to qualify as "disabled," but otherwise it is forwarded to the State agency for a medical determination.

The medical determination is made on the basis of evidence gathered in the individual's case file. Ordinarily there is no personal interview with the applicant on the part of the State personnel who decide the claim. However, the agency may contact the individual if further medical or vocational information is needed. If medical evidence is insufficient and can be obtained no other way, the agency may request that the individual undergo a consultative medical examination, which is paid for by the agency.

When all evidence considered necessary to make a decision has been gathered, the case is determined by the State disability examiner, in consultation with a State-agency physician and, if necessary, a vocational specialist. In all cases, the decision must be signed by the physician. Although this is largely a paper review of the file and additional evidence that may have been submitted, in a few experimental cases a claimant may be given a personal interview with State-agency representatives.

The claimant is then notified of the decision. The average time for processing a DI claim--from receipt of application through the initial determination--was 87 days in fiscal year 1991. The average time for processing an SSI disability claim was 104 days. If the claim is denied, the formal notice indicates the reasons and advises the applicant of his or her appeal rights. The claimant then has 60 days to file an appeal.

If the claim is appealed, it is first reconsidered by the State agency. If the claim is again denied, it may be appealed to an administrative law judge (ALJ). At this stage, the claimant can appear at a hearing over which the ALJ presides. If the ALJ denies the claim, an additional appeal can be made to SSA's Appeals

Council. Finally, if still dissatisfied a claimant may appeal the decision in a Federal district court (or higher). Thus, the determination of whether an individual meets the definition of disability may involve five (or more) different steps, including four (or more) levels of appeals.

The procedures in SSI disability cases are very similar. Under SSI, claimants may be able to receive benefits based on a finding of "presumptive disability" if their impairments, as reported by the applicant or as observed by the social security district office personnel, are so severe that a finding of disability seems almost certain. Benefits based on presumptive disability can be paid only if all nondisability eligibility requirements have been met and must end as soon as the State agency makes its disability determination or after 6 months, whichever comes first. Presumptive disability payments allow certain severely disabled needy individuals to receive assistance while the normal medical evidence gathering and evaluation procedures described above are under way in the State disability determination service. They are not subject to repayment, even if the claimant is ultimately found not to be disabled.

In addition to making the initial determination of whether an individual is disabled, and reconsidering initial decisions when appealed by the claimant, State agencies also conduct continuing disability reviews to determine whether individuals should remain on the disability rolls.

The Federal-State arrangement is unique among government programs. State laws and practices control most aspects of administration, and the personnel involved are State employees who are controlled by various departments of the State government. The State agencies make determinations on the basis of standards and regulations provided by SSA. The costs of making the determinations and other aspects of related programs are paid wholly from the DI trust fund in the case of the DI program, and from general revenues in the case of the SSI program. No State funds are involved. The major component of the cost is payroll, with the purchase of medical evidence in the form of consultative examinations being the next largest cost.

The Secretary of Health and Human Services may, on his or her own motion, review any determination by a State agency. The law requires that the Secretary review 50 percent of the disability allowances and a sufficient number of other determinations to ensure a high degree of accuracy.

The law also provides that if the Secretary finds that a State agency is substantially failing to make disability determinations consistent with regulations, the Secretary shall, not earlier than 180 days following his findings, terminate State administration. Determinations would then be made at the Federal level. The law also allows the State to choose to discontinue administration. The State would be required to continue to make disability determinations for not less than 180 days after notifying the Secretary of its intent to terminate. Thereafter, the Secretary would be required to make the determinations. No State agency has ever been required to turn its operations over to SSA under this authority.

How Disability Is Defined Under the Two Programs

Under title II of the Social Security Act disability is defined as follows:

Sec. 223 * * *

- (d)(1) *The term "disability" means—*
- (A) *inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months; or*
- (B) *in the case of an individual who has attained the age of 65 and is blind (within the meaning of "blindness" as defined in section 216(i)(1)), inability by reason of such blindness to engage in substantial gainful activity requiring skills or abilities comparable to those of any gainful activity in which he has previously engaged with some regularity and over a substantial period of time.*

Thus, the determination of disability is based not only on the severity of the disabling condition, but also on its impact on the individual's ability to work. Furthermore, the definition is met only if due to this impairment a person is unable to engage in any kind substantial gainful work, considering his age, education, and work experience, that exists in the national economy even though such work does not exist in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work. The determination must be made on the basis of medically acceptable clinical and laboratory diagnostic techniques.

The 1972 amendments, which established the SSI program, used this same definition (although some small changes were made for SSI by the 1980 amendments as to what constitutes SGA). Thus, persons applying for disability benefits must generally meet the same definition of disability under both the social security DI program and the SSI program.

The State agencies, ALJs, and others involved in disability decisionmaking are instructed as to how to apply the definition of disability by detailed Federal regulations, rulings, and administrative policy guidelines.

Medical Improvement Standard

Amendments in the 1984 Disability Benefits Reform Act require that benefits may be ended for medical reasons only if the Secretary finds that there has been medical improvement in the person's condition and that this improvement enables the person to engage in SGA.

How Disability Is Determined

In making the disability determination, the adjudicator is required to look at all the pertinent facts of a particular case. Current work activity, severity of impairment, and vocational factors are assessed in that order. Detailed regulations set forth the medical and vocational factors that must be considered, and state that when a determination can be made at any step, evaluation under a subsequent step is unnecessary. As a result, a disability determination may be based on medical considerations alone, or on medical considerations and vocational factors.

Step 1: It is first determined whether the individual is currently engaging in SGA. Under present administrative practice, if an individual is actually earning more than \$500 per month (gross earnings minus certain impairment-related expenses), he is considered to be engaging in SGA. Earnings below \$300 a month are generally regarded as not constituting SGA. Earnings between these two amounts must be evaluated further. If it is determined that the individual is engaging in SGA, a finding is made that the individual is not disabled (and benefits are either denied or terminated) without consideration of medical or vocational factors.

Step 2: If an individual is not engaging in SGA, the second step is to assess whether the individual has a severe impairment. Under the regulations, if an individual is found not to have an impairment that significantly limits his physical or mental capacity to perform basic work-related functions, a finding must be made that there is not a severe impairment and that the individual is not disabled. Vocational factors are not to be considered in such cases.

Step 3: If the individual is found to have a severe impairment, the next step is to determine whether the impairment meets or equals the medical listings that have been developed by the SSA for use in determining whether a condition constitutes a disability. If the impairment satisfies the 12-month duration requirement and is included in the medical listings--in which case it "meets" the listings--or if the impairment is determined to be medically the equivalent of a listed impairment--it "equals" the listings--a finding of disability must be made without consideration of vocational factors.

Step 4: In cases where a finding of "disability" or "no disability" cannot be made based on the SGA test or on medical considerations alone, but the individual does have a severe impairment, the individual's residual functional capacity and the physical and mental demands of his past relevant work must be evaluated. If the impairment does not prevent the individual from meeting the demands of past relevant work, there must be a finding that the individual is not disabled.

Step 5: The final step is consideration of whether the individual's impairment prevents other work. If the individual cannot perform any past relevant work because of a severe impairment, but is able to meet the physical and mental demands of a significant number of jobs (in one or more occupations)

in the national economy, and the individual has the vocational capabilities (considering age, education, and prior work experience) to make an adjustment to work different from that performed in the past, it must be determined that the individual is not disabled. If these conditions are not met, there must be a determination of disability.

How the Appellate Process Works

Reconsideration by State Agencies

Claimants whose applications are denied, as well as recipients whose benefits have been terminated, have a right to have their claims reconsidered. They must file for reconsideration within 60 days after receiving notice of denial. There were 502,561 reconsiderations involving DI and SSI-disability in fiscal year 1991. The reconsideration decision is also made by the State agency. The reconsideration process is similar to the initial decision process except that the claim is reviewed by a team different from that which made the original denial. New evidence is admissible, as it is at any stage of appeal before reaching the Appeals Council. If denied again, the claimant is given notice and advised of further appeal rights.

Hearing Before an Administrative Law Judge

If the State agency reconsideration team upholds the initial denial or termination, the claimant may request a formal hearing before an ALJ in SSA's Office of Hearings and Appeals (OHA). A request for the hearing must be filed within 60 days after receiving notice of the reconsideration determination. This request is then forwarded to one of SSA's hearing offices located across the Nation and is assigned to an ALJ. They made 289,400 DI and SSI-disability dispositions in fiscal year 1991.

The ALJ is responsible for perfecting the evidentiary record, holding a "face-to-face" nonadversary hearing, and issuing a decision. At the hearing, the claimant appears for the first time before a decisionmaker. The ALJ may request the appearance of medical and vocational experts at the hearing and can require a claimant to undergo a consultative medical examination. The claimant may submit additional evidence, produce witnesses, and be represented by legal counsel or lay persons. There is no charge for requesting a hearing.

DI recipients whose benefits have been terminated for medical reasons (e.g., recovery or improvement in the medical condition that was the basis for the disability) can elect to continue to receive benefits while their terminations are being appealed to the ALJ level. These benefits are subject to recovery as an overpayment, however, in the event that the termination decision is upheld by the ALJ.

Appeals Council Review

Following an ALJ decision to deny a claim, the claimant may, within 60 days after receiving notice, request the Appeals Council to review the decision. The Appeals Council is 15-member body located in OHA. The Appeals Council may deny or grant a request for review of an ALJ action or it may remand the case back to an ALJ for further consideration. It may also review any ALJ action on its own initiative (commonly referred to as "own motion review") within 60 days after the date of the ALJ action. The Appeals Council review represents the Secretary's final decision and is the claimant's last administrative remedy. There were 51,800 Appeals Council decisions in fiscal year 1991.

Federal District Court

If the Appeals Council affirms the denial of benefits or refuses to review the case, further appeal may be made only through the Federal district courts. Such appeals have been increasing. Between 1955 and 1970, the total number of disability appeals filed with Federal district courts was slightly under 10,000 cases. At the end of fiscal year 1991, 23,000 individual disability (DI and SSI) cases and 100 class action suits were pending in the Federal court system.

Recent Statistics on Appeals

Of the 1,815,646 DI and SSI-disability initial application decisions by State agencies in fiscal year 1991, 42 percent were allowed. Of the 73,505 Continuing Disability Reviews (CDRs), 88 percent were continued in benefit status. Of the 58 percent of the initial applications that were denied, almost half (48 percent) were appealed to the reconsideration level. Of these appeals, 17 percent were allowed. Of the 289,400 decisions ALJs rendered in 1991, 66 percent awarded benefits.

Of the 12 percent of the initial CDRs that resulted in DI and SSI-disability termination decisions, 73 percent were appealed. Of these, 52 percent were reversed at the reconsideration level. Of the 3,000 appeals of CDRs decided at the ALJ level, 59 percent reversed the termination decision.

In 1991, 97 percent of ALJ decisions on social security DI (not including SSI-disability) concerned appeals of initial denial of benefits. Although the proportion of rulings favorable to those appealing DI initial denials as a percentage of all decisions had fluctuated in the past, it did not exceed 60 percent until 1989. It has continued to rise thereafter. Approximately 62 percent of initial denials were reversed in 1989 (that is, judged favorable to the individual), 66 percent were reversed in 1990, and 69 percent were reversed in 1991.

How Disability Is Evaluated and Monitored After Enrollment

Vocational Rehabilitation

The law requires that the SSA refer applicants for social security and SSI disability benefits to State vocational rehabilitation agencies for rehabilitation services. Benefits must be withheld if an individual refuses, without good cause, to accept such services. The States are reimbursed from the DI trust funds for the costs of rehabilitation in cases where the services are found to have resulted in the recipient's performance of SGA for a continuous period of at least 9 months.

Continuing Disability Reviews

Unlike the OASI program, where there is finality in the basic condition of eligibility for the worker (attainment of a certain age or death), the condition (disability) on which the DI program's basic eligibility requirement is based can change. Accordingly, DI and SSI recipients are required to report to SSA if their condition improves or they increase work effort or earnings. Such reports can trigger a review of their disability status, as can the appearance of substantial earnings on the recipient's earnings record or a report of medical improvement from a vocational rehabilitation agency. Absent such information, SSA periodically reviews individuals in cases where medical improvement is thought to be possible.

When a recipient has been selected for a CDR, he or she is usually contacted either by telephone or by mail. The individual is asked a series of questions pertaining to such things as medical care and treatment, daily activities, changes in condition (including ability to return to work), and participation in vocational rehabilitation. The individual is informed that he or she has the right to submit medical and other evidence for consideration. If medical improvement is expected, the State agency seeks medical evidence from all sources that have treated the individual for at least the preceding 12 months before making a decision.

Periodic reviews were greatly increased by the 1980 disability amendments, which required that the SSA reexamine every nonpermanently disabled individual on the rolls for benefit eligibility at least once every 3 years. Legislation enacted in late 1982 provided authority for the Secretary to slacken the rate of CDRs mandated by the 1980 amendments. Following a public outcry that the CDR process was terminating benefits unfairly, the 1984 amendments required that disability benefits could be terminated only if the Secretary finds that there has been medical improvement in the person's condition and that this improvement has enabled the person to engage in SGA.

Table 60 provides information on the number of CDRs conducted in 1977-1991. As can be seen, the number of cases rose dramatically in 1982 and 1983 as the 1980 amendments were implemented. While the proportion of cases terminated at the initial stage of review remained fairly stable, this translated

into a large number of cessations. The decline in the numbers of reviews in 1984 and 1985 reflects a national moratorium on reviews pending enactment and implementation of the 1984 amendments. After the revised criteria on terminations went into effect and CDRs again were conducted on a full scale, the rate of terminations has been significantly lower. From 1987 through 1991 the termination rate has ranged from 9.2 to 12.5 percent, compared to the 39- to 48-percent range in 1977-1984. Furthermore, primarily because of demands on resources to handle the increase in initial claims, the number of CDRs dropped substantially in 1990 and to a very low level (45,000) in 1991.¹³

Work Incentives

Even if a DI recipient's medical condition has not improved, benefits can be terminated if he or she demonstrates, by working, the ability to engage in SGA. (In SSI, disability does not cease on this basis.) However, the DI program does have some provisions designed to give some incentives to return to work. The law provides a 45-month period for disabled recipients to test their ability to work without losing their entitlement to benefits. The period consists of (1) a "trial work period" (TWP), which allows disabled recipients to work for up to a total of 9 months¹⁴ with no effect on their disability or (if eligible) Medicare benefits, and (2) a 36-month "extended period of eligibility," during the last 33 of which disability benefits are suspended for any month in which the individual is engaged in SGA. Medicare coverage continues so long as the individual remains entitled to disability benefits, and depending on when the last month of SGA occurs, may continue for 3 to 24 months after entitlement to disability benefits ends. When Medicare entitlement ends because of the individual's work activity, but he or she is still medically disabled, he or she may purchase Medicare protection.

If recipients medically recover to the extent they no longer meet the definition of disability, disability and Medicare benefits are terminated regardless of the trial work period or extended period of disability provisions. However, persons who contest this determination may choose to continue to receive disability benefits (subject to recovery) and Medicare benefits while their appeal is being reviewed, until a decision is rendered by an ALJ.

Section 1619(a) of SSI law provides for the continuation of cash benefits for those SSI recipients who are receiving benefits on the basis of disability even if they are working at the SGA level, as long as there is not a medical improvement in the disabling condition. The amount of their cash benefits is gradually reduced as their earnings increase until their countable earnings reach

¹³The number of reviews conducted in 1990 and 1991 are below the numbers required by law, which states that recipients not having permanent disabilities must be reexamined every 3 years.

¹⁴Only one TWP is allowed in any one period of disability. The TWP is completed only if the 9 months are within a 60-month period. By regulation, earnings of more than \$200 a month constitute "trial work."

the SSI "break-even point." In a State with no supplementation this earned income eligibility limit is \$929 per month in 1992. People who receive the special SSI benefits continue to be eligible for Medicaid on the same basis as regular SSI recipients.

How Accuracy of Disability Determinations Is Measured

To promote accuracy and consistency in the DI and SSI programs, SSA uses a three-tiered quality assurance (QA) process. The first is the requirement that State agencies have internal QA programs. The second is the review of State-agency decisions by SSA's regional Disability Quality Branches, and the third is SSA headquarters staff review of samples of the cases examined by the regional offices.

States may vary their approaches to quality assurance to suit their particular needs. Some may randomly review all types of decisions. Others may randomly review all decisions except reconsiderations and cases involving mental impairments. States usually use their internal QA reviews to give accuracy ratings to examiners and examiner units.

SSA's regional branches review decisions to assign accuracy rates to each State agency. The reviewers are SSA employees, while SSA contracts with physicians to provide medical consultation to the reviewers. The regional branches return cases to the State agencies if they believe the decisions are incorrect or the supporting documentation inadequate. If a State agency disagrees with SSA's reasons for returning a case, it may attempt to rebut SSA's position. If it agrees that its decision was deficient, it changes the decision or obtains additional evidence to support its original decision. According to the General Accounting Office (GAO), in 1990 about one-half of the QA returns result in a change of the original disability determination.

SSA uses the QA results to determine whether the State agencies are at least 90-percent accurate in deciding claims and are properly documenting their decisions. (Many documentational errors can be corrected without changing the decisions.) If a State agency fails to meet the standards for two consecutive quarters, SSA may conduct a management review and require corrective actions. SSA's Office of Disability Program Quality also monitors consistency among the regions by reviewing a sample of their QA cases.¹⁶

Preeffectuation Review

The disability amendments of 1980 required that SSA review 65 percent of favorable DI decisions by the State agencies each year before they go into effect. This "preeffectuation" review (PER) applies to favorable decisions on initial claims, on reconsiderations, and on CDRs. In 1990, P.L. 101-508 changed the percentage of favorable State-agency decisions that must be reviewed from 65

¹⁶U.S. General Accounting Office. *SSA Could Save Millions by Targeting Reviews of State Disability Decisions*. Report GAO/HRD-90-28. Washington, Mar. 1990.

percent across the board to 50 percent of allowances (both initial allowances and allowances upon reconsideration).

How the Programs Are Financed

Like the OASI and Medicare Hospital Insurance (HI) programs, the DI program is financed by the social security payroll tax on covered workers. Approximately 95 percent of the workforce is covered by the system. The tax, which is paid equally by employees and employers, is levied on wages and self-employment earnings up to a maximum level established each calendar year. The total social security tax rate levied on the earnings of wage earners is 7.65 percent. This amount is paid by both the employee and employer so that the total rate on the earnings paid to workers is 15.3 percent. For the self-employed, the social security tax rate, as credited to the OASDI trust funds, is 15.3 percent, equal to the combined employee-employer rate. However, income tax credits intended to provide equal treatment between employees and the self-employed lower the rate the self-employed actually pay. The maximum amount of earnings subject to tax, referred to as the taxable earnings base, in 1992 is \$55,500 for OASDI, and \$130,200 for HI. (These amounts rise each year at the same rate that the average earnings in the economy rise.) When a worker's earnings reach this maximum level during the year, the tax is no longer withheld. Table 2 shows the social security tax rates and taxable earnings base under current law and how the overall tax is distributed among the OASI and DI programs.

TABLE 2. Payroll Tax Rate and Wage Base Levels

	Wage base		Total	Tax rate (%) employer/employee each		
	OASDI	HI		OASI	DI	HI
1992	55,500	130,200	7.65	5.60	.60	1.45
1993-99	*	*	7.65	5.60	.60	1.45
2000 and after	*	*	7.65	5.49	.71	1.45

*Subject to automatic increase.

Currently, with a tax of 0.6 percent (employee-employer, each), the DI program receives about 8 percent of the overall social security tax receipts. When the ultimate DI tax rate of 0.71 percent goes into effect in 2000, the DI program will be allocated about 9 percent of overall receipts.

Like OASI, but not HI, the DI program receives credit for the revenue from the income taxation of benefits. Up to one-half of benefits may be taxable for recipients whose adjusted gross income plus one-half their social security benefits exceed \$25,000 (single) and \$32,000 (couple). About 22 percent of OASDI recipients are affected. In calendar year 1991 the DI trust fund was credited with \$190 million from the taxation of DI benefits. It was also credited with about \$1 billion (3 percent of its total income) in the form of interest on the Treasury securities it holds.

THE CURRENT FINANCIAL OUTLOOK FOR DISABILITY INSURANCE

The responsibility for monitoring the financial status of the social security and Medicare programs rests with the social security Board of Trustees (comprised of the Secretaries of Treasury, Labor, and Health and Human Services, and two representatives of the public). In their 1992 annual report, the trustees show that the DI program has deteriorating finances and could become insolvent in the near future.

The trustees' report evaluates the financial status of the OASDI program under a broad range of possible future conditions by presenting actuarial estimates under three alternative sets of economic and demographic assumptions, labeled as optimistic, intermediate, and pessimistic. The "intermediate" set of assumptions represents the trustees' "best estimates" of future economic and demographic conditions. The "optimistic" set assumes relatively rapid economic growth, low inflation, and favorable (from the standpoint of program financing) demographic conditions. The "pessimistic" set assumes slower economic growth, more rapid inflation, and financially disadvantageous demographic conditions.

The trustees prepare both "short-range" and "long-range" estimates of the financial and actuarial status of the trust funds. Short-range estimates are prepared for the next 10 years (1992-2001). Long-range estimates cover the next 75 years, in keeping with the long-term financial obligations incurred by the OASDI program. Specific tests are applied to evaluate the overall actuarial status of the program. There is a short-range test of financial adequacy and long-range test of close actuarial balance.

Short-Term Outlook

The intermediate projections show that the assets of the DI trust fund are estimated to decline steadily from \$12.9 billion at the beginning of 1992 until the fund is exhausted in 1997. Under the optimistic projections, the DI trust fund would grow to \$51 billion by 2001. However, under the more pessimistic projections, the DI trust fund would become exhausted in 1995.

The financial status of the OASDI program during the next 10 years (1992-2001) is generally evaluated by examining the adequacy of the estimated future level of trust fund assets. The ratio of trust fund assets at the beginning of a year to expenditures during the year is termed the "trust fund ratio." The trust fund ratio serves as the primary measure of the fund's financial adequacy in the short range.

At the beginning of calendar year 1991, the assets of the DI trust fund represented 39 percent of annual expenditures. During 1991, DI income exceeded DI expenditures by \$1.8 billion, resulting in an increase in the trust fund ratio to 41 percent at the beginning of 1992. Under the intermediate assumptions, income is estimated to fall short of expenditures in 1992 and each year of the short-range projection period, thereby requiring the redemption of

Treasury securities held by the trust fund to cover the shortfalls. The assets of the DI trust fund are estimated to decline steadily, and by the beginning of 1997, they would represent only 6 percent of annual expenditures, barely sufficient to meet the benefit payments due in the first month. Shortly thereafter, the low level of assets would trigger advance tax transfers under section 201(a) of the Social Security Act. This posting of each month's tax income to the trust fund at the beginning of each month would postpone the depletion of the trust fund for several more months. Before the end of 1997, however, assets (including advance tax transfers) would become insufficient to meet benefit payments when due.

Under the more favorable economic and demographic conditions assumed in the optimistic projections, income to the DI trust fund would exceed expenditures through the year 2001. The DI trust fund ratio would increase slowly during 1992-99, reaching 55 percent by the beginning of 2000. Under the less favorable conditions assumed for the pessimistic scenario, DI assets would decline rapidly and would become insufficient to pay benefits when due starting in 1995.

These DI estimates represent a considerable worsening of the program's financial outlook compared to the estimates shown in the 1991 trustees' report. That report showed that under the optimistic and intermediate assumptions, assets would increase steadily until 2000, reaching \$76.8 billion and \$30.5 billion, respectively. Expressed in terms of a contingency reserve, the trust fund ratios in 2000 were projected to be 174 and 57 percent, respectively. However, the 1991 report warned that a combination of adverse economic conditions and rapid growth in the number of DI recipients could cause the DI trust fund to become depleted. This was reflected in the 1991 pessimistic projections, which showed the DI trust fund being depleted in 1997.

In terms of the operations of the DI trust fund over the short range, disbursements are estimated to increase because of automatic benefit increases and because of projected increases in the amounts of average monthly earnings on which benefits are based. In addition, on the basis of all three sets of assumptions, the number of DI recipients is projected to continue increasing throughout the short-range projection period. The projected growth in the number of DI recipients is attributed to a number of factors, including (1) gradual increases in the number of persons estimated to be insured for disability benefits, (2) assumed increases in the proportion of those insured who apply for and are awarded disability benefits, and (3) an assumed slight decline in the proportion of disabled worker recipients whose benefits cease each year as a result of death, recovery, or attainment of normal retirement age.

Long-Term Outlook

Under the intermediate projections, the DI trust funds continue to have a negative balance throughout the next 75 years (the trust fund is insolvent). In long-range projections, income and expenditures are generally expressed as a percentage of the total amount of earnings subject to taxation under the OASDI

program (referred to as "taxable payroll"). The cost of the DI program for the next 75 years under the intermediate assumptions is projected to be 1.89 percent of taxable payroll, whereas its income is projected to be 1.43 percent of taxable payroll. The difference—0.46 percent of taxable payroll—is the DI program's "actuarial deficit" and represents 24 percent of the cost rate.

This actuarial deficit is sometimes portrayed as the amount of change which, if made to the payroll tax rates schedule under present law for each year in the 75-year period, would bring the program into exact actuarial balance. For example, if the actuarial deficit of 0.46 percent under the intermediate projections were addressed by raising scheduled tax rates by 0.23 percent for employees and employers, each, and by 0.46 percent for the self-employed, then OASDI assets at the beginning of 1992, together with income from payroll taxes, interest, and other sources, would be just sufficient to meet all expenditures for the period. Of course numerous other changes to tax rates or benefits provisions could also eliminate the long-range actuarial deficit.

Causes of the Disability Insurance Program's New Financial Difficulties

The 1992 trustees' report presents the following discussion of the changes in the DI program's financial outlook:

The proportion of insured workers who apply for and are awarded disability benefits in a given year is referred to as the "disability incidence rate." This rate has fluctuated substantially in past years and the causes for the variation have not been precisely determined. Incidence rates increased during 1970-75, declined during 1976-82, increased again during 1983-85, and remained steady during 1986-89. In 1990 and 1991 the incidence rate resumed increasing, with unusually rapid increases (on a relative basis) of 8 percent and 13 percent, respectively.

The rapid increase in disability benefit applications and awards during 1990-91 are thought to be attributable, in part, to the rise in unemployment associated with the recent slowdown in the economy (although the evidence is somewhat inconclusive). Other explanatory factors may include changes to the conditions governing receipt of disability benefits, as introduced through recent legislation, regulations, and court decisions, and increased awareness of the DI program by the public. It is also possible that disability awards have been processed faster than denial decisions, to minimize the effects of the extremely heavy workload imposed by the large increase in the number of applications for disability benefits.

Although an increasing trend in disability incidence rates has been projected in past annual reports, the actual increases since 1982 have frequently been larger than expected. In particular, the experience in 1990 and 1991 exceeded the assumptions in prior annual reports by a wide margin. Due to the extreme variation exhibited by incidence rates

in the past and the difficulty in determining reliable explanatory factors for this variation, any projection of future incidence rates will be necessarily uncertain. In this report, with the exception of Alternative I [optimistic], disability incidence rates are assumed to increase gradually throughout the short-range period but are not assumed to return to the highest levels experienced during the 1970s. Under Alternative I, incidence rates are assumed to decline slightly from the level in 1991.

The proportion of DI recipients whose benefits terminate in a given year has also fluctuated significantly in the past. Over the last 20 years, the rates of benefit termination due to death or conversion to retirement benefits at attainment of normal retirement age have declined very gradually. This trend is attributable, in part, to the lower average age of new recipients. The termination rate due to recovery has been much more volatile. Currently, the proportion of disabled recipients whose benefits cease because of their recovery from disability is very low in comparison to past levels.

In this report, termination rates due to attainment of normal retirement age are estimated to continue their downward trend through about 2000; terminations due to death or recovery are assumed to increase somewhat from their current level. The aggregate termination rates projected under Alternatives I and II [intermediate] are slightly higher than the most recent actual value for the first few years, decline gradually thereafter, and are projected to level off by the year 2001. Under Alternative III [pessimistic], termination rates are projected to continue declining gradually during 1992-99, before leveling off at the end of the short-range projection period. These termination rate assumptions represent a substantial downward adjustment from the assumptions used in the 1991 and prior annual reports.

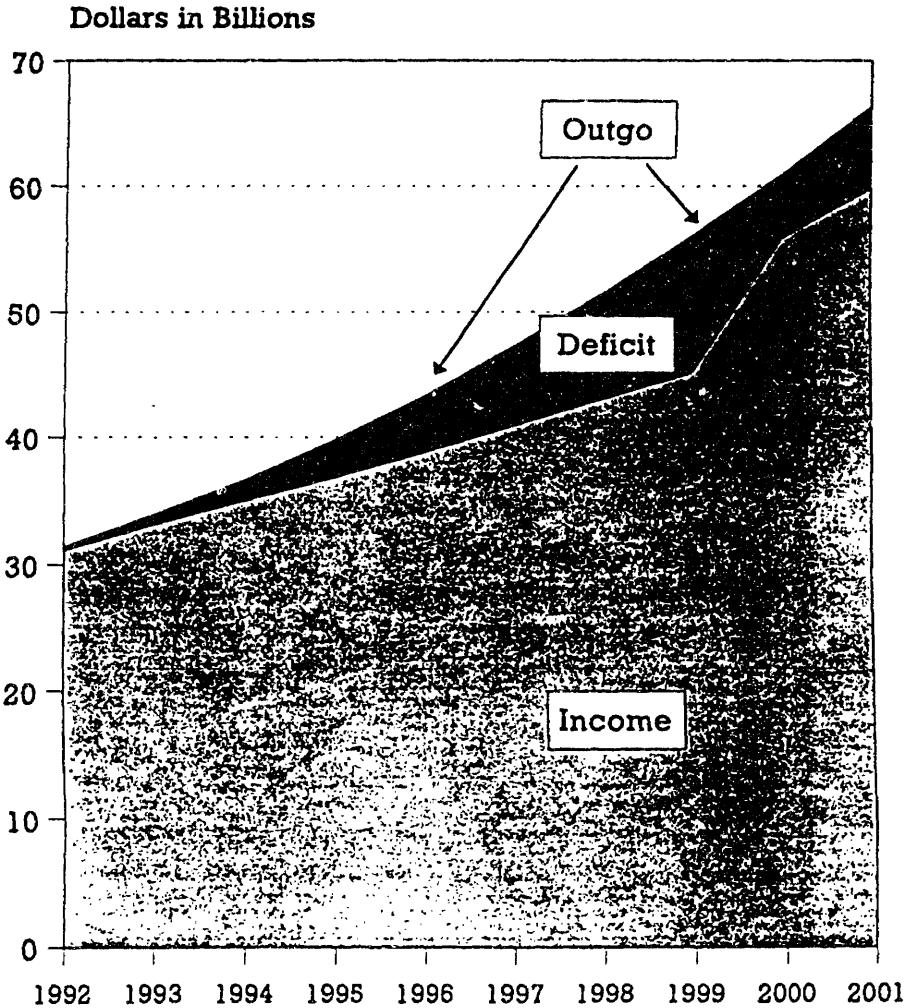
The continuing spread of Acquired Immunodeficiency Syndrome (AIDS) has contributed to the recent increases in DI awards. Due to the extremely high mortality rates of affected individuals, the total number of disabled workers currently receiving benefits has increased greatly as a result of AIDS. Although many aspects of AIDS are well understood, there remains considerable uncertainty regarding future medical advances and future incidence of the disease. To reflect this uncertainty, the projected numbers of benefit awards to AIDS patients (and their projected longevity) are varied by alternative. Under the intermediate set of assumptions, benefit awards to persons with AIDS are projected to continue to increase through 1998, before beginning to decline. Under Alternative I the number of new awards begins to*

**Although the number of disability benefits awards is higher as a result of AIDS, this effect has been fully reflected in the projections shown in the last several annual reports. Thus the greater number of awards due to AIDS does not account for the unexpectedly large increases in awards experienced in 1990 and 1991.*

decline in the near future, while the number projected under Alternative III increase at a rapid rate throughout the short-range period.

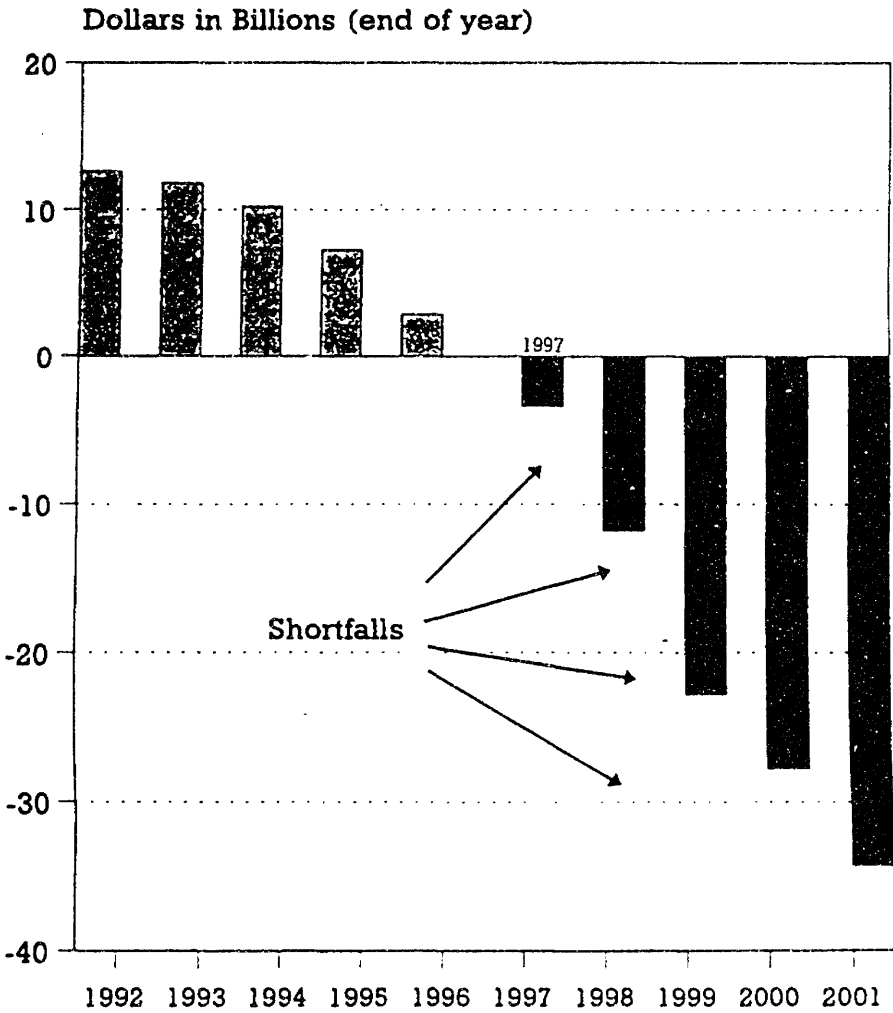
Thus the trustees' report summarizes the unfavorable financial outlook for the DI program by attributing its rising costs to an increasing trend since 1982 in the proportion of workers who are awarded disability benefits and a decreasing trend since 1970 in the annual proportion of recipients whose disability benefits terminate as a result of recovery, death, or attainment of age 65. It emphasizes that the annual number of new disability awards has increased rapidly in the last several years (from about 415,000 in 1988 to over 540,000 in 1991). While the adverse financial consequences of these trends during 1983 through 1988 were offset by favorable economic growth during that period, the economy has slowed since then, with the result that growth in tax income has failed to keep pace with growth in benefits.

CHART 1. Income and Outgo of DI Trust Fund, 1992-2001



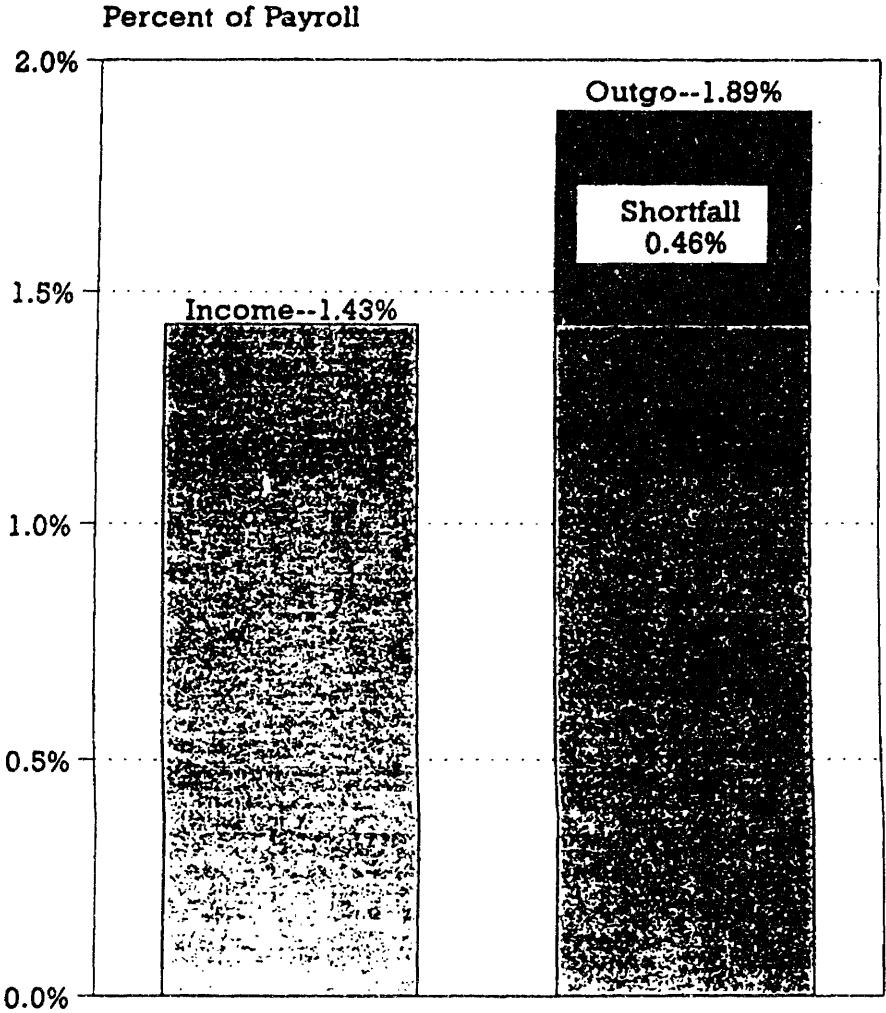
Source: Congressional Research Service with data from SSA

CHART 2. Projected Balances of the DI Trust Fund, 1992-2001



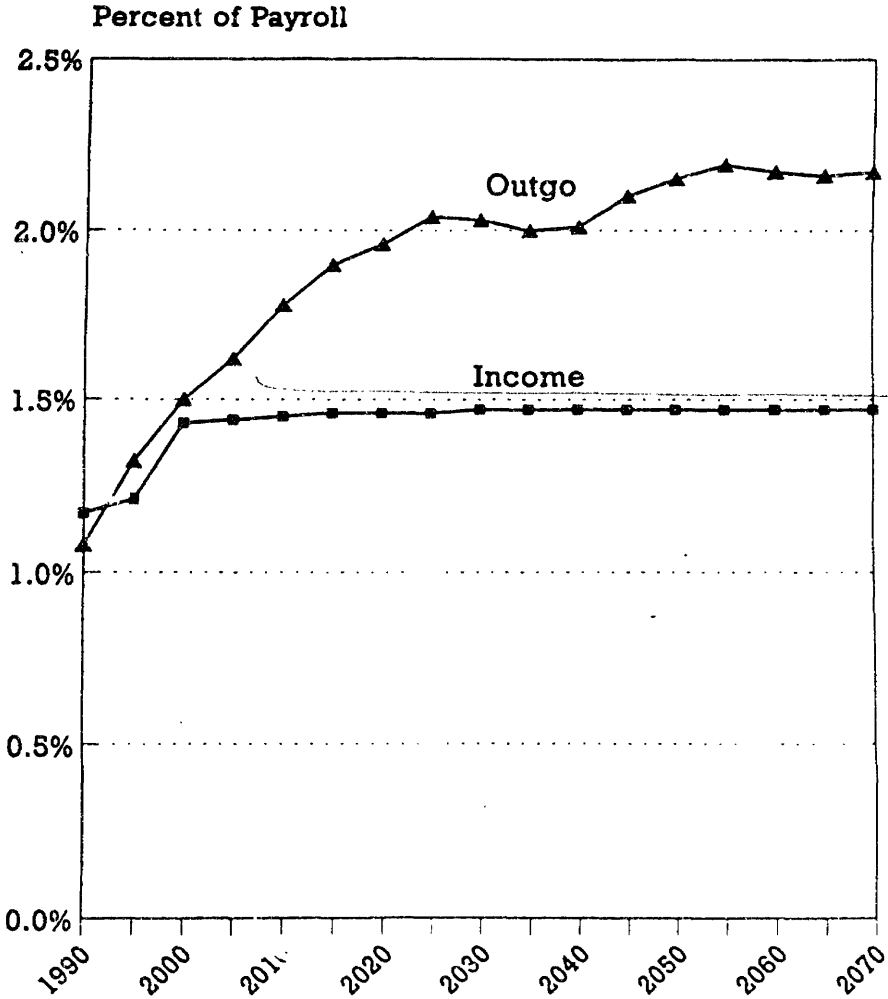
Source: Congressional Research Service with data from SSA

CHART 3. Average Income and Outgo of DI Trust Fund, 1992-2066



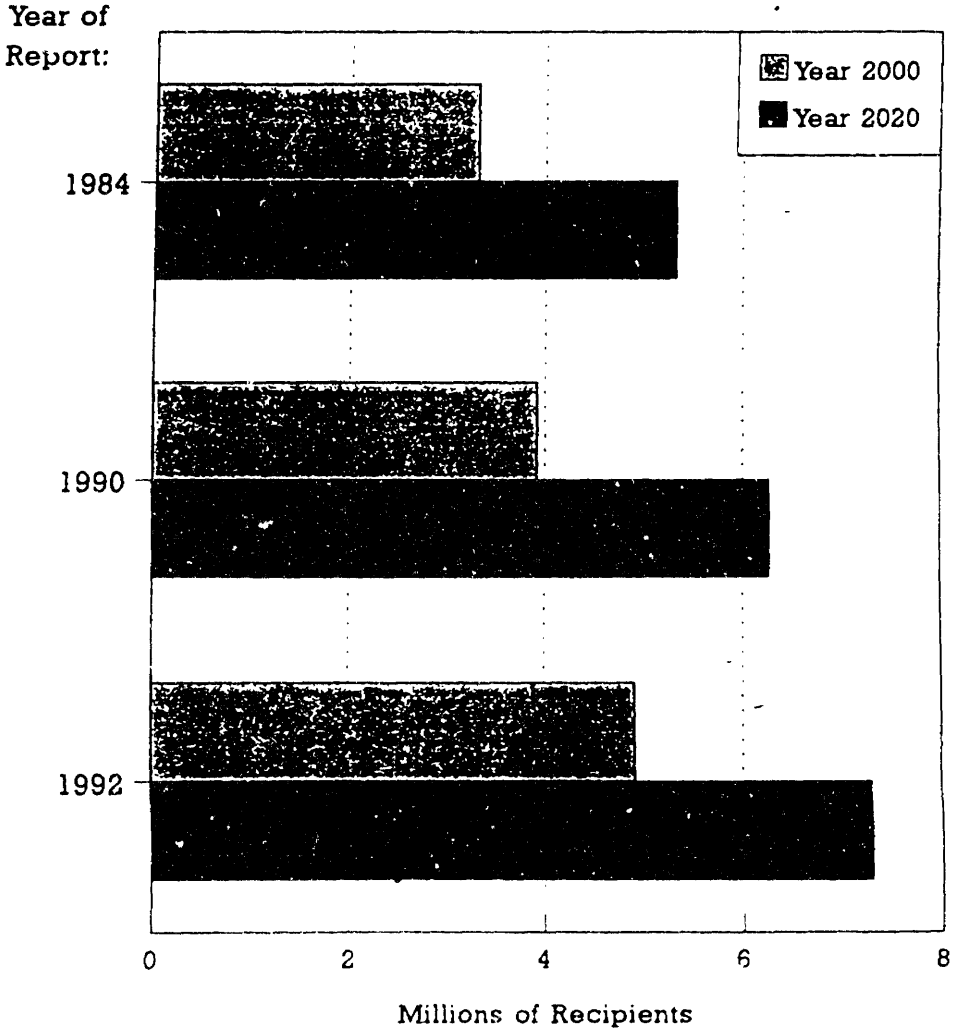
Source: Congressional Research Service with data from SSA

CHART 4. Long-Range Income and Outgo of DI Trust Fund



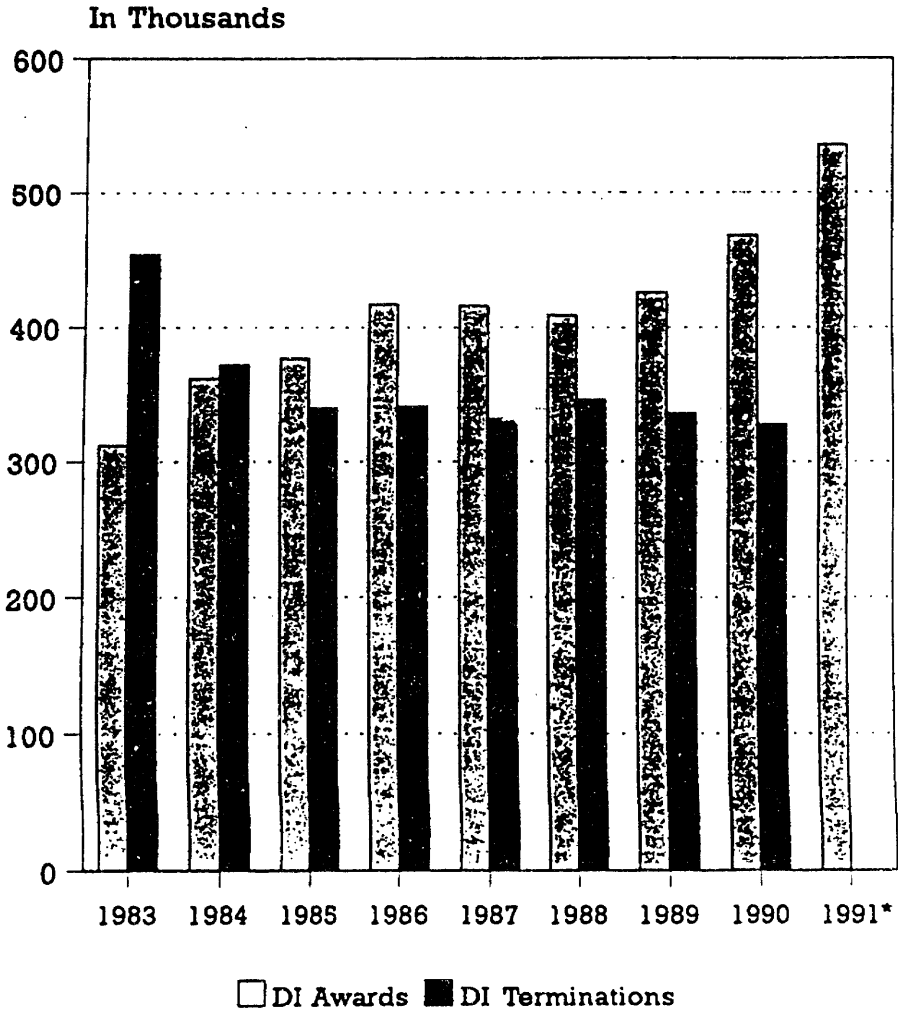
Source: Congressional Research Service with data from SSA

CHART 5. DI Recipients Projected in Past and Current Trustees' Reports



Source: Congressional Research Service with data from SSA

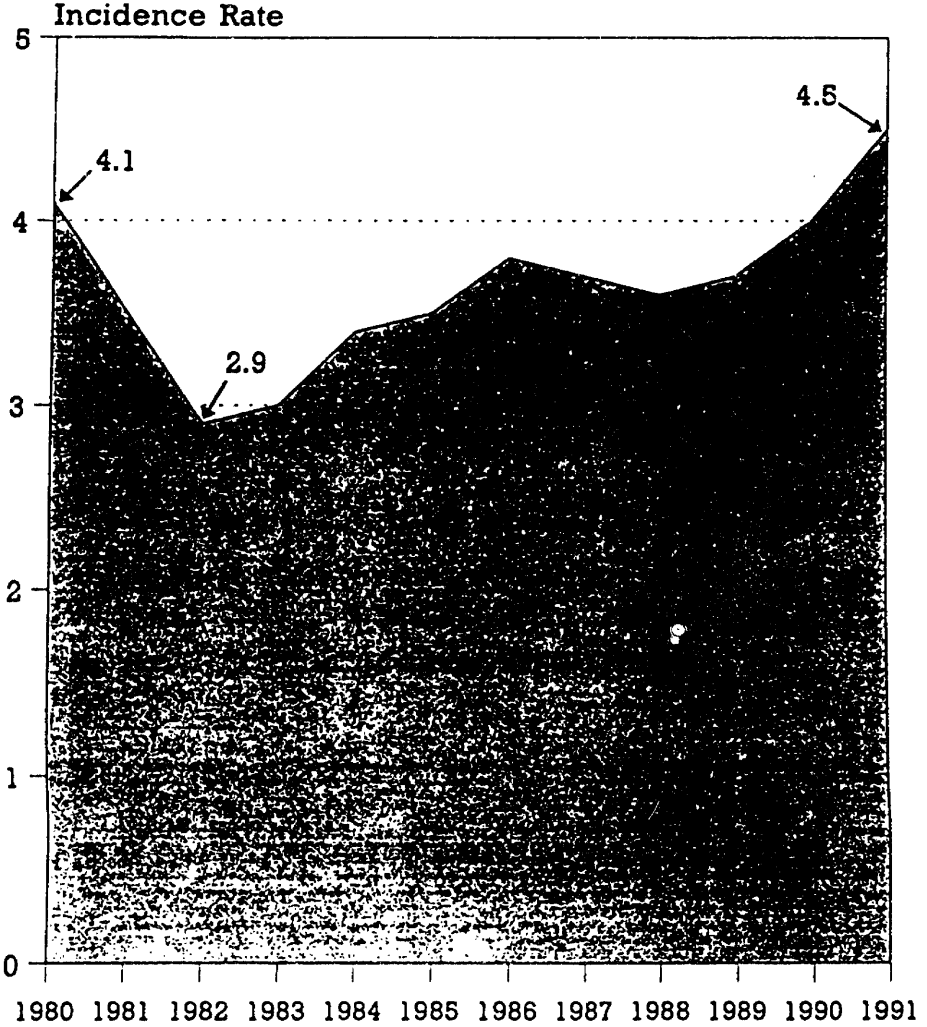
CHART 6. DI Awards and Terminations 1983-1991*



*Data for 1991 Terminations not yet available

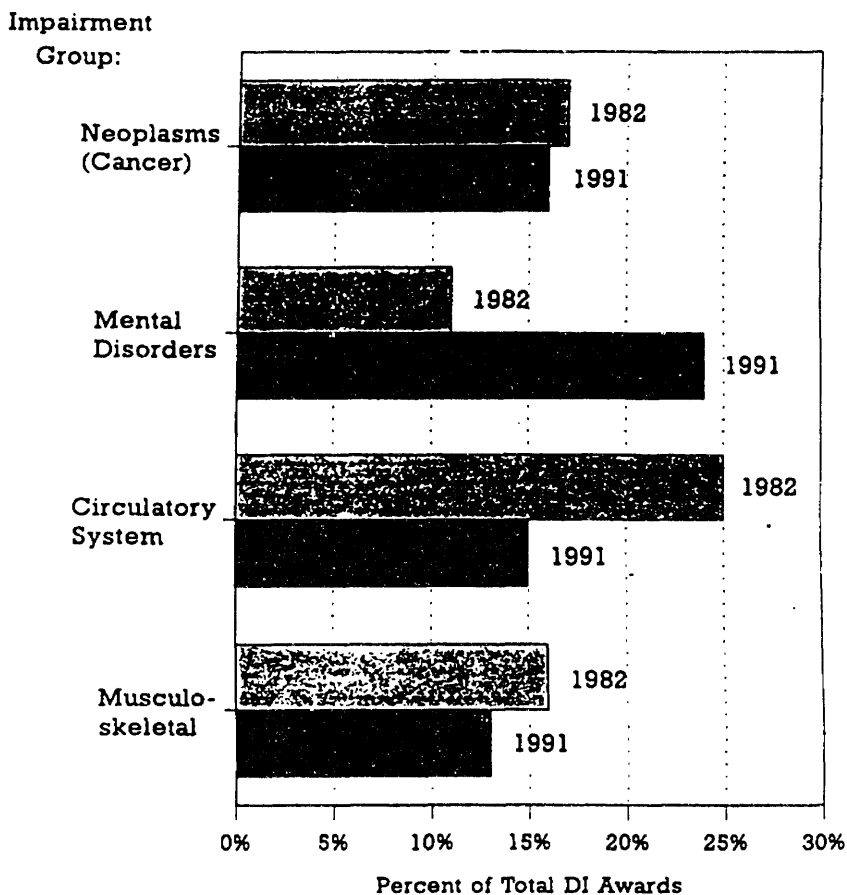
Source: Congressional Research Service with data from SSA

CHART 7. DI Awards per 1,000 Insured Workers in Population



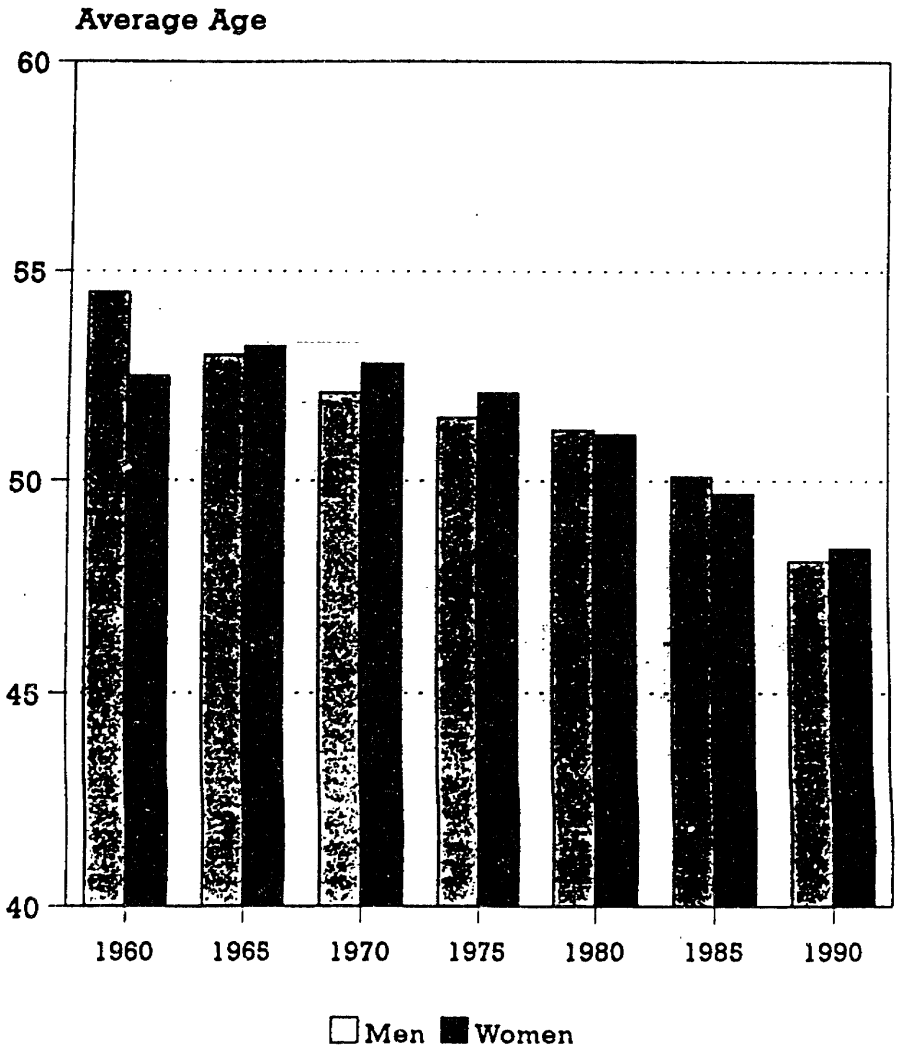
Source: Congressional Research Service with data from SSA

CHART 8. Largest Causes of Total DI Awards, 1982 and 1991



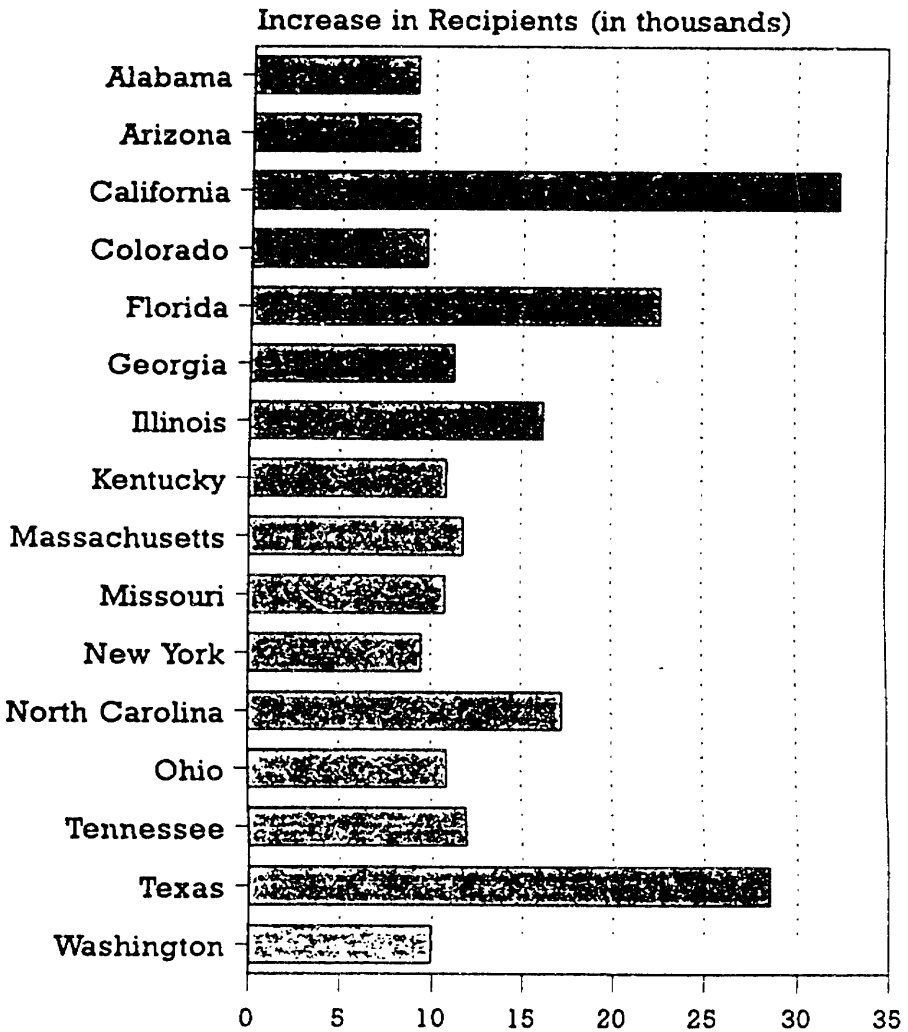
Source: Congressional Research Service with data from SSA

CHART 9. Average Age of Newly Awarded DI Recipients



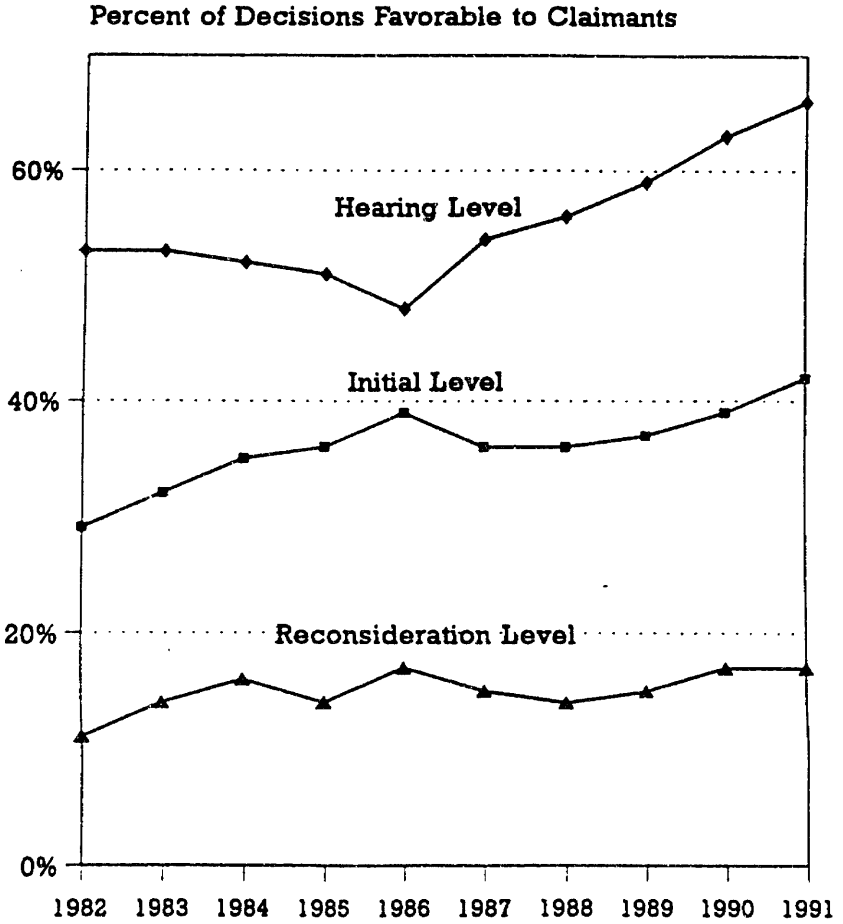
Source: Congressional Research Service with data from SSA

CHART 10. States with Largest Change in DI Recipients from 1985 to 1990



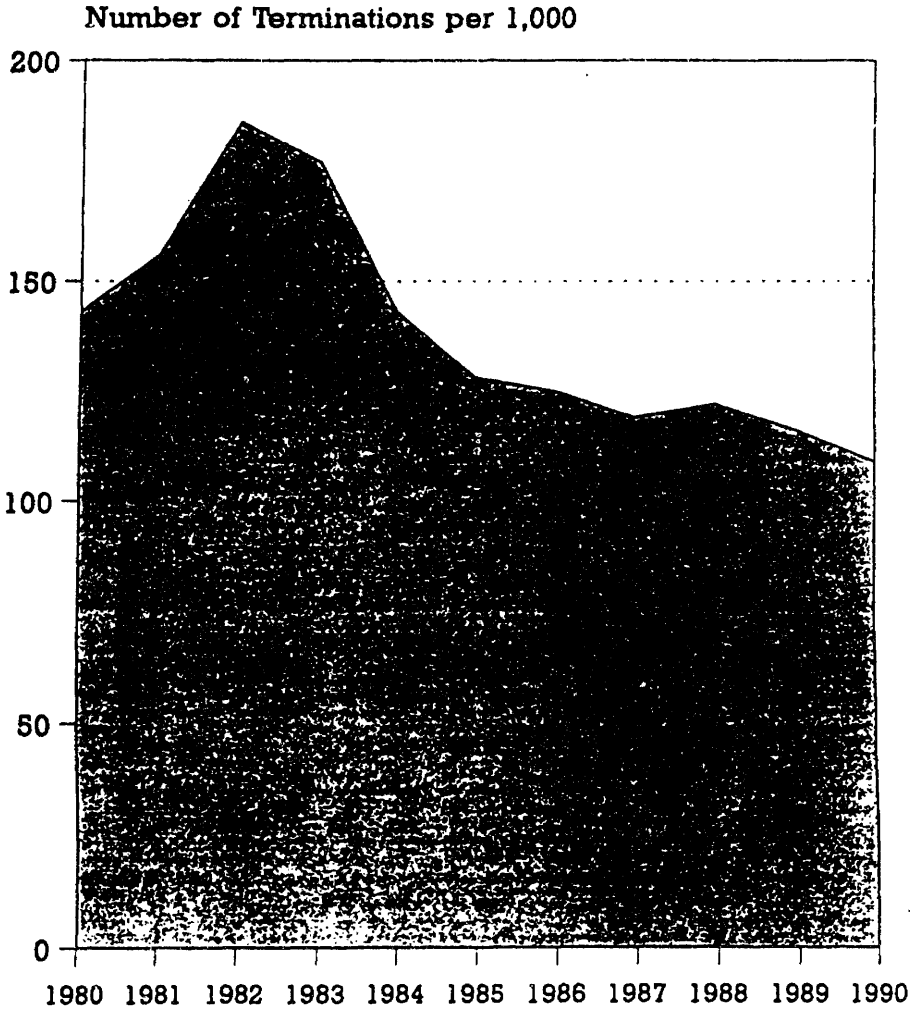
Source: Congressional Research Service with data from SSA

CHART 11. DI and SSI-Disability Allowance Rates on Initial Claims



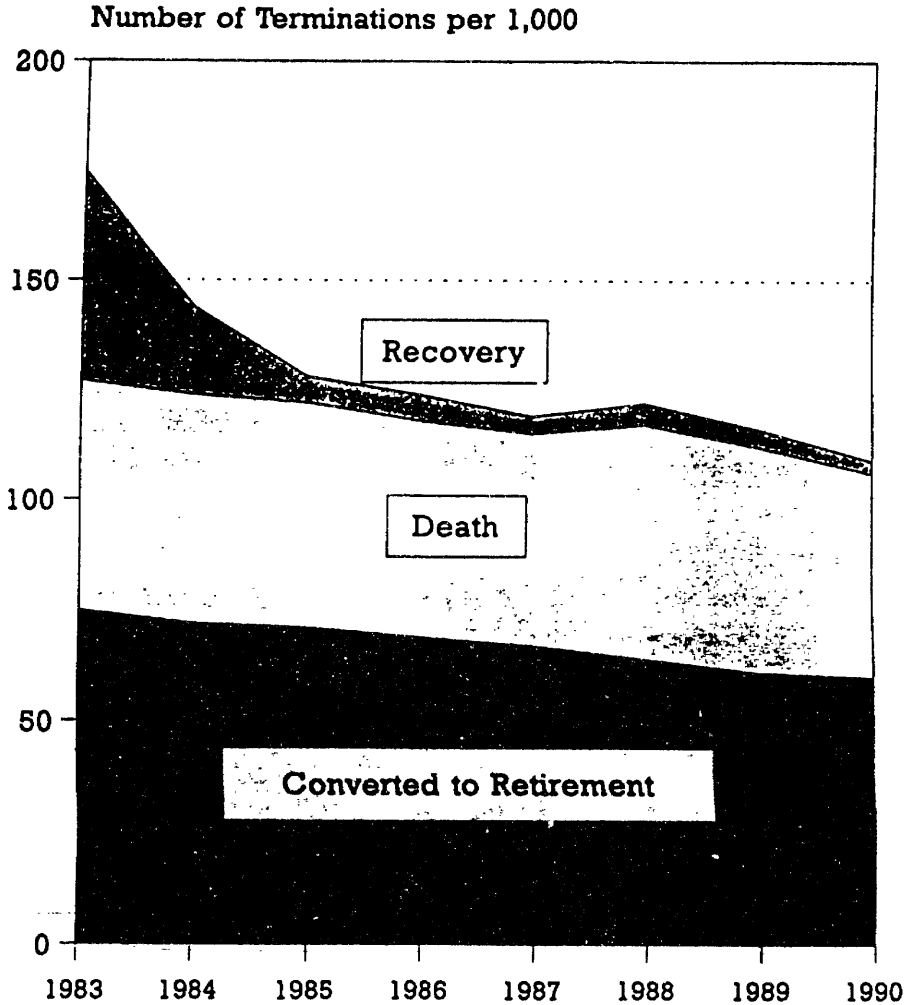
Source: Congressional Research Service with data from SSA

CHART 12. DI Terminations per 1,000 Recipients



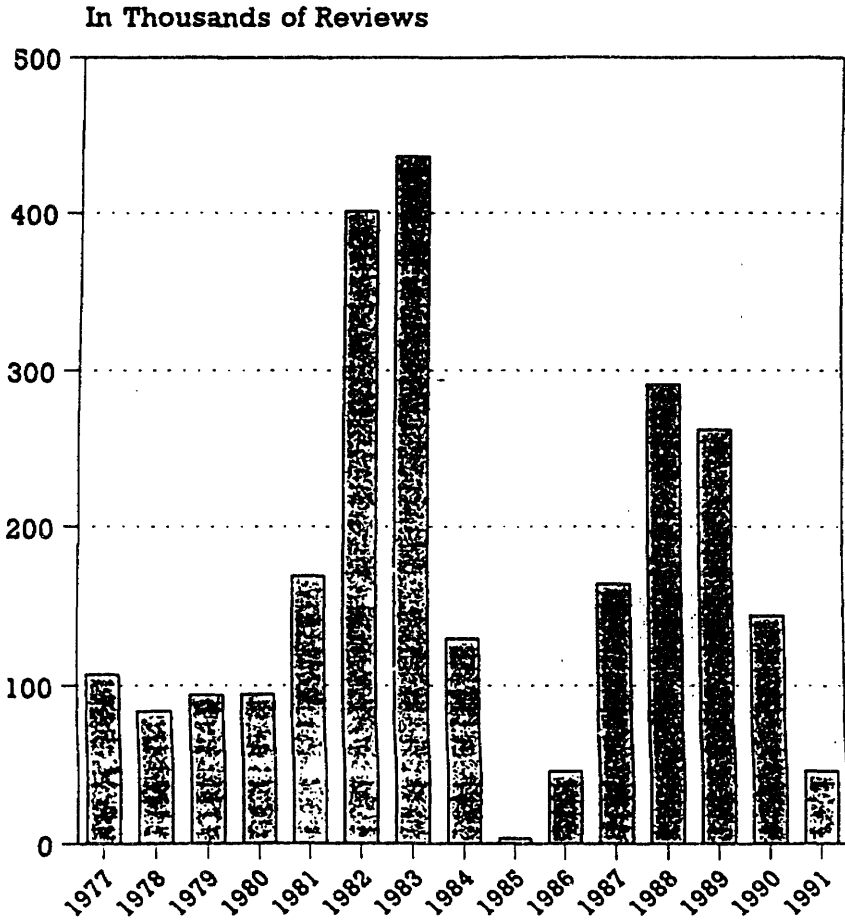
Source: Congressional Research Service with data from SSA

CHART 13. DI Terminations per 1,000 Recipients by Basis of Termination



Source: Congressional Research Service with data from SSA

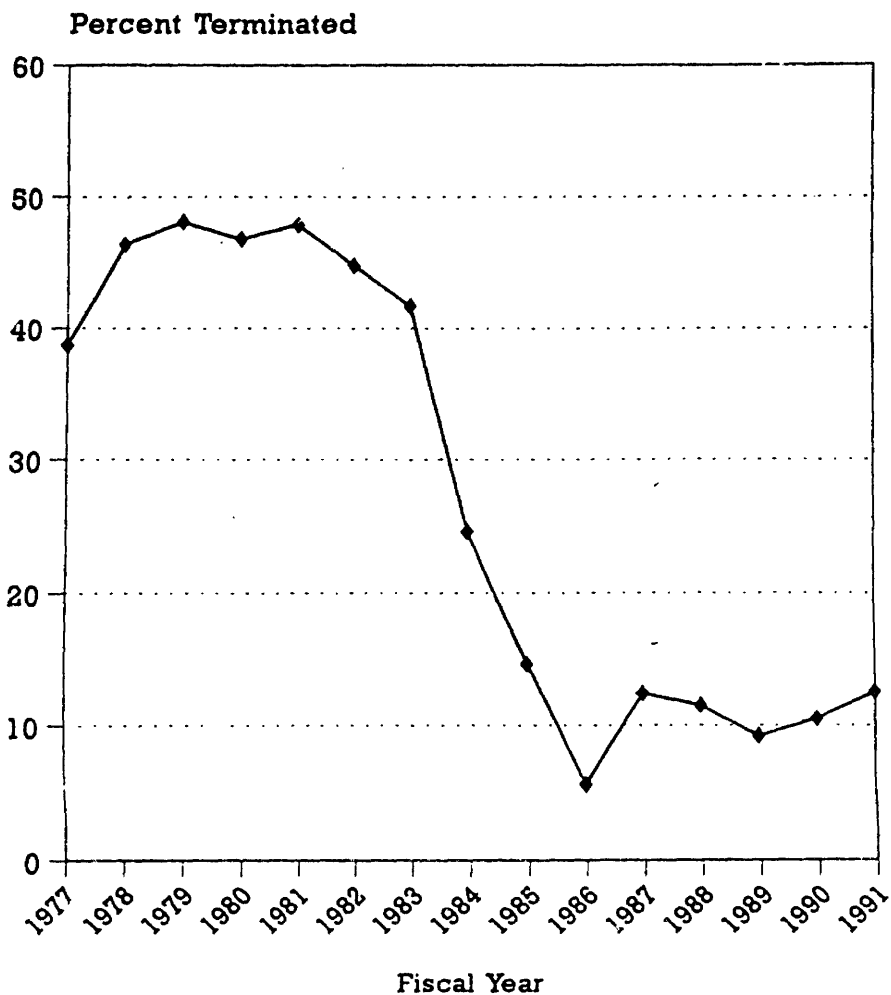
CHART 14. Number of Continuing Disability Reviews Conducted* FY 1977-91



*Does not include SSI cases

Source: Congressional Research Service with data from SSA

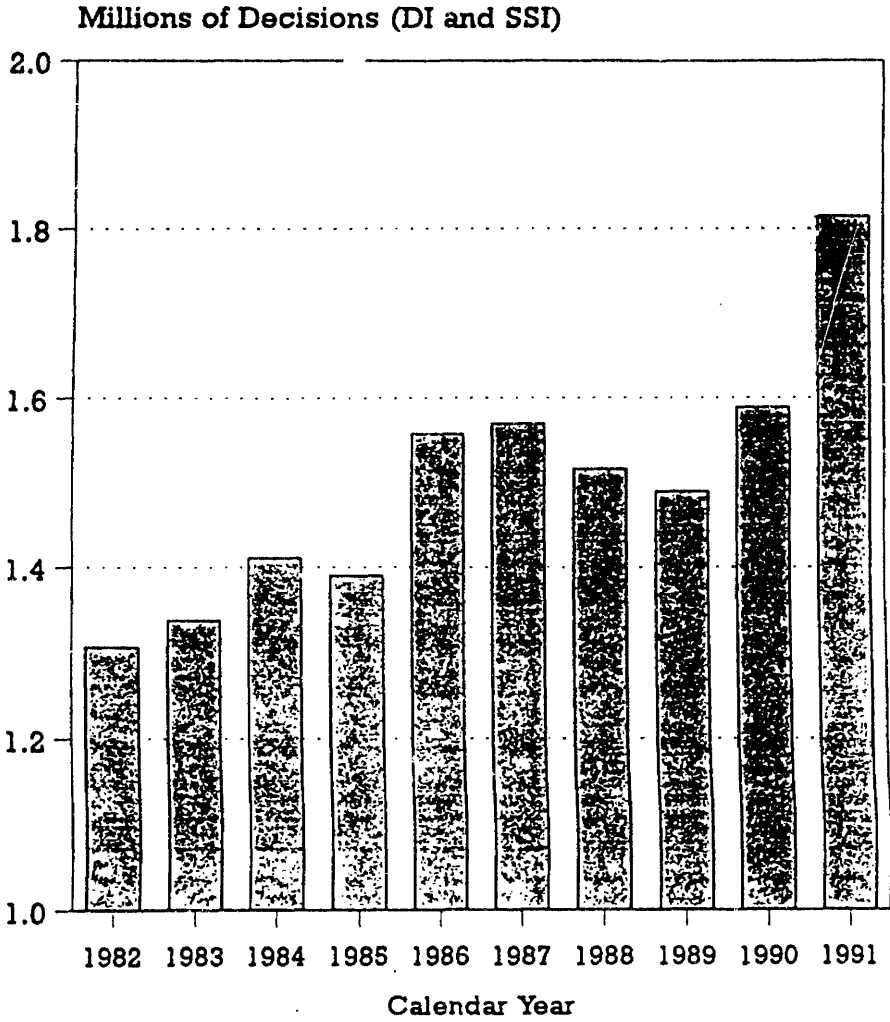
CHART 15. Continuing Disability Reviews Resulting in Benefit Termination*



*Does not include SSI cases

Source: Congressional Research Service with data from SSA

CHART 16. Number of Disability Decisions Made by State Agencies



Source: Congressional Research Service with data from SSA

TABLE 3. DI and SSI-Disability Recipients, Number of and as Percent of Total Population Ages 20-64, 1960-1991 (in thousands)

Calendar year ^a	DI		SSI-disability	
	Total recipients	Recipients as % of population ages 20-64	Total recipients ^b	Recipients as % of population ages 20-64
1960	687	0.7	*	*
1965	1,739	1.7	*	*
1970	2,665	2.4	*	*
1975	4,352	3.6	2,026	1.7
1980	4,678	3.5	2,355	1.8
1985	3,907	2.7	2,669	1.9
1986	3,883	2.7	2,839	1.9
1987	4,405	2.7	2,973	2.0
1988	4,047	2.7	3,076	2.1
1989	4,129	2.7	3,200	2.1
1990	4,266	2.8	3,404	2.2
1991	4,513	2.9	3,539	2.3

^aEnd-of-year data. 1991 based on latest month (August) that data are available.

^bIncludes blind recipients.

*SSI was implemented in 1974.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991.*

TABLE 4. DI and SSI-Disability Recipients, by Sex, 1960-1990 (rounded to nearest 1,000 recipients)

End of year	DI ^a				SSI-disability			
	Men	% of total	Women	% of total	Men	% of total	Women	% of total
1960	356	78	99	22	Awaiting data from SSA			
1965	734	74	254	26				
1970	1,069	72	424	28				
1975 ^b	1,711	69	778	31				
1980	1,928	67	931	33				
1985	1,785	67	872	33				
1990	1,967	65	1,044	35				

^aDisabled worker recipients.

^bSSI was implemented in 1974.

NOTE: SSI disabled includes blind recipients.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*, with additional data from SSA.

TABLE 5. DI Worker Awards and SSI-Disability Awards, 1960-1991

Calendar year	DI awards to disabled workers	SSI-disability awards
(Rounded to the nearest 1,000 awards)		
1960	208	Awaiting data from SSA
1965	254	
1970	350	
1975	592	
1980	397	
1981	352	
1982	297	
1983	312	
1984	362	
1985	377	
1986	417	
1987	416	
1988	409	
1989	428	
1990	468	
1991	536	

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*, with additional data from SSA.

TABLE 6. DI Recipient Families, 1960-1990

Calendar year	Worker only	Worker, spouse, and		Worker and spouse
		1 child	2 or more children	
(in thousands)				
1960	357	22	32	22
1965	714	54	109	30
1970	1,054	77	164	43
1975	1,750	137	250	66
1980	2,061	154	228	80
1982	1,969	124	163	78
1983	1,961	85	143	80
1984	1,993	83	140	76
1985	2,039	84	140	76
1986	2,096	82	136	74
1987	2,154	79	132	74
1988	2,194	77	125	71
1989	2,282	75	120	67
1990	2,370	75	118	63

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*.

**TABLE 7. Average Benefits in Current and Constant Dollars,
DI and SSI-Disability, 1960-1991**

End of year	DI		SSI-disability	
	current dollars	constant dollars	current dollars	constant dollars
1960	\$ 89.31	\$410.95	*	*
1961	89.59	408.10	*	*
1962	89.99	405.85	*	*
1963	90.59	403.21	*	*
1964	91.12	400.30	*	*
1965	97.76	422.69	*	*
1966	98.09	412.34	*	*
1967	98.43	401.38	*	*
1968	111.86	437.80	*	*
1969	112.74	418.40	*	*
1970	131.26	460.76	*	*
1971	146.52	492.74	*	*
1972	179.32	584.29	*	*
1973	183.00	561.36	*	*
1974	205.70	568.28	*	*
1975	225.90	571.89	\$143.07	\$362.20
1976	245.17	586.86	147.21	352.37
1977	265.30	596.27	152.05	341.74
1978	288.30	602.24	156.78	327.51
1979	322.00	604.08	183.80	344.81
1980	370.70	612.73	200.06	330.68
1981	413.20	619.12	216.81	324.86
1982	440.60	621.86	231.48	326.71
1983	456.20	623.84	247.87	338.95
1984	470.70	617.03	258.08	338.31
1985	483.80	612.39	262.71	332.54
1986	487.90	606.31	283.08	351.78
1987	508.20	609.30	288.29	345.64
1988	529.50	609.65	295.86	340.63
1989	556.00	610.70	311.20	341.82
1990	587.20	611.91	339.43	353.71
1991	Awaiting data from SSA			

*SSI was implemented in 1974.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*, with additional data from SSA.

TABLE 8. DI Applications and Awards, and Awards as a Percent of Applications, 1960-1991

	Applications (in thousands)	Awards	Awards divided by applications (percent)
1960	418.6	207.8	50
1965	532.9	253.5	48
1970	668.2	350.4	40
1971	924.4	415.9	45
1972	947.8	455.4	48
1973	1,066.8	491.6	46
1974	1,330.2	536.0	40
1975	1,285.2	592.0	46
1976	1,232.2	551.5	45
1977	1,235.2	568.9	46
1978	1,184.7	464.4	39
1979	1,187.8	416.7	35
1980	1,262.3	396.6	31
1981	1,161.3	345.3	30
1982	1,020.0	298.5	29
1983	1,017.7	311.5	31
1984	1,035.7	357.1	34
1985	1,066.2	377.4	34
1986	1,118.4	416.9	37
1987	1,108.9	415.8	37
1988	1,017.9	409.5	40
1989	984.9	425.6	43
1990	1,067.7	468.0	44
1991	1,207.8	536.4	44

Source: Social Security Administration, Office of the Actuary, 1992.

TABLE 9. Number of Disability Determinations Made, DI and SSI-Disability, FY 1977-1991

Fiscal year	Initial level	Reconsideration level	Hearing level	Total	% change in total year-to-year
1977	1,612,530	343,152	182,306	2,117,997	
1978	1,466,916	238,408	190,042	1,966,366	-5.8
1979	1,487,504	369,274	187,633	2,044,411	+2.5
1980	1,518,862	405,163	207,547	2,131,572	+4.3
1981	1,441,891	437,963	234,359	2,114,203	-0.8
1982	1,307,589	466,426	265,127	2,039,142	-3.6
1983	1,338,043	512,060	307,533	2,157,636	+5.8
1984	1,411,173	403,088	294,176	2,098,436	-2.7
1985	1,390,302	378,953	213,237	1,982,492	-5.5
1986	1,568,346	390,425	170,661	2,109,432	+6.4
1987	1,570,022	450,019	218,918	2,238,959	+6.0
1988	1,516,873	438,251	238,815	2,193,939	-1.9
1989	1,489,534	442,218	251,991	2,183,743	-0.5
1990	1,589,311	484,499	348,237	2,322,047	+6.3
1991	1,815,846	502,561	289,400	2,607,807	+12.3

Source: CRS, compiled with data furnished by SSA, Apr. 1992.

TABLE 10. DI Insured Population, Awards, and Awards-per-Thousand Insured (Incidence Rate), 1960-1991

Calendar year	Workers insured for DI ^a (in millions)	DI awards ^b (in thousands)	DI awards per 1,000 insured workers
1950	46.4	208	4.5
1965	53.3	254	4.8
1970	72.4	350	4.8
1975	83.3	592	7.1
1980	98.0	397	4.1
1981	100.5	352	3.5
1982	102.4	297	2.9
1983	104.0	312	3.0
1984	105.0	362	3.4
1985	106.7	377	3.5
1986	109.3	417	3.8
1987	111.4	416	3.7
1988	113.5	409	3.6
1989	116.1	426	3.7
1990	118.0	468	4.0
1991	119.8	536	4.5

^aRepresents workers insured at beginning of each year.

^bDisabled worker awards.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*, with additional data from SSA.

TABLE 11. Average Age of All Recipients and Average Age of Newly Awarded Recipients (DI and SSI), 1957-1991

Calendar year	DI				SSI			
	All recipients ^a on rolls		New awards		All recipients ^a on rolls		New awards	
	men	women	men	women	men	women	men	women
1957	59.4	57.9	59.2	57.4	-	-	-	-
1960	57.3	56.7	54.5	52.5	-	-	-	-
1965	54.4	55.2	53.0	53.2	-	-	-	-
1970	53.9	55.0	52.1	52.8	-	-	-	-
1975 ^b	53.5	54.4	51.5	52.1	Awaiting data from SSA			
1980	52.9	53.7	51.2	51.1	-	-	-	-
1985	51.9	52.6	50.1	49.7	-	-	-	-
1990	50.4	50.8	48.1	48.4	-	-	-	-
1991	Awaiting data from SSA							

^aAt end of year.

^bSSI was implemented in 1974.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*, with additional data from SSA.

TABLE 12. Comparison of New Awards (DI and SSI) to Total U.S. Employment, Unemployment Rate, and Gross National Product (GNP) 1961-1991

Year	% change in new DI awards	% change in employment	Unemployment rate	% change in GNP
1961	34.6	0.0	6.7	2.7
1962	-10.4	1.5	5.5	5.1
1963	-10.7	1.6	5.7	4.1
1964	-7.2	2.3	5.2	4.6
1965	22.1	2.6	4.5	5.6
1966	9.8	2.5	3.8	6.0
1967	8.3	2.0	3.8	2.6
1968	7.2	2.1	3.6	4.1
1969	6.7	2.6	3.5	2.7
1970	1.6	1.0	4.9	0.0
1971	18.7	0.9	5.9	3.1
1972	9.5	3.5	5.6	4.8
1973	7.9	3.5	4.9	5.2
1974	9.0	2.0	5.6	-0.6
1975	10.5	-1.1	8.5	-0.8
1976	-6.9	3.4	7.7	4.9
1977	3.2	3.7	7.1	4.5
1978	-18.4	4.4	6.1	4.8
1979	-10.3	2.9	5.8	2.5
1980	-4.8	0.5	7.1	-0.5
1981	-11.3	1.1	7.6	1.8
1982	-15.6	0.9	9.7	-2.2
1983	4.9	1.3	9.6	3.9
1984	16.2	4.1	7.5	6.2
1985	4.2	2.0	7.2	3.2
1986	10.5	2.3	7.0	2.9
1987	-0.2	2.6	6.2	3.1
1988	-1.5	2.2	5.5	3.9
1989	3.9	2.1	5.3	2.5
1990	10.0	0.5	5.5	1.0
1991	14.5	-0.9	6.7	-0.7

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*, with additional data from SSA; and the *Economic Report of the President, 1992*.

**TABLE 13. Comparison of DI Recipients* to
Total Population of Each State, 1970-1990**

	<u>DI recipients as % of State's population</u>				<u>% change in DI share of State's population 1985-1990</u>
	1970	1980	1985	1990	
U.S. total	0.73	1.26	1.11	1.21	8.8
Alabama	1.02	1.58	1.48	1.70	14.7
Alaska	0.20	0.42	0.40	0.55	38.1
Arizona	0.79	1.24	1.08	1.19	9.2
Arkansas	1.23	1.94	1.70	1.95	14.4
California	0.76	1.20	0.94	0.94	0.2
Colorado	0.53	0.83	0.77	1.05	36.3
Connecticut	0.52	0.97	0.87	0.94	8.1
Delaware	0.64	1.24	1.15	1.15	-0.1
District of Columbia .	0.70	1.15	0.95	0.94	-1.6
Florida	0.89	1.54	1.22	1.24	2.3
Georgia	0.98	1.58	1.35	1.42	5.2
Hawaii	0.46	0.73	0.67	0.69	3.0
Idaho	0.69	0.95	0.84	1.04	23.1
Illinois	0.57	0.96	0.90	1.05	16.7
Indiana	0.59	1.13	1.14	1.26	10.6
Iowa	0.56	0.92	0.94	1.13	20.2
Kansas	0.55	0.87	0.83	0.97	17.2
Kentucky	1.00	1.59	1.57	1.88	19.8
Louisiana	0.90	1.39	1.19	1.47	23.9
Maine	0.76	1.35	1.28	1.44	12.3
Maryland	0.52	0.95	0.86	0.85	-0.5
Massachusetts	0.58	1.06	0.98	1.15	16.8
Michigan	0.65	1.22	1.20	1.26	5.4
Minnesota	0.46	0.77	0.76	0.88	14.8
Mississippi	1.10	1.78	1.67	1.95	16.8
Missouri	0.78	1.35	1.23	1.43	15.5
Montana	0.72	1.09	1.03	1.46	42.0
Nebraska	0.51	0.85	0.80	0.96	19.7
Nevada	0.56	1.08	1.02	1.08	5.9
New Hampshire	0.58	1.00	0.93	0.97	3.6

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TABLE 13. Comparison of DI Recipients* to Total Population of Each State, 1970-1990--Continued

	<u>DI recipients as % of State's population</u>				<u>% change in DI share of State's population 1985-1990</u>
	1970	1980	1985	1990	
New Jersey	0.62	1.21	1.04	1.03	-0.6
New Mexico	0.71	1.13	0.97	1.18	21.1
New York	0.69	1.31	1.11	1.15	3.5
North Carolina	0.91	1.53	1.37	1.55	13.4
North Dakota	0.53	0.75	0.74	0.98	32.8
Ohio	0.62	1.22	1.16	1.25	8.0
Oklahoma	0.92	1.25	0.96	1.19	24.2
Oregon	0.78	1.14	1.03	1.11	8.0
Pennsylvania	0.75	1.32	1.17	1.17	0.0
Rhode Island	0.77	1.48	1.38	1.28	-6.7
South Carolina	1.05	1.61	1.47	1.60	9.1
South Dakota	0.58	0.91	0.89	1.16	30.4
Tennessee	0.92	1.60	1.41	1.62	15.1
Texas	0.63	0.92	0.72	0.86	19.7
Utah	0.44	0.60	0.52	0.61	38.3
Vermont	0.72	1.22	1.10	1.19	8.4
Virginia	0.78	1.24	1.11	1.13	1.6
Washington	0.60	1.01	0.92	1.04	12.7
West Virginia	1.49	1.95	1.79	2.05	14.6
Wisconsin	0.59	1.02	1.05	1.20	14.2
Wyoming	0.59	0.58	0.60	0.99	65.8

*Disabled worker recipients.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*; and the *Statistical Abstract of the United States, 1991*.

TABLE 14. Change in Number of DI Recipients,* by State, 1970-1990
(in percent)

	Percent change in DI recipients from:		
	1970-1980	1980-1985	1985-1990
U.S. total	91.5	-7.1	13.3
Alabama	75.5	-3.5	15.3
Alaska	174.8	22.0	45.5
Arizona	141.5	1.8	26.6
Arkansas	87.3	-9.4	14.0
California	88.5	-13.4	13.1
Colorado	105.3	3.0	38.9
Connecticut	88.9	-8.1	11.9
Delaware	111.0	-2.0	6.3
District of Columbia	38.5	-19.4	-4.3
Florida	147.6	-7.8	16.4
Georgia	92.8	-6.8	14.0
Hawaii	98.4	0.0	8.7
Idaho	82.4	-5.3	23.3
Illinois	74.7	-5.3	15.6
Indiana	101.1	0.8	11.4
Iowa	67.8	0.4	16.4
Kansas	67.6	-1.6	18.6
Kentucky	81.9	0.3	18.6
Louisiana	77.9	-8.9	16.6
Maine	99.3	-1.4	18.5
Maryland	96.5	-6.6	8.2
Massachusetts	84.0	-5.2	20.6
Michigan	94.2	-3.5	7.8
Minnesota	78.6	2.3	19.9
Mississippi	84.3	-2.9	15.0
Missouri	82.3	-6.4	17.4
Montana	71.3	-0.9	37.6
Nebraska	74.3	-3.6	17.7
Nevada	216.0	10.5	35.6
New Hampshire	114.1	0.8	15.1

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**TABLE 14. Change in Number of DI Recipients,*
by State, 1970-1990—Continued
(in percent)**

	Percent change in DI recipients from:		
	1970-1980	1980-1985	1985-1990
New Jersey	99.1	-11.6	1.5
New Mexico	104.5	-4.3	26.5
New York	81.7	-13.7	4.8
North Carolina	94.6	-5.0	20.2
North Dakota	48.2	3.8	23.8
Ohio	100.5	-5.4	8.7
Oklahoma	60.1	-15.4	17.9
Oregon	85.4	-7.9	14.1
Pennsylvania	78.4	-11.7	0.2
Rhode Island	92.6	-5.4	-3.2
South Carolina	84.3	-2.6	14.1
South Dakota	63.8	-0.3	28.1
Tennessee	102.6	-8.4	17.7
Texas	85.0	-9.9	24.2
Utah	88.4	-3.9	45.0
Vermont	96.1	-6.1	14.0
Virginia	82.8	-4.6	10.2
Washington	104.3	-2.5	24.5
West Virginia	46.0	-9.0	6.1
Wisconsin	84.3	3.5	17.5
Wyoming	40.2	11.2	47.8

*Disabled worker recipients.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*; and the *Statistical Abstract of the United States, 1991*.

TABLE 15. DI Recipients,* by State, 1985 and 1990

	Recipients 1985	Recipients 1990	Change 1985-1990
U.S. total	2,656,639	3,011,130	354,491
Alabama	59,468	68,540	9,072
Alaska	2,076	3,020	944
Arizona	34,334	43,470	9,136
Arkansas	40,148	45,750	5,602
California	246,648	279,060	32,412
Colorado	24,827	34,480	9,653
Connecticut	27,625	30,900	3,275
Delaware	7,209	7,660	451
District of Columbia	5,933	5,680	-253
Florida	138,170	160,810	22,640
Georgia	80,454	91,710	11,256
Hawaii	7,004	7,610	606
Idaho	8,467	10,440	1,973
Illinois	104,029	120,230	16,201
Indiana	62,512	69,660	7,148
Iowa	26,884	31,280	4,396
Kansas	20,241	24,010	3,796
Kentucky	58,553	69,420	10,867
Louisiana	53,160	61,980	8,820
Maine	14,935	17,700	2,765
Maryland	37,594	40,690	3,096
Massachusetts	57,364	69,190	11,826
Michigan	109,021	117,550	8,529
Minnesota	31,989	38,350	6,361
Mississippi	43,563	50,100	6,537
Missouri	62,169	72,990	10,821
Montana	8,491	11,680	3,189
Nebraska	12,843	15,110	2,267
Nevada	9,572	12,980	3,408
New Hampshire	9,306	10,710	1,404
New Jersey	78,764	79,930	1,166
New Mexico	14,115	17,860	3,745
New York	197,761	207,270	9,509
North Carolina	85,642	102,900	17,258
North Dakota	5,079	6,290	1,211

Continued on next page.

TABLE 15. DI Recipients,* by State, 1985 and 1990—Continued

	Recipients 1985	Recipients 1990	Change 1985-1990
Ohio	124,939	135,840	10,901
Oklahoma	31,848	37,550	5,702
Oregon	27,735	31,650	3,915
Pennsylvania	138,493	138,710	217
Rhode Island	13,297	12,870	-427
South Carolina	48,954	55,850	6,896
South Dakota	6,282	8,050	1,768
Tennessee	67,285	79,220	11,935
Texas	117,921	146,440	28,519
Utah	8,484	12,300	3,816
Vermont	5,867	6,690	823
Virginia	63,301	69,770	6,469
Washington	40,645	50,590	9,945
West Virginia	34,639	36,750	2,111
Wisconsin	49,740	58,460	8,720
Wyoming	3,037	4,490	1,453

*Disabled worker recipients.

Source: Social Security Bulletin, Annual Statistical Supplement, 1991; and the Statistical Abstract of the United States, 1991.

TABLE 16. States With Largest Change in DI Recipients* as Percent of Population, 1985-1990

	DI recipients as % of State's population:				% change in DI share of State's population 1985-1990
	1970	1980	1985	1990	
Alaska	0.20	0.42	0.40	0.55	38
Colorado	0.53	0.83	0.77	1.05	36
Idaho	0.69	0.95	0.84	1.04	23
Iowa	0.56	0.92	0.94	1.13	20
Kentucky	1.00	1.59	1.57	1.88	20
Louisiana	0.90	1.39	1.19	1.47	24
Montana	0.72	1.09	1.03	1.46	42
Nebraska	0.51	0.85	0.80	0.96	20
New Mexico	0.71	1.13	0.97	1.18	21
North Dakota	0.53	0.75	0.74	0.98	33
Oklahoma	0.92	1.25	0.96	1.19	24
South Dakota	0.58	0.91	0.89	1.16	37
Texas	0.63	0.92	0.72	0.86	20
Utah	0.44	0.80	0.52	0.61	38
Wyoming	0.59	0.58	0.60	0.99	66

*Disabled worker recipients.

Source: Social Security Bulletin, Annual Statistical Supplement, 1991; and the Statistical Abstract of the United States, 1991.

TABLE 17. States With Largest Change in DI Recipients,* 1985-1990

	DI recipients 1985	DI recipients 1990	Change 1985-1990
Alabama	59,468	68,540	9,072
Arizona	34,334	43,470	9,136
California	246,648	279,060	32,412
Colorado	24,827	34,480	9,653
Florida	138,170	160,810	22,640
Georgia	80,454	91,710	11,256
Illinois	104,029	120,230	16,201
Kentucky	58,553	69,420	10,867
Massachusetts	57,364	69,190	11,826
Missouri	62,169	72,990	10,821
New York	197,761	207,270	9,509
North Carolina	85,642	102,900	17,258
Ohio	124,939	135,840	10,901
Tennessee	67,285	79,220	11,935
Texas	117,921	146,440	28,519
Washington	40,645	50,590	9,945

*Disabled worker recipients.

Source: *Social Security Bulletin, Annual Statistical Supplement, 1991*; and the *Statistical Abstract of the United States, 1991*.

TABLE 18. Allowance Rates for Initial Claims, Reconsiderations, and Hearings, for DI and SSI-Disability Combined, FY 1980-1991

Fiscal year	Percent of decisions favorable to claimant at:		
	Initial level ^a	Reconsideration level	Hearing level
1980	33	15	56
1981	30	13	55
1982	29	11	53
1983	32	14	53
1984	35	16	52
1985	36	14	51
1986	39	17	48
1987	36	15	54
1988	36	14	56
1989	37	15	59
1990	39	17	63
1991	42	17	66 ^b

^aInclude decisions regarding continued eligibility as well as new claims.

^bRates for third quarter.

Source: CRS, compiled with data from SSA, Apr. 1992.

TABLE 19. DI and SSI Allowance Rates by Region, 1985-1992
(in percent)

Region	DI						SSI						Concurrent DI/SSI					
	1985	1988	1989	1990	1991	1992	1985	1988	1989	1990	1991	1992	1985	1988	1989	1990	1991	1992
Boston	*	53	52	52	55	*	*						*	38	37	36	36	*
New York		46	49	48	53									35	37	38	43	
Philadelphia		38	40	40	43									28	29	31	30	
Atlanta		40	39	39	42									31	30	30	30	
Chicago		39	40	42	44									27	28	30	30	
Dallas		32	31	31	36									21	22	22	27	
Kansas City		44	45	47	48									25	26	28	28	
Denver		44	45	47	50									29	30	32	36	
San Francisco		40	46	50	56									29	34	38	41	
Seattle		37	39	47	52									25	27	38	40	
National		40	42	43	46									28	29	31	33	

*Awaiting data from SSA.

Source: SSA, Dec. 1991.

TABLE 20. Allowance Rates by State, DI and SSI-Disability, 1980-1982
AWAITING DATA FROM SSA

TABLE 21. Trend in DI Awards by Cause of Disability, 1975-1991

Disabling condition and mobility	Year allowed benefits						
	1975	1979	1982	1985	1989	1990	1991
Total percent	100	100	100	100	100	100	100
Disabling condition:							
Infective and parasitic diseases	1	1	1	1	1	6 ^a	6 ^a
Neoplasms (cancer)	10	14	17	15	18	17	16
Allergic, endocrine system, metabolic and nutritional disease	3	3	4	5	3	3	4
Mental, psychoneurotic and personality disorders	11	11	11	18	22	23	24
Diseases of the nervous system and sense organs							
Circulatory system	32	28	25	19	17	16	15
Respiratory system	7	6	7	5	5	5	5
Digestive system	3	2	2	2	2	2	2
Musculoskeletal system	17	17	16	13	11	12	13
Accidents, poisonings and violence . . .	6	6	6	4	4	4	4
Other/unknown	3	3	2	11	9	5	5

^aBeginning in 1990, AIDS/HIV cases are coded as infectious diseases.

NOTE: Similar data does not exist for SSI.

Source: SSA, Office of Disability, Apr. 1992.

**TABLE 22. Trend in DI Awards by Largest Causes of Disability,
1982-1991**

Impairment group	Percent of total awards made for:	
	1982	1991
	(in percent)	
Neoplasms (cancer)	17	16
Mental disorders	11	24
Circulatory system	25	15
Musculoskeletal system	16	13

Source: CRS, based on data furnished by SSA, Office of Disability, Apr. 1992.

TABLE 23. Disability Awards by Administrative Grouping: Meets or Equals the Medical Listings, or Vocational Factors, FY 1975-1991

Fiscal year	Meets list	Equals list	Medical and vocational considerations
	(in percent)		
Disability insurance:			
1975	29.4	43.9	26.7
1976	29.0	45.1	25.9
1977	34.2	41.9	23.9
1978	45.6	31.9	22.5
1979	55.1	22.7	22.1
1980	57.9	16.2	25.9
1981	63.9	12.3	23.8
1982	72.7	8.6	18.7
1983	74.0	8.3	17.7
1984	66.7	8.7	24.6
1985	62.7	9.2	28.1
1986	68.2	8.7	23.1
1987	66.0	10.2	23.8
1988	64.3	11.0	24.7
1989	62.1	11.3	26.6
1990	59.0	11.8	29.2
1991	55.8	12.4	31.7
SSI-disability:			
1975	Awaiting data from SSA		
1976	Awaiting data from SSA		
1977	Awaiting data from SSA		
1978	Awaiting data from SSA		
1979	Awaiting data from SSA		
1980	Awaiting data from SSA		
1981	Awaiting data from SSA		
1982	Awaiting data from SSA		
1983	Awaiting data from SSA		
1984	Awaiting data from SSA		
1985	Awaiting data from SSA		
1986	Awaiting data from SSA		
1987	Awaiting data from SSA		
1988	Awaiting data from SSA		
1989	Awaiting data from SSA		
1990	Awaiting data from SSA		
1991	Awaiting data from SSA		

Source: SSA, Apr. 1992.

**TABLE 24. Awards With AIDS or HIV-Positive Diagnosis,
DI and SSI-Disability, 1985-1991**

Calendar year	DI awards with AIDS	DI awards HIV-positive	SSI-disabled awards with AIDS	SSI-disabled awards HIV-positive
1985	Awaiting data from SSA			
1986				
1987				
1988				
1989				
1990				
1991				

Source: SSA, Apr. 1992.

TABLE 25. Tax Rates and Taxable Earnings Bases

Calendar years	Taxable earnings base	Tax rates (percent)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937-49	\$ 3,000	1.000	1.000	—	—	—	—
1950	3,000	1.500	1.500	—	—	—	—
1951-53	3,600	1.600	1.500	—	2.2500	2.2500	—
1954	3,600	2.000	2.000	—	3.0000	3.0000	—
1955-56	4,200	2.000	2.000	—	3.0000	3.0000	—
1957-58	4,200	2.250	2.000	.250	3.3750	3.0000	.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.5250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.500	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978	17,007	5.050	4.276	.775	7.1000	6.0100	1.0900
1979	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1980	25,900	5.080	4.520	.560	7.0500	6.2725	.7775

TABLE 25. Tax Rates and Taxable Earnings Bases—Continued

Calendar years	Taxable earnings base	Tax rates (percent)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1981	29,700	5.350	4.700	.650	8.0000	7.0250	.9750
1982	32,400	5.400	4.575	.825	8.0500	6.8125	1.2375
1983	35,700	5.400	4.775	.825	8.0500	7.1125	.9375
1984 ^a	37,800	5.700	5.200	.500	11.4000	10.4000	1.0000
1985 ^a	39,600	5.700	5.200	.500	11.4000	10.4000	1.0000
1986 ^a	42,000	5.700	5.200	.500	11.4000	10.4000	1.0000
1987 ^a	43,800	5.700	5.200	.500	11.4000	10.4000	1.0000
1988 ^a	45,000	6.060	5.530	.530	12.1200	11.0600	1.0600
1989 ^a	48,000	6.060	5.530	.530	12.1200	11.0600	1.0600
1990	51,900	6.200	5.600	.600	12.4000	11.2000	1.2000
1991	53,400	6.200	5.600	.600	12.4000	11.2000	1.2000
1992	55,500	6.200	5.600	.600	12.4000	11.2000	1.2000
1993-99	^b	6.200	5.600	.600	12.4000	11.2000	1.2000
2000 and later	^b	6.200	5.490	.710	12.4000	10.9800	1.4200

^aIn 1984 only, an immediate credit of 0.3 percent of taxable wages was allowed against the OASDI contributions paid by employees, resulting in an effective tax rate of 5.4 percent. The appropriations of taxes to the trust funds, however, were based on the combined employee-employer rate of 11.4 percent, as if the credit for employees did not apply. Similar credits of 2.7 percent, 2.3 percent, and 2.0 percent were allowed against the combined OASDI and Hospital Insurance (HI) taxes on net earnings from self-employment in 1984, 1985, and 1986-89, respectively. Beginning in 1990, self-employed persons are allowed a deduction, for purposes of computing their net earnings, equal to half of the combined OASDI and HI taxes that would be payable without regard to the taxable earnings base. The tax rate is then applied to net earnings after this deduction, but subject to the base.

^bSubject to automatic adjustment.

NOTE: Table excludes HI portion of tax rate.

Source: 1992 OASDI Trustee's Report.

TABLE 26. DI Expenditures, in Current and Constant Dollars, and Compared to Gross Domestic Product (GDP), 1960-1997

Calendar year	Current dollars (\$s in millions)	Constant dollars (1991)	As percent of GDP
1960	600	2,761	.12
1965	1,687	7,412	.24
1970	3,259	11,440	.32
1975	8,790	22,253	.55
1980	15,872	26,235	.59
1985	19,478	24,655	.48
1990	25,616	26,694	.46
1991	28,571	28,571	.50
Projections:			
1992	31,371	30,368	.53
1993	33,830	31,603	.54
1994	36,604	33,016	.55
1995	39,696	34,596	.56
1996	43,251	36,340	.57
1997	47,133	38,234	.59

Source: 1992 OASDI Trustees' Report; projections are from the intermediate forecast.

TABLE 27. SSI Disability Expenditures, in Current and Constant Dollars, and Compared to Gross Domestic Product (GDP), 1975-1997

Calendar year	Current dollars (\$s in millions)	Constant Dollars (1991)	As percent of GDP
1975	Awaiting data from SSA		
1980	Awaiting data from SSA		
1985	Awaiting data from SSA		
1990	Awaiting data from SSA		
1991	Awaiting data from SSA		
Projections:			
1992	Awaiting data from SSA		
1993	Awaiting data from SSA		
1994	Awaiting data from SSA		
1995	Awaiting data from SSA		
1997	Awaiting data from SSA		

Source: SSA, Apr. 1992.

TABLE 28. DI Trust Fund Operations: Income, Outgo, Surplus or Deficit, and End-of-Year Balance, 1960-2001 (projections based on three sets of trustees' assumptions) (\$ in billions)

Calendar year	Income	Outgo	Surplus or deficit	Balance of fund, end of year	Reserve ratio ^a
1960	--	--	--	--	304
1970	--	--	--	--	128
1980	--	--	--	--	35
1985	--	--	--	--	27
1990	--	--	--	--	40
1991	--	--	--	--	39
Optimistic:					
1992	31.3	30.8	.5	13.4	42
1993	33.7	32.4	1.3	14.7	41
1994	36.1	34.3	1.8	16.5	43
1995	38.4	36.4	2.0	18.5	45
1996	41.1	38.8	2.3	20.8	48
1997	43.8	41.3	2.5	23.3	50
1998	46.6	44.2	2.4	25.7	53
1999	49.5	47.2	2.3	28.0	54
2000	61.6	50.6	11.0	39.0	55
2001	66.4	54.2	12.3	61.2	72
Intermediate:					
1992	31.1	31.4	-.3	12.6	41
1993	33.1	33.8	-.8	11.8	37
1994	35.0	36.6	-1.6	10.2	32
1995	36.8	39.7	-2.9	7.3	26
1996	38.8	43.3	-4.4	2.9	17
1997	40.9	47.1	-6.3	-3.4	6
1998	43.0	51.4	-8.4	-11.8	b
1999	45.1	56.0	-10.9	-22.8	b
2000	55.9	61.0	-5.0	-27.8	b
2001	59.8	66.3	-6.5	-34.3	b
Pessimistic:					
1992	30.8	31.9	-1.1	11.8	40
1993	32.8	35.2	-2.4	9.5	34
1994	35.1	39.4	-4.3	5.2	24
1995	37.0	44.5	-7.5	-2.3	12
1996	37.8	50.0	-12.2	-14.5	b
1997	39.5	55.6	-16.1	-30.6	b
1998	41.1	62.1	-21.0	-51.6	b
1999	42.4	69.1	-26.7	-78.3	b
2000	52.4	76.7	-24.4	-102.7	b
2001	55.0	84.8	-29.8	-132.5	b

^aRepresents assets at beginning of year as a percent of that year's outgo.

^bUnder intermediate forecast, the fund would be depleted in 1997. Under the pessimistic forecast, depletion would occur in 1995.

Source: 1992 OASDI Trustees' Report.

TABLE 29. Comparison of Reserve Ratios of the OASI and DI Trust Funds, 1960-2001^a
(in percent)

Calendar year	OASI trust fund	DI trust fund	OASI and DI trust funds, combined
1960	180	304	186
1970	101	128	103
1975	63	92	66
1980	23	35	25
1985	24	27	24
1989	59	38	57
1990	78	40	75
1991	87	39	82
Optimistic:			
1992	103	42	97
1993	117	41	109
1994	134	43	124
1995	154	45	142
1996	176	48	162
1997	201	50	184
1998	229	53	209
1999	259	54	235
2000	291	55	263
2001	323	72	292
Intermediate:			
1992	103	41	96
1993	115	37	107
1994	129	32	118
1995	144	26	130
1996	159	17	142
1997	175	6	154
1998	192	(^b)	167 ^c
1999	210	(^b)	180 ^c
2000	228	(^b)	193 ^c
2001	245	(^b)	206 ^c
Pessimistic:			
1992	103	40	96
1993	113	34	104
1994	123	24	112
1995	133	12	118
1996	142	(^b)	124
1997	150	(^b)	127
1998	158	(^b)	129
1999	166	(^b)	132
2000	174	(^b)	134
2001	180	(^b)	134

^aRepresents assets at beginning of year as a percentage of disbursements during the year.

^bFund depleted.

^cFigures for DI, and for OASI and DI combined, are theoretical because of the projected depletion of the DI trust fund.

Source: 1992 OASDI Trustees' Report.

**TABLE 30. Summary of Long-Range Status of the DI Trust Fund,
in Percent of Payroll**

Period of valuation	In percent of payroll		
	Income rate	Cost rate	Difference (surplus or deficit)
<i>Optimistic projections:</i>			
next 25 years:			
1992-2016	1.38	1.34	+ .04
next 50 years:			
1992-2041	1.41	1.42	.00
next 75 years:			
1992-2066	1.42	1.45	-.02
<i>Intermediate projections:</i>			
next 25 years:			
1992-2016	1.39	1.66	-.28
next 50 years:			
1992-2041	1.42	1.81	-.39
next 75 years:			
1992-2066	1.43	1.89	-.46
<i>Pessimistic projections:</i>			
next 25 years:			
1992-2016	1.39	2.12	-.73
next 50 years:			
1992-2041	1.43	2.44	-1.01
next 75 years:			
1992-2066	1.45	2.63	-1.18

Source: 1992 OASDI Trustees' Report.

TABLE 31. Long-Range Projections of DI Income, Outgo, and the Difference (in Percent of Payroll)

Calendar year	Income rate			Cost rate			Difference		
	Optimistic projections	Intermediate projections	Pessimistic projections	Optimistic projections	Intermediate projections	Pessimistic projections	Optimistic projections	Intermediate projections	Pessimistic projections
1992	1.21	1.21	1.21	1.21	1.24	1.27	0.00	-0.03	-0.06
1993	1.21	1.21	1.21	1.20	1.27	1.32	0.01	-0.06	-0.11
1994	1.21	1.21	1.21	1.19	1.30	1.38	0.02	-0.09	-0.17
1995	1.21	1.21	1.21	1.18	1.32	1.46	0.03	-0.11	-0.24
1996	1.21	1.21	1.21	1.18	1.36	1.57	0.03	-0.15	-0.36
1997	1.21	1.21	1.21	1.18	1.39	1.63	0.03	-0.18	-0.42
1998	1.21	1.21	1.21	1.18	1.43	1.71	0.03	-0.22	-0.49
1999	1.21	1.21	1.21	1.19	1.46	1.78	0.02	-0.25	-0.57
2000	1.43	1.43	1.44	1.20	1.50	1.86	0.23	-0.07	-0.42
2001	1.43	1.43	1.44	1.21	1.53	1.93	0.22	-0.10	-0.49
2005	1.44	1.44	1.45	1.25	1.62	2.13	0.18	-0.18	-0.68
2010	1.44	1.45	1.46	1.37	1.78	2.43	0.07	-0.33	-0.96
2015	1.45	1.46	1.47	1.47	1.90	2.62	-0.02	-0.45	-1.15
2020	1.45	1.46	1.48	1.51	1.96	2.73	-0.06	-0.50	-1.25
2025	1.45	1.46	1.48	1.56	2.04	2.86	-0.11	-0.58	-1.38
2030	1.45	1.47	1.49	1.54	2.03	2.90	-0.09	-0.67	-1.41
2035	1.45	1.47	1.49	1.50	2.00	2.90	-0.04	-0.53	-1.41
2040	1.45	1.47	1.49	1.48	2.01	2.96	-0.03	-0.54	-1.48
2045	1.46	1.47	1.49	1.52	2.10	3.14	-0.06	-0.63	-1.65
2050	1.46	1.47	1.50	1.54	2.15	3.27	-0.08	-0.68	-1.77
2055	1.46	1.47	1.50	1.55	2.19	3.35	-0.09	-0.72	-1.85
2060	1.46	1.47	1.50	1.53	2.17	3.32	-0.07	-0.70	-1.82
2065	1.46	1.47	1.50	1.52	2.16	3.29	-0.07	-0.68	-1.80
2070	1.46	1.47	1.50	1.53	2.17	3.31	-0.07	-0.70	-1.81

Source: 1992 OASDI Trustees' Report.

TABLE 32. Long-Range Surplus or Deficiency of OASI and DI Financing

Valuation period	Deficit (-) or Surplus (+) as percent of program costs during the period for:		
	OASI	DI	OASDI
next 10 years:	+14%	-15%	+11%
next 25 years:	+13	-17	+9
next 50 years:	-2	-21	-4
next 75 years:	-8	-24	-10

Source: 1992 OASDI Trustees' Report, intermediate projections.

TABLE 33. Comparison of Long-Range Status of the OASI and DI Trust Funds, in Percent of Payroll

Valuation period	OASI surplus or deficit	DI surplus or deficit	OASDI surplus or deficit
(in percent of payroll)			
Optimistic projections:			
next 25 years:	+2.35	+.04	+2.40
next 50 years:	+1.32	-0-	+1.32
next 75 years:	+1.11	-.02	+1.09
Intermediate projections:			
next 25 years:	+1.39	-.28	+1.12
next 50 years:	-.20	-.39	-.59
next 75 years:	-1.01	-.46	-1.46
Pessimistic projections:			
next 25 years:	+.40	-.73	-.33
next 50 years:	-1.93	-1.01	-2.93
next 75 years:	-3.71	-1.18	-4.89

Source: 1992 OASDI Trustees' Report.

TABLE 34. Comparison of Long-Range OASI and DI Trust Fund Reserve Ratios
(trust fund balance at beginning of year as a percent of outgo during that year)

Calendar year	Optimistic			Intermediate			Pessimistic		
	OASI	DI	Combined	OASI	DI	Combined	OASI	DI	Combined
1992	103	42	97	103	41	96	103	40	96
1993	117	41	109	115	37	107	113	34	104
1994	134	43	124	129	32	118	123	24	112
1995	154	45	142	144	26	130	133	12	118
1996	176	48	162	159	17	142	142	"	124
1997	201	50	184	175	6	154	150	"	127
1998	229	53	209	192	"	167	158	"	129
1999	259	54	235	210	"	180	166	"	132
2000	291	55	263	228	"	193	174	"	134
2001	323	72	292	245	"	206	180	"	134
2005	458	137	417	317	"	281	203	"	134
2010	620	178	560	400	"	318	221	"	118
2015	717	181	645	434	"	334	204	"	72
2020	739	170	666	406	"	300	135	"	"
2025	732	147	663	340	"	230	27	"	"
2030	723	118	654	253	"	138	"	"	"
2035	732	103	662	155	"	34	"	"	"
2040	773	95	696	54	"	"	"	"	"
2045	836	81	746	"	"	"	"	"	"
2050	904	59	800	"	"	"	"	"	"
2055	964	32	849	"	"	"	"	"	"
2060	1,019	4	895	"	"	"	"	"	"
2065	1,080	"	946	"	"	"	"	"	"
2070	1,148	"	1,002	"	"	"	"	"	"
Trust fund is estimated to be exhausted in . . .	b	2060	b	2042	1997	2036	2026	1996	2019

*The trust fund is estimated to have been exhausted by the beginning of this year. The last line of the table shows the specific year of trust fund exhaustion.

^bThe fund is not estimated to be exhausted within the projection period.

Source: 1992 OASDI Trustees' Report.

TABLE 35. Year in Which OASI and DI Trust Funds Are Projected to Become Exhausted

Projections	OASI trust funds	DI trust funds	OASDI trust funds combined
Optimistic:	•	2060	•
Intermediate:	2042	1997	2036
Pessimistic:	2026	1995	2019

*Trust fund is not projected to become exhausted during the 75-year valuation period.

Source: 1992 OASDI Trustees' Report.

TABLE 36. Long-Range Projections of DI Recipients, Number and as Percent of Total Population Aged 20-64 (in thousands)

Calendar year	Disabled worker	Wife-husband	Child	Total	Total DI recipients as percent of population ages 20-64
1960	455	77	155	687	0.7
1965	988	193	558	1,739	1.7
1970	1,493	283	889	2,665	2.4
1975	2,489	453	1,411	4,352	3.5
1980	2,859	482	1,358	4,678	3.5
1985	2,656	306	945	3,907	2.7
1986	2,727	301	965	3,993	2.7
1987	2,786	291	968	4,045	2.7
1988	2,830	281	963	4,074	2.7
1989	2,895	271	962	4,129	2.7
1990	3,011	286	989	4,286	2.8
1991	3,195	286	1,052	4,513	2.9

Projections:

1995	3,906	280	1,234	5,420	3.4
2000	4,904	306	1,421	6,632	4.0
2005	5,641	366	1,550	7,557	4.3
2010	6,577	380	1,537	8,493	4.6
2015	7,082	374	1,488	8,944	4.8
2020	7,288	377	1,462	9,128	4.9
2025	7,584	404	1,473	9,461	5.1
2030	7,526	405	1,496	9,427	5.1
2035	7,478	402	1,519	9,398	5.0
2040	7,599	398	1,530	9,527	5.0
2045	7,992	412	1,538	9,942	5.2
2050	8,226	422	1,547	10,194	5.3
2055	8,376	436	1,561	10,373	5.4
2060	8,300	436	1,573	10,309	5.4
2065	8,293	434	1,584	10,311	5.3
2070	8,377	436	1,590	10,403	5.4

Source: Congressional Research Service, derived from data contained in 1992 OASDI Trustees' Report, intermed: its assumptions.

TABLE 37. Long-Range Economic Assumptions Used for OASDI Projections

Calendar year	Real GDP ^a	Average annual percentage change in Average annual wage in covered employment	Consumer price index ^b	Real-wage differential ^c (percent)	Average annual interest rate ^d (percent)	Average annual unemployment rate ^e (percent)	Average annual percentage increase in labor force ^f
1991	-.8	3.6	4.0	-.4	8.0	6.8	.4
1992	1.5	4.3	2.9	1.3	6.8	7.1	.6
1993	2.9	4.5	3.3	1.1	6.2	6.9	1.0
1994	2.7	4.8	3.6	1.2	6.0	6.9	1.0
1995	2.5	5.2	3.9	1.3	6.3	6.4	1.0
1996	2.4	5.4	4.0	1.4	6.4	6.3	.9
1997	2.3	5.3	4.0	1.3	6.5	6.2	.9
1998	2.3	5.3	4.0	1.3	6.5	6.1	.9
1999	2.3	5.4	4.0	1.4	6.5	6.0	.9
2000	2.3	5.5	4.0	1.4	6.5	5.9	.9
2001	2.2	5.4	4.0	1.4	6.4	5.8	.9
2005	1.9	5.1	4.0	1.1	6.3	6.0	.7
2010 and later	1.8 ^g	5.1	4.0	1.1	6.3	6.0	.5 ^g

^aThe real GDP (gross domestic product) is the value of total output of goods and services, expressed in 1987 dollars.

^bThe Consumer Price Index (CPI) is the annual average value for the calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

^cThe real-wage differential is the difference between the percentage increases, before rounding, in (1) the average annual wage in covered employment, and (2) the average annual CPI.

^dThe average annual interest rate is the average of the nominal interest rates, which, in practice are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.

^eThrough 2001, the rates shown are unadjusted civilian unemployment rates. After 2001, the rates are total rates (including military personnel), adjusted by age and sex based on the estimated total labor force on July 1, 1990.

^fLabor force is the total for the U.S. (including military personnel) and reflects the average of the monthly numbers of persons in the labor force for each year.

^gThis value is for 2010. The annual percentage increase in labor force and real GDP is assumed to continue to change after 2010 to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The increases in real GDP for 2070 is 1.3 percent. The changes in total labor force for 2070 is 0.0 percent.

Source: 1992 OASDI Trustees' Report, intermediate assumptions.

TABLE 38. Long-Range Demographic Assumptions Used for OASDI Projections

Calendar year	Total fertility rate ^a	Age-sex-adjusted death rate ^b (per 100,000)	Life expectancy ^c			
			At birth		At age 65	
			Male	Female	Male	Female
1995	2.08	771.0	72.0	79.2	15.1	19.1
2000	2.02	740.5	72.6	79.7	15.3	19.3
2005	1.96	706.9	73.5	80.2	15.6	19.5
2010	1.95	682.0	74.1	80.6	15.8	19.8
2015	1.91	662.0	74.5	80.9	16.0	20.0
02	1.90	643.6	74.8	81.2	16.2	20.2
2025	1.90	626.1	75.1	81.5	16.4	20.5
2030	1.90	609.4	75.4	81.8	16.7	20.7
2035	1.90	593.5	75.7	82.1	16.9	21.0
2040	1.90	578.4	76.0	82.4	17.1	21.3
2045	1.90	563.9	76.3	82.7	17.3	21.4
2050	1.90	550.1	76.6	83.0	17.5	21.6
2055	1.90	537.0	76.9	83.3	17.7	21.9
2060	1.90	524.4	77.1	83.5	17.9	22.1
2065	1.90	512.3	77.4	83.8	18.1	22.3
2070	1.90	500.8	77.7	84.1	18.3	22.5

^aThe total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by ages observed in, or assumed for, the selected year, and if she were to survive the entire child-bearing period. The ultimate total fertility rate is assumed to be reached in 2016.

^bThe age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1990, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year.

^cThe life expectancy for any year is the average number of years of life remaining for a person if that person were to experience the death rates by age observed in, or assumed for, the selected year.

NOTE: For the intermediate projections, the assumed ultimate total fertility rate of 1.9 children per woman is attained in 2016 after a gradual decline from the estimated 1990 level of 2.08 children per woman. The age-sex-adjusted death rate is assumed to decrease gradually during the entire projection period, with a total reduction of 36 percent from the 1990 level by 2066. The resulting life expectancies at birth in 2066 are 77.5 years for men and 83.9 years for women, compared to 71.6 and 78.6 years, respectively, in 1990. Life expectancies at age 65 in 2066 are projected to be 18.1 years for men and 22.4 years for women, compared to 14.8 and 18.8, respectively, in 1990. The projected death rates reflect the effects of assumed cases of Acquired Immunodeficiency Syndrome (AIDS), using projections through 1992 prepared by the Centers for Disease Control (CDC) as a starting point. Total net immigration is assumed to be 750,000 persons per year beginning in 1992. The assumed level of net annual immigration is the combination of 550,000 net legal immigrants per year and 200,000 net other-than-legal immigrants per year.

Source: 1992 OASDI Trustees' Report, intermediate assumptions.

TABLE 39. Long-Range DI Expenditures as Percent of Total Social Security Expenditures

Calendar year	DI expenditures as a percent of OASDI expenditures (in percent)
1995	11.6
2000	13.3
2005	14.4
2010	15.3
2020	13.8
2030	12.2
2050	12.6
2070	11.8

Source: 1992 OASDI Trustees' Report, intermediate projections.

TABLE 40. Long-Range DI Surpluses or Deficits Shown in Past Trustees' Reports

Year	Surplus or deficit (percent of payroll)
1960	+0.15
1965	-0.13
1970	0
1975	-1.44
1977	-2.14
1978	-0.14
1979	+0.21
1980	+0.64
1981	+0.62
1982	+0.66
1983	+0.44
1984	-0.03
1985	-0.07
1986	-0.15
1987	-0.19
1988	-0.13
1989	-0.17
1990	-0.22
1991	-0.27
1992	-0.46

Source: Intermediate forecast of Trustees' Reports, 1960-1992.

TABLE 41. Ultimate Cost of DI Under Intermediate Assumptions Shown in Past Trustees' Reports

Year of report	Percent of payroll
1960	0.35
1965	0.63
1970	1.10
1975	2.97
1977	3.68
1978	2.26
1979	1.92
1980	1.50
1981	1.52
1982	1.50
1983	1.38
1984	1.45
1985	1.49
1986	1.59
1987	1.63
1988	1.53
1989	1.59
1990	1.64
1991	1.69
1992	1.89

Source: Intermediate forecast of Trustees' Reports, 1960-1992.

TABLE 42. Year in Which the DI Trust Fund was Projected to Become Exhausted in Past Trustees' Reports

Year of report	Year of exhaustion
1960	•
1965	1970
1970	•
1975	1980
1977	1979
1978	2021
1979	•
1980	•
1981	•
1982	•
1983	•
1984	2050
1985	2034
1986	2026
1987	2023
1988	2027
1989	2025
1990	2020
1991	2015
1992	1997

*The fund was not projected to be exhausted within the projection period.

Source: Intermediate forecast of Trustees' Reports, 1960-1992.

TABLE 43. Number of DI Recipients Projected for the Year 2000 and 2020 in Past Trustees' Reports* (in thousands)

Year of report	2000	2020
1960	.	.
1965	.	.
1970	.	.
1975	5,379	7,448
1977	6,917	9,301
1978	6,415	8,811
1979	5,209	7,260
1980	4,192	5,899
1981	3,822	5,369
1982	3,506	5,057
1983	3,178	5,080
1984	3,316	5,325
1985	3,589	5,981
1986	3,618	6,263
1987	3,713	6,222
1988	3,844	5,959
1989	3,833	6,202
1990	3,924	6,271
1991	4,025	6,506
1992	4,904	7,288

*No estimate given.

*Disabled worker recipients.

Source: Intermediate forecast of Trustees' Reports, 1960-1992

TABLE 44. Ultimate DI Rates Set in the Law, Upon Enactment in 1956 and as Subsequently Amended

Year of act	Ultimate DI* tax rate set in the law	Year in which ultimate rate was to become effective
1956	.25	1956
1965	.35	1965
1967	.475	1968
1969	.55	1970
1972	.7	2011
1972	.75	2011
1973	.85	2011
1977	1.10	1990
1983	0.71	2000

*Employee/employer rate paid by each.

Source: Social Security Bulletin, Annual Statistical Supplement, 1989.

TABLE 45. DI Administrative Resources Requested and Actually Expended, for Program Overall and State-Agency Operations, FY 1980-1993

Fiscal year	Total DI administrative costs		Administrative costs of State agencies	
	amount requested	amount expended	amount requested	amount expended
1980	Awaiting Data From SSA.			
1981	Awaiting Data From SSA.			
1982	Awaiting Data From SSA.			
1983	Awaiting Data From SSA.			
1984	Awaiting Data From SSA.			
1985	Awaiting Data From SSA.			
1986	Awaiting Data From SSA.			
1987	Awaiting Data From SSA.			
1988	Awaiting Data From SSA.			
1989	Awaiting Data From SSA.			
1990	Awaiting Data From SSA.			
1991	Awaiting Data From SSA.			
1992	Awaiting Data From SSA.			
1993	Awaiting Data From SSA.			

Source: SSA, Apr. 1992.

TABLE 46. DI Staffing: SSA Staff Years and State-Agency Staff Years Expended, FY 1980-1993

Fiscal year	Staff-years expended by SSA	Staff years expended by State agencies
1980	Awaiting Data From SSA.	
1981	Awaiting Data From SSA.	
1982	Awaiting Data From SSA.	
1983	Awaiting Data From SSA.	
1984	Awaiting Data From SSA.	
1985	Awaiting Data From SSA.	
1986	Awaiting Data From SSA.	
1987	Awaiting Data From SSA.	
1988	Awaiting Data From SSA.	
1989	Awaiting Data From SSA.	
1990	Awaiting Data From SSA.	
1991	Awaiting Data From SSA.	
1992	Awaiting Data From SSA.	
1993	Awaiting Data From SSA.	

Source: SSA, Apr. 1992.

TABLE 47. DI Administrative Expenditures as a Percent of Total OASDI Administrative Expenditures, FY 1960-1997

Fiscal years	DI administrative costs as % of total OASDI administrative costs
1960	13.7%
1965	20.8
1970	23.9
1975	23.0
1980	22.4
1981	23.8
1982	28.0
1983	29.8
1984	26.9
1985	27.5
1986	27.2
1987	32.4
1988	31.7
1989	31.2
1990	31.4
1991	31.1
1992	31.1
1993	32.1
1994	33.2
1995	33.9
1996	34.5
1997	35.1

Source: 1982 OASDI Trustees' Report. Projections are based on the intermediate forecast.

**TABLE 48. DI Administrative Expenditures as a Percent of Total
DI Program Benefits, FY 1960-1997**

Fiscal year	Administrative expenditures as % of benefit payments
1960	6.1%
1965	5.7
1970	5.3
1975	3.3
1980	2.2
1981	2.4
1982	3.3
1983	3.8
1984	3.3
1985	3.2
1986	3.1
1987	3.6
1988	3.8
1989	3.3
1990	2.9
1991	2.9
1992	2.9
1993	2.8
1994	2.8
1995	2.7
1996	2.7
1997	2.6

Source: 1992 OASDI Trustees' Report. Projections are based on the intermediate forecast.

TABLE 49. SSI-Disability Administrative Resources Requested and Actually Expended, for Program Overall and State-Agency Operations, FY 1980-1993

Fiscal year	Total SSI-disability administrative costs		Administrative costs of State Agencies	
	amount requested	amount expended	amount requested	amount expended
1980	Awaiting Data From SSA.			
1981				
1982				
1983				
1984				
1985				
1986				
1987				
1988				
1989				
1990				
1991				
1992				
1993				

Source: SSA, Apr. 1992.

TABLE 50. SSI-Disability Staffing: SSA Staff Years and State-Agency Staff Years Expended, FY 1980-1993

Fiscal year	Staff-years expended by SSA	Staff years expended by State agencies
1980	Awaiting Data From SSA.	
1981		
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990		
1991		
1992		
1993		

Source: SSA, Apr. 1992.

**TABLE 51. DI and SSI-Disability Staffing as a
Percent of Total SSA Staffing,
FY 1980-1993**

Fiscal year	DI/SSI-disability staffing as % of total SSA staffing
1980	Awaiting data from SSA.
1981	
1982	
1983	
1984	
1985	
1986	
1987	
1988	
1989	
1990	
1991	
1992	
1993	

Source: SSA, Apr. 1992.

**TABLE 52. Comparison of Number of Decisions Rendered on Initial
Claims to Level of State-Agency Staffing, FY 1980-1992**

Fiscal year	Number of decisions rendered on initial claims	State agency staff years expended	Decisions per staff year
1980	Awaiting data from SSA.		
1981			
1982			
1983			
1984			
1985			
1986			
1987			
1988			
1989			
1990			
1991			
1992			

Source: CRS, based on data furnished by SSA, Apr. 1992.

TABLE 53. Number of SSA Administrative Law Judges and Total Staffing of Office of Hearings and Appeals, FY 1980-1993

Fiscal year	Number of ALJs	Total hearing office staff
1980	Awaiting data from SSA.	
1981		
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990		
1991		
1992		
1993		

Source: SSA, Apr. 1992.

TABLE 54. DI and SSI-Disability Claims and Reconsiderations: Received, Processed, and Pending Claims, FY 1980-1992

Fiscal year	DI			SSI-disability		
	Number reviewed	Number processed	Number pending	Number reviewed	Number processed	Number pending
1980	Awaiting data from SSA.					
1981						
1982						
1983						
1984						
1985						
1986						
1987						
1988						
1989						
1990						
1991						
1992						

Source: SSA, Apr. 1992.

TABLE 55. DI and SSI-Disability Claims Processing Times for Initial Claims and Reconsiderations, FY 1980-1992

Fiscal year	DI		SSI-disability	
	Initial claims	Reconsiderations	Initial claims	Reconsiderations
1980	Awaiting data from SSA.			
1981				
1982				
1983				
1984				
1985				
1986				
1987				
1988				
1989				
1990				
1991				
1992				

Source: SSA, Apr. 1992.

TABLE 56. DI and SSI-Disability Claims Processing Times for Hearings, FY 1980-1992

Fiscal year	DI	SSI-disability
	(in days)	
1980	Awaiting data from SSA.	
1981		
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990		
1991		
1992		

Source: SSA, Apr. 1992.

**TABLE 57. Hearings Office Workloads: Decisions Rendered,
Cases Pending at End-of-Year,
FY 1973-1992**

Fiscal year	Decisions	Unfavorable	Favorable	Pending
1973	55,442	26,663	28,779	33,412
1974	69,127	37,912	31,215	75,779
1975	107,575	57,769	49,806	110,019
1976	156,895	81,022	75,873	88,805
1977	162,305	75,217	87,088	90,837
1978	190,042	84,671	105,371	72,973
1979	187,633	77,090	110,543	88,637
1980	207,547	78,942	128,605	108,421
1981	234,359	90,378	143,981	127,110
1982	265,127	109,746	155,381	151,173
1983	307,533	128,289	179,244	171,657
1984	284,175	111,415	172,760	106,137
1985	213,237	89,465	123,772	105,588
1986	170,661	66,290	104,371	115,372
1987	216,916	86,084	130,832	143,567
1988	238,815	88,071	150,744	150,173
1989	251,991	84,205	167,786	147,132
1990	248,237	70,666	177,571	160,879
1991	Awaiting	data from	SSA.	
1992	Awaiting	data from	SSA.	

NOTE: Includes all forms of SSA cases, retirement and aged SSI cases in addition to disability.

Source: SSA, Apr. 1992.

TABLE 58. Trends in ALJ Hearing Decisions, Favorable and Unfavorable to Claimant or Recipients, FY 1973-1992

Fiscal year	Dismissed	Unfavorable	Favorable
1973	10.6%	43.0%	46.4%
1974	9.2	49.8	41.0
1975	9.8	48.5	41.8
1976	11.7	45.6	42.7
1977	12.4	40.6	47.0
1978	10.7	39.8	49.5
1979	9.2	37.3	53.5
1980	9.5	34.4	56.1
1981	9.9	34.7	55.4
1982	9.6	37.4	53.0
1983	9.3	37.8	52.8
1984	14.7	33.4	51.8
1985	11.8	37.0	51.2
1986	20.8	30.8	48.4
1987	10.4	35.6	54.1
1988	10.9	32.8	56.2
1989	11.4	29.6	59.0
1990	12.5	24.9	62.6
1991		Awaiting data from SSA.	
1992		Awaiting data from SSA.	

NOTE: Includes all forms of SSA cases, retirement and aged SSI cases in addition to disability.

Source: SSA, Apr. 1992.

TABLE 59. DI and SSI-Disability Continuing Disability Reviews: Number Required by Law, and Actual Number Conducted, FY 1981-1992

Fiscal year	Number required by law	Number conducted	
1981		Awaiting data from SSA.	
1982		Awaiting data from SSA.	
1983		Awaiting data from SSA.	
1984		Awaiting data from SSA.	
1985		Awaiting data from SSA.	
1986		Awaiting data from SSA.	
1987		Awaiting data from SSA.	
1988		Awaiting data from SSA.	
1989		Awaiting data from SSA.	
1990		Awaiting data from SSA.	
1991		Awaiting data from SSA.	
1992		Awaiting data from SSA.	

Source: SSA, Apr. 1992.

**TABLE 60. Continuing Disability Reviews of Initial Decisions:
Disabled Workers, Disabled Widows and Widowers, and
Disabled Children Cessations and Continuations,
FY 1977-1991**

Fiscal year	Cessations		Continuations		Total cases		Percent reviewed
	Number	Percent	Number	Percent	Cessations and continuations	Total disabled persons ^a	
1977	41,476	38.7	65,745	61.3	107,220	3,322,230	3.2
1978	38,847	46.4	44,804	53.6	83,651	3,447,767	2.4
1979	45,218	48.1	48,868	51.9	94,084	3,457,837	2.7
1980	44,278	46.8	50,227	53.2	94,505	3,454,010	2.7
1981	40,956	47.9	47,966	52.1	168,922	3,413,602	4.9
1982	179,857	44.8	221,325	55.2	401,182	3,263,354	12.3
1983	182,074	41.7	254,424	58.3	436,498	3,226,888	13.5
1984 ^b	31,927	24.6	97,752	75.4	129,679	3,249,367	4.0
1985 ^c	475	14.6	2,785	85.4	3,260	3,332,870	.1
1986	2,554	5.6	42,806	94.4	45,359	3,261,768	1.4
1987	20,343	12.4	143,712	87.6	164,055	3,433,524	4.8
1988	33,565	11.5	257,377	88.5	290,942	3,492,762	8.3
1989	24,102	9.2	237,722	90.8	261,824	3,559,840	7.4
1990 ^e	15,154	10.5	129,026	89.5	144,180	3,678,509	3.9
1991 ^d	5,697	12.5	39,749	87.5	45,446	3,866,645	1.2

^aDisabled social security recipients at end of fiscal year. Does not include disabled SSI recipient who only receive SSI payments.

^bThe decline in the number of reviews in 1984 was due to the national moratorium on reviews pending enactment and implementation of the new legislation with revised criteria for CDRs (enacted in fiscal year 1984, regulations promulgated late fiscal year 1985).

^cThe decline in CDR processing in 1990 was due to the unanticipated processing of approximately 40,000 class action court cases.

^dThe continued decline in CDR processing is due to the increase in the initial claims workloads.

Source: SSA, Office of Disability, Apr. 1992.

**TABLE 61. DI and SSI-Disability Continuing Disability Reviews:
Number Conducted Under Periodic Review Requirement and
Number Conducted as a Result of Diary, FY 1981-1992**

Fiscal year	Number of periodic reviews conducted	Number of diary reviews conducted
1981	Awaiting data from SSA.	
1982	Awaiting data from SSA.	
1983	Awaiting data from SSA.	
1984	Awaiting data from SSA.	
1985	Awaiting data from SSA.	
1986	Awaiting data from SSA.	
1987	Awaiting data from SSA.	
1988	Awaiting data from SSA.	
1989	Awaiting data from SSA.	
1990	Awaiting data from SSA.	
1991	Awaiting data from SSA.	
1992	Awaiting data from SSA.	

Source: SSA, Apr. 1992.

**TABLE 62. DI Terminations as a Percent of
DI Recipients, FY 1960-1990**

Calendar year	DI terminations	DI worker recipients	Terminations as a % of DI worker recipients
1960	89,090	455,371	19.6
1961	115,546	618,075	18.7
1962	128,299	740,867	17.3
1963	137,850	827,014	16.7
1964	138,576	894,173	15.5
1965	156,648	988,074	15.9
1966	168,630	1,097,190	15.4
1967	208,899	1,193,120	17.5
1968	222,197	1,295,300	17.2
1969	251,269	1,394,291	18.0
1970	260,444	1,492,948	17.4
1971	266,471	1,647,684	16.2
1972	261,739	1,832,916	14.3
1973	304,792	2,016,626	15.1
1974	320,958	2,236,882	14.3
1975	329,532	2,488,774	13.2
1976	351,504	2,670,208	13.2
1977	401,334	2,837,432	14.1
1978	413,571	2,879,774	14.4
1979	422,503	2,870,590	14.7
1980	408,051	2,858,680	14.3
1981	434,187	2,776,519	15.6
1982	483,847	2,603,599	18.9
1983	453,621	2,569,029	17.7
1984	371,913	2,596,516	14.3
1985	339,984	2,656,638	12.8
1986	341,276	2,728,463	12.5
1987	331,500	2,785,859	11.9
1988	346,300	2,830,284	12.2
1989	336,300	2,895,364	11.6
1990	327,800	3,011,294	10.9

Source: *Social Security Bulletin, Annual Statistical Supplement*, 1991, with additional data from SSA.

TABLE 63. Basis for DI Terminations: Conversion to OASI, Death, and Recovery, FY 1980-1991

Fiscal year	Conversion to OASI	Death	Recovery	Total DI terminations
1980	199,691	143,180	61,887	408,051
1981 ^a	-	-	-	494,187
1982 ^a	-	-	-	483,847
1983	194,941	134,275	124,403	453,621
1984	187,179	133,864	50,879	371,913
1985	187,712	136,706	15,564	339,984
1986	188,807	134,276	17,694	341,276
1987	185,400	135,400	9,800	331,500
1988	181,500	151,300	13,500	346,300
1989 ^a	-	-	-	336,300
1990	179,600	138,000	10,200	327,800
1991	Awaiting data from SSA.			

^aIncomplete.

Source: *Social Security Bulletin, Annual Statistical Supplements, 1984-1991.*

TABLE 64. DI Terminations Per Thousand Recipients by Basis for Termination, FY 1980-1991

Fiscal year	Conversion to OASI	Death	Recovery	Total ^a
1980	69	50	22	143
1981 ^b	-	-	-	156
1982 ^b	-	-	-	186
1983	75	52	48	177
1984	72	52	20	143
1985	71	51	6	128
1986	69	49	6	125
1987	67	48	4	119
1988	64	53	5	122
1989 ^b	-	-	-	116
1990	60	46	3	109
1991	Awaiting data from SSA.			

^aMay not add up due to rounding.

^bIncomplete.

Source: *Social Security Bulletin, Annual Statistical Supplements, 1984-1991.*

TABLE 65. Number of DI Recipients Who Have Attempted Trial Work; Who Have Completed Trial Work; and Who Have Had Their Entitlement End Because of Engagement in Substantial Gainful Activity, FY 1980-1992

Fiscal year	Number who:		
	Attempted trial work	Completed trial work	Fad entitlement end because of SGA
1980	Awaiting data from SSA.		
1981			
1982			
1983			
1984			
1985			
1986			
1987			
1988			
1989			
1990			
1991			
1992			

Source: SSA, Apr. 1992.

TABLE 66. DI and SSI-Disability Rehabilitation Expenditures, FY 1980-1992

Fiscal year	Amount of rehabilitation expenditures made
1980	Awaiting data from SSA.
1981	
1982	
1983	
1984	
1985	
1986	
1987	
1988	
1989	
1990	
1991	
1992	

Source: SSA, Apr. 1992.

TABLE 67. Number of DI and SSI-Disability Cases Referred for Rehabilitation and Number Successfully Rehabilitated, FY 1980-1991

Fiscal year	Cases referred for rehabilitation	Number successfully rehabilitated
1980	Awaiting data from SSA.	
1981		
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990		
1991		

Source: SSA, Apr. 1992.

TABLE 68. Number of and Percent of Cases Where Applicant/Recipient is Represented by Attorney or Other, FY 1980-1992

Fiscal year	Number of cases with representation	Percent of total case decisions
1980	Awaiting data from SSA.	
1981		
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990		
1991		
1992		

Source: SSA, Apr. 1992.

**TABLE 69. Social Security Cases Pending in
Federal Courts, FY 1982-1991**

End of year	Social security cases pending ^a
1982	23,697
1983	37,486
1984	51,657
1985	50,837
1986	49,638
1987	42,953
1988	39,480
1989	32,871
1990	26,823
1991	23,271

^aDoes not include class action suits, which totalled about 100 at the end of 1991.

Source: SSA, Apr. 1992.

**TABLE 70. Court Decisions in Which the Secretary
Has Acquiesced, States in Which Applicable,
Effective Date, FY 1980-1992**

Calendar year	Case	Circuit court	States in which applicable
1980	Awaiting list of rulings from SSA.		
1981			
1982			
1983			
1984			
1985			
1986			
1987			
1988			
1989			
1990			
1991			
1992			

Source: SSA, Apr. 1992.

TABLE 71. Percent of DI and SSI-Disability Recipients Estimated to Be Ineligible for Benefits From Quality Assurance Sample Reviews, FY 1980-1992

Calendar year	Dates sample taken	Percent sample showed as ineligible
1980	Awaiting data from SSA.	
1981		
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990		
1991		
1992		

Source: SSA, Apr. 1992.

TABLE 72. Number of and Percent of DI and SSI-Disability Allowances and Denials in Which Eligibility Determination Was Found to Be Inaccurate as Result of Initial CA Review or From Return of the Case to State Agency, FY 1980-1992

Fiscal year	DI		SSI-disability	
	Inaccurate allowances	Inaccurate denials	Inaccurate allowances	Inaccurate denials
1980	Awaiting data from SSA.			
1981				
1982				
1983				
1984				
1985				
1986				
1987				
1988				
1989				
1990				
1991				
1992				

Source: SSA, Apr. 1992.

**TABLE 73. Own-Motion Review of Hearing Decisions:
Number of and Percent of Hearing Decisions
Reviewed, Returned, and Reversed,
FY 1980-1992**

Fiscal year	Reviewed		Returned		Reversed	
	number	percent	number	percent	number	percent
1980	Awaiting data from SSA.					
1981						
1982						
1983						
1984						
1985						
1986						
1987						
1988						
1989						
1990						
1991						
1992						

Source: SSA, Apr. 1992.

**TABLE 74. Pre-Adjudicative Review of State Agency
Determinations: Number of and Percent of Cases
Reviewed, Returned, and Reversed,
FY 1981-1992**

Fiscal year	Reviewed		Returned		Reversed	
	number	percent	number	percent	number	percent
1981	Awaiting data from SSA.					
1982						
1983						
1984						
1985						
1986						
1987						
1988						
1989						
1990						
1991						
1992						

Source: SSA, Apr. 1992.

PREPARED STATEMENT OF ROBERT J. MYERS

Mr. Chairman and Members of the Subcommittee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934-70, being Chief Actuary for the last 23 of those years. In 1981-82, I was Deputy Commissioner of Social Security, and in 1982-83, I was Executive Director of the National Commission on Social Security Reform. In 1983-85, I was Chairman of the Railroad Unemployment Compensation Committee, and in 1987-90, I was Chairman of the Commission on Railroad Retirement Reform.

For the past 57 years, I have been both proud and glad to have participated, in one way or another, in the operation of the Social Security program. I have been proud of the role that this program has played in providing a floor of economic-security protection in the event of retirement, disability, or death of the breadwinner. I have been proud of the operational philosophy of the Social Security Administration in attempting to give excellent service to the beneficiaries and prospective beneficiaries, who—along with their employers—have been paying contributions to this social insurance system so as to finance the benefit outgo and the associated administrative expenses.

Unfortunately, in recent years, the various services provided by the Social Security Administration have deteriorated somewhat. This, in my opinion, has been due to inadequate funds being made available for administrative expenses—and not to the lack of zeal or ability on the part of the administrators. Instead, the failure to have adequate funds for administration has been due—quite inappropriately—to general budgetary policy—and not to there being insufficient resources in the trust funds or in the long-range financing of the system.

Proper administration of an insurance system—whether social insurance or private insurance—requires that administrative expenses should be neither too low nor too high. In the latter case, the funds available for benefits would be eroded. In the former case, inadequate service would be provided. In fact, in some instances weak administration could mean improperly excessive benefit payments due to fraud and abuse.

Similarly, the insurance system should strive to pay all benefits which are rightfully due to the insured persons. This should be done even if the insurance organization has to seek out the prospective beneficiaries and assist them in developing and substantiating their claims—and by so doing incurs a reasonable amount of additional administrative expenses. I believe that it is fair to say that, within budgetary constraints, the Social Security Administration has, at all times, attempted to follow this procedure.

The administrative expenses of the Social Security program have, over the years, been amazingly low. I have just completed an extensive study of this subject, the results of which are being published in a paper, "Can the Government Operate Programs Efficiently and Inexpensively," in *CONTINGENCIES* for March/April, issued by the American Academy of Actuaries (copy attached).

People who are not familiar with the operations of the Social Security program often believe that its administrative expenses use of 15-20% of the contribution income. Even those who are familiar with the operations of large group insurance plans guess that such ratio is as high as 4-5%. The actual experience in 1980-89 was a ratio of 1.1%, while in 1990 it was only 0.8% and was about the same in 1991. If the administrative expenses are expressed relative to benefit outgo, the ratios are 1.2% for 1980-89 and 0.9% for 1990 and 1991.

The administrative-expense ratios for the Disability Insurance portion of Social Security are, quite naturally, somewhat higher than those for the program as a whole (because of the greater difficulty of determining disability than retirement and death). Such ratio relative to benefit outgo was only 3.3% for 1980-89 and 2.9% for 1990-91.

A number of administrative problems are currently present in the Social Security program. Among these are slow service in the 800-telephone system (the usual standard of about 90% of calls being answered within one minute is not nearly met), continued busy signals for the telephones of district offices, and the difficulties of meeting face-to-face with the staffs of district offices. On the positive side, some 40 million benefit checks are sent out on time each month, and the annual budget statements for income-tax purposes are distributed each January, as required by the Internal Revenue Service.

The most significant area of weakness, however, is the adjudication of claims for disability benefits. Naturally, because of the imprecise nature of disability in many cases, it must take longer to carry out this process than the much more clear-cut situation for determining eligibility for retirement and survivor benefits. However, the time experience as to disability benefits is deplorable.

About 472,000 disabled-worker claims were awarded in 1990. It should be kept in mind that there is approximately a 6-month period involved between date of disablement and the payment date of the first benefit check. Only 59 percent of all such awards were made within 6 months of filing the claim, which really should generally be the outside limit for such administrative action in a properly run "insurance" system.

Further, 17 percent had periods between filing and the month of award which were 7 months to one year, and the remaining 24 percent had periods in excess of one year (as much as three years in a few cases). It should be recognized that some of the long delays arose from cases which were first rejected, but were later approved after appeal. Nonetheless, these figures are indicative of long delays, even for cases which were approved on initial presentation, without need for appeal after an initial denial.

As a result, there is currently a large backlog of disability claims awaiting consideration. And, it is stated that, under the current budget proposal of the Administration, this backlog will rise significantly in FY 1993. Certainly, one would think that the cure for this problem situation would be more funds to hire and train an augmented staff.

Undoubtedly, some of the increase in the backlog is due to the current recession, because it is the general situation that poor economic times causes more people to attempt to get disability benefits. But this cannot be the sole, or even main, factor. Not only are there increasing numbers of claims, but also the approval rates are higher. Although I cannot prove it, this may be due to less thorough claims adjudication. With shortages of administrative-expense funds, and with pressures to work down backlogs, there are incentives to approve claims rather than to disapprove them, because the former action can be taken much more quickly than the latter.

So, I believe that, as a result, many claims are being approved that really should be denied. The inadequate administrative-expense funds thus may well be a good example of being "penny-wise and pound-foolish."

As the recently-issued 1992 OASDI Trustees Report brings out, disability incidence rates in 1989-91 were about 50% higher than in 1982 and 25% higher than in 1986-88. Moreover, based on the recent experience, the intermediate estimate assumes a 10% increase in the next decade over the present level.

What can be done about the matter? I suggest that, if a disability-benefit claim has not been acted upon within six months of when it was filed and if the claimant has reasonably cooperated in furnishing the necessary evidence, benefit payments should then commence. If the claim is later denied, the benefits already paid should be considered as over-payments, but they would not have to be repaid until later when some benefit is payable on the worker's earnings record. Interest would not be charged for the intervening period, but rather the lesser amount of the cost-of-living adjustments generally applicable to benefits would be added. The resulting accumulated over-payment would not be collected in full as soon as benefit eligibility occurred, but rather on an installment basis.

In cases where the claim is initially denied and is then appealed, the 6-month period would start over again. Also, safeguards would have to be introduced so that claimants would not procrastinate in order to "run out" the 6-month period and begin receipt of benefits.

Some may say that this proposal is too drastic by "holding a sword" over the head of the Social Security Administration. I say that it is necessary. Little additional cost due to making over-payments will actually result, because administrative procedures will be speeded up to prevent this. Certainly, Social Security participants deserve prompt adjudication of claims—and they are really paying for this. Insurance companies and private pension plans process disability claims reasonably promptly. The Social Security system should not do less!

I believe that another cause of the current problems of the Disability Insurance program is the excessive number of layers of appeals which are possible. This is not only time-consuming and costly, but also it results in some persons getting disability benefits who are really not qualified. This can occur because of the actions of some "disability lawyers" who both stretch out the process (because their fee is dependent on the length of the adjudication time) and "coach" their clients to give the "correct" answers, whether or not true.

My solution to the forgoing problem is to streamline the process, partially by prohibiting "disability lawyers" before the process gets to the federal courts. I realize that some public-cause advocates will exorcise rage for not being sensitive to the rights of poor or uneducated claimants. However, I would argue that the civil servants of the Social Security Administration and of the State Disability Determination

Units (if they are adequately staffed) will do an objective, non-adversarial job of determining disability eligibility.

Still another problem area in the Disability Insurance program is in connection with the Continuing Disability Reviews, which are made to determine whether beneficiaries have recovered from their disability, or whether they are engaging in long-continuing Substantial Gainful Activity (in which cases, benefits are suspended after a period of time). Terminations for these reasons have fallen off significantly in recent years, and I believe that this has been due to insufficient administrative-expense funds to carry out such review activity sufficiently.

The 1992 OASDI Trustees Report points out that, currently, the disability termination rates are relatively low as compared with historical standards (before 1986). The report assumes, without explaining why, that such rates will increase, on the average, by 15% in the future.

As a result of the recent adverse disability experience, and the likelihood of its continuance, the Board of Trustees of the OASDI Trust Funds has invoked (for the first time) Section 709 of the Social Security Act, which requires a report to Congress making "recommendations for statutory adjustments affecting the receipts and disbursements of such Trust Fund necessary to maintain the balance ratio of such Trust Fund at not less than 20 percent." The Trustees pointed out that at least \$40 billion of increased income or reduced outgo (or a combination thereof) would be necessary over the next 10 years to assure that the "20-percent balance ratio" test will be met.

The Board of Trustees did not make specific recommendations as to financing or benefit changes. It is interesting, and important, to determine what would happen if a mere reallocation of the total OASDI tax rate were made. This could be done by increasing the DI allocation of the combined employer-employee tax rate for 1992-99 from the present 1.2% to the ultimate rate of 1.42% (for 2000 and after) now scheduled in the law. Note that it is quite feasible to do this retroactively to January 1, 1992, because this can be accomplished by a simple computation by the Treasury Department, and it would have no effect on any employer or worker; in fact, this retroactive procedure has been done in the past for allocation of the OASDI taxes.

This reallocation, which I strongly recommend, would produce increased tax income for the DI Trust Fund of \$55 billion (as well as more interest income), and so the 20% test would readily be met when the next 10 years is considered. It is important to note that the increase in the combined employer-employee tax rate which is allocated to DI for 1992-99 from 1.2% to 1.42% brings the allocation to a level that is *lower* than it was in 1982 (1.65%), 1978 (1.55%), and 1979 (1.50%)—and not much above the levels in 1981 and 1983 (1.3% and 1.25%, respectively).

At the same time, the reduced income to the OASDI Trust Fund in the next 8 years would not threaten its actuarial status.

I believe that a technical flaw in Section 709 should be corrected. As it not stands, in theory the failure to meet the 20% balance ratio should be reported if this occurs *at any time* in the future according to the estimates in the Trustees Reports (presumably, the intermediate or "best" estimates). Under this interpretation, Section 709 reports should now also be made for the OASI and HI Trust Funds (and should have been so made for the last several years as well). I suggest that this flaw should be remedied by inserting the phrase "during the next 10 calendar years" at the end of the foregoing quoted material.

Further with regard to Section 709, I suggest that the Board of Trustees should be required to make a specific, precise recommendation for changes in benefit and/or financing provisions that would be needed to remedy the situation, rather than merely stating the dollar amount needed. As previously mentioned, I believe that, under the present situation, a mere reallocation of the total OASDI tax rate, giving more to DI, will suffice.

At some later time, if that action is not adequate because the DI system has further financial problems, a benefit change might be both necessary and desirable. Such a change might be a further reduction in the Maximum Family Benefit for Disability Insurance benefits over what was done in 1980 legislation would be possible—or even complete elimination of all auxiliary benefits (for children and spouses) of disability beneficiaries.

I am constrained to say that, although the foregoing recommendation to reallocate the OASDI tax rate so as to give a somewhat larger portion to DI is both desirable and necessary to restore the short-range actuarial status of the DI program, the long-range status of both programs would continue to be unsatisfactory, both in fact and under the conditions established by Section 709. Both of the trust funds will, according to the intermediate estimate, be exhausted within the next five decades—and be below the 20% level even sooner.

This entire problem would be solved if the proposal by the distinguished Chairman of this subcommittee to change the financing provisions so as to return to a responsible pay-as-you-go basis were adopted. Under this approach, other problems would also be solved, such as the partial masking of the general-budget deficit by the operations of the OASDI program. And further, then people could no longer be able to say that, according to the intermediate estimate, "the Social Security system is a ticking time bomb. In the next century, just a few years away, the United States will face a potentially devastating crisis: the retirement checks that should be sent to benefit millions of Americans will *not* be there"—as did Dorcas R. Hardy, a former Commissioner of Social Security, in her recent book.

In summary, I believe that the administrative-expense funds of the Social Security Administration should be significantly increased, especially so as to make more available for the Disability Insurance program. There is no shortage of money in the trust funds for this purpose. Such action should have no effect on the General Budget, because the operations of the Social Security program should be, once and for all time, off-budget. The effect should be just the same as if the program were administered by a consortium of insurance companies (as the Medicare Program is operated). In any event, even with a sizable increase in the administrative funds, the expense ratio would in my opinion, continue to be extremely low.

Attachment.

ADDENDA

Can the Government Operate Programs Efficiently and Inexpensively?

by Robert J. Myers

Many people hold the "conventional wisdom" view that the federal government cannot operate programs efficiently and inexpensively. Let's test this viewpoint by examining the operations of the Social Security program. Social Security consists of four separate programs—two monthly-cash-benefits programs—Old-Age and Survivors Insurance (OASI and DI); and two Medicare programs—Hospital Insurance and Supplementary Medical Insurance (HI and SMI). Those who hold this conventional wisdom view would, at first glance, be certain that they are correct, because the total administrative costs of the entire program were \$4.5 billion in 1990, and about 95,000 federal and 10,000 state employees were involved. But more thorough analysis than this is necessary.

Administrative expenses for each of these four programs relative to their benefit outgo in 1990 are noted in Table 1. Administrative expenses include all those involved—salaries and fringe-benefit costs for the employees of the Social Security

Robert J. Myers, of Silver Spring, Maryland, served as chief actuary of the Social Security Administration from 1947-70.

TABLE 1
Administrative Expenses of Social Security Program Relative to Benefit Outgo, 1990
(Dollar figures in millions)

Program	Administrative Expenses	Benefit Outgo	Ratio
Old-Age and Survivors Insurance	\$1,563	\$222,987	0.70%
Disability Insurance	707	24,829	2.85
Old-Age, Survivors, and Disability Insurance	2,270	247,816	0.92
Hospital Insurance	758	66,239	1.14
Supplementary Medical Insurance	1,519	42,468	3.58
Total Medicare	2,277	108,707	2.09
Total Programs	4,547	356,523	1.28

TABLE 2
Administrative Expenses of Social Security Program Relative to Contribution Income, 1990
(Dollar figures in millions)

Program	Administrative Expenses	Contribution Income	Ratio
Old-Age and Survivors Insurance	\$1,563	\$270,290	0.58%
Disability Insurance	707	27,908	2.53
Old-Age, Survivors, and Disability Insurance	2,270	298,198	0.76
Hospital Insurance	758	71,922	1.05
Supplementary Medical Insurance	1,519	44,355	3.42
Total Medicare	2,277	116,277	1.96
Total Programs	4,547	414,475	1.10

Administration, the Health Care Financing Administration, and the Department of the Treasury who deal with these programs; the cost of supplies, postage, equipment, rental of space, travel, etc.; and the cost of state-government and private-sector agencies that perform such functions as determining disability and adjudicating and paying Medicare claims.

Total administrative expenses of the entire Social Security program in 1990 were \$4.5 billion, of which exactly half was for the OASDI program, and the remainder was for the Medicare program. These administrative expenses represented

only 1.28% of total benefit outgo—0.92% for OASDI and 2.09% for Medicare. It is not surprising that such a ratio was higher for DI than for OASI (2.85% versus 0.70%), because of the much greater difficulty of determining disability initially and its continuance later than determining retirement or survivor-benefit eligibility. Likewise, the ratios were higher for Medicare than for OASDI, because of the need to handle many different types of claims on a non-regular basis. This was especially the case for SMI (3.58%), with its many small, diverse claims, as compared with HI (1.14%), with its generally large

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claims.

Table 2 similarly compares administrative expenses with contribution income (payroll taxes, enrollee SMI premiums, and matching government SMI contributions). To some extent, comparison with contribution income is not as meaningful, because contribution income depends on the funding basis in effect at the time. In 1990, administrative expenses for the total program represented only 1.10% of contribution income—0.76% for OASDI and 1.96% for Medicare. It should be emphasized that this administrative expense ratio for Medicare is quite low as compared with corresponding figures for group health insurance plans in the private sector, which often are in the neighborhood of 10-15% in part because of significant sales expenses.

Table 3 shows the ratio of administrative expenses for the Social Security program to the benefit outgo for various past quinquennial periods, back to 1940 (when monthly OASDI benefits were first payable). Quite naturally, the ratios were relatively high at the inception of each of the programs, because benefit outgo tends to build up slowly (especially for OASI and DI), whereas administrative expenses involved in establishing a program are necessarily sizable.

For OASDI, the ratio dropped steadily from about 22% in 1940-44 to a level of 2.3% in 1955-69 and decreased thereafter to 0.9% in 1990, averaging 1.4% for the 51-year period. The ratio for the HI program was initially about 3%, but has declined to slightly over 1% currently, averaging 1.7% for 1966-90. At the same time, the ratio for the SMI program began at about 12% and decreased to about 3.7% in the past few years, averaging 5.2% for the 25-year period. For the Medicare program as a whole, the administrative expense ratio was about 5.5% in the initial years, and gradually fell to about 2% averaging 2.8% over the lifetime of the program. This is certainly a considerably low figure for a comprehensive health-care benefits program.

Administrative-expense/Benefit Ratios^a for Social Security Programs, 1940-90

Period	OASDI			Medicare			Total Program
	OASI	DI	Total	HI	SMI	Total	
1940-44	21.9%	*	21.9%	*	*	*	21.9%
1945-49	9.4	*	9.4	*	*	*	9.4
1950-54	3.5	*	3.5	*	*	*	3.5
1955-59	2.2	8.5%	2.3	*	*	*	2.3
1960-64	2.0	6.2	2.3	*	*	*	2.3
1965-69	1.9	5.9	2.3	3.0%	12.0%	5.4%	2.7
1970-74	1.6	4.2	1.9	3.0	12.4	5.5	2.5
1975-79	1.4	2.9	1.6	2.3	8.1	4.0	2.1
1980-84	1.1	3.1	1.3	1.5	6.6	2.8	1.7
1985-89	.9	3.4	1.1	1.4	3.7	2.3	1.5
1990	.7	2.8	.9	1.1	3.6	2.1	1.3
1940-90	1.1	3.4	1.4	1.7	5.2	2.8	1.7

* Program not in operation.

^aAdministrative expenses as percentage of benefit outgo.

Administrative-expense/Contributions Ratios^a for Social Security Program, 1940-90

Period	OASDI			Medicare			Total Program
	OASI	DI	Total	HI	SMI	Total	
1940-44	2.9%	*	2.9%	*	*	*	2.9%
1945-49	2.9	*	2.9	*	*	*	2.9
1950-54	2.2	*	2.2	*	*	*	2.2
1955-59	2.3	2.5%	2.3	*	*	*	2.3
1960-64	2.0	5.9	2.3	*	*	*	2.3
1965-69	1.7	4.8	2.0	2.9%	10.4%	5.0%	2.4
1970-74	1.6	3.7	1.8	2.5	10.2	4.6	2.4
1975-79	1.4	3.0	1.6	2.3	7.0	3.7	2.1
1980-84	1.1	3.0	1.3	1.4	4.9	2.5	1.6
1985-89	.8	3.4	1.0	1.3	3.6	2.1	1.3
1990	.6	2.5	.8	1.1	3.4	2.0	1.1
1940-90	1.1	3.3	1.3	1.5	4.7	2.6	1.6

* Program not in operation.

^aAdministrative expenses as percentage of contributions.

The administrative-expense ratio relative to benefit outgo for the entire Social Security program (OASDI and Medicare combined) was about 2.5% during the 20-year period 1955-74, but has subsequently decreased to about 1.5% in recent years. The ratio for the entire 51-year period was only 1.7%, a quite low figure. It must be recognized that, in this instance (as well as in all other ratios for long time periods), the result is significantly affected by the experience of the most recent years, which is relatively

low. This effect arises because of both the declining value of the dollar over the years and the relatively larger numbers of beneficiaries as the program matured.

Finally, Table 4 shows the corresponding ratios of administrative expenses to contribution income for various past quinquennial periods. For the entire period considered, and for most periods after 1955, the resulting ratios are about the same as those based on benefit outgo (in Table 3), because generally contribution income has been about the

same as benefit outgo, although often slightly higher; as a result, the ratios based on contribution income tend to be slightly lower. However, for 1940-49, for OASDI the ratio based on contribution income was only 2.9%, as contrasted with that based on benefit outgo of 12%.

The fact that administrative expenses of the combined Social Security program have represented only 1.6 cents per dollar of contribution income over the 50-year period 1940-90 (1.3 cents for the OASDI portion and 2.6 cents for the Medicare portion), certainly seems to be convincing evidence that the federal government operates this program efficiently and inexpensively. In fact, the question may well be raised as to whether the administrative expenses are too low, with the result that the insured persons are not receiving adequate service. The latter is difficult to measure, but some subjective views (mine) may be of value.

Certainly, OASDI is doing its major job of issuing the monthly payments in a timely manner to some 40 million beneficiaries. Then too, the annual statements of benefits paid (including deductions for Medicare premiums), as needed for income-tax returns, are issued promptly.

Further, the individual lifetime records of earnings, extending back to 1937 in some instances, are maintained reasonably accurately and completely for some 200 million individuals. And too, persons can request a year-by-year statement of credited earnings for 1951 and after (for 1937-50, an aggregate figure) and receive it within 2-3 weeks, along with an estimate of current disability and survivor benefits and a projection of future retirement benefits (in current dollars).

However, much is lacking as to clear, written explanations of benefit actions and amounts and as to personal assistance in local Social Security offices. The number of personnel in such offices, and the extent of their training, is on the low side.

The situation as to the Medicare program is not as good. Claims are not paid as promptly as reasonably could be (in part, because of an obscure requirement in the law that claims should not be paid too rapidly!). But what's worse is that face-to-face interviews with Medicare employees about specific matters are not possible. The forms "explaining" how the benefits are paid (or why they are not paid) are often impossible for most people to understand.

Why do these administrative inadequacies exist? It's not because the program administrators wish it to be this way. Rather, the reason is essentially (and illogically) that the procedure *appears* to help to balance the overall federal budget! The manner in which the budgeteers "keep the books" is to show a reduction in administrative expenses as reducing the budget deficit. This is ridiculous for programs that are financially self-contained and self-financing. Their operations should be removed from the federal budget entirely.

In the long run, lower administrative expenses mean lower program costs, and thus lower contribution requirements. So, holding down administrative expenses has only a temporary effect on the situation as to the federal budget. But then, budgeteers always have had a limited vision of the future--usually just through the next presidential election.

In summary, this analysis clearly shows that the various portions of the Social Security program have, over the decades, been operated at very low administrative cost. In fact, it is most likely that such costs have been somewhat too low and that the beneficiaries deserve better service and could well be willing to bear the slight additional amount needed. Significant improvements in the public understanding of the program, and public confidence in the program's financial health, could undoubtedly be achieved if the ratio of administrative expenses to contribution income were, say, 1.25% instead of the actual 1.10% which occurred in 1990. □

PREPARED JOINT STATEMENT OF STANFORD G. ROSS AND DAVID M. WALKER

Mr. Chairman and members of the subcommittee: It is our privilege to be here today to testify regarding the financial status of the Disability Insurance (DI) Trust Fund and our independent role as Public Trustees for that trust fund as well as for the other Social Security and Medicare trust funds. This is the first occasion we have had to appear before this Committee since our confirmation hearing, and we welcome this opportunity to give you a report on our role as Public Trustees.

During the preparation of the Annual Reports of the Boards of Trustees for both 1991 and 1992, we participated in the review of the proposed short-range and long-range economic and demographic assumptions and in the decisions made on those assumptions. We met with actuaries and economists from the staffs of all three *ex officio* members of the Boards, that is, the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services; and we considered the views of outside sources, such as those presented by the technical panels of the 1991 Advisory Council on Social Security.

When estimates were developed based on the assumptions that we and the other Board members adopted, it became clear that the financial picture for the DI Trust Fund would change substantially this year. We want to begin with a discussion of that information.

THE 1992 ANNUAL REPORT FOR SOCIAL SECURITY

The estimates for the report on the Social Security programs showed that:

- The DI Trust Fund would not meet the short-range (10-year) test of financial adequacy in 1992 based on the intermediate (alternative II) assumptions. As you know, the intermediate assumptions represent the best estimate and, as such, are generally used as the basis for reporting to the Congress and the public.
- Based on the intermediate assumptions, the ratio of assets at the beginning of a year to that year's expenditures, called the "balance" or "trust fund," ratio, was estimated to decline to less than 20 percent at the beginning of 1996; and the trust fund would be expected to be exhausted in 1997.
- The Old-Age and Survivors Insurance (OASI) Trust Fund, on the other hand, was estimated under intermediate assumptions to continue to meet the short-range test of financial adequacy. On a combined basis, the OASI and DI Trust Funds passed the short-range test by a wide margin. However, neither trust fund was in close actuarial balance over the long-range (75-year) projection period.

The Annual Report notes that the marked change in the DI Trust Fund since last year is attributable to several factors:

- A rapid growth in the number of DI beneficiaries; and
- Necessary adjustments in the assumptions relating to future disability incidence and benefit terminations, to better match recent trends.

In particular, the introduction of more refined methodology this year has improved the analysis of recent trends in benefit terminations. These terminations occur because beneficiaries medically recover, reach the normal retirement age, or die. The analysis showed a need for substantial downward adjustment in the termination rates assumed for the short-range projection period.

The change in the financing picture for the DI Trust Fund led the Board of Trustees to take the step of alerting the Congress, as required by section 709 of the Social Security Act, of the need for corrective action. Although the statutory language is not precise as to when such a report is required, the Board decided to alert the Congress in view of the fact that the trust fund ratio would fall below 20 percent within the short-range (10-year) period. This notification should provide adequate time for the Congress to examine the situation and take corrective action. As the public members of the Board, we have signed the report and endorse its content.

Legislative changes that improve the short-range financing of the DI Trust Fund by at least \$40 billion over the next 10 years are likely to be necessary to assure that the trust fund ratio stays over the 20-percent level. More importantly, about \$78 billion in legislative changes would be needed to assure that the DI Trust Fund would meet the short-range (10-year) test of financial adequacy.

The Board believes that a careful analysis of the program, including the allocation of the OASDI tax rate, should be undertaken before any legislative recommendations are submitted. Thus, the Board has asked the Department of Health and Human Services to conduct an examination of this issue and report back the results

so that appropriate legislative recommendations can be made to the Congress by December 31, 1992.

However, as we noted in our appendix to the report, as the Public Trustees we have serious reservations about becoming participants in the process of developing the specific legislative recommendations for the Congress to consider. The other members of the Board are also members of the Administration, and the proposals they develop necessarily will be within the context of Administration goals and policies. To participate in that development would, we believe, be contrary to the independent role of the Public Trustees.

We remain ready to consult with the Congress on the financial status of the DI program and related programs, as may be desired.

THE 1992 ANNUAL REPORTS FOR MEDICARE

The Annual Reports for the two Medicare programs also include important information about the financial status of those programs.

Both the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) programs have experienced rapid growth in program costs. These growth rates are not projected to decline significantly in the near future. As a result, these programs are projected to represent an increasing percentage of the Federal budget and the overall economy. Given these alarming trends, the Trustees have urged the Congress to take appropriate action to control costs either through specific program legislation or as a part of enacting more comprehensive health care reform.

In addition, we have addressed the certification by the chief actuarial officer of the Health Care Financing Administration (HCFA) that is required to be included in the HI report. The law requires this official to certify "that the techniques and methodologies used are generally accepted within the actuarial profession and that the assumptions and cost estimates used are reasonable."

This year, as last year, the *ex officio* members of the Board of Trustees have agreed with the Public Trustees that the methods and assumptions used in the HI report are both generally accepted and reasonable. However, it is perplexing and disconcerting that an actuarial opinion with unjustifiable qualifications has been allowed to be repeated for several years in the HI reports.

We believe the continuation of this controversy is confusing to the public and serves to distract attention from the essential issue that is of public concern. By any measure, the HI Trust Fund is severely out of financial balance, and it is projected to run out of funds in about 10 years. In an effort to make these facts clear to the public, we have included an appendix in both the 1991 and the 1992 HI Annual Report explaining our conviction that the report fully and fairly presents the financial condition of the HI Trust Fund and our views as to why the opinion qualification of the HCFA Chief Actuary exceeds the bounds of the statutory requirement.

THE SUMMARY OF THE ANNUAL REPORTS

Last year, we initiated and created a summary of the 1991 Annual Reports as another important aid to improving public understanding of the financial status of the Social Security and Medicare programs. This concise and plain English summary of the findings contained in the reports quickly proved to be a useful resource both for members of the public and Congress and others who frequently are called upon to discuss these programs with the public.

The other Trustees, who endorsed our efforts last year and were enthusiastic about the results, joined with us this year in issuing the summary. We retained in the 1992 summary, though, a separate statement from the Public Trustees as a public assurance that we are continuing to maintain our independent role.

Concurrently with the development of the 1991 summary, we created and provided oversight to a work group of the staffs of the Trustees that was convened to develop ways of making the Annual Reports themselves more readable and easier to use. The results of that work can be seen in the 1992 Annual Reports. The 1992 reports have been reorganized to provide an overview section up front that includes all the most significant information. The detailed technical information is retained in later sections, though, for those readers who have a need for it.

In addition, the type face used has been enlarged, the layout of graphs and tables has been improved, and a glossary of terms has been added to each report. We hope that these changes to the Annual Reports, in conjunction with wide distribution of the 1992 summary, will result in the public having a much better opportunity to understand what the reports say about the financial status of the Social Security and Medicare programs.

We will continue our efforts to improve the public reporting system for the Annual Reports.

ADDITIONAL INDEPENDENT ACTIVITIES

We have used the summary, as well as other handouts, in a number of presentations and speeches that each of us has made to various groups, including retirement, labor, tax and ERISA professionals and other expert groups. We have used these discussions as another means of conveying information about the financial status of the Social Security and Medicare programs to members of groups with a professional interest in the important financial information and analysis contained in the Annual Reports.

In addition to speeches made to nongovernmental groups, we both participated in a "Commissioner's Forum on the Trust Funds," hosted by Gwendolyn S. King, for Social Security executives and managers in Woodlawn, Maryland. This 90-minute forum was taped as it was presented, and it was subsequently rebroadcast to Social Security employees across the country. Our participation in that forum is a good indicator of the excellent spirit of cooperation that has been fostered between the agency and the Public Trustees.

In addition to the interactions with the other Trustees and their staffs that we have already mentioned, the departments and agencies have made available to us executive briefings on a wide range of topics that we, as Public Trustees, believe are important to our function. We have each devoted about 45 days per year to serve as Public Trustees. This has enabled us to substantively participate in the preparation of the Annual Reports, to improve those reports, and to engage in selective public information efforts.

We intend to continue these various outreach efforts, in order to make information about the Social Security and Medicare trust funds more widely available to the public.

LONG-TERM PUBLIC TRUSTEES' PROJECT

In addition to the shorter term activities we have just described, we plan to contribute to consideration of some of the longer term issues that will need to be addressed in the future. We are beginning a project, "Measuring Future Income Security and Health Care Expenditures for the Aged and Disabled," that will seek to determine if there are some measures of future income security and health care needs and burdens that would help policy makers address key policy issues facing the Nation. This will include examination of existing methodologies and data sources and an exploration to determine what modifications to existing methodologies are needed in order to be able to measure the various components of income security and health care costs, needs, and resources for the older population.

The project will not address the policy issues involved; it will provide information that will be useful in carrying out analyses needed by those who will make the policy decisions designed to address the relevant policy issues. Building on the work already performed by an expert panel convened by the Advisory Council last year, we will first develop a comprehensive inventory, including data, analytical studies, and bibliographies within and outside the Federal government that relate to this issue. We plan to publish that inventory for general use by policy makers and researchers.

Later steps in this project will include the following:

- Review, assess, and report on existing methodologies and tools for analyzing the total public and private sector components of retirement income and health care costs;
- Identify and recommend various methodologies and tools for presenting the future estimated operations of the OASI, DI, HI, and SMI Trust Funds in a coordinated manner; and
- Present the possibilities for relating the Social Security and Medicare methodologies and tools to the analysis of the total public and private sector components of retirement income and health care resources, costs, and burdens.

We hope to inform the debate that is sure to occur in the future among policy makers as they attempt to address key issues concerning retirement income, health care resources, costs, and burdens by identifying methodologies and tools for more sound financial analysis of those factors.

CONCLUSION

In conclusion, Mr. Chairman, we are privileged to take part in the very thorough and careful process by which the Annual Reports are prepared. We believe that the Board of Trustees has taken timely and responsible action by notifying you of the expected short-range inadequacy of the DI Trust Fund, and we believe it is prudent

to study the issues involved carefully-before making recommendations as to the most appropriate statutory adjustments for the Congress to consider.

We believe we are helping to establish an important, independent role for the Public Trustees of the Social Security and Medicare programs. We appreciate your support of our efforts. We believe that the institution of the Public Trustees will help to assure the integrity of the Social Security and Medicare trust funds on a long-term basis.

Thank you for the opportunity to share our views with you today.

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