

Center for American Progress



Testimony Before the U.S. Senate Committee on Finance

“A Fresh Look at Workers’ Disability Insurance”

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Thank you, Chairman Wyden, Ranking Member Hatch and Members of the Committee for the invitation to appear before you today. My name is Rebecca Vallas, and I am the Associate Director of the Poverty to Prosperity Program at the Center for American Progress.

The subject of today’s discussion is of the utmost importance to all of us as Americans, because any of us could find ourselves in the position of needing to turn to Social Security Disability Insurance at any time.

Imagine that tomorrow, while cleaning out your gutters, you fall off a ladder. You suffer a traumatic brain injury and spinal cord damage, leaving you paralyzed, unable to speak, and with significantly impaired short- and long-term memory. Unable to work for the foreseeable future, you have no idea how you are going to support your family. Now imagine your relief when you realize an insurance policy you have been paying into all your working life will help keep you and your family afloat by replacing a portion of your lost wages. It is our Social Security system.

I’m sure we can all agree that no one wants to see this important program weakened, or its basic but crucial benefits cut. The American people time and again have made clear their strong support for Social Security, and their strong opposition to benefit cuts. I look forward to discussing how we can work together to strengthen this vital program, so that it can continue to protect American men, women and children for decades to come.

I will make three main points today:

- **Social Security Disability Insurance provides basic but essential protection that workers earn during their working years.** Social Security protects nearly all American workers in case of life-changing disability or illness. The modest benefits from Social Security Disability Insurance are vital to the economic security of disabled workers and their families.
- **Eligibility criteria are stringent and only workers with the most serious disabilities and illnesses qualify for benefits.** According to the Organisation for Economic Cooperation and Development, or OECD, the Social Security disability standard is among the strictest in the industrialized world. The vast majority of applicants are denied, and those who qualify for benefits often have multiple serious impairments, and many are terminally ill. Few are able to work at all.
- **It's no surprise that action is needed to address the program's finances, and a traditional, routine step would put the entire Social Security system on sound footing for two decades.** Periodic rebalancing of Social Security's trust funds—so that both the retirement/survivorship and disability parts of Social Security rest on sound financial footing—has occurred in a bipartisan manner 11 times in the program's history, with funds shifted in the direction of the Old Age and Survivors Insurance trust fund about half the time, and in the direction of the Disability Insurance trust fund about half the time. As long expected by Social Security's actuaries, rebalancing is again needed and would ensure that Social Security is able to pay all promised benefits until 2033—without changing the health of the combined trust funds.

Social Security Disability Insurance provides basic but essential protection that workers earn during their working years

Social Security was established nearly 80 years ago to ensure “the security of the men, women and children of the nation against the hazards and vicissitudes of life.”ⁱ In 1956, the program was expanded to include Disability Insurance in recognition that the private market for long-term disability insurance was failing to provide adequate or affordable protection to workers.ⁱⁱ

Today, nearly all Americans—91 percent of workers ages 21 to 64—are protected by Social Security Disability Insurance.ⁱⁱⁱ In all, more than 160 million American workers and their families are protected.^{iv} About 8.9 million disabled workers—including more than 1 million veterans—receive Disability Insurance benefits, as do about 157,000 spouses and 1.9 million dependent children of disabled workers.^v

Social Security Disability Insurance is coverage that workers earn

Both workers and employers pay for Social Security through payroll tax contributions. Workers currently pay 6.2 percent of the first \$117,000^{vi} of their earnings each year, and employers pay the same amount up to the same cap. Of that 6.2 percent, 5.3 percent currently goes to the Old Age and Survivors Insurance, or OASI, trust fund, and 0.9 percent to the Disability Insurance

trust fund. Due to the interrelatedness of the Social Security programs, the two funds are typically considered together, although they are technically separate. The portion of payroll tax contributions that goes into each trust fund has changed several times throughout the years to account for demographic shifts and the funds' respective projected solvency.^{vii}

Benefits are modest but vital to economic security

The amount a qualifying worker receives in benefits is based on his or her prior earnings. Benefits are modest, typically replacing half or less of a worker's earnings. The average benefit in 2013 was just over \$1,140 per month—not far above the federal poverty level for an individual.^{viii}

For more than 80 percent of beneficiaries, Disability Insurance is their main source of income. For one-third, it is their only source of income.^{ix} Benefits are so modest that many beneficiaries struggle to make ends meet; nearly one in five, or about 1.6 million, disabled-worker beneficiaries live in poverty.

But without Disability Insurance, this figure would more than double, and more than 4 million beneficiaries would be poor.^x Disabled workers use their Social Security benefits to meet basic needs, such as rent or mortgage, gas and electric, food, and copays on needed—often life-sustaining—medications.

Workers who receive Disability Insurance are also eligible for Medicare after a two-year waiting period.^{xi}

Social Security Disability Insurance provides protection most of us could never afford on the private market

And there is good reason to offer disability insurance through a public program such as Social Security: private disability insurance is out of reach for most families. Just one in three private-sector workers has employer-provided long-term disability insurance, and plans are often less adequate than Social Security.^{xii} Coverage is especially scarce for low-wage workers—just 7 percent of workers making less than \$12 an hour have employer-provided disability insurance.^{xiii}

Workers in industries such as retail, hospitality, and construction are among the least likely to have employer-provided long-term disability coverage, and coverage is highly concentrated among white-collar professions.^{xiv} Access is even more limited on the individual market.

While it is difficult to compare Social Security Disability Insurance with private long-term disability plans given that private plans often exclude certain types of impairments—as well as workers with pre-existing conditions or in high-risk occupations—purchasing a plan of

Average disabled worker benefit (May 2014):

\$1,146 per month
\$13,752 per year

Federal poverty level for an individual (2014):

\$972 per month
\$11,670 per year

comparable value and adequacy on the individual private market would be unrealistic for most Americans.

“Coverage by private [disability insurance] carriers is certain to be restricted, because disability insurance confronts all the major impediments to widespread, affordable, and actuarially sound private insurance provision: adverse selection, moral hazard, and covariance of risks. ... Many insurers write group policies, but they differentiate strongly between groups with high and low risks. Some groups are treated as essentially uninsurable. Where risks are high, prices are high as well. The result is that private disability insurance tends to be available only to those groups who need it least; others are priced out of the market.”

Michael Graetz and Jerry Mashaw, noted social insurance experts and coauthors of *True Security*.²⁴

Eligibility criteria are stringent and only workers with the most serious disabilities and illnesses qualify for benefits

Disabled workers face a steep uphill battle to prove that they are eligible for Social Security Disability Insurance. Under the Social Security Act, the eligibility standard requires that a disabled worker be “unable to engage in substantial gainful activity”—defined as earning \$1,070 per month, for 2014—“by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than 12 months.”^{xv} In order to meet this rigorous standard, a worker must not only be unable to do his or her past jobs, but also—considering his or her age, education, and experience—any other job that exists in significant numbers in the national economy at a level where he or she could earn even \$270 per week.^{xvi}

A worker must also have earned coverage in order to be protected by Disability Insurance. A worker must have worked at least one-fourth of his or her adult years, including at least 5 of the 10 years before the disability began in order to be “insured.”^{xvii}

The OECD describes the U.S. disability benefit system, along with those of Canada, Japan, and South Korea, as having “the most stringent eligibility criteria for a full disability benefit, including the most rigorous reference to all jobs in the labor market.”^{xviii}

In practice, proving medical eligibility for Disability Insurance requires extensive medical evidence from one or more medical providers designated as acceptable medical sources (licensed physicians, specialists, or other approved medical providers) documenting the applicant’s severe impairment, or impairments, and resulting symptoms. Evidence from other providers, such as nurse practitioners or clinical social workers, is not enough to document a

worker’s medical condition. Statements from friends, loved ones, and the applicant are not considered medical evidence and are not sufficient to establish eligibility.

Most claims for Disability Insurance are denied under this stringent standard. Nearly 80 percent of applicants are denied at the initial level, and fewer than 4 in 10 are approved after all levels of appeal.^{xix} Many wait a year—and in many cases much longer—before receiving needed benefits. Underscoring the strictness of the disability standard, thousands of applicants die each year during the eligibility determination process.^{xx} Of those who live long enough to receive benefits, one in five male and nearly one in six female beneficiaries die within five years of being approved.^{xxi} All told, Disability Insurance beneficiaries have death rates three to six times higher than other people of their age.^{xxii}

Beneficiaries have a wide range of significant disabilities and debilitating illnesses and many have multiple impairments

Disabled workers who receive Disability Insurance live with a diverse range of severe impairments. The Social Security Administration categorizes beneficiaries according to their “primary diagnosis,” or main health condition.^{xxiii} As of 2012, the most recent year for which impairment data are available:

- 31.8 percent have a “primary diagnosis” of a mental impairment, including 4.2 percent with intellectual disabilities and 27.6 percent with other types of mental disorders such as schizophrenia, post-traumatic stress disorder, or severe depression.
- 29.8 percent have a musculoskeletal or connective tissue disorder.
- 8.7 percent have a cardiovascular condition such as chronic heart failure.
- 9.3 percent have a disorder of the nervous system, such as cerebral palsy or multiple sclerosis, or a sensory impairment such as deafness or blindness.
- 20.4 percent include workers living with cancers; infectious diseases; injuries; genitourinary impairments such as end stage renal disease; congenital disorders; metabolic and endocrine diseases such as diabetes; diseases of the respiratory system; and diseases of other body systems^{xxiv}

Social Security’s listing of impairments is organized according to 14 body systems

- Cardiovascular system
- Congenital disorders that affect multiple body systems
- Digestive system
- Genitourinary impairments
- Hematological disorders
- Endocrine disorders
- Immune system disorders
- Malignant neoplastic disorders
- Mental disorders
- Musculoskeletal disorders
- Neurological disorders
- Respiratory system
- Skin disorders
- Special senses and speech

A fact not well captured by Social Security’s data—given that beneficiaries are categorized by “primary diagnosis”—is that many beneficiaries have multiple serious health conditions. For instance, nearly half of individuals with mental disorders have more than one mental illness, such as major depressive disorder and a severe anxiety disorder.^{xxv} Individuals with mental

illness are also at greater risk of poor physical health: The two leading causes of death for individuals with mental illness are cardiovascular disease and cancers.^{xxvi} Musculoskeletal disorders commonly afflict multiple joints,^{xxvii} and individuals with musculoskeletal impairments—typically older workers whose bodies have broken down with age—commonly suffer additional health conditions such as cardiovascular disease, diabetes, and respiratory disease.^{xxviii}

The breakdown of impairment categories among Disability Insurance beneficiaries is consistent with global health trends. According to the World Health Organization, the leading causes of disability today in most regions of the world—including the United States—are musculoskeletal impairments and mental disorders.^{xxix} The rise in mental impairments around the world is often attributed to increased awareness and reduced stigma of mental illness. Likewise, the global rise in musculoskeletal impairments is attributable to the aging of the population both in the United States and globally—since the risk of experiencing musculoskeletal impairments rises sharply with age—as well as to the drop in mortality.^{xxx}

Most beneficiaries are older and had physically demanding jobs

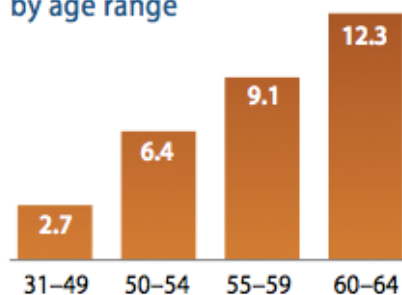
Most beneficiaries of Disability Insurance —7 in 10—are in their 50s and 60s, and the average age is 53. The fact that most beneficiaries are older is unsurprising given that the likelihood of disability increases sharply with age: a worker is twice as likely to experience disability at age 50 as at 40, and twice as likely at 60 as at 50.^{xxxi} Before turning to Social Security, most disabled-worker beneficiaries worked at “unskilled” or “semi-skilled” physically demanding jobs.^{xxxii} About half—53 percent—of disabled workers who receive Disability Insurance have a high school diploma or less.^{xxxiii} About one-third completed some college, and the remaining 18 percent completed four years of college or have further higher education.^{xxxiv}

Few are able to work at all

For beneficiaries whose conditions improve, Social Security Administration policies include strong work incentives and protections to encourage beneficiaries to attempt to return to work. Beneficiaries may earn up to the substantial gainful activity level—\$1,070 per month in 2014—without risking their needed monthly benefits. Beneficiaries whose conditions improve enough that they are able to earn more than the substantial gainful activity level are encouraged to work as much as they can for up to 12 months while maintaining their benefits. Those who work above the substantial gainful activity level for more than 12 months enter a nearly three-year “extended period of eligibility,” during which they receive a benefit only in the months in which they earn less the substantial gainful

FIGURE 1
The likelihood of receiving Social Security Disability Insurance rises sharply with age

Social Security Disability Insurance prevalence rates by age range



Source: Melissa M. Favreault, Richard W. Johnson, and Karen E. Smith, “How Important is Social Security to American Workers?” (Washington: Urban Institute, 2013), available at <http://www.urban.org/UploadedPDF/412847-how-important-is-social-security.pdf>.

activity level.^{xxxv} After the extended period of eligibility ends, if at any point in the next five years their condition worsens and they are not able to continue working above that level, they can return to benefits through a process called “expedited reinstatement.”^{xxxvi} This process allows them to restart their needed benefits without having to repeat the entire, lengthy disability-determination process.^{xxxvii} These policies are extremely helpful to beneficiaries with episodic symptoms or whose conditions improve over time.

Yet, unsurprisingly given how strict the Social Security disability standard is, most beneficiaries live with such debilitating impairments and health conditions that they are unable to work at all, and most do not have earnings. According to a recent study linking Social Security data and earnings records before the onset of the Great Recession, fewer than one in five, or 19.5 percent, of beneficiaries did any work during the year.^{xxxviii} The vast majority of those who worked earned very little, and just 3.9 percent earned more than \$10,000 during the year—hardly enough to support oneself.^{xxxix} Just 4 percent earned enough to have their benefits terminated due to earnings, and of those, about one-quarter later returned to receiving benefits.^{xl}

If a significant share of beneficiaries were able to work, one would expect a sizeable percentage to take advantage of the previously described work incentives in order to maximize their earnings without losing benefits. But beneficiaries’ work patterns indicate otherwise. Fewer than one-half of one percent of beneficiaries maintain a level of earnings just below the substantial gainful activity level.^{xli} Further underscoring the strictness of the Social Security disability standard, even disabled workers who are denied benefits exhibit extremely low work capacity afterward. A recent study of workers denied Disability Insurance found that just one in four were able to earn more than the substantial gainful activity level post-denial.^{xlii}

How does the United States compare with other countries?

The Social Security disability standard is among the strictest in the industrialized world. As previously noted, the OECD describes the U.S. disability benefit system, along with those of a handful of other nations, as having “the most stringent eligibility criteria for a full disability benefit, including the most rigorous reference to all jobs in the labor market.”^{xliii}

Social Security Disability Insurance benefits are less generous than most other countries’ disability benefit programs. With Disability Insurance benefits replacing 42 percent of previous earnings for the median earner, the United States is ranked 30th out of 34 OECD member countries in terms of replacement

Sweden	37	Belgium	25
Norway	33	France	25
Portugal	33	Greece	25
Finland	32	Poland	25
Germany	32	Austria	24
Switzerland	32	Czech Republic	24
Denmark	28	Netherlands	24
Hungary	28	New Zealand	23
Luxembourg	28	Australia	21
Mexico	27	Japan	21
Spain	27	United Kingdom	21
Ireland	26	Canada	18
Italy	26	United States	17
Slovak Republic	26	Korea	15

rates.^{xliv} Many countries' disability benefit programs replace 80 percent or more of previous earnings.^{xlv}

By international standards, the United States spends comparatively little on disability benefits. In 2009, U.S. spending on Social Security Disability Insurance equaled 0.8 percent of gross domestic product, or GDP—again putting the United States near the bottom (27th out of 34 OECD member countries) in spending on equivalent programs. On average, OECD member countries spend 1.2 percent of GDP on their equivalent programs, and many—such as Denmark (2 percent), the United Kingdom (2.4 percent) and Norway (2.6 percent)—spend significantly more.^{xlvi}

The share of the U.S. working-age population receiving Disability Insurance benefits—about 6 percent—is roughly on par with the OECD average of 5.9 percent.^{xlvii}

In drawing international comparisons, it is well worth noting that in addition to more generous disability benefit systems with less rigorous eligibility standards, European nations tend to have universal paid leave policies, more generous health care systems, higher levels of social spending generally, and more regulated labor markets than the United States.^{xlviii}

Growth in the program was expected and is mostly the result of demographic and labor market shifts

As long projected by Social Security's actuaries, the number of workers receiving Disability Insurance has increased over time, due mostly to demographic and labor-market shifts. According to recent analysis by Social Security Administration researchers, the growth in the program between 1972 and 2008 is due almost entirely (90 percent) to the Baby Boomers aging into the high-disability years of their 50s and 60s, the rise in women's labor-force participation, and population growth.^{xlix} Importantly, as early Baby Boomers have begun to age into retirement, the program's growth has already leveled off and is projected to decline further in the coming years as Boomers continue to retire.^l

Due to the importance of these demographic factors, Social Security's actuaries analyze trends in benefit receipt using the "age-sex adjusted disability prevalence rate," which controls for changes in the age and sex distribution of the insured population, as well as for population growth. The age-sex adjusted disability prevalence rate was 4.6 percent in 2013 compared to 3.1 percent in 1980.^{li}

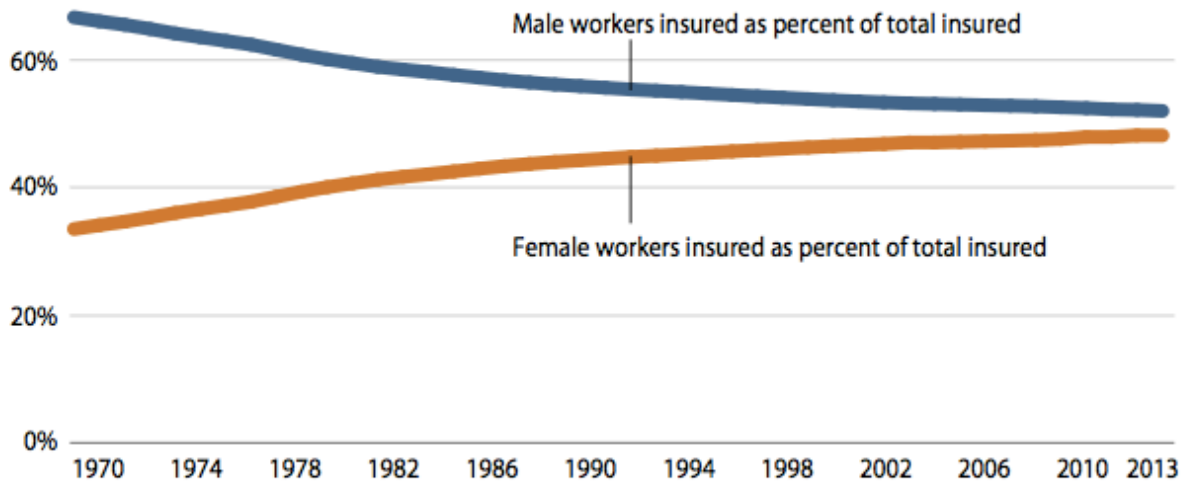
Key drivers of the program's growth include:

- **Aging population:** The risk of disability increases sharply with age. A worker is twice as likely to be disabled at age 50 as at 40, and again twice as likely at age 60 as at 50.^{lii} Born between 1946 and 1964, Baby Boomers have now aged into their high-disability years, driving much of the growth in Disability Insurance.
- **Increase in women's labor-force participation:** Whereas previous generations of women had not worked enough to be insured in case of disability, women today have essentially caught up with men when it comes to being insured for benefits based on their work history.^{liii}

FIGURE 2

Women have caught up to men in insured status

Number of male and female workers insured in case of disability, in thousands, 1970–2013



Source: Social Security Administration, "Estimated number of workers insured in the event of disability, by age group and sex, on December 31, 1970-2013," available at <http://www.ssa.gov/OACT/STATS/table4c2DI.html> (last accessed June 2014).

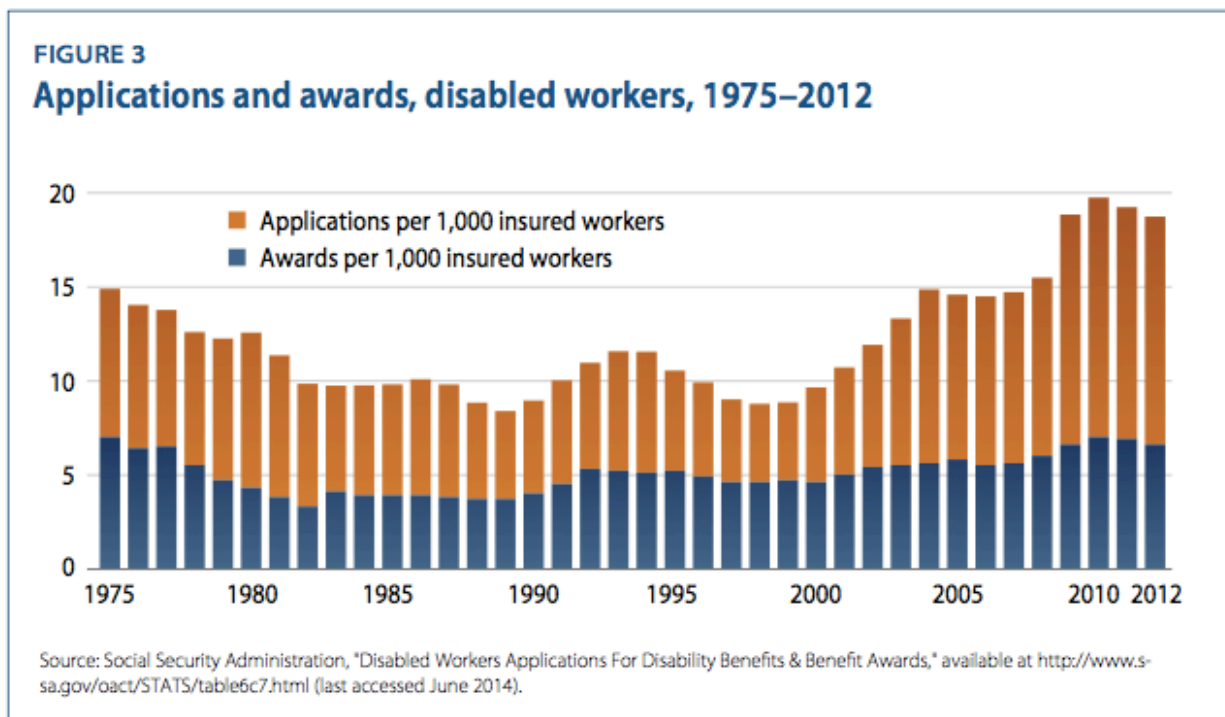
- **Population growth:** The working-age population—ages 20 to 64—has grown significantly, by 43 percent between 1980 and 2013.^{liv} The Center on Budget and Policy Priorities estimates that population growth alone—even if the population were not aging—would have resulted in an additional 1.25 million beneficiaries in 2013 compared with 1980.^{lv}
- **Women’s catch-up in rates of receipt:** Just as women have caught up with men in terms of having worked enough to be insured for Disability Insurance, the gender gap in rates of receipt of benefits has closed as well. As recently as 1990, male workers outnumbered female workers by two to one, whereas today, nearly 48 percent of workers receiving Disability Insurance are women.^{lvi}
- **Increase in Social Security retirement age:** The increase in the Social Security retirement age from 65 to 66, and ultimately to 67, has played a role as well, as disabled workers continue receiving Social Security Disability Insurance for longer before converting to retirement benefits when they reach full retirement age. About 5 percent of Social Security Disability Insurance beneficiaries are ages 65 and 66.^{lvii}

The Great Recession in context

Social Security’s actuaries note that the main effect of the recent economic downturn was lower revenue through payroll tax contributions—not an increase in beneficiaries.^{lviii} While recessions are typically associated with sharp increases in *applications* for Social Security Disability Insurance, they have a much smaller impact on *awards*. The most recent downturn was no exception, and Social Security’s actuaries estimate that just 5 percent of the program’s growth from 1980 to 2010 is due to the recession,^{lix} likely due to workers with disabilities being disproportionately laid off from employer payrolls when times got tight.

It is important to note that while applications increased during the Great Recession, the award rate—the share of applications approved for benefits—declined,^{lx} indicating that applicants who did not meet the rigid disability standard were screened out. A study by Social Security’s watchdog examined the 11 states with the highest unemployment rates and found that award rates had dropped in all of them.^{lxi}

Moreover, a recent National Bureau of Economic Research study found “no indication that expiration of unemployment insurance benefits causes Social Security Disability Insurance applications.”^{lxii} Furthermore, a recent report by the White House Council of Economic Advisers examining labor force participation trends since 2007 found that the increase in the number of disabled workers receiving Disability Insurance has had a minimal impact on labor force participation, noting: “in fact, if anything, the increase in disability rolls...have been [sic] somewhat lower than one would have predicted given the predicted cyclical and demographic effects.”^{lxiii}



No surprise that action is needed to address finances, and routine action would put the entire Social Security system on sound footing for the next two decades

It comes as no surprise—and presents no crisis—that action is needed to address Social Security Disability Insurance’s finances by late 2016. In 1995, Social Security’s actuaries projected that the Disability Insurance trust fund would be able to pay all scheduled benefits until 2016, the OASI trust fund until 2031, and the combined trust funds until 2030.^{lxiv} The projections in the 2013 Social Security Trustees Report look remarkably similar, with Disability Insurance expected to remain solvent until 2016, OASI until 2035, and the combined funds until 2033.^{lxv} If policymakers did nothing, the Disability Insurance fund would be able to pay 80 percent of promised benefits after 2016—and beneficiaries would face a 20 percent across-the-board cut in their already modest benefits.^{lxvi}

Furthermore, the present situation is nothing new. While the OASI fund and the Disability Insurance fund are technically separate, they are typically considered together due to the interrelatedness of Social Security’s programs. For example, Social Security’s programs share the same benefit formula, beneficiaries regularly move between programs,^{lxvii} and changes to one program—such as raising the retirement age—affect both funds.

Since Social Security Disability Insurance was established in 1956, Congress has repeatedly rebalanced the OASI and Disability Insurance trust funds to keep both on sound footing amid demographic shifts and other changes. Rebalancing—by adjusting the share of payroll tax contributions that go into each fund—has occurred in a bipartisan manner 11 times over the years, with additional revenues being directed to the OASI fund about half the time, and to the Disability Insurance fund about half the time.^{lxviii} Congress has never allowed a drop in scheduled benefits to occur. Policymakers should again enact a modest, temporary reallocation of the 6.2 percent payroll tax rate between OASI and Disability Insurance to equalize the solvency of the two funds.

1983 Social Security reforms worsened Social Security Disability Insurance’s financial health to an extent that the 1994 adjustments only partially addressed

The last round of major changes to Social Security occurred in 1983. Notable components of the 1983 legislation included an increase in the Social Security retirement age (from 65 to 67) and a cut in the share of the payroll tax allocated to the Disability Insurance trust fund.^{lxix} At the time of the 1983 changes, the OASI fund was facing insolvency, while the Disability Insurance fund was healthy.^{lxx}

The impact of these changes on the Disability Insurance trust fund has been significant. As noted above, increasing the full retirement age worsens the state of the Disability Insurance trust fund since it causes workers to remain on Disability Insurance for longer before converting to Social Security retirement benefits. Additionally, the cut in the share of the payroll tax

allocated to Disability Insurance—which had been on schedule to rise from 0.825 to 1.1 percent in 1990—has caused the Disability Insurance fund to receive significantly less revenue in the years since.^{lxxi}

In 1994, spurred by the worsening state of the Disability Insurance fund, Congress increased Disability Insurance’s share of the payroll tax to 0.9 percent—an improvement over the 0.5-0.6 percent the fund had been receiving after the 1983 legislation, but still significantly lower than the 1.1 percent it had been scheduled to receive prior to the 1983 changes.^{lxxii} Disability Insurance’s share of the payroll tax remains at 0.9 percent. Had it risen to 1.1 percent as scheduled, we would not be where we are today, and action to shore up the fund would not be needed by late 2016.

Traditional, routine step would put entire Social Security system on sound footing for the next two decades

As noted above, reallocation of payroll tax rates has been a traditional, noncontroversial action, occurring repeatedly, as needed, over the course of the six decades since Social Security Disability Insurance was established. And as long expected, similar action is again required by late 2016. The reallocation plan outlined by Social Security’s chief actuary in the 2013 Trustees Report would ensure that both funds remain fully solvent until 2033.^{lxxiii} Importantly, reallocation can be done without increasing taxes or cutting benefits, and would keep the combined Social Security trust funds on their current course. Under current law, as well as under reallocation, the combined trust funds will be able to pay all scheduled benefits until 2033.^{lxxiv}

Office of the Actuary hypothetical reallocation plan from the 2013 Trustees Report

Social Security payroll tax rates

Calendar years	Employees and employers each			Self-employed		
	OASDI	OASI	DI	OASDI	OASI	DI
2013	6.2	5.3	0.9	12.4	10.6	1.8
2014–15	6.2	4.8	1.4	12.4	9.6	2.8
2016	6.2	5.0	1.2	12.4	10.0	2.4
2017–19	6.2	5.1	1.1	12.4	10.2	2.2
2020–25	6.2	5.2	1.0	12.4	10.4	2.0
2026+	6.2	5.3	0.9	12.4	10.6	1.8

While the combined trust funds are set to remain on sound footing for the next two decades, action will be needed sometime during that time period to ensure the long-term solvency of the overall Social Security system. But in the near term, as Secretary of the Treasury Jacob Lew

noted in testimony before the Senate Budget Committee, “There is only one solution the technical experts believe can work in the timeframe between now and 2016. And that’s a reallocation of the tax rate, as we’ve done in the past.”^{lxxv}

Looking past 2016, there are a number of options for ensuring the long-term solvency of the overall Social Security system without cutting already modest benefits—something that polls consistently confirm most Americans oppose.^{lxxvi} One frequently discussed policy option is eliminating the cap on earnings that are subject to payroll taxes so that the 5 percent of workers who earn more than the cap would pay into the system all year as other workers do. A recent survey conducted by the nonpartisan National Academy of Social Insurance found overwhelming support for a reform package that included this and other revenue-enhancing features, while also boosting benefits.^{lxxvii} An array of legislation introduced within the past two years has included this and other approaches to strengthen Social Security, reflecting their growing popularity.^{lxxviii}

Adequate administrative funding is needed to ensure program integrity

The Social Security Administration, or SSA, operates on an administrative budget equal to about 1.4 percent of the benefits it pays out. The agency requires sufficient administrative funding not only to process applications for and payment of benefits, but also to perform important program integrity work, such as pre-effectuation reviews of disability determinations and continuing disability reviews to ensure benefits are paid only as long as the individual remains eligible.

In recent years, the agency was significantly underfunded. It received more than one billion dollars less than the President’s request in FY 2011, 2012, and 2013, and appropriations for its program integrity activities nearly half a billion dollars below the levels authorized by the Budget Control Act of 2011, in FY 2012 and 2013.^{lxxix} As a result, during a time of increasing workload due to the Baby Boomers entering retirement and their disability-prone years, the agency lost over 11,000 employees—a 13 percent drop in its workforce—hampering the agency’s ability to serve the public and keep up with vital program integrity activities.^{lxxx} In a positive step, the FY 14 budget bill enacted earlier this year provided the agency with full funding of the FY 2014 Budget Control Act level for program integrity activities.^{lxxxi}

Adequate administrative funding is essential for SSA to make timely and accurate benefit payments^{lxxxii} and perform vital program integrity work. Continuing disability reviews are estimated to save some \$10 in benefits for every \$1 spent on reviews, yet the agency reports a backlog of nearly 1.3 million reviews due to inadequate funding.^{lxxxiii} As policymakers consider options for ensuring Social Security’s solvency, providing the agency with adequate administrative funding to ensure program integrity presents a common-sense step.

Conclusion

In closing, I would like to underscore the importance of policymakers taking the traditional, routine step of rebalancing the Social Security trust funds prior to the Disability Insurance fund's depletion. In the words of Robert M. Ball, who served as Commissioner of Social Security from 1962-1973, under Presidents Kennedy, Johnson and Nixon: "I see little merit in doing anything less than financing OASI and DI on approximately equal terms. But the most important point, of course, is [...] to maintain confidence in the Social Security system as a whole."^{lxxxiv}

Social Security Disability Insurance has been a core pillar of our nation's Social Security system for nearly six decades, offering critical protection to nearly all American workers and their families in the event of a life-changing disability or illness. The program's eligibility criteria are restrictive and benefits are modest, but for those who receive benefits, it is nothing short of a lifeline, providing critical economic security when it is needed most. Policymakers have many options to ensure long-term solvency of the overall Social Security system, and a window of 20 years to arrive at a package that will accomplish that goal. In the meantime, policymakers should enact a simple payroll tax reallocation to keep Disability Insurance on sound footing past 2016. Failure to do so would be nothing short of devastating to millions of disabled workers and their families—and would erode Americans' confidence in the Social Security system.

ⁱ U.S. Social Security Administration, "Presidential Statement on Signing the Social Security Act. August 14, 1935," available at <http://www.ssa.gov/history/fdrstmts.html#signing> (last accessed July 2014).

ⁱⁱ In 1948, the Advisory Council on Social Security concluded that "present methods of protection against income loss from permanent and total disability are not adequate. More than 60 life-insurance companies offer such protection, but few individuals purchase it. The cost is high, the terms on which it is sold are restrictive, and most life-insurance companies no longer follow aggressive sales policies with respect to permanent and total disability insurance." 1948 Advisory Council Report, *Recommendations for Social Security Legislation: The Reports of the Advisory Council on Social Security to the Senate Committee on Finance* (Government Printing Office, 1949), p. 69, available at <http://www.ssa.gov/history/pdf/48advise6.pdf>.

ⁱⁱⁱ U.S. Social Security Administration, "Fact Sheet on the Old-Age, Survivors, And Disability Insurance Program."

^{iv} Ibid.

^v Ibid. For veterans figure, see Bailey and Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update."

^{vi} The payroll tax cap is adjusted annually. It is \$117,000 for 2014. Social Security Administration, "Contribution and Benefit Base," available at <http://www.ssa.gov/oact/COLA/cbb.html#Series>.

^{vii} U.S. Social Security Administration, "Social Security Tax Rates," available at <http://www.ssa.gov/oact/progdata/oasdiRates.html> (last accessed July 2014).

^{viii} U.S. Social Security Administration, "Monthly Statistical Snapshot, December 2013," available at http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/2013-12.html (last accessed July 2014).

^{ix} Bailey and Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update."

^x Authors' calculation based on Ibid.

^{xi} There are exceptions to the two-year waiting period for individuals with amyotrophic lateral sclerosis, or ALS, and end-stage renal disease. Beneficiaries with very low incomes and assets may qualify for Medicaid during the two-year waiting period for Medicare.

^{xii} Bureau of Labor Statistics, "Table 16. Insurance benefits: Access, participation, and take-up rates, civilian workers, National Compensation Survey, March 2012," available at <http://www.bls.gov/ncs/ebs/benefits/2012/ownership/civilian/table12a.htm> (last accessed July 2014).

^{xiii} Ibid.

^{xiv} Ibid.

^{xv} This is the statutory definition of disability set forth in the Social Security Act, 42 U.S.C. 416 (i)(1). Substantial gainful activity is set at a different level for individuals who are blind. For 2014, this amount is \$1,800. Social Security Administration, Substantial Gainful Activity, available at <http://www.socialsecurity.gov/oact/cola/sga.html> (last accessed July 2014).

^{xvi} *Code of Federal Regulations*, title 20, sec. 416 (960)

- ^{xvii} National Academy of Social Insurance, “What is Social Security Disability Insurance?”, available at <http://www.nasi.org/learn/socialsecurity/disability-insurance> (last accessed May 2013).
- ^{xviii} Organisation for Economic Co-operation and Development, “Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries.”
- ^{xix} U.S. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012* (2013), table 59.
- ^{xx} Estimates range as to how many claimants die while awaiting benefits. A 2008 CBS News investigation reported that “over the last two years, at least 16,000 people fighting for disability benefits died while awaiting a decision.” CBS News, “Disabled and Waiting,” January 14, 2008, available at <http://www.cbsnews.com/news/disabled-and-waiting/>. The *Wall Street Journal* reported in a 2011 article that 15,043 claimants died during the application process between 2005 and 2011. Damien Paletta and Dionne Searcey, “Growing Case Backlog Leaves the Terminally Ill Waiting,” *Wall Street Journal*, December 28, 2011, available at <http://online.wsj.com/news/articles/SB10001424052970204296804577121401602777764?KEYWORDS=social+security&mg=reno64-wsj&url=http://online.wsj.com/article/SB10001424052970204296804577121401602777764.html%3FKEYWORDS%3Dsocial%2Bsecurity>.
- ^{xxi} U.S. Social Security Administration, Office of the Chief Actuary, “Death Experience by Select Age and Duration,” Table 13; see also Kathy A. Ruffing, “Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments” (Washington: Center on Budget and Policy Priorities, 2012), available at <http://www.cbpp.org/files/8-9-12ss.pdf>.
- ^{xxii} Kathy Ruffing, “No Surprise: Disability Beneficiaries Experience High Death Rates,” Center on Budget and Policy Priorities, April 4, 2013, available at <http://www.offthechartsblog.org/no-surprise-disability-beneficiaries-experience-high-death-rates>.
- ^{xxiii} Table 6 of the Social Security Administration’s *Annual Statistical Report on the Social Security Disability Insurance Program*, presents data on disabled worker beneficiaries, using their primary diagnosis. U.S. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012* (2013), available at http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/sect01b.pdf.
- ^{xxiv} Ibid.
- ^{xxv} Ronald C. Kessler and others, “Prevalence, severity, and comorbidity of 12-month DSM-IV disorders in the National Comorbidity Survey Replication,” *Archives of General Psychiatry* 62 (6) (2005): 617–627.
- ^{xxvi} Joe Parks and others, “Morbidity and Mortality in People with Severe Mental Illness” (Alexandria, VA: National Association of State Mental Health Program Directors, 2006), available at <http://www.nasmhpd.org/docs/publications/MDCdocs/Mortality%20and%20Morbidity%20Final%20Report%208.18.08.pdf>; Marion E. Sherman and others, “Analysis of causes of death for all decedents in Ohio with and without mental illness, 2004–2007,” *Psychiatry Services* 64 (3) (2013): 245–251, available at <http://www.ncbi.nlm.nih.gov/pubmed/23318767>; Marion E. Sherman and others, “Analyzing excess mortality from cancer among individuals with severe mental illness,” *Cancer* 119 (13) (2013): 2469–2476, available at <http://www.ncbi.nlm.nih.gov/pubmed/23585241>.
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- ^{xxx} Ibid.
- ^{xxxi} Ruffing, “Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments.”
- ^{xxxii} Trapani, Mark & Harkin, Deborah (2011). SSA Occupational and Medical Vocational Claims Review Study: Final Results (for initial level cases), May 2011. <https://www.socialsecurity.gov/oidap/Documents/PRESENTATION--TRAPANI%20AND%20HARKIN--OIDAP%2005-04-11.pdf>
- ^{xxxiii} Bailey and Hemmeter, “Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update.”
- ^{xxxiv} Ibid.
- ^{xxxv} Social Security Disability Insurance beneficiaries remain eligible for Medicare for seven years no matter how much they earn and irrespective of whether they continue to receive cash benefits through Social Security Disability Insurance. See U.S. Social Security Administration, “The Red Book – A Guide to Work Incentives,” available at <http://www.ssa.gov/redbook/eng/ssdi-only-employment-supports.htm#a0=3>.
- ^{xxxvi} James R. Sheldon, “Expedited Reinstatement of Social Security or SSI Disability Benefits” (Ithaca, NY: Cornell University, 2006), available at <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1225&context=edicollect>.
- ^{xxxvii} Expedited reinstatement involves a medical review to ensure that the individual meets the Social Security disability standard. See *ibid*.

^{xxxviii} This study counted beneficiaries as having worked if they did one hour of work or more at any point during the year. Arif Mamun and others, “Employment Among Social Security Disability Program Beneficiaries, 1996–2007,” *Social Security Bulletin* 71 (3) (2011): 11–34, available at <http://www.ssa.gov/policy/docs/ssb/v71n3/v71n3p11.pdf>.

^{xxxix} Ibid.

^{xl} Ibid.

^{xli} Maintaining a level of earnings just below SGA, such that a beneficiary receives both a full DI benefit and the maximum allowable amount of earnings without triggering suspension of benefits, is sometimes referred to as “parking.” There is no evidence that even the less than one-half of one percent of beneficiaries who maintain earnings at this level are doing so intentionally. Jody Schimmel, David C. Stapleton, and Jae Song, “How Common is ‘Parking’ Among Social Security Disability Insurance Beneficiaries? Evidence from the 1999 Change in the Earnings Level of Substantial Gainful Activity,” *Social Security Bulletin*, Vol. 71, No. 4, 2011.

^{xlii} Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, “Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate the Causal Effects of SSDI Receipt.” Working Paper 2010-241 (University of Michigan Retirement Research Center, 2012), Figure A-2, available at <http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp241.pdf>.

^{xliii} Organisation for Economic Co-operation and Development, “Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries.”

^{xliiv} Organisation for Economic Co-operation and Development, “Social Expenditure - Aggregated data,” available at http://stats.oecd.org/Index.aspx?DataSetCode=SOXC_AGG (last accessed June 2014); Kathy Ruffing, “Social Security: We’re Number...30!”, Center on Budget and Policy Priorities, May 11, 2011, available at <http://www.offthechartsblog.org/social-security-we-re-number...-30/>.

^{xlv} Organisation for Economic Co-operation and Development, “Social Expenditure - Aggregated data.”

^{xlvi} Ibid. Comparing Social Security Disability Insurance with other OECD member countries’ equivalent programs, which OECD data refer to as “disability pensions.”

^{xlvii} As discussed elsewhere in this brief, Social Security’s actuaries use the age-sex adjusted prevalence rate to analyze trends in benefit receipt. OECD data use percent of working-age population, so that is the figure used here. Organisation for Economic Co-operation and Development, “Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries.”

^{xlviii} See, e.g., Alberto Alesina and others, “Why Doesn’t the U.S. Have a European-Style Welfare State?” (Cambridge: Harvard Institute for Economic Research, 2001) (discussing generosity of European nations’ social welfare systems compared with the United States). The OECD produces an “Overall Strictness of Employment Protection” index; see Organisation of Economic Cooperation and Development, “OECD Employment Outlook,” Chart 2.A2.1 (2004), available at <http://www.oecd.org/employment/emp/34846856.pdf>.

^{xlix} David Pattison and Hilary Waldron, “Growth in New Disabled Worker Entitlements, 1970-2008,” *Social Security Bulletin* 73 (4) (2013): 25–48, available at <http://www.ssa.gov/policy/docs/ssb/v73n4/v73n4p25.pdf>.

ⁱ U.S. Social Security Administration Chief Actuary Stephen Goss, “The Financing Challenges Facing the Social Security Disability Insurance Program,” Testimony before the House Committee on Ways and Means, Subcommittee on Social Security, March 14, 2013.

ⁱⁱ The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2013), Table V.C5, available at <http://www.ssa.gov/oact/tr/2013/tr2013.pdf>.

ⁱⁱⁱ Ruffing, “Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments.”

ⁱⁱⁱⁱ U.S. Social Security Administration Chief Actuary Stephen Goss, “The Financing Challenges Facing the Social Security Disability Insurance Program.”

^{lv} U.S. Social Security Administration, “Table V.A2.-Social Security Area Population as of July 1 and Dependency Ratios, Calendar Years 1941-2090,” available at <http://www.ssa.gov/OACT/TR/2013/lr5a2.html> (last accessed July 2014).

^{lv} Kathy Ruffing “How Much of the Growth in Disability Insurance Stems From Demographic Changes?” (Washington: Center on Budget and Policy Priorities, 2014), available at <http://www.cbpp.org/files/1-27-14ss.pdf>.

^{lvi} Ibid.

^{lvii} Kathy A. Ruffing, Testimony before the Subcommittee on Social Security Committee on Ways and Means U.S. House of Representatives, March 20, 2013, available at <http://www.cbpp.org/files/3-20-13ss-test.pdf>.

^{lviii} U.S. Social Security Administration Chief Actuary Stephen Goss, “The Financing Challenges Facing the Social Security Disability Insurance Program.”

^{lix} Ibid.

^{lx} Social Security Advisory Board, *Aspects of Disability Decision Making: Data and Materials* (U.S. Social Security Administration, 2012), p. 12, available at http://www.ssab.gov/Publications/Disability/GPO_Chartbook_FINAL_06122012.pdf; Stephen C. Goss and others, “Disabled Worker Allowance Rates: Variation Under Changing Economic Conditions” (Baltimore: Social Security Administration, 2013), available at www.socialsecurity.gov/OACT/NOTES/pdf_notes/note153.pdf; Kathy Ruffing, “Disability Benefits Are Hard to Get – Even in Recessions,” Center on Budget and Policy Priorities, September 3, 2013, available at <http://www.offthechartsblog.org/disability-benefits-are-hard-to-get-even-in-recessions/>.

^{lxi} Office of the Inspector General, *Impact of Increases in State Unemployment Rates on the Social Security Administration's Disability Programs* (U.S. Social Security Administration, 2013), available at <http://oig.ssa.gov/sites/default/files/audit/full/pdf/A-07-12-11209.pdf>.

^{lxii} Andres I. Mueller, Jesse Rothstein, and Till M. Von Wachter, "Unemployment insurance and Disability Insurance in the Great Recession." Working Paper 19672 (National Bureau of Economic Research, 2013), available at <http://www.nber.org/papers/w19672>.

^{lxiii} The White House, Council of Economic Advisers, *The Labor Force Participation Rate Since 2007: Causes and Policy Implications*, at 28 (July 2014), available at http://www.whitehouse.gov/sites/default/files/docs/labor_force_participation_report.pdf.

^{lxiv} The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 1995 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (1995), available at <http://www.ssa.gov/history/reports/trust/1995/trif.html>.

^{lxv} The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2013).

^{lxvi} Virginia P. Reno, Elisa A. Walker, and Thomas A. Bethell, "Social Security Disability Insurance: Action Needed to Address Finances" (Washington: National Academy of Social Insurance, 2013), available at http://www.nasi.org/sites/default/files/research/SS_Brief_041.pdf.

^{lxvii} A common example of movement between programs is that Disability Insurance beneficiaries convert to Social Security retirement benefits when they reach the Social Security retirement age.

^{lxviii} U.S. Social Security Administration, "Social Security: Summary of the Major Changes in the Cash Benefits Program."

^{lxix} Kathy Ruffing and Paul N. Van de Water, Center on Budget and Policy Priorities, "Congress Needs to Boost Disability Insurance Share of Payroll Tax By 2016," (July 2014), available at http://www.cbpp.org/cms/index.cfm?fa=view&id=4168#_ftn3.

^{lxx} Ibid.

^{lxxi} Ibid.

^{lxxii} Ibid.

^{lxxiii} Reno, Walker, and Bethell, "Social Security Disability Insurance: Action Needed to Address Finances."

^{lxxiv} The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund*.

^{lxxv} U.S. Secretary of the Treasury Jacob Lew testified at a March 2014 budget hearing that "there's only one solution the technical experts believe can work in the timeframe between now and 2016. And that's a reallocation of the tax rate, as we've done in the past." Jacob Lew, Testimony before the U.S. Senate Budget Committee, March 6, 2014. Video of Secretary Lew's testimony available at <http://www.bloomberg.com/video/lew-testifies-before-senate-on-obama-budget-plan-s0NJ4eyFT5mkoX19pfkdoA.html>.

^{lxxvi} Most recently, a Pew survey released in June 2014 found that 67 percent of Americans, and large majorities of Americans of both political parties, oppose cutting Social Security benefits in any way. Pew Research Center, "Political Polarization in the American Public" (2014), available at <http://www.people-press.org/files/2014/06/6-12-2014-Political-Polarization-Release.pdf>.

^{lxxvii} The most popular reform package, preferred to the status quo by seven in 10 individuals polled—across generations, income levels, and political affiliations—would: 1) Gradually, over 10 years, eliminate the cap on earnings taxed for Social Security; 2) gradually, over 20 years, raise the Social Security tax that workers and employers each pay from 6.2% of earnings to 7.2%; 3) increase the cost of living adjustment formula, or COLA; and 4) increase Social Security's minimum benefit. Jasmine V. Tucker, Virginia P. Reno and Thomas A. Bethell, "Strengthening Social Security: What Do Americans Want?" (Washington: National Academy of Social Insurance, 2013), available at http://www.nasi.org/sites/default/files/research/What_Do_Americans_Want.pdf.

^{lxxviii} Examples include: the Strengthening Social Security Act of 2013, S. 567 and H.R. 3118, introduced by Sen. Tom Harkin (D-IA) in the Senate and Rep. Linda Sanchez (D-CA) in the House; the Protecting and Strengthening Social Security Act, S. 308 and H.R. 649, introduced by Sen. Mark Begich (D-AK) in the Senate and Rep. Theodore Deutch (D-FL) in the House; the Keeping Our Social Security Promises Act, S. 500, introduced by Sen. Bernie Sanders (I-VT), and the No Loopholes in Social Security Act, H.R. 1029, introduced by Rep. Peter DeFazio (D-OR); the Social Security Enhancement and Protection Act of 2013, H.R. 1374, introduced by Rep. Gwen Moore (D-WI); the RAISE Act, S. 2455, introduced by Sens. Begich and Patty Murray (D-WA).

^{lxxix} See Testimony of Carolyn Colvin, Acting Commissioner of Social Security, before the U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Social Security, February 26, 2014, available at http://www.ssa.gov/legislation/testimony_022614.html.

^{lxxx} Ibid.

^{lxxxi} Ibid.

^{lxxxii} Adequate administrative funding is also needed for SSA to process beneficiaries' earnings reports and adjust benefits timely for beneficiaries who work. The agency reports that the average processing time for earnings reports is 270 days, which results in needless improper payments, and can be tremendously disruptive to beneficiaries who are all of a sudden—through no fault of their own—hit with an overpayment that they are required to repay.

^{lxxxiii} Ibid.

^{lxxxiv} Testimony of Robert M. Ball before the U.S. House Committee on Ways and Means, Subcommittee on Social Security, April 22, 1993, cited in Reno, Walker, and Bethell, “Social Security Disability Insurance: Action Needed to Address Finances.”