

**HEARING ON THE FINANCING CHALLENGES  
FACING THE SOCIAL SECURITY DISABILITY  
INSURANCE PROGRAM**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON SOCIAL SECURITY  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRTEENTH CONGRESS

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FIRST SESSION

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March 14, 2013

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**HEARING ON THE FINANCING CHALLENGES  
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INSURANCE PROGRAM**

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**THURSDAY, MARCH 14, 2013**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON HUMAN RESOURCES  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:01 a.m., in Room B-318, Rayburn House Office Building, the Honorable Sam Johnson [chairman of the subcommittee] presiding  
[The advisory of the hearing follows:]

# HEARING ADVISORY

## Johnson Announces Hearing on the Financing Challenges Facing the Social Security Disability Insurance Program

Washington, Feb 28, 2013

**\*\*HEARING POSTPONED\*\***

The hearing has been rescheduled for Thursday, March 14, 2013, at 10:00 AM in B-318, Rayburn House Office Building.

U.S. Congressman Sam Johnson (R-TX), Chairman of the House Committee on Ways and Means Subcommittee on Social Security, today announced a hearing on the financing challenges facing the Social Security Disability Insurance program. **The hearing will take place on Thursday, March 7, 2013, in B-318 Rayburn House Office Building, beginning at 9:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and for inclusion in the printed record of the hearing.

### **BACKGROUND:**

The Social Security Act Amendments of 1956 (P.L. 84-880) created the Social Security Disability Insurance (DI) program to provide protection against economic insecurity resulting from the loss of earnings due to a disability. The DI program pays benefits to those who have worked in the past but are determined unable to work because of a disability that is expected to last more than a year or result in death. In December 2012, the average DI benefit was \$1,130 a month, or about \$13,500 a year.

According to the Congressional Budget Office (CBO), between calendar years (CY) 1970 and 2012, the number of people paying into the system has increased 72 percent, but those receiving disability benefits (both disabled workers and their dependent family members) has increased by over 300 percent from 2.7 million to over 10.9 million. Total DI benefit outlays are estimated to have reached \$135.1 billion in FY 2012. By CY 2023, CBO projects that the number of beneficiaries will exceed 12.3 million and total annual benefits paid in FY 2023 will reach over \$213 billion.

In its *Budget and Economic Outlook: Fiscal Years 2013 to 2023*, CBO also projects that for the 10-year period ending FY 2023, DI cumulative cash flow deficits will reach \$416 billion. Since 2005, in order to pay full benefits, the DI program has been redeeming the U.S. Treasury securities credited to the DI Trust Fund. CBO has projected that the U.S. Treasury securities credited to the DI Trust Fund will reach a zero balance by 2016. The Social Security trustees also project a 2016 exhaustion date for the DI Trust Fund. At that time, DI program revenues will only be able to finance 79 percent of benefits, unless Congress acts.

According to its July 2012 *Policy Options for the Social Security Disability Program* report, CBO attributes the significant growth in the number of beneficiaries to the predictable consequences of both demographic factors and policy decisions. The working age population has grown and more women have worked enough to be insured for benefits, boosting the number of people eligible for DI benefits. The aging of the baby boom generation into their most-disability-prone years has led to an increase in the number of people entering the DI program. The rise in the retirement age has also increased the number of individuals receiving disability benefits, as have economic recessions. Medical advances that have created better health outcomes have increased the amount of time that someone may receive benefits from

the DI program. Finally, policymakers have also played a role by expanding the ways applicants can qualify for benefits which have affected the size of the program.

In announcing the hearing, Social Security Subcommittee Chairman Sam Johnson (R-TX) said, **“Disabilities can have a devastating effect on workers and their families. Disability benefits provide vital income during times of uncertainty. We already know the disability program’s broken process makes people wait too long and that decisions can depend more on who is making the decision than what is the right decision. Even worse, in just three years disability beneficiaries will face a 21 percent benefit cut, if Congress doesn’t act. We must get serious and fix this program.”**

#### **FOCUS OF THE HEARING:**

The hearing will focus on the financing challenges facing the DI program, including why the number of program participants and benefit costs have grown so rapidly. The hearing will also examine future trends, as well as underlying assumptions about the DI program, including entry on and exit from the disability rolls, the capacity for work of people with disabilities, and how total government spending is impacted by DI beneficiaries.

#### **DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

**Please Note:** Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “Hearings.” Select the hearing for which you would like to submit, and click on the link entitled, “Click here to provide a submission for the record.” Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, March 21, 2013**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

#### **FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days’ notice is requested). Questions with regard to special accommodation needs in general (including avail-

ability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://www.waysandmeans.house.gov/>.

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Chairman JOHNSON. Good morning. Welcome to our first subcommittee hearing of the 113th Congress. And I want to first introduce our new subcommittee members. They are Mr. Renacci, Mr. Kelly, Mr. Griffin, Mr. Thompson, and Ms. Schwartz. I look forward to working with each of you.

We begin our work during a time when the government is operating under a sequester proposed by the President and agreed to on a bipartisan basis as part of the Budget Control Act in August 2011. The House twice passed legislation to replace the President's plan with smarter and more responsible cuts. Unfortunately, the President and Senate ignored it.

Right now, America is over \$16 trillion in debt. That means every American owes more than \$52,000. Now is the time to work together to stop spending money we do not have.

Like every American family and business, Social Security is challenged to tighten its belt and live within its means. The fiscal facts are that, one, under sequester, Social Security needs to reduce its operating budget by 3.35 percent not the 5 percent cut that all other domestic agencies have to sustain. There are a lot of families and businesses in my district who have had to cut more on their budget than that.

Secondly, Social Security's operating budget has increased by 46 percent over the fiscal years 2003 to 2013.

The stimulus provided an additional \$1 billion to Social Security. And the President cut the Commissioner's proposed fiscal year 2013 operating budget by 6 percent before it was submitted to the Congress, the largest such cut made by President Obama during his 4 years. And let me be clear. Even with Social Security having to tighten its belt, benefits will continue to be paid.

Today we will hear the latest information about the financing challenges facing the Social Security Disability Insurance Program. This hearing will build on the groundwork of this Subcommittee from the last congress, when we held a hearing series on securing the future of the Disability Insurance Program.

Then we learned about the predictable yet striking and unrestrained growth of the program and the reasons for it. At a time when workers paying into the system have increased over 71 percent between 1970 and 2012, the number of people collecting disability checks has increased by over 300 percent, from 2.7 million to 10.9 million. By 2023 the number of beneficiaries will grow to 12.3 million, and total benefits will reach over \$213 billion. That is a 57 percent increase over the 135 billion paid in benefits in 2012.

And unless Congress acts, in 2016, just 3 years from now, disabled workers who can least afford it will be at a risk of 21 percent cut in their benefit checks. We don't have much time, and we need to act now.



Some of that growth is predictable because of an increase in the size of the overall workforce, the entry of more women in the workforce, and the aging of baby boomers into their disability-prone years. And some of the growth is a consequence of Congress's decision decades ago to expand the ways in which people could qualify for disability. Our witnesses today will explain these numbers further, including the impact disability insurance has on other federal spending, along with how the makeup of those receiving benefits has changed.

In this hearing series we also heard about the people who try to defraud the system by falsely claiming they are disabled. We heard that Social Security's efforts to conduct continuing eligibility reviews takes a backseat to handling the growing workloads. That choice keeps costs higher, resulting in wasted taxpayer dollars, and weakens public trust in the program.

We heard how the last century's view of disability hasn't kept up with this century's advances in medicine, technology, and the workplace, resulting in a program that pays people not to work.

GAO's High Risk Series Update, issued just last month, keeps the high risk designation on the DI program because the medical criteria and occupational information relied on to make benefit decisions are still out of date. The fact that the DI program has been on its High Risk list for 10 years is shameful.

In the hearing series we also heard how important it is to make the right decision as early in the process as possible. We walked through the lengthy and open-ended initial determination and appeals process that enables claimant representatives to drag out appeals in hope of getting awards. We heard how outlier judges who award disability benefits in most of the cases they hear can't be managed or questioned about the decisions they are making on behalf of the Agency, encouraging a program where who makes the decision and where you live may mean more than the medical evidence in the file.

We also heard how the courts have taken it up on themselves to reinterpret Congress's will, creating inequities and inconsistencies in this program. And we heard over and over that we must keep this program strong for those who truly cannot work. And I know that is important to everyone in this room.

Recently Dr. Ben Carson, an individual who overcame serious obstacles to become an accomplished neurosurgeon, commented that Americans are so concerned with political correctness that we are losing our ability to speak and hear the truth.

We all want to do the right thing for those who can no longer work because of a serious illness or injury. Yet, in 2016, there won't be enough revenue to pay full benefits. Disabilities have a devastating effect on individuals and their families and every dollar of those disability checks matter.

It is time to speak the truth, work together, stay on target, and fix the disability program once and for all. And I now recognize Ranking Member Mr. Becerra for his opening statement.

Mr. BECERRA. Mr. Chairman, thank you very much. Let's remind everyone that workers earn their Social Security disability protection. Nearly 160 million Americans contribute to Social Security, earning protection for themselves and their families when

they retire, or if they should die or become severely disabled. Over its 77-year lifetime, Americans have paid into Social Security \$13.9 trillion in contributions. Add in the \$1.6 trillion in interest earned on those contributions, and you total \$15.5 trillion, all together, that Americans have invested into Social Security.

At the same time, Social Security has paid out only \$12.8 trillion. Do the math. That leaves an overall trust fund surplus—not deficit, surplus—of \$2.7 trillion in the Social Security trust fund. Let's remind people it is not easy to qualify for Social Security's disability benefits. Disability benefits are only available to those who have paid into the system and who have the most severe long-term impairments, Americans essentially who are dying or who genuinely can't earn even a poverty-level wage at any job in the national economy, not what they were trained in, not that they worked in forever, but any job. If they can't qualify for any job in the national economy because of their disability, then and only then would they qualify.

Make note. About one in seven women and about one in every five men die within a few years of being awarded a disability insurance benefit. Let's remind people that the Social Security Disability Insurance Trust Fund's challenge is modest, stable, and it is less immediate than the dangers of the sequester, the mindless, senseless, meat axe approach to cutting our budget deficit.

The disability insurance shortfall is relatively modest because over the next 75 years the financing shortfall is equal to about 1/10 of 1 percent of our GDP. To put that disability insurance shortfall in context, the annual shortage in the DI fund is equal to less than five percent of the Defense Department's annual budget.

And let's make people are clear. The DI shortfall is not a surprise. When Congress last rebalanced the allocation of payroll taxes going into the two Social Security trust funds, it did so knowing that the amount allocated to the DI fund would result in a shortfall in 2016. The recent growth in disability insurance benefits also is not a surprise, since it is due primarily to the demographic changes and other predictable factors in combination with the recession.

As we talk about the challenge facing the disability insurance program we should note that a threat even more immediate is if we do nothing about this mindless sequester and across-the-board cuts that are going to hit every American family and every American taxpayer. That budget sequester went into effect on Friday. And as a result of this sequester, disability—or disabled workers, excuse me, who are already waiting nearly four months for their benefit applications to be processed will wait an average of two weeks longer. Workers waiting for a judge to decide their cases who already wait, on average, about a year for a hearing, will see their waiting time grow by about a month.

The Social Security Administration will have fewer workers, fewer staff to conduct reviews of whether individuals continue to be disabled, though taxpayers save \$9 for every dollar we invest in this important program that leads to integrity in the use of the Disability Insurance Trust program.

Our first goal in addressing the DI challenge should be to “do no harm”. The severely disabled worker who earned his benefits and receives Social Security already faces serious challenges. The bene-

fits aren't especially generous. A typical worker receives about \$13,500 a year, substantially less than he or she was making when that individual was able to work.

Through the Social Security program millions of Americans with disabilities have earned hope, dignity, and, when it is possible, a chance to work.

And, Mr. Chairman, I think the more we move forward, we will find that we can resolve this in a bipartisan fashion to make sure that all Americans who have earned the benefit, when they become disabled, have this opportunity to live a life in dignity.

And I would like to close, finally, Mr. Chairman, if I may, with one final point. I wanted to make some personal comments about our chairman and my friend, Mr. Johnson. As many of you may know, Sam and his wife Shirley recently experienced the devastating loss of their son, Bob. Please, Mr. Chairman, know that our thoughts and prayers are with you and your family.

And I know that this loss comes at an especially bittersweet time for you. It is your fortieth anniversary from freedom, from seven years of confinement as a prisoner of war in Hanoi, more than half of that time which you spent in solitary confinement. We know that you flew over 62 combat missions during the Korean War, 25 missions in Vietnam before you were shot down. And, Sam, I take this occasion to honor your service to our country. You are a tribute to the dedication of our men and women in uniform, and your courage and strength in the face of unimaginable adversity continues to inspire us all. And we consider you a leader of America.

And with that, Mr. Chairman, I will yield back.

Chairman JOHNSON. Thank you, Mr. Becerra. As is customary, any Member is welcome to submit a statement for the hearing record. Before we move on to our testimony today, I want to remind our witnesses to please limit your oral statement to five minutes, if you can. However, without objection, all the written testimony will be made part of the hearing record.

We have one witness panel today. Seated at the table are Joyce Manchester, Ph.D., Chief, Long-Term Analysis Unit, Health, Retirement, and Long-Term Analysis Division, Congressional Budget Office.

Chairman JOHNSON. And Stephen Goss, Chief Actuary, Social Security Administration.

Welcome, and thank you for being here.

Dr. Manchester, you are welcome to go ahead.

**STATEMENT OF JOYCE M. MANCHESTER, PH.D., CHIEF, LONG-TERM ANALYSIS UNIT, HEALTH, RETIREMENT, AND LONG-TERM ANALYSIS DIVISION, CONGRESSIONAL BUDGET OFFICE**

Ms. MANCHESTER. Thank you. Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee, thank you for inviting me to testify on the Social Security Disability Insurance, or DI, program. My statement is based on a report that CBO released last year, in which we examined the reasons that the program has experienced rapid growth in its beneficiaries and costs, and evaluated a range of options for changing the program.

As you know, the DI program pays cash benefits to adults younger than age 66 who have worked in the past, but are judged to be unable to continue to perform substantial work. DI beneficiaries often receive additional benefits from other federal programs such as Medicare, generally after a 24-month waiting period, supplemental security income, or Medicaid.

In 2012 the DI program provided benefits to 8.8 million disabled workers and 2.1 million dependent spouses and children of those workers. The average benefit received by disabled workers last year was about \$1,130 per month. And for basic facts about the program you can see page one of the handout or page two of the testimony.

Since 1970, the number of DI worker beneficiaries has increased nearly sixfold. That growth can be attributed to changes in multiple factors, including demographics, the labor force, federal policy, opportunities for work, and compensation levels.

Part of the growth reflects the aging of the baby boom generation, because older workers are far more likely than younger workers to qualify for DI benefits. In addition, the share of women who have worked enough to be eligible for DI has increased substantially. And you can see the figure on page two of the handout, or page three of the testimony.

Moreover, changes in federal policy, notably the 1984 Disability Benefits Reform Act, expanded the ways in which people could qualify for the DI program. Those changes led to an increase in the share of DI beneficiaries with mental or musculoskeletal disorders, many of whom enter the program at younger ages, qualify based on more subjective criteria, and spend more years on the program than do people with other types of disabilities.

Declining opportunities in the labor market for less-educated workers have also contributed to the program's growth. The dividing line between people who can and cannot perform substantial work is not always clear. And in some circumstances, the program discourages work. For example, some people with health problems who have been out of work for long periods turn to the DI program for support.

Since 1970, after adjusting for inflation, outlays for benefits from the DI program have grown by more than 9 times, while revenues dedicated to the program have increased nearly 5 times. In 2012, spending on benefits in the DI program was \$135 billion, and the program's revenues, mostly from its share of the Social Security's payroll tax, totaled \$102 billion. The imbalance between spending and revenues will persist in coming years, and the DI trust fund will be exhausted in 2016, CBO projects. At that time, the Social Security Administration will no longer have legal authority to pay full DI benefits.

The DI program's rapid expansion and the continued gap between its spending and dedicated revenues have led some analysts and policy-makers to examine options for change. In last year's report, CBO, in conjunction with the staff of the Joint Committee on Taxation, estimated the budgetary effects of several potential modifications to the DI program. As with other federal programs, a reduction in the number of beneficiaries or in average benefit levels

would reduce federal outlays, but also reduce the income of potential beneficiaries.

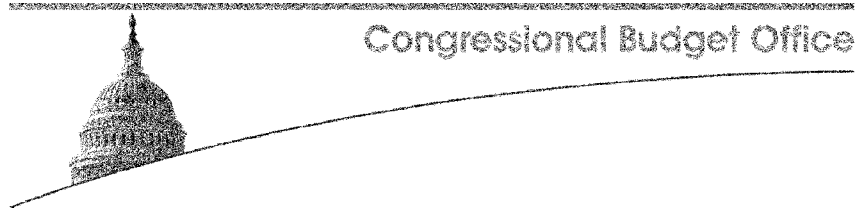
CBO examined two options that would—the taxes that support the program. And again, you can see page three of the handout or page eight of the testimony. It also assessed seven options that would reduce spending on benefits. Ensuring the solvency of the DI program would require combinations of such policies or other changes to the program.

CBO also examined two options that would increase spending for the program. Unless those policy changes were accompanied by some other reductions in benefits, or by additional program revenues, the finances of the program and of the Federal Government as a whole would be worsened.

Policy-makers could also alter the program in more fundamental ways. Modifications might include promoting work, for example, by focusing on rehabilitation and re-employment prior to applying for DI benefits, as has been done in various European nations. In CBO's assessment, such changes would probably not yield significant short-term cost savings, but could provide long-term savings or achieve other goals, such as improving the well-being of people with disabilities.

Thank you, and I will be happy to answer any questions you may have.

[The prepared statement of Ms. Manchester follows:]



## **Testimony**

### **The Social Security Disability Insurance Program**

**Joyce Manchester  
Chief, Long-Term Analysis Unit**

**Before the  
Subcommittee on Social Security  
Committee on Ways and Means**

**March 14, 2013**

*This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Thursday, March 14, 2013. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.*

**Note**

Unless otherwise indicated, Social Security enrollment data are presented for calendar years and budget data are presented for federal fiscal years, which run from October 1 to September 30.

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Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee, thank you for inviting me to testify on the Social Security Disability Insurance (DI) program. My statement, based on a report that the Congressional Budget Office (CBO) released last July, examines the reasons that the program has experienced rapid growth in its costs and number of beneficiaries and presents a variety of options for changing the program.<sup>1</sup>

### How the Disability Insurance Program Works

The DI program is one component of the federal Social Security system, which comprises the Old-Age, Survivors, and Disability Insurance (OASDI) programs. The DI program provides income to nonelderly adults who have worked in the past but whom the Social Security Administration (SSA) now deems unable to work because of a medical condition that is expected to last more than one year or to result in death. Only workers who are younger than the full retirement age—established for the Old-Age component of Social Security—can be eligible for DI benefits.<sup>2</sup> Disabled beneficiaries receive monthly payments based on their past earnings for as long as they remain in the program.<sup>3</sup> Some family members of disabled beneficiaries, including certain spouses and children, are also eligible for benefits. If DI beneficiaries

remain disabled and live to their full retirement age, they transfer to the Social Security retirement program at that age, but their benefits do not change.<sup>4</sup>

DI benefits are paid from the Disability Insurance Trust Fund. That fund is financed primarily by the Social Security payroll tax, which is paid in equal amounts by employers and employees.<sup>5</sup> (Self-employed workers pay the entire tax.) The total Social Security payroll tax is 12.4 percent and is applied to earnings up to a maximum amount that generally increases over time with average earnings nationwide. The DI program's share of that tax is 1.8 percentage points; in other words, the DI tax rate today is 1.8 percent—employers and employees each pay a rate of 0.9 percent.

In January 2013, the DI program provided benefits to 10.9 million people. More than 80 percent of them, or 8.8 million people, were disabled worker beneficiaries; about 17 percent, or 1.9 million, were children of those workers; and fewer than 2 percent, or 160,000, were spouses of those workers. See Box 1 for basic facts about the program.

The DI program's rules generally restrict beneficiaries from working and earning substantial amounts while they are receiving benefits. However, when beneficiaries first return to work, they can earn an unlimited amount for 12 months without losing their benefits. (Specifically, a beneficiary may enter a "trial work period" during which he or she may work for nine months and remain in the program; a three-month grace period follows the trial work period.) Thereafter, they can earn no more than some specified amount per year (\$12,480 in 2013) before their benefits are eliminated.<sup>6</sup>

1. Congressional Budget Office, *Policy Options for the Social Security Disability Insurance Program* (July 2012), [www.cbo.gov/publication/43421](http://www.cbo.gov/publication/43421). Relative to that report, this testimony includes updated figures for 2012 and updated projections under current law for 2013 through 2023; however, the estimated budgetary effects of the policy options have not been updated. For more information from CBO on the DI program, see *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), [www.cbo.gov/publication/21638](http://www.cbo.gov/publication/21638); and "DI: The Social Security Disability Insurance Program" (infographic, July 2012), [www.cbo.gov/publication/43432](http://www.cbo.gov/publication/43432).
2. The full retirement age is the age at which a person becomes eligible for unreduced Social Security retirement benefits. For details on DI eligibility, see Social Security Administration, *Disability Evaluation Under Social Security* (Blue Book), SSA Pub. 64-039 (September 2008), [www.ssa.gov/disability/professionals/bluebook/listing-impairments.htm](http://www.ssa.gov/disability/professionals/bluebook/listing-impairments.htm).
3. In this testimony, the term "disabled beneficiaries" refers to people with disabilities who are receiving benefits from the DI program as a result of their own disability and whose DI benefits are calculated on the basis of their own work history. (Such beneficiaries are also referred to as disabled worker beneficiaries, disabled workers, or disabled insured beneficiaries.)

4. For more detailed descriptions of the DI program, see Congressional Budget Office, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications* (July 2010), [www.cbo.gov/publication/21638](http://www.cbo.gov/publication/21638); and Social Security Administration, *Disability Benefits*, SSA Pub. 05-10029 (July 2012), [www.ssa.gov/pubs/10029.html](http://www.ssa.gov/pubs/10029.html).
5. In addition to payroll tax receipts, a portion of the income taxes paid on Social Security retirement benefits is credited to the DI trust fund. The government maintains a separate trust fund for the Old-Age and Survivors Insurance program.
6. Blind beneficiaries in 2013 can earn up to \$20,880 per year. For more information, see Social Security Administration, "Trial Work Period" (October 2012), [www.ssa.gov/oact/COLA/twpn.html](http://www.ssa.gov/oact/COLA/twpn.html).

**Box 1.****Basic Facts About the Social Security Disability Insurance Program****Beneficiaries**

- 8.8 million disabled workers (in January 2013)
- 1.9 million children of disabled workers
- 0.2 million spouses of disabled workers
- 50 percent of Disability Insurance (DI) beneficiaries had household income below the federal poverty threshold in 2006 (the most recent year for which data are available)

**Trends in Participation**

- Number of disabled worker beneficiaries: 1.5 million in 1970 to 8.8 million in 2012
- All disabled worker beneficiaries as a share of working-age adults (people ages 20 to 64): 1.3 percent in 1970 to 4.6 percent in 2012
- Female disabled worker beneficiaries as a share of working-age adults: 0.4 percent in 1970 to 2.1 percent in 2012

**Spending on DI Benefits and Medicare**

- DI benefits in fiscal year 2012: \$135 billion
- Spending on Medicare benefits for DI beneficiaries (generally after a 24-month waiting period) in 2012: \$80 billion
- Average monthly DI benefit for a disabled worker: \$1,130 (in January 2013)
- DI benefits as a share of gross domestic product: 0.3 percent in 1970 to 0.9 percent in 2012
- DI benefits as a share of total Social Security benefits: 10 percent in 1970 to 18 percent in 2012

**Revenues for the DI Program**

- DI tax revenues in 2012: \$102 billion
- Mostly from the 1.8 percent payroll tax on earnings up to the taxable maximum (\$113,700 in 2013)

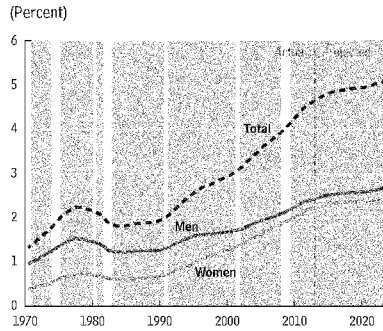
**Projected Exhaustion Date of the DI Trust Fund: 2016**

- The Social Security Administration has no legal authority to pay full benefits on time after exhaustion occurs
- In the past, legislation redirected some revenues from the Old-Age and Survivors Insurance fund to the DI fund

**Reasons for Growth in the DI Program**

- Demographics: an aging population with more workers with disabilities
- More women in the workforce who are potentially eligible for DI
- Changes in federal policy
  - Legislation in 1984 led to a larger number of DI beneficiaries with musculoskeletal or mental impairments, many entering the rolls at younger ages and staying in the program longer than the average beneficiary
  - Rise in the full retirement age for Social Security
- Changes in opportunities for employment and compensation
  - Poor employment opportunities for less skilled workers, especially during economic downturns
  - Rising income inequality combined with the DI-benefit formula, which indexes benefits to the national average wage

**Figure 1.**  
**Social Security Disability Insurance**  
**Beneficiaries as a Share of the**  
**Working-Age Population**



Sources: Congressional Budget Office; Social Security Administration.

Notes: White bars indicate recessions.

The working-age population consists of people ages 20 to 64.

The average monthly benefit for a disabled beneficiary in January 2013 was \$1,130; at that benefit level, the average DI beneficiary this year may have an annual income of no more than \$26,040 from DI benefits and earnings combined. (For purposes of comparison, the average income per person for the nation as a whole, according to the Census Bureau, was about \$27,600 in 2011.) In 2006, the most recent year for which data are available, 50 percent of DI beneficiaries had household income that was below the federal poverty threshold—a proportion about five times higher than the national poverty rate of 10 percent at that time.<sup>7</sup>

### Trends in the Number of Beneficiaries

In the past four decades, the number of workers with disabilities who receive benefits from the DI program has increased nearly sixfold, rising from 1.5 million in 1970 to 8.8 million in 2012. (Dependents of disabled beneficiaries are not included in that calculation.) In 1970, DI beneficiaries were about 1.3 percent of working-age adults—individuals ages 20 to 64; in 2012, that

proportion was 4.6 percent. Much of the recent growth in the share of the population that comprises disabled beneficiaries stems from increases in the number of women receiving disabled worker benefits. Between 1970 and 1995, the share of women who received such benefits grew by about 0.6 percentage points—about the same rate of growth as for men. Between 1995 and 2012, however, women receiving disabled worker benefits increased from 1.0 percent to 2.1 percent of all working-age adults; the corresponding change for men was from 1.6 percent to 2.4 percent.

Over the next decade, DI beneficiaries as a share of working-age people will grow but at a considerably slower rate than during the past 40 years, CBO projects. In CBO's estimation, the share of DI beneficiaries will rise to 5.0 percent in 2023, with about equal relative increases in the proportion among men and among women (see Figure 1).

### Trends in the Program's Costs

The rapid growth in the DI program's rolls has put increasing pressure on its finances. Between fiscal years 1970 and 2012, DI expenditures on benefits (adjusted for inflation) rose more than ninefold. As a result, a growing share of spending for the Social Security system is being directed to participants in the DI program. In 1970, DI spending was about 10 percent of OASDI expenditures; by 2012, that share had grown to nearly 18 percent. CBO estimates that by 2023, as the number of beneficiaries in the Social Security retirement program swells, the DI program's share of OASDI spending will recede to about 15 percent.

7. Because the poverty rate among DI beneficiaries is measured at the household level and the national poverty rate is measured at the family level, the two statistics are not strictly comparable. The household poverty rate among DI beneficiaries comes from Table 9 in Gina Livermore and others, *Work Activity and Use of Employment Supports Under the Original Ticket to Work Regulations—2006 National Beneficiary Survey: Methodology and Descriptive Statistics* (Mathematica Policy Research, Center for Studying Disability Policy, October 2009), [www.mathematica-mpr.com/publications/PDFs/disability/TTW\\_2006\\_NBS.pdf](http://www.mathematica-mpr.com/publications/PDFs/disability/TTW_2006_NBS.pdf). The national poverty rate is calculated for all families by the Census Bureau; see Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Reports, P60-233 (August 2007), [www.census.gov/prod/2007/pubs/p60-233.pdf](http://www.census.gov/prod/2007/pubs/p60-233.pdf).

Total DI expenditures were \$135 billion in 2012 and, CBO projects, will be \$213 billion in 2023. Measured relative to the size of the economy, DI spending was 0.27 percent of the nation's gross domestic product in 1970; by 2012, that share had more than tripled, to 0.87 percent. CBO expects that proportion to increase slightly, to 0.89 percent in 2014, before declining to 0.82 percent in 2023. In contrast, dedicated DI tax revenues were 0.65 percent of GDP in 2012 and, CBO projects, will be 0.66 percent of GDP in 2023.<sup>8</sup>

Total government spending on DI beneficiaries is substantially higher than DI expenditures alone. In particular, disabled beneficiaries receive coverage under Medicare, regardless of their age, generally after a 24-month waiting period. The cost of Medicare benefits received by DI beneficiaries was about \$80 billion in 2012; CBO expects that it will be \$130 billion in 2023. Moreover, some DI beneficiaries also receive benefits from the Medicaid and Supplemental Security Income (SSI) programs.

The DI program's rapid expansion and the projected gap between its spending and dedicated revenues in the future raise questions about the financial sustainability of the program. Since 2009, the program has been paying out more in annual benefits than it receives in taxes and in interest on the balances in its trust fund.<sup>9</sup> CBO projects that the DI trust fund will be exhausted in 2016, nearly 20 years before the projected exhaustion of the trust fund for the Social Security retirement program.<sup>10</sup> If a trust

fund's balance falls to zero and current revenues are insufficient to cover the benefits that are specified in law and administrative expenses, SSA has no legal authority to pay full benefits when they are due.

In 1994, legislation redirected revenues from the Old-Age and Survivors Insurance (OASI) trust fund to prevent the imminent exhaustion of the DI trust fund. In part because of that experience, it is a common analytical convention to consider the DI and OASI trust funds as combined. Thus, if some future legislation shifted resources from the OASI trust fund—which CBO projects will be exhausted in 2038—to the DI trust fund, the combined OASDI trust funds would be exhausted in 2034, according to a long-term projection that CBO published in June 2012.<sup>11</sup> Such a policy would allow scheduled DI benefits to be paid for a longer period, but it would not address Social Security's underlying financial imbalance.

### Reasons the Program Has Grown So Rapidly

Multiple factors help explain the DI program's rapid growth, and CBO has grouped them in three categories:

- Changes in demographics and growth of the labor force,
- Changes in federal policy, and
- Changes in opportunities for employment and compensation.

#### Changes in Demographics and Growth of the Labor Force

Part of the growth in the DI program reflects the aging of the large baby-boom generation (people born between 1946 and 1964) and, consequently, the aging of the workforce. Older workers are far more likely than younger workers to qualify for DI benefits: More older people suffer from debilitating conditions. Moreover, the program's qualification standards for older workers are less strict than those for younger workers because older people are assumed to be less able to adapt to new types of work. Thus, the baby boomers' aging would have

8. Lawmakers reduced the workers' portion of the OASDI payroll tax by 2 percentage points for calendar years 2011 and 2012; the DI portion of that tax dropped to 1.5 percent from 1.8 percent. The reduction in tax revenues was made up for by reimbursements from the U.S. Treasury's general fund to the two Social Security trust funds. For the purposes of the calculations in this testimony, Social Security payroll tax revenues are considered to include those reimbursements.

9. Federal trust funds, including those for Social Security, essentially constitute an accounting mechanism for tracking the relationship between a program's spending and the revenues that are dedicated to that program. In a given year, the sum of a fund's receipts along with the interest that is credited on previous balances, minus spending for benefits and administrative costs, equals a trust fund's surplus or deficit.

10. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (section 257(b)), CBO's baseline projections incorporate the assumption that DI benefits will be paid in full even after the trust fund is exhausted.

11. See Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), p. 69, [www.cbo.gov/publication/43288](http://www.cbo.gov/publication/43288).

boosted enrollment in the DI program even if no other factors had changed.<sup>12</sup>

Another reason for the DI program's growth is the increase in the labor force relative to the number of working-age people. That increase largely stems from a rise in the number of working women. The increased number of working women has boosted revenues for the DI program, through the payroll taxes collected on their earnings, but it has also led to more disabled beneficiaries and higher outlays for the program.

#### Changes in Federal Policy

In 1984, lawmakers enacted the Disability Benefits Reform Act, which expanded the ways in which people could qualify for the DI program. That legislation, in addition to reversing several of the cost-containment measures enacted as part of the 1980 Social Security Disability Amendments, shifted the criteria for DI eligibility from a list of specific impairments to a more general consideration of a person's medical condition and ability to work. The legislation allowed applicants to qualify for benefits on the basis of the combined effect of multiple medical conditions, each of which taken alone might not have met the criteria. It also allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of a clear-cut medical diagnosis.<sup>13</sup> The easing of the eligibility criteria increased the importance

of subjective evaluations in determining whether applicants qualified for benefits.

Those changes in policy led to a substantial expansion in the share of DI beneficiaries with mental or musculoskeletal disorders, many of whom enter the program at younger ages than do people with other types of disabilities and many of whose applications are largely judged by subjective criteria.<sup>14</sup> The share of beneficiaries with musculoskeletal disorders increased from about 17 percent in calendar year 1986 (two years after the passage of the law) to more than 28 percent in 2010. The share of beneficiaries with mental disorders increased from about 22 percent in 1986 to about 33 percent in 2010. In addition to increasing the number of people who enter the DI program, those changes have helped boost the average length of time that disabled beneficiaries receive DI benefits because those disorders are comparatively more prevalent at younger ages and less likely than many other qualifying conditions to result in premature death.<sup>15</sup>

Another way in which federal policy has led to growth in the DI program is through the rise in the full retirement age for Social Security that has occurred during the past decade. That rise has had two main effects on the DI program: It has enlarged the potential pool of DI applicants by including more older workers who have not yet reached their full retirement age, and it has increased the length of time individuals spend receiving DI benefits because disabled worker beneficiaries now shift to the Social Security retirement program later than in previous years. (In addition, the rise in the full retirement age has

12. See Mark G. Duggan and Scott A. Imberman, "Why Are the Disability Rolls Skyrocketing? The Contribution of Population Characteristics, Economic Conditions, and Program Generosity," in David M. Cutler and David A. Wise, eds., *Health at Older Ages: The Causes and Consequences of Declining Disability Among the Elderly* (University of Chicago Press, 2009), pp. 337–379, [www.nber.org/chapters/c11119](http://www.nber.org/chapters/c11119). Those authors estimate that the aging of the population accounts for about one-fifth of the growth in the share of the working-age population enrolled in the DI program between 1984 and 2003.

13. See Tim Zayatz, *Social Security Disability Insurance Program Worker Experience*, Actuarial Study 114 (Social Security Administration, July 1999), [www.ssa.gov/OACT/NOTES/AS114/as114Foreword.html](http://www.ssa.gov/OACT/NOTES/AS114/as114Foreword.html); Frank S. Bloch, "Medical Proof, Social Policy, and Social Security's Medically Centered Definition of Disability," *Cornell Law Review*, vol. 92, no. 2 (2006–2007), p. 189, [www.lawschool.cornell.edu/research/cornell-law-review/volume-92-number-2.cfm](http://www.lawschool.cornell.edu/research/cornell-law-review/volume-92-number-2.cfm); and David H. Autor and Mark G. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, vol. 20, no. 3 (Summer 2006), pp. 71–96, [www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71](http://www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71).

14. Musculoskeletal disorders include, for example, certain disorders of the spine and major dysfunctions of the joints, which affect people's ability to ambulate or to perform fine and gross movements effectively. Mental disorders include, for example, certain types of affective, psychotic, and anxiety-related disorders. See Social Security Administration, *Disability Evaluation Under Social Security* (Blue Book), "List of Impairments—Adult Listings (Part A)" (June 2011), [www.ssa.gov/disability/professionals/bluebook/AdultListings.htm](http://www.ssa.gov/disability/professionals/bluebook/AdultListings.htm).

15. Researchers have found that mortality rates vary substantially by diagnosis and that DI recipients with mental disorders and musculoskeletal conditions have lower mortality rates than the average DI recipient. See Kalman Rupp and Charles G. Scott, "Trends in the Characteristics of DI and SSI Disability Awardes and Duration of Program Participation," *Social Security Bulletin*, vol. 59, no. 1 (January 1996), pp. 3–21, [www.ssa.gov/policy/docs/sbb/v59n1/index.html](http://www.ssa.gov/policy/docs/sbb/v59n1/index.html).

boosted revenues for the DI program in the form of payroll taxes collected on the earnings of people who are now working longer before claiming retirement benefits.) Between 2002 and 2009, the age at which DI beneficiaries transferred to the retirement program rose from 65 to 66; it is scheduled to rise to age 67 between 2020 and 2027.

### Changes in Opportunities for Employment and Compensation

Whether people apply for DI benefits is strongly affected by the design of the program, the opportunities people have for employment, and the difference between the DI benefits an individual would receive and the compensation (earnings and benefits) associated with working. Access to health insurance and the cost of obtaining it are additional factors that can affect an individual's decision to apply for DI benefits, particularly because disabled beneficiaries receive coverage under Medicare, generally after a 24-month waiting period.

When jobs are plentiful, some people who could qualify for the DI program may choose instead to work. Conversely, when jobs are scarce, such as in economic downturns, some people with disabilities may find that their employment opportunities are especially limited, and they will instead choose to apply for DI benefits. Indeed, in the aftermath of the recent severe recession, applications for DI benefits reached a historic high, exceeding 2.9 million in calendar year 2010.<sup>16</sup>

Short-term economic downturns can have long-term effects on the DI program's benefit rolls. Many people who have been out of work for long periods find it hard to reenter the labor force, especially at their previous wage level, and they may ultimately turn to the DI program for support. Once they have been awarded benefits, only a very small percentage of DI participants permanently leave the program to return to the workforce.<sup>17</sup> CBO projects that as a result of the most recent recession and

slow recovery, the number of disabled worker beneficiaries will continue to rise over the next few years (although growth will slow as the economy improves). That increase in participation stemming from the severe economic downturn will add to the long-term trend of rising enrollment.

Over the past few decades as a whole, a combination of rising income inequality and the indexing rules for DI benefits has made those benefits larger relative to earnings for low-wage workers. Specifically, the DI benefit formula is based on a worker's previous earnings adjusted to reflect the general rise in the standard of living that occurred during his or her working years. Thus, to calculate benefits, a worker's nominal earnings in a given year are converted to near-current wage levels on the basis of changes in average annual earnings in the economy as a whole. (The calculations count earnings for the two years before the initial computation of benefits at their actual amounts and earnings for earlier years at the indexed amounts.) Because the wages paid to low-wage workers have increased more slowly than overall wages in the economy, this indexing formula yields DI benefits that, over time, have risen to be a greater share of the previous earnings of low-wage workers.<sup>18</sup>

Looking ahead, the Affordable Care Act is likely to influence application rates for the DI program, but whether it will result in more or fewer beneficiaries is difficult to predict.<sup>19</sup> Among other changes, that legislation will make it easier for people who have health problems to buy their own insurance; it will also provide new subsidies for individually purchased coverage and expand eligibility for Medicaid in states that choose to do so. On the one hand, people who do not have employment-based health insurance will find it easier to obtain subsidized coverage as well as to gain access to health care without applying for DI benefits. That change will tend to reduce applications to the DI program. On the other hand, some people who would lose employment-based health coverage if they left their jobs to apply for DI benefits will have access to

16. In 2011, the number of DI applications dropped slightly, to just under 2.9 million; in 2012, the number fell again, to 2.8 million. See Social Security Administration, "Selected Data from Social Security's Disability Program" (February 2013), [www.ssa.gov/OACT/STATS/dibStat.html](http://www.ssa.gov/OACT/STATS/dibStat.html).

17. See Su Liu and David C. Stapleton, "Longitudinal Statistics on Work Activity and Use of Employment Supports for New Social Security Disability Insurance Beneficiaries," *Social Security Bulletin*, vol. 71, no. 3 (August 2011), pp. 35–59, [www.ssa.gov/policy/docs/sb471n3/index.html](http://www.ssa.gov/policy/docs/sb471n3/index.html). Those authors found that over a 10-year period, about 4 percent of an entering cohort of new DI beneficiaries left the program to take a job.

18. For a related discussion, see David H. Autor and Mark G. Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics*, vol. 118, no. 1 (February 2003), pp. 157–205, <http://economics.mit.edu/files/579>.

19. The Affordable Care Act comprises the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act of 2010 as well as the effects of subsequent related judicial decisions, statutory changes, and administrative actions.

insurance during the two-year waiting period for Medicare benefits, with no exclusions for preexisting conditions, through the health insurance exchanges that will be established under the law. Moreover, that insurance might be subsidized, depending on an individual's income. Those considerations will tend to increase applications to the DI program.

### Options for Addressing Fiscal Imbalance in the Program

In its July 2012 study on DI, CBO, in conjunction with the staff of the Joint Committee on Taxation (JCT), estimated the budgetary effects of a variety of potential modifications to the DI program (see Table 1).<sup>20</sup> The estimates presented here are from that report and would change only slightly if updated to reflect CBO's new baseline.<sup>21</sup> For each option presented here, CBO assumed that the policy would take effect at the beginning of calendar year 2013; updated estimates would also reflect later enactment than assumed here. Modifications to the DI program would affect several other federal programs, including, most significantly, the OASI program, Medicare, the SSI program, and Medicaid. However, analysis of those interactions was outside the scope of that report and is not included in this testimony.

Restoring the DI program to a sound budgetary position would require implementing combinations of the policies examined here or other changes to the program. From the perspective of the overall federal budget, the increases in taxes and reductions in spending considered in this analysis would improve the fiscal outlook to varying degrees but would leave very large imbalances between total federal revenues and spending if current policies were continued in all other respects.<sup>22</sup>

### Options That Would Increase the Program's Revenues

One approach to addressing the DI program's budgetary imbalance would be to raise the DI tax rate.<sup>23</sup> According

to CBO and JCT's analysis, restoring long-term balance (over the next 75 years) between the program's costs and revenues solely through raising the DI payroll tax rate would require an increase of 0.4 percentage points (or 0.2 percentage points each for the employee and employer), from the current 1.8 percent to 2.2 percent. In 2022, for example, that change would boost tax revenues by \$28 billion.

Another way to boost revenues would be to increase the maximum taxable earnings limit—that is, the highest amount of employees' wages subject to the DI tax. In recent decades, the earnings of workers in the highest income groups have grown faster than average earnings. As a result, the share of all earnings covered by the Social Security program that were below the taxable maximum shrank from about 90 percent in 1983 to about 83 percent in 2011. In 2037, CBO projects, about 83 percent of all covered earnings will fall below the limit.<sup>24</sup> One option would be to increase the taxable earnings limit only for the DI program (the limit for the other Social Security programs would not be raised) to cover 90 percent of earnings—that is, to increase the maximum taxable earnings limit for the DI portion of the payroll tax from \$113,700 in 2013 to \$174,000.<sup>25</sup> As reported in *Policy Options for the Social Security Disability Insurance Program*, JCT estimated that such a change would increase revenues by \$13 billion in 2022.

### Options That Would Reduce the Program's Spending

Options that would reduce spending for the DI program would require scaling back either the number of beneficiaries the program serves or the amount of support each beneficiary receives. The challenge facing policymakers who are aiming to reduce spending is to choose options that maximize savings while minimizing the harm inflicted on people whose disabilities prevent them from working.

20. Congressional Budget Office, *Policy Options for the Social Security Disability Insurance Program* (July 2012), [www.cbo.gov/publication/43421](http://www.cbo.gov/publication/43421).

21. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023* (February 2013), [www.cbo.gov/publication/43907](http://www.cbo.gov/publication/43907), and "Social Security Disability Insurance—February 2013 Baseline," [www.cbo.gov/publication/43888](http://www.cbo.gov/publication/43888).

22. For a discussion, see Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), [www.cbo.gov/publication/43288](http://www.cbo.gov/publication/43288).

23. Another approach would be to redirect revenues to the DI trust fund from the OASI trust fund, a course that was followed in legislation enacted in 1994. However, such a redirection of resources would worsen the outlook for the OASI program.

24. Historical data are taken from Social Security Administration, *Annual Statistical Supplement, 2012* (February 2013), Table 4.B1, [www.ssa.gov/policy/docs/statcomps/supplement/](http://www.ssa.gov/policy/docs/statcomps/supplement/).

25. CBO did not assume that benefits would be increased to reflect the higher maximum taxable earnings limit. If benefits were increased to reflect that change, the net savings from this option would be smaller.

**Table 1.**  
**Summary of Possible Options for Changing the Disability Insurance Program**

	Number of Disabled Worker Beneficiaries Affected in 2022 (Thousands)	Effect on DI Revenues or Outlays		
		In Billions of Dollars in 2022	Percentage Change from Currently Scheduled Revenues or Outlays	
			In 2022 <sup>a</sup>	In 2037 <sup>b</sup>
Reducing the DI Program's Fiscal Imbalance				
Effects on Revenues				
Increase Revenues				
Raise the DI tax rate by 0.4 percentage points <sup>c</sup>	n.a.	28	18	22
Increase the amount of earnings that are taxable <sup>c</sup>	n.a.	13	8	8
Effects on Outlays				
Change the DI Benefit Formula				
Reduce all benefits by 15 percent	6,200	-22	-11	-14
Reduce DI benefits for people age 53 and older	1,900	-6	-3	-7
Change the Way DI Benefits Grow Over Time—Reduce COLAs by Using a Different Measure of Inflation <sup>d,e</sup>	10,100	-3	-1	-2
Change Eligibility Rules				
Eliminate eligibility starting at age 62 <sup>f</sup>	500	-12	-6	-6
Require applicants to have worked more in recent years	400	-8	-4	-5
Increase the age at which disability requirements become less restrictive	50	-1	-1	-3
Change Waiting Periods—Extend the Waiting Period for Benefits from 5 Months to 12 Months	900	-11	-6	-7
Providing Greater Support to DI Beneficiaries—Effects on Outlays				
Increase the COLA by 1 Percentage Point <sup>d</sup>	10,100	16	8	6
Eliminate the Five-Month Waiting Period	900	8	4	5

Source: Congressional Budget Office.

Note: DI = disability insurance; n.a. = not applicable; COLA = cost-of-living adjustment.

a. Changes are measured against CBO's March 2012 baseline; see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012), [www.cbo.gov/publication/43119](http://www.cbo.gov/publication/43119).

b. Changes are measured against estimates in Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), [www.cbo.gov/publication/43288](http://www.cbo.gov/publication/43288).

c. Estimates of revenues for 2022 provided by the staff of the Joint Committee on Taxation.

d. CBO's estimates for options affecting COLAs apply to all beneficiaries; estimates for all other options that change outlays apply only to new beneficiaries in 2013 and later.

e. CBO's estimates for this option apply the reduction in the COLA to beneficiaries of the entire Social Security system—the Old-Age and Survivors and Disability Insurance programs—and to recipients of Supplemental Security Income. The table shows only the savings to the DI program. Savings for all three programs would total \$25 billion in 2022.

f. CBO's estimates for this option apply the elimination of eligibility to DI beneficiaries only. The resulting savings are offset by an increase in Old-Age and Survivors Insurance benefits of \$9.3 billion in 2022, for a net reduction in Social Security spending of \$2.4 billion in that year.



**Change the Benefit Formula.** One way to reduce the costs of the DI program would be to alter the amount of insurance it provides by changing the formula used to calculate benefits. Like Social Security retirement benefits, DI benefits are based on a worker's past earnings and are calculated using a progressive formula that replaces more of the earnings of low-wage workers than of high-wage workers.<sup>26</sup> (That is, workers who have higher earnings receive larger benefits, but the replacement rate—the portion of a worker's earnings that the benefits replace—declines as earnings rise.) Specifically, the primary insurance amount (PIA) formula for DI benefits has three components, any of which could be altered by policymakers:

- **Average indexed monthly earnings (AIME).** The AIME is a measure of a worker's lifetime earnings. It is calculated as the sum of his or her earnings, indexed to compensate for inflation and for the real growth of wages in the economy as a whole, divided by the number of months over which the earnings were obtained. For disabled worker beneficiaries, the AIME is computed by using an individual's indexed earnings between the age of 22 and the year of onset of his or her disability.
- **Primary insurance amount factors.** The PIA factors are the rates by which the components of the AIME are multiplied—specifically, 90 percent, 32 percent, and 15 percent. The PIA factors, which are fixed by law, have been at those percentages since 1977.<sup>27</sup>
- **Bend points.** The dollar amounts of the AIME at which the PIA factors change are called bend points. They govern the portions of the AIME associated with each PIA factor and change annually when the national average wage index rises. In 2013, the bend points are \$791 and \$4,768. Thus, a person with an AIME below \$791 receives a DI benefit equal to 90 percent of that amount; a person with an AIME

between \$791 and \$4,768 receives 90 percent of the first \$791 and 32 percent of the remainder; and a person with an AIME above \$4,768 receives 90 percent of the first \$791, 32 percent of the next \$3,977 (\$4,768 minus \$791), and 15 percent of the amount above \$4,768.

CBO analyzed two options that would modify the formula for computing DI benefits:

**Reduce All Benefits by 15 Percent.** Policymakers could choose to reduce all DI benefits by the same amount, a change that would maintain the existing progressivity of the DI program. For example, benefits for newly eligible workers could be cut by 15 percent by reducing each PIA factor by that percentage (to 77 percent, 27 percent, and 13 percent).<sup>28</sup> In *Policy Options for the Social Security Disability Insurance Program*, CBO estimated that such a change would reduce outlays for benefits by \$22 billion in 2022.

**Reduce Benefits for People Age 53 and Older.** Under the current Social Security system, workers who claim retirement benefits at age 62 rather than at their full retirement age are subject to an actuarial reduction that lowers their benefits for as long as they live. In contrast, workers who move from employment to the DI program's rolls at age 62, and then switch to Social Security's retirement program at their full retirement age, are not subject to a reduction. Instead, they receive approximately the same retirement benefits in each year that they would have received if they had enrolled directly in the retirement program at their full retirement age. A potential change to benefits for DI beneficiaries would be to impose the same penalty on them at age 62 that is now paid by early retirees.

CBO analyzed the budgetary effects of such an approach by considering an option that would reduce newly awarded benefits for older workers on the basis of their age. Specifically, for people born in 1960 and later, CBO estimated the effect of permanently reducing an older person's DI benefits at the time the benefits are first awarded; starting at age 53, benefits would be reduced by

26. For a more detailed discussion of the Social Security benefit formula, see Congressional Budget Office, *Social Security Policy Options* (July 2010), [www.cbo.gov/publication/21547](http://www.cbo.gov/publication/21547).

27. For further discussion, see Social Security Administration, "Automatic Determinations: Social Security Benefit Amounts" (October 19, 2011), [www.ssa.gov/oact/cola/Benefits.html](http://www.ssa.gov/oact/cola/Benefits.html); and L. Scott Muller, "The Effects of Wage Indexing on Social Security Disability Benefits," *Social Security Bulletin*, vol. 68, no. 3 (2008), pp. 1–44, [www.socialsecurity.gov/policy/docs/sbb/v68n3/index.html](http://www.socialsecurity.gov/policy/docs/sbb/v68n3/index.html).

28. In earlier work, CBO estimated the costs associated with the same option for the entire OASDI program and found that outlays for the Social Security system would decline by about 12 percent relative to outlays currently scheduled for 2040. See Congressional Budget Office, *Social Security Policy Options* (July 2010), p. 21, [www.cbo.gov/publication/21547](http://www.cbo.gov/publication/21547).

3 percent, with an additional 3 percent reduction occurring at each subsequent year of age. Thus, a person who was newly awarded benefits at age 54 (in 2014 or later) would face a permanent reduction in benefits of 6 percent, a person who was newly awarded benefits at age 55 (in 2015 or later) would face a permanent reduction in benefits of 9 percent, and so on. Ultimately, a new beneficiary who was 62 years old would receive a permanent benefit reduction of 30 percent, which would make his or her benefit equal to the reduced Social Security retirement benefit at that age for workers born in 1960 and later. A new beneficiary between the ages of 62 and 67 (the full retirement age for that group of workers) would receive a benefit equal to the Social Security retirement benefit he or she would have received at that age. In 2022, CBO estimated, such a change would affect 1.9 million people and reduce outlays by \$6 billion.

**Change the Way Benefits Grow Over Time.** The DI program adjusts disabled workers' benefits annually to account for increases in the prices of goods and services. For those calculations, the program currently uses the consumer price index for urban wage earners and clerical workers (CPI-W); under this option, the program would switch to a different indexing factor—specifically, the chained CPI.<sup>29</sup> Over the next 10 years, CBO estimates, the chained CPI is likely to grow more slowly than the current CPI-W—on average, 0.25 percentage points per year more slowly. If that trend continued, this option would effectively reduce the growth of benefits for all DI beneficiaries. For example, the benefit of a disabled worker under current law might have grown during the next 10 years from \$1,111 per month to \$1,344 per month, but that same worker's benefit under this option (that is, indexation using the chained CPI) would grow more slowly, from \$1,111 per month to \$1,312 per month. By CBO's estimate, that change would reduce outlays for DI by about \$3 billion in 2022.

**Change Eligibility Rules.** The eligibility standards for receiving benefits from the DI program could be altered in numerous ways.

29. For a broader discussion of the effects of such a switch, see Congressional Budget Office, *Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code* (February 2010), [www.cbo.gov/publication/21228](http://www.cbo.gov/publication/21228). For an estimate of the effect of such a switch for all mandatory programs and the tax code, see Congressional Budget Office, "Preliminary Estimate of the Budgetary Effects of Using the Chained CPI for Mandatory Programs and the Tax Code Starting in 2014," [www.cbo.gov/publication/43965](http://www.cbo.gov/publication/43965).

**Eliminate Eligibility Starting at Age 62.** The DI benefits that workers receive at age 62 equal the OASI (retirement) benefits they would have received at their full retirement age, a policy that encourages people to apply for DI and OASI benefits simultaneously. CBO estimated the budgetary impact of preventing workers from applying for DI benefits after their 62nd birthday or from receiving awards if the date they become eligible for benefits is after that birthday. Under such a policy, individuals who would have become eligible for DI benefits at age 62 or later would instead have to claim retirement benefits. Benefits for those people over their lifetime would be as much as 30 percent lower, on average, than the DI and OASI benefits they would have claimed. (The actual reduction in lifetime benefits would depend on their year of birth, the age at which they claimed retirement benefits, and how long they lived.) In addition, those individuals would not receive Medicare coverage until age 65, although they might be eligible for Medicaid coverage or for subsidies for health insurance purchased through an insurance exchange before then. On the one hand, this option might induce some people to work longer than they will work under current law; on the other hand, it might induce some people who would otherwise work until age 62 or 63 to leave the labor force at age 61 and apply for DI benefits. Such a change would reduce outlays for DI by \$12 billion in 2022, but increase spending for OASI benefits. On net, CBO estimated, such a change would reduce OASDI outlays by about \$2 billion in 2022.

**Require Applicants to Have Worked More in Recent Years.** To be eligible for benefits under the current DI program, disabled workers must generally have worked 5 out of the past 10 years.<sup>30</sup> CBO estimated that a policy that would tighten the eligibility rule by requiring disabled workers to have worked 4 of the past 6 years would affect 400,000 people and reduce outlays by \$8 billion in 2022.

**Increase the Age at Which Disability Requirements Become Less Restrictive.** One set of DI eligibility criteria for people who do not have a specific SSA-designated medical impairment is based on whether an applicant can find a

30. For the purposes of computing Social Security benefits, a year of work is defined as having earnings that exceed Social Security's "quarters of coverage" threshold. In 2013, a worker receives one quarter of coverage (up to a total of four quarters in the year) for each \$1,160 of annual earnings. The amount of earnings required for a quarter of coverage generally increases annually at the same rate as the rise in the average wage index.

job. The criteria are known as vocational factors, and they vary with age, becoming less restrictive at ages 45, 50, 55, and 60 than they are at earlier ages.<sup>31</sup> CBO estimated the budgetary impact of shifting upward the age ranges for the vocational factors. The current factors for ages 45 to 49, 50 to 54, and 55 to 59 would apply instead to ages 47 to 51, 52 to 56, and 57 to the full retirement age, respectively; the current vocational factor for age 60 and the factors for ages 45 to 46 would be eliminated. Such a change would reduce outlays in 2022 by \$1 billion, CBO estimated.

**Extend the Waiting Period for Benefits.** To be deemed eligible for the DI program and ultimately to be awarded benefits, applicants must have earnings that fall below a threshold amount—called the substantial gainful activity (SGA) amount—for at least five months, which constitutes a waiting period during which applicants receive no support from the program. Lengthening the DI program's waiting period would reduce outlays for benefits and might deter some people from applying. At the same time, if the waiting period was lengthened, it would make many disabled workers worse off because they would be forced to wait longer for benefits. CBO estimated that a policy in which the waiting period for DI benefits was extended to 12 months would reduce outlays for DI benefits by \$11 billion in 2022.

**Change Certain Administrative Features of the Program.** SSA could alter the administration of the DI program in a number of ways that might affect the program's costs. CBO identified two such potential changes. However, because there is little evidence as to the impact such policies would have, CBO did not estimate their potential budgetary effects.

**Modify the Appeals Process for Disability Claims.** The initial consideration and disposition of a disabled worker's application for benefits from the DI program are the responsibility of the Disability Determination Services (DDS), which are agencies funded by SSA and administered by the states.<sup>32</sup> If a person's application is denied at the DDS level, the applicant can either terminate the application process or appeal the decision. Certain appeals may be adjudicated before administrative law

judges—individuals appointed by SSA who conduct hearings at about 180 offices across the country.<sup>33</sup> Those officials are trained at the local hearing office at which they are employed.

Researchers have suggested different ways in which SSA could improve the administration of the DI program at the hearings level. They include modifying the selection criteria for administrative law judges, increasing the length of their training, and improving the consistency of training among localities. Another example of a possible change in the program's administrative procedures involves altering the hearing process. Applicants for DI benefits are permitted legal representation at appeal hearings; SSA has no such representation. Policymakers could allow SSA to be so represented, which in the short term would add certain costs for hiring and training but might over the long run result in lower spending for the program because fewer people would be admitted.<sup>34</sup> However, the effects that any of those modifications would have on the disability determination process are uncertain, and CBO has not estimated their budgetary impact.

**Increase the Frequency of Continuing Disability Reviews.** An option related to recent growth in the DI program involves SSA's periodic reexamination of cases through continuing disability reviews (CDRs). CDRs help the agency determine whether disabled workers are still eligible for benefits, and they tend to lower outlays for the program because the average reduction in benefits associated with a CDR is significantly greater than the average cost of a review. The Budget Control Act of 2011

32. For details on the application and appeals process, see Congressional Budget Office, "DI: The Social Security Disability Insurance Program" (infographic, July 2012), [www.cbo.gov/publication/43432](http://www.cbo.gov/publication/43432).

33. Social Security Administration, *Annual Statistical Supplement, 2011* (Office of Retirement and Disability Policy, February 2012), Table 2.F1, [www.ssa.gov/policy/docs/statcomps/supplement/2011/index.html#fileList](http://www.ssa.gov/policy/docs/statcomps/supplement/2011/index.html#fileList).

34. See David H. Autor and Mark G. Duggan, "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, vol. 20, no. 3 (Summer 2006), pp. 71–96, [www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71](http://www.aeaweb.org/articles.php?doi=10.1257/jep.20.3.71); and Social Security Advisory Board, *Improving the Social Security Administration's Hearing Process* (September 2006), [www.ssa.gov/documents/HearingProcess.pdf](http://www.ssa.gov/documents/HearingProcess.pdf), and *Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change* (January 2001), [www.ssa.gov/Publications/Disability/disabilitywhitepaper.pdf](http://www.ssa.gov/Publications/Disability/disabilitywhitepaper.pdf).

31. Recent research shows the large increase in the rate of DI awards at those ages. See Joyce Manchester and Jae G. Song, "What Can We Learn From Analyzing Historical Data on Social Security Entitlements?" *Social Security Bulletin*, vol. 71, no. 4 (November 2011), pp. 1–13, [www.ssa.gov/policy/docs/ssb/v71n4/index.html](http://www.ssa.gov/policy/docs/ssb/v71n4/index.html).

allows the current limits on overall federal discretionary spending to be adjusted to permit additional appropriations for conducting CDRs.<sup>35</sup>

CBO's 2011 cost estimate for the Budget Control Act identified the effect on outlays that would occur if the Congress appropriated the maximum amounts for which such adjustments to the spending limits could be made.<sup>36</sup> In CBO's estimation, such appropriations would have added about \$4 billion in funding for SSA to CBO's baseline over the 2012–2021 period. If that additional funding was appropriated, spending for benefits from the DI program, SSI, Medicare, and Medicaid would fall by nearly \$12 billion during that period, and additional savings would accrue after 2021. CBO has not estimated the effects of even larger appropriations for such purposes or of other changes in the manner in which CDRs are conducted.

### Options for Providing Greater Support to Beneficiaries

Alternatively, lawmakers could choose to modify the DI program in ways that would provide greater support to certain DI beneficiaries and increase spending for the program. CBO examined two policy options of that sort.

#### Increase the Cost-of-Living Adjustment

One way in which lawmakers could provide greater support to DI beneficiaries would be to increase the rate at which benefits grow over time. CBO examined a proposal that would increase the annual cost-of-living adjustment (COLA) by 1 percentage point. One consequence of such a change is that disabled workers who became entitled to benefits when they were relatively young would experience more years of the enhanced

COLA in their benefits than would workers who were awarded support when they were older. By CBO's estimate, that change would boost outlays in 2022 by \$16 billion.

#### Eliminate the Waiting Period

If lawmakers eliminated the DI program's waiting period for applicants, a worker would be eligible for DI benefits on the day he or she was deemed to become disabled or to have stopped working because of the onset of disability. As under the current program, DI beneficiaries would receive a "retroactive" benefit—a lump-sum payment for the time between their application to the program and their approval for benefits. CBO estimated that, in 2022, implementing this change would increase outlays by \$8 billion.

### Possible Approaches to Making Fundamental Changes in the Program

Changes in the U.S. economy, advances in medicine and technology, and the evolution of views about disability during the past several decades suggest that the DI program's model of disability, in which disabled people leave the labor force, may be outdated. In particular, those recent economic and perceptual shifts suggest that a disability insurance system that emphasized workers' continuing in their jobs might lead to a higher rate of employment among those with disabilities than is now the case.<sup>37</sup>

The effect of that kind of job-continuation model on the DI program's rolls and costs would depend on the changes in policy that established it, and only limited evidence is available on the potential impact of such changes. Therefore, CBO did not estimate the budgetary effects of specific changes of that sort. However, the agency reviewed proposals for such fundamental reforms to the DI program and summarized the main themes

35. That additional money may also be used to fund CDRs for SSI beneficiaries and redeterminations of whether SSI recipients still meet the program's nonmedical eligibility criteria—that is, those related to income and assets. The law allows for similar adjustments to the spending limits for additional appropriations for Medicare, Medicaid, and the Children's Health Insurance Program to ensure that enrollees meet the programs' eligibility criteria, that claims are paid accurately, and that the programs are managed effectively and efficiently.

36. Congressional Budget Office, letter to the Honorable John Boehner and the Honorable Harry Reid about CBO's analysis of the impact on the deficit of the Budget Control Act of 2011, as posted on the Web site of the House Committee on Rules on August 1, 2011 (August 1, 2011), [www.cbo.gov/publication/41626](http://www.cbo.gov/publication/41626).

37. For further discussion, see Jeffrey B. Liebman and Jack A. Smalligan, *An Evidence-Based Path to Disability Insurance Reform* (Brookings Institution, Hamilton Project, February 2013), [www.brookings.edu/research/papers/2013/02/disability\\_insurance-reform?rssid=jobs](http://www.brookings.edu/research/papers/2013/02/disability_insurance-reform?rssid=jobs); Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (AEI Press, 2011); and David H. Autor and Mark G. Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System* (Brookings Institution, Hamilton Project, December 2010), [www.brookings.edu/papers/2010/12\\_disability\\_insurance\\_autor.aspx](http://www.brookings.edu/papers/2010/12_disability_insurance_autor.aspx).

among them: moving to a so-called partial disability system or, for newly disabled workers, focusing on their rehabilitation and reemployment rather than on their receipt of benefits. In CBO's assessment, such changes would probably not yield significant short-term cost savings but could provide long-term savings or achieve other goals, such as improving the well-being of people with disabilities.

#### The Capacity for Work Among People With Disabilities

Over the past 20 years, the percentage of people with disabilities who are employed has declined sharply, from about 29 percent in calendar year 1990 to about 16 percent in 2010.<sup>38</sup> The drop in employment does not appear to be explained by a rising inability to do any work, nor does it seem to be attributable primarily to the ups and downs of the business cycle. Instead, recent research shows that an increasing number of DI claims are coming from younger workers with mental or musculoskeletal disorders—despite other evidence indicating that those workers often have some capacity to remain part of the labor force.<sup>39</sup> Another study, using data on accepted and rejected applicants with similar conditions, also found that some new DI beneficiaries were able to continue working.<sup>40</sup> To be sure, not all DI beneficiaries are candidates for reemployment. Still, evidence of existing work capacity among disabled workers—perhaps owing in part to increased use of assistive technologies and workplace accommodations—implies that the design of

the DI program might contribute to the relatively low rate of employment among people with disabilities.<sup>41</sup>

#### Strategies for Reducing the Number of People Who Leave the Workforce and Become Beneficiaries

The limited success of programs designed to increase the rate at which DI beneficiaries and applicants return to work has spurred proposals aimed at supporting employment for people with disabilities before they quit their job to begin the application process. Ideally, such proposals can enable people with disabilities to remain in the workforce and can thereby slow the movement of such people onto the DI rolls. In the face of fiscal challenges that are similar to those confronting the United States, several other nations have implemented some of those types of changes.

**Move to a Partial Disability System.** One way to encourage workers with disabilities to participate in the labor market is to move to a partial disability system of the kind used by the Department of Veterans Affairs and by many workers' compensation systems. Partial disability systems generally use a predetermined schedule to calculate a "percent disabled" rating for each recipient; those percentages then determine the amount of the payments a person will receive. Such a system avoids the either/or threshold currently employed in the DI program in which employment and disability are considered incompatible. A partial disability system explicitly recognizes that a worker with a disability that restricts his or her activity by, say, 30 percent or 50 percent still has some remaining capacity to work.

However, the difficulty of managing partial disability systems combined with increased administrative expenditures and lost earnings among those with partial disabilities has led several European nations (for example, the Netherlands, Norway, and Switzerland) to move away from partial disability insurance and toward approaches that directly involve employers in helping individuals with disabilities remain in the labor market.<sup>42</sup>

38. See Employment and Disability Institute, "U.S. Disability Statistics: Current Population Survey" (various years), [www.disabilitystatistics.org](http://www.disabilitystatistics.org). For a discussion of the technical issues related to measuring employment rates among people with disabilities, see Burt S. Barnow, "The Employment Rate of People with Disabilities," *Monthly Labor Review*, vol. 131, no. 11 (November 2008), pp. 44–50, [www.bls.gov/nlr/2008/11/contents.htm](http://www.bls.gov/nlr/2008/11/contents.htm).

39. Till von Wachter, Jae Song, and Joyce Manchester, "Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program," *American Economic Review*, vol. 101, no. 7 (December 2011), pp. 3308–3329, [www.aeaweb.org/articles.php?doi=10.1257/aer.101.7.3308](http://www.aeaweb.org/articles.php?doi=10.1257/aer.101.7.3308).

40. Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, *Does Disability Insurance Receipt Discourage Work?* RAND Working Paper WR-853-2 (RAND, March 2011), [www.rand.org/pubs/working\\_papers/WR853-2.html](http://www.rand.org/pubs/working_papers/WR853-2.html). Also see Eric French and Jae Song, *The Effect of Disability Insurance Receipt on Labor Supply*, Federal Reserve Bank of Chicago Working Paper 2009-05 (revised July 1, 2011), [www.chicagofed.org/webpages/publications/working\\_papers/2009/wp\\_05.cfm](http://www.chicagofed.org/webpages/publications/working_papers/2009/wp_05.cfm).

41. See, for example, Cornell University, *Assistive Technology Accommodations, and the Americans with Disability Act* (December 2000), [www.ilr.cornell.edu/extension/files/download/Assistive\\_Tech.pdf](http://www.ilr.cornell.edu/extension/files/download/Assistive_Tech.pdf).

42. See Organisation for Economic Co-operation and Development, *New Ways Of Addressing Partial Work Capacity: OECD Thematic Review on Sickness, Disability, and Work Issues Paper and Progress Report* (OECD, April 2007), [www.oecd.org/dataoecd/6/6/38509814.pdf](http://www.oecd.org/dataoecd/6/6/38509814.pdf).

### Involve Employers in Supporting Workers With Disabilities.

Employers are not allowed to discriminate against people with disabilities and are required by law to make reasonable accommodations for them in the workplace. In most cases, employers have some financial incentive to actively participate in keeping workers with disabilities on the job. However, because the DI program is funded through a flat-rate payroll tax on employers and employees, employers do not bear the costs associated with a disabled worker who stops working and becomes a beneficiary in the DI program.

In recent years, the policies of a number of European countries have changed to transfer more of the cost of providing disability benefits to employers. One way that shift has been accomplished is by making employers responsible for paying benefits for a fixed amount of time. That period can vary from as much as two years in the Netherlands to just six months in the United Kingdom. Like the U.S. system of workers' compensation, the European programs are meant to encourage employers to accommodate workers with disabilities and to provide rehabilitation services rather than move those workers into a system that pays long-term cash benefits.<sup>43</sup> Countries that have adopted the employer-involvement model are developing strategies to assist employers in managing their workers with disabilities.<sup>44</sup> One challenge with such an approach is determining the time horizon over which a firm is responsible for an ex-employee who enters the DI program.

Lawmakers in the United States could consider similar changes. Firms could be required to pay some portion of a disabled worker's earnings in place of disability benefits for, say, two years; after that initial period, disabled workers could apply for DI benefits. Private-market provision of such short-term disability insurance—similar to arrangements in some European

nations—might develop in that environment.<sup>45</sup> As an alternative to requiring firms to provide insurance, employers who did so, and whose private insurance agents cooperated with SSA in managing their cases, could be granted a reduction in DI tax rates, while firms that did not offer private insurance could be charged a higher DI tax rate. This approach has been adopted by Switzerland, for example.<sup>46</sup>

Another way in which European nations have encouraged employers to accommodate workers with disabilities rather than move them to cash benefit programs is by applying "experience rating" to the contributions employers make for disability benefits. In the context of the DI program, experience rating would mean raising the DI payroll taxes of firms whose workers became beneficiaries of the DI program at above-average rates, lowering the payroll taxes of firms whose workers claimed benefits at below-average rates, or both. Experience rating provides a financial incentive for employers to engage in practices that promote continued work by people with disabilities.<sup>47</sup> The Netherlands and Finland use such a strategy, as do workers' compensation programs and the unemployment insurance program in the United States.<sup>48</sup>

One criticism of experience rating is that it could discourage employers from hiring people with disabilities, potentially increasing growth in the number of beneficiaries in the DI program. That type of behavior is illegal and would come with significant costs if it was discovered, but uncovering and prosecuting such behavior might be difficult.

45. For details of such a proposal, see David H. Autor and Mark G. Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System* (Brookings Institution, Hamilton Project, December 2010).

46. Ibid. For further discussion, see Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People With Disabilities: What Went Wrong and a Strategy for Change* (AEI Press, 2011).

47. Ibid.

48. Organisation for Economic Co-operation and Development, *Sickness, Disability, and Work: Breaking the Barriers; A Synthesis of Findings Across OECD Countries* (OECD, November 2010), <http://dx.doi.org/10.1787/9789264088856-en>.

43. For a discussion of the differences between the programs of other countries, see Organisation for Economic Co-operation and Development, *Sickness, Disability, and Work: Breaking the Barriers; A Synthesis of Findings Across OECD Countries* (OECD, November 2010), <http://dx.doi.org/10.1787/9789264088856-en>.

44. See also the various OECD publications that make up the OECD series *Sickness, Disability, and Work* at [www.oecd.org/els/disability](http://www.oecd.org/els/disability).

## About This Document

This testimony is based on *Policy Options for Social Security Disability Insurance*, a report written by Jonathan Schwabish that the Congressional Budget Office (CBO) released in July 2012. In keeping with CBO's mandate to provide objective, impartial analysis, the testimony contains no recommendations.

Sheila Dacey, Charles Pineles-Mark, and David Rafferty of CBO contributed significantly to the analysis on which this testimony is based, as did the staff of the Joint Committee on Taxation, which estimated the ways in which some of the policy options would affect federal revenues. Linda Bilkeimer and I supervised the analysis, and Molly Dahl, Noah Meyerson, and Andrew Stocking provided helpful comments.

John Skeen and Kate Kelly edited the testimony, and Jeanine Rees and Maureen Costantino prepared it for publication. The testimony is available on CBO's website ([www.cbo.gov](http://www.cbo.gov)).

Chairman JOHNSON. Thank you for your testimony.  
Mr. Goss, welcome again. Please proceed.

**STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, SOCIAL  
SECURITY ADMINISTRATION**

Mr. GOSS. Thank you very much. Chairman Johnson, Ranking Member Becerra, thank you very much for the opportunity to come again to talk to you about the situation with the DI program.

On this first little graph that we have up here you can see the trajectory of the trust fund status, the reserves that we have in the trust funds. And you will back in 1994 we were rapidly approaching a date that we are now once again approaching for the DI program, as Mr. Becerra indicated. When a tax rate re-allocation was enacted back in 1994, just one year before those reserves would have been depleted, we projected at the time in the following trustee's report in 1995 that, in fact, they would become depleted again. That was fully expected as of 2016. And, lo and behold, our projections today are still that it will be 2016. Not a lot has changed.

The OASI trust fund is in far better financial shape. This is really just a matter of the—of how the tax rates are allocated between the two funds. It was, in fact, a deliberate decision of the congress back in 1994 to re-allocate enough to carry the DI program for a while, but not to equalize the financial prospects of the two programs.

Now, why has the disability insurance program really risen so much in cost over time? Fascinating story, some of us think. What we are used to seeing are the higher lines here for the retirement program for Social Security. We are all aware that the baby boomers are now in the process of moving into the higher ages. Over the next 20 years they will be moving into retirement, and they will be followed by smaller generations from lower birth rates.

The real news is that, for the disability insurance program, that has already happened while we were paying attention, more or less. Over the last 20 years, the baby-boom generations have moved from 20 years, at ages 25 to 44, with relatively low disability rates, to ages 45 to 64, where disability rates are relatively high. So it is no surprise at all that we have had a big increase in disability costs over this period. And, of course, they have essentially met the projections that we had been making back 20 years ago.

Okay. So let's break down a little bit what has happened. We tend to look at, say, 1980 to 2010, not going back as far as 1970. Of course there were no disability beneficiaries back in 1956, because there was no disability program then, it was just enacted. And it took a number of years, more than a decade, for the program to mature.

So, looking at the increase in the number of disabled worker beneficiaries from 1980, where we were essentially mature, to 2010, we had a 187 percent increase. That is nearly a tripling in the number of beneficiaries.

So, what are the factors that caused this increase? First one we would like to point to is just the sheer population at ages 20 to 64, the principal ages at which people are receiving disability benefits. Because once they reach the normal retirement age—now 66—they no longer receive disability benefits. They transfer over and receive retirement benefits. We have had a 41 percent increase in just the pure population at those ages.

However, that is only part of the demographic story. The second part of it is that that population, age 20 to 64, has not stayed static in terms of its age distribution. The baby boomers, as mentioned earlier, have moved from 25 to 44 up to 45 to 64, so that the age distribution of that population, which is increased in and of itself, has shifted towards much higher ages.

So, we have not only had a 41 percent increase in the population at this overall age, we have had another 38 percent increase in the number of disability beneficiaries on top of that, because there has been so much of an increase of that increase occurring actually at the higher ages. We have had a 38 percent increase in the numbers of beneficiaries just because of the shift in the age distribution. This is even assuming that the percentage of people at any given age receiving benefits had not even stayed—had stayed the same and had not changed at all over time.

A third factor we would like to point to, which I think both the chairman and ranking member alluded to, is that we have had some very, very good things happen over the last 20 years. Women are working much more and much more consistently. And, as a result, have become insured to receive our benefits to a much greater extent. After all, as we all know, benefits are available only to people who have insured, and they have worked sufficient to become insured. The percentage of women who are insured to receive benefits over the last 20 to 30 years has about doubled from 35 to 70 percent to essential parity with men.

And the fourth factor that I would like to point to which really sort of completes the story of what has really happened over the last 30 years, from 1980 to 2010, in terms of the increase, is a change in the age-adjusted prevalence rate. That is, even assuming that the population hadn't increased, assuming that the age distribution hadn't changed at all, and we even ignore the idea that the insured numbers had gone up, just look at the prevalence rate amongst insured people, assuming the age distribution hadn't changed. We still have a 42 percent increase to explain. About half of that is because of increase in incidence rates, largely female incidence rates.

The other story on incidence rates—that is the percentage of people who are insured who start to get disability benefits—back 30 years ago those rates were only about two-thirds as high for women as for men on an age-by-age basis. And at this point now those rates have essentially equalized. Also, there is a somewhat younger distribution of people receiving benefits, which maybe we will get into more in discussion after. And also, the death rates have declined somewhat.

Just to give you a little picture of what has happened in terms of the insured rates, you can see how back in 1970, 1980, the percentage of women who were insured received disability benefit was very low, compared to men. They have essentially equalized at this point, and that has put tremendous pressure on increasing. The incidence rates for women also, if you look back, the pink line used to be quite a bit lower than the line for males on an age-adjusted basis, and that has essentially equalized.

In terms of the rates of people terminating or leaving the benefit rolls, well, the good news is the red line is death rates. And, of



course, those have been going down, as death rates have been declining for the general population. The other news is, of course, that the rate of termination from disability for recovery from a medical point of view, or from returning to work, has stayed at about one percent, about half from each of these.

We have this little graph that we might talk about more later, I hope, about some of the ups and downs that we have had in our economy, recessions: unemployment rate is shown in the red line; the blue line shows you what disability incidence rates are, and those have moved up and down relative to not only changes in the economy, but also some changes in policy, which, again, I hope we will have the time to talk about a little bit more as we go down.

The final thing, if I may just take one more second, is to just talk a little bit about the nature of the distribution of impairments for people who start getting benefits.

On this slide we are looking at what happens at relatively younger ages, 30 to 39. It has been rather stable. The percentage of people at 30 to 39 starting to get benefits who have gotten mental impairments, musculoskeletal, it stayed about the same over time. There really hasn't been any change on an age-by-age basis. Where there has been a change is at higher ages. We are showing it here for men, but for women it is very similar. There has been an increase in musculoskeletal and a decrease in cardiovascular, not a surprise, and all the rest have really reduced deaths. And disabling conditions from the circulatory and musculoskeletal, for a number of reasons, has risen.

One thing we probably—I am over time, so I will not be able to talk about, but I hope we will talk about it a little bit more, is the situation with the CDRs and CDR funding, as shown in this figure, number 16. We, back in 1996 to 2002, the congress appropriated the money. Social Security did not even need all that had been allocated. The appropriations were less than had actually been allocated by law, and we were able to get the backlog of full medical continuing disability reviews done.

We are now at a position where we do have a backlog of those. The Budget Control Act set forth enough money to be able to do that. Unfortunately, the appropriations over the last couple years have not met the BCA—also have not done that.

So, the very final point is really just looking at the DI cost as percentage of GDP. It has risen over the last 20 to 30 years for the reasons described. Going forward, we project that with some of the incidence rates staying essentially the same in the future—we see no reason why they would be going up—the cost, as a percentage of GDP, for Social Security will remain at about .8 percent of GDP. The real problem is that the dedicated revenue for the program is less than that. So we need to either find a way to pull down that cost level or pull up the revenue level to get those back in sync.

Thank you very much, and sorry for running overtime, Chairman Johnson.

[The prepared statement of Mr. Goss follows:]

## **The Financing Challenges Facing the Social Security Disability Insurance Program**

**Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration**

**House Committee on Ways and Means, Subcommittee on Social Security**

**March 14, 2013**

Chairman Johnson, Ranking Member Becerra, and members of the subcommittee, thank you very much for the opportunity to speak to you today about the Social Security Disability Insurance (DI) program. I would like to share thoughts on five topics:

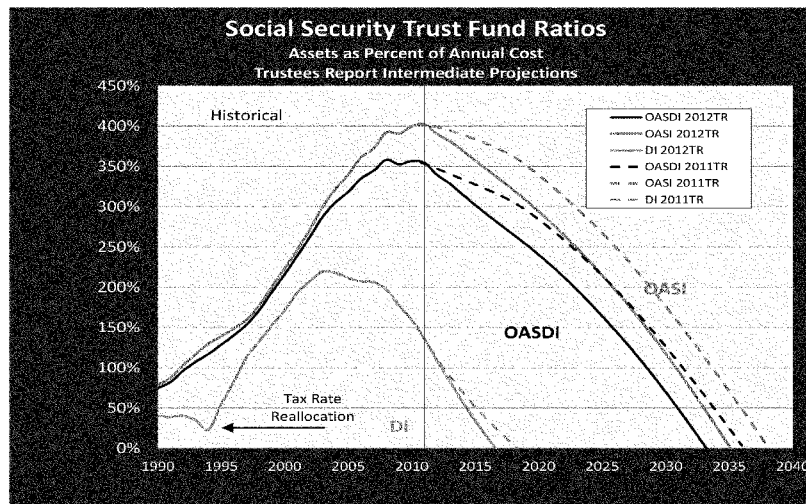
- (1) An update on the projected financial status of the DI Trust Fund;**
- (2) The “drivers” of increasing costs over the past several decades;**
- (3) The Trustees’ assumptions for future trends in cost;**
- (4) Changes in the distribution of disabled workers by age and medical diagnosis; and**
- (5) Past and projected numbers of full medical continuing disability reviews (CDRs).**

### **(1) The Financial Status of the Disability Insurance Program**

The Disability Insurance (DI) Trust Fund was just one year away from depletion of its reserves back in 1994, when the Congress enacted a reallocation of the Social Security 12.4-percent payroll tax rate, providing a little more for DI, but no change in the total tax rate. In the 1995 Trustees Report, we projected that DI Trust Fund reserves would remain adequate until 2016.

For the most recent Trustees Report published in April of 2012, we projected that DI Trust Fund reserves would again be adequate until 2016, and that, after the reserves become depleted, we would still have sufficient tax revenue to pay 79 percent of scheduled benefits in 2016, rising to 80 percent by 2086.

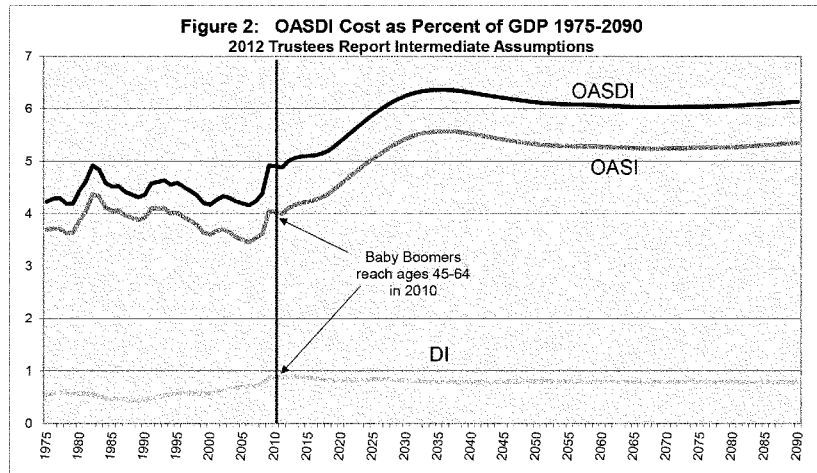
Figure 1: Status of Social Security OASI and DI Trust Funds



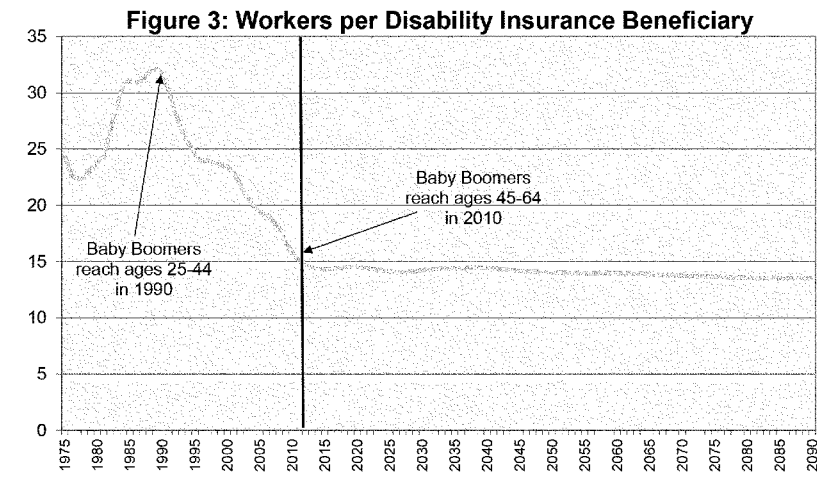
Note: OASI refers to the Social Security Old-Age and Survivors Insurance Program. OASDI is a combination of the OASI and the DI Insurance Programs.

Sustainable solvency can be restored for the DI Trust Fund with a 16-percent reduction in program cost, a 20-percent increase in revenue, or some combination of these changes. Even a simple tax-rate reallocation between OASI and DI, as was done in 1994, could equalize the financial prospects of the trust funds avoiding reserve depletion until 2033.

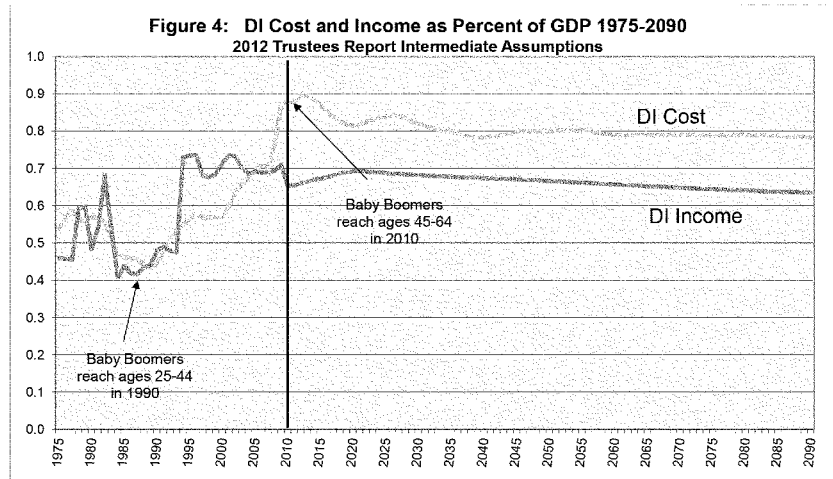
Overall OASDI cost will rise over the next 20 years as the baby boomers retire and are replaced in the working ages with lower-birth-rate generations born after 1965. The drop in birth rates after 1965 will cause a permanent shift in the age distribution of the population, with fewer workers to support more elderly retirees in the future.



However, the baby boomers already moved from young ages (25-44) in 1990, where few were disabled, to older ages (45-64) in 2010, where many more are disabled.



Thus, the 20-year demographic shift in the age distribution of the population due to lower birth rates has already occurred for DI. This, along with stabilization of other “drivers” described below, results in a flat projected number of workers per DI beneficiary for the future.



Therefore, restoring sustainable solvency for the DI program will *not* require continually greater benefit cuts or revenue increases. A one-time change to offset the drop in birth rate and past shifts in other “drivers” is all that is needed to sustain the DI program for the foreseeable future.

#### (2) The “Drivers” of the Cost of the Disability Insurance Program

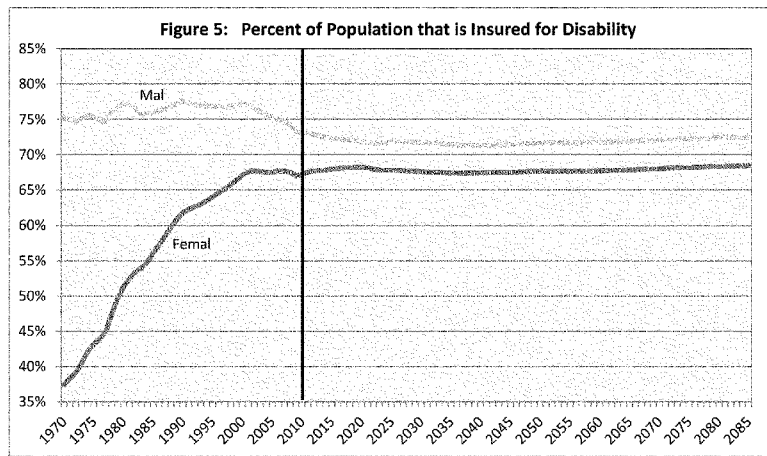
Changes in the cost of the DI program as a percent of payroll or GDP reflect changes in the numbers of beneficiaries per tax-paying worker because average benefit levels and average earnings levels rise at about the same rate. The number of disabled worker beneficiaries increased from 2.86 million in 1980 to 8.20 million in 2010, an increase of 187 percent (while the number of workers rose by just 39 percent). Several main “drivers” have caused this disproportionate increase in the number of beneficiaries.

The first driver is the **41-percent increase** in the total population at ages 20 through 64 between 1980 and 2010, which roughly matches the increase in workers.

The second driver is the changing age distribution described above, which resulted in a **38-percent increase** in “prevalence” of disability. (The gross disability prevalence rate grew 38 percent more than the age-sex-adjusted prevalence rate between 1980 and 2010.)

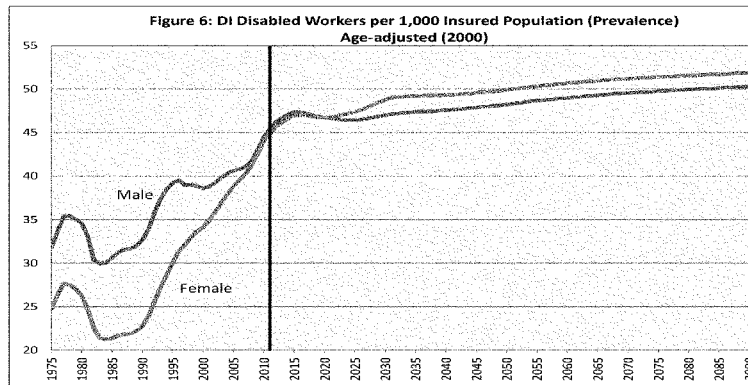
The third driver is the percent of the population at ages 20 through 64 that is disability insured. Since 1970, the disability insured population grew substantially as increasing numbers of women worked consistently and stayed insured. Between 1980 and 2010, the percent of the “disability-age” population that was insured rose from about 50 to 68 percent for women, but declined from about 77 to 74 percent for men. Overall, there was a net **8-percent increase** in the number of disabled worker beneficiaries. This increase is relatively small because the proportion of the

population that is undocumented (and far less likely to become disability insured) rose substantially between 1980 and 2010. Without this increased proportion of the population that is undocumented, the percent insured would have increased more for women and declined less (if at all) for men.



In the future, we project that men will be less likely to be insured, reflecting increased numbers of undocumented immigrants, and insured rates for women will stabilize close to those for men. These changes will slow the growth in the cost of the DI program.

The fourth driver is the prevalence of disability among insured workers on an age-sex adjusted basis. This prevalence of disability rose from 31 percent of the insured population in 1980 to 44 percent in 2010, for a **42-percent increase**.



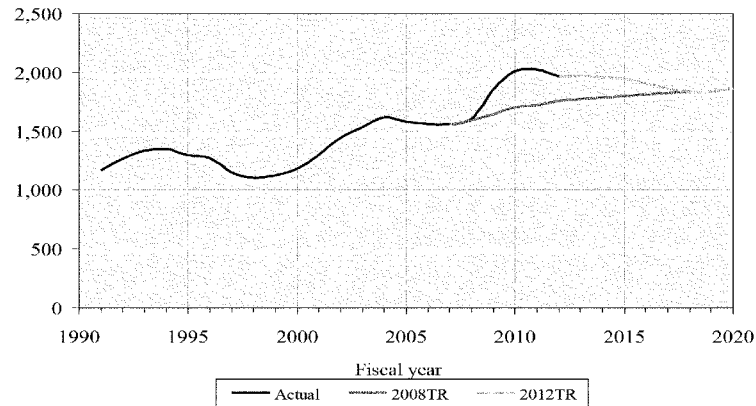
The combined effects of these four drivers explain the overall 187-percent increase in the number of disabled worker beneficiaries between 1980 and 2010. The expected future stability in the ratio of workers to DI beneficiaries, and in the latter three factors, explains the projected future stability of DI program cost as a percent of GDP, and as a percent of taxable payroll.

### (3) The Trustees' Assumptions for Future Trends in Cost

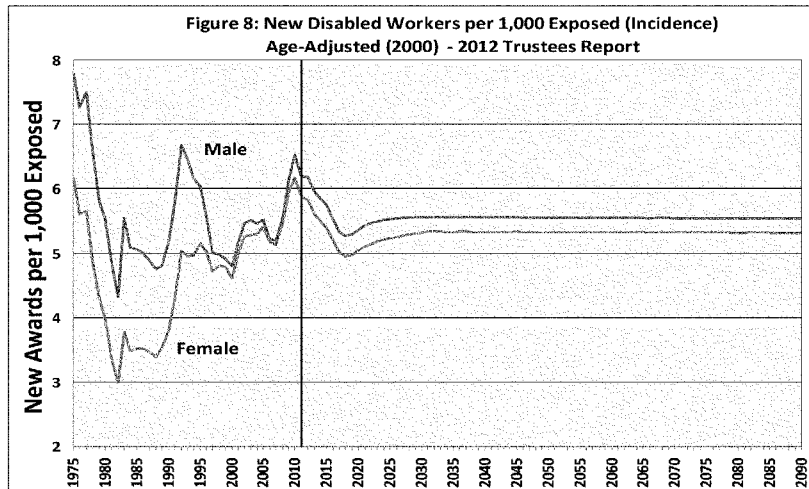
Increased prevalence of disability reflects a number of factors, including changes in incidence rates, termination rates, and normal retirement age. The increase in incidence rates accounted for about half of the increase in the age-sex-adjusted prevalence rate between 1980 and 2010. The effect on prevalence was amplified because incidence rates have increased more at younger ages than at older ages. In 1980 the incidence for ages 25-44 was about 20 percent as large as the incidence rate at ages 45-64. By 2010 the incidence rate for ages 25-44 rose to 28 percent as high as the rate for ages 45-64.

Incidence rates tend to increase temporarily in bad economic times. Some individuals who could readily qualify for DI benefits based on the severity of their medically-determinable impairment may be able to work at a level in excess of substantial gainful activity (SGA) given the opportunity and needed assistance. But with elevated unemployment rates like those seen over the last several years, many of these individuals will lose employment and will seek DI benefits. This effect can be seen in the elevated level of applications for disability benefits under the OASDI program starting in 2009, compared to the numbers expected for the 2008 Trustees Report, where no recession was anticipated.

Figure 7: OASDI DDS Applications: Disabled workers, children and widows (*thousands*)



Changes in the rate of disability *incidence* are most easily seen by excluding the effects of any change in the age distribution of the general population. For men, this *age-adjusted* incidence rate has averaged somewhat over five new disability awards per thousand exposed (insured but not already disabled) workers and has seldom been below this level. Since 1980, the age-adjusted incidence rate for women has increased to a level much closer to the rate for men.

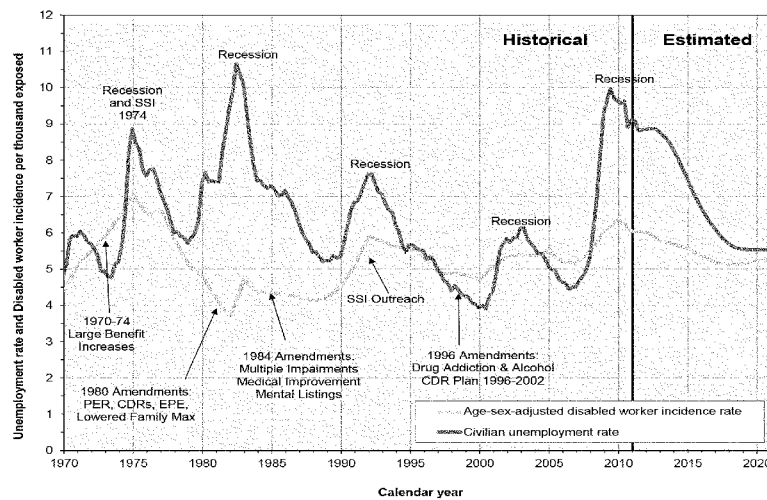




We expect that male and female age-adjusted disability incidence rates will be fairly stable in the future.

A more careful look at past fluctuations in the overall age-sex-adjusted disability incidence rate reveals a number of specific economic and policy drivers that have influenced DI program cost. Periodic economic recessions, as illustrated by the civilian unemployment rate in red in the figure below, have been associated with temporary increases in disability incidence.

**Figure 9: Effects of Economic Cycles and Policy Changes on DI Incidence Rates**

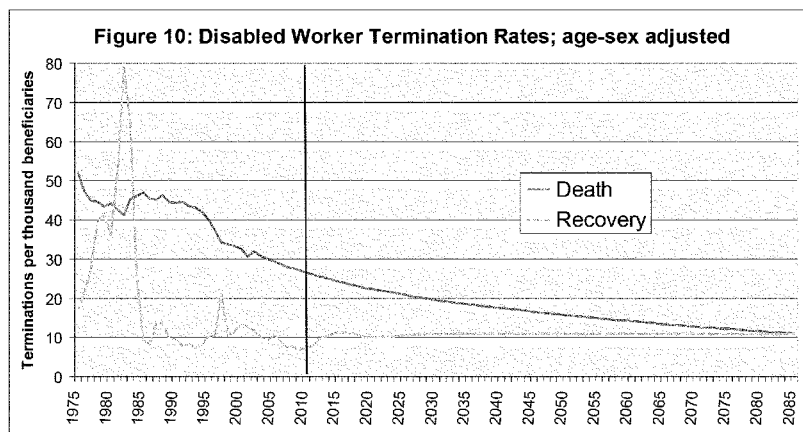


The very recent recession of 2008-2009 resulted in an increase in disability incidence to a peak level in 2010 that was exceeded only by the peak in 1975. One apparent exception to the relationship between disability incidence and economic recessions is the strong recession of 1981-1982. The effect of that recession appears to have been offset by the net effects of the 1980 Amendments, which: (1) sharply increased the levels of pre-effectuation review of disability allowances and continuing disability reviews of current beneficiaries; (2) introduced the extended period of eligibility to encourage work; and (3) lowered the maximum family benefit for DI beneficiaries.

Additional policy changes over the years had significant effects on disability incidence. Double-digit ad-hoc benefit increases in 1970 through 1974 made disability benefits more attractive. The 1984 Amendments may have countered the effects of a strong economic recovery with increased emphasis on multiple impairments and mental listings, and the requirement to show

medical improvement for benefit cessation. The SSI outreach to disabled adults likely added to the effects of the 1990-1991 recession. Also, the effects of a strong economic recovery from 1995 to 2000 on lowering incidence rates may have been enhanced by the 1996 Amendments which eliminated drug addiction and alcoholism as disabling impairments. Future policy changes and economic cycles will undoubtedly continue to cause fluctuations in disability incidence rates.

Disability incidence rates tell us the rate at which insured individuals with recent work experience file for and are awarded disabled worker benefits. The cost of providing benefits to disabled workers also depends on how long their disability lasts. Currently, about 3.5 percent of disabled workers die or recover from medical improvement or demonstrated ability to return to work each year. Most of these disability terminations are from death. Only about one in four of the terminations results from medical improvement or return to work.

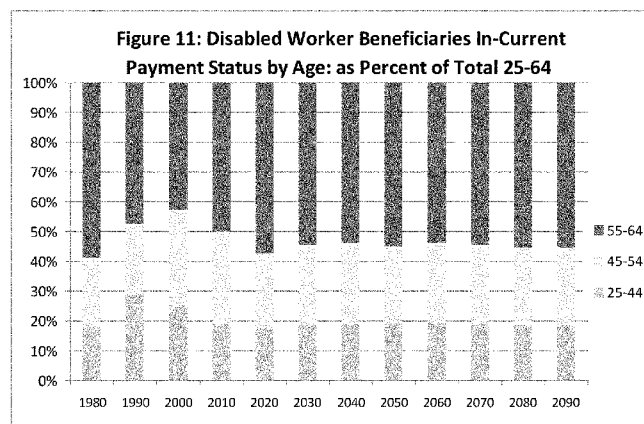


For the future, we project that death rates for disabled workers will decline at about the same rate as for the general population, at each age. We assume that future rates of medical and work recovery termination will be fairly stable in the future, at about one percent of the beneficiary population each year.

#### (4) **Changes in the Distribution of Disabled Workers by Age and Medical Diagnosis**

The changing age distribution of the population at ages 20-64 and changes in age-specific disability incidence rates have resulted in a substantial change in the age distribution of the disabled worker population. Disabled worker beneficiaries under age 45 accounted for 18 percent of the total in 1980, but accounted for 28 percent by 1990 as the baby boom generation reached ages 25-44 in 1990. Over the next 20 years, from 1990 to 2010, the aging of the baby-

boom generation caused the share of disabled workers under age 45 to decrease substantially back to about 19 percent of the total. This shift in age distribution for both the general population and the disabled worker population will be permanent in the future due to persistent lower birth rates. The percent of disabled worker beneficiaries that is under age 45 would have declined even further by 2010 but for the relatively greater increases in incidence rates at younger ages between 1980 and 2010.

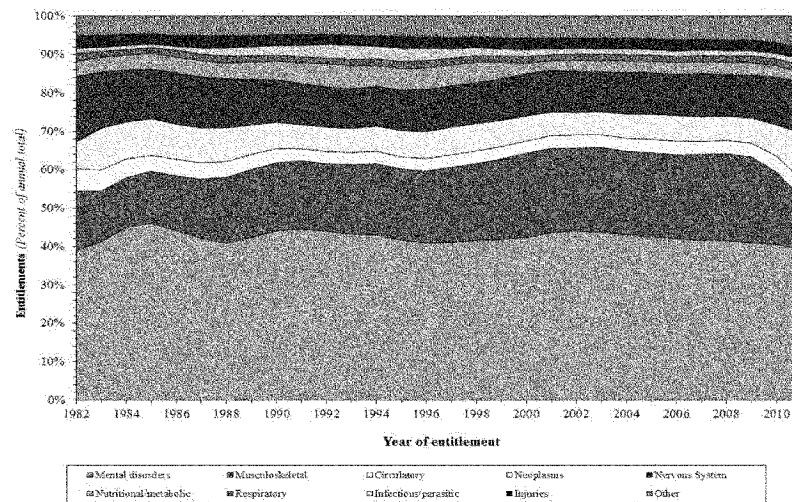


We expect that the distribution of the disabled worker population by medical diagnosis code at award will change in the future because:

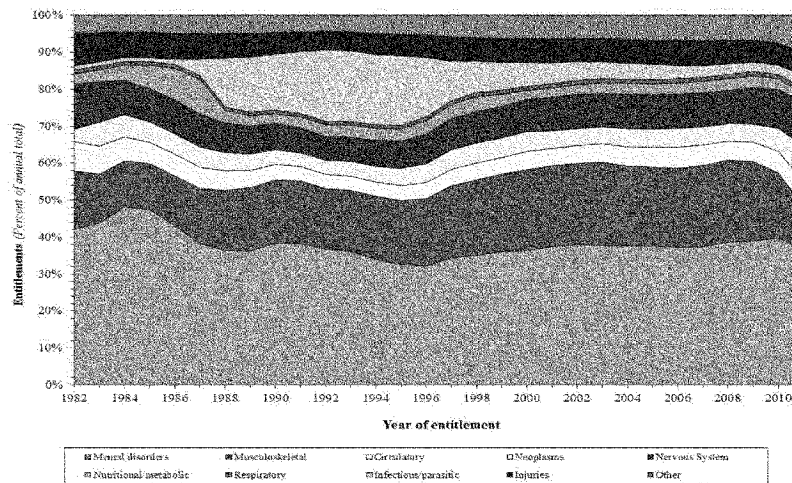
- 1) The increased numbers of younger awards are more likely to have mental impairments, and are likely to persist to higher ages. (Mental impairment is the primary diagnosis for 40 percent of new entitlements at ages 30-39, but only 10 percent for new entitlements at ages 50-59.)
- 2) The percent of older new entitlements with musculoskeletal primary diagnosis has risen substantially from about 20 percent in 1985 to over 30 percent by 2010.

Figures 12 and 13 below show that the distributions by diagnosis have remained very stable for male and female new entitlements at ages 30-39. Thus, the relative increase in young-age incidence rates is not the result of change specific to just one or two diagnoses. Note that the distributions for new entitlements for 2010 and 2011 are somewhat distorted because awards for some diagnoses tend to take longer to adjudicate to completion.

**Figure 12: Female Age 30-39 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)**

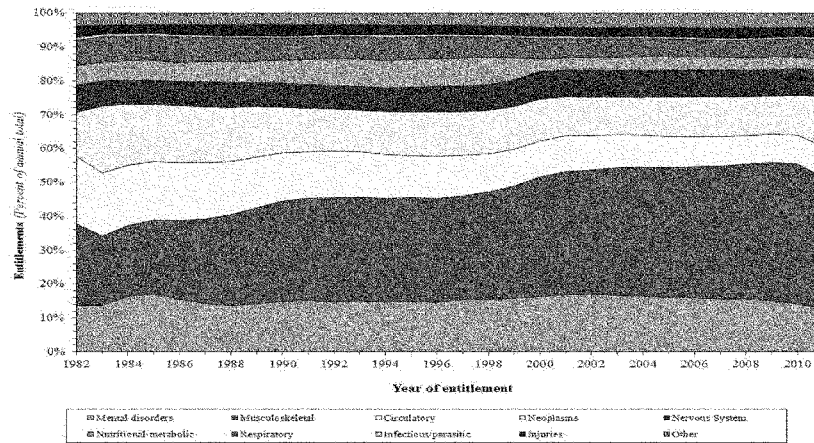


**Figure 13: Male Age 30-39 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)**

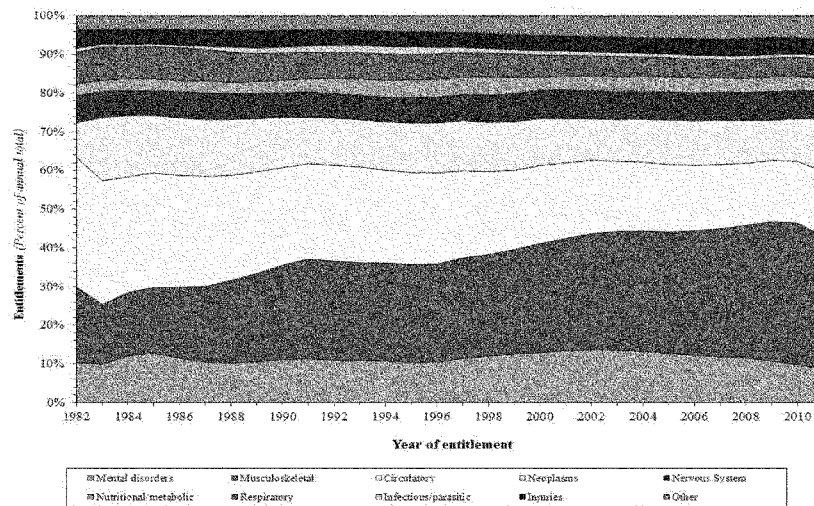


Figures 14 and 15 show that at higher ages, increases in musculoskeletal diagnoses and decreases in circulatory diagnoses are the primary changes over the last 30 years.

**Figure 14: Female Age 50-59 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)**



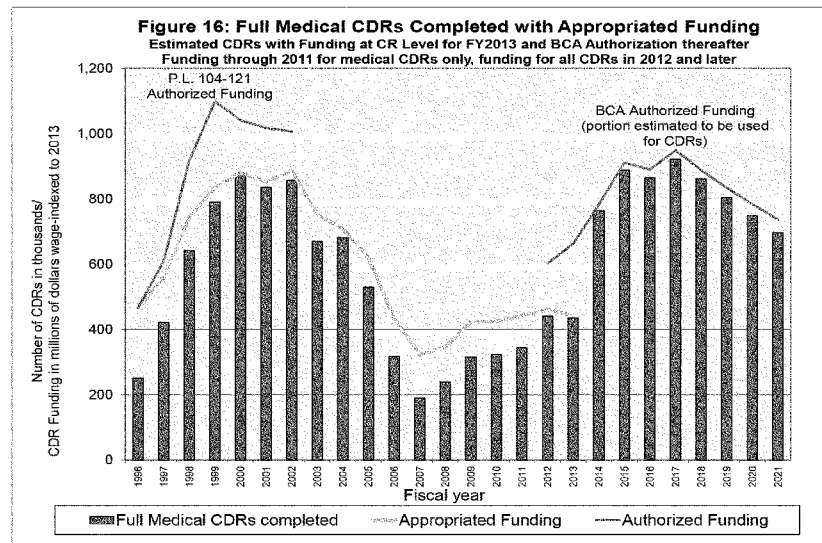
**Figure 15: Male Age 50-59 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)**



### (5) Past and Projected Numbers of Full Medical Continuing Disability Reviews (CDRs)

Benefits are terminated for about 1 percent of disabled worker beneficiaries each year due in roughly equal shares to medical recovery and return to work. Beneficiaries are subject to periodic medical CDRs at varying durations depending on the expected likelihood of medical recovery. Beneficiaries who are profiled to be most likely to have recovered are subject to full medical reviews (FMRs), with others sent mailer questionnaires to assess their progress.

The figure below illustrates in the blue bars the total numbers of full medical reviews (for both OASDI and SSI beneficiaries) completed in years 1996 through 2012 with the level of funding appropriated for such reviews shown in the green line. The red line for years 1996 through 2002 shows the level of funding that was authorized in P.L. 104-121 in order to allow SSA to work down a backlog of CDRs that had developed through 1995. Actual appropriations were adjusted to less than authorized in years 1997 to 2002 based on SSA's revised assessment of funding needs to eliminate the backlog by 2002. Dollar amounts authorized and appropriated for each year are all average-wage indexed to 2013 level in order to provide rough comparability in staffing potential for appropriations across the years.



With the CDR backlog eliminated in 2002 and authorized funding under P.L. 104-121 expired, annual appropriations slipped to lower levels through 2011 and the CDR backlog returned. Funding authorized for medical CDRs, work CDRs, and SSI non-medical redeterminations in the Budget Control Act of 2011 was intended to eliminate the medical CDR backlog for OASDI

within 10 years. The portion of the BCA-authorized funding estimated to be attributable to CDRs is shown in the figure in red for years 2012 through 2021. However, annual appropriations fell below the amount authorized in BCA for 2012, and are expected to be well below the BCA level for 2013. The FMR CDRs indicated in the blue bars for 2012 and 2013 reflect the reduced appropriation in 2012, and assume that the appropriation for 2013 will be at the Continuing Resolution level for the full year.

FMR CDRs shown in blue bars for years 2014 through 2021 assume that the full BCA-authorized funding for those years will be appropriated. If less than this level of funding is appropriated in 2014-2021, then SSA is not expected to be able to eliminate the CDR backlog as intended in the law.

### **Conclusion**

Demographic changes, principally the drop in the birth rate after the baby boom, have dramatically changed the age distribution of the population. This change has increased the cost of the DI program as a percent of taxable payroll (and as a percent of GDP) over the past 20 years in much the same way that it will raise OASI and Medicare costs over the next 20 years. Disability insured rates and incidence rates have increased substantially for women, further contributing to higher DI cost. However, all of these trends have stabilized or are expected to do so in the future.

We project that the number of DI beneficiaries will continue to increase in the future, but only at about the rate of increase in workers. Thus, the current shortfall in tax income compared to DI program cost is projected to be stable in the future. Restoring sustainable solvency for the DI program requires about a 16-percent reduction in benefits, a 20-percent increase in revenue, or some combination of these changes. Similar changes are needed for the OASI program.

We have analyzed and “scored” numerous Congressional provisions that would make such changes to the OASDI program. These analyses are available at <http://www.ssa.gov/oact/solvency/provisions/index.html>. In addition, our estimates for the effects of provisions specific to DI can be found in our July 18, 2011 letter to Senator Coburn at <http://www.ssa.gov/cgi-bin/solvency.cgi>. Even if such changes are not effected soon, a modest reallocation of the total OASDI payroll tax can be enacted prior to 2016 that would equalize the actuarial status of the OASI and DI programs, allowing both programs to pay full scheduled benefits until 2033.

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Chairman JOHNSON. Thank you for your testimony. We will now turn to questions. And as is customary for each round of questions, I will limit my time to five minutes and ask my colleagues to also limit their time to five minutes as well.

Dr. Manchester, each year CBO produces its own score of President's budget. We know the Disability Insurance program won't be able to pay full benefits beginning in 2016. That is only three years away. Has this President ever submitted a budget that included a fix so that full benefits could be paid in 2016 and beyond?

Ms. MANCHESTER. Chairman Johnson, the answer is no. The President has not submitted such a budget.

Chairman JOHNSON. Mr. Goss, unless Congress acts, in 2016 people receiving disability insurance will face a 21 percent across-the-board cut. We are running out of time, unless we raise taxes on everyone, including those who can least afford it. In the past, when full disability benefits could not be paid, Congress enacted a reallocation of the payroll tax so that a higher percentage of payroll tax receipts would be credited to the Disability Insurance Trust Fund and a lower percentage would be credited to the Old-Age and Survivors Insurance Trust Fund.

How often has Congress taken such action, and were these re-allocations temporary? And, if not, how long did that policy last, and was the retirement program ever made whole for its loss?

Mr. GOSS. Chairman Johnson, thank you. You are exactly right, that we are facing a 2016 date, at which point, assuming we actually did deplete the reserves of the DI trust fund, we would only have \$.79 coming in at that moment for every dollar of scheduled benefits, and we would have an issue.

The good news is Congress has never allowed that to happen. And we would not be—even if we got to that brink, we would not be in a position of having to necessarily raise taxes, because a re-allocation, as you all described, could allow us to take some of the money that is going out of the OASI, Old-Age and Survivors Insurance Fund, put into the Disability Insurance Fund, and thereby not raise taxes in near term at all. It would just be a transference.

As for re-allocations—

Chairman JOHNSON. But the Old Age Fund is your money, isn't it?

Mr. GOSS. Well, the Old Age Fund would, in fact, be reduced. We actually have worked out schedules, and have provided them and can provide them for the record, of relatively modest re-allocations that would equalize the prospects for the OASI and the DI trust fund. The DI trust fund is now projected to deplete its reserves in 2016. The OASI trust fund, we project, will deplete its reserves in 2035.

So, with a modest re-allocation between the two, they could both be moving towards depletion in 2033, giving you good gentlemen and gentlewomen the opportunity to have well-reasoned and good changes to both of these programs—

Chairman JOHNSON. The problem is we have got a cliff coming at us and we are going to fall off of it, I think.

Mr. GOSS. We do. If I may, let me just mention on the re-allocation of the historical, as you asked. I actually looked last night very carefully at all of the changes. And looking at all the different years since 1957 in which DI tax rates have changed and OASI tax rates have changed in the opposite direction, where there has been some movement between the two, we have had six times where the OASI tax rate has been lowered and the DI tax rate has been increased over all those years, for a total change of 1.63 percent.

But we have also had 5 times in which the DI tax rate was lowered, and the OASI tax rate was increased, for about a 1.26 percent total change. So there has been a net transference of the tax rates from OASI to DI over that time. But there have been changes in



both directions, and none of them have been terribly long-lived, because the congress, in its good thinking, has made changes as necessary throughout this time period.

Chairman JOHNSON. Which of the policies that we have made has had the greatest impact on expanding the rolls?

Mr. GOSS. Well, certainly, the biggest was 1956, the enactment of the law. But beyond that, obviously, we have—and the little graph that we had up before that showed the incidence rates going up and down, but let me just point to sort of three changes in the law that have occurred that really had impacts. And they go in various directions.

One is the 1980 amendments that were enacted that put into effect a pre-effectuation review, which meant that when disability claims are allowed, at the time it said that 65 percent of those disability claims that were going to be allowed had to be reviewed an additional time before claimants were even made aware. And that had an effect.

In addition, back in the 1980 amendments it was put forth that we should have continuing disability reviews, which, I admit, have not always been fully funded and done to the level that ought to be done. But they were put into effect. And both of those, obviously, tend to stem the growth in Social Security, even in the face of a very severe recession back in 1982 to 1983.

A second point that I would like to bring up was the 1984 amendments which went in the other direction. The 1984 amendments afforded the possibility in disability adjudications to look at multiple impairments instead of single impairments. And it also required, for people who were receiving benefits, if they were to be removed for medical reasons, that Social Security had to prove that there was medical improvement, not just that their current status didn't qualify, but there was actual medical improvement.

Chairman JOHNSON. Yes, thank you. You can stop right there. My time has expired. Mr. Becerra, you are recognized for five minutes.

Mr. BECERRA. Thank you, Mr. Chairman. Dr. Manchester, let's make sure we are clear. Eligibility for these benefits. If I am a doctor, a singer, a professional athlete, all of a sudden I can't be that basketball player or opera singer, something happens to my voice, or I—my sight goes a little poor and I can no longer do the surgery, as a physician. Just because of those incidents occurring for any one of those types of American workers, that doesn't mean they automatically will qualify for disability insurance.

Ms. MANCHESTER. So the answer is a little bit complicated. It depends on your age. So, for example, if you are an age 42-year-old surgeon, and all of a sudden you can't do surgery, then you would have to show that you cannot do any job in the economy in order—

Mr. BECERRA. So that means that if I were a surgeon and I can no longer do surgery, I still have to prove that I can't do—could I be told, "Well, there is a position open to be a janitor at your local school"?

Ms. MANCHESTER. If you can do some work anywhere in the economy, you would not qualify for DI benefits.

Mr. BECERRA. Okay. So I—

Ms. MANCHESTER. Now, that is not true at ages 45, 50, 55, 60. At those ages, there are more allowances made for your own career or your own specific kind of work.

Mr. BECERRA. Right. So the older you get, the less able you are—do any number of things because of age. But simply because you can't do what you have always done or what you were trained to do doesn't mean you will qualify for disability insurance.

Ms. MANCHESTER. At younger ages, that is true.

Mr. BECERRA. Yes. And even at older ages. You still may not qualify, even if you can't do a number of things as you did as a surgeon, professional athlete, or a singer. You still may have to do other things. You may have to be a security checker at some local shopping mall, or you—so long as you can show that you can do a job that is available out there, Social Security is not going to grant you disability insurance benefits.

Ms. MANCHESTER. So those regulations do change as you get older, so that—

Mr. BECERRA. Right. Understood, understood.

Ms. MANCHESTER. Correct—

Mr. BECERRA. As you get older, your abilities do diminish. But no one should be deceived into believing that simply because you say, "I can no longer be the singer performing at that opera house," that I all of a sudden get to qualify for disability insurance.

Another question. You mentioned that the average monthly benefit from disability insurance is about \$1,130 a month. Are you aware of what the poverty level is considered to be in this country.

Ms. MANCHESTER. Oh, boy.

Mr. BECERRA. I will tell you. I will tell you, don't worry.

Ms. MANCHESTER. Okay.

Mr. BECERRA. It is about \$995 a month. And so, essentially, you would be earning—or you would be receiving a poverty wage which, by the way, you paid into, because when you were working you earned the right to receive these benefits, but it is not going to make you rich.

Ms. MANCHESTER. Absolutely not.

Mr. BECERRA. It may not even let you survive, even if you are able to receive these disability insurance benefits.

Mr. GOSS, you showed some charts. Some people are trying to portray the disability insurance program as blowing out of proportion. It is going to take us into bankruptcy. I thought I saw some charts that showed that, actually, the disability insurance program stabilizes, both in terms of cost and the number of people who apply for benefits over the long run. Is that the case?

Mr. GOSS. That is exactly the case. The primary driver is—the vast majority of the changes are the aging of the population, and the equalization of insured rates and disability incidence rates between men and women. These are all factors that are not going to be repeated in the future. They have played out, and therefore, we see the cost as being essentially a stable percentage of GDP in the future.

Mr. BECERRA. So, like any good math student who, so long as you can figure out the variables that go into that equation, you can come out with your answer, we know the variables that are driving

the increasing numbers of disability insurance beneficiaries, and the increased cost of the program, and we can see how it stabilizes.

So, if we are smart, we will all work together to try to, as we have done in the past, come up with a mix of fixes that ensure that over 75, 90, or whatever number you want to—of years you want to decide, calculate, we will make sure that, for Americans who become disabled through no fault of their own, that if they have paid into the system, they will be able to receive some benefits that help them continue to hopefully work. But if they can't work, at least to survive in America for having been good American workers before.

Is—have I summed it up in a way that you could agree with?

Mr. GOSS. I believe that is the intent of Congress in enacting this program. And so far it has been doing a very good job.

Mr. BECERRA. Well, and I hope, then, what we do is, Mr. Chairman, I think we have time, because, as I think our witnesses have mentioned, between the mix of what we do for those who are retiring, the aged, those who become disabled, certainly more importantly as well, the folks who receive a benefit because they are the survivors of an American worker who paid into the system and has perished, that what we are doing is figuring out, while we have some two decades to figure this out, a great—the best way to fix the system to make sure it is there for the future generations, as it has been here for the rest of Americans.

So, with that, Mr. Chairman, I yield back the balance of my time.

Chairman JOHNSON. Thank you. Mr. Renacci, you are recognized for five minutes.

Mr. RENACCI. Thank you, Mr. Chairman. I want to thank the witnesses for their testimony this morning.

You know, it is important that those that qualify get these benefits, and then they continue to qualify for the benefits. And I want to go in that direction.

But, Dr. Manchester, you said something in your testimony this morning that I just want to see if you would expand on. You said in some cases this program discourages work. Can you expand on that a little bit?

Ms. MANCHESTER. Sure. So many researchers are concerned that, because the applicant has to be out of the workforce for five months prior to application, and then the application process itself can take a year, two years more, that the time out of the workforce leads to a depreciation of their skills as a worker. And so, just the fact that they have taken the time out of work to apply for a benefit means that they will be less able to go back into the workforce.

Mr. RENACCI. And Mr. Goss, I wanted you to expand on the Continuing Disability Reviews. You know, we talk about qualifying and then continuing to qualify. I think that is important, that the reviews are there. I know it was part of the 1980 amendments.

Can you talk a little bit about what the current backlogs are of the CDRs, expand on some of the complications of administering the CDR program and, explain what the financial impacts CDRs have on the DI program. So that is a lot, but I just want to get some more information on that.

Mr. GOSS. Absolutely. Let me—whatever I can't get in here I will submit for the record, for sure. But let me just mention also

about the idea of discouraging work, I think the very fact that there is a five-month waiting period during which you cannot get benefits if you become disabled should suggest that people would try to work as best they can. If benefits were made immediately available upon disability, then I could see an argument for saying that people are able to get benefits right away, and so they might give up on work. But given they can't get benefits right away, that would seem to suggest, actually, that they should do everything they possibly can to keep working, rather than having a five-month period in which they have no income.

As far as the—what we call the full medical reviews for continuing disability reviews, this is really a huge story. The graph that we had up there—it is actually figure 16 in the written testimony—shows that we actually did, back in the 1996 to 2002 period, have legislated into law sufficient monies to be able to work down our full medical review backlog. And luckily it turned out that Social Security was able, through efficiencies, to do it for even less. And the actual appropriations turned out to be less, but they were worked in conjunction—Social Security, the Appropriations Committee—to actually get those down.

We are now at a position, since 2002, the appropriations have been very, very, very much below where they were in the 2002 level by any measure. And our “backlog” has grown. For Social Security disability insurance full medical reviews, we estimate there are about 300,000 cases which we should have in process that are not currently in process. In order to get to a position where we would not have cases in effect waiting in the queue to get into process, we would have to have more revenues.

The Budget Control Act actually put forth those revenues, it put them into law. Unfortunately, in 2012 and 2013, the actual appropriations have fallen very substantially short of the amount of money that was put forth in the Budget Control Act. And, therefore, Social Security has simply not been able to do the number of full medical reviews that have been scheduled. If we were to achieve the funding from the Budget Control Act, we estimate that within five years we would be able to get this backlog taken care of and be on track.

As far as the cost of the program, the level of backlog that we have now, if—and this is a little bit hypothetical—if this means that the cases that we want to do full medical reviews for are about six months delayed from what they might otherwise be if we were really fully funded, since we have about half-a-percent of our beneficiaries being terminated for work reasons every year, if that is six months later than it might otherwise have been, that would be a one quarter of one percent less cost, if we were able to discover the ability of people that they have actually recovered medically, and have them depart the rolls by those six months earlier.

One half percent leaving six months earlier would be a quarter percent less cost. On a \$140 billion program, that would be \$350 million annual of lower costs for the program, if we were fully funded. And, as I think Mr. Johnson indicated, with a \$9-to-1—\$9 of return for \$1 of investment on these full medical reviews—this seems like a good investment. So we hope that you will talk to the folks over in the Appropriations Committee, as my boss is doing

right now, and that you will help encourage them to give us full funding for that.

Mr. RENACCI. Thank you, Mr. Goss. I yield back.

Chairman JOHNSON. Thank you, sir. Mr. Kelly, you are recognized.

Mr. KELLY. Thank you, Chairman. And, Mr. Becerra, I really appreciate what you said about the chairman. He truly is one of a rare breed of American heroes. And I can't tell you what a pleasure it is to serve with you. And those comments are right in line.

The two of you, what I am really worried about is we see more people going on to the rolls and not coming off. And having been in the private sector all my life, the idea was if somebody got hurt on the job, you needed to get them back on the job again. So why aren't they coming back?

I have seen great advances, from the time I first got started in business until now. Injuries and things that would happen to people before that you would say, "My gosh, this is going to be really a difficult thing for them to recover." That is not the same any more. We have had great technology, we have had great innovations. We have had a great advance in that. And not with any disrespect. I mean, Mr. Becerra, not about the opera singer that can't hit the high note or the low note. I am talking about people who work on their feet and work with their hands, musculoskeletal problems. I have sat in on hearings to hear that.

What is driving this? If we have such great advancement, why aren't we having them return to the payrolls? Why aren't they coming back into the workforce?

Ms. MANCHESTER. This harkens back to my earlier answer. I think that people have to prove that they are unable to work in order to qualify for the DI program. So once they have been out of the workforce and they have convinced themselves and the examiners that they cannot work, it is extremely difficult for them to get back in to the workforce.

Now, in response to this program, many researchers have identified the idea of early intervention. So this means that firms, employers, would work hard to keep their employees on the job, even as they see that their skills are maybe not as used because they are experiencing health problems. But they will work very hard to use technology, to use perhaps retraining and other means, in order to support their efforts to stay on the job so that they are not removed from the workforce for a couple of years before they are told, "Well, you should try to get back in to the workforce."

Mr. GOSS. If I might add, part of the reason, clearly, is that we have such an incredibly strict definition of disability. Mr. Becerra was referring earlier to what we sometimes refer to as sort of an occupational definition. If a great surgeon with great digital dexterity for some reason loses that, we do not allow that person for benefits. So they could become a medical consultant to help us making disability determinations, where they don't need the dexterity any more.

Under an occupational definition, which most private disability insurance works on, there is a much greater opportunity to get people back to some job by working with them, maybe even the same job. But we have so much stricter definition.

The other thing that I would really suggest is that what we really need is—and I am sure this is something that you all are more aware of than we are—is jobs. We really need the opportunities for people to get back to work. Dr. Manchester is exactly right, that once people have been out of the workforce for a while, it is harder to get back. But it is even harder if there aren't good jobs there for which they have been properly trained and skilled to take those jobs.

Mr. KELLY. And those numbers are increasing, though, with the recession, the depth of the recession. I am just going back. This is my private life. Listen. We have technicians that we need on the shop floor. Each service bay has to turn so many hours a day. We need those people back to work.

When you talk about strict definitions, I mean, if we make it hard for people to recover because we change the definition of recovery, or returning to your skills—I wonder about this, because I have seen great techs take a job at the service counter, becoming advisors, and losing their production on the floor, and going through this process of trying to get them back to work.

Unfortunately, sometimes the incentives go the opposite way of what they are intended to do. And this economy certainly doesn't lead to the fact that, "You know what, what would you rather do?" This is almost like a Wendy's commercial. Should I stay on disability and make this amount of money? Or should I go back and find a job where I will make this? It doesn't take a genius to figure out what they are going to do.

I think we had good intentions. But we have made it impossible for people to make the right decision, because the metrics just don't match.

Mr. GOSS. Well, in your wonderful business, where it sounds as though you were doing everything possible to encourage people to get back to full production, which is great, I think the nature of the way that the benefits work under Social Security is that, by and large, people do not get more than—and maybe generally not even as much as—half the level of income that they were receiving when they were actually working.

My sense—and I presume everybody in the room shares this—is that Americans have an incredibly strong work ethic.

Mr. KELLY. I agree.

Mr. GOSS. If they have an opportunity to get a job I hope at your firm or your former firm, and they can get that job and get twice what they would be receiving from disability benefits, that the vast majority of Americans will seize that opportunity in a heartbeat. So I would just hope that if—hopefully the economy revives—we are still at eight percent unemployment, but we are eager and are projecting that we will get back there in just a very few years—that that will make a big difference.

We have, though, nonetheless, with the disability insurance program, with everything that has been happening in the economy, we continue to have about one-half percent of the people receiving benefits every year return to work and leave our rolls. But keep in mind that is one-half percent every year. On average, people receive our benefits for about 12 years. Half a percent a year, that means six percent.

So, it is not as bad as half percent. People come on the rolls, there is an expectation that six percent of them should be expected to leave the rolls before they reach retirement age and return to work. And roughly another six percent are leaving the rolls because of medical improvement.

Mr. KELLY. Thank you.

Chairman JOHNSON. Thank you. Mr. Tiberi, you are recognized.

Mr. TIBERI. Thank you, Mr. Chairman. Thank you for your leadership. Thank you for Mr. Becerra's leadership, as the ranking member.

I am depressed. And let me tell you why. I don't know how we solve the problem, when we can't agree what the problems are. And let me tell you what I mean.

Mr. Becerra says the shortfall is modest, that stability is coming. Now, I love Mr. Becerra. He and I could drink a bottle of wine together and have a really good time talking about sports—not politics—and then I read your testimony, both of your testimonies. You say there are incentives that discourage work. You say that we have 102 billion coming in, 135 billion going out. Is that right? You say that there are more younger recipients, which means that they will—at least 94 percent of them—will be on for a longer period of time, which I would think means it stresses the system.

You say fewer death rates. That means people are living longer, right? They are not on the system less.

In your conclusion you say "Restoring sustainable solvency for the DI program requires about a 16 percent reduction in benefits"—that stinks for a beneficiary who is truly in need of them—"A 20 percent increase in revenue, or some combination of these changes." And then you go on to say, "Similar changes are needed for the OASI program."

Congressmen do pay into Social Security, by the way, for everybody in the audience and reporters who are here. I look at my Social Security benefits, and I see that when I retire, if we do nothing I am expected to get less than 75 percent of the benefits that are entitled to me.

And yet, it is like we don't even do anything. It is not a big deal. It is going to be stable. The shortfall is modest. I am really concerned. I know you are concerned about the beneficiaries, as well.

So, Dr. Manchester, what do we do?

Ms. MANCHESTER. So, to straighten out some of the confusion, I think that Congressman Becerra was talking about the overall OASDI program.

Mr. TIBERI. I think he was, too. To the chairman's point, we have got three years, right?

Ms. MANCHESTER. For the DI program, that is correct.

Mr. TIBERI. Yes.

Ms. MANCHESTER. That is correct. And, of course, in our report from last year we laid out a number of options that the congress could choose to adapt or not that, in combination, could lead to improvement in the DI program finances.

In addition, we talk about some fundamental reforms that, over time, could also lead to improvements in the DI program finances.

I think it is important to realize that this is a program that does serve a number of people who really need the benefit.

Mr. TIBERI. Absolutely.

Ms. MANCHESTER. But that there may be ways to get to people sooner in the process, so that we can keep them on the job. And they may be better off themselves, if they can stay on the job.

It is also important to realize that it is not just DI finances that we worry about when we think about how many applicants eventually go on to the program, because of course those folks also qualify for Medicare benefits after 24 months on the program. I said earlier that the—

Mr. TIBERI. Whether they are 65 or not?

Ms. MANCHESTER. Oh, no. If they are DI beneficiaries on the program—

Mr. TIBERI. I just want to make sure you say that.

Ms. MANCHESTER. Yes.

Mr. TIBERI. So everyone is clear on that.

Ms. MANCHESTER. Yes.

Mr. TIBERI. Particularly the reporters in the room.

Ms. MANCHESTER. Okay.

Mr. TIBERI. Could you say it again?

Ms. MANCHESTER. If they are DI beneficiaries on the program for two years, they then qualify for Medicare benefits.

Mr. TIBERI. Whether they are 65 or not?

Ms. MANCHESTER. Correct, whether they are 65 or not. And we figure that the average DI benefit on an annual basis is about \$13,500. The annual Medicare benefit for folks who are on the DI program and receive Medicare is about \$10,500 per year. So it is another substantial cost.

Mr. TIBERI. So when you say reasons the program has grown so rapidly, changes in demographics—which you all talked about—growth in the labor force, changes in federal policy, and changes in opportunities for employment and compensation, on changes in federal policy, are there things that we can do to reverse that on federal policy?

Ms. MANCHESTER. So that is a decision to be made by Congress. I think there are ideas out there that would better target people who have some remaining capacity to work. So those are the kinds of things that you might want to think about.

Mr. TIBERI. Thank you so much. Comment?

Mr. GOSS. Yes, please. First of all, there is no disconnect. I think, you know, both of these positions that you mention are correct. We are facing a substantial shortfall. But the characteristic of it that I think Mr. Becerra was referring to is it is not like the thing that we were all worried about before the Affordable Care Act—perhaps not a good thing to mention—

Mr. TIBERI. Probably not.

[Laughter.]

Mr. GOSS. When the cost of Medicare, as a percent of GDP, was rising, it was going vertical on us. It is not projected to be doing that now. But the good news is, for Social Security, all components of Social Security are not going vertical. They are staying constant, as a share of GDP. Now, the percentage of GDP is higher than the



dedicated resources. That is where the shortfall is. But the good news is that shortfall is not getting bigger over time.

We also have done a lot of work on possible changes that could be done. We have a letter—it is up on our website—back in July of 2011 for Senator Coburn addressing a number of different changes. Many of the changes individually, and certainly collectively, would more than eliminate the shortfall that we see for Social Security in the long run.

In fact, on the revenue side, the 20 percent increase in revenues would be equivalent to a 0.4 percent increase in the payroll tax rates, if you want to do it 100 percent, just on the basis of payroll tax rate.

Mr. TIBERI. Well, my time has expired. But you also have to factor in the other issue that the payroll tax is not properly funding the program today. So it is not just in the context of this.

Mr. GOSS. Exactly.

Chairman JOHNSON. Thank you for your questions. Mr. Griffin, you are recognized.

Mr. GRIFFIN. Thank you, Mr. Chairman. Thank you all for being here. And I was not here the last congress, so I do not have the benefit of a lot of what went on then. So this may be duplicative, but I want to focus on a story that was in our statewide paper in Arkansas, the Arkansas Democrat Gazette. And it was entitled, its recent article, “Benefits Link Cited as Mire for Medicaid: Disability Cost Now 51 Percent of State’s Medicaid Program Growth.”

And the general point of this article was the fact that once people get on disability, they are eligible for Medicaid. And while the Federal Government may be paying for part of that, the state has to carry that Medicaid cost. And this is a huge problem for us in Arkansas, and it is a quite extensive article that explores some different options.

And one of the things that struck me is there are a couple of quotes in here that reflect some of what has been discussed here, which is that, unfortunately, in some of the areas that have lost significant population, those are the areas of the state where disability has increased drastically. And this article explores the fact that some maybe are using disability as unemployment insurance.

I am going to read a couple of quotes. This is from a state senator, a Democrat. He says, “I know people who lost their job because it went away. There is not another one, so they go ahead and apply for disability.”

And then there is a quote in here from Mary Daly, economist with the Federal Reserve Bank in San Francisco—I am sure you are familiar with her—she says, “A really important question for the nation and for states is has this become our long-term unemployment insurance program?”

That is bothersome, not because we don’t want people to have a safety net with regard to Unemployment Insurance, but we want programs to be used for the intended purpose. There are a lot of people that rely on Social Security disability who are disabled. And when people who are not disabled use this program inappropriately, even if—I am not saying they don’t need a safety net, but when they use this program, they are threatening the benefits to the people for whom the program was intended.

So, my first question—I am sure you have gone over this ad infinitum in the past, but is it not doable to simply have a better screening process? I mean what is hard about that? We put people on the moon. I mean can we not do a better job of weeding out applicants who are inappropriately getting benefits, and putting the benefits of the disabled at risk?

And I mean we have got a quote here by this same Democrat state senator, who says, “Either we have got some folks with handicaps, or we have got some good folks who are filling out the paperwork.” Now, I wouldn’t have put it that way, but you see the point.

So, could you comment on that?

Ms. MANCHESTER. I would just say that it is extremely difficult to draw the line between a person who is actually able to work and a person who is not able to work. That is an extremely difficult, sometimes subjective, judgement call to make.

It is true that many, many highly-qualified people are on the program. They absolutely cannot work. But in recent years there have been three academic papers coming at the problem from very different approaches identifying younger DI beneficiaries, and especially younger beneficiaries with musculoskeletal and mental impairments who apparently retain some ability to work. So it might be possible to look at those kinds of beneficiaries in particular, to see if we can help them get back to work. It is a very difficult problem.

The other thing to mention is that, especially during recessions, if a disabled person has had a job that has worked well for them but they lose that particular job, it may be extremely difficult to find another job that suits their needs. And so they look at the opportunities available to them. Do I want to go on DI? Or you were talking about the SSI program, which is a separate program that has limits on income and assets. That SSI program also grants immediate access to Medicaid benefits. And part of those Medicaid benefits are funded by the states. But it has exactly the same medical requirements to get on to the SSI program.

So you want to think about that young person, perhaps, who is looking at a job at very low wages, if they can find one, versus a DI benefit with Medicare benefits to come down the road, or an SSI benefit with immediate Medicaid benefits. And it turns out the way the benefit formula works, a very low-income person gets a pretty good replacement rate. The DI benefit has been indexed to the average wage in the economy. Because of growing income inequality, the average wage has been growing faster than the low-wage jobs can pay. And, therefore, you get a better rate of return for that very low-wage worker.

Now, this is not to say that people don’t have a good work ethic. It is just to say that they make a choice based on what is available to them, and they take all those factors into account.

Chairman JOHNSON. We have got the IG working on that. The IG is into that, big time. And we will talk more about that next week.

You have one second.

[Laughter.]

Mr. GOSS. One second, okay. Well, three little points, so I will try to make this super quick.

First of all, we all feel for areas such as some in Arkansas, where there has been population loss. And I would suggest that in areas that have actually had population loss, that is probably because of lack of job opportunity. The people who really can hold a good job, many of them have probably left, thereby leaving more people behind who perhaps are disabled. So we shouldn't be real surprised in such areas that you have seen more people getting disability.

The other thing, too, about Medicaid, that Medicaid costs for disabled have been increasing faster, this is again just the demographics. Because disabled are—remember, that is the area where the baby boomers have been moving into disability ages. They haven't yet moved into the retirement age. That is coming. So we have this thing.

And the fine little point is that, as Joyce mentioned, the determination of disability is very, very tricky. Remember, only one-third of people who apply for disability benefits are allowed a benefit at the initial stage of adjudication; about one-half are allowed of those who have—additional folks that we deem to be additional folks coming in during this most recent very severe recession. Less than that have actually been allowed benefits. It is a tough process, it is a strict definition. Not everybody gets on.

And SSA is doing the best it can. And hopefully the funding will be there to be able to do a better job, especially in the medical reviews.

Chairman JOHNSON. Part of it is the disability judges, too. We are getting after them. The IG is really working this hard. In fact, had to hire more people to do it. Thank you for your comments.

Dr. Manchester, the Ticket to Work program has attempted to support those looking to leave the rolls. Do you think it has been successful? And has the reality matched the saving that was projected when it was put out?

Ms. MANCHESTER. So, Chairman, CBO has not done independent analysis of the Ticket to Work, but it appears that there has been no change in the proportion of DI beneficiaries who leave the rolls to go back to work. So in that sense it does not appear at this time to have been successful.

I think more and more people are thinking that we need something at an earlier stage of the process, so that we reach people before they make the decision to apply for benefits.

Chairman JOHNSON. Mr. Goss, a recent proposal by Jeffrey Lehman—he was an advisor for Obama and Clinton—and Jack Smalligan, formerly a guest scholar at Brookings, estimated 10 percent of those currently on the rolls could return to work, if they had the proper support. Do you agree with that?

Mr. GOSS. I think we would all agree with that. Of course, the question is what is proper support?

Chairman JOHNSON. Yes, I know, you all are trying to address it.

Mr. GOSS. How expansive is proper support? Clearly, many people who have disabling impairments, with some level of support, could do some substantial gainful activity. But the extent of the support that is available in the private sector that employers can afford to provide for their employees in a very competitive work environment is limited. And the amount by which the Federal Gov-

ernment will provide the wherewithal to provide such supports is also limited.

If I may, Chairman Johnson, you mentioned something about the administrative law judges. It just happens that we looked very recently for another purposes at something that I think you will find remarkable, as I did. We looked at disability applicants to our Social Security disability program back in 1988, and looked at the share of those that end up getting allowed that are allowed at the initial versus the hearings level. And we found 63 percent are allowed at the initial level, 9 percent are allowed at the reconsideration level, which is sort of first appeal, and 27 percent are—were allowed of those who applied and got allowed back in 1988 at the hearings level.

So, fast forward. We looked at the 2008 applications, just before the recession hit. We find, remarkably, 63 percent of those who got allowed at the initial level. Now 6 percent got allowed at the reconsideration level, and it is up to 31 percent at the administrative law judge level. However, that is fully explainable and understandable. Between those two time periods we had the prototype model come in, and one-fourth of the country is operating without the reconsideration step.

So, the first level of appeal in one-fourth of the country is no longer the reconsideration, it goes straight to the administrative law judge. So the change from 9 percent down to 6 percent for allowances at reconsideration and the increase from 27 up to 31 percent at the hearings level would appear to be solely because of the elimination of the reconsideration step in one-fourth of the states, which are around—

Chairman JOHNSON. Well, are you saying the ALJs are doing a good job or a bad job?

Mr. GOSS. Well, I wouldn't say they are doing—well, I would say that they are—

Chairman JOHNSON. Because we have had some problems with them.

Mr. GOSS. They are probably doing a similar job. One of the things, if I may, that is also remarkable, something we have learned really quite recently, is that of the people who are denied an initial disability, they are denied at reconsideration, and then availed themselves of the opportunity to appeal to the administrative law judge, historically we have all tended to think of that as being about 60 percent get allowed.

Recently, in about the last year, we have seen that percentage go down to about half, to actually a little bit less than 50 percent. We are struggling to understand exactly the reasons. We know two reasons—

Chairman JOHNSON. Because we put pressure on them, that is why.

Mr. GOSS. Well, there may be some of that. I would like to think it is cooperative, positive persuasion.

There is another factor, though. The surge of people who did come in and file for disability back in 2009 and 2010, it takes a while before they find their way to the hearings level. And we saw the surge of that come in in 2011 and 2012. And we do believe that the allowance rates ultimately, for people who come in in times of

recession, the extra folks, will be at lower allowance rates. And that appears to be the case.

In addition, our appeals council, which is really a level of oversight over the administrative law judges, has been doing, really, a good job. Hopefully you will get to hear more about this, of going back and talking to our hearings offices about the nature of the way that they are making decisions, and getting mutually educated, and giving them good feedback. And that appears to be making a real impact.

Chairman JOHNSON. Thank you. Mr. Becerra, you are recognized.

Mr. BECERRA. Thank you, Mr. Chairman. And I think Mr. Kelly was trying to get to this point, as well. At least I think I heard him say this. Time is money, especially if you are in a business where you—the product you buy can go up in price at any moment in time. I know my father was in construction, and he would always tell me how they were always—he was a construction worker, you were always told, “If we can get the job done, we will get it done now, because we don’t want to worry about paying for cement next week, because it may go up in price, or timber may go up in price.”

And I gather, from what, Dr. Manchester, you and Mr. Goss are saying, that even in this process, the disability insurance, time is money. And so, if we delay a determination, more chance that that person will age out and have skills no longer as a—prepared to move into the workforce again. It becomes more difficult for that person to get back in the workforce.

And so, what we want to do, if we can, on our end, where the problems might be man-made with regard to the disability insurance problem, is flush out those manmade problems. And so, if one of them is time, delay, then one of the things that I would hope that we would look at doing—and you all give us counsel on—is getting rid of those delays, so we have quicker determinations, hopefully more crisp determinations.

And my sense is that—as, Mr. Goss, I think you pointed out, as well just a little while ago—these determinations, that the integrity of the program to make correct determinations, so that whether it is the ALJ or whoever gets to make a determination whether this person is disabled or not, let’s make it on solid evidence that this person is or is not disabled. And if we invest in making sure that there is integrity in the way those decisions are being made, we save ourselves, I think you said, \$9 for every dollar we invest in that integrity review for those medical determinations and so forth.

So, sounds like you are pointing out some ways that we could pretty quickly start to make some progress if we avoid the long delays that make people’s skills more stale and less attractive to employers, and if we put a little money in to make sure we avoid the person who is trying to sneak into the system, isn’t truly totally at a point of qualifying for disability insurance, and get them back to work as quickly as possible, and have them find that they could earn more money getting back to work than trying to collect on a disability benefit.

Is your sense that if we were to really make the investment in program integrity, these medical determinations, Mr. Goss, that we

could make progress in getting folks either back to work or off the disability insurance rolls?

Mr. GOSS. There is no question but that if we made a greater investment, if we even just met the levels put forth that you all enacted in the Budget Control Act, we would be able to get up to speed, we would eliminate the backlog for full medical reviews.

And the important point on that, I think, is that if we are delayed in allowing a person a benefit initially, Dr. Manchester is exactly right, that that is more time that the person is, in effect, required not to be working, because they are waiting to see if they will get a determination. But also, there is another factor to that. If they wait an extra six or eight months to receive their initial determination and they are allowed benefits, they get the back benefits.

Whereas, if we are delayed in doing our full medical reviews to determine whether somebody is medically improved and would be leaving the rolls, it is only the point at which that determination is made that the benefits cease. In fact, we determine it appears as though they actually did improve six months ago, they keep the benefits from those six months and they only—so getting up to speed on those full medical reviews is really important, from the point of view of the accounting—

Mr. BECERRA. Dr. Manchester, would you agree with that last point?

Ms. MANCHESTER. I would, indeed. I would like to make an additional point, however.

Mr. BECERRA. Sure.

Ms. MANCHESTER. And that is that the first million dollars that you spend on CDRs may have that 9-to-1 return. So you are finding the cases that are easy to find in which the people are really going to go back to work. Then the ninth million dollars that you spend on CDRs is not going to have such a high rate of return, because it is much more difficult to find those marginal cases.

Mr. BECERRA. Right. You are picking the low-hanging fruit at the very beginning.

Ms. MANCHESTER. Exactly.

Mr. BECERRA. But it is still good to pick that fruit.

Ms. MANCHESTER. Oh, absolutely.

Mr. BECERRA. Yes.

Ms. MANCHESTER. No question.

Mr. BECERRA. And you mention the case that, based on age, different tiers, that the standard for actually going back to work changes and it becomes more favorable to disability, the older you get.

Ms. MANCHESTER. Yes.

Mr. BECERRA. And so, the quicker we move on these cases that are just pending, the less likely we are going to let someone age into a category that would have now allowed them to not go back to work.

And so, would you agree, then, that the more we can work to remove these delays, the better off everyone is, not just the person who gets to go back to work, but the taxpayer who is helping provide that service to the individual?

Ms. MANCHESTER. Yes.

Mr. BECERRA. To a disability benefit?

Ms. MANCHESTER. That is definitely true, yes.

Mr. BECERRA. I appreciate your testimony. Thank you very much for helping us with this. Thank you.

Chairman JOHNSON. Thank you. Mr. Kelly, you are recognized.

Mr. KELLY. Thank you, Mr. Chairman. And this is going to be very quick. Tell me about the revenue streams. So where does the money come from that goes into these funds?

Mr. GOSS. Oh, well, the revenue for both the disability insurance program and the old age and survivors insurance program, and, for that matter, also the hospital insurance program for Medicare, work essentially—not exclusively, but essentially almost completely out of payroll taxes that are paid by the American workers.

For the Social Security program, it is up to \$113,700. People who earn more than that do not pay taxes on anything above that level. But the individual worker pays 6.2 percent, and their employer pays an additional 6.2 percent. Self-employed individuals pay the whole 12.4 percent by themselves. Those monies go into the trust fund.

And there are two sort of significant things about the money as they go into the trust funds. First of all, they are required—the monies that aren't spent right away are required to be invested in interest-bearing securities backed by the full faith and credit of the U.S. Government, which we all take to be the most secure investment anybody could consider making. And the other is that we have had legislation in the past—I think back in 1996—that suggested that any penny that goes into those trust funds can be used for one and only one purpose, and that is to pay benefits.

Mr. KELLY. Okay. So the money going in is coming from employers and employees paychecks.

Mr. GOSS. Exactly.

Mr. KELLY. Okay. And it is a percentage of their income. So, in a dynamic and robust economy, we probably wouldn't be having this discussion, or it wouldn't be at the edge of the cliff, the way the chairman described it. And I would say that not only do we have a lot of disabled people, we have an economy that is very sick and very ailing.

Now, having been part of the program as an employer, 6.2 percent of everything I paid everybody every 2 weeks I put in. They put in and I put in. And in my own check I put the 12.4, it was all mine. I think sometimes we lose a fact that all of these things are fixable if we could get this country back on its feet again. And we continue to talk—and these are great conversations—but if we don't get this economy fixed, it is just talk. It is just idle conversation. "Yeah, we could do this and we could do that."

But if a percentage of everything I make goes into that fund, the more I make—so a middle income family that was making \$54,000 or \$55,000 a year is now making \$50,000 or \$51,000. And if it was at 4.2 and not 6.2, the way it had been the last couple of years, you have less money coming in, more money going out. The metrics just don't make sense to me, from a purely business standpoint. And this is all fixable.

And this is the thing that drives me crazy in the two years I have been here. We talk more about these programs, and how we

have to sustain them, as opposed to how do we keep alive the goose that is laying the golden egg. That if you want to see these programs get fixed—and this is a fascinating conversation—we better get this country back to work. And we better take advantage of what the Lord has given us. We are twiddling our thumbs and not addressing the real problem, and that is getting America back to work.

And I got to tell you, Mr. Chairman, I appreciate this. I fight with this every day in the private sector. I want everybody I work with to have the best benefits possible.

Now, in addition to Social Security disability, we also have accident disability insurance in the dealership. So I would say to you that while the Social Security part may not be as much as they were making before, when we throw in ours on top of it, it is a little bit different picture.

Now, I am not discrediting anybody and saying they don't have a great work ethic. I am just saying that somehow we have turned upside down the meaning of incentive. As an individual, I just would rather be in control of my future. I don't want somebody in Washington, D.C. who doesn't know me, doesn't know what I do, doesn't know what my dreams or aspirations are, to have a determination of what I am going to be able to do in my life. I think that is wrong.

So, thank you for what you are doing, keep up the good work. We will keep watching. But you know what? The answer—we got to get back to work. We got to make decisions that get people back to work, allow their incomes to rise, allow businesses to prosper. Because the percentage of a larger number is much better than a percentage of a lower number. And everybody I know that is out of business is not contributing to this fund. So I thank you very much.

Chairman JOHNSON. Thank you. Mr. Griffin, you are recognized.

Mr. GRIFFIN. Thank you, Mr. Chairman. I ran out of time last time. I just wanted to thank you all for being here. I really do appreciate it. And I want to say I look forward to the upcoming hearings and the IG's investigation.

I will tell you, as someone who has not been on this Subcommittee long, that I get so many anecdotal stories about abuse, waste, fraud, and abuse in this area. And I know that—I know for a fact—that a lot of them are true. And I know my constituents are on to something. I have learned in the last two-and-a-half years that when you start to get a lot of the same sort of stories from your constituents, that there is something there.

So, while some things may be going well, my constituents tell me that there are a lot of people they know who are on disability who should not be on disability. And that is putting pressure on the funding for the people who need, who legitimately need, those benefits.

And so, I don't believe everything is great. I look forward to learning more about where the problem is. But I am convinced, based on what I have seen and heard, that there is a major problem with the process of being—receiving—applying and receiving



these benefits. I have not identified where all those problems are yet, but I know there is a problem.

And I have also learned in my 10 years prior to coming to Congress and working in D.C., that there is not an agency up here that couldn't stand some significant reform, and that you just happen to be the one in front of us right now. But you could take any one of them in this city—and some of them I was a part of for years—and there is plenty of room for reform.

So I look forward to learning as we go through this. But I am very, very suspect of what is going on. And we will continue to look at this. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you. We welcome Ms. Black from another subcommittee, she is on the full committee—and thank you for being here today. Ms. Black, you are recognized for any question you might want to ask.

Ms. BLACK. Mr. Chairman, thank you so much for allowing me to be here to hear the testimony, and to be able to ask questions. This is an issue, having been on Ways and Means for the last two years, that we have heard some testimony in some of the other committees, so I am very interested.

And there is so much yet to learn. And I want to start out my remarks by saying thank you for being here. But I am going to ask if there is a way also to start understanding more about the process. Because it seems that when I do talk to my constituents who are either applying for or have qualified, the process is so onerous.

I want to look at the six different areas that I have to learn more about. And that is, first of all, the application, the full medical review, whether there is a criteria that is used there that is consistent across the board for a determination to be made, and then the denials, because we hear that you are denied the first time. Very seldom do I hear somebody getting the qualification the first time, so the denials.

What happens next from that, the appeals. What I hear is that they have to hire an attorney, they do have to get legal counsel. And then the other area is the administrative law judge, because in my reading I see that there is a real disparity from one end of this country to the other geographically. Some judges will approve 9 out of 10 cases, others are 2 out of 10. And so understanding where the consistency is there, if we need to do some work in that area.

And then, finally, the review after they have qualified. How do we check up? Are we doing a good job to make sure that someone can't still work and perhaps even find a job to get them back into the workforce?

So, those are things that I would like to learn more about, Mr. Chairman. Maybe that is something I just need to get somebody to come and talk to me. But I think that is, from my point of view, something that people really don't have a good grasp on. So maybe there is an opportunity for us to learn more about that.

Chairman JOHNSON. Come back next week. We are going to talk about that next session.

Ms. BLACK. I will be here. So let me ask you about the chart that is on page 11. Because, as a nurse, I am very interested when I see these large groups of qualifying areas.

So, one of those that, obviously, is the largest, is mental disorders. And then the next one is musculoskeletal. I would like to know if you can give me an idea about the diagnosis that is the most prevalent diagnosis in these areas, because musculoskeletal obviously covers a broad range, as does the diagnosis of mental disorders. So, do you have that information? Is that available, so I can understand more about why these categories—particularly with people between the ages of 30 and 39 that are qualifying under this, because for females it is 55 percent and for males it looks like it is 58 percent of those that qualify. Am I reading that correctly?

Mr. GOSS. I don't think so. I am looking at figure number 12—

Ms. BLACK. Okay.

Mr. GOSS [continuing]. Which are for women at age 30 to 39.

Ms. BLACK. Yes, yes.

Mr. GOSS. And the largest band is the blue band, which are for mental impairments at relatively young ages, which are at about 40 percent. I think one of the Members mentioned that earlier.

The next most prevalent is, in fact, musculoskeletal, but that is more like in the, what, 10 to 15 percent?

Ms. BLACK. I am sorry, I missed—what did you say the blue band was?

Mr. GOSS. Well, the bottom blue band, which is for mental disorders—

Ms. BLACK. Mental disorders, yes, sir.

Mr. GOSS. The primary diagnosis.

Ms. BLACK. Right.

Mr. GOSS. And that is about 40 percent of the younger people who come on the rolls.

Ms. BLACK. Yes, yes.

Mr. GOSS. And perhaps the significant thing about that is if you go back to 1982 all the way through 2010, the percentage of those who get allowed a benefit at age 30 to 39 females has stayed constant at 40 percent. There has not been—one of the theories that has been put forth is that we have had a big expansion of the number of people getting disability benefits because there has been a surge of people coming on with mental impairments.

Well, if you look at this age group, age 30 to 39, the young age, there has been an increase in the number of people getting benefits. But it has not been because of an increase in mental impairments. It has stayed at 40 percent. So, there has been an increase at all of the—for all the different kinds of impairment levels fairly equally. So there has just been simply an increase at those ages.

The largest reason why we have had an increase of people coming on the rolls at younger ages, really, is because women have become so much more insured, and their incidence rates have risen very substantially.

Ms. BLACK. But that would not hold on males. So you are saying because women have come in to the workforce, and I understand that, but it is pretty consistent with the male population, as well.

Mr. GOSS. Exactly. For instance, the younger ages, the percentage that is—and I think we—

Ms. BLACK. Is there a way that I can get information about what the diagnoses are that are the most prevalent in both of these

areas? Because that is a wide range of diagnoses in those two categories.

Mr. GOSS. Absolutely. We will get back to you with all—

Ms. BLACK. Okay.

Mr. Goss [continuing]. The detail we can pull together on that.

Ms. BLACK. Let me ask you this question, too. How many quarters do you need to work to qualify for benefits?

Mr. GOSS. Okay, well, that depends on age. For—

Ms. BLACK. Yes. So if you are 20 years old and you apply—

Mr. GOSS. If you are 20 years old, you would need to really have six quarters of coverage—

Ms. BLACK. Six quarters, okay.

Mr. GOSS [continuing]. At a very young age.

Ms. BLACK. Okay.

Mr. GOSS. As you get to be older, it requires more.

Ms. BLACK. I see.

Mr. GOSS. Basically, it requires that you have at least six quarters of coverage, but that you have worked at least half the time from age 22 to your current age, or at least half the time over the last 10 years.

Ms. BLACK. Okay.

Mr. GOSS. Five out of the last ten years.

Ms. BLACK. And then my final question is let's say you were unemployed, and then you apply for disability. Does the time at which you were unemployed count for that five months?

So, in other words, I lose my job, and I am at home, and then I apply for disability. Does that five months count?

Mr. GOSS. It does, indeed.

Ms. BLACK. It does.

Mr. GOSS. For instance, you are 45 years old. We look at the most recent 10 years and see if you, out of those 10 years, 40 quarters of coverage possible, have you earned at least 20 quarters of coverage in that period.

So, if a person leaves work for whatever reason—

Ms. BLACK. Right, for whatever reason.

Mr. GOSS [continuing]. For a period of more than five years, they lose their disability insurance status. And that, really, is the explainer, if you will, for why women have had such a big increase in the percentage of them that are insured, because women are so much more consistently in the workforce now.

Ms. BLACK. So we heard one statistic that last year—and this may not—please correct me if this is wrong—that we had more people get on Social Security disability than actually got a job. We heard that folks that had lost their jobs were applying and going right from the end of their unemployment insurance right into a disability situation.

Is that information that you would actually have to say whether that is, in fact, true or not?

Mr. GOSS. Well, I know in 2012, for example, we had about 1 million people beginning newly-awarded disable worker beneficiaries. I would have to think that in the year 2012 there were more than 1 million people newly hired to jobs.

Now, if people are simply looking at the net increase in the number of people employed, in a time of recession, even though a lot of people might get jobs, other people are losing jobs or are retiring.

Ms. BLACK. Okay.

Mr. GOSS. And so, the net—you have to look carefully about the net increase—

Ms. BLACK. Sure.

Mr. GOSS [continuing]. Versus the number of people newly getting a job.

Ms. BLACK. Always have to be careful when you are reading anything.

Mr. GOSS. Exactly, yes.

Ms. BLACK. To make sure you know exactly what they are measuring. Thank you so much.

And again, thank you, Mr. Chairman. I will be here next week.

Chairman JOHNSON. Good for you. We will welcome you to the subcommittee, if you want to get on it.

[Laughter.]

Chairman JOHNSON. Mr. Becerra says you are okay.

[Laughter.]

Chairman JOHNSON. Thank you all for being here. I appreciate the testimony. You are good witnesses. I think this was a good hearing.

Mr. BECERRA. Thank you.

Chairman JOHNSON. We appreciate you all helping us. And with that, the committee stands adjourned.

[Whereupon, at 11:34 a.m., the subcommittee was adjourned.]

[Public Submissions for the Record follows:]



**Center for Fiscal Equity**

**Comments for the Record  
House Ways and Means Committee  
Subcommittee on Social Security**

**Hearing on Securing the Future of the Social Security Disability  
Insurance Program**

Thursday, March 14, 2013, 10:00 A.M.

by Michael Bindner  
The Center for Fiscal Equity

Chairman Johnson and Ranking Member Becerra, thank you for the opportunity to submit our comments on this topic. These are our fourth comments on this issue, which will focus on the funding shortfall and our proposal to deal with it. The previous comments were made to December 2, 2011, the second to December 9, 2011 and the third to September 14, 2012. As always, we are available to individually brief members and staff about our proposals.

On the demand side, people have entered disability due to detrimental changes in the welfare program, where states shuttled hard cases into Disability from TANF. If Congress wishes to reverse this, it must make TANF less punitive and turn it into a ladder to develop able minds rather than able bodies.

Congress can also enact a refundable expanded Child Tax Credit of \$500 per month per child for all workers and TANF/Disability/UI beneficiaries, as well as encouraging longevity payment with employer stock and dividends, so that the incentive to fire workers that could be productive goes away and the incentive to have them claim disability reduces.

Waiting limits can be eliminated entirely, which saves money on legal fees. The initial award can be made in cooperation with the last employer, who would provide at least a portion of disability income as well as rehabilitative training in lieu of a higher disability insurance tax payment. Such a system would bring about faster determinations of disability, without the need to provide a case management and appeal infrastructure which provides make-work for both bureaucrats and disability lawyers, both of which add no real value to the program while costing taxpayers more and more as backlogs continue to grow and cases are summarily denied on the first reading.

As stated, our proposed solutions are made in the context of a four part tax reform, which form the basis of our analysis. The key elements are:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure that every American family pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

In summary, our solution is to shift funding for disability insurance and rehabilitation entirely to an employer-paid, VAT-like Net Business Receipts Tax, with the payment of disability benefits and rehabilitative care to be covered by either the last employer or a future employer who wishes to take on the new employee's "case" and provide both continued benefits and services until that worker can be productive without continued assistance.

The separate disability payroll tax will be repealed. Repealing this tax provides a justification for decoupling the benefit level from past income. An income based benefit should be replaced with a standard benefit. During the application phase, instead of forcing participants onto state welfare rolls, the last employer would pay the standard benefit – which should be at least the minimum wage for a full time worker, if not higher – with this payment offsetting the employers NBRT liability and, if necessary, its VAT collections.

If the employee has dependent children, each child will also receive the refundable expanded Child Tax Credit with their benefits (currently estimated at \$500 per child per month). Please note that we propose elsewhere that the minimum wage be increased to \$12 an hour so that no one is paid primarily through the Child Tax Credit and that both the minimum wage and the credit be automatically adjusted for inflation.

As stated elsewhere, the expansion of the credit is funded by consolidating it with the Earned Income Tax Credit, the deduction for children and limitations on or elimination of the mortgage interest and property tax deductions. The extension of this credit to non-workers is offset by abolishing supplemental retirement programs, such as Supplemental Nutrition Assistance and housing assistance.

Once the application process is complete, the Federal (or regional) government will distribute payments, as well as the expanded refundable Child Tax Credit for any dependent children, all of whom would qualify for Medicare, including any long term care provisions transferred to the federal government from the Medicaid program.

If vocational or educational training is required, as it likely should be in some cases, then the training provider will serve as both “case worker” and conduit for additional benefits, including the Child Tax Credit. Participants would be paid the minimum wage for engaging in training, along with any additional stipend provided to program beneficiaries of the benefit level were set higher.

Client health care would be funded by the federal government, but could conceivably be provided through the health care system provided to employees of the training provider. This is also our proposal for providing education to TANF beneficiaries. This care could take the form of health insurance or of staff medical personnel and facilities. In the event health care reform devolves into a public option or single payer system, the question of who pays for health care will be moot.

Clients who are incapable of completing training and finding employment will be transferred back to beneficiary status, with the training provider paying benefits during any transition period.

Program participants, like TANF participants, would not pay OASI payroll taxes, nor would program providers pay an employer contribution on their behalf or distribute any personal retirement account shares to them as an offset to their Net Business receipts taxes.

Unless they have significant outside income from an inheritance, tort judgment or lottery prize, it is doubtful that program participants will be hit with the Income and Inheritance Surtax. In any case, benefits and tax credits received would not be counted in determining adjusted gross income for this tax, although training stipends probably should be.

Program participation should not be means tested based on any judgment, although beneficiaries of significant inheritances should probably be excluded from the program, although that level should be set rather high – likely at the level where such benefits are taxed, currently proposed at \$50,000 for individuals and \$100,000 for joint filers and qualifying widow(er)s.

While these program efficiencies will likely save money on administrative costs, they will not cure the demographic problem entirely. Some increases in revenue, in this case, the Net Business Receipts Tax may indeed be required periodically under the logic of social insurance.

As stated previously, the logic of social insurance is to spread out benefits and harms from unearned demographic factors. Some people come from large families or rich families who can cushion the blow for a disabled child or sibling will have no problem making up for program short-comings. Those who have no family or whose illnesses have estranged them from their families would experience unearned hardship.

Resorting to increased public funding to adequately fund the program in current years by adjusting the NBRT should happen without controversy – especially given the incentives to minimize costs inherent in allowing employers a role in the determination and rehabilitative process. One could even imagine leaving the setting of the NBRT rate to a formula based on the needs of the various programs it funds and the extent to which employers utilize alternatives. Indeed, a high NBRT rate might lead to zero collections if it spurs employer action to improve services to employees.

Thank you for this opportunity to share these ideas with the subcommittee. We are always available to discuss them further with members, staff and the general public.



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**Hearing on Securing the Future of the Social Security Disability  
Insurance Program**

Thursday, March 14, 2013, 10:00 A.M.

Clients:

The Center for Fiscal Equity has received no outside funding of any kind to support this testimony. It is not representing any interests for pay.

**EPS Settlements Group**



**Testimony  
The Social Security  
Disability Insurance Program**

**John McCulloch  
Integrated Financial Settlements  
Chicago, Illinois**

**Submitted to the Subcommittee on Social Security  
House Committee on Ways and Means**

**March 20, 2013**

**Chairman Johnson, Ranking Member Becerra and Members of the  
Social Security Subcommittee of the House Ways and Means  
Committee, I want to thank you for this opportunity to submit a  
statement for the record on the Social Security Disability Benefits  
Program.**

**“An Option to Strengthen the Ticket to Work and Self-Sufficiency  
Program While Reducing the Ongoing Costs to Medicare and Social  
Security Disability Income”**

This Testimony is intended to describe a solution to the growing number of people on Social Security Disability Income (“SSDI”) and the need to create an incentive for them to get off of SSDI. The goal is to supplement the exemplary work begun with the Ticket to Work and Self-Sufficiency (“TTW”) Program with a zero-cost enhancement that has proven effective over the last two decades.

Background

The Social Security Administration (“SSA”) paid disability benefits to over 9.4 million people last year, accounting for 19% of all Social Security

beneficiaries. These SSDI payments exceed \$128 Billion annually. Numerous reports indicate this number will continue to increase due to a variety of factors, from the aging of the workforce to ongoing effects of the previous recession.

#### The Current Status

The TTW program does not currently address the loss of monthly income benefits and the loss of medical care provided by Medicare, which has hampered its effectiveness.

#### Our Proposal

The structured settlement industry, represented by the National Structured Settlement Trade Association ("NSSTA") has, for the last two decades, helped negotiate and settle tens of thousands of workers' compensation claims across the United States. These medical and wage replacement benefits are nearly identical to the benefits provided by SSDI and Medicare and has enabled employers and insurers to cost effectively close their workers' compensation claims while simultaneously providing the freedom, security and dignity to injured workers to allow them to move on with their lives, obtain re-education, or return to work.

The NSSTA is comprised of over 1000 individuals specializing in settling claims with periodic payments with decades of negotiation experience covering every jurisdiction in the United States. Our proposal would include leveraging this network of professionals who will provide their negotiation expertise at no cost to the government, to help identify, meet with, and negotiate a settlement that is in the SSDI/Medicare beneficiary's and the government's best interest.

#### Process Overview

This is a suggestion of how this approach could work, based on our existing structured settlement methodology used in workers' compensation cases, both on the state and Federal level. It has proven to be a cost effective system with tremendous benefits for all parties:

1. The government would establish criteria for claims suitable for settlement and calculate an appropriate settlement value range. The structured settlement consultant would help establish the present day value of the future benefits, after which an appropriate and cost-saving present value amount of the future benefits would be

established, which becomes the basis for a settlement range. Many workers' compensation carriers establish a settlement value around 70-75% of the present value.

For example, a 52-year old male is receiving \$1,700 per month in SSDI benefits. With an anticipated 27-year life expectancy, the total cost to the government is over \$550,000. A structured settlement consultant can help calculate a present value of these benefits. Using current Treasury rates, a discounted present value of this benefit is approximately \$400,000. Therefore, the government could establish a value range to settle this care at around \$300,000.

2. A local structured settlement consultant would negotiate a settlement that could include a lump sum as well as future periodic payments that would provide ongoing income, as well as pay for private or state run health insurance. Payments can be funded with an annuity or, for additional savings to the government, with US government obligations such as Treasuries. By funding with Treasuries, the government would effectively be paying itself to settle the claim, adding additional monetary benefits to the program.

To illustrate, a sample settlement negotiated by a structured settlement consultant could be as follows:

\$50,000	Cash Up Front	Cost: \$50,000
\$300/month for life	Medical Insurance Premium	Cost: \$65,000
\$1,000/month for 20 years	Income Replacement	Cost: \$185,000
Total cost of settlement:		\$300,000
Total present value cost of benefits:		\$400,000
Total future value cost of benefits:		\$550,000+
<u>Present value savings to the government</u>		\$100,000
<u>Future value savings to the government</u>		\$250,000+

The cash up front provides for immediate needs and reeducation/retraining. The \$300 per month covers the cost of health insurance premiums and the \$1,000 month provides income replacement benefits with a guarantee to protect the worker's family. Future value is estimated, as if the SSDI beneficiary lives longer than

expected, the government would have to continue to pay him. Numerous studies on mortality trends, including the US Census, show that Americans are living longer.

3. By providing the SSDI/Medicare beneficiaries with a level of guaranteed income and funds to procure health insurance, they can now leave the SSDI/Medicare system and either return to work or retrain for a new job. This results in an immediate, hard dollar present value savings to the government.
4. The government would also save costs by being able to eliminate future administrative expenses, ongoing (and often escalating) medical expenses, and hard dollar savings from a negotiated settlement. Part of the settlement would include a stream of guaranteed payments to fund the purchase of private or public health insurance benefits, easing the strain on the Medicare system.
5. By providing guaranteed income and medical benefits, the program would allow non-productive workers to retrain and return to work to become productive workers paying into the system again.

With this process, injured workers can now seek treatment with an appropriate civilian or state run health care provider and return to work or school while providing SSA with significant hard dollar savings in excess of \$1 billion annually. We would welcome the opportunity to discuss this proposal in greater detail.

Respectfully submitted by,

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**Michael Kelley**

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**MICHAEL KELLEY**

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March 20, 2013

Representative Sam Johnson  
U.S. Congressman  
Third District of Texas  
1255 West 15<sup>th</sup> Street, Suite 170  
Plano, TX 75075

Dear Representative Johnson:

My name is Michael Kelley. I am a Disability Consultant for a Social Security disability representative firm in Portland, Oregon. On March 14, 2013, you received testimony regarding the Social Security Disability Insurance (SSDI) program from Ms. Joyce Manchester, Chief of the Long-Term Analysis Unit. I have reviewed her written statement and wish to offer comments for the Subcommittee's consideration before final decisions are made.

I would first like to address the facts stated by Ms. Manchester. Some of what she labels as "Basic Facts" about SSDI benefits are inaccurate. On page one of her report, Ms. Manchester states that a beneficiary can earn wages with no limit for a period of twelve months. This period is called a "Trial Work Period." The website that she cites will show this to be incorrect. Rather, a Trial Work Period consists of any nine months, not necessarily consecutive, within a rolling 60-month period. There is no three-month grace period, as Ms. Manchester claims.

She goes on to state that benefits are eliminated if a beneficiary earns more than \$12,480 annually. This dollar amount represents the annual sum of the current minimum for Substantial Gainful Activity (SGA). The monthly SGA amount in 2013 is \$1,040 for non-blind individuals and \$1,740 for blind individuals. To be eligible

for SSDI benefits, a claimant must demonstrate an inability to engage in SGA. While the actual dollar amount that Ms. Manchester states is technically accurate, SSA does not consider the annual earnings of a beneficiary when conducting a Continuing Disability Review (CDR), a review that occurs when a beneficiary returns to work. Instead, SSA considers earned wages on a monthly basis. Information on SGA can be found on the SSA website at <http://www.ssa.gov/oact/cola/sga.html>.

When a beneficiary completes nine trial work months during a 60-month period, he or she then enters what is called an Extended Period of Eligibility (EPE). During the EPE, a beneficiary is entitled to receive his or her cash benefit for any month that his or her earnings drop below the SGA level. The EPE lasts for 36 consecutive months following the end of the trial work period. A summary of the EPE and Trial Work Period (TWP) can be found on the SSA website at <http://www.ssa.gov/disabilityresearch/wi/detailedinfo.htm>.

Should a beneficiary complete the EPE and demonstrate an ability to retain work at SGA, he or she then enters an Expedited Reinstatement Period, a five-year period in which SSA can reinstate benefits when a claimant's earnings drop below SGA and he or she has not had a medical improvement. In addition to these periods, a claimant's benefits can be further protected by incorporating Impairment-Related Work Expenses (IRWEs) and Subsidies. These are deductions that can be used to reduce a beneficiary's countable earned income to below SGA. IRWEs can include, but are not limited to, non-reimbursable costs for medication, doctor visits, and assistance devices like a cane or crutches. A subsidy can be applied if a beneficiary receives support that reduces the actual value of the work that is performed. While these incentives can potentially allow a beneficiary to remain on benefits beyond the TWP, they are, at the very least, paying back into the SSDI trust fund immediately upon returning to work.

Overall, a beneficiary can protect his or her benefits for a period of at least 45 months before cessation. Ms. Manchester's claim that benefits are "eliminated" immediately following the TWP is false and suggests that beneficiaries are discouraged from returning to work when, in fact, the combination of the TWP and EPE, as well as potential IRWEs and subsidies, encourage employment without fear of losing benefits.

Finally, I would like to address the various options that Ms. Manchester suggests as to changing the SSDI program in order to avoid exhausting the trust fund.

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While I do agree with the urgency in the need to adopt a change in the near future, I object to Ms. Manchester's suggestions that would appear to hurt those who are in such desperate need for these benefits. In my professional experience, I have found that few claimants are aware of the above-mentioned incentives to return to work. These claimants begin the process with the understanding that they cannot return to work or else risk losing their benefits. With the incentives already in place, Congress need only educate claimants and, more so, the vocational rehabilitation and resource staff who help the same claimants find work that is within their limited capabilities. Beneficiaries can then return to the workforce after assurance that they can perform the work and not lose benefits in the process. When a beneficiary is established in his or her new position, then benefits can be ceased after the 36-month EPE.

I hope that you find this information useful and take it into consideration during your ongoing deliberations on the future of the SSDI program. The necessity for change is a very pressing matter, particularly when considering the projected exhaustion date of the trust fund. However, rather than adopt changes that would reduce or delay benefits to those with no little to no income, Congress has an opportunity to promote employment to provide beneficiaries with the knowledge that they can return to work in a capacity that is within their limits. By encouraging employment, those very beneficiaries will then pay back into the SSDI trust fund and, once fully established in their new work, would no longer have need for their benefits.

Thank you for your time and consideration. Please do not hesitate to contact me with any questions or comments.

Sincerely,

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## **National Disability Rights Network**

**Submitted Testimony regarding “The Financing Challenges Facing the Social Security Disability Insurance Program”  
House Ways and Means Committee, Social Security Subcommittee  
Thursday, March 14, 2013, 10:00 am**

As the nonprofit membership organization for the federally mandated Protection and Advocacy Systems (P&As) and Client Assistance Programs (CAPs) for people with disabilities, the National Disability Rights Network (NDRN) would like to thank Chairman Johnson, Ranking Member Becerra and the House Social Security Subcommittee for holding a hearing to explore the financing challenges facing the Social Security Disability Insurance (SSDI) program. NDRN would specifically like to comment on the critical need for services to assist Social Security recipients return to work, particularly the Client Assistance Program (CAP), the Protection and Advocacy for Individual Rights (PAIR) program, and the Protection and Advocacy for Beneficiaries of Social Security (PABSS) program.

The P&A / CAP Network was established by the United States Congress through eight separate legal programs to protect the rights of people with disabilities and their families through legal support, advocacy, referral, and education. P&As and CAPs are in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Territories (American Samoa, Guam, Northern Mariana Islands, and the US Virgin Islands), and there is a P&A affiliated with the Native American Consortium which includes the Hopi, Navaho and Piute Nations in the Four Corners region of the Southwest. Collectively, the P&A / CAP Network is the largest provider of legally based advocacy services to people with disabilities in the United States. These services include assistance for people with disabilities wishing to return to work.

The obstacles facing people with disabilities who wish to return to work are great. As Dr. Joyce Manchester of the Congressional Budget Office stated during her testimony, it can be extremely difficult for SSDI recipients to return to the workforce. This difficulty is demonstrated in part by the high unemployment rate among people with disabilities, which is currently around 13.7%, significantly higher than that of the general population. Also, the workforce participation rate for people with a disability is more than 3 times less than for people without a disability. Although the complex network of Employment Networks, Ticket to Work, Workforce Investment, and Vocational Rehabilitation programs are meant to help SSDI recipients return to work, these are often difficult to navigate, and there are many barriers to application for and use of these programs that can ultimately discourage people with disabilities from applying.

The P&A and CAP programs provide critical assistance in navigating these and other employment programs. The PAIR program lets people with disabilities know what their rights are in terms of obtaining employment and helps them obtain accommodations from employers, while the CAP program assists them with obtaining services from Vocational Rehabilitation programs. The PABSS program provides assistance and awareness to Social Security beneficiaries of their legal rights when navigating the Employment Networks and Ticket to Work programs. As Dr. Manchester said in her testimony before the Subcommittee, people with disabilities need access to services to

retrain and obtain the skills necessary to join the workforce, and the P&A and CAP programs enable them to do just that. These programs enable people with disabilities to return to work, which helps to make the Social Security Trust Fund viable in the long-run by enabling people to get off of benefits and begin paying into the payroll tax system, but it also benefits the recipients themselves by enabling them to become independent and enter the workforce.

Although the PABSS program is a critical piece of the puzzle for SSDI recipients wishing to return to work, it is not currently being funded. Congressional authorization for both the PABSS and the Work Incentive Planning and Assistance (WIPA) programs expired on September 30, 2011, and while the Social Security Administration (SSA) forward funded the PABSS program until September 30, 2012 and the WIPA program until June 30, 2012, the programs have not been funded since. SSA took the position that, without a Congressional authorization, it was incapable of putting dedicated funding toward these programs past the expiration date of their authorizations. The Government Accountability Office (GAO) issued a legal opinion supporting SSA's ability to provide funds for these programs in the absence of Congressional authorization, and the Department of Justice affirmed that opinion; however, the SSA chose to still not fund these important programs.

Congress took the critical step of specifically appropriating funds for these programs in the recently enacted FY 2013 Continuing Resolution. In the meantime, though, the loss of funding has meant that many people with disabilities who might otherwise have found work continue to receive SSDI or SSI benefits, and many people trained to assist people with disabilities return to work have sought other employment. Congressional reauthorization of these critical programs would help ensure continued funding for these programs in the future, as well as help both toward the short-term aim of reducing the SSDI and SSI rolls, as well as the long-term goal of encouraging employment of people with disabilities and reducing reliance on Social Security benefits.

We are grateful for the opportunity to submit testify and discuss ways to encourage the financial viability of the Social Security Trust Fund. If you would like to discuss these issues further or have any questions for us, please do not hesitate to contact Patrick Wojahn at (202) 408-9514, x102 or [Patrick.Wojahn@ndrn.org](mailto:Patrick.Wojahn@ndrn.org).

