

Social Security Disability Insurance Trust Fund

Social Security's Disability Insurance trust fund reserves are projected to be depleted in 2016, at which point revenue coming into the system would cover only 80% of benefits. This projected shortfall is not a surprise and Congress should reallocate income across the Social Security trust funds, to cover the anticipated shortfall.

One of the strengths of our Social Security system is its universality, and Disability Insurance (DI) is a core component of that system. A modest, temporary reallocation of part of Social Security's payroll tax rate from the Old-Age and Survivors Insurance (OASI) fund to the DI fund would put both funds on an equal footing.

A significant majority of those receiving Disability Insurance benefits are, in fact, older adults, age 50 and older – helping DI helps seniors.

Seventy percent of DI beneficiaries are over age 50, and 30 percent are 60 or older.¹ Beneficiaries' death rates are at least three times higher than that of other people their age.² One in five male and one in six female beneficiaries die within five years of being found eligible for benefits.³ These benefits are a modest but vital source of income. When workers with disabilities receive Disability Insurance benefits, these benefits help to ensure that they don't fall into poverty as they age into their retirement years.

The risk of disability rises with age. People are twice as likely to collect disability benefits at age 50 as at 40, and twice as likely at age 60 as at age 50.⁴ As noted by Social Security's Chief Actuary, the recent growth in the disability program stems mostly from well-understood demographic factors, including Baby Boomers passing through their 50s and early 60s, when the risk of disability is greatest, growth of the U.S. population in general, increase in women's participation in the labor market, and the rise in Social Security's full retirement age from 65 to 66.⁵

When DI beneficiaries reach Social Security's full retirement age, they begin receiving retirement benefits from the OASI trust fund rather than the DI trust fund. The increase in the full retirement age to 66 delays that conversion. In December 2013, more than 450,000 people aged 65 and 66 received Disability Insurance benefits, constituting over 5 percent of DI beneficiaries. Under the rules in place until 2003, they would have been receiving retirement benefits instead. This is just one example of how closely the retirement and disability components of Social Security are interwoven, and how changes to one part of the system impact the other.

The need for reallocation has been expected for many years.

Congress reallocated a substantial percentage of payroll taxes from the DI program to the OASI program in 1983. The Social Security Amendments of 1983 were needed to address the shortfall in the retirement trust fund at that time, as the reduction in the DI share of payroll taxes allowed for a parallel increase in the OASI share to address its financial problems as the major reforms enacted at that time were phased in. Those who drafted the 1983 amendments did not deliberately set out to underfund the Disability Insurance program.

They used the best information available to them at the time when they decided to reduce DI's share of the payroll tax.⁶ After the amendments, both funds were projected to be solvent through about 2060, based on the economic and technical assumptions of the time. The 1994 reallocation boosted DI's share of payroll taxes, but still held it below the rate that had been scheduled before the 1983 amendments. If the Disability Insurance program's share of the tax rate had remained at its pre-1983 level, there would be no need for reallocation now.⁷

The projections made at the time of the last reallocation in 1994 have proven to be remarkably accurate. When Congress last acted to reallocate the two funds in 1994, it was predicted that this action would need to be taken again in 2016.⁸ The 1995 Social Security Trustees Report showed that the disability trust fund reserves would be depleted in 2016, primarily due to a rapid, but temporary, increase in the number of DI beneficiaries as Baby Boomers passed through their 50s and early 60s.

The present situation is nothing new.

Congress has reallocated payroll tax revenues between the two trust funds 11 times over the six decades since Social Security Disability Insurance was established — about equally in both directions.⁹ Reallocation has historically been a traditional and noncontroversial step.

The reallocation plan in the Administration's FY 2016 budget would ensure that both the Old Age and Survivors Insurance trust fund and the Disability Insurance trust fund remain fully solvent until 2033.¹⁰ Importantly, reallocation can be done without increasing taxes or cutting benefits, and would keep the combined trust funds on their current course; under current law as well as under reallocation, the combined trust funds will be able to pay all scheduled benefits until 2033.¹¹

The Leadership Council of Aging Organizations urges Congress to act expeditiously to reallocate Social Security's payroll taxes to ensure continuation of benefits for millions of Americans with disabilities — and to do so without making any accompanying cuts to Social Security coverage, eligibility or benefits.

¹SSA Fact Sheet on the Old-Age, Survivors and Disability Insurance Program; Section D. Measures of Protection. <http://www.ssa.gov/OACT/FACTS/>

² Kathy Ruffing, "No Surprise: Disability Beneficiaries Experience High Death Rates," Center on Budget and Policy Priorities, April 4, 2013, <http://www.offthechartsblog.org/no-surprise-disability-beneficiaries-experience-high-death-rates>

³ Ibid.

⁴ Kathy Ruffing, "Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments," August 9, 2012, <http://www.cbpp.org/cms/?fa=view&id=3818>

⁵ "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, http://waysandmeans.house.gov/uploadedfiles/goss_testimony.pdf

⁶ The 1983 amendments also raised DI's costs by increasing the full retirement age from 65 to 66 between 2000 and 2005 and increasing it again from 66 to 67 between 2017 and 2022.

⁷ Kathy Ruffing and Paul N. Van de Water, "Congress Needs to Boost Disability Insurance Share of Payroll Tax By 2016," July 2014, http://www.cbpp.org/cms/index.cfm?fa=view&id=4168#_ftn3

⁸ The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 1995 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (1995), <http://www.ssa.gov/history/reports/trust/1995/triif.html>

⁹ Geoffrey Kollmann, "Social Security: Summary of the Major Changes in the Cash Benefits Program," May 18, 2000, <http://www.socialsecurity.gov/history/reports/crsleghist2.html>

¹⁰ White House Office of Management and Budget, *Fiscal Year 2016 Budget of the United States*, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/budget.pdf>

¹¹ The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2014 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund*.