Testimony Before the U.S. Senate Budget Committee

"The Coming Crisis: Social Security Disability Trust Fund Insolvency"

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Thank you, Chairman Enzi, Ranking Member Sanders, and Members of the Committee, for the invitation to appear before you today. My name is Kate Lang, and I am an attorney with the National Senior Citizens Law Center.[1] Our principal mission is to protect the rights of low-income older adults.

I am also a co-chair of the Income Security committee of the Leadership Council of Aging Organizations (LCAO).[2] The LCAO is a coalition of 72 national aging advocacy organizations that represent millions of older Americans. Members include the AARP, the National Committee to Preserve Social Security and Medicare, and the National Council on Aging, among many others.[3] Coalition members work together to preserve and strengthen the well-being of America's older population.

The LCAO believes that Congress should preserve the disability benefits of millions of older Americans by reallocating payroll taxes between Social Security's retirement trust fund and disability trust fund, to equalize the solvency of the two funds, and should do so without any cuts to Social Security coverage, eligbility or benefits.[4]

As we age, we all face an increasing risk of acquiring disabilities that may limit our ability to support ourselves through work and put us at great financial risk. Fortunately, nearly all Americans pay into Social Security, a system of earned benefits that protect workers and their families in the event of death, disability, and retirement. More than 9 out of 10 American workers are insured for benefits that can be a lifeline for their families in the event of a qualifying disability.[5] Insurance under Social Security is particularly important because the alternatives for many families are often extremely limited. Seven in 10 civilian workers have no access to long-term private disability insurance through their employer,[6] and many families have little to no savings to fall back on if a breadwinner experiences a significant disability.[7]

I'd like to tell you about one American receiving disability benefits.

Darlene B. is a 60 year old woman living in Washington, DC. She worked for many years; in fact, her first employer was the Social Security Administration, where her roles included assisting people applying for benefits. She also worked in the private sector in jobs as diverse as chauffeur and caseworker at an organization for survivors of domestic violence. Several years ago, Ms. B's children, who are now 28 and 30, noticed she was struggling with her memory. She thought it might be related to the brain cancer she had survived in the past, but she was in fact diagnosed with early-onset Alzheimer's. She was approved for disability insurance benefits through SSA's Compassionate Allowances program.[8]

Ms. B's life has changed a lot as a result of her health problems, especially now that her cancer has returned and spread to her spine. She has to plan her activities for each day carefully, and relies on her son to keep track of her appointments. He is also her representative payee and helps her manage the approximately $900 a month she receives in disability benefits.

Nearly all of Ms. B's disability insurance benefits go to rent and utilities, and she has had to cut back on expenses now that her income is so limited. If her disability benefits were cut, she might not be able to continue living in her apartment.

Unfortunately, Ms. B's benefits would be cut, by 20 percent or almost $180 per month, if Congress does not reallocate the payroll taxes between Social Security's retirement trust fund and disability trust fund, to equalize the solvency of the two funds.

The LCAO urges Congress to act expeditiously to reallocate Social Security's payroll taxes to ensure continuation of benefits for Ms. B and millions of older Americans with disabilities – and to do so without making any accompanying cuts to Social Security coverage, eligibility or benefits.

I would like to make three points about the Social Security disability program and the need for reallocation:

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

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.[9] Seven in ten beneficiaries are age 50 and older, and three in ten are age 60 and older.[10]

Although the population of those receiving disability insurance benefits is extremely varied, Ms. B's story above is in many ways illustrative of a "typical" beneficiary - in his or her late 50s or early 60s and in poor health, living with one or more severe impairments, such as advanced cancers, end stage renal disease, multiple sclerosis, and serious mental illnesses.[11] Beneficiaries' death rates are at least three times higher than that of other people their age.[12] One in five male and one in six female beneficiaries die within five years of being found eligible for benefits.[13]

As Ms. B's story also illustrates, these benefits are a modest but vital source of income. When disabled workers receive Disability Insurance benefits as they age into their retirement years, Social Security helps to ensure that they don't fall into poverty in their later years.

Disability Insurance benefits averaged $1,165 per month in December 2014.[14] Benefits are so modest that many beneficiaries struggle to make ends meet; nearly one in five, or about 1.6 million, disabled-worker beneficiaries live in poverty. But without Disability Insurance, this figure would more than double, and more than 4 million beneficiaries would be poor.[15] Eight in ten beneficiaries count on disability insurance as their main source of income, and one in three as their only source of income.[16]

When Disability Insurance beneficiaries reach Social Security's full retirement age, they begin receiving retirement benefits from the Old Age and Survivors Insurance trust fund rather than the Disability Insurance 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 – over 5 percent of the disabled workers receiving benefits. 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.

Second, the need for reallocation has been expected for many years.

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.[17] 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 disabled beneficiaries as Baby Boomers passed through their 50s and early 60s, when the risk of disability is greatest. As noted by Social Security's Chief Actuary,[18] the recent growth in the disability program stems mostly from this and other well-understood demographic factors, including 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, as mentioned above.

Congress reallocated a substantial percentage of payroll taxes from the Disability Insurance (DI) program to the Old Age and Survivors Insurance (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.[19] 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.[20]

The projections made at the time of the last reallocation in 1994 have proven to be remarkably accurate. The current shortfall in the Disability Insurance trust fund is thus not a surprise or a reflection of a program that has somehow grown "out of control" in recent years or is "going bankrupt." Rather the growth in the program between 1972 and 2008 is due almost entirely (90 percent) to the Baby Boomers aging into the high-disability years of their 50s and 60s, the rise in women's labor-force participation, and population growth.[21]

Third, 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.[22] 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.[23] 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.[24]

U.S. Secretary of the Treasury Jacob Lew testified in March 2014 at a U.S. Senate Budget Committee hearing that "there's only one solution the technical experts believe can work in the timeframe between now and 2016. And that's a reallocation of the tax rate, as we've done in the past."[25]

There should be nothing unusual or contentious in taking such a step now. We urge Congress to do so expeditiously and without any accompanying cuts to Social Security coverage, eligibility or benefits.

In closing, reallocation does not require any increase in tax rates and will maintain the solvency of the combined Social Security trust funds until 2033, as currently projected. We recognize that one of the strengths of our Social Security system is its universality. Disability Insurance is a core component of our Social Security system. Most of the Americans who rely on Social Security Disability Insurance are, in fact, older adults, and we reject any attempts to manufacture a crisis that pits older adults against people with disabilities.

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[1] http://www.nsclc.org/

[2] http://www.lcao.org/

[3] http://www.lcao.org/about-lcao/membership/

[4] LCAO Letter to White House on Disability Insurance (DI) Fund Reallocation, October 9, 2014, http://www.lcao.org/files/2014/10/LCAO-DI-Reallocation.pdf; LCAO Chair's Letter on House Rules and DI, January 20, 2015, http://www.lcao.org/files/2015/01/LCAO-Chair-Letter-on-House-Rules-and-DI.pdf.

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

[6] Department of Labor, Bureau of Labor Statistics, National Compensation Survey, 2012, http://www.bls.gov/ncs/ebs/benefits/2012/ownership/civilian/table12a.htm.

[7] Survey of Consumer Finances, 2013 SCF Chartbook, http://www.federalreserve.gov/econresdata/scf/files/BulletinCharts.pdf.

[8] "The Compassionate Allowances (CAL) initiative is a way to expedite the processing of SSDI and SSI disability claims for applicants whose medical conditions are so severe that their conditions obviously meet Social Security's definition of disability. It is not a separate program from SSA's two disability programs, SSDI and SSI." http://www.ssa.gov/compassionateallowances/cal_faqs.htm

[9] 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.

[10] http://ssa.gov/OACT/ProgData/benefits/da_age201312.html

[11] Rebecca Vallas and Shawn Fremstad, "Social Security Disability Insurance: A Bedrock of Security for American Workers," Center for American Progress, July 8, 2014, https://www.americanprogress.org/issues/poverty/report/2014/07/08/93386/social-security-disability-insurance/

[12] 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

[13] Ibid.

[14] Social Security Administration, Monthly Statistical Snapshot, December 2014, available at http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ (last accessed February 8, 2015).

[15] Vallas and Fremstad, "Social Security Disability Insurance: A Bedrock of Security for American Workers."

[16] Michelle Stegman Bailey and Jeffrey Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update," SSA Research and Statistics Note No. 2014-02 (released February 2014), http://www.ssa.gov/policy/docs/rsnotes/rsn2014-02.html.

[17] 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.

[18] "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.

[19] 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.

[20] 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

[21] David Pattison and Hilary Waldron, "Growth in New Disabled Worker Entitlements, 1970-2008," Social Security Bulletin 73 (4) (2013): 25–48, http://www.ssa.gov/policy/docs/ssb/v73n4/v73n4p25.pdf.

[22] 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.

[23] 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

[24] 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.*

[25] Jacob Lew, Testimony before the U.S. Senate Budget Committee, March 6, 2014. Video of Secretary Lew's testimony available at http://www.bloomberg.com/video/lew--testifies--before--senate--on--obama--budget--plan-- s0NJ4eyFT5mkoX19pfkdoA.html