Research

Primer: The Social Security Disability Insurance (DI) Program

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INTRODUCTION

The Social Security system is composed of two programs: the Old Age and Survivors Insurance (OASI) program and the Disability Insurance Program (DI). The OASI program is what most people think about when discussing the Social Security System – retirement and survivor benefits, largely for the elderly. The Disability Insurance program, while far smaller in terms of beneficiaries and impact on the federal budget, remains a critical element of the nation's social safety net. Unlike the OASI program, however, the DI program is in imminent need of reform. Under the most recent projections, the federal trust fund responsible for funding the program will be insolvent in 2016, a presidential election year no less, and risks immediate benefit cuts to 11.4 million disabled Americans.

Much of the pressure on program resources can be explained by the rapid expansion of the program. This is driven by three elements: longer term trends in the labor market, changes in federal policy, and economic conditions such as the recent recession.

This is not the first time the DI program has faced near-term shortfalls. To avoid trust fund exhaustion, Congress, as recently as 1994, increased the share of payroll taxes devoted to the DI trust fund. Prior reform efforts have included cost-containment measures as well as borrowing from other federal trust funds.

HOW THE PROGRAM WORKS

The DI program provides monthly income to non-elderly adults who have worked in the past, but who are unable to work due to a serious medical condition. Eligibility is therefore a function of three key factors: Age, work history, and disability status. To qualify for disability insurance, a potential beneficiary must be younger than the full retirement age. If an individual receives DI benefits, they are automatically rolled into the Social Security Old-Age program.

Assuming a potential beneficiary is a non-elderly adult, their eligibility to receive DI benefits is also subject to a work history test that is also based on age. Essentially, this is a graduated scale that gauges whether an individual has worked both long enough and recently enough prior to becoming disabled. In general, for workers 31 years and over, one must have worked for a total of 5 years, with 5 of those years occurring within the 10-year period prior to the disability. The SSA denotes work history in quarterly "credits," so 20 credits reflects 5 years of work history. For workers aged 44 and 45 years old, the total work requirement increases to 5.5 years. This total work requirement increases by half-year increments for every two-year increase in the worker's age thereafter (see table). For example, for a worker aged 62 or older, the total work requirement is 10 years, again with 5 years of work occurring in the 10-year period preceding the disability determination. Special rules apply for workers younger than 31, and the blind.

Table 1: Work Related Eligibility Requirements

Became Disabled At Age	Number of Credits You Need
31 through 42	20
44	22
46	24
48	26
50	28
52	30
54	32
56	34
58	36
60	38
62 or older	40

Source: http://www.ssa.gov/retire2/credits3.htm

The third key factor in determining eligibility for DI benefits is disability status. Unlike certain other disability determinations, such as those for veterans, the DI program only pays for total disability. Under the DI program, total disability is satisfied by: an inability to perform previous work, an inability to adjust to other types of work due to a medical condition, *and* determination that the disability has lasted or is expected to last at least a year or result in death. These determinations are governed by strict rules. For example, certain listed medical conditions are so severe they automatically qualify an individidual as disabled. Other non-listed conditions can also qualify an individual for disability benefits if that condition is deemed to be severe enough. These conditions span all organ systems and severity tests. For example, a person would automatically qualify for disability if they are diagnosed with ALS, whereas a determination of disability for individuals with epilepsy will depend on a host of factors related to the condition such as type, duration, and frequency of seizures. The basic test remains, however: does a medical condition bar an individual from working?

Once an individual has qualified for disability benefits, they continue to receive benefits until they no longer meet the eligibility requirements – such as being able to return to work – or by transitioning to retirement benefits.

DI benefits are calculated in a similar way to Social Security retirement benefits. First, an individual's past earnings are determined and indexed for wage growth. Second, an individual's primary insurance amount (PIA) is calculated based on a progressive replacement rate of past income. In 2014 those rates are as follows: (a) 90 percent of the first $816 of his/her average indexed monthly earnings, plus (b) 32 percent of his/her average indexed monthly earnings over $816 and through $4,917, plus (c) 15 percent of his/her average indexed monthly earnings over $4,917. Accordingly, higher earners receive higher monthly benefits, but as a share of past income, the benefit is smaller. The maximum monthly benefit is capped at $2,642. Spouses and dependents are also eligible to receive benefits, which are limited by a maximum family benefit amount, which varies depending on a disabled workers' past income and their primary insurance amount.

BASIC PROGRAM FACTS

At present, 10.981 million people receive an average monthly DI benefit of $995.38. The vast majority of these beneficiaries are disabled workers themselves, while a far smaller share of DI beneficiaries are comprised of spouses and children of disabled workers. (See Table 2, program statistics).

Table 2: Disability Program Basic Statistics (March 2014)

Beneficiary	Number (000)	Total monthly benefit payments ($millions)	Average monthly benefit ($)
Disability Insurance	11,005	10,950	995.05
Disabled workers	8,947	10,250	1,145.60
Spouses of disabled workers	154	47	307.42
Children of disabled workers	1,904	653	342.9

Source: Social Security Administration: "Monthly Statistical Snapshot," May 2014

More detailed information that includes gender and age information is not available past 2012, but participation is sufficiently stable that 2012 data is still highly representative of current beneficiaries

Table 3: Characteristics of DI Beneficiaries, 2012

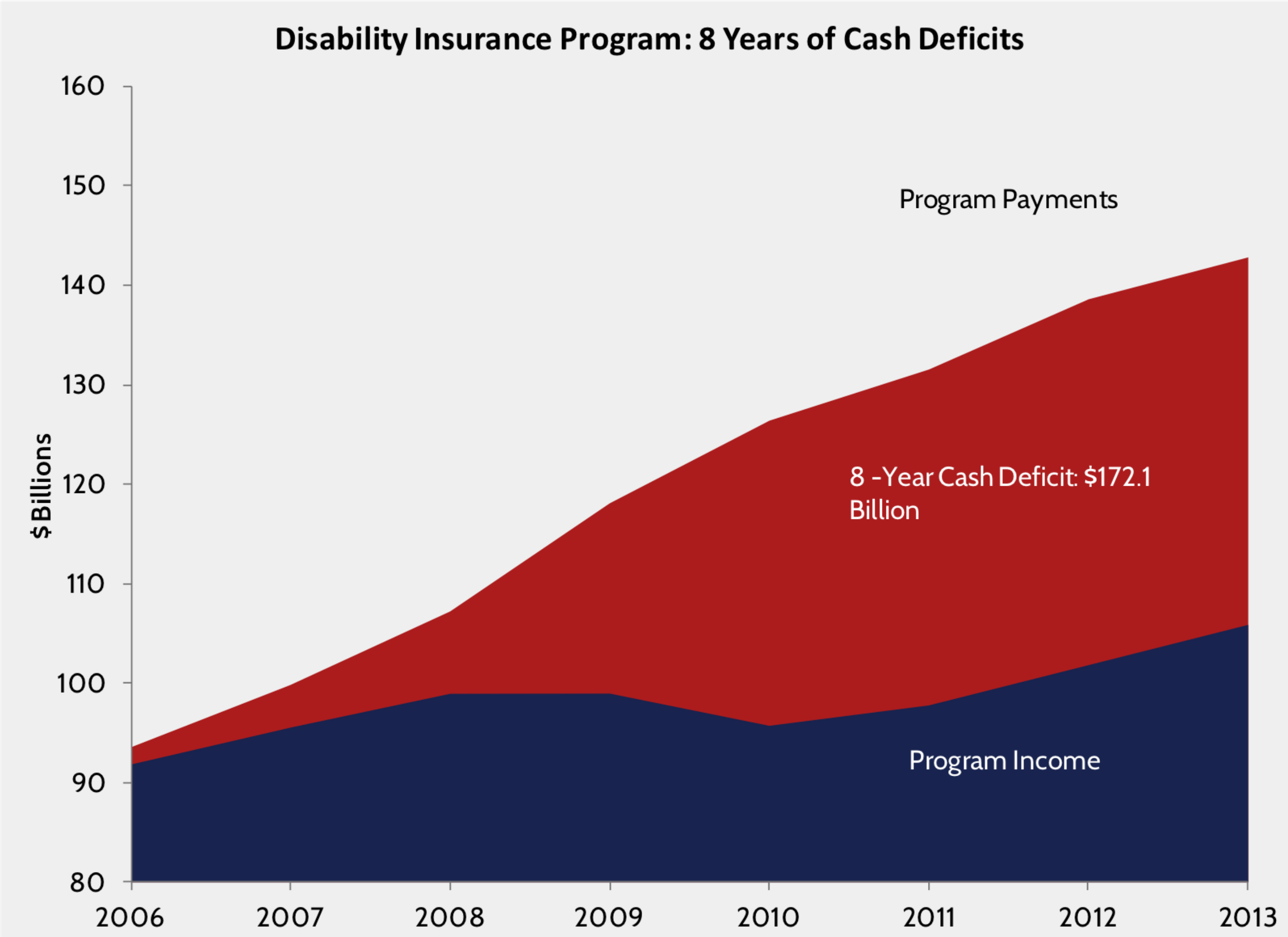
Selected Characteristics	All	Male	Female
DI	10,889,193	5,593,807	5,295,386
Disabled workers			
Number	8,826,591	4,606,044	4,220,547
Average Monthly Benefit ($)	1,130	1,256	993
Age (yrs)	53	53	53
Spouses of disabled workers			
Number	162,550	7,988	154,562
Average Monthly Benefit ($)	303.82	266.55	305.74
Children of disabled workers			
Number	1,900,052	979,775	920,277
Average Monthly Benefit ($)	336.12	337.14	335.03

Source: Social Security Administration, Annual Statistical Supplement, 2013

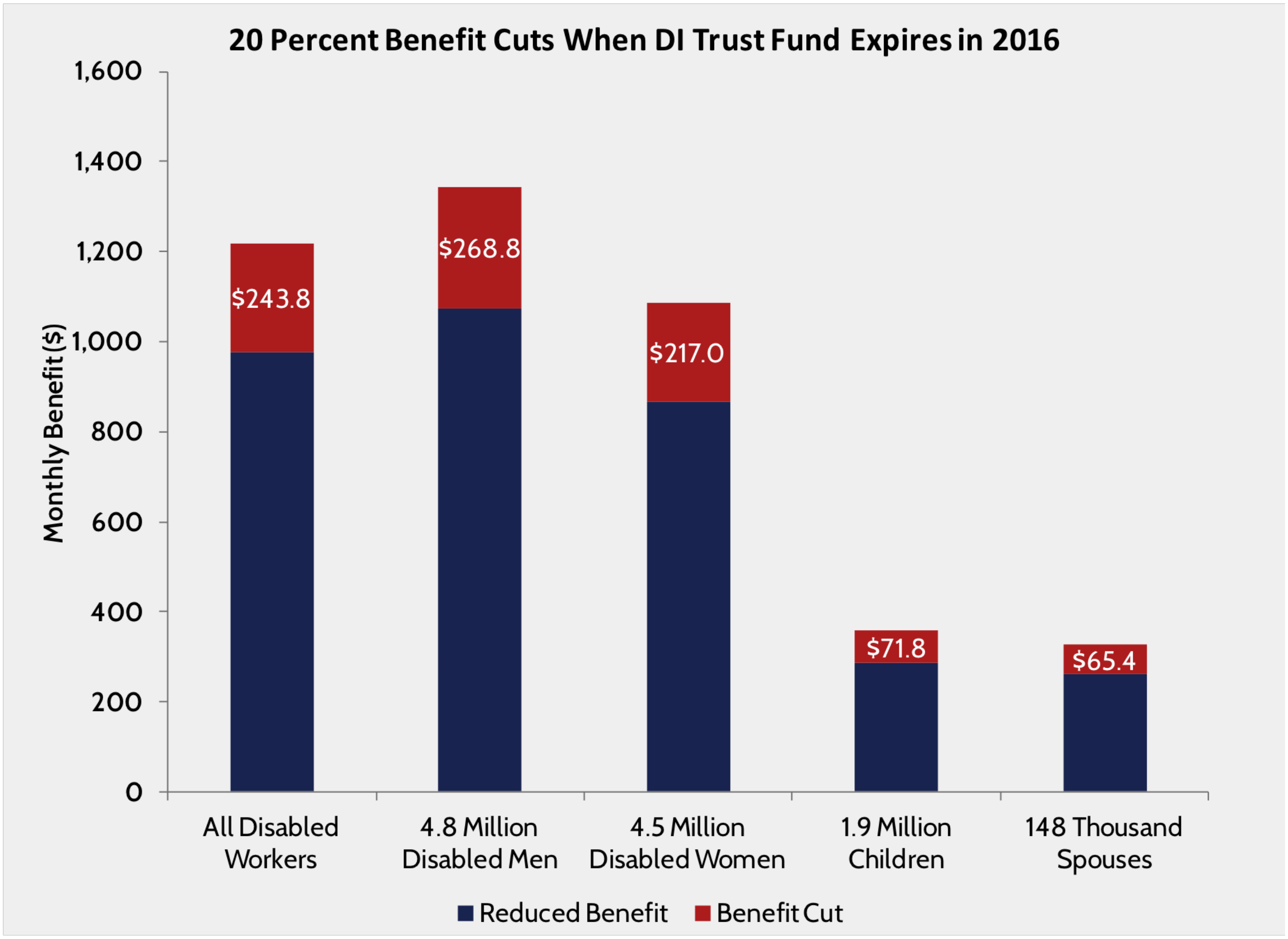
More detailed demographic detail provides both age and gender information on program beneficiaries. There are about 9 percent more male disabled workers than female disable workers, but average benefits for male disabled workers are about 27 percent higher. The age of average beneficiaries is essentially identical, regardless of gender. Spousal benefits reflect a significantly higher share of wives than husbands, and wives in general receive slightly higher benefits than husbands. Benefits for children are essentially evenly split by gender.

PROGRAM FINANCING

The DI program is currently in a cash-flow deficit. In FY2013, DI spent $142.8 billion but only collected $102.7 billion in non-interest income. To finance program expenditures, the federal government had to borrow $37.0 billion. 2013 was the eighth consecutive fiscal year that DI has been in cash deficit, with the program having added over $172.1 billion to the federal debt since 2006. The program is projected to have an unfunded liability of $1.1 trillion, as promised disability benefits exceed projected payroll taxes and trust fund redemptions by over $1 trillion over the long term.



Perhaps more troubling than the long term horizon, is the near-term exhaustion of the DI trust fund. Two years from now, in 2016, the DI trust fund is projected to be exhausted. Upon the fund's exhaustion, program recipients would only receive 80 percent of benefit payments. According to the Congressional Budget Office (CBO), 9.3 million disabled workers are projected to be receiving an average monthly DI benefit of $1,216 in 2016. If the DI Trust is depleted, benefit payments are only authorized to meet program receipts, which would reduce the average payment by $243.2 down to $972.8, a 20 percent cut. More specifically this would affect 4.8 million disabled men and 4.5 million disabled women, who would see their benefits reduced by $269 and $217, respectively. 1.9 million children are projected to be receiving DI benefits in 2016 – they would see their average benefit reduced from $359 to $287.2, while 148,000 spouses would see their average benefit decline from $327 to $261.6.



PROGRAM GROWTH

Since 1970, the number of disabled workers receiving DI benefits has increased by over a factor of 6, from nearly 1.5 million to the current level of 8.9 million, while total beneficiaries (also includes spouses and children) has grown by over 4 times, from 2.7 million to over 10.9 million. The growth in beneficiaries can be explained be three factors: overall demographic trends in the labor market, programmatic changes, and the effects of the business cycle on employment.

Two important trends in the constitution of the labor force over the past several decades have contributed to rising DI enrollment and costs: the aging of the workforce and the increased participation of women in the labor force. The former trend reflects the inherent susceptibility of an older population to disability, and to the extent that disability determinations hinge on the ability to adapt to other work, older workers are more likely to qualify for disability. The latter trend merely reflects the increased participation by women in the workforce. Greater overall participation and duration in the workforce by women has increased the total DI-insured population above what would have otherwise occurred absent increased female participation in the labor force.

Increased generosity of benefits has also increased program rolls and costs by increasing the incentive for individuals to apply for benefits who otherwise would not have applied or by granting benefits to individuals who otherwise would not have received them. Increased generosity reflects both specific policy changes as well as the relative value of DI benefits over time. In 1984, Congress passed the Disability Benefits Reform Act, which loosened standards for disability eligibility. These changes included allowing individuals to qualify for disability due to several conditions that may not have been singly qualified. Additional considerations of pain and mental illness were also allowed to be considered for a disability determination. These changes significantly increased the DI rolls, particularly among those with mental or musculoskeletal conditions, who tend to be younger than the average DI beneficiary. Accordingly, these individuals tend to receive benefits over a longer period of time than the typical beneficiary.

The relative value of DI benefits has also increased over time for lower-wage recipients due to higher income replacement rates for low-wage workers. Because the bend points are scaled up in each year by average wage growth, low-skilled individuals that are experiencing slower than average wage growth over time are replacing an ever-greater fraction of their earnings at the 90 rate described in the formula above. Owing to this and other factors, there have been substantial increases in replacement rates over time. For example among males between the ages of 50 and 61, replacement rates for tenth percentile workers increased from 55.2 percent to 64.0 percent while for the 25th percentile worker the increase was similar from 46.4 percent to 55.3 percent.

Lastly, labor market conditions have also increased DI rolls. In a growing economy, employment opportunities are more plentiful and attractive to an individual who might otherwise qualify for DI. Conversely, when employment opportunities are diminished, the disabled population may be particularly limited in their ability to find work. According to CBO, *applications* for DI reached an all-time high of over 2.9 million in 2010.

In summary, several concurrent factors have contributed to an overall increase in the number of beneficiaries as well as, in some cases, the duration of benefit payments. Some work has been done to ascribe the contribution of each of these factors to growth in the DI rolls over time. While inexact, these estimates do illuminate the trends in DI beneficiary growth.

Table 4: Determinant of DI Growth

Factor	Women	Men
Age Structure	4%	15%
DI-Insured Status	24%	3%
Economic Conditions	12%	24%
Replacement Rates	28%	24%
Medical Eligibility Criteria	38%	53%
Total	106%	119%

Source: http://ideas.repec.org/h/nbr/nberch/11119.html

Note the totals do exceed 100 percent, which the authors ascribe to the possibility of some overlap of factors, as well as some countervailing forces that are not captured in the table, such as the relative improvement in morbidity among the non-elderly.

PAST FINANCING EFFORTS

The Social Security system as a whole has faced financing shortfalls several times in the past. In lieu of a net payroll tax increase, which appears unlikely in the next two years, Congress could pursue avenues of financing the DI trust fund that it has employed in the past. To address past financing shortfalls, either in the DI or OASI trust funds, Congress has relied upon to mechanisms – interfund borrowing and tax reallocation. [1]

The late 1970s saw significant erosion in the financial outlook of the OASDI trust funds. Due in large part to the structure of the program and the economic deterioration of the period, Congress began to address major cost growth in benefit payments in 1977, when the DI trust fund was projected to become exhausted by 1979, and the OASI trust fund was projected to become exhausted by the early 1980s. The 1977 Amendments to the Social Security Act included restructuring of the benefit formula and a net payroll tax increase. These changes put the DI trust fund on sound footing for the time being, while the OASI trust fund still faced near-term exhaustion. The early 1980s saw a series of changes to the Social Security Act, among which were the Social Security Amendments of 1981. Included in the 1981 amendments was a provision which allowed the OASI, DI and the Medicare Hospital Insurance (HI) trust funds to borrow from each other. The borrowing authority was authorized only until the end of 1982, during which time it was exercised several times, totaling $17.5 billion in loans from the DI and HI funds. Congress reauthorized the expired borrowing authority in 1983 through the end of 1987. However, the authority was not exercised during this time, and has since lapsed. The funds borrowed in 1982 were paid back in April of 1986. As of the last Medicare Trustees report, the HI trust fund had $220 billion in assets and was projected to remain solvent until 2026. The OASI trust fund had $2.6 trillion in assets and has an exhaustion date of 2035, compared to $122 billion in the DI fund. Accordingly, there are sufficient assets in other trust funds to extend the life of the DI trust fund beyond the current forecasted exhaustion date.

Reallocation of payroll taxes devoted to the OASI and DI trust funds have also been used to improve the actuarial balance of the funds. This measure shifts the proportion of payroll taxes devoted to the OASI and DI trust funds. In 1969 and 1973, Congress increased the share of payroll taxes dedicated to the DI trust fund. These reallocations were paired with other changes and benefit increases, so the reallocations were less about addressing structural challenges to the program, but rather financing new benefits. However, as the overall Social Security system faced financial challenges in the late 1970s and early 1980s, Congress enacted a series of reforms to both the DI and OASI programs. As noted above, these efforts included net tax increases, and interfund borrowing, as well as additional cost containment measures.[2] By 1980, the DI fund had been placed on a sounder financial footing, while the OASI fund was projected to become insolvent as early as 1981. Accordingly, Congress enacted a reallocation of payroll receipts that increased the relative share of tax receipts dedicated to the OASI trust fund. Congress again enacted an additional reallocation of payroll receipts to the OASI program in 1983 as part of a much broader package of reforms that were projected to allow the program to remain solvent for 75 years except under the most pessimistic of circumstances. While the reallocations of 1980 and 1983 were *from* the DI fund's receipts to the OASI fund, they reflect a policy trend that suggests Congress's willingness to use reallocations as a means to address potential fund insolvency, which confronted the DI fund in 1994. The 1994 Trustees report projected fund exhaustion by 1995. As a result, Congress passed the Social Security Domestic Employment Reform Act of 1994, which allocated a greater share of payroll tax receipts to the DI Trust Fund .

Table 5: Payroll Tax Allocations- Combined Employer/Employee Rates & Self-Employed Rates

Rates (%)	OASDI	OASI	DI
Scheduled Rates Before 1994 Act			
1990-99	12.40	11.20	1.20
2000+	12.40	10.98	1.42
Scheduled Rates After 1994 Act			
1990-93	12.40	11.20	1.20
1994-96	12.4	10.5	1.88
1997-99	12.4	10.7	1.7
2000+	12.4	10.6	1.8

Source:
http://www.ssa.gov/oact/solvency/NA_20130531.pdf

The rate schedule enacted in 1994 is still in place today. This reallocation of tax rates changed the expected date of exhaustion of the DI Trust Fund from 1995 to 2016 according to the 1995 Trustees report.

CONCLUSION

The DI trust fund is just two years away from depletion, the shortest time-frame for Congress to act since 1994. Absent another change in law, millions of beneficiaries will confront immediate benefit reductions. Even in the event Congress enacts a short-term fix, the long-term structure of the program would likely remain unsound. More meaningful reform is necessary to avert near-term collapse and place the program on a sustainable pathway.

[1] Morton, William R. "Social Security Disability Insurance (DI) trust fund: Background and Solvency Issues." Congressional Research Service. R43318