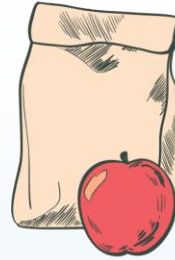


# The Academy Capitol Forum: Meet the Experts



## **Social Security Disability Insurance Trust Fund: Behind the Numbers**

Stephen C. Goss, MAAA, ASA  
Chief Actuary, Social Security Administration

Moderator: Donald E. Fuerst, MAAA, FSA, FCA, EA  
Senior Pension Fellow, American Academy of Actuaries



# **Social Security Disability Insurance Trust Fund: Behind the Numbers**

Presentation by Stephen C. Goss, Chief Actuary,  
Social Security Administration

American Academy of Actuaries  
Webinar  
April 23, 2014

# **Social Security Disability Insurance**

**155 million workers under age 66 are insured against becoming unable to work**

**9 million workers now receive DI benefits**

- **2 million “dependents” - mostly children**

**Many more protected from loss of insured status**

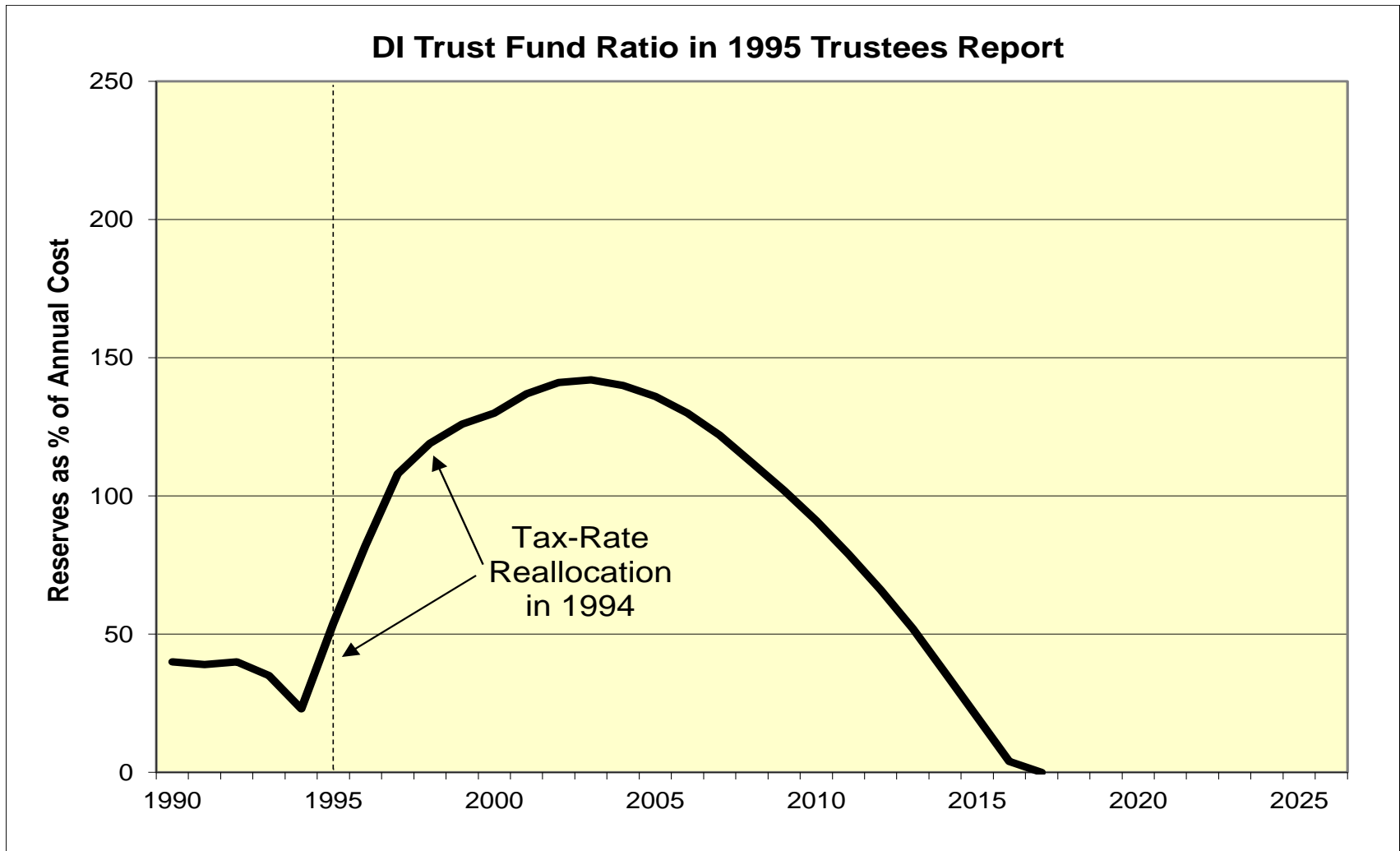
- **And from lower retirement benefits**

**Benefits replace 40% to 45% of career earnings on average**

- **76% for very-low earner, 27% for steady maximum earner**

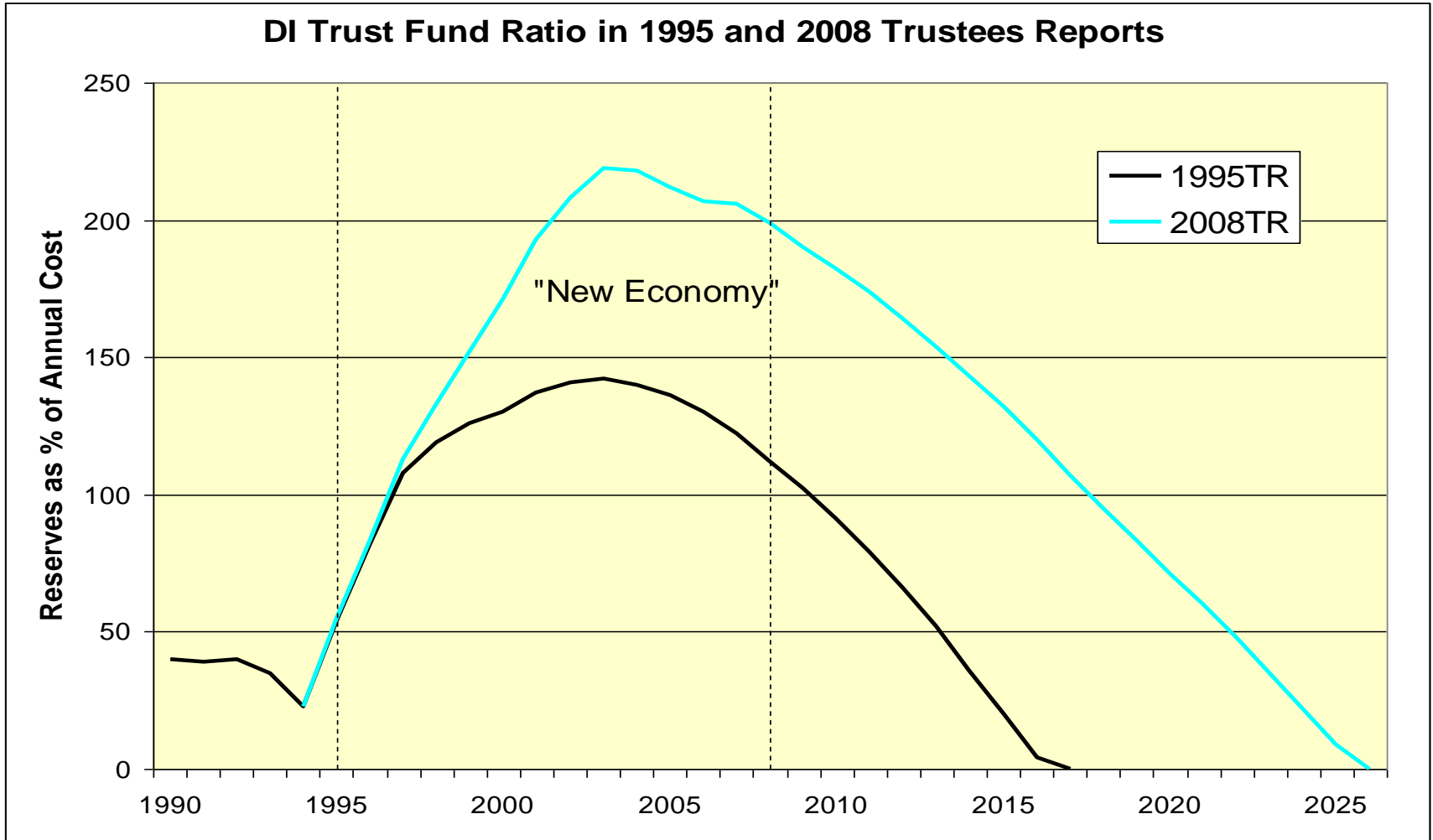
# Solvency of the DI Trust Fund

Reserve depletion projected for 2016 right after 1994 reallocation  
*Remember---the Trust Funds cannot borrow under current law*



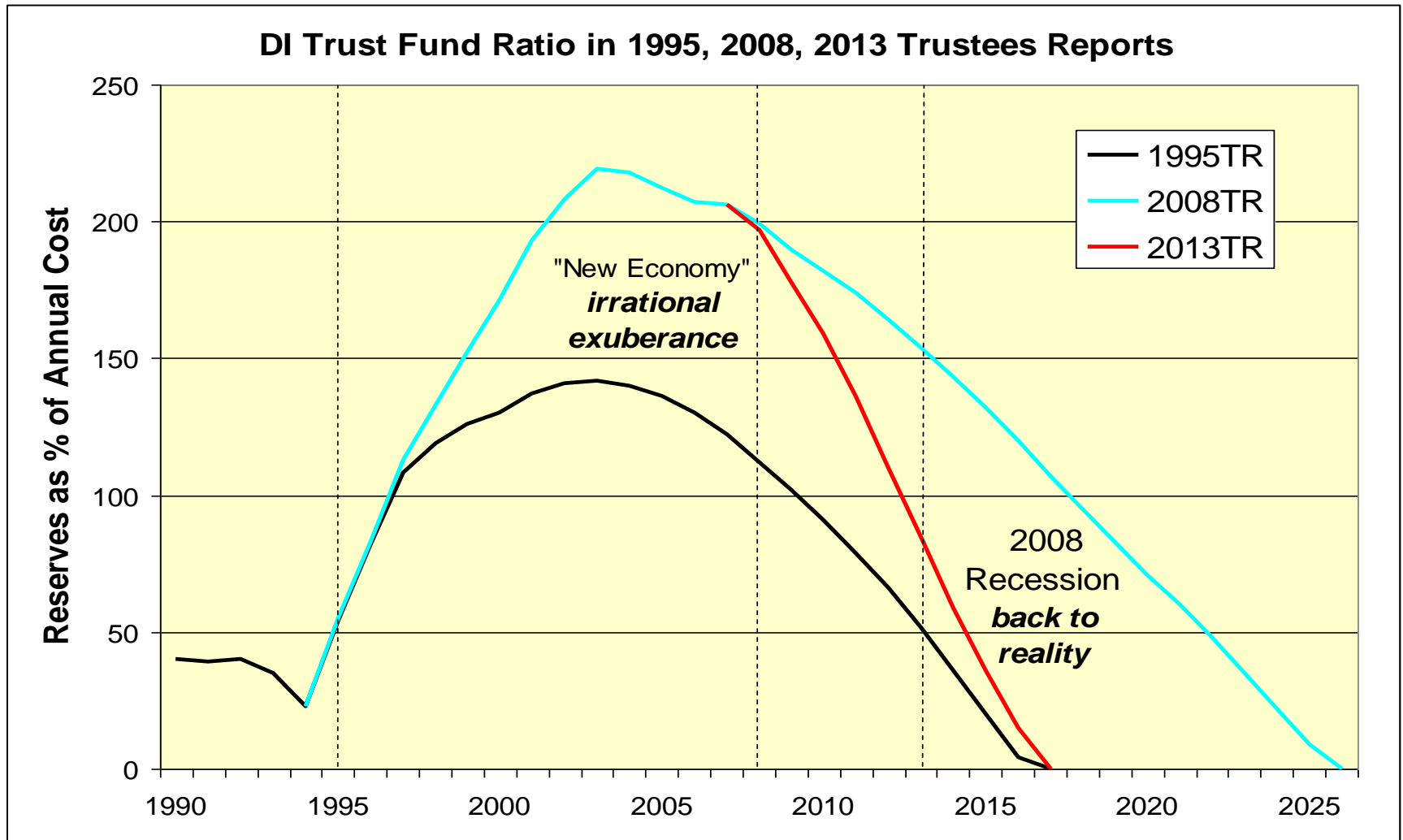
# Solvency of the DI Trust Fund looked MUCH better in 2007

## Boost from the “new economy” anticipating NO recession

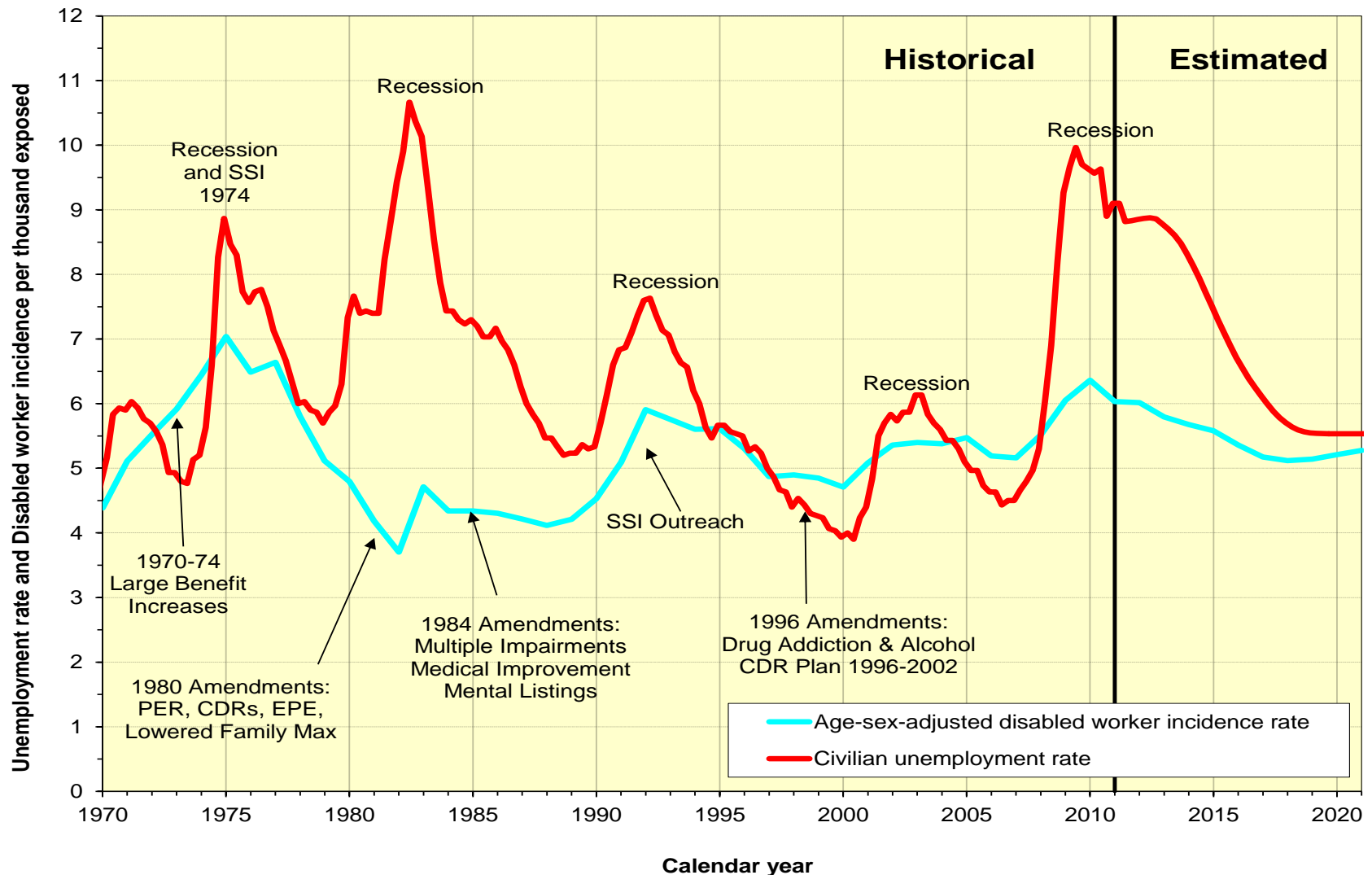


# Solvency of the DI Trust Fund; reserve depletion in 2016

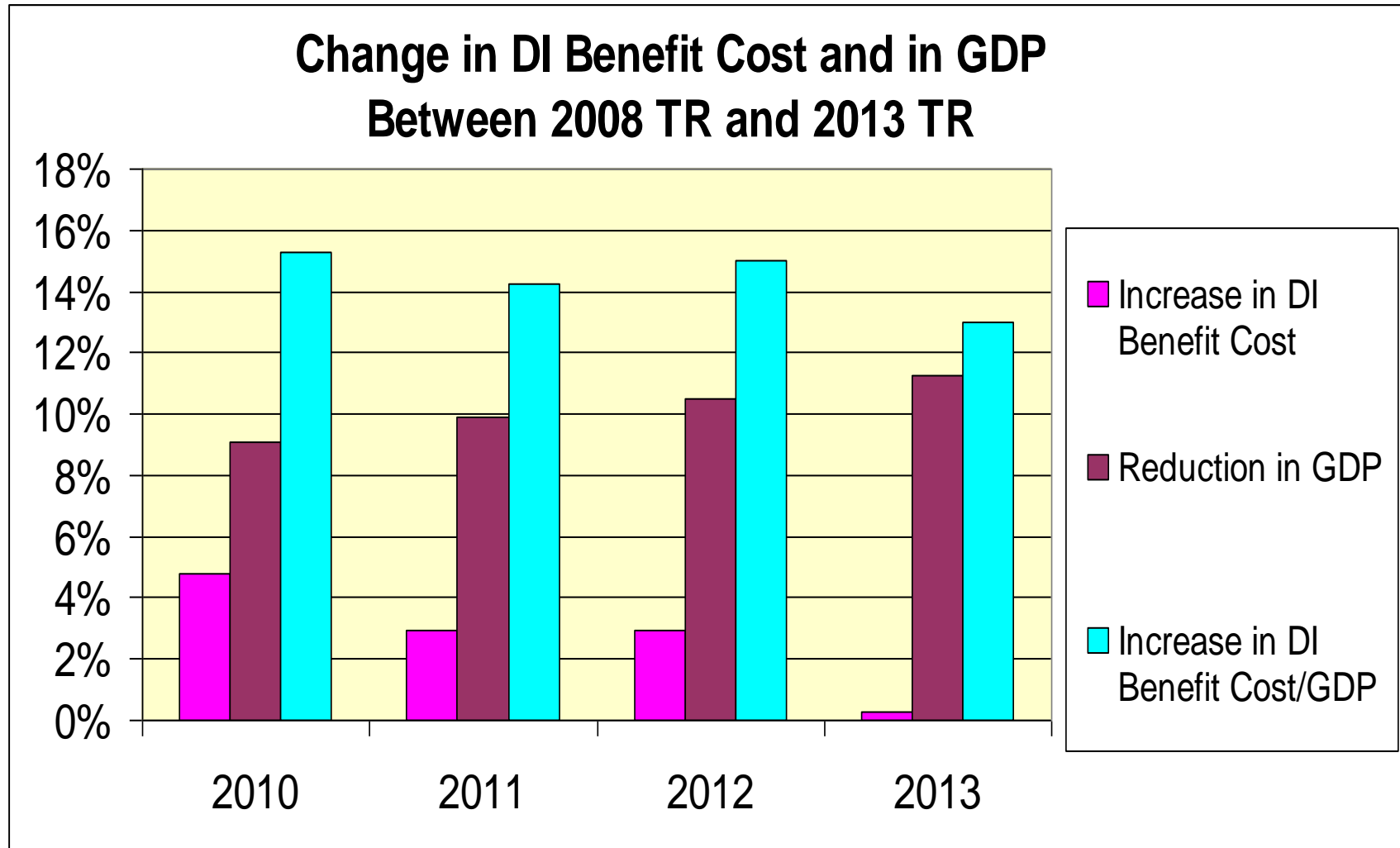
## 2008 recession offset “new economy”; cycles still happen



# Economic cycles and policy changes fluctuate, and DI incidence rates also vary

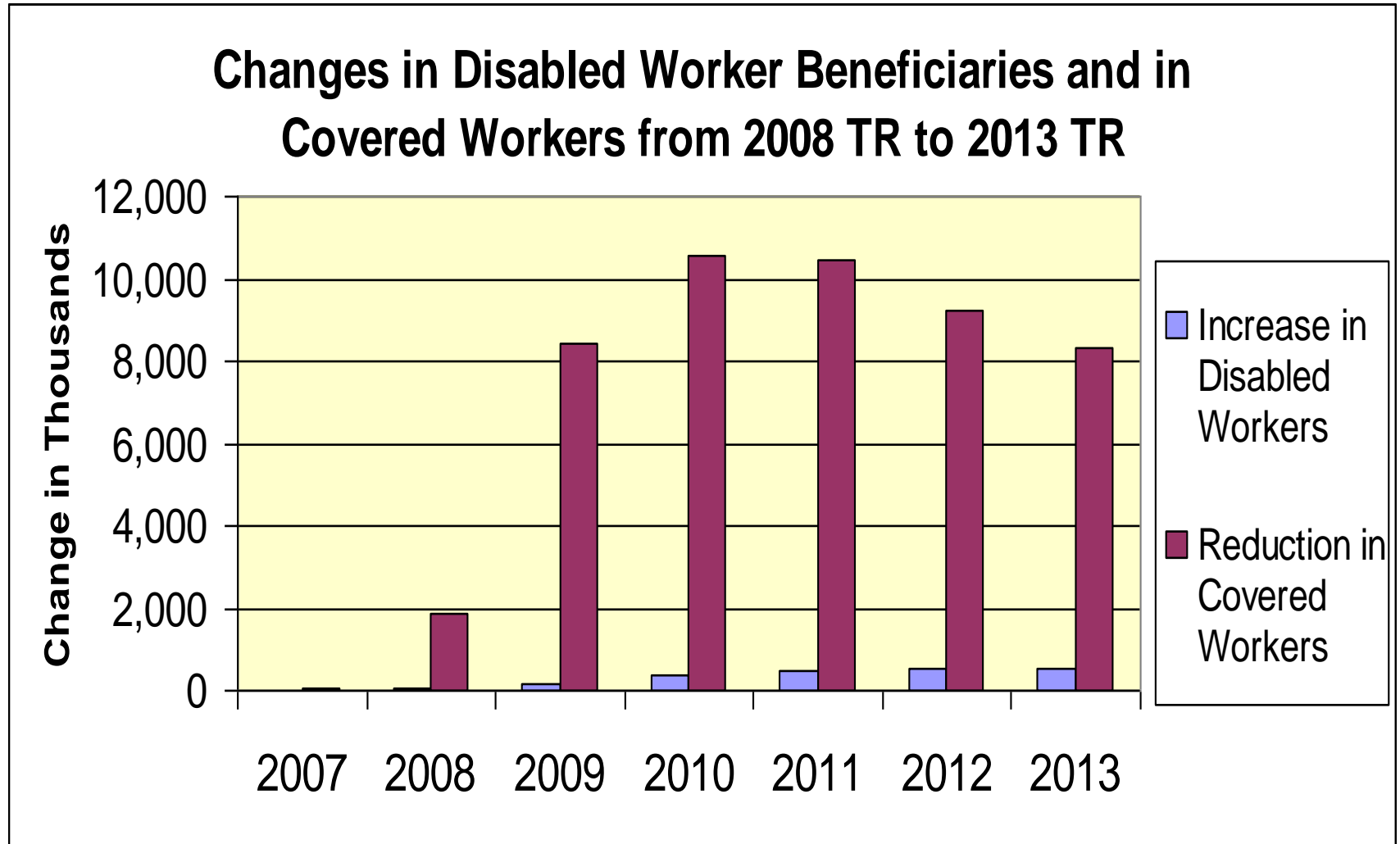


# *Most of the recession effect is from less GDP, not more DI cost*



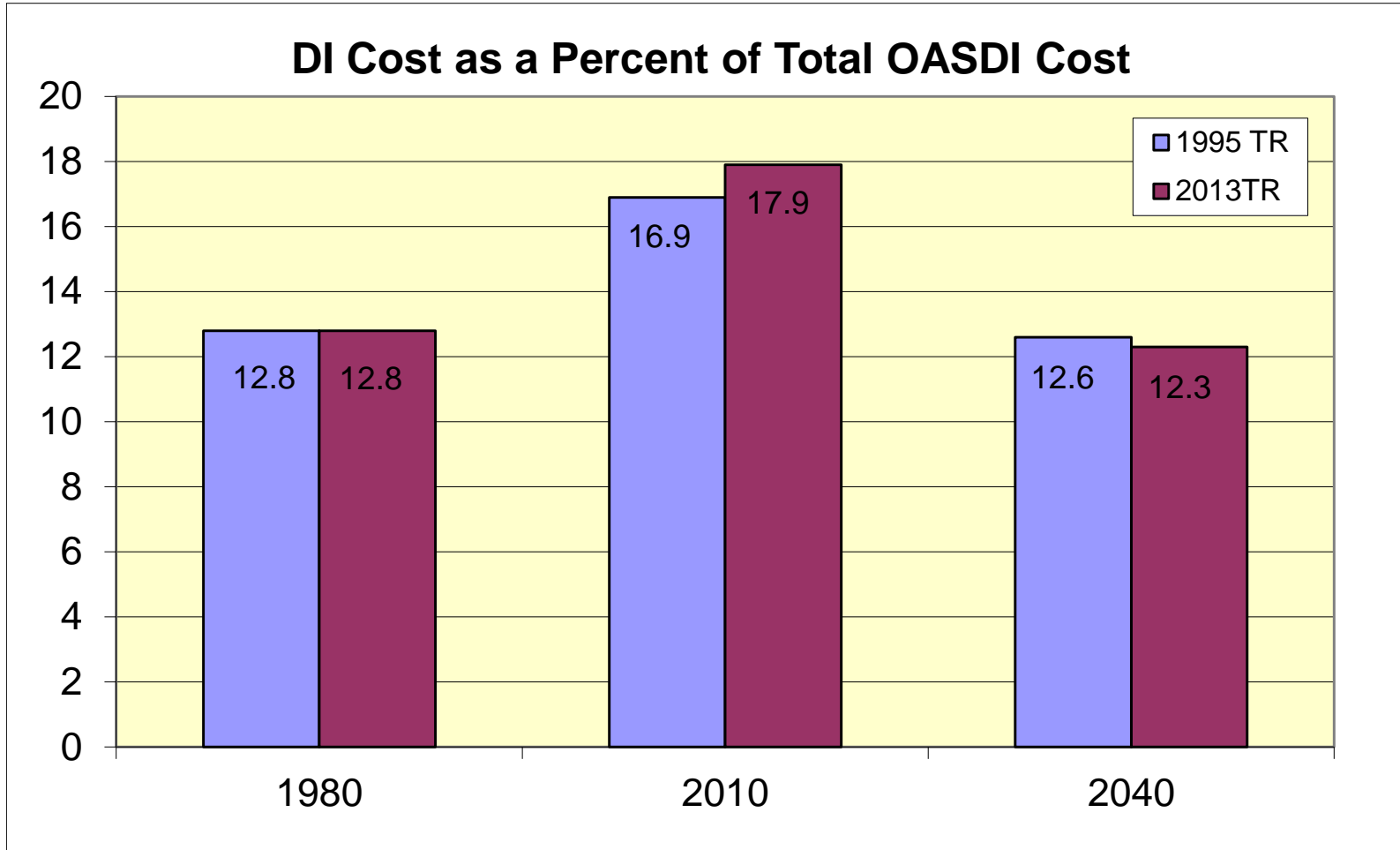


# Additional disabled worker beneficiaries are a small fraction of reduced employment

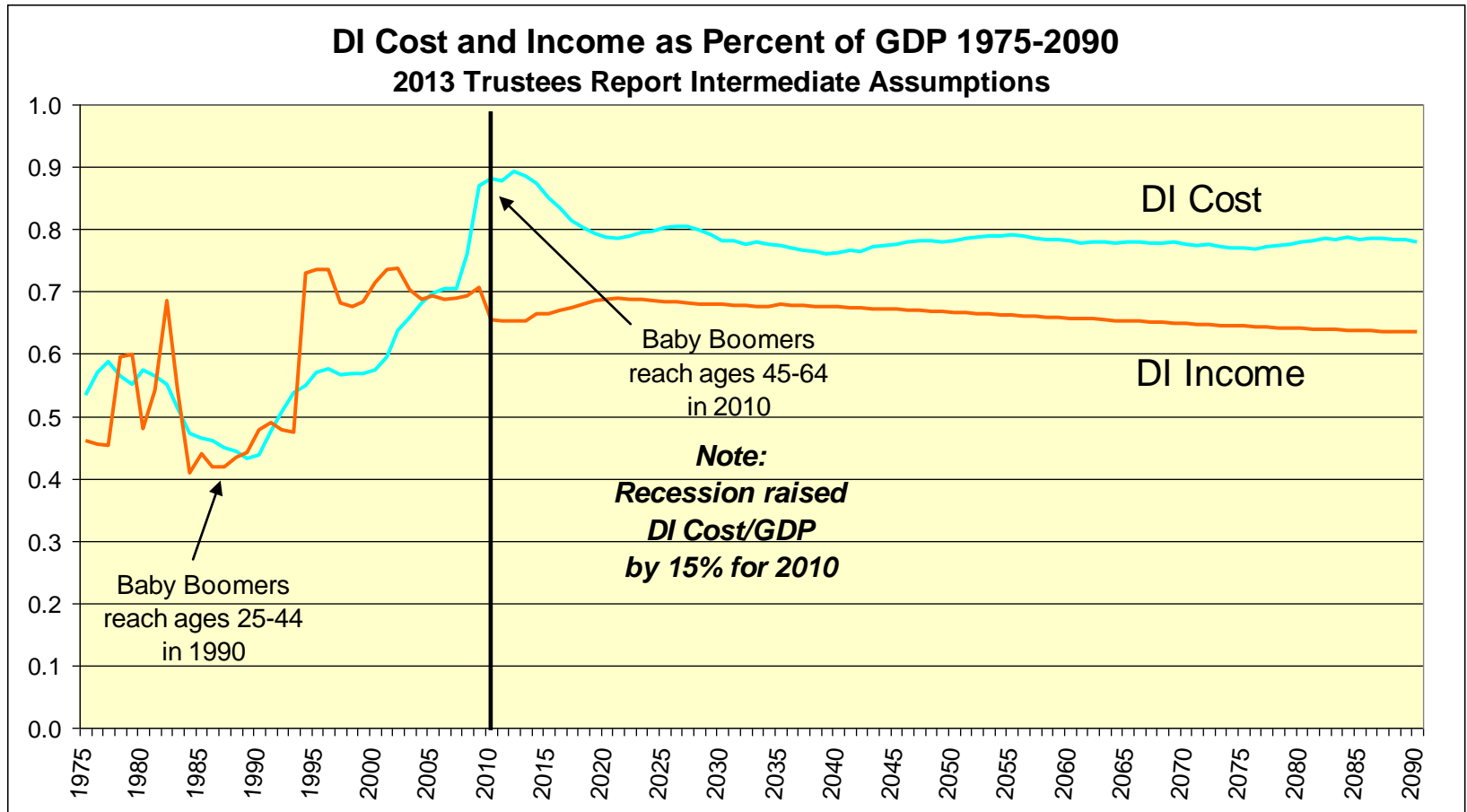


# Is DI out of control, taking over OASDI?

*(Note 5% increase in DI cost for 2010 due to recession)*



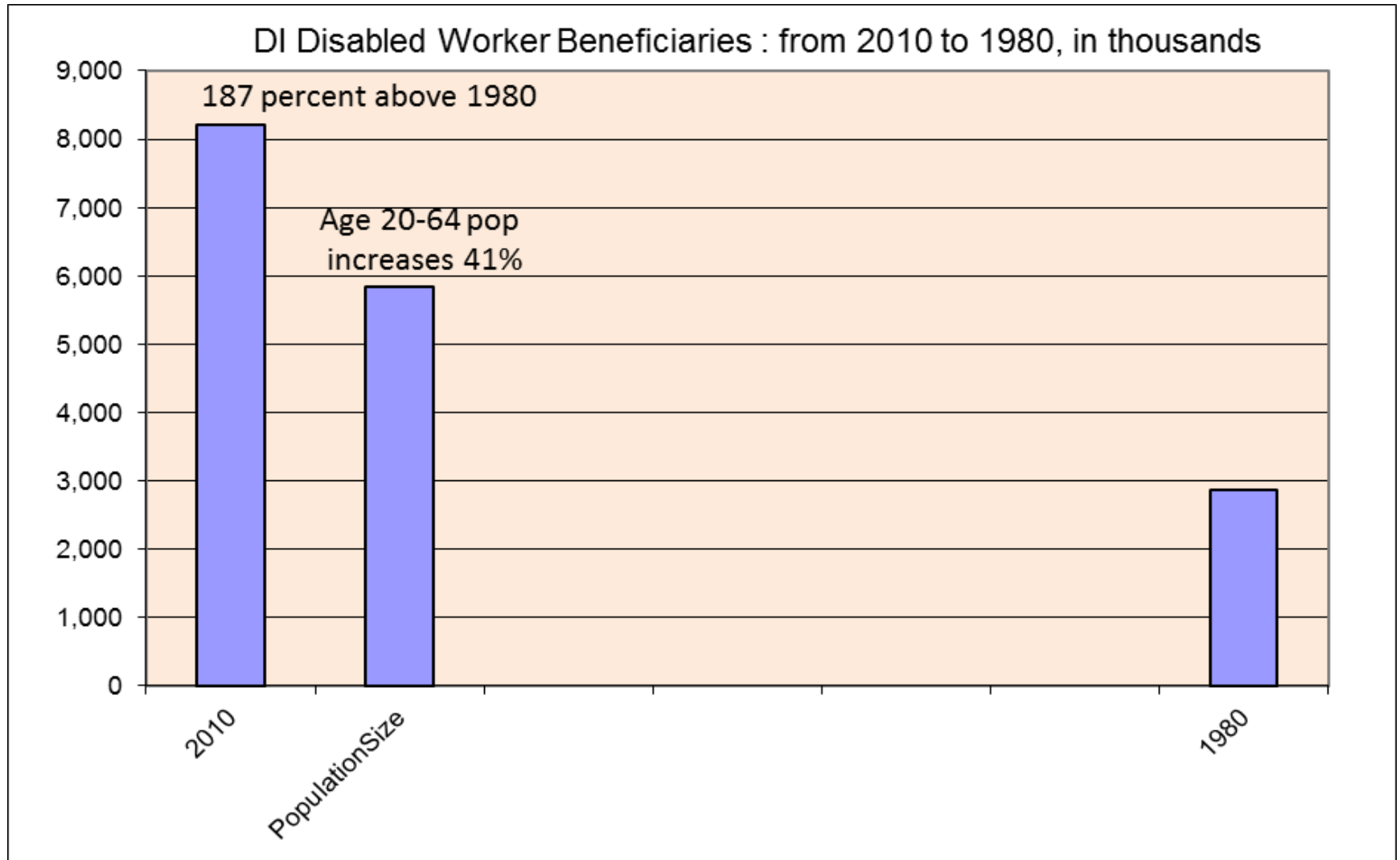
# DI cost as percent of GDP has peaked, but scheduled income is too low



## Disabled workers increased 187% from 1980 to 2010; let's work backwards and explain

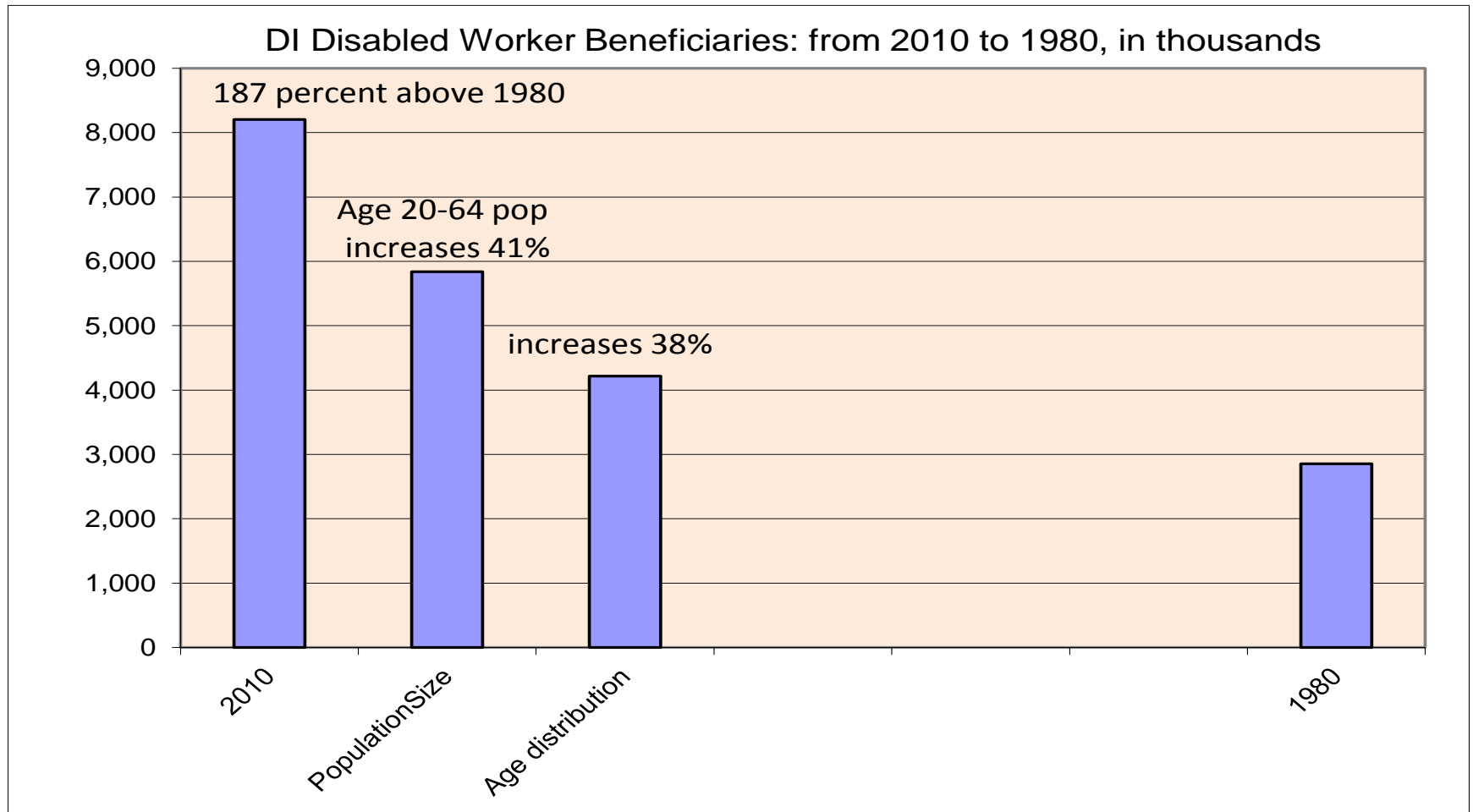


# Population age 20-64 increased 41% from 1980 to 2010; let's adjust that out



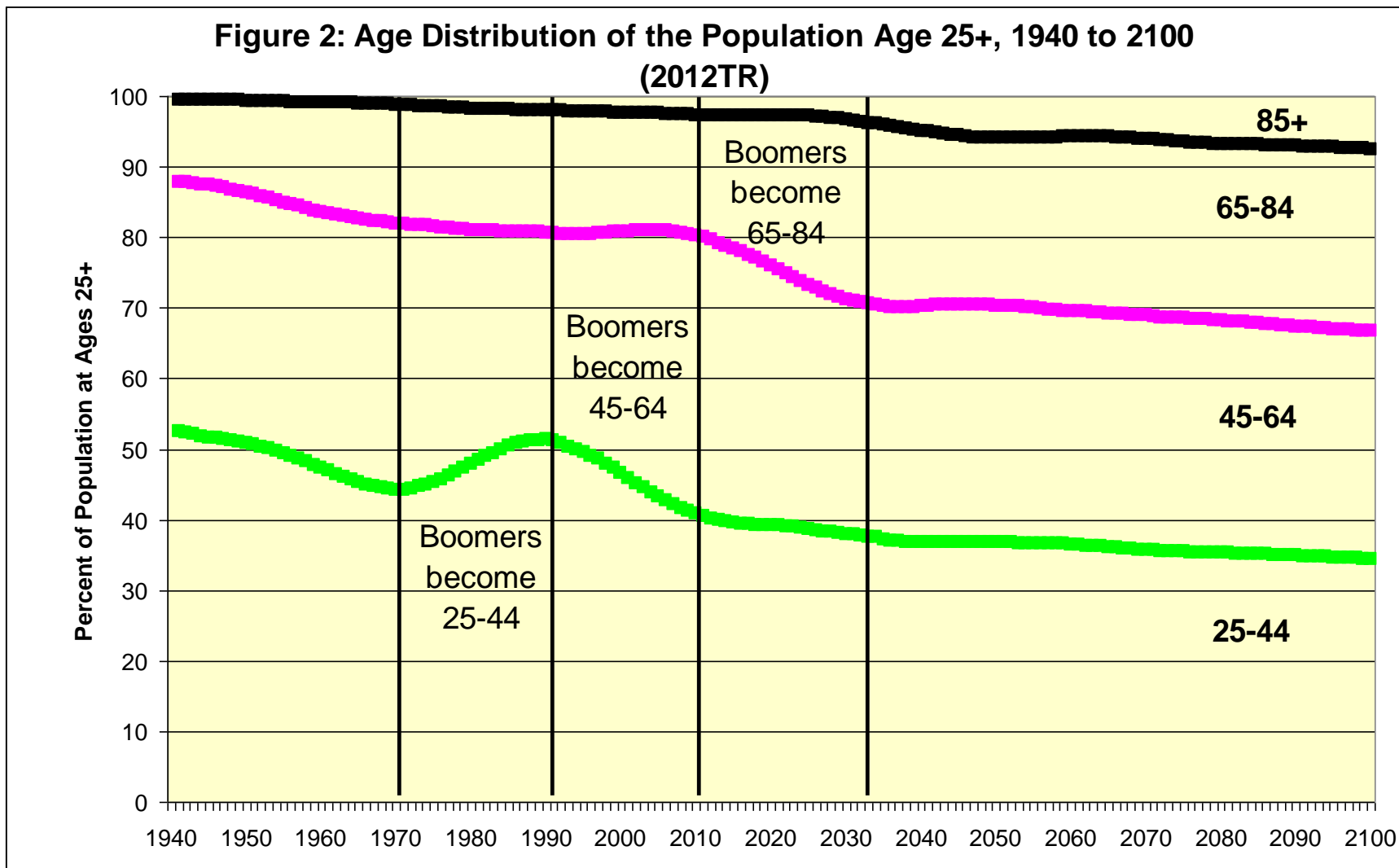
# Population age 20-64 is much older in 2010

## Boomers have aged with lower-birth-rate generations following

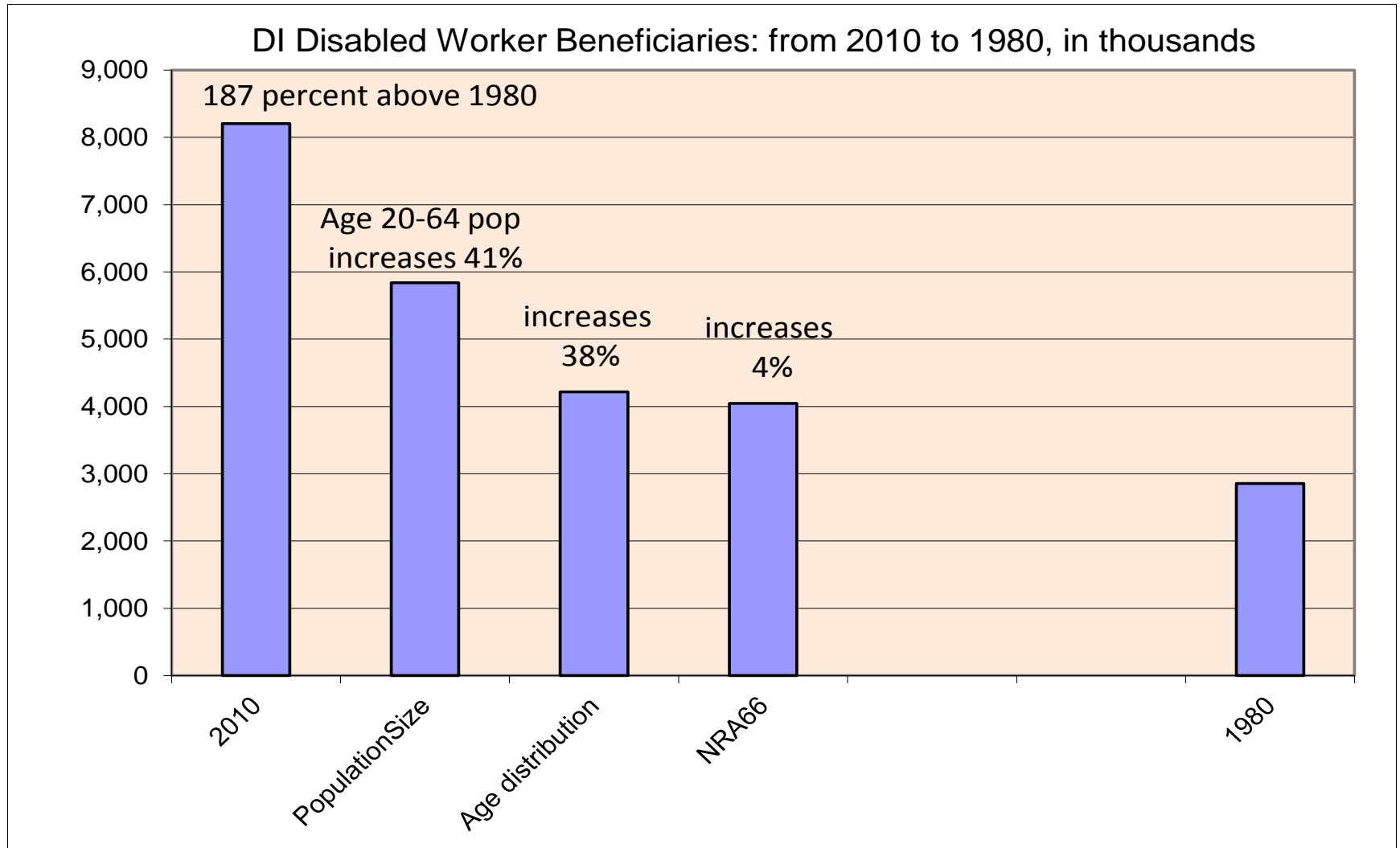


# Remarkable changes in age distribution

*Progression of the boomers and drop in birth rates dominate*



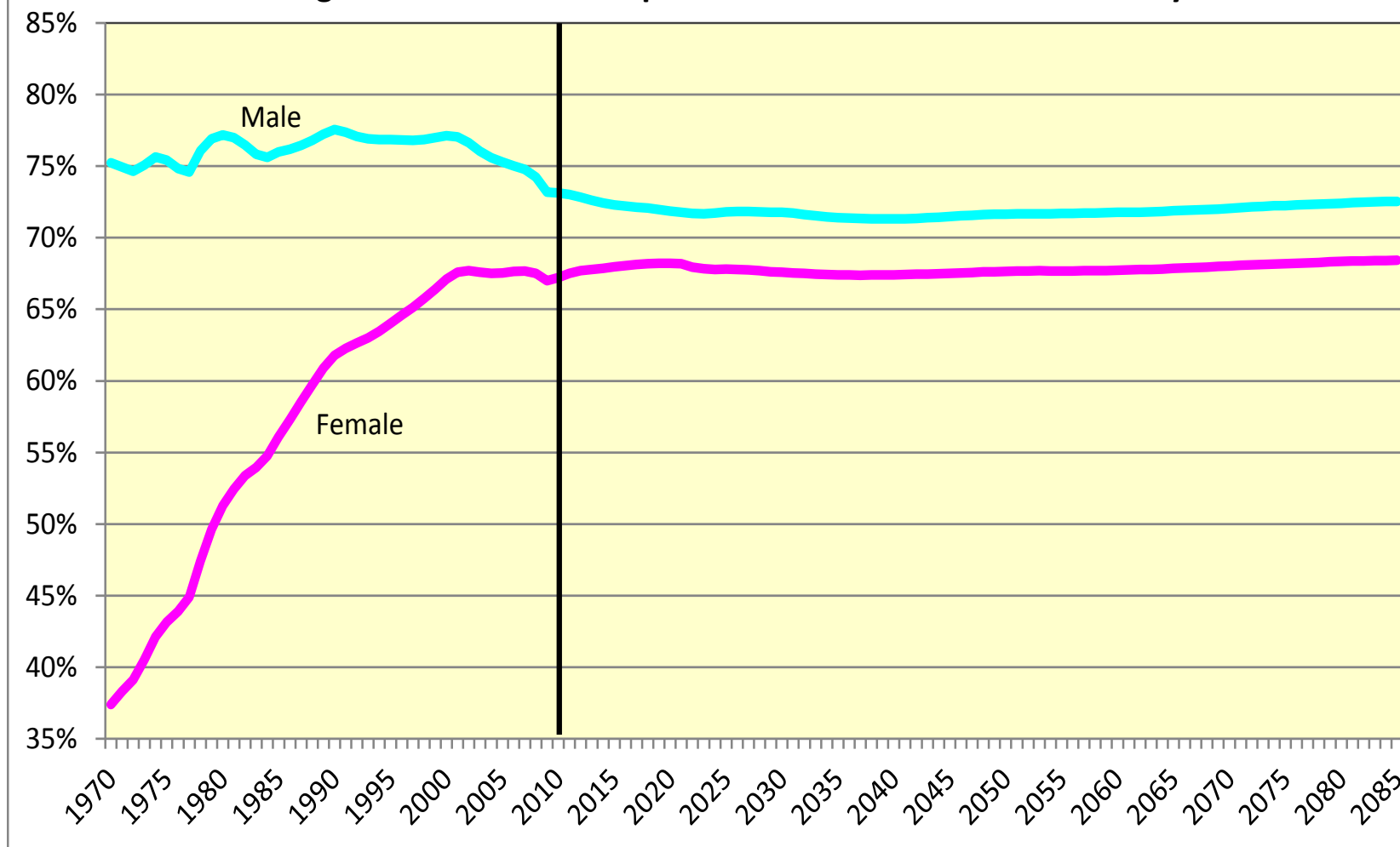
# The Normal Retirement Age increased from 65 to 66, adding 4% more disabled worker beneficiaries



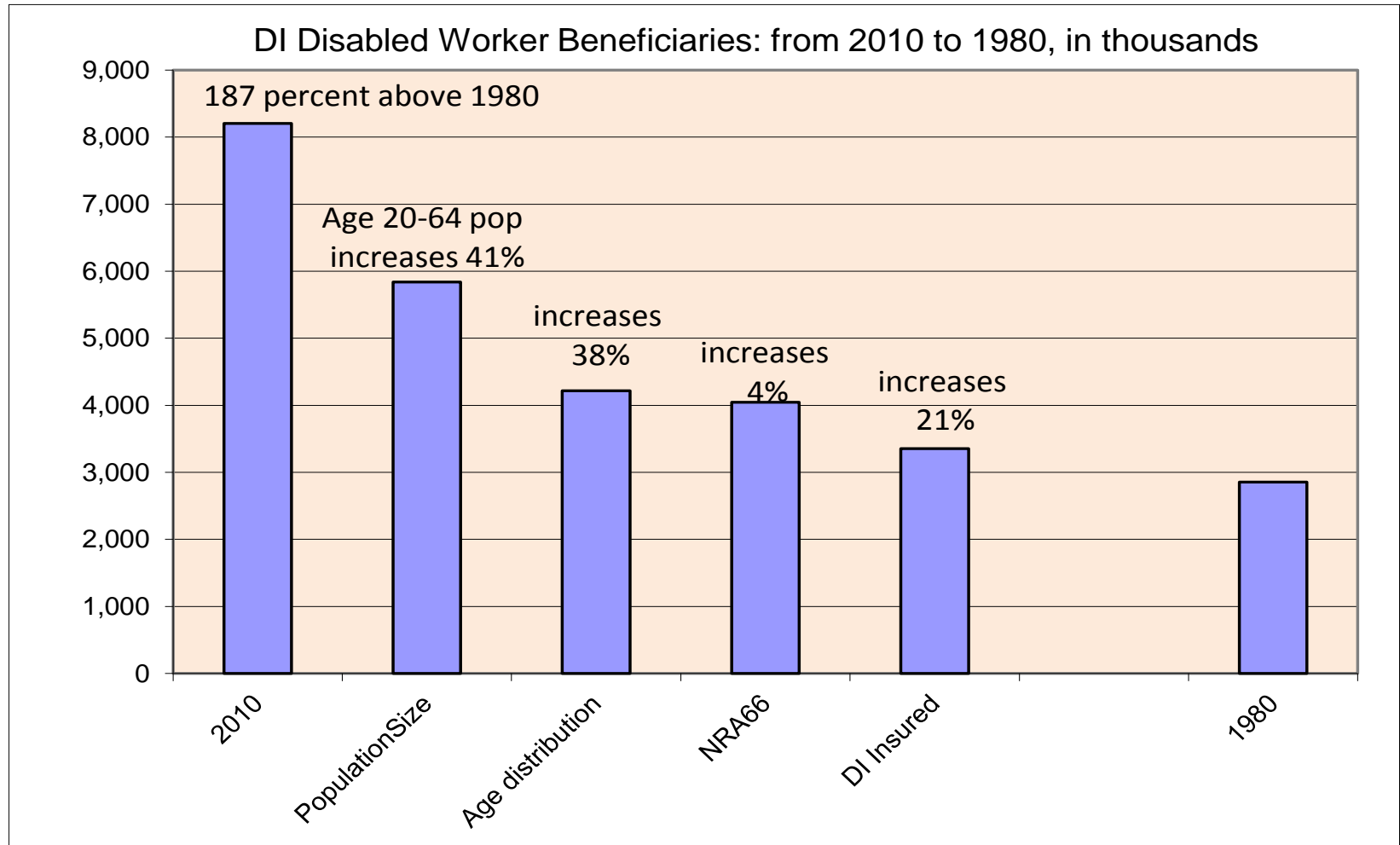


## Increased work by women raised insured; men a little lower at younger ages

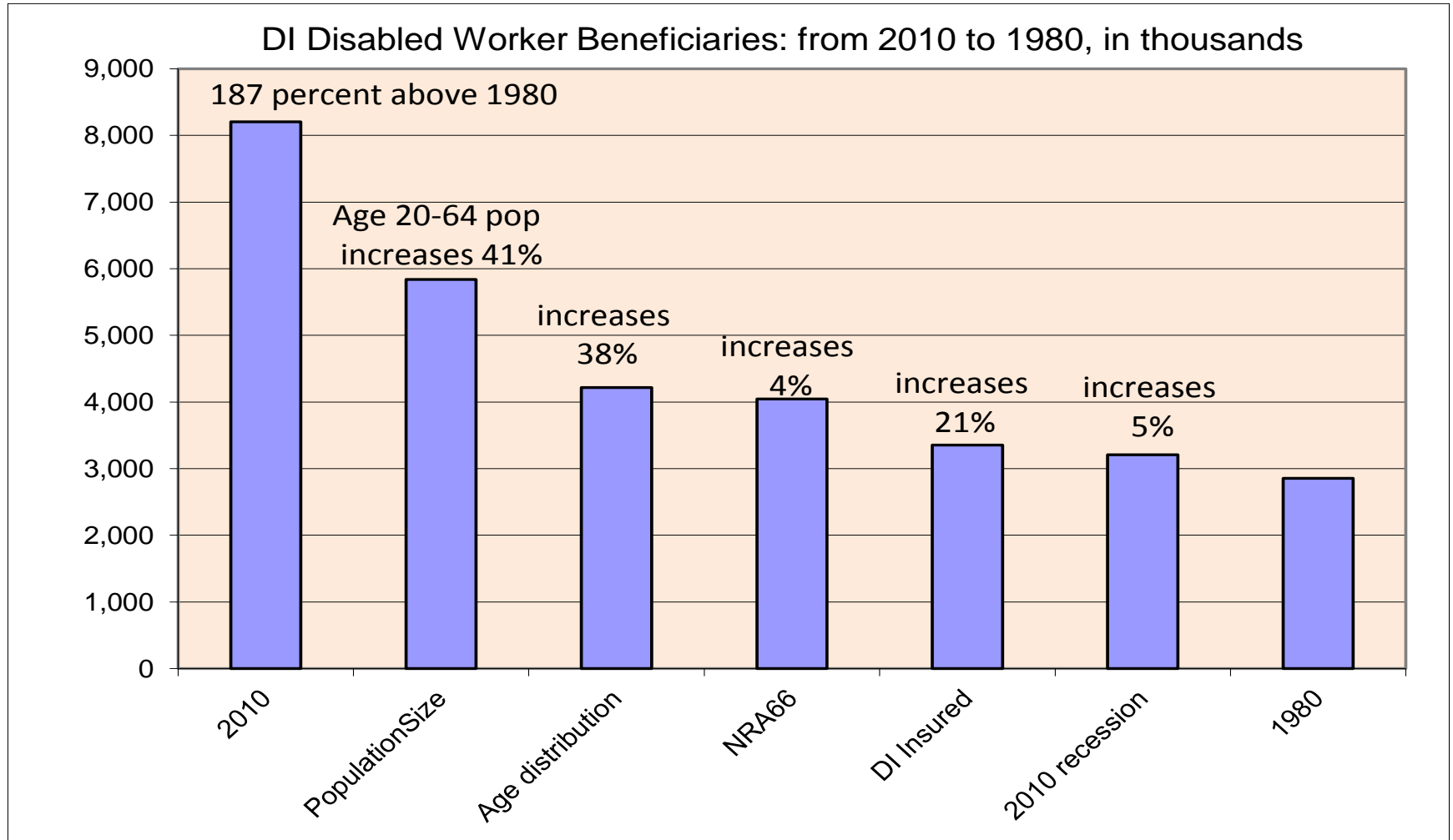
Figure 5: Percent of Population that is Insured for Disability



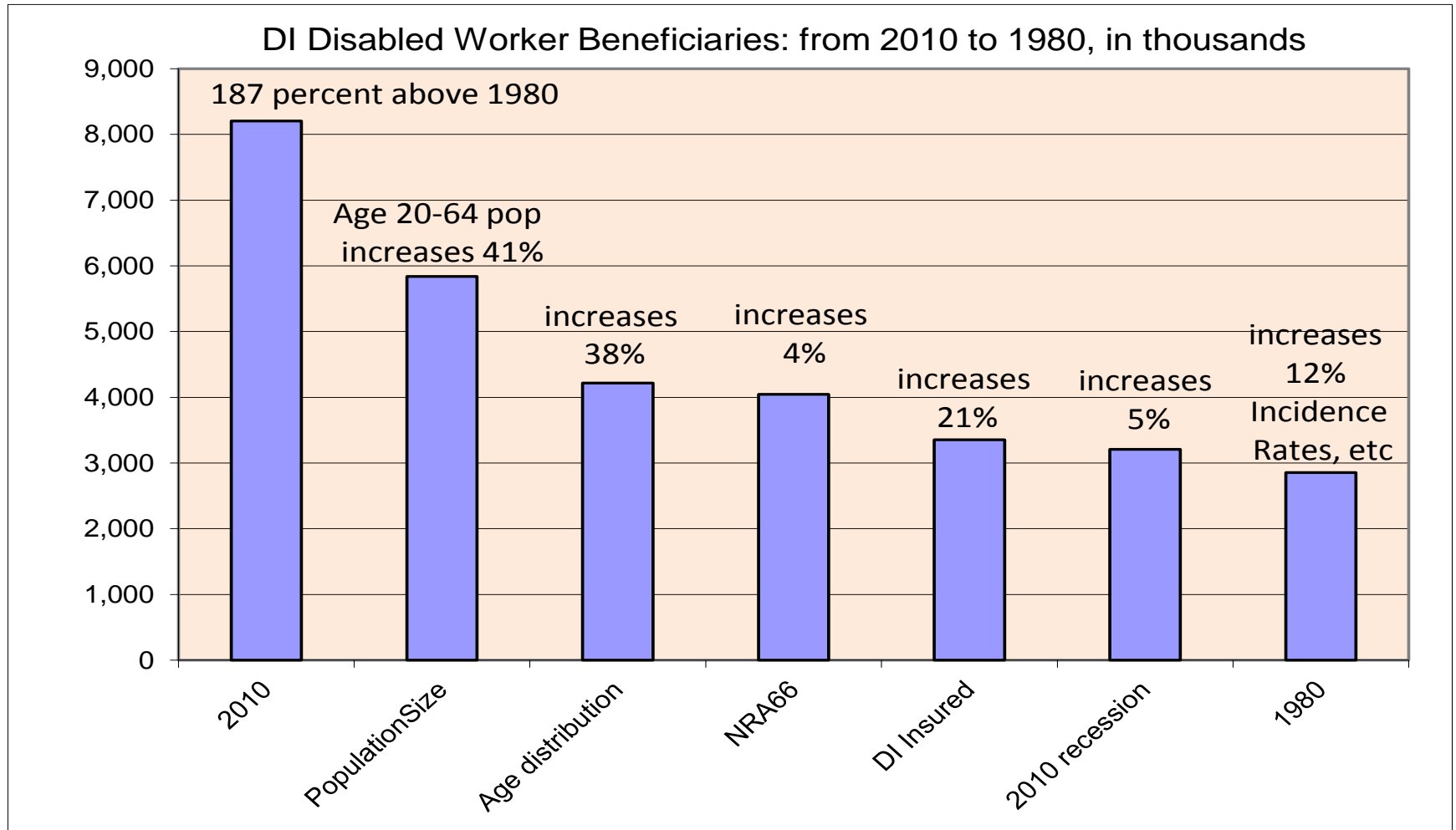
# Disability insured rates in the population increased substantially for women, mainly at higher ages; increased beneficiaries by 21%



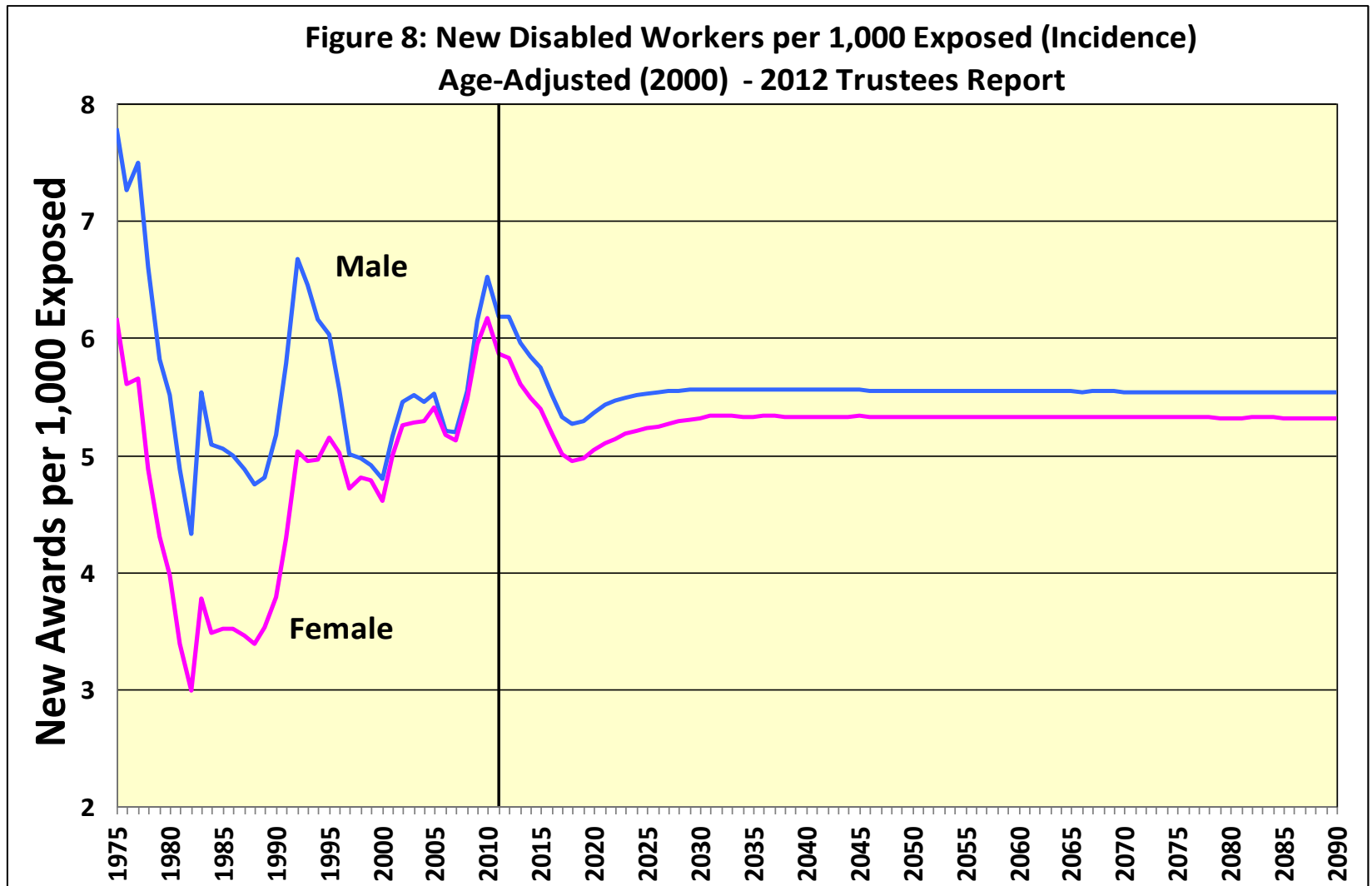
# Recession of 2008-10 increased disabled workers 5% compared to full-employment economy, as had been experienced prior to 1980



# This leaves 12% increase for all other causes; the increase in disability incidence rates for women easily explains this

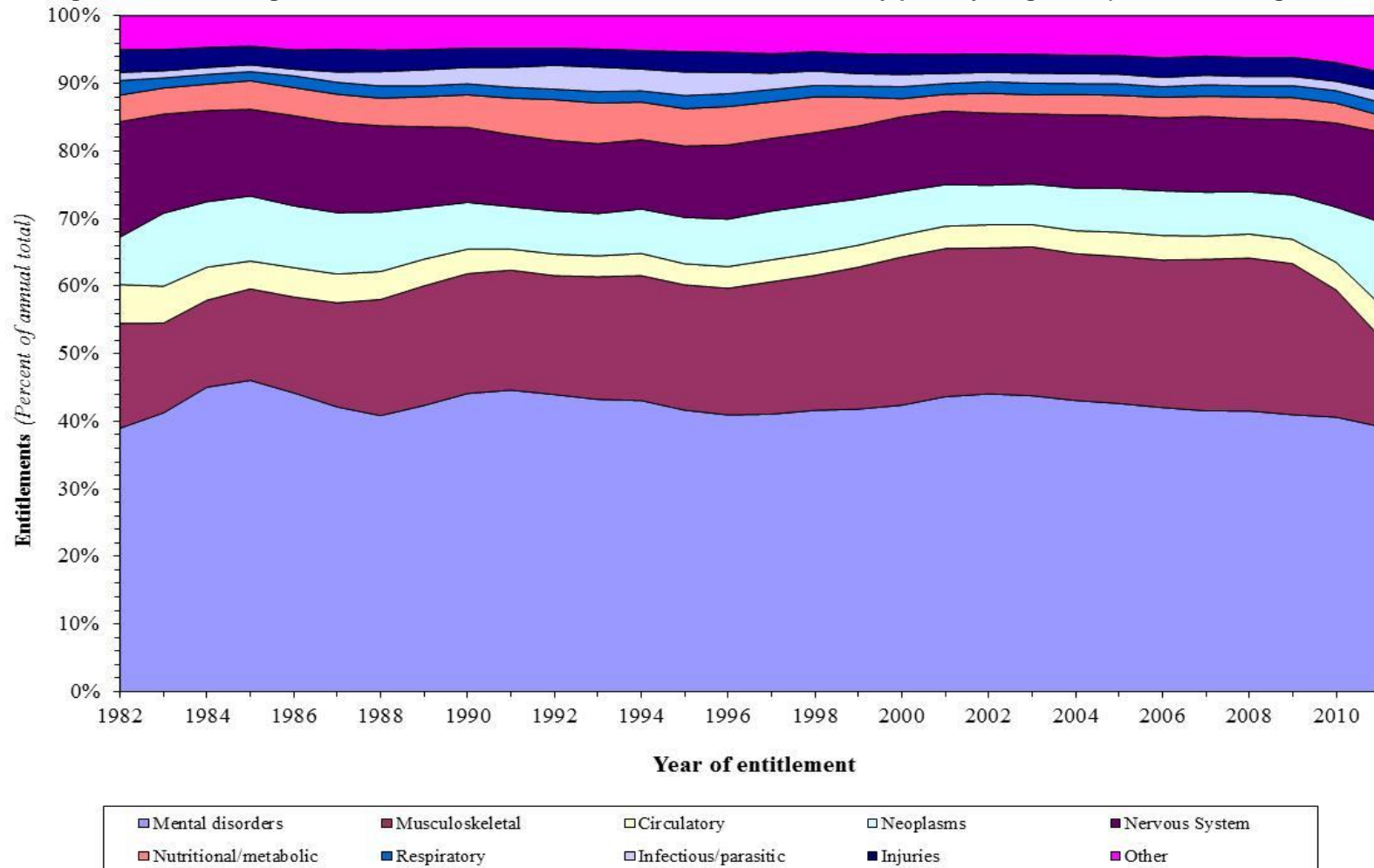


# Incidence rates for women have risen to male level



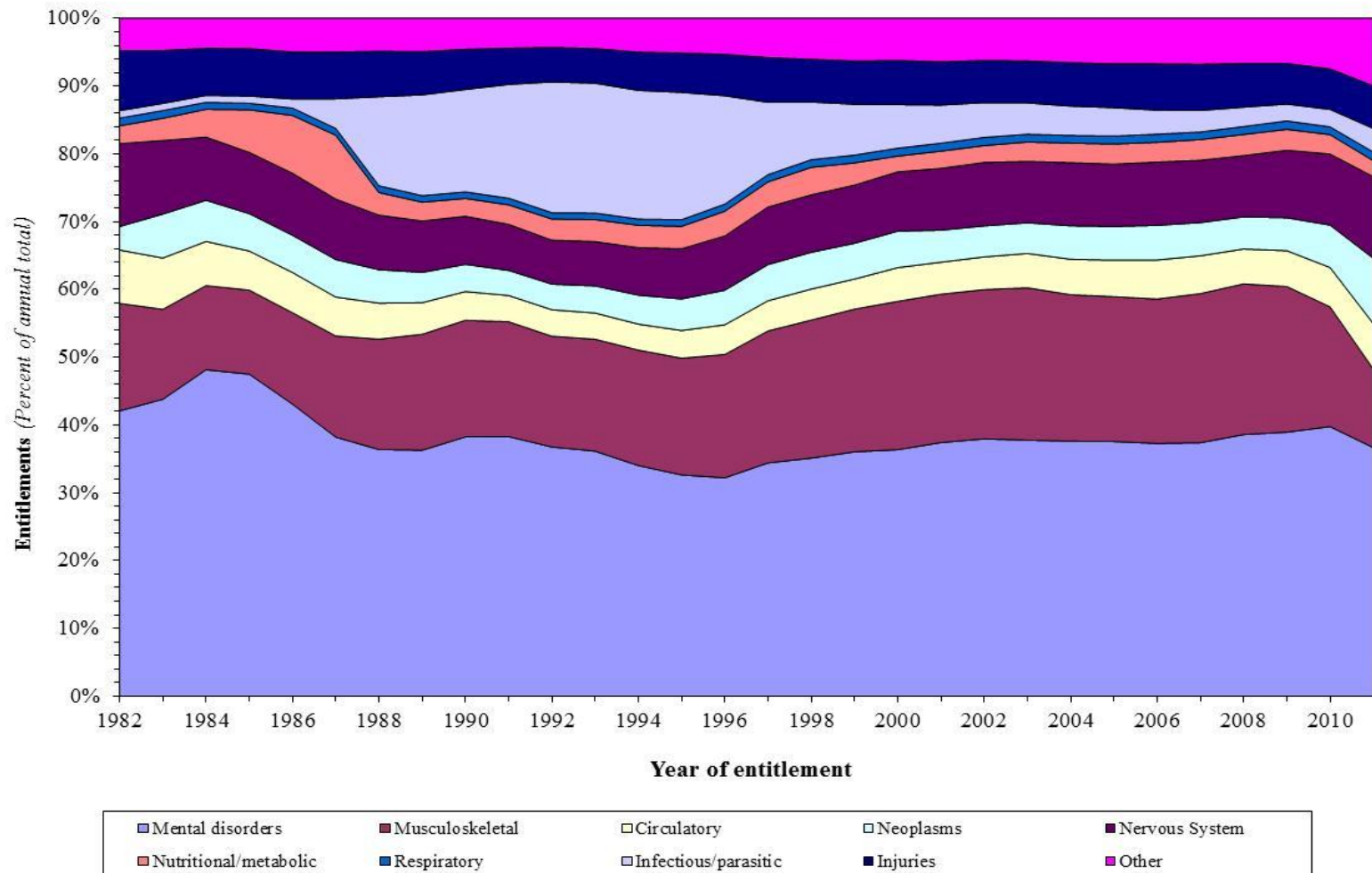
# But NOT because of increasing mental impairment for young females: steady distribution by impairment

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



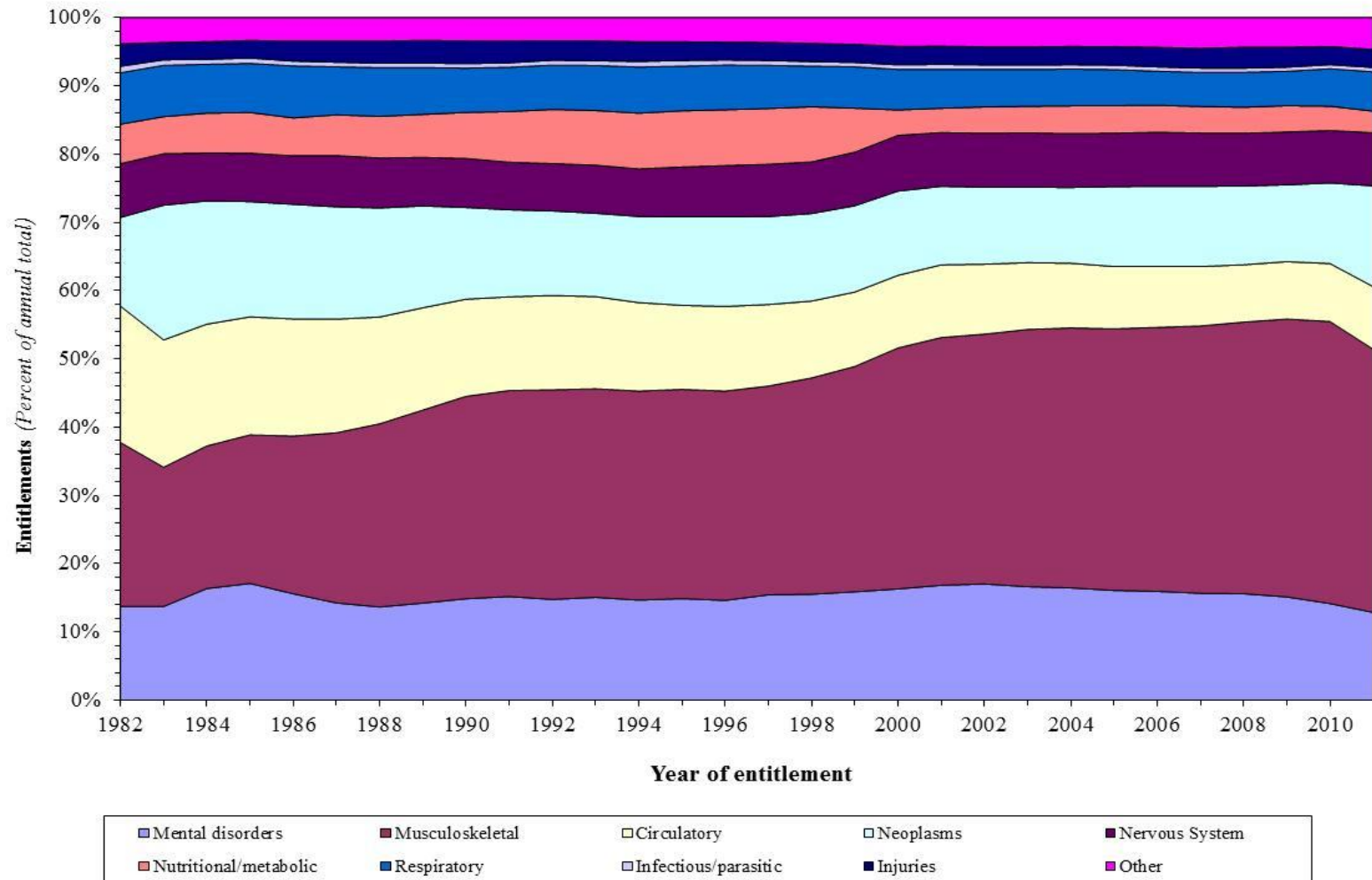
# Nor for young males: note steady but for HIV bulge in 1986-2000

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



# For older females: increased musculoskeletal impairment; diminished circulatory

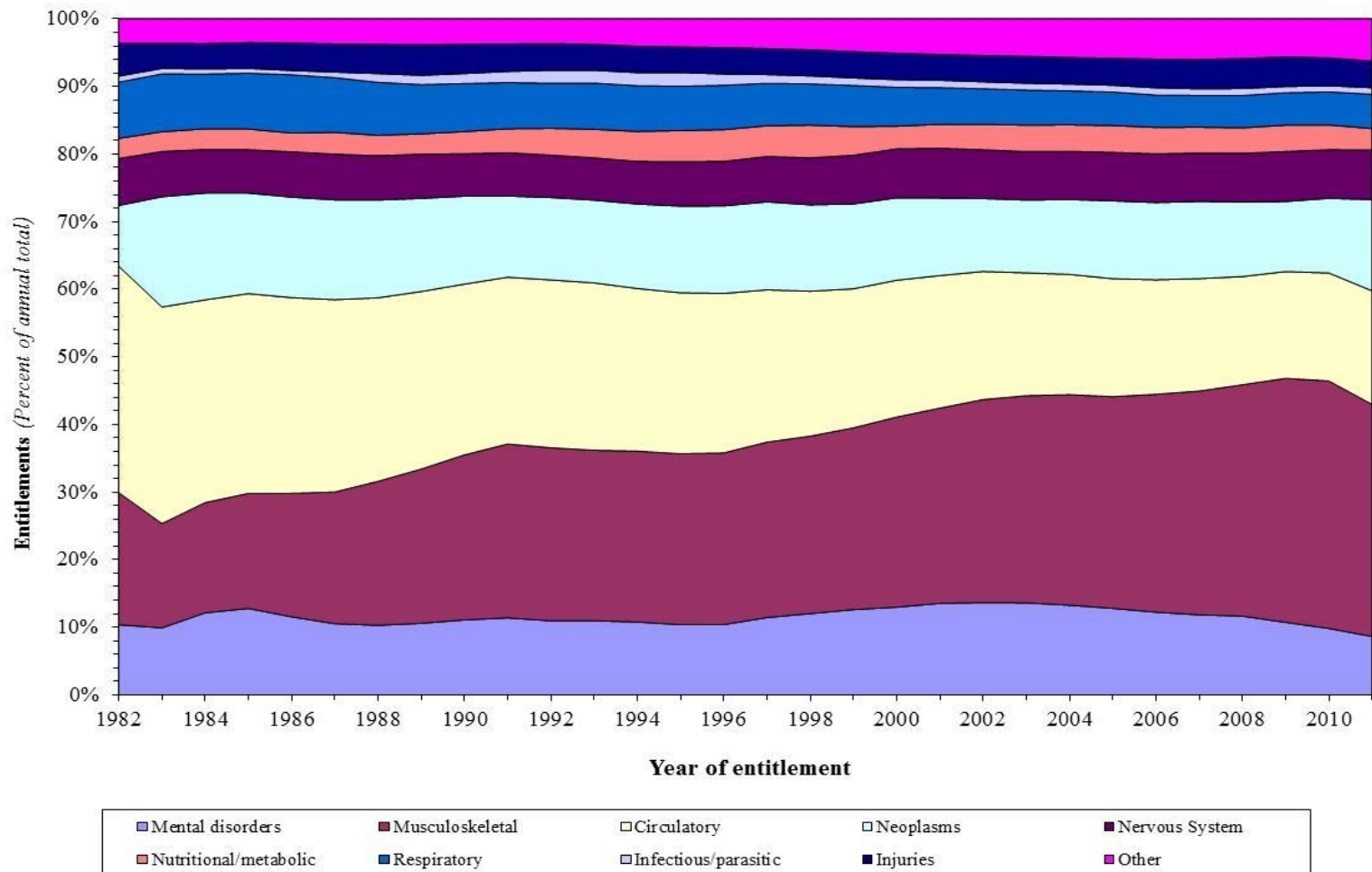
Figure 14: Female Age 50-59 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)





# Same for older males: increased musculoskeletal impairment; less circulatory

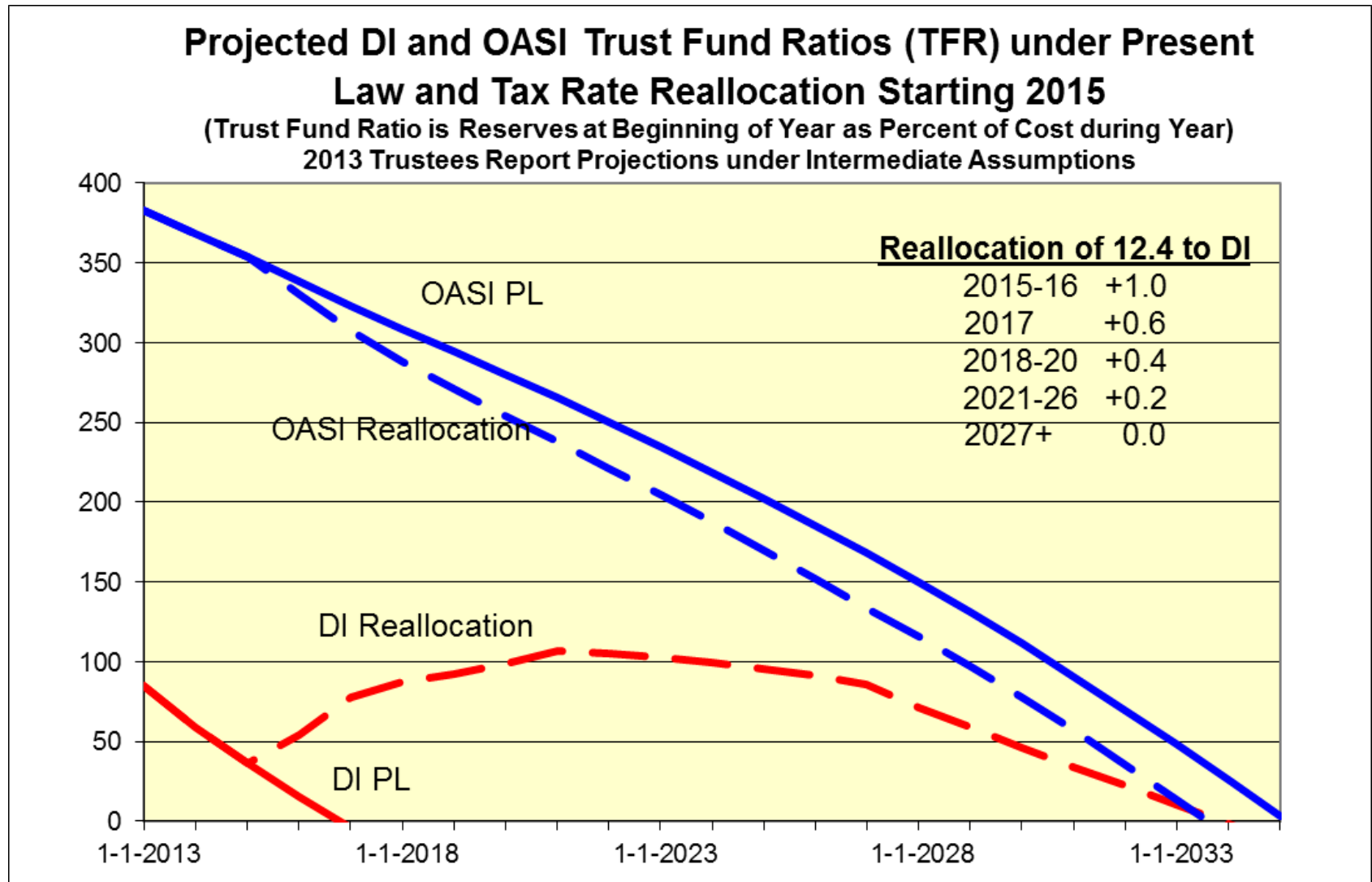
Figure 15: Male Age 50-59 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)



# So where are we on DI?

- Is the sky falling, cost out of control? *No.*
- Or are we following a path foreseen? *Yes.*
- Trust Fund reserves projected to deplete 2016  
*Need change soon to avoid inability to pay in full & on time*  
*Default: Revenue enough to pay 80% of benefits, so:*
  1. *Cut all DI benefits by 20%?*
  2. *Increase DI tax revenue by 25%?*
  3. *Or, reallocate tax rate between OASI and DI?*
- Need further changes for long-range solvency

# Potential tax rate reallocation between OASI and DI: Like in 1994—NO change in total taxes



# Some changes specific to DI

- Actuarial deficit for DI is 0.32 percent of payroll
  - Changes considered by Senator Coburn in 2011  
[http://www.ssa.gov/OACT/solvency/TCoburn\\_20110718.pdf](http://www.ssa.gov/OACT/solvency/TCoburn_20110718.pdf)
  - Raise ages for vocational factors by up to 8 years
    - *Lowers* actuarial deficit by 0.04 percent of payroll
  - Eliminate “reconsideration” level of disability appeal
    - *Increases* actuarial deficit by 0.02 percent of payroll
  - Close record without exception after first ALJ decision
    - Must reapply with new evidence
    - *Lowers* actuarial deficit by 0.01 percent of payroll
  - Time limit benefits: MIE 2 years, MIP 3 years, MINE 5 years
    - Reapply; may deny without medical improvement
    - *Lowers* actuarial deficit by 0.10 percent of payroll

# Withhold DI when receiving Unemployment Insurance payments

- Currently no DI offset for receiving UI
  - Change considered by Representative Johnson in 2013  
[http://www.ssa.gov/OACT/solvency/SJohnson\\_20140107.pdf](http://www.ssa.gov/OACT/solvency/SJohnson_20140107.pdf)
    - Treat any month with UI payment as SGA
    - *Lowers* actuarial deficit by 0.01 percent of payroll
  - Change considered by Senator Coburn in 2013  
[http://www.ssa.gov/OACT/solvency/TCoburn\\_20140107.pdf](http://www.ssa.gov/OACT/solvency/TCoburn_20140107.pdf)
    - Suspend DI benefit for any month with UI payment
    - *Lowers* actuarial deficit by 0.01 percent of payroll
  - *Another possibility—offset DI benefit dollar for dollar for UI*

# Changes for long-range DI solvency

- Actuarial deficit for DI is 0.32 percent of payroll
  - Need to lower DI cost 20% or increase DI revenue 25%
  - Or, some combination of these
- Will likely be addressed in overall OASDI changes
  - Note that increasing NRA shifts cost to DI
  - May need further tax rate reallocation to DI in final amendments
- For overall OASDI solvency:
  - <http://www.ssa.gov/oact/solvency/provisions/index.html>
  - Increase tax rate or raise/eliminate the taxable maximum
  - Lower the benefit (PIA level)
  - Increase the NRA
  - Expand the tax base
    - Cover all state and local government employees
    - Tax employer-sponsored group health insurance premiums

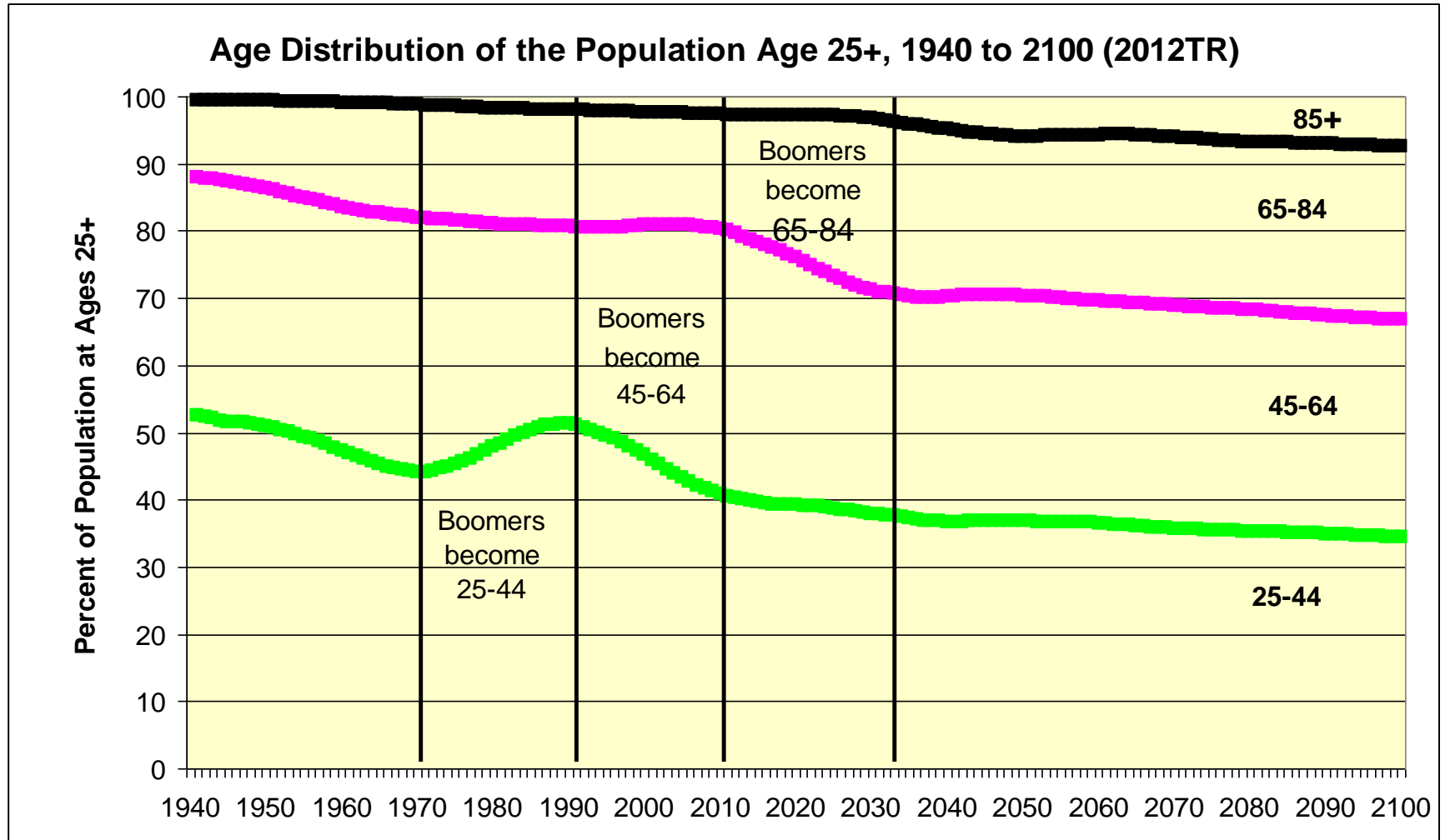
# Finally A Little Extra Credit

# Remember DI is Just Part of Social Security

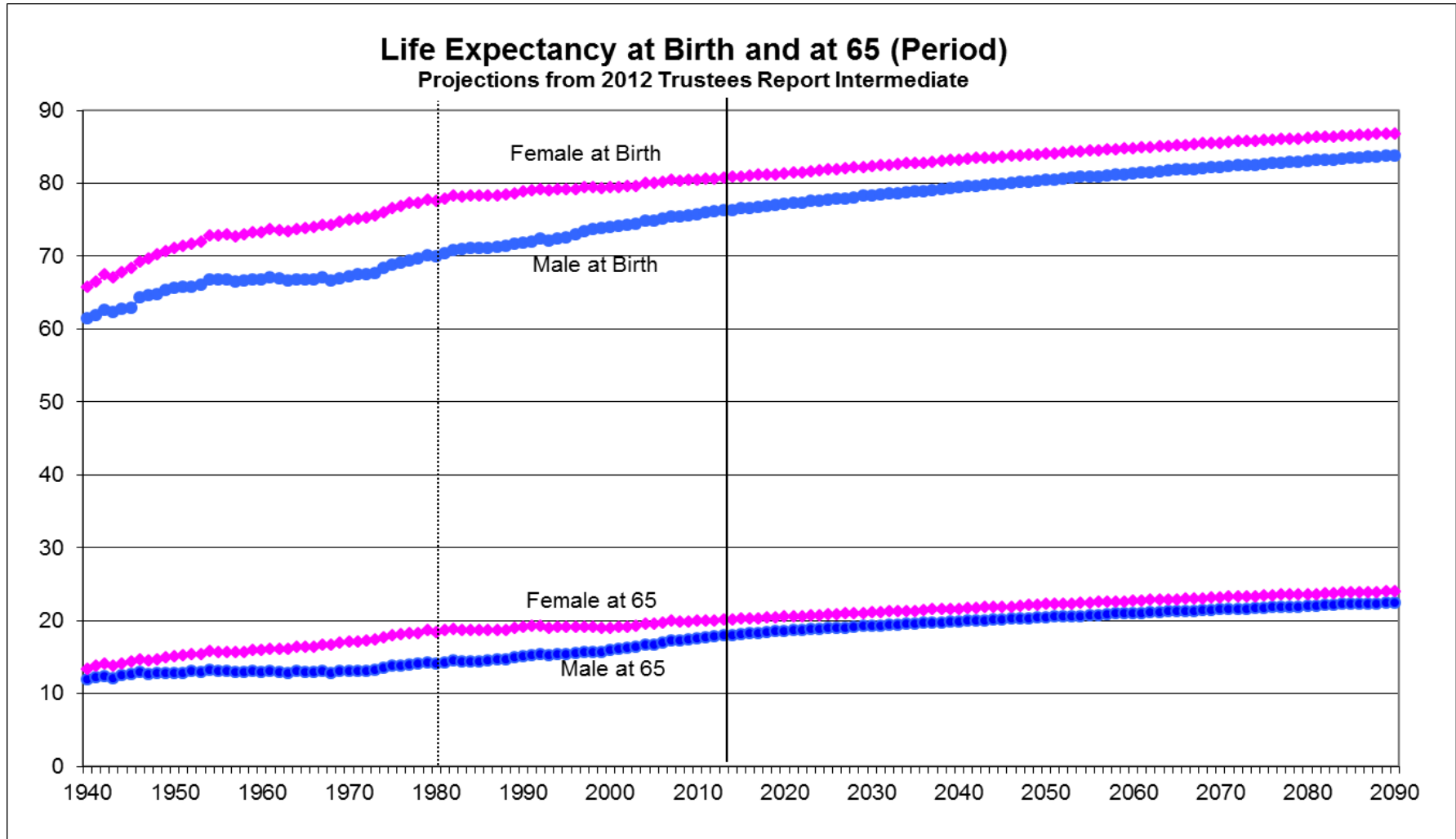
- Any fix for the long-term will have to be comprehensive
  - *Address the “Aging” of the population*
- “Macro Aging”
  - Shift toward more elders, because
    - Slowed growth for younger ages
    - Faster growth for older ages
- “Micro Aging”
  - People are living longer
    - Lower death rates
    - Higher life expectancy dd



# Changing age distribution over next 20 years mainly due to Macro Aging – *a permanent level shift*

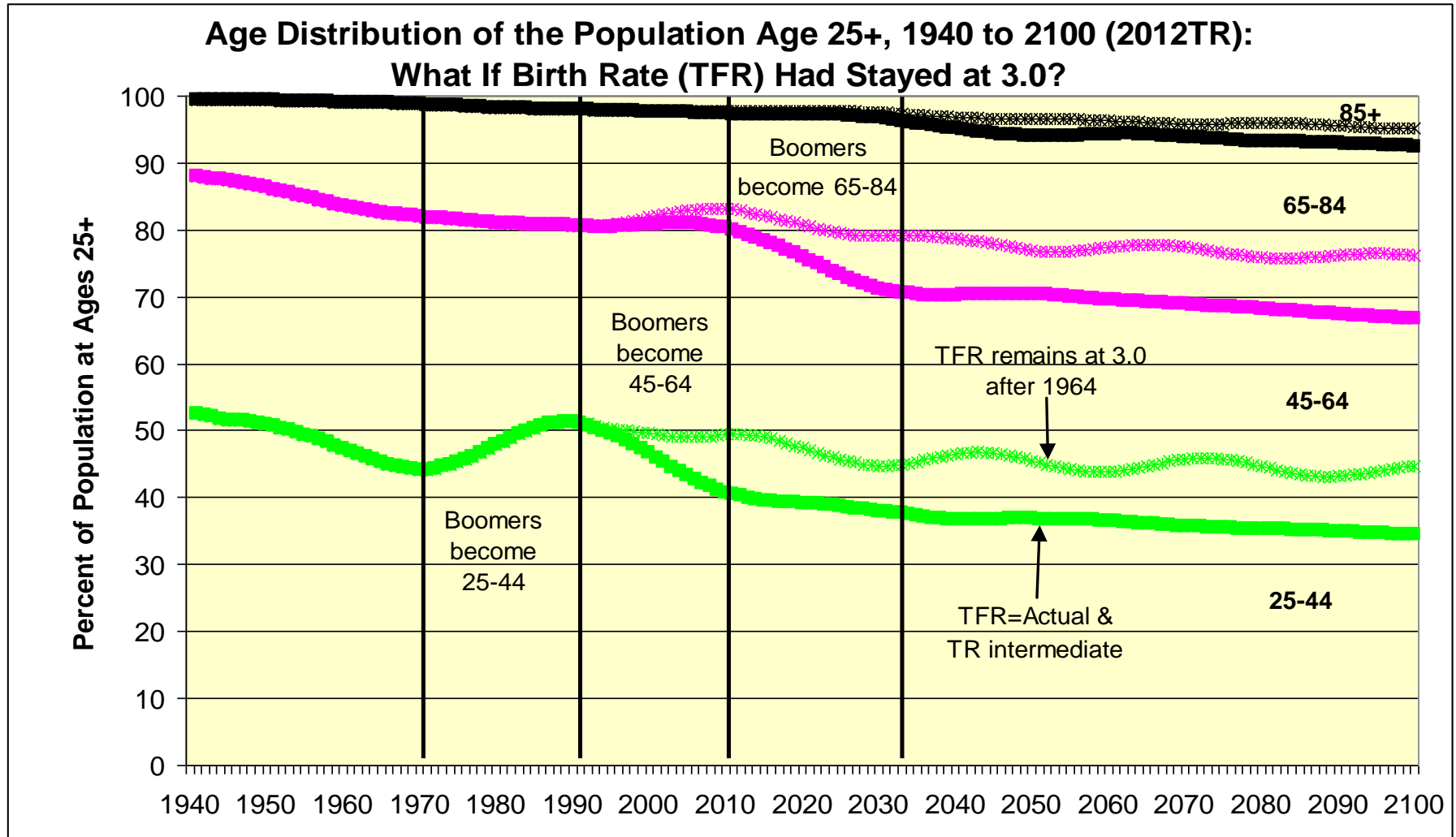


# The level shift in age distribution is NOT due to a sudden shift in life expectancy



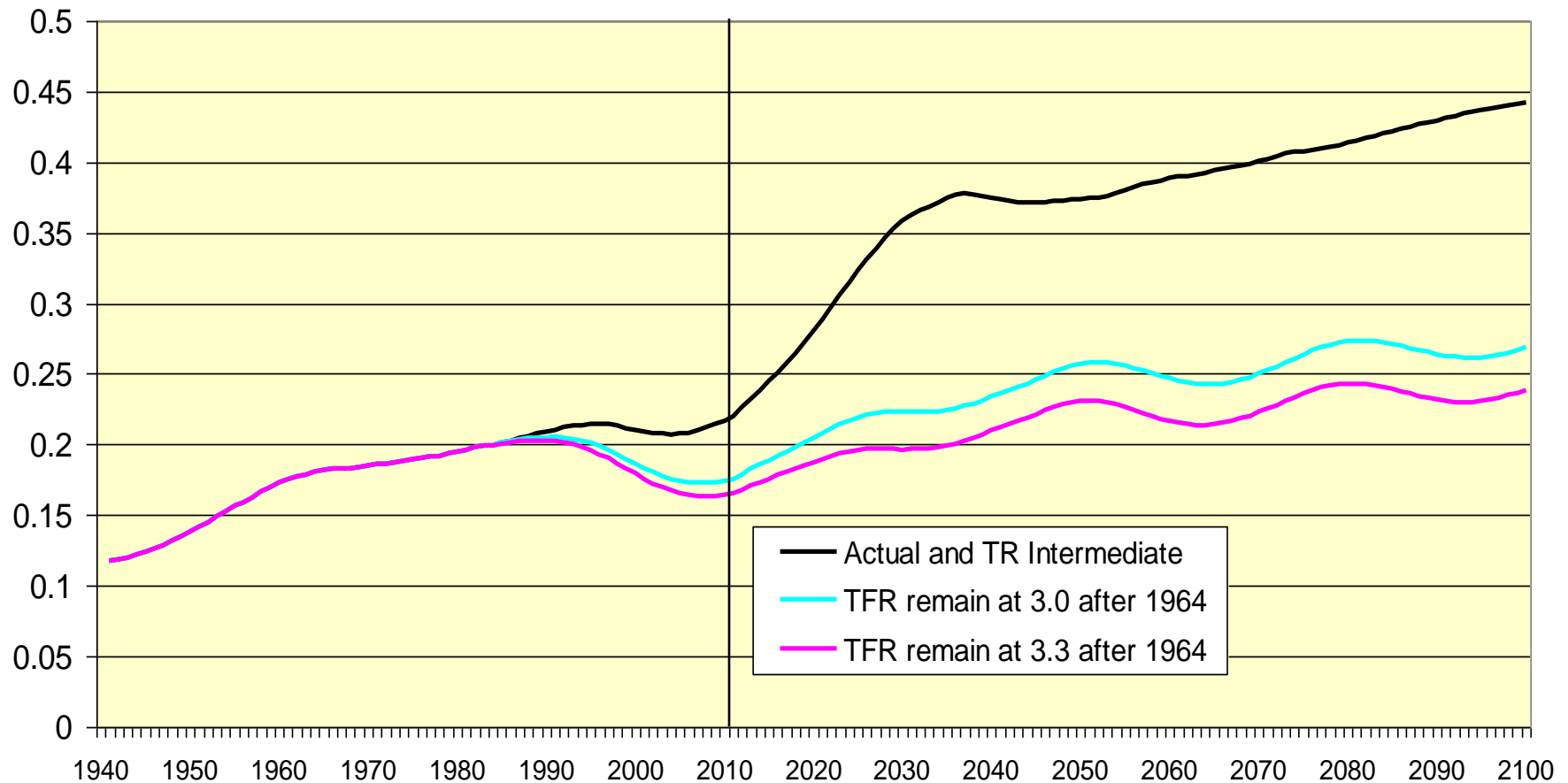
# Why so much “Macro Aging”? Birth rates.

*If birth rates had stayed at 3.0 per woman after the “boom”?*

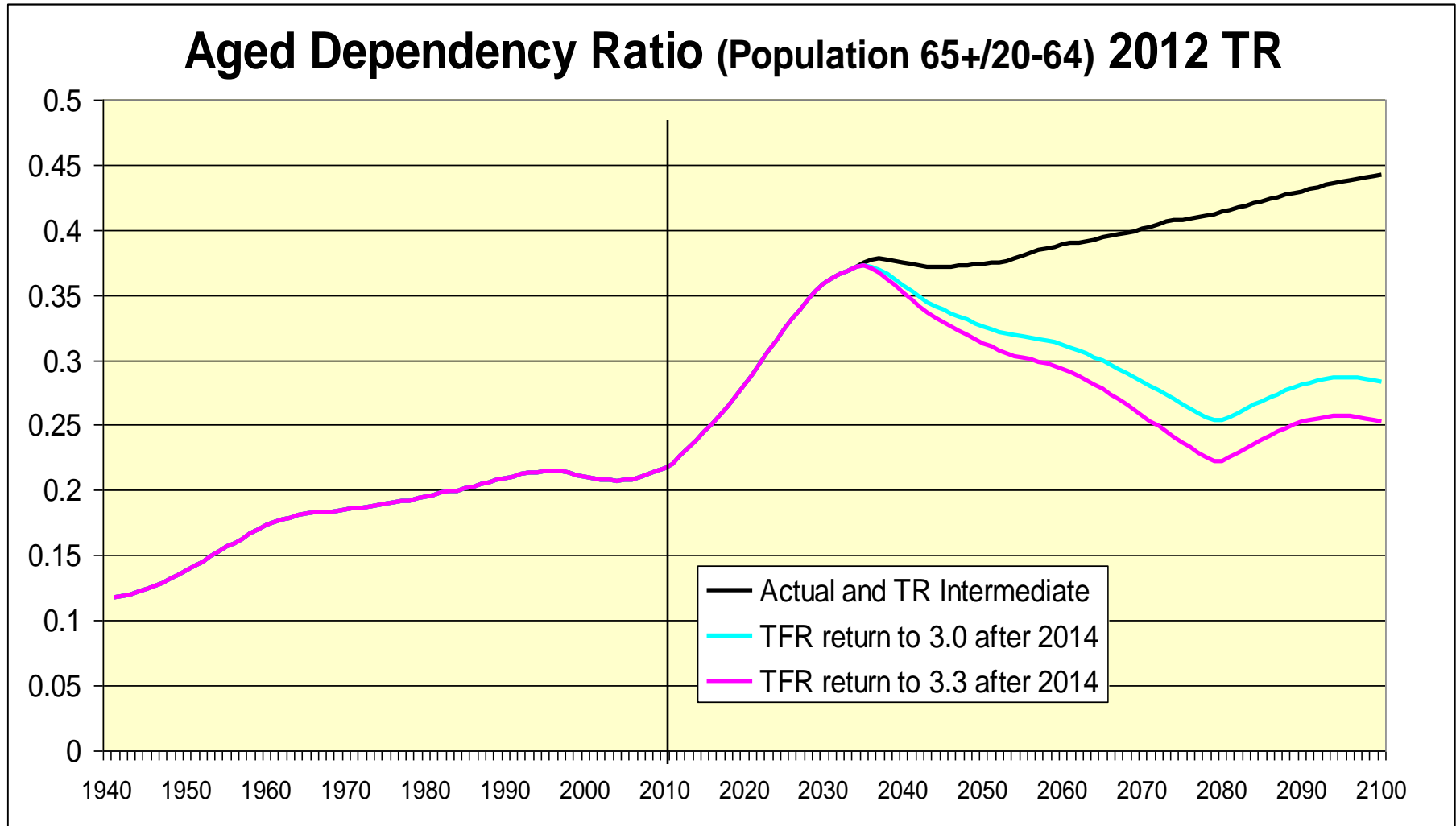


*If birth rates had stayed at 3.0 or 3.3 per woman after 1964, our Aged Dependency ratio would not SHIFT*

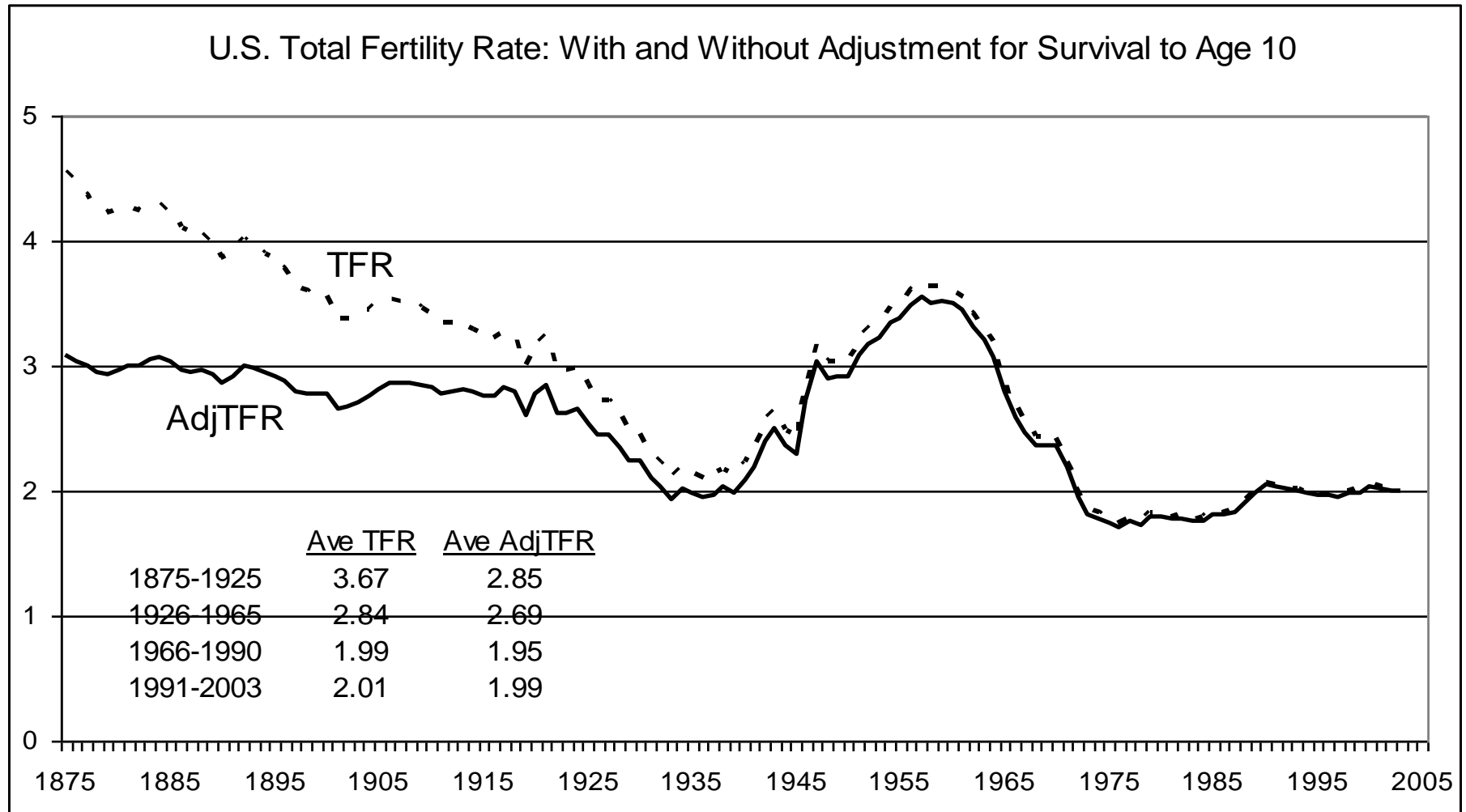
### Aged Dependency Ratio (Population 65+/20-64) 2012 TR



*Even if birth rates returned to 3.0 or 3.3 per woman after 2014, our Aged Dependency ratio would come back down*

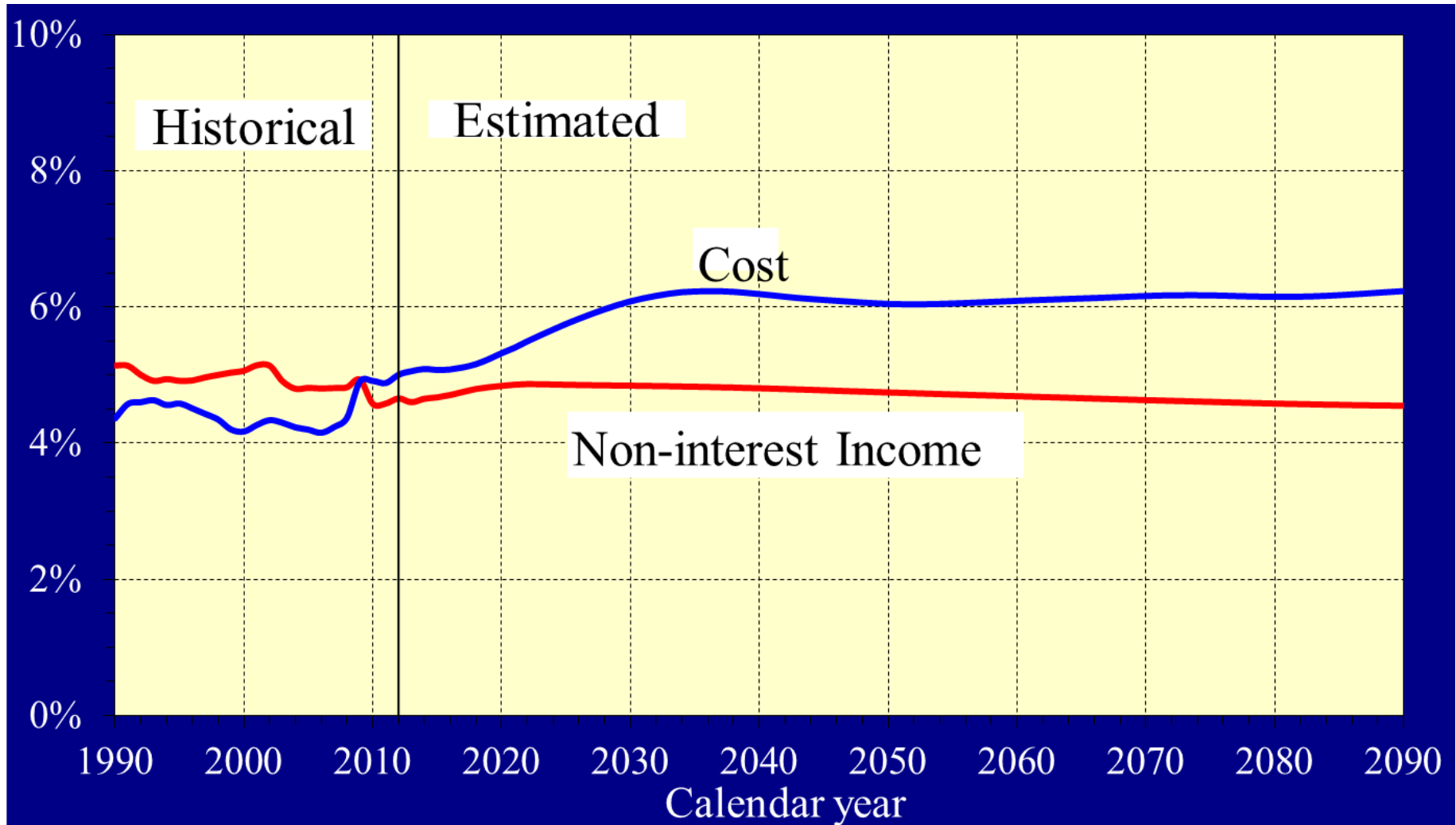


***BUT birth rates are not going back up in the U.S.***  
*They are staying around 2.0 TFR, high among developed nations*



*So we need to address a level shift in cost that is mainly due to lower birth rates and not due to greater longevity*

## U.S. Social Security Cost and Income as percent of GDP



# Implications for Social Security

## –The older age distribution requires:

- Beneficiaries receive less--- 25%  
less,
- Workers pay more--- 33%  
more,
- Increase “Normal Retirement Age”---7+  
yrs,
- Or some combination



# Questions?