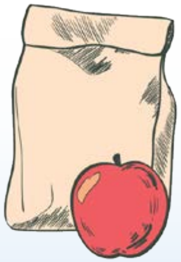

Social Security Disability Insurance Trust Fund: Behind the Numbers

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Chief Actuary, Social Security Administration

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

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Presentation by Stephen C. Goss, Chief Actuary,
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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

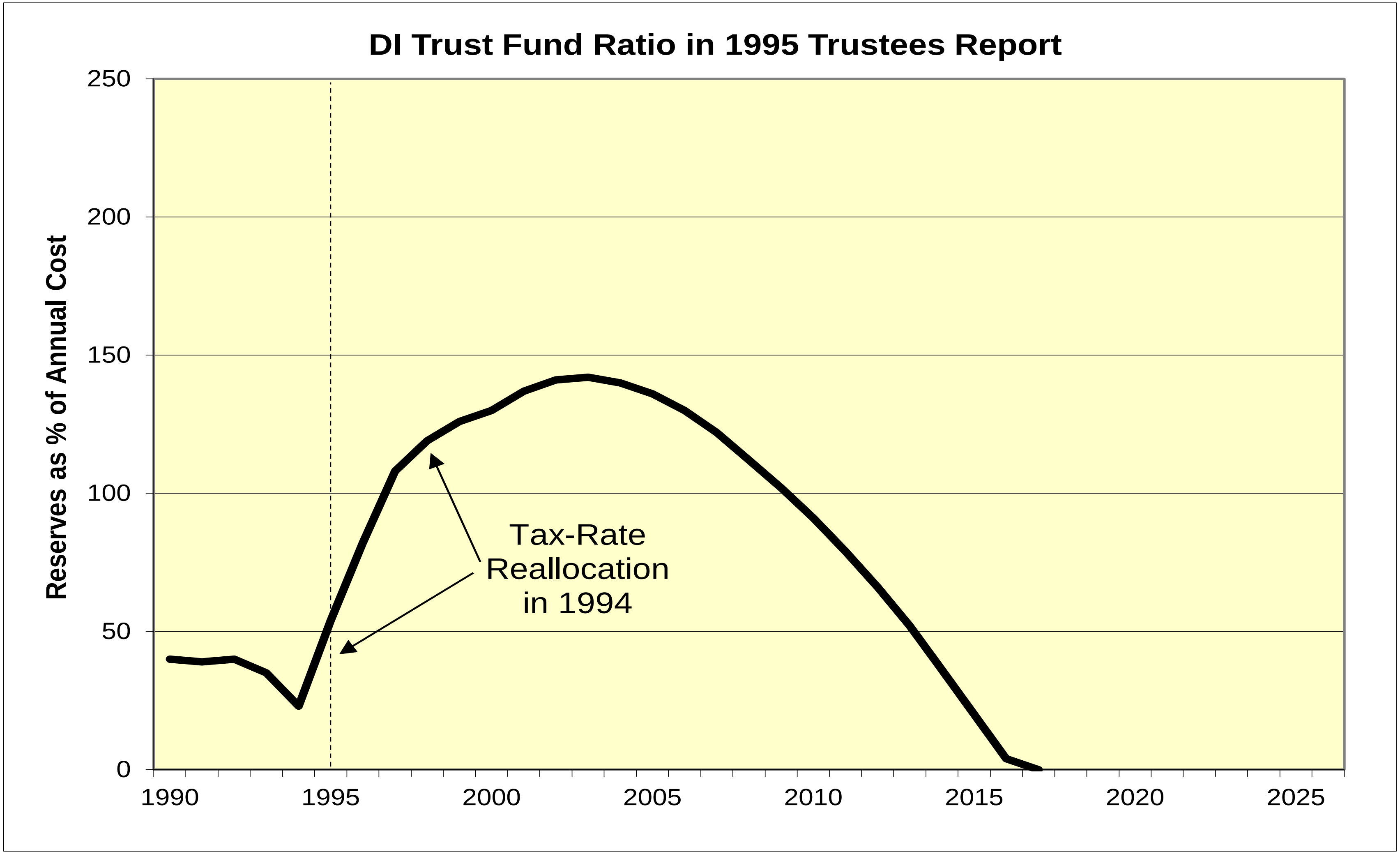
Benefits replace 40% to 45% of career earnings on average

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

Solvency of the DI Trust Fund

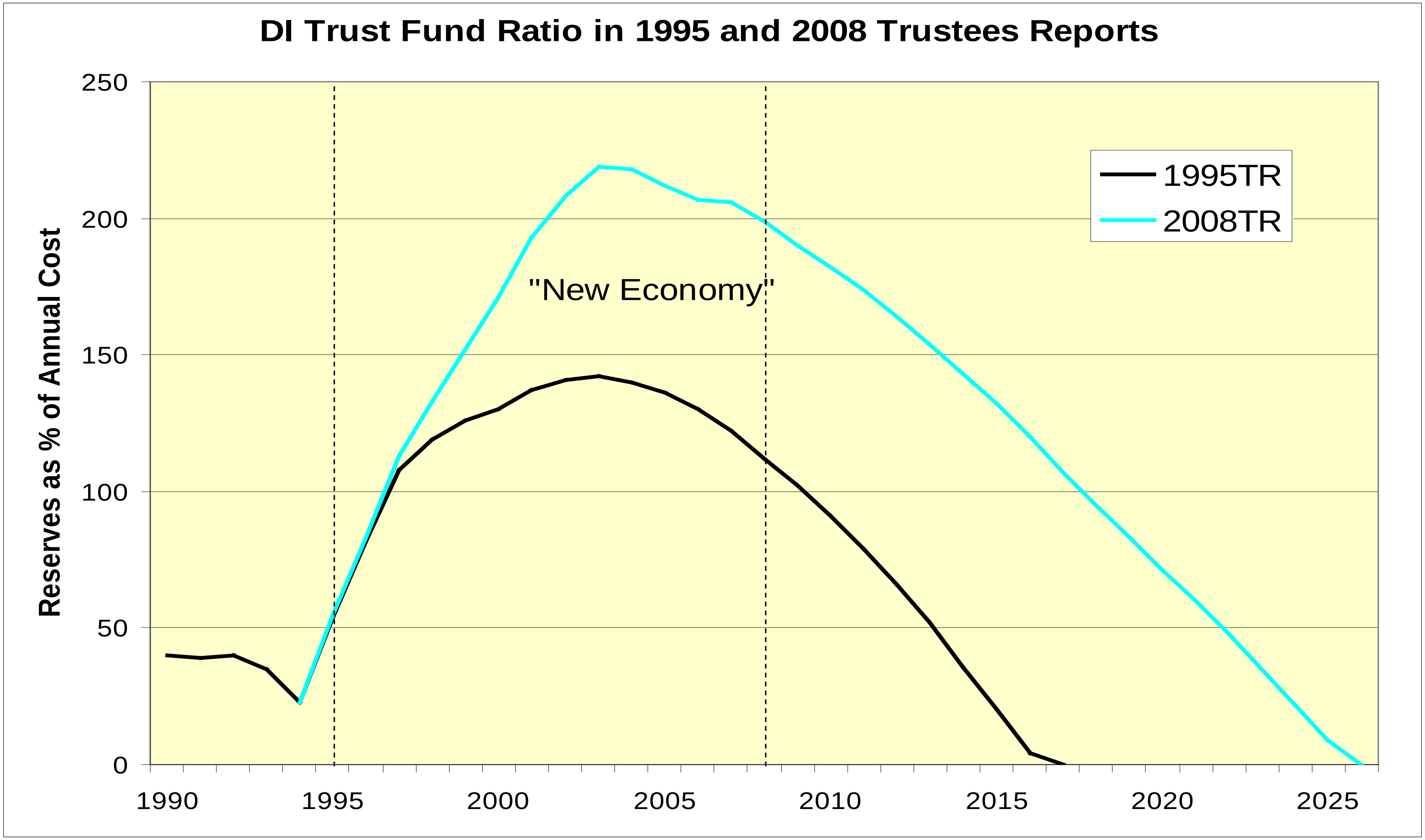
Reserve depletion projected for 2016 right after 1994 reallocation

Remember---the Trust Funds cannot borrow under current law



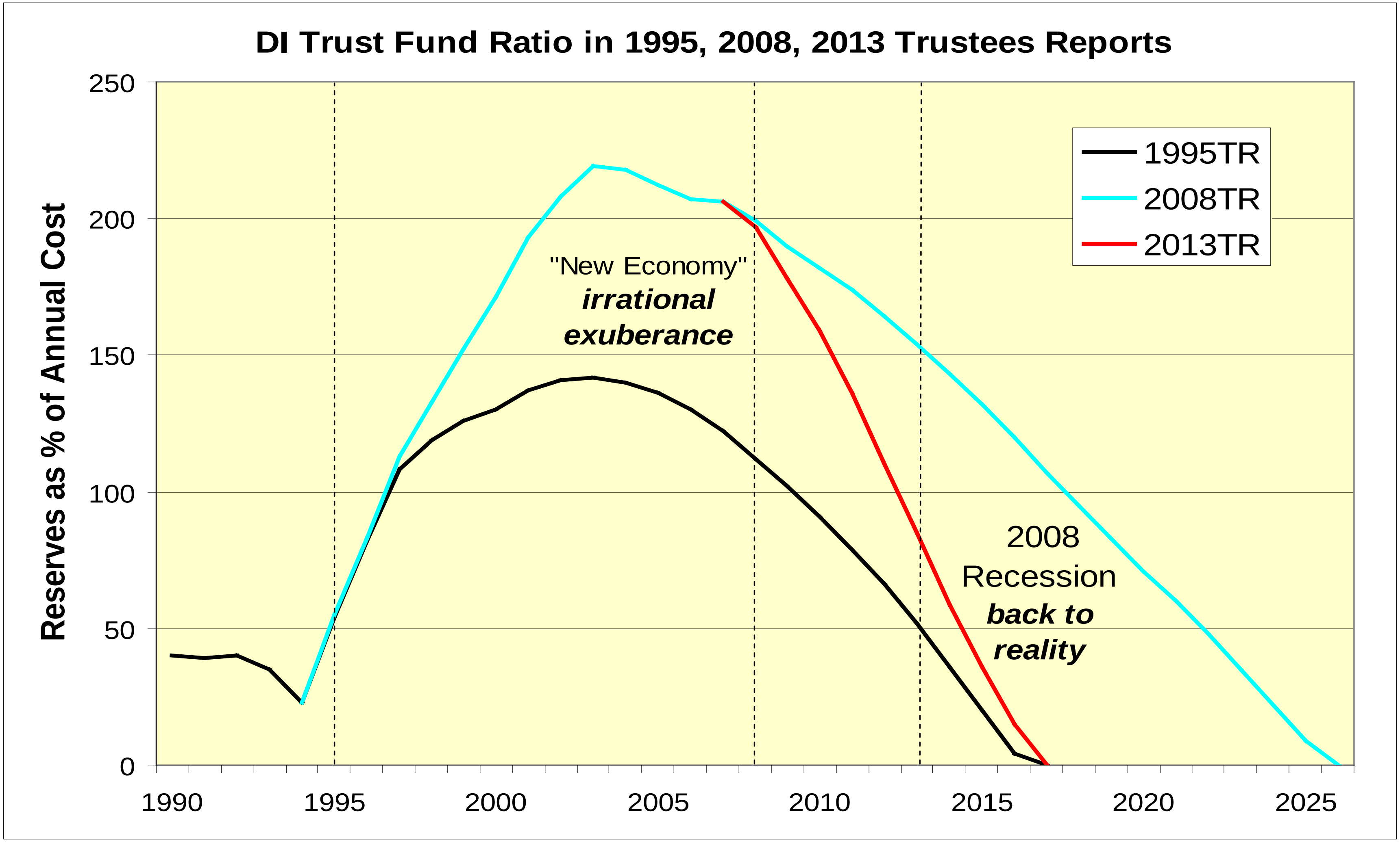
Solvency of the DI Trust Fund looked MUCH better in 2007

Boost from the “new economy” anticipating NO recession

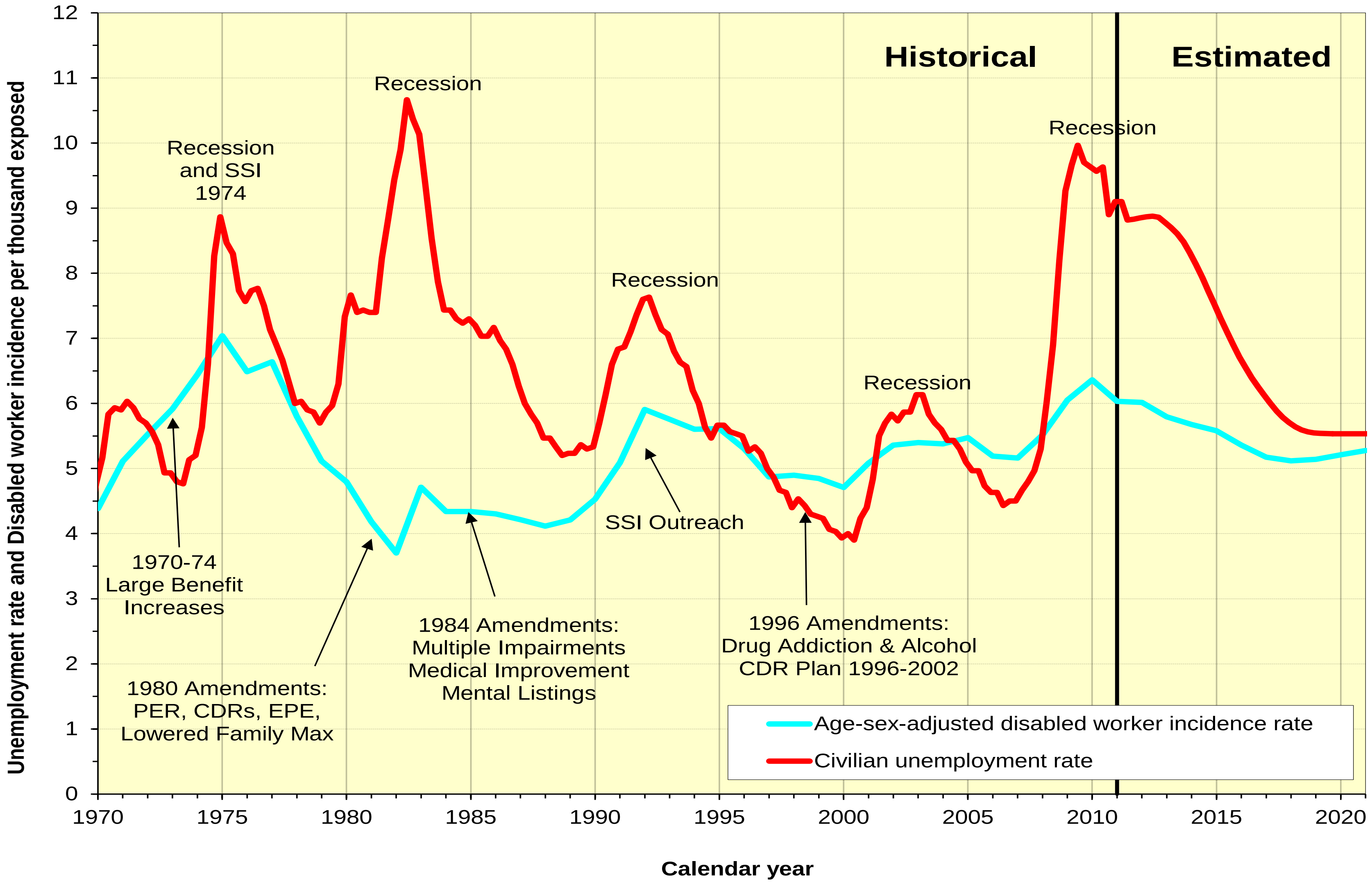


Solvency of the DI Trust Fund; reserve depletion in 2016

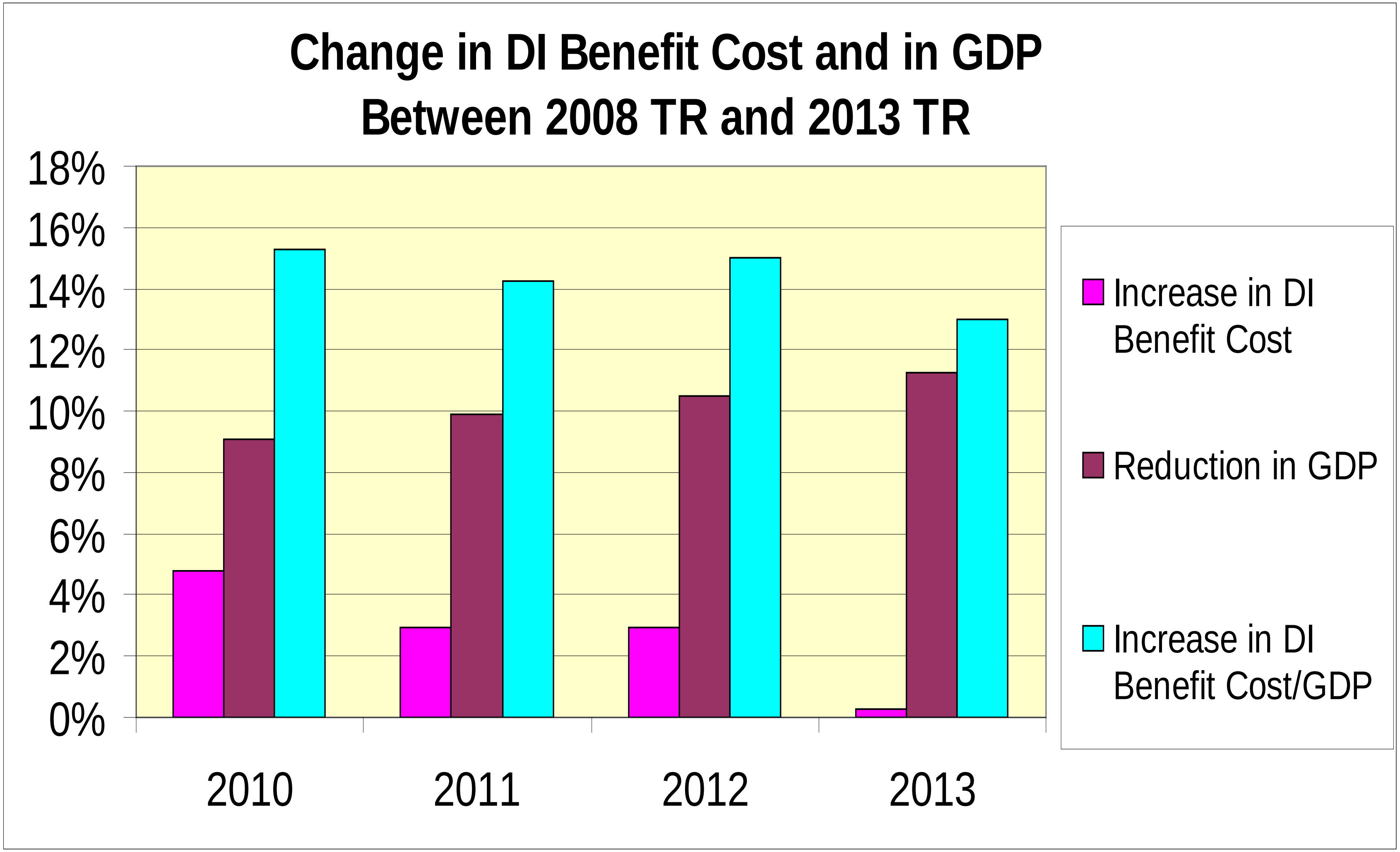
2008 recession offset "new economy"; cycles still happen



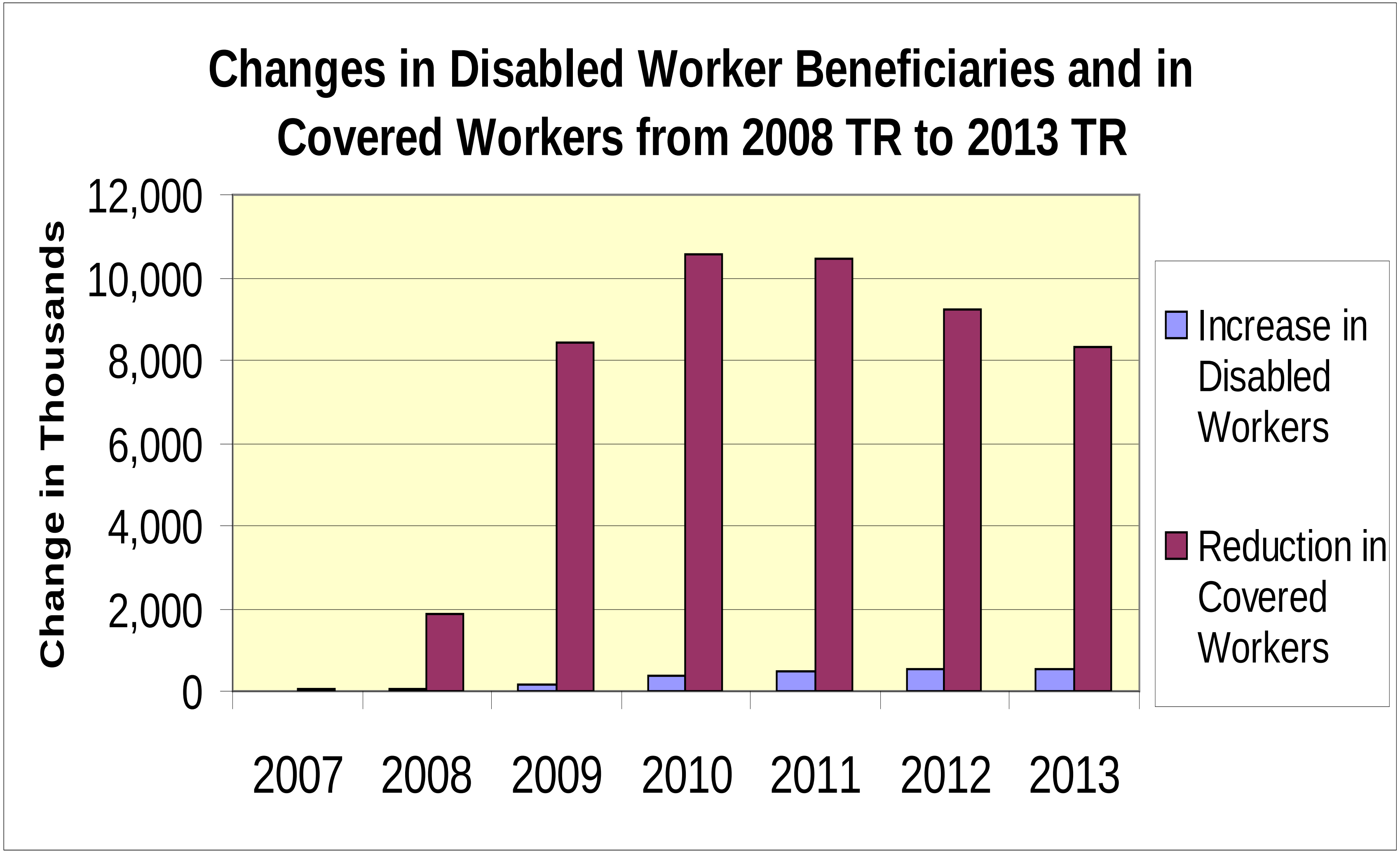
Economic cycles and policy changes fluctuate, and DI incidence rates also vary



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

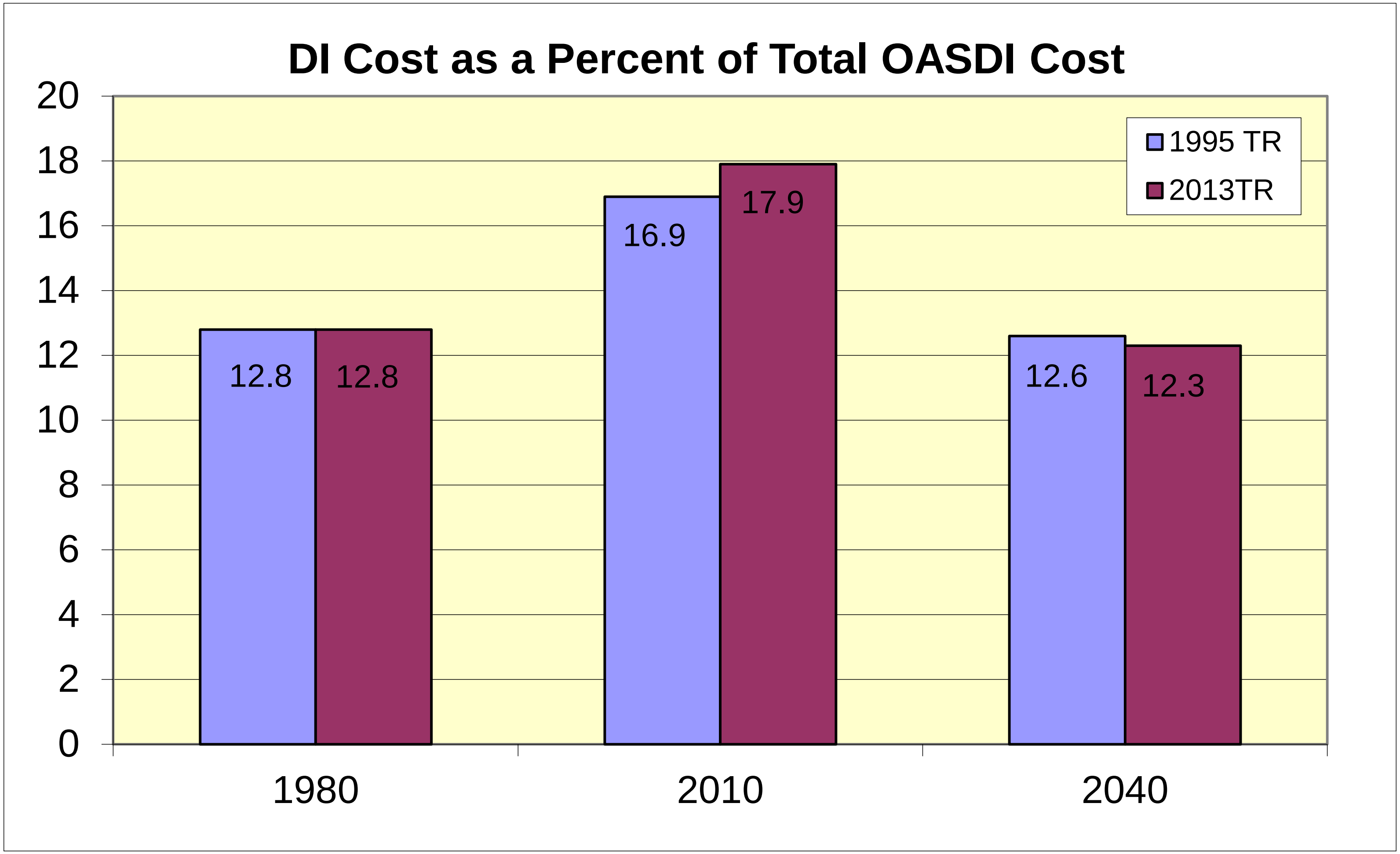


Additional disabled worker beneficiaries are a small fraction of reduced employment

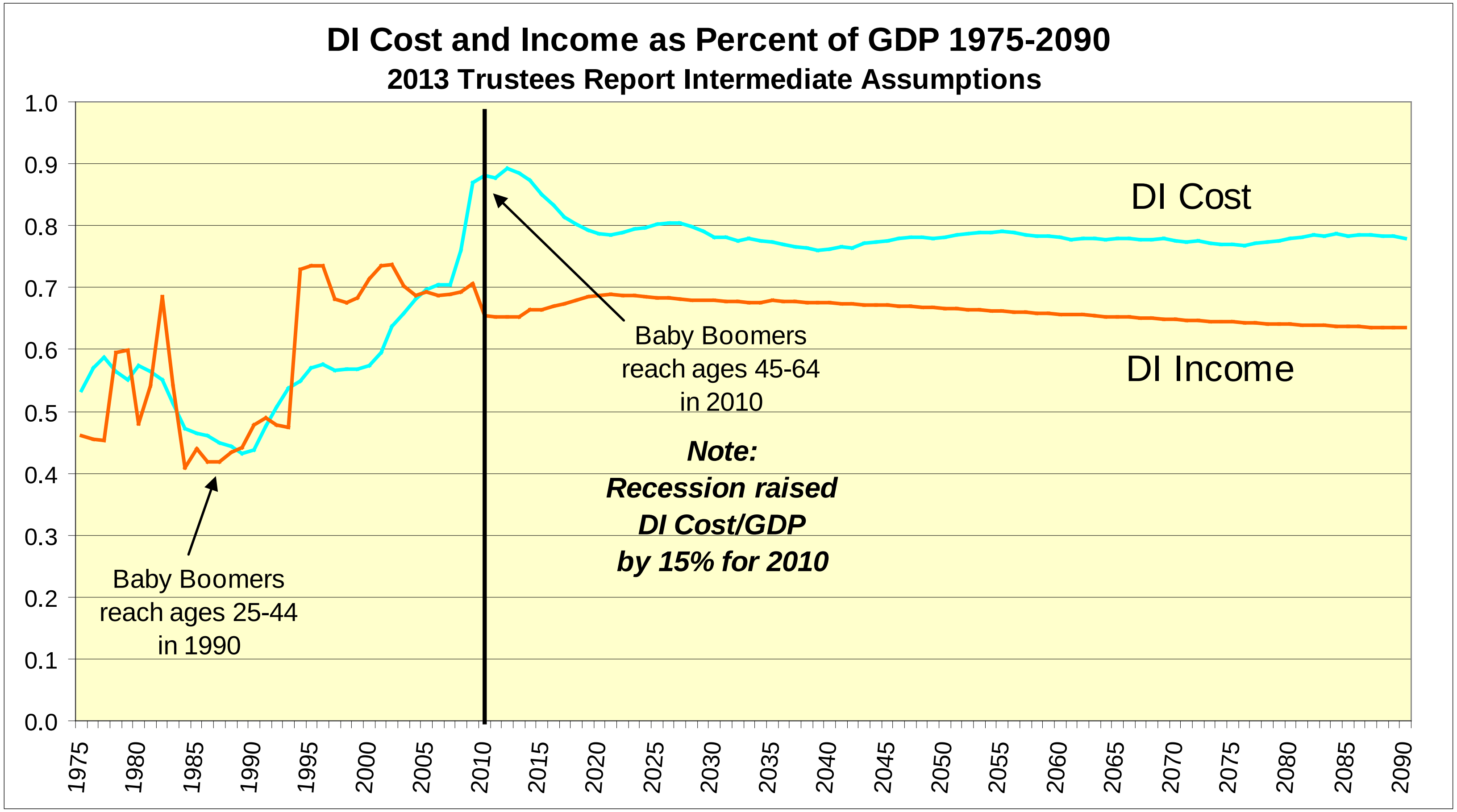


Is DI out of control, taking over OASDI?

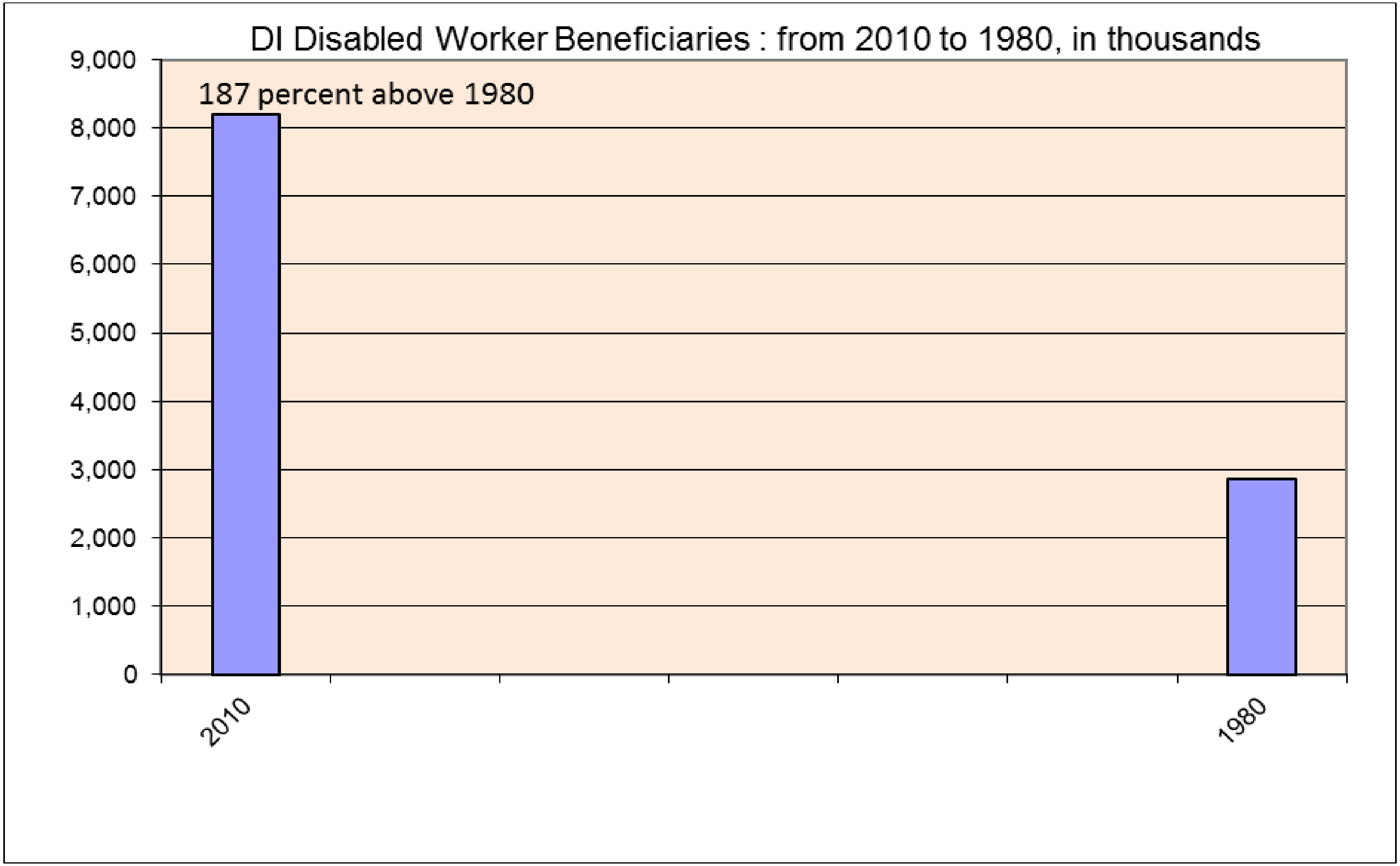
(Note 5% increase in DI cost for 2010 due to recession)



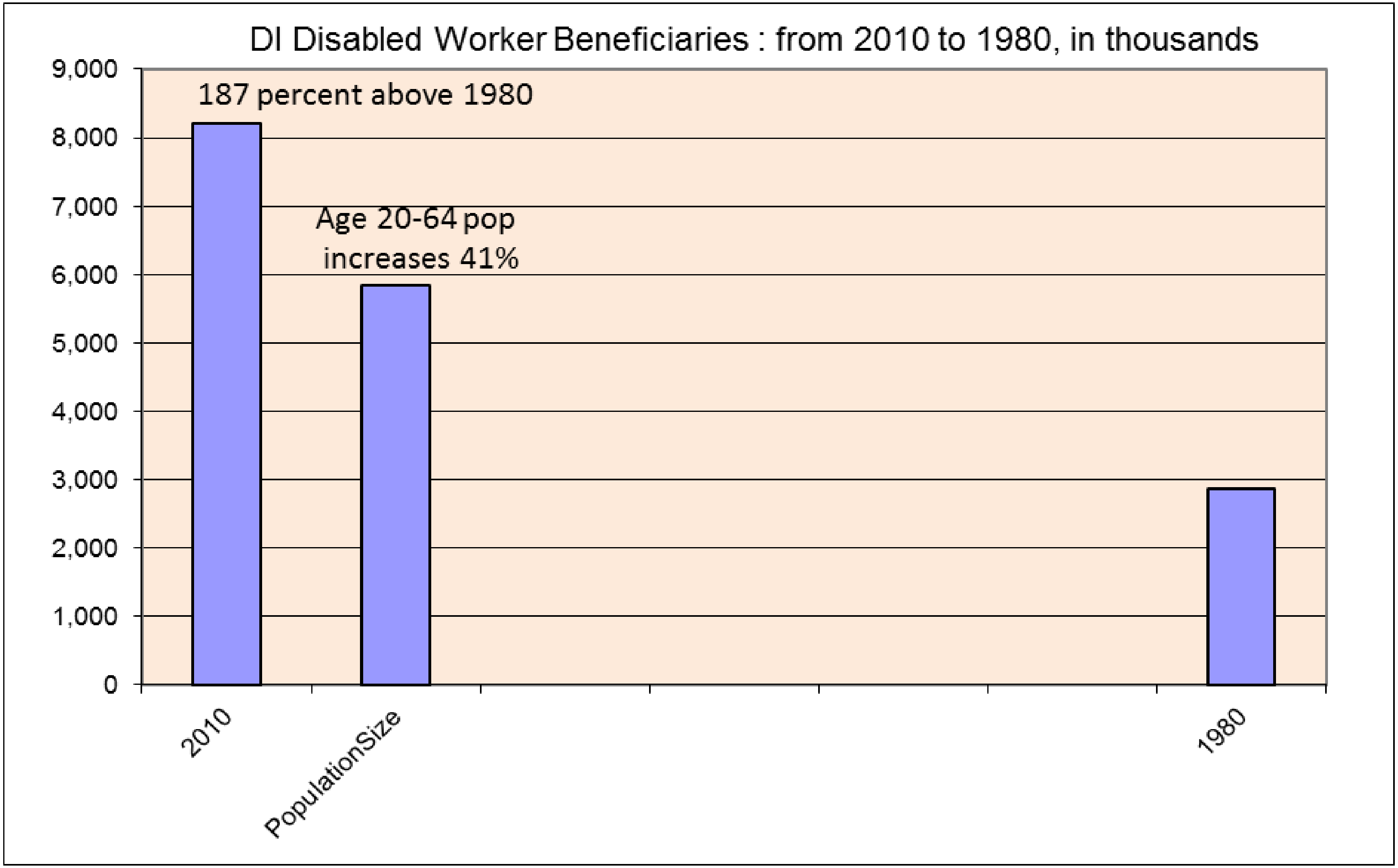
DI cost as percent of GDP has peaked, but scheduled income is too low



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

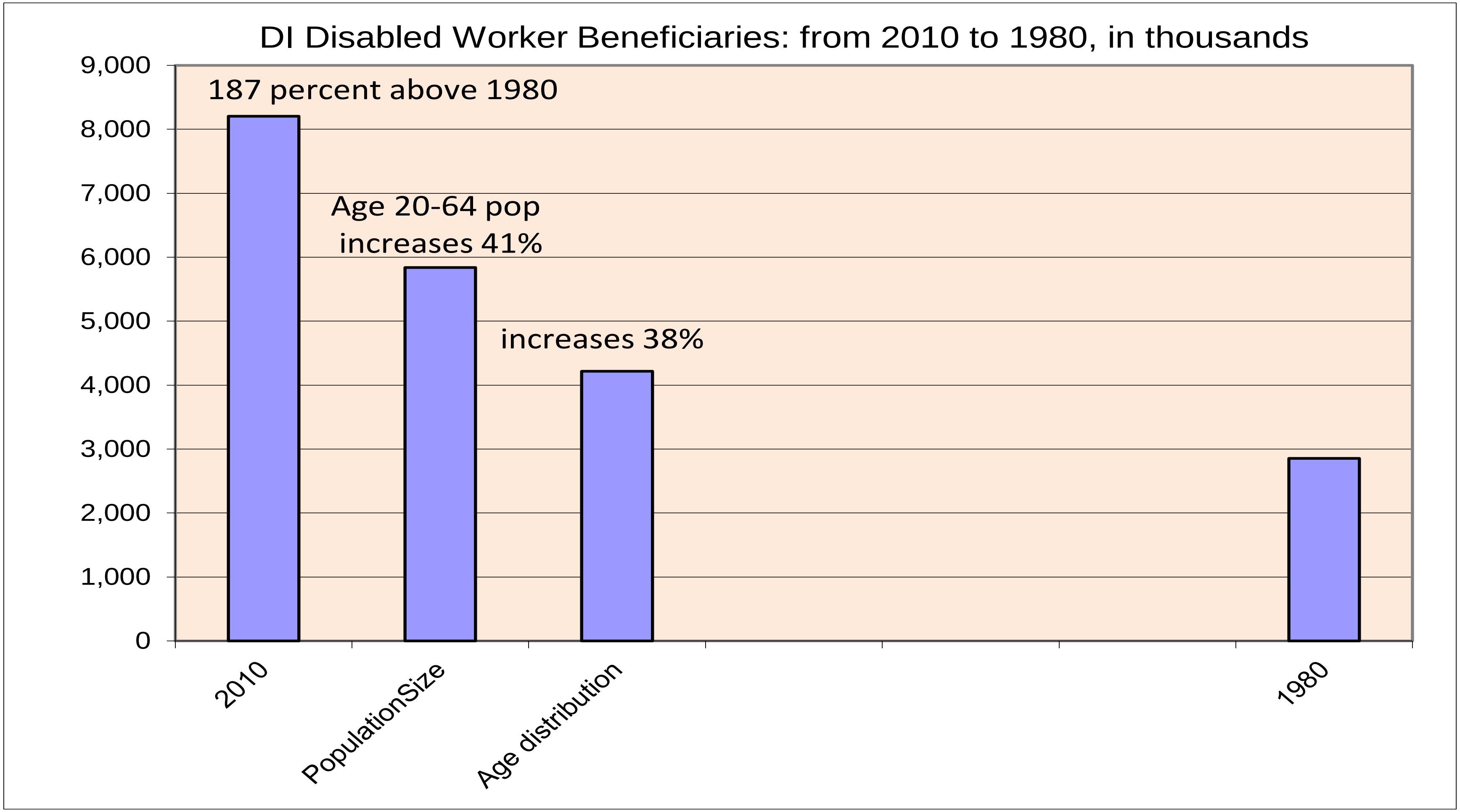


Population age 20-64 increased 41% from 1980 to 2010; let's adjust that out



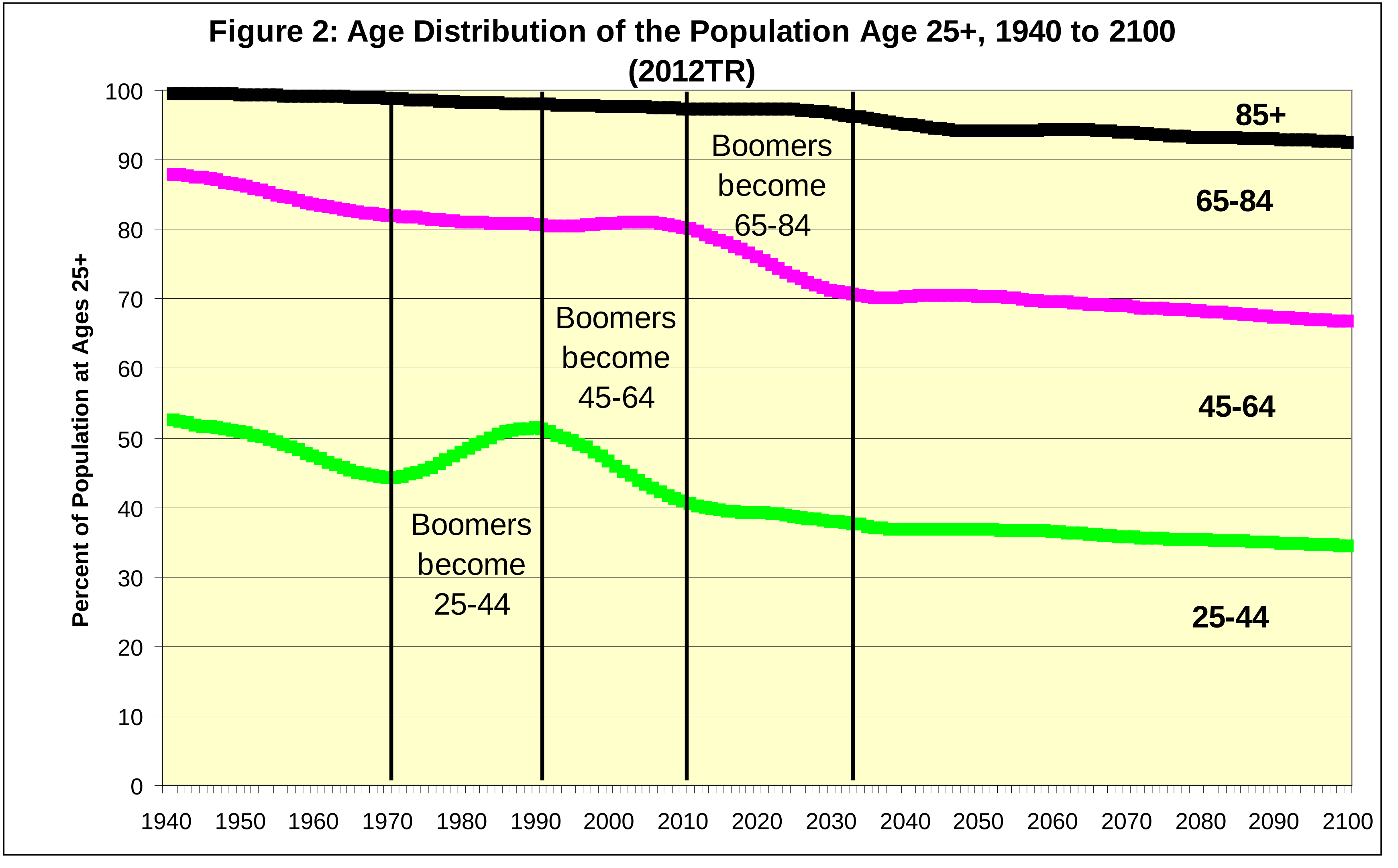
Population age 20-64 is much older in 2010

Boomers have aged with lower-birth-rate generations following

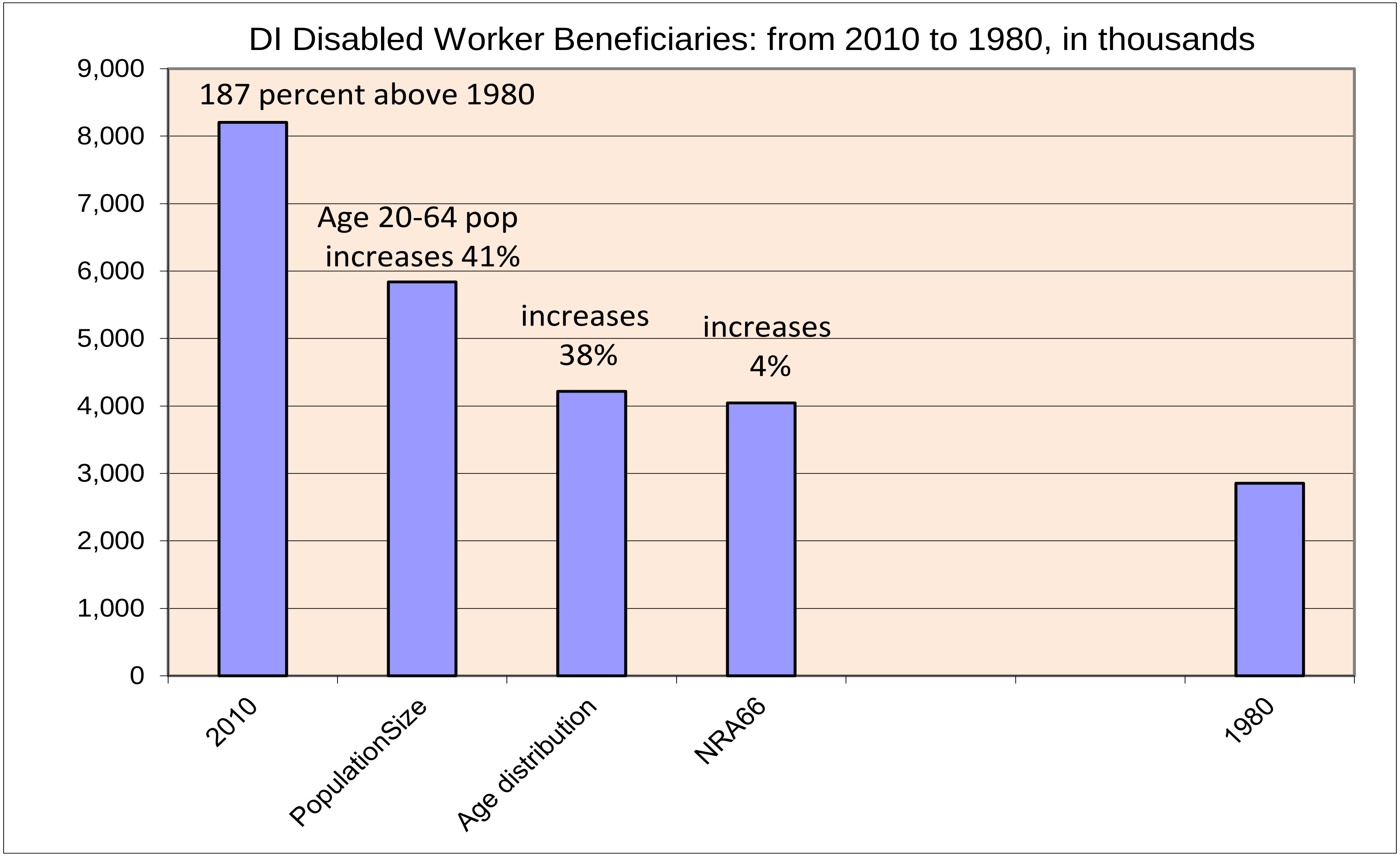


Remarkable changes in age distribution

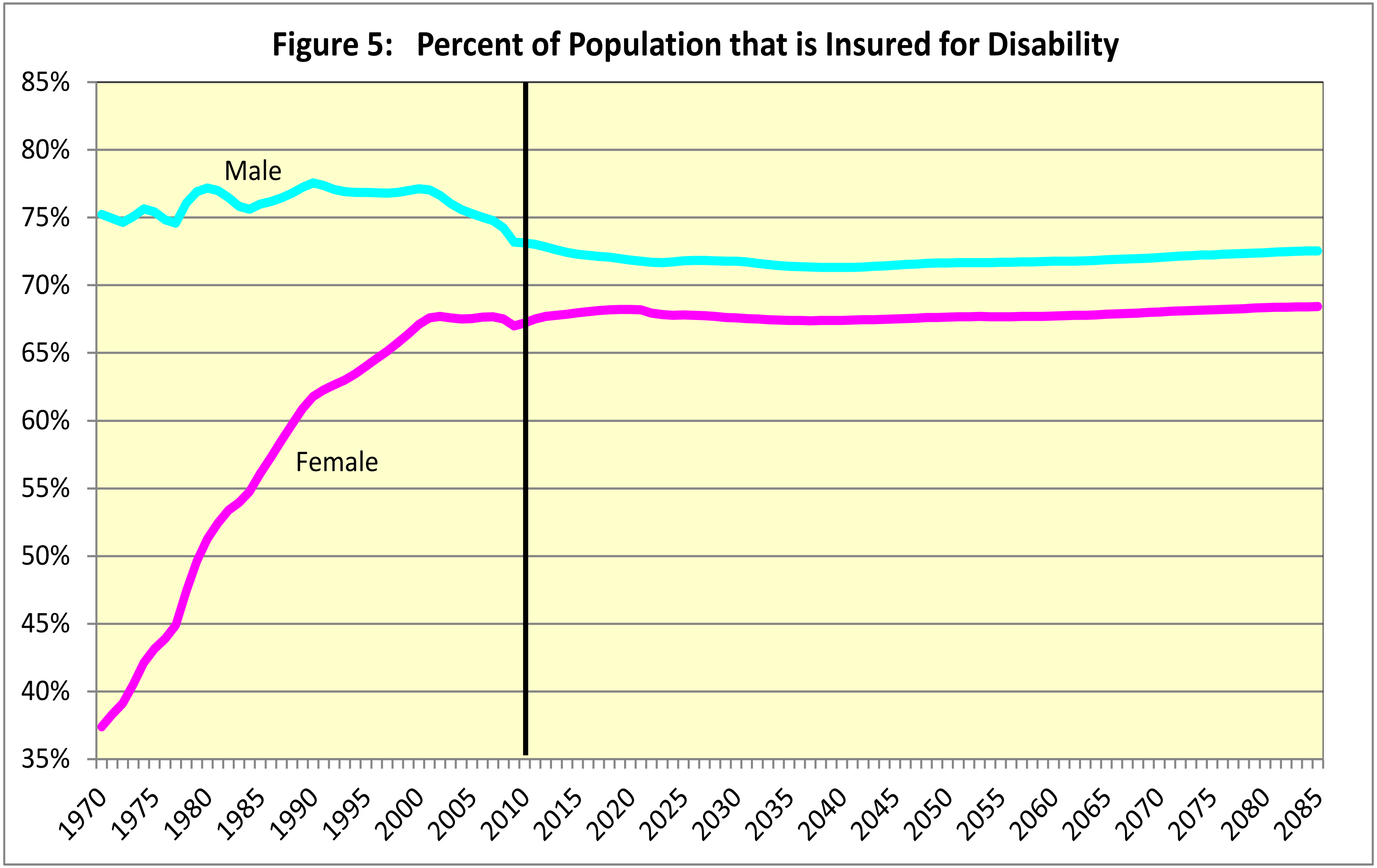
Progression of the boomers and drop in birth rates dominate



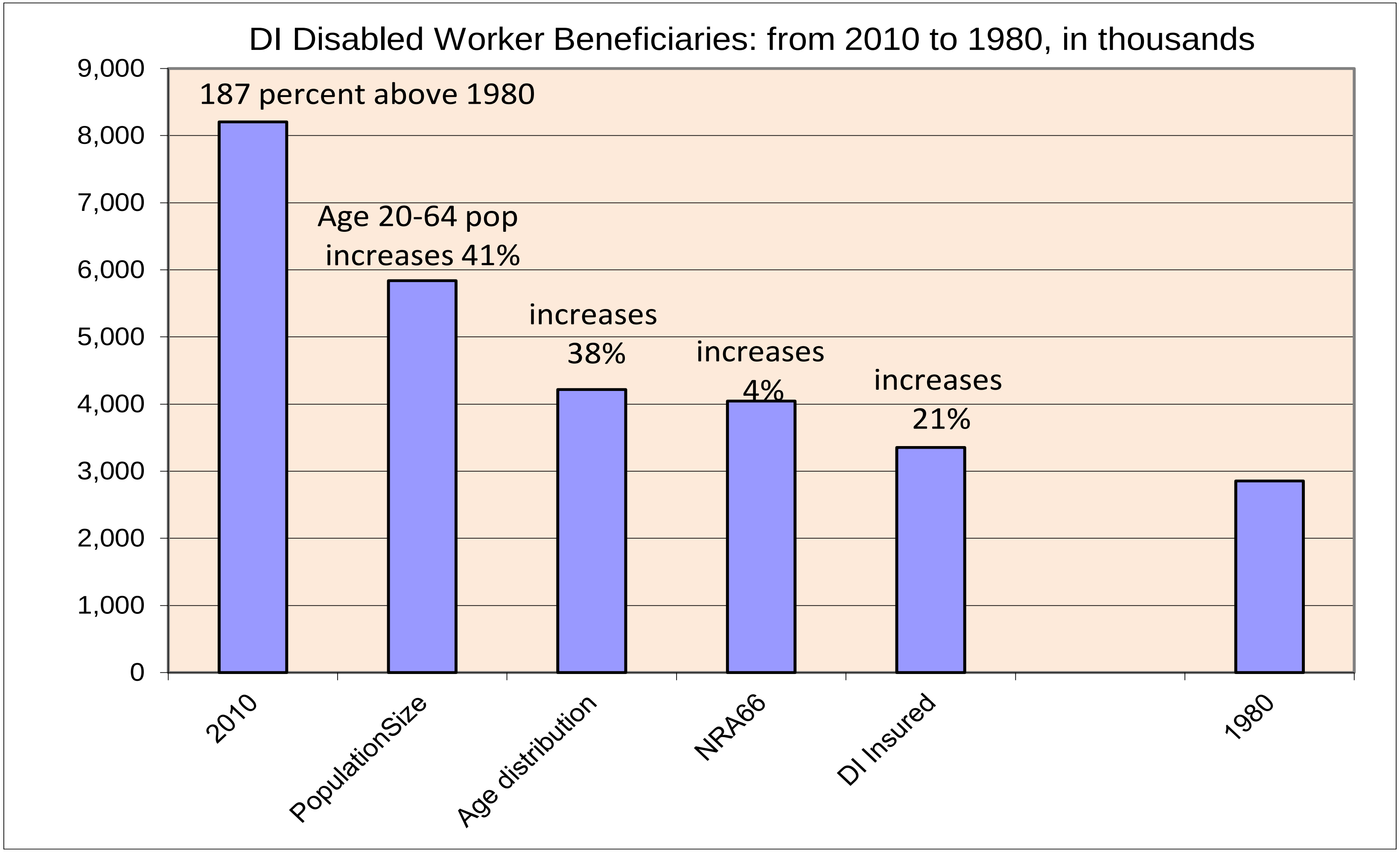
The Normal Retirement Age increased from 65 to 66, adding 4% more disabled worker beneficiaries



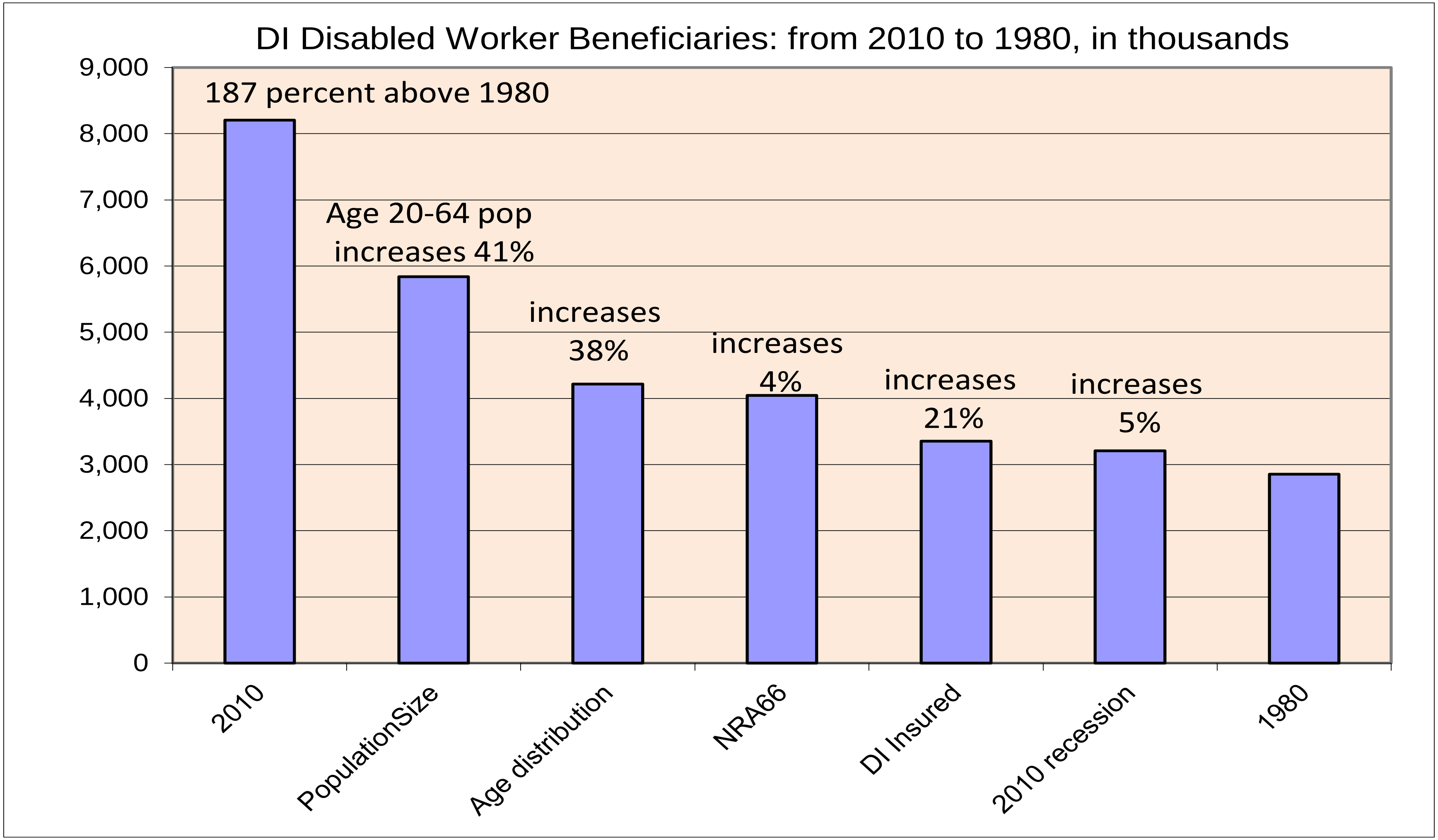
Increased work by women raised insured; men a little lower at younger ages



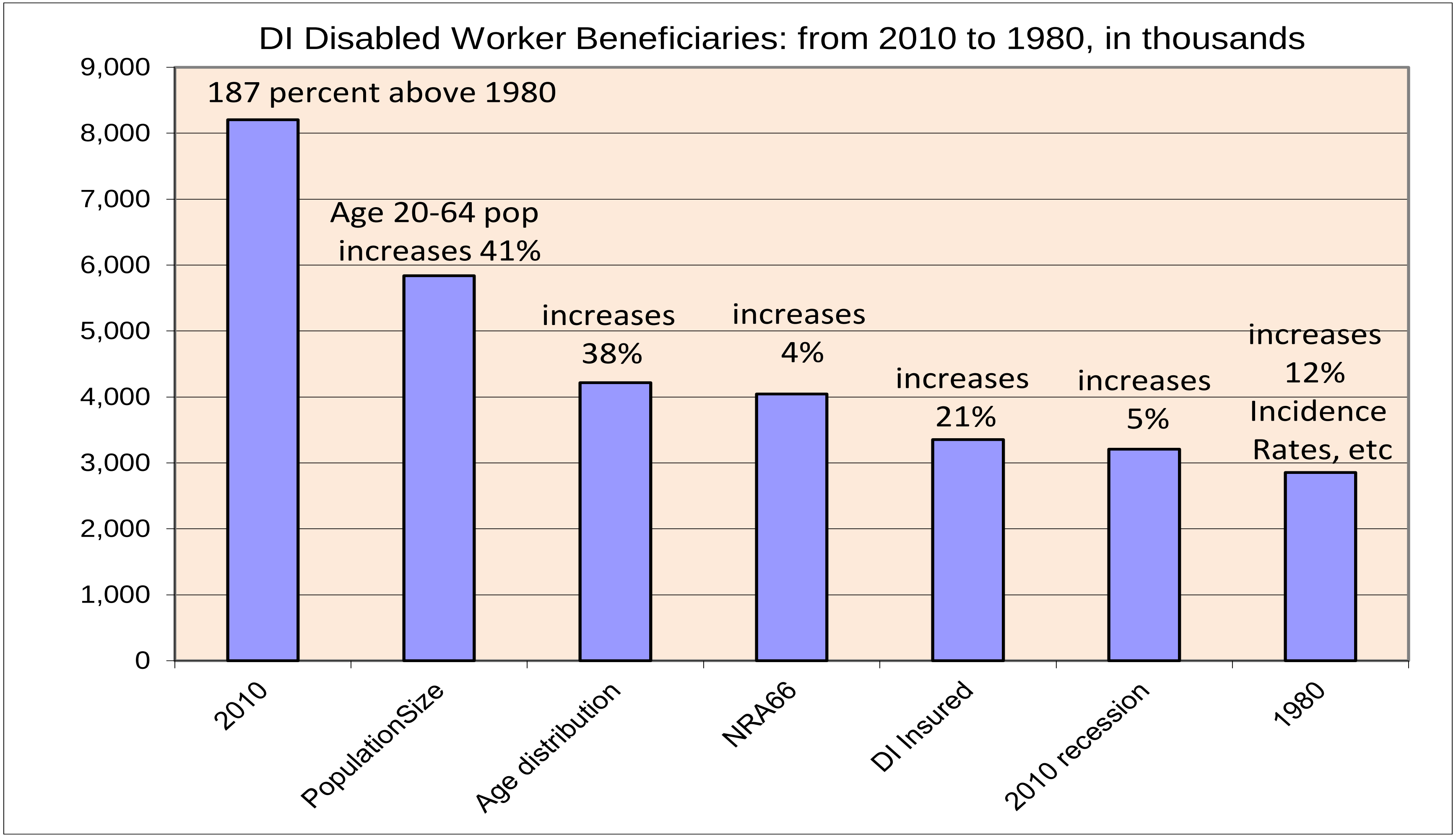
Disability insured rates in the population increased substantially for women, mainly at higher ages; increased beneficiaries by 21%



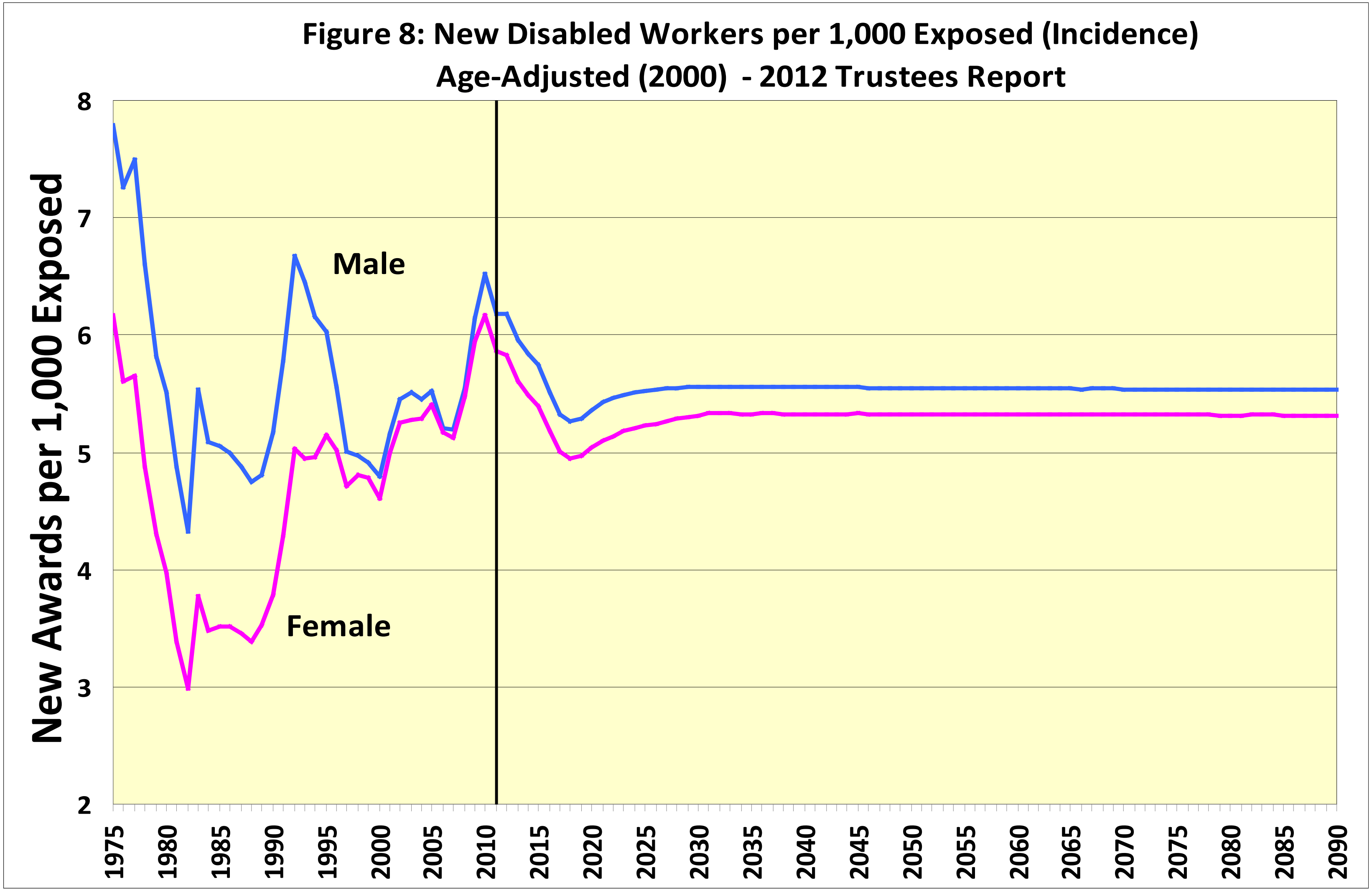
Recession of 2008-10 increased disabled workers 5% compared to full-employment economy, as had been experienced prior to 1980



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

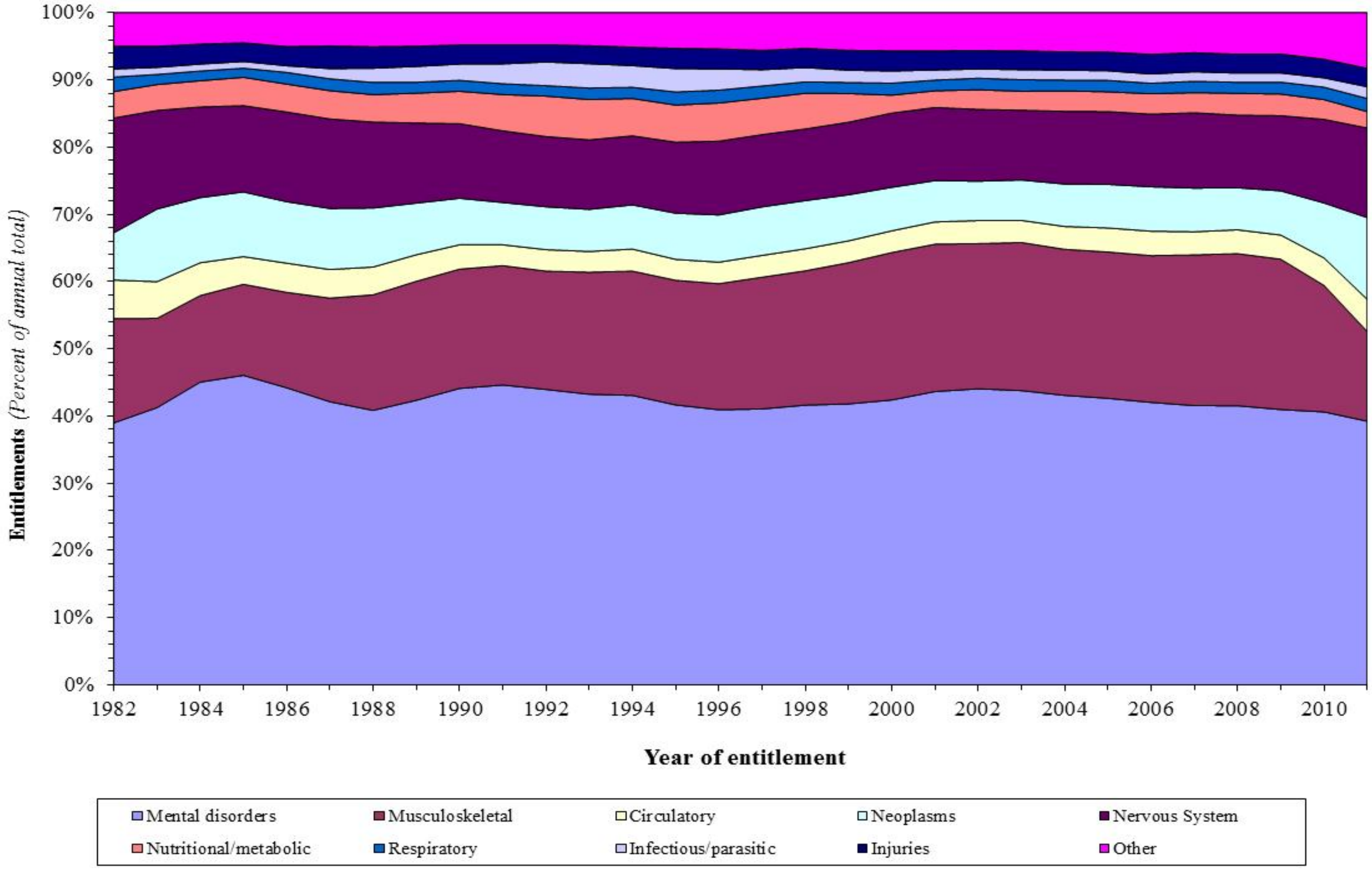


Incidence rates for women have risen to male level



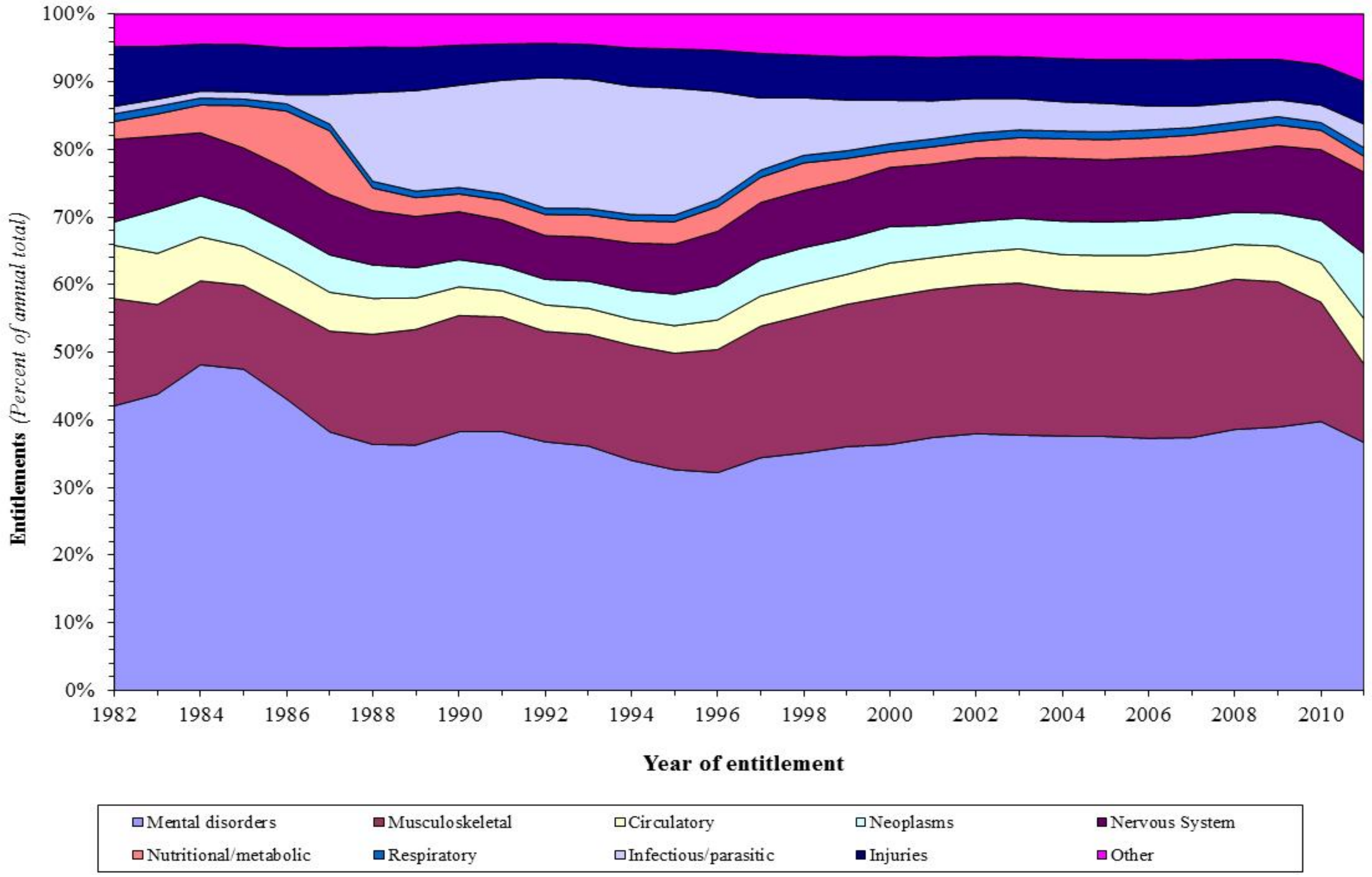
But NOT because of increasing mental impairment for young females: steady distribution by impairment

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



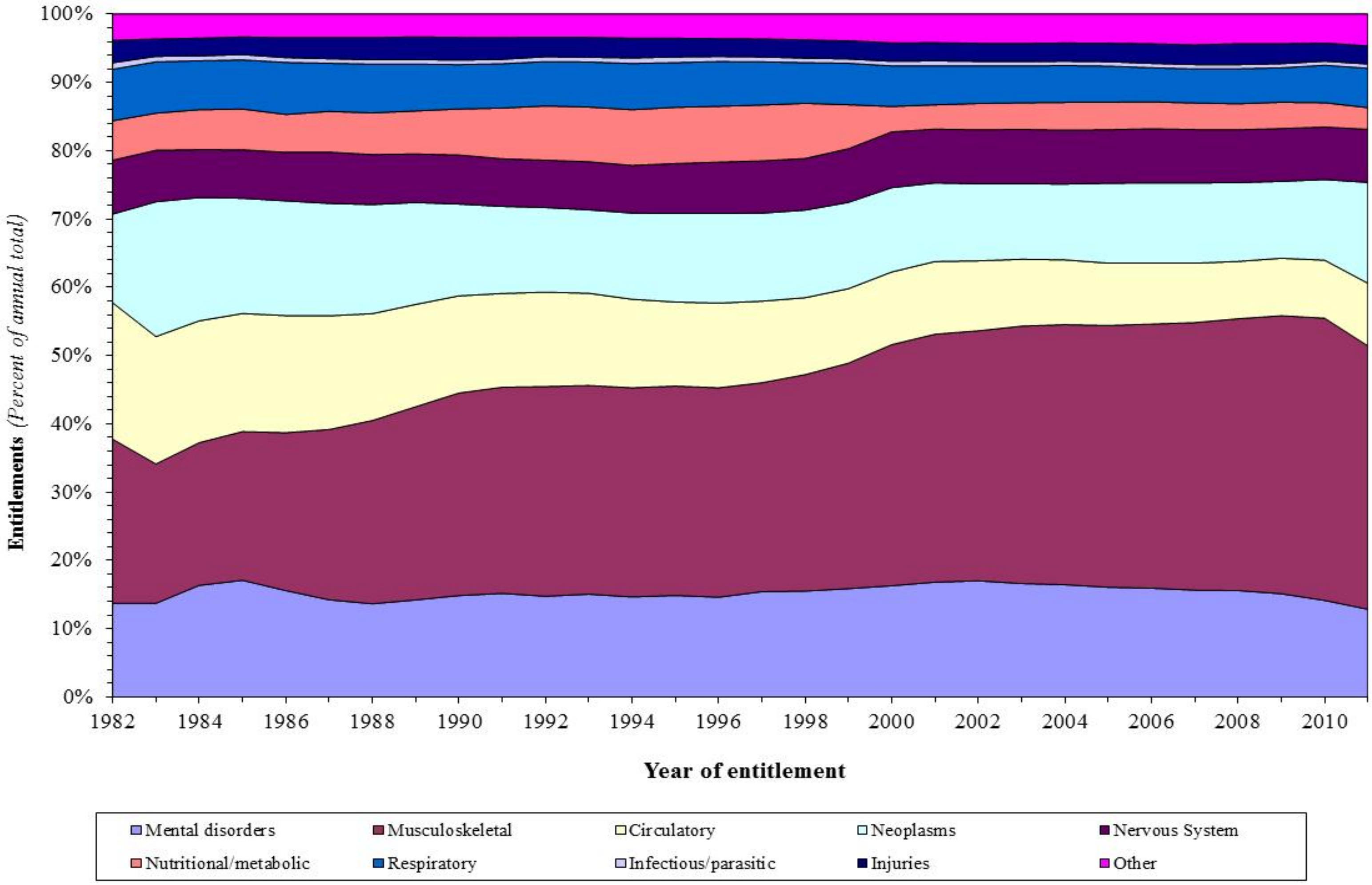
Nor for young males: note steady but for HIV bulge in 1986-2000

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



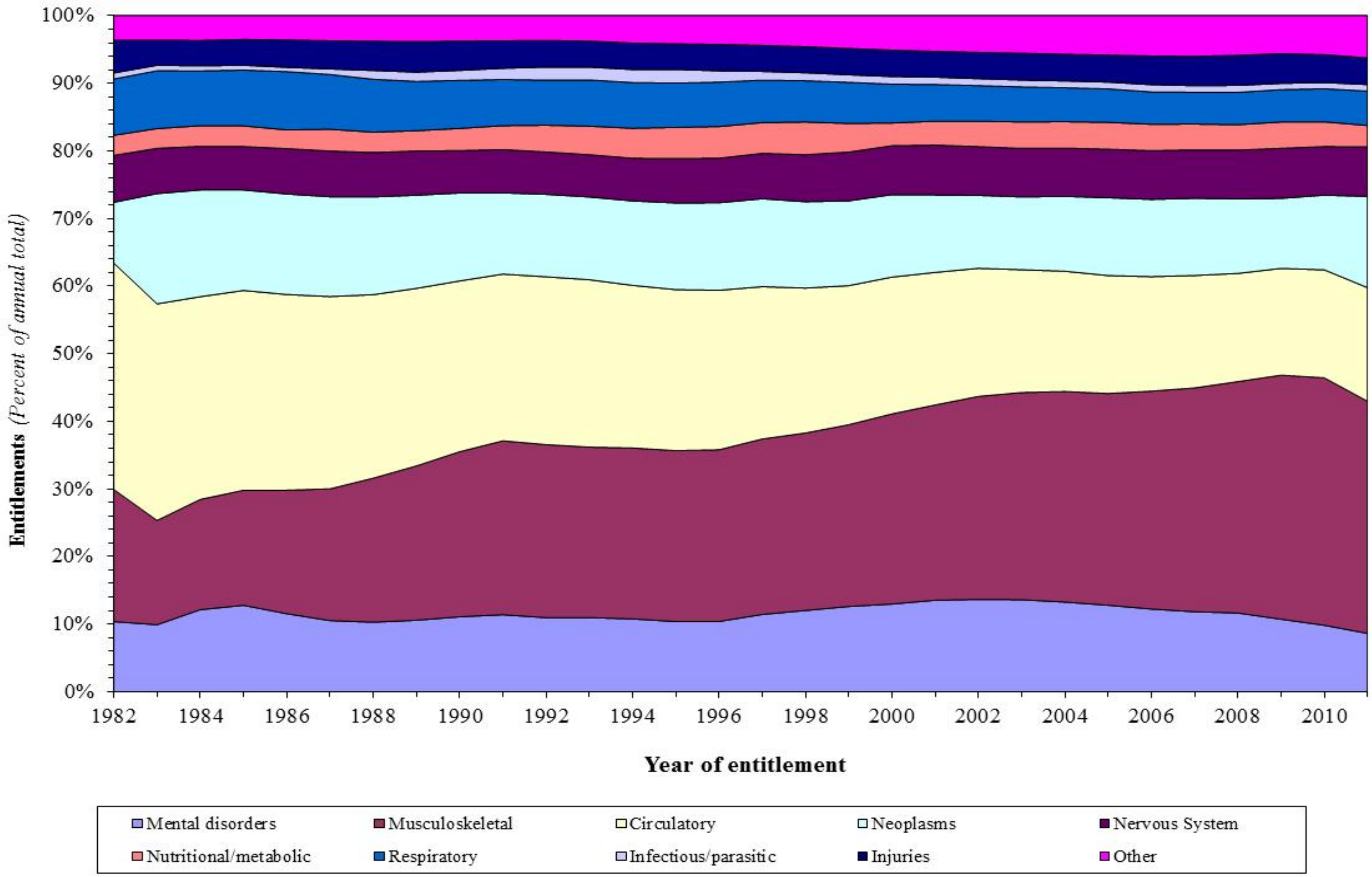
For older females: increased musculoskeletal impairment; diminished circulatory

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

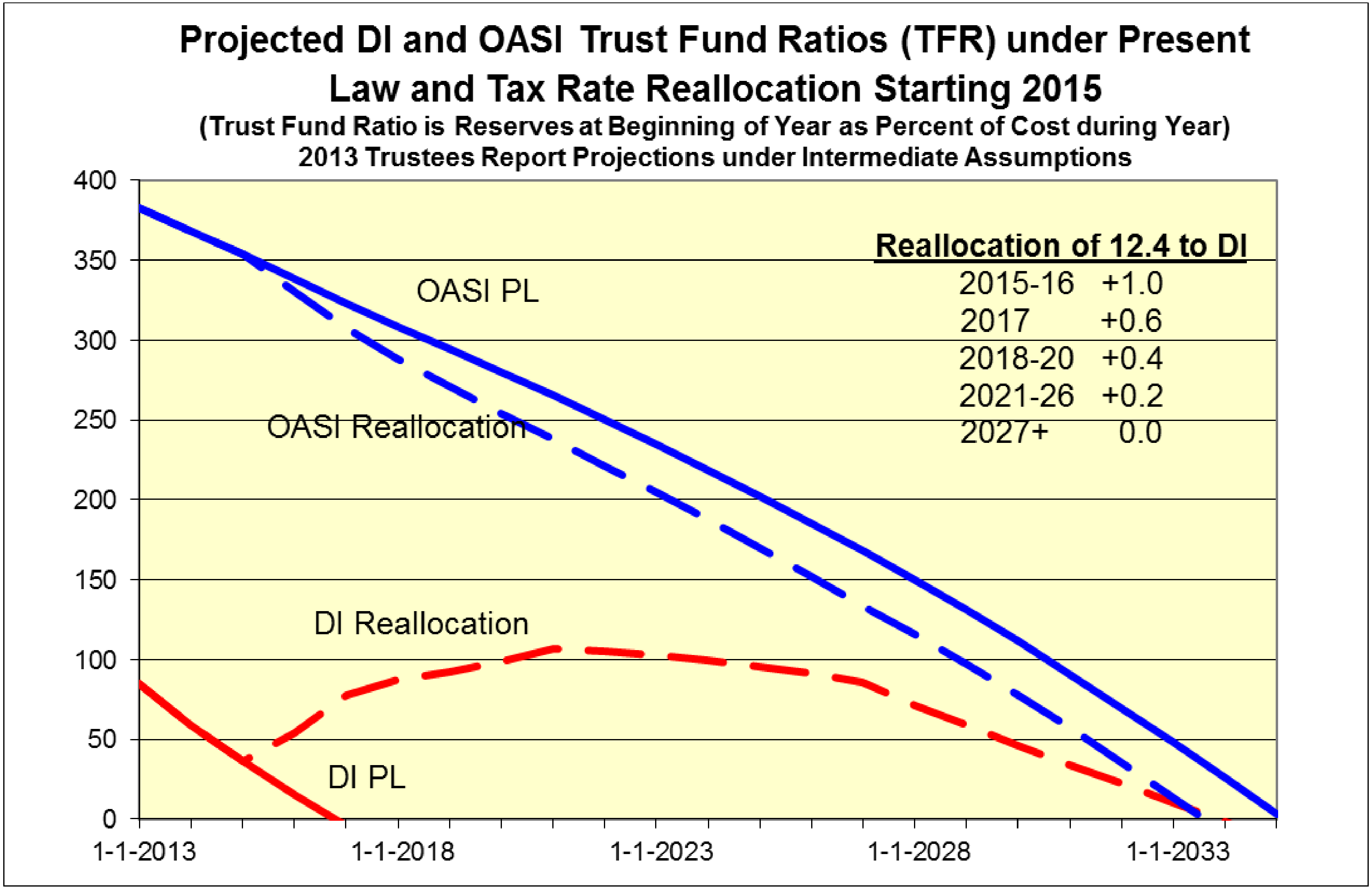
  Need change soon to avoid inability to pay in full & on time

  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
    - 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
    - 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
    - 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

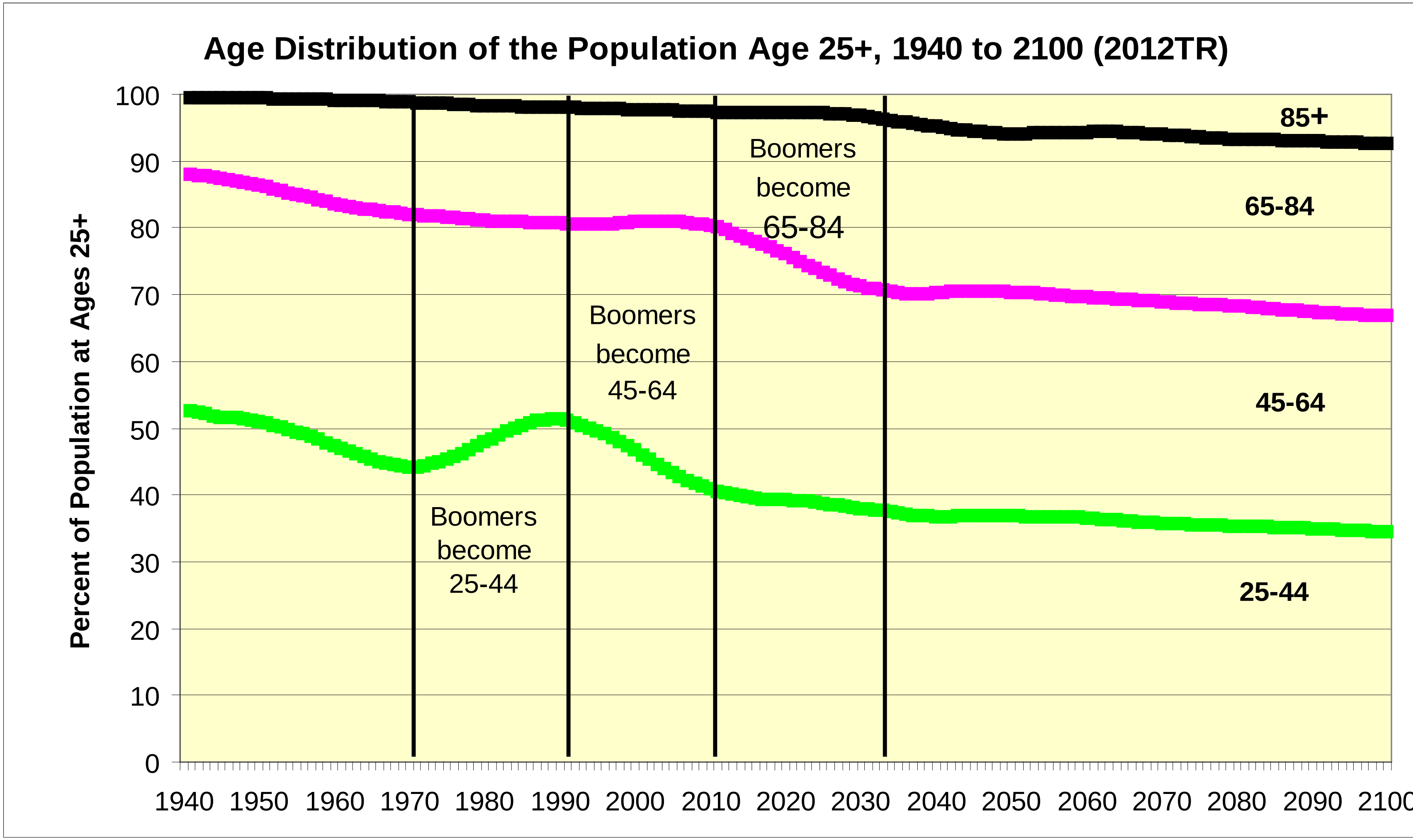
Finally A Little Extra Credit

Remember DI is Just Part of Social Security

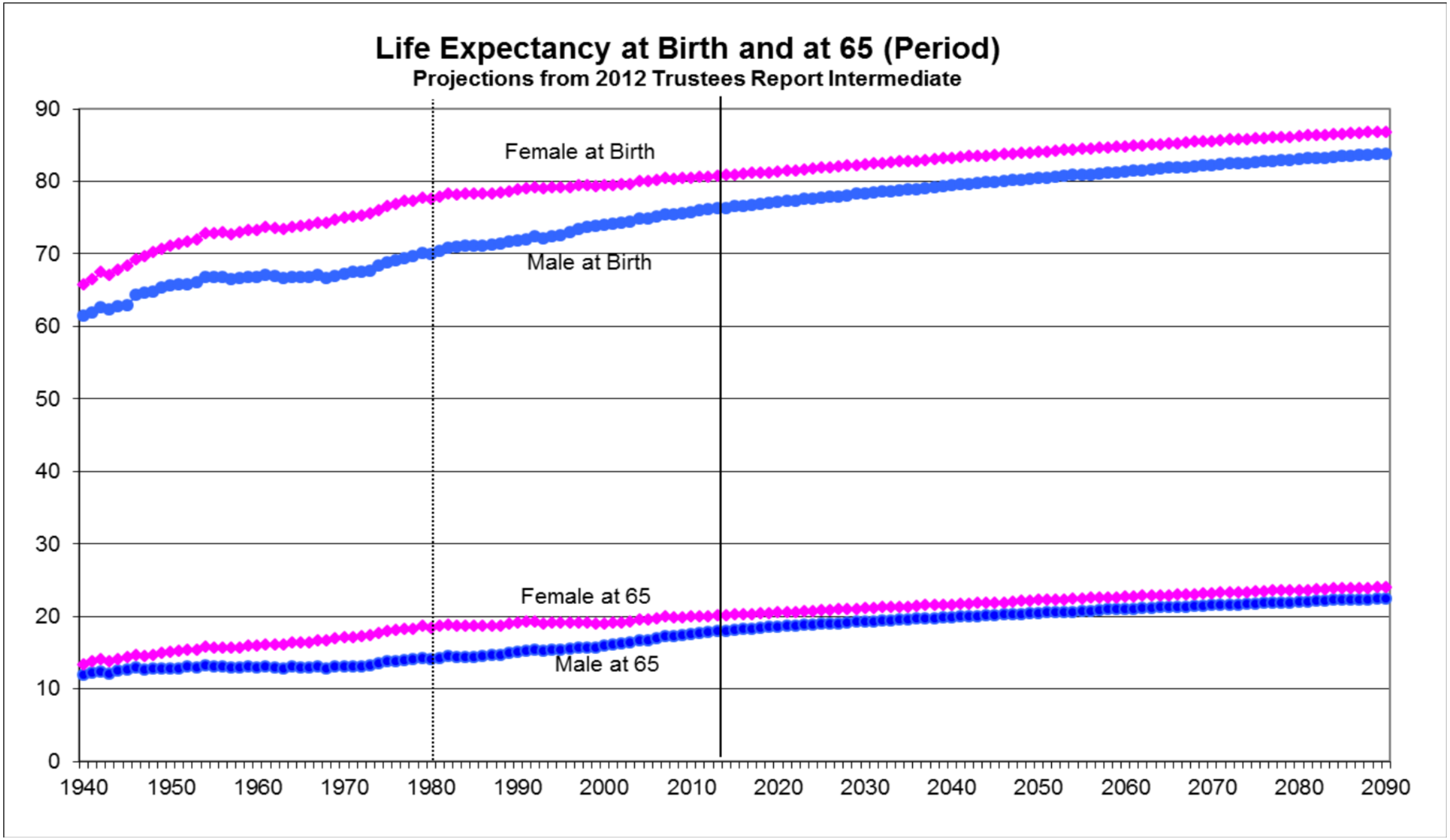
- Any fix for the long-term will have to be comprehensive
  - *Address the "Aging" of the population

- "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*

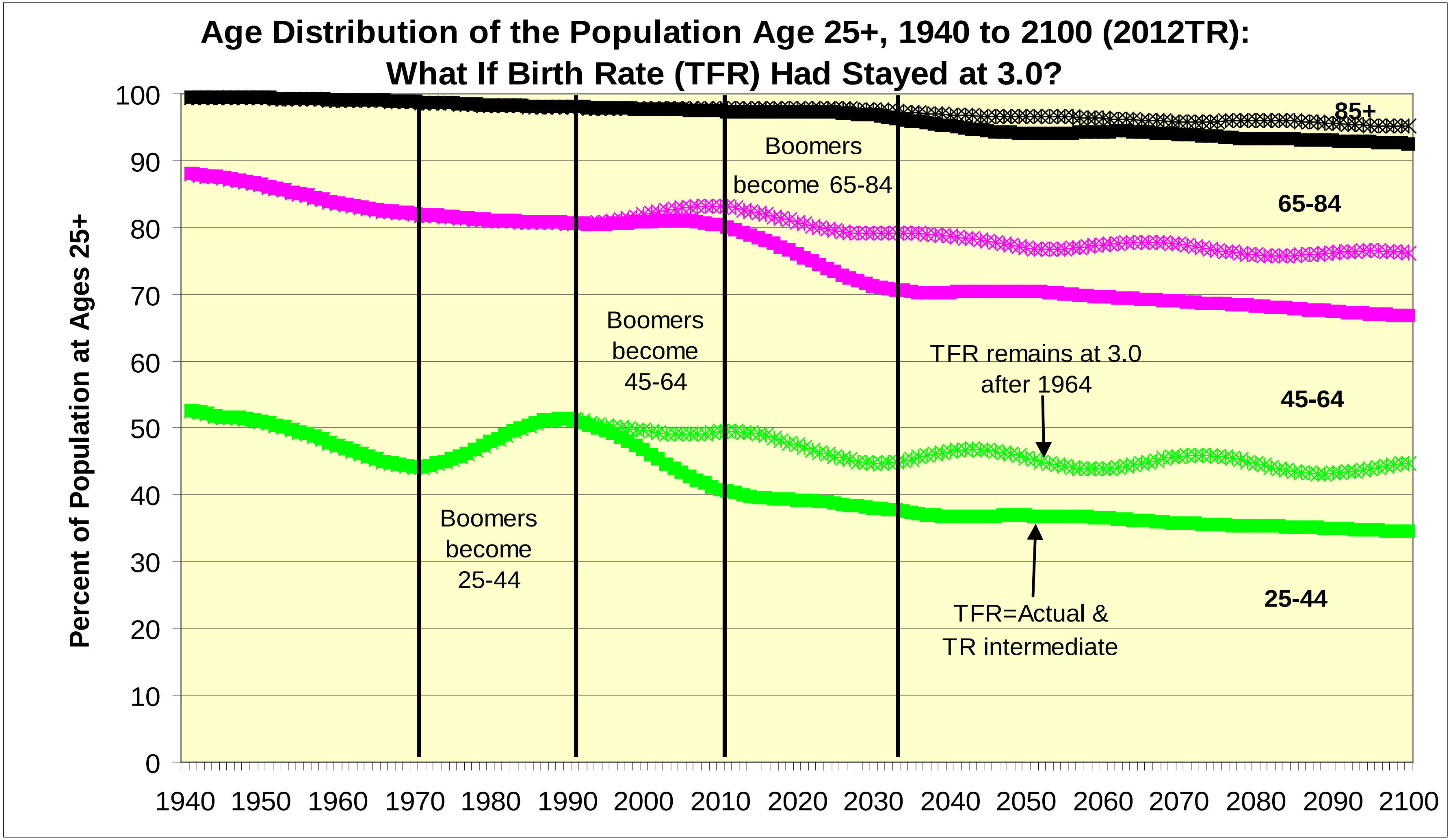


The level shift in age distribution is NOT due to a sudden shift in life expectancy

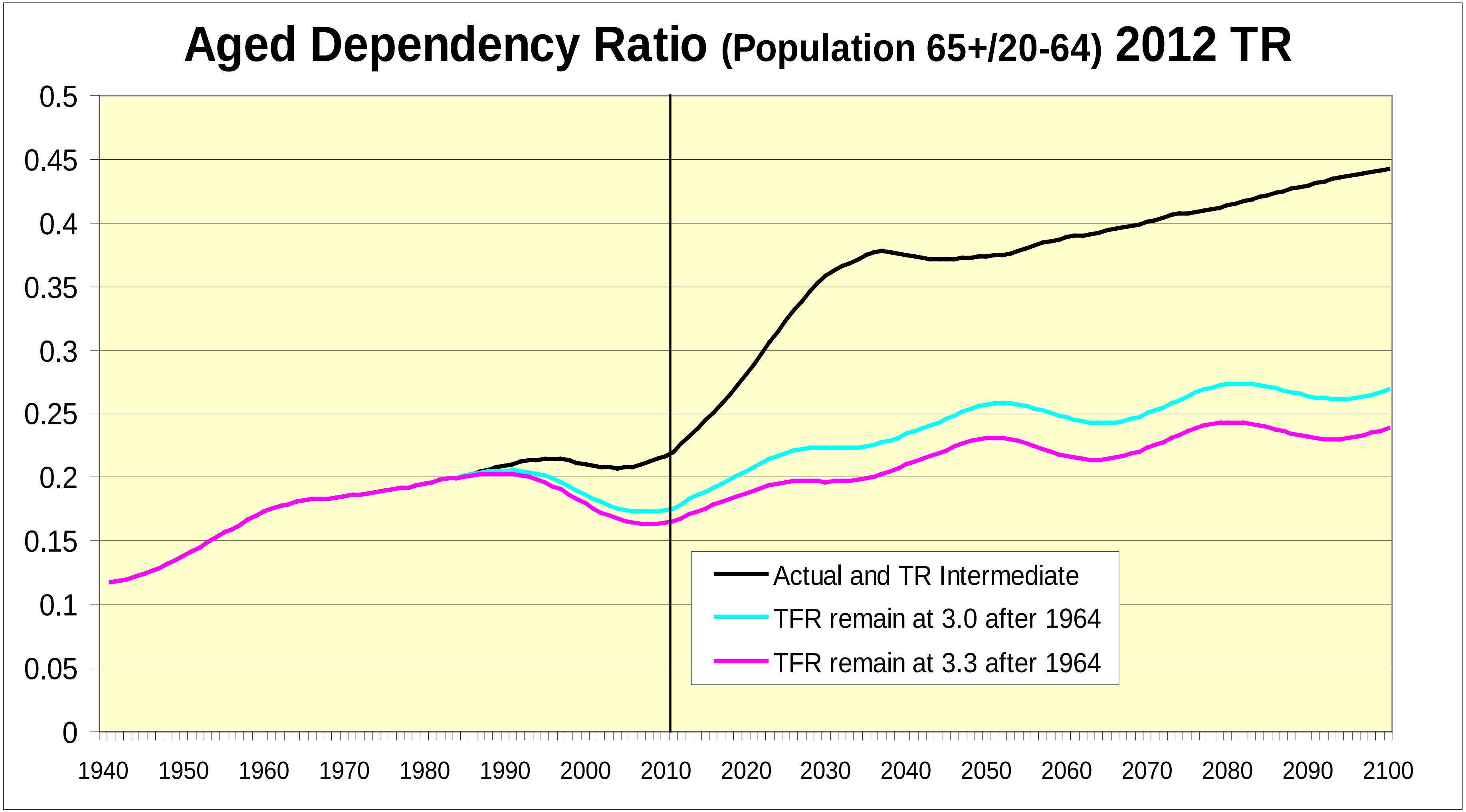


Why so much “Macro Aging”? Birth rates.

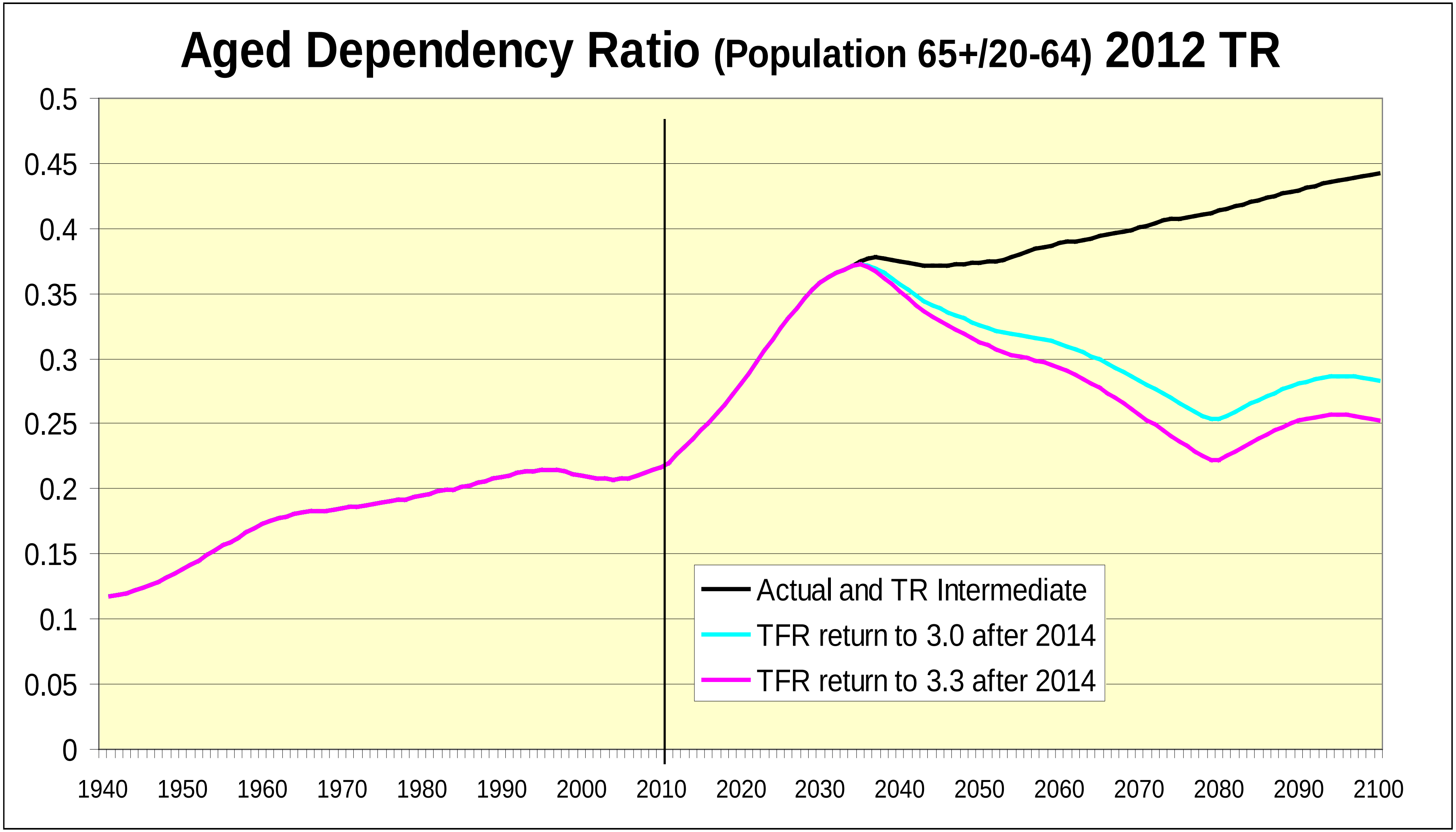
If birth rates had stayed at 3.0 per woman after the “boom”?



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

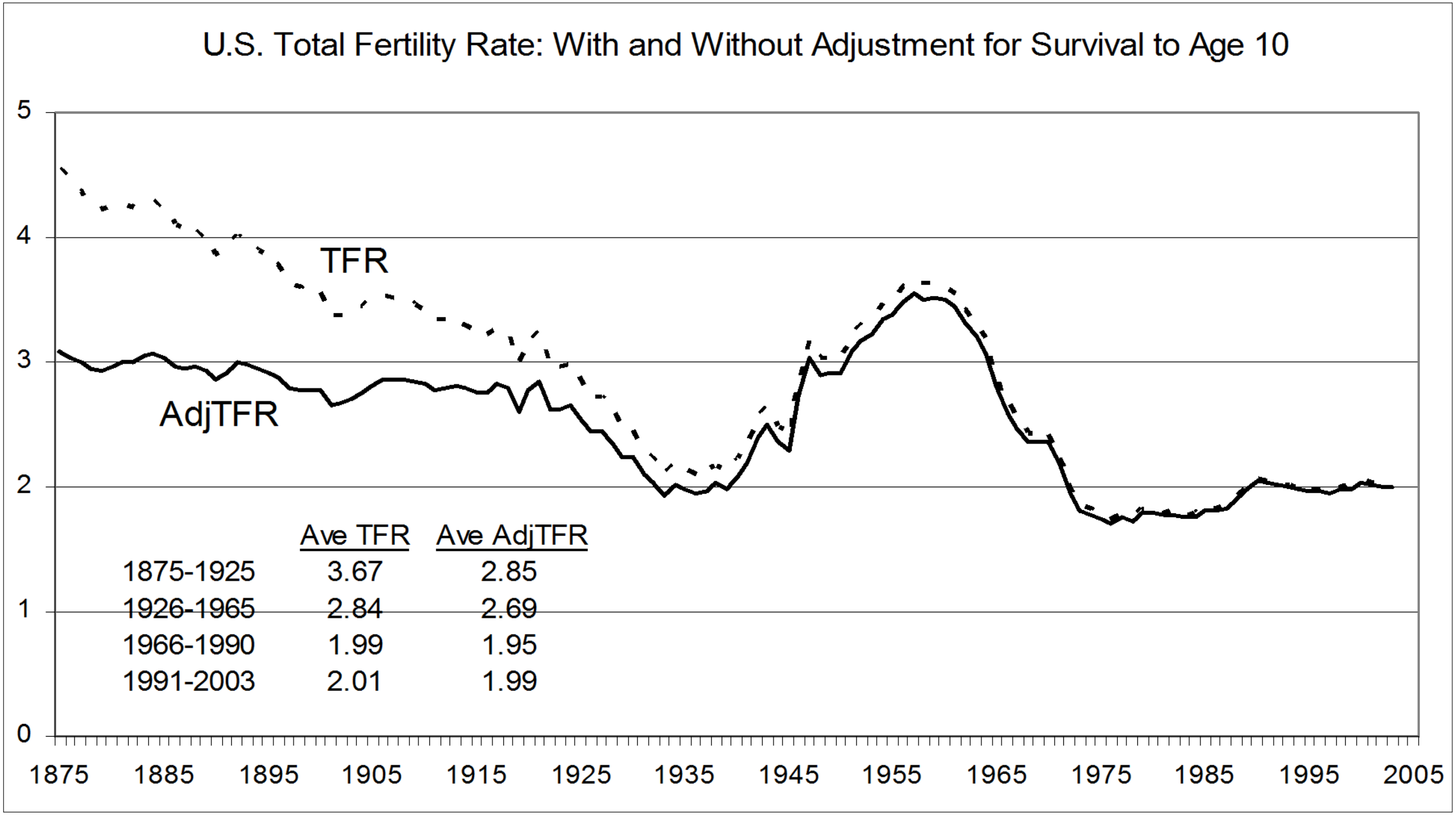


Even if birth rates returned to 3.0 or 3.3 per woman after 2014, our Aged Dependency ratio would come back down



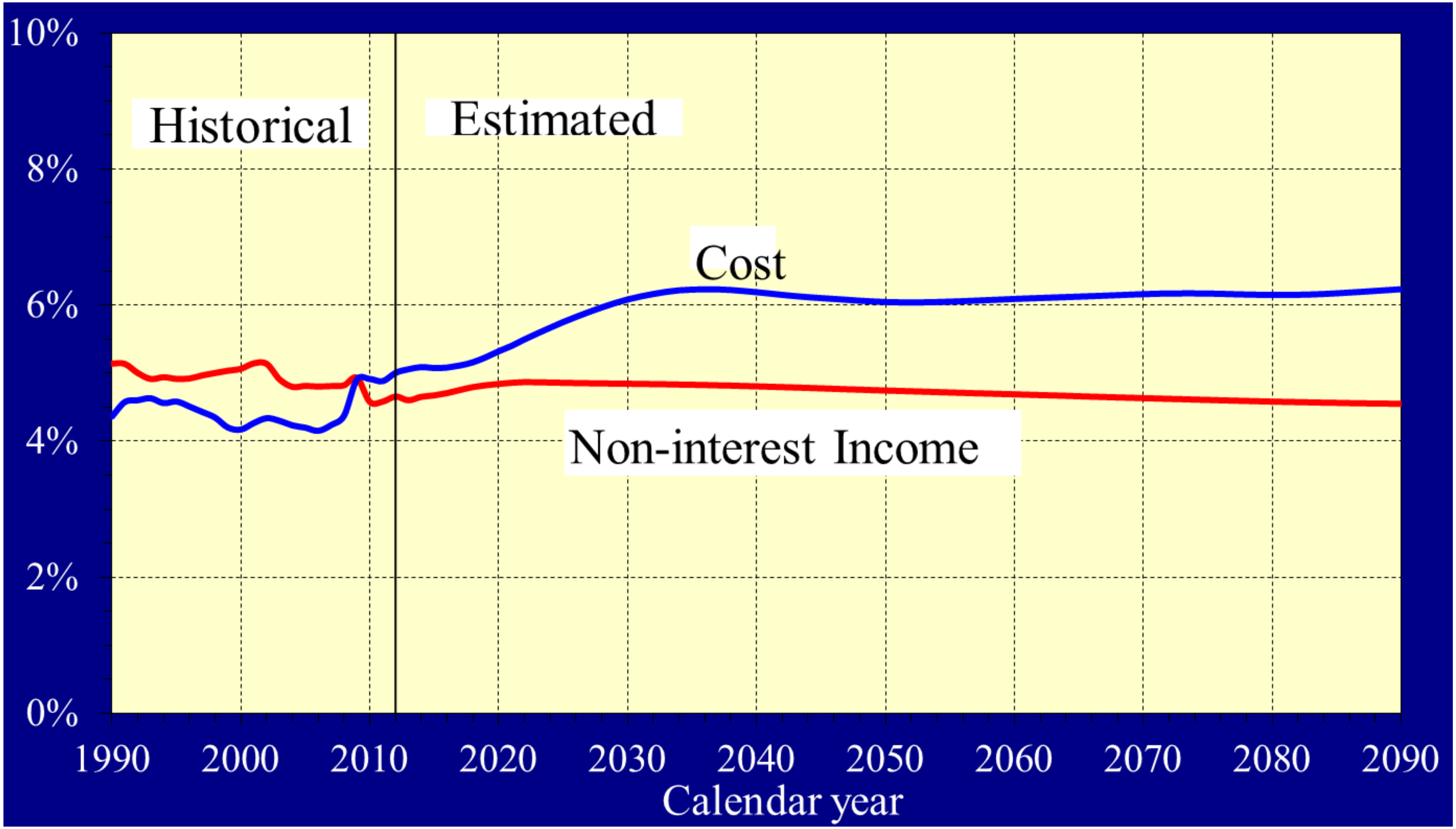
BUT birth rates are not going back up in the U.S.

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?