Social Security
Disability Insurance Trust Fund:
Behind the Numbers

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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

**DI Trust Fund Ratio in 1995 Trustees Report**

- Tax-Rate
- Reallocation in 1994

Reserves as % of Annual Cost

<table>
<thead>
<tr>
<th>Year</th>
<th>Reserves as % of Annual Cost</th>
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<tbody>
<tr>
<td>1990</td>
<td>50</td>
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<tr>
<td>1995</td>
<td>150</td>
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<td>2000</td>
<td>200</td>
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<td>2005</td>
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<td>2010</td>
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<td>2015</td>
<td>150</td>
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<td>2020</td>
<td>100</td>
</tr>
<tr>
<td>2025</td>
<td>50</td>
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Solvency of the DI Trust Fund looked MUCH better in 2007
Boost from the “new economy” anticipating NO recession

DI Trust Fund Ratio in 1995 and 2008 Trustees Reports

"New Economy"
Solvency of the DI Trust Fund; reserve depletion in 2016
2008 recession offset “new economy”; cycles still happen


"New Economy" irrational exuberance

2008 Recession back to reality
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.

![Graph showing DI Cost and Income as Percent of GDP 1975-2090](image)

**Note:**

Recession raised DI Cost/GDP by 15% for 2010

1. Baby Boomers reach ages 25-44 in 1990
2. Baby Boomers reach ages 45-64 in 2010
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.

DI Disabled Worker Beneficiaries: from 2010 to 1980, in thousands

- 2010: 8,000 (187% above 1980)
- 1980: 4,000

Age 20-64 pop increases 41%.
Population age 20-64 is much older in 2010
Boomers have aged with lower-birth-rate generations following

DI Disabled Worker Beneficiaries: from 2010 to 1980, in thousands

187 percent above 1980

Age 20-64 pop increases 41%

increases 38%

2010
PopulationSize
Age distribution
1980
Remarkable changes in age distribution

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

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**Figure 2: Age Distribution of the Population Age 25+, 1940 to 2100 (2012TR)**

- **Boomers become 25-44**
- **Boomers become 45-64**
- **Boomers become 65-84**
- **85+**
- **65-84**
- **45-64**
- **25-44**
The Normal Retirement Age increased from 65 to 66, adding 4% more disabled worker beneficiaries.

**DI Disabled Worker Beneficiaries: from 2010 to 1980, in thousands**

- **2010**: 8,500
- **Population Size**: 8,000
- **Age distribution**: 7,000
- **NRA66**: 6,000
- **1980**: 5,000

187 percent above 1980

Age 20-64 pop increases 41%

Increases

- Population size increases 38%
- NRA66 increases 4%

**Note:** The data represents the number of disabled worker beneficiaries from 2010 to 1980, with a significant increase of 187 percent over 1980. The age distribution shows an increase of 41% in the population aged 20-64, with specific increases in population size and NRA66.
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%.

DI Disabled Worker Beneficiaries: from 2010 to 1980, in thousands

- 2010: 187 percent above 1980
- Age 20-64 pop: increases 41%
- Population Size: increases 38%
- Age distribution: increases 4%
- NRA66: increases 21%
- DI Insured:
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.

DI Disabled Worker Beneficiaries: from 2010 to 1980, in thousands

187 percent above 1980

Age 20-64 pop increases 41%

- Increases 38%
- Increases 4%
- Increases 21%
- Increases 5%
- Increases 12%

Incidence Rates, etc
Incidence rates for women have risen to male level

Figure 8: New Disabled Workers per 1,000 Exposed (Incidence)
Age-Adjusted (2000) - 2012 Trustees Report
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

• 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
    – Treat any month with UI payment as SGA
    – *Lowers* actuarial deficit by 0.01 percent of payroll

  • Change considered by Senator Coburn in 2013
    – 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:
  - 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
Changing age distribution over next 20 years mainly due to Macro Aging – a permanent level shift

Age Distribution of the Population Age 25+, 1940 to 2100 (2012TR)
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”?

Age Distribution of the Population Age 25+, 1940 to 2100 (2012TR):
What If Birth Rate (TFR) Had Stayed at 3.0?

- Boomers become 25-44
- Boomers become 45-64
- Boomers become 65-84
- TFR=Actual & TR intermediate
- TFR remains at 3.0 after 1964

Percent of Population at Ages 25+

Boomers (85+)
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?