American Academy of Actuaries
ISSUE BRIEF
AUGUST 2015

KEY POINTS

- The Disability Insurance Trust Fund is projected to be depleted in 2016.
- Past solutions utilized to forestall fund depletion have been the transfer of funds between the Old Age & Survivors Insurance Trust Fund and the Disability Insurance Trust Fund.
- Solutions to reform the Social Security disability program should consider the interaction with other financial security programs.
- Solutions required now to avoid the pending Disability Trust Fund depletion are more significant than those that could have been implemented in the past.

Social Security Disability Program: Shortfall Solutions and Consequences

Background

Social Security has provided disability income insurance since 1956.[1] Initial coverage was limited to those age 50 and older; this age limitation, however, was removed in 1960. The many changes in the system over the years have altered various aspects of the system, and those alterations in turn changed coordination with other programs.

The Disability Insurance Trust Fund (DI) is distinct from the Old-Age and Survivors Insurance Trust Fund (OASI) even though the trust funds are often referred to as one consolidated Old-Age, Survivors, and Disability Insurance Trust Fund (OASDI). In 1982 the OASI trust fund borrowed money from DI and repaid this amount in 1985 and 1986 (under a special law passed specifically to keep OASI solvent). Conversely, in 1994, with depletion of the DI trust fund imminent, Congress passed legislation reallocating more of the payroll tax to the DI Trust Fund and less to the OASI Trust Fund. Over the years, communications regarding these funds have given the impression that the funds operate as one fund, but they remain legally distinct trust funds.

1 Supplemental Security Income is sometimes considered to be a significant prong of disability income insurance but for purposes of this paper Disability Income refers only to amounts covered by the Disability Income Trust.

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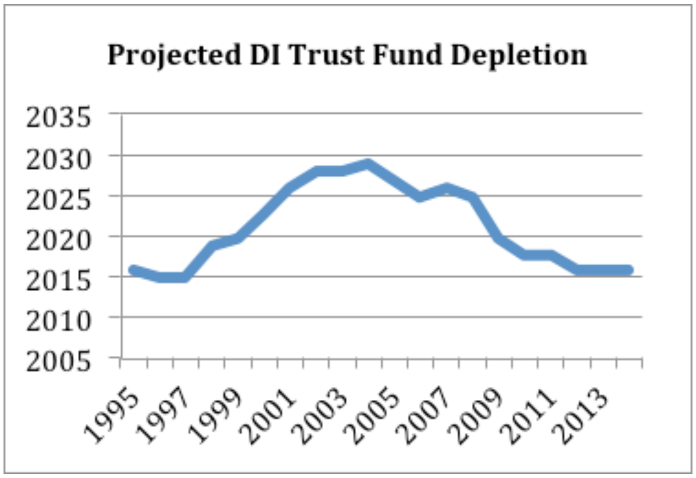
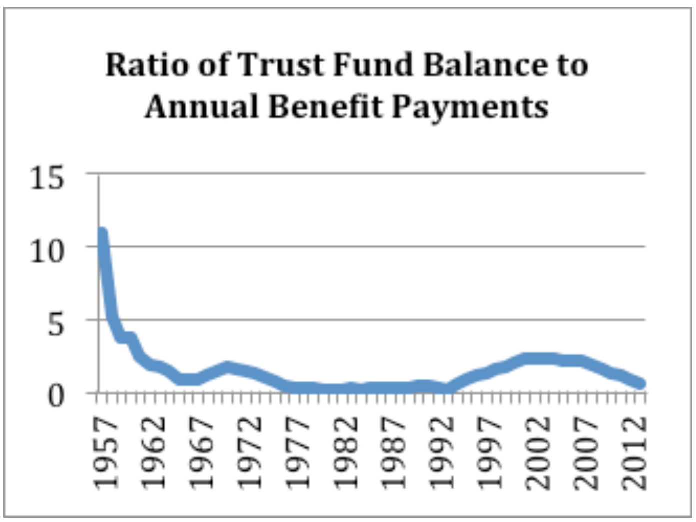
Immediately after the 1994 changes, projections indicated that the DI Trust Fund would be depleted in 2016. As shown in the graph on top below, the projected depletion date has varied to as late as 2030. The 2015 Trustees Report includes the projection that the DI Trust Fund will be depleted in late 2016.





Source: The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds - http://ssa.gov/oact/TR/2015/index.html

Although consideration of the projected depletion date is often the "metric of choice" for those considering the financial health of the DI Trust Fund, other measures can also be useful. For example the graph on the bottom left shows one of the critical alternative metrics for assessing the health of the DI Trust Fund: the ratio of the trust fund to the annual benefits paid. For more details regarding metrics for assessing the financial health of the DI Trust Fund, please refer to the issue briefs *Understanding the Assumptions to Evaluate Social Security's Financial Condition*[2] and *Significance of the Social Security Trust Funds.*[3]

Disability Insurance Trust Fund Depletion: Solutions

The long-term financial viability of the DI Trust Fund can be improved through various approaches. In general the solutions can be thought of as coming from one of two broad categories: revenue increases or expenditure decreases. Some of the proposed solutions, including those that have previously been used, could individually, or in combination, put the DI Trust Fund into a situation of sustainable solvency.[4] The following list is not intended to be exhaustive, but rather a broad summary of the options to consider. Please note that this list only summarizes revenue increases or expenditure decreases; other proposals call for increased disability benefits – these are outside the scope of this paper.

REVENUE INCREASES:

- Increase payroll tax
- Create a new non-payroll tax (designated for the exclusive use of the Social Security Disability Insurance Trust Fund) – not restricted to income tax

2 *Understanding the Assumptions to Evaluate Social Security's Financial Condition* - http://actuary.org/files/SSC_IssueBrief_Assumptions_120501.pdf.
3 *Significance of the Social Security Trust Funds* - http://actuary.org/files/SSC_IssueBrief_TrustFund_120501.pdf.
4 Sustainable solvency is the condition such that the trust fund is positive each year during the 75-year projection period, and that the trust reserves at the end of the period are stable or rising as a percentage of annual cost of the program.

- Transfer from other trust funds, or general funds – trust fund transfers were used in various forms in 1982 and 1994
- Recapture payments (plus penalties) in cases where fraud is determined by a court (not expected to be a significant source of revenue)

BENEFIT/EXPENSE REDUCTIONS:

- Decrease cost-of-living adjustments (COLAs) on disability benefits
- Decrease disability benefits (other than COLA)
- Increase threshold for disability benefit eligibility (e.g., change the definition of disability at various ages)
- Coordinate benefits with other programs to a greater degree
- Change rehabilitation and partial employment policies

Interaction With Other Financial Security Programs

Payments from numerous other financial security programs are coordinated in some way with provisions of the Social Security disability program. Likewise Social Security benefits may be adjusted by the benefits received from other programs, for example, workers' compensation or unemployment benefits. This means that any change to the Social Security disability program is likely to have cascading effects across other financial security programs and the general economy. The following is just a partial list of programs that coordinate with Social Security disability benefits: other public disability benefits (state-administered), workers' compensation programs, disability payments from private pensions, and private disability insurance.

Considering changes to the Social Security disability program without considering the cascading effects may make the Social Security Disability Insurance Trust Fund solvent but create more substantial problems in other financial security programs that affect more people. Given the large number of programs that are coordinated, this analysis is clearly a daunting task.

Conclusion

The imminent depletion of the Disability Insurance Trust Fund is not a surprise, as it has been projected for many years. Solutions required now are more significant than those that could have been implemented in the past. The interactions with other programs may be more significant than they have been in the past. In addressing solutions for the DI Trust Fund, the interactions between the Disability Insurance Trust Fund and other financial security programs should be considered.

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