S. HRG. 113–532

SOCIAL SECURITY: A FRESH LOOK AT WORKERS' DISABILITY INSURANCE

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

JULY 24, 2014

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PUBLISHING OFFICE
92–646—PDF WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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SOCIAL SECURITY: A FRESH LOOK AT WORKERS' DISABILITY INSURANCE

THURSDAY, JULY 24, 2014

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:10 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Stabenow, Nelson, Cardin, Brown, Hatch, and Grassley.

Also present: Democratic Staff: Jocelyn Moore, Deputy Staff Director; Tom Klouda, Senior Domestic Policy Advisor; Michael Evans, General Counsel; and Laura Berntsen, Senior Advisor for Human Resources. Republican Staff: Chris Campbell, Staff Director; Preston Rutledge, Tax Counsel; and Jeff Wrase, Chief Economist.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Finance Committee will come to order.

Today the Finance Committee takes a fresh look at Social Security Disability Insurance, a lifeline that keeps hardworking Americans afloat in the event of catastrophic illness or disability. Obviously, America's workforce has changed dramatically since the program began, and Social Security Disability has changed along with it. In recent decades, for example, more women have earned the protection of Disability Insurance, the baby boomer generation has gotten older, and the full retirement age for Social Security benefits has gone up.

On a bipartisan basis, colleagues, Congress must ensure that this safety net is not shredded. Where there is abuse, let us find it and fight it. Let us all focus on the vital goal, which is updating and protecting this essential program for generations to come.

Today's hearing is about the realities of an evolving program that reflects changing demographics, as well as the challenges of our current economy. As the committee contemplates the future of Social Security Disability, as well as the rights of individuals with disabilities more broadly, let us address inequities that exist for women in both the workplace and in retirement; create better tools for managing chronic illness and coordinating care; and provide adequate agency funding to manage the program, including resources that are aimed at targeting unscrupulous doctors and lawyers. Let us prioritize access to comprehensive mental health care at every age, and certainly encourage greater job creation for individuals with disabilities by employers.

Fortunately, there is a substantial amount of information about this key program that will help to sustain it over the long term. First, the growth in Social Security Disability over the last 20 years has been due to factors that the Congress expected. Policymakers, including many former members of this committee, planned for a fresh look at the Social Security Disability program in 2016, based on the shifting winds of demographics. One of those changes I have already mentioned: more women earning Disability Insurance.

Just last week, during an important hearing in this committee, the Finance Committee heard testimony from Ms. Stephanie Dempsey. Stephanie is a 44-year-old Georgia mother, and she has always worked. She owned her own home and was happily married. But in her late 20s, Stephanie was diagnosed with a hereditary heart disease. The quadruple bypass surgery she had at age 30 was just the first of several operations she has undergone to place 27 stents in her arteries.

In addition to heart disease, she now suffers the disabling effects of lupus, arthritis, and seizure disorder. Stephanie has to take 19 prescription drugs every day. I am looking at the witness table, because I will not forget that last week Ms. Dempsey was sitting where one of our witnesses is with a mountain of prescription bottles stacked up on a tray when she came before the committee. She takes those medicines each and every day, colleagues, and the illness has cost her her home, it has cost her her independence, and it has cost her her family.

She wants to work but she cannot do it, due to her chronic illness. She worked and she earned this benefit. She was able to use her Social Security Disability Insurance, and, in the struggle to pay her bills, it has been a big help to her. It does not take care of everything, but it has made a difference.

Stephanie is not alone. Women now make up nearly half of the 9 million workers enrolled in Social Security Disability Insurance, and Social Security Disability Insurance supports about 1 million veterans.

Second, I hope we will recognize that Social Security Disability Insurance is not a giveaway. Workers earn coverage for themselves and their families by working. The applicant must have a physician document a medical impairment that renders them unable to do substantial work. Less than 40 percent of applications are approved for benefits, even after appeals.

For workers receiving Disability Insurance, it is usually more than half of their income. The average Social Security Disability benefit for a disabled worker is $1,146 a month, just above the individual poverty level. Without that benefit, half of the families receiving Social Security Disability would be in poverty in our country.

Third, we know it is critically important to make sure disability benefits are going to those who need them, and that is not always easy. A small number of bad apples, unscrupulous doctors and lawyers, are always willing to commit fraud. But, according to the Social Security Administration's Inspector General, the program's front-line employees are highly skilled at identifying when things are not right. In the past 6 months, they reported over 32,000 suspicious claims to the Inspector General, and the Inspector General found that Disability Insurance payments are more than 99 percent accurate.

So let us, colleagues—and again, each of these areas I want to make bipartisan. Let us not make budgetary changes at Social Security that result in less oversight and more money lost to overpayments or fraud. That would mean fewer resources for those who rely on the program, which, as I have mentioned, includes women and their families.

The last point I will make is, we know we have to act by 2016 to shore up the Disability Insurance trust fund. In the past, reallocating resources within Social Security has been routine and noncontroversial. Since the disability program began, the combined tax rate has been reallocated—reallocated, colleagues—11 times. Some reallocations increased the tax rate going to the retirement trust fund and decreased the rate going to the Disability Insurance trust fund. Other reallocations did the opposite. The 1980 reforms to Social Security shifted money from Disability to the retirement program. In 1994, the Disability trust fund needed support, so policymakers decided to reallocate the tax rates to extend Social Security Disability and to allow for more time to collect the data that is so essential to the program.

Congress now has 20 years of experience to assess how Disability Insurance is functioning, and maintaining this lifeline is critical. So I look forward to working with colleagues on both sides of the aisle as we take a fresh look at the program and work toward long-term solutions that keep the promise of Social Security's earned benefits for many years to come.

[The prepared statement of Chairman Wyden appears in the appendix.]

The CHAIRMAN. Senator Hatch, thank you. I look forward to working closely with you on these issues.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

Senator HATCH. Well, vice versa. Thank you, Mr. Chairman, for holding today's hearing. This is an important topic that deserves our immediate attention.

In 2013, the Social Security Disability Insurance, or DI program, provided over $140 billion in benefit payments to nearly 11 million disabled workers and dependents. According to CBO, the number of DI beneficiaries increased nearly 6-fold between 1970 and 2012, and, over the past 40 years or so, outlays for benefits have grown by more than 9 times. There are various reasons for the growth, including demographics, changes in the composition of the workforce, relaxation of benefit eligibility criteria, and others.

Now, I hope that we can begin to explore these areas today.

DI benefits are funded from payroll tax receipts and assets in the DI trust fund, which are projected to be exhausted sometime around 2016. At that point, under current law there will be abrupt across-the-board benefit cuts of around 20 percent. No one wants that to happen, which is one reason why we are here today to begin responsibly looking at the DI program.

Indeed, it is our responsibility to fully examine this system and work to improve it and its finances where we can. Some believe that we could solve all or most of the financial challenges facing the DI program, and Social Security in general, through higher taxes. I made several requests to the Congressional Budget Office regarding this strategy, and recent analysis performed in response to those requests shows how difficult this approach can be.

Most proposals to reform Social Security by raising payroll taxes would result in massive tax increases, particularly on middle-class Americans, negatively impacting job growth and harming middle-income families. That is hardly what our economy needs.

I think there is definitely more we can do on the program integrity side. While I am not sure that the DI program is rife with fraud, we should work to prevent whatever instances of fraud we can. While I do not think that administrative law judges in the DI program who hear decision appeals cases are all bad actors, each erroneous decision can cost the trust fund hundreds of thousands of dollars. That being the case, we need to protect against frivolous decision-making that can quickly add up to billions of dollars in improper DI benefit payments.

Sadly, the Obama administration's approach to DI and Social Security in general has largely been to remain silent, even in the face of the impending DI trust fund exhaustion. The only major structural change that the administration briefly considered was adoption of the chained CPI and government-wide price indexation, coupled with benefit enhancements for vulnerable populations. However, the President has since withdrawn even that modest proposal and has publicly stated that he would not even discuss the idea unless he was assured of getting yet another tax hike to go along with it.

Now, Mr. Chairman, I come to today's hearing in the interest of having us responsibly examine the DI program to see what can be done and what we can agree upon to help improve the program and its finances for today's beneficiaries and, of course, future generations. I also believe that it would be irresponsible to simply take the expedient route of agreeing at this time to merely rubber stamp a payroll tax reallocation without examining the DI program to see what could be changed, what innovations could be considered, and what could be done in the face of projected trust fund exhaustion and over $23 trillion in unfunded obligations in the Social Security system.

It is premature to agree on some payroll tax reallocation as a patch of convenience and to kick the can down the road yet again. Now, I am willing to work with you, Mr. Chairman, and anyone in Congress, to see what we can do before DI trust fund exhaustion in 2016. There are many options that we already know about, but we can also examine more innovative ideas. For example, it could be worth looking at pay-for-success funding models to help fund one of the DI proposals in the President's budget. I am also willing to see if there are ways to improve funding flows for Continuing Disability Reviews in the DI program, another concept found in the President's budget.

In the end, it seems to me that we have two paths to choose from. One is what I have just traced out involving inquiry, research, and examination of what we can do to enhance the DI program and its finances and what we can agree upon. The other is to engage in divisive political rhetoric and demagogue the issue even further, which is irresponsible, in my view, and not what disabled American workers, and all workers ensured by Disability Insurance, should tolerate.

As I have tried to make clear, my preference is for the first path of cooperation, bipartisanship, and responsibility. I hope that, in the end, that is the path we will take.

So I want to thank you again, Mr. Chairman, for agreeing to hold today's hearing.

The CHAIRMAN. Thank you, Senator Hatch. I think, as you and I have talked—and I always enjoy our weekly sessions—we are going to work very closely on these issues, and others. I just want colleagues, as we start this debate, to remember Stephanie Dempsey sitting at that table there, because she did everything right, and she just got walloped with every possible illness. She came before the U.S. Senate with all those medications stacked up on the witness table and was just hoping, hoping that we would come up with policies that would work for her.

[The prepared statement of Senator Hatch appears in the appendix.]

The CHAIRMAN. So we are going to all work together. We have a terrific panel here today. Let me just introduce them.

Our first witness will be Mr. Stephen Goss. He is the Chief Actuary at the Social Security Administration. Our next witness will be Ms. Marianna LaCanfora—I hope I am pronouncing that correctly—Acting Deputy Commissioner, Office of Retirement and Disability Policy at Social Security. Our third witness will be Ms. Rebecca Vallas, who is associate director of the Poverty to Prosperity Program at the Center for American Progress. Our final witness will be Dr. Richard Burkhauser, who is a professor at Cornell University and an adjunct scholar at the American Enterprise Institute.

We thank all of you for coming. It is our custom here at the Finance Committee to make your prepared statements a part of the hearing record, and, if you could take your 5 minutes or so to summarize, that would be very helpful. This is a topic that I know my colleagues are very interested in exploring with you, so let us go with you to start, Mr. Goss.

STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION, BALTIMORE, MD

Mr. GOSS. Chairman Wyden, Ranking Member Hatch, members of the committee, thank you very much for the chance to talk to you today. I hope this will not be a debate, at least from this panel, because we have some facts to share with you.

I would like to walk you through a few of the figures that I have in the written testimony and just tell you a few things to help elaborate on the points made there. First of all, let me just mention, by the way, in addition to the 9 million disabled worker beneficiaries we have under the DI program—which is the one that has the trust fund that is looking towards possible reserve depletion at the end of 2016—we have 155 million American workers and their families who are insured against the possibility of becoming disabled and receiving those benefits.

So it is for more than just those who are receiving benefits; it actually provides insurance protection for virtually all the workers in our economy. So on our first slide that we have here, we have just a little picture. Some of you have seen this before. What this really does is, to the left of the black vertical line, it shows what the cost as a percentage of GDP was for the DI program and how it has risen, especially from around 1990 to 2010, for reasons that I will try to explain here in just a moment. But it also shows that, going forward, we project that, in fact, the cost of the DI program will be essentially leveling off, again for reasons I will try to explain here in a moment.

The critical point about this is that, under current law, the scheduled level of revenue or income for the program is a little bit less than what is scheduled for the cost of the program, and that is really the problem that you all have to try to address. As an actuary, I can only just sort of tell you what we are facing, but we depend on you all to make the decisions about how to move forward.

So, on our next slide we actually show what really has fundamentally caused this issue. Senator Wyden expressed this very well; I could not do it any better. But let me just share with you a little further thought. This slide shows you, as we march from 1940 out to today and into the far future, the distribution of our adult population by age groups.

What is critical here is, if you see the center line, the center line shows you the percentage of our adult population that is of working age; the amount of the distance below, that is our working-age population. The amount that is below the bottom line is the amount of young adults of working age. So the age for disabled worker beneficiaries falls between the center and bottom lines.

You can see between 1970 and 1990 that the distance between the center and bottom lines, which is the age group of age 45 to 64—that is the older adult working-age population, the folks who are most likely to become disabled—was shrinking. Those are the good times. Now, the not-so-good times were when the baby boomers were moving into that age bracket between 1990 and 2010. That is when we had the big run-up in disability costs. That is the principal problem, and there are other problems we will talk about in a moment.

The good news is that, as we move into the future, that share of our adult population and working-age population will stabilize and even decline for the disability ages, so we will indeed have a stabilization, even a reduction, in the cost of disability. The bad news is that, of course, those baby boomers are going where? They are going to go above 65, and they are going to become retirees. So to deny that we will have a stabilization of the growth rate in the disability program would be to deny that we will have the increase in the retirement age. They go together.

On the next slide, I wanted to share with you also, just by way of talking a little bit about this, the increase that we have foreseen.

If we go back to the 1995 trustees' report—which is an important one, because that was the trustees' report that came out right after the last major legislation for disability, when we had that reallocation which saved the trust funds from depleting—you can see that, compared with what we actually had predicted, in 1995, 2000, and 2005, the projected level of cost as a percentage of GDP for the DI program has actually turned out, on the right-hand bars, to be lower than we were projecting in the 1995 trustees' report.

Now, for 2010 and 2015, we had this unfortunate recession occur, quite a severe one, that caused the right-hand bars to be higher, which is the actual cost of Social Security Disability Insurance in 2010, and we expect in 2015 it will be a little bit higher than we had projected in 1995. Why? We were not expecting a big recession back in 1995 for that period.

Going forward, just going back to the trends that we have—demographics and disability—we expect that, again, we will have costs that are lower in the future than we had been projecting back in 1995.

On the next slide—I do not have a lot of time, so I do not want to spend a lot of time on this particular slide—this really just shows the relationship between the changing unemployment rates, the economy, and the incidence rates of disability.

The next slide also gives you a little bit different look at that, because we have also done some work showing the effect of the changing unemployment rates and the state of the economy on the allowance rate for disability beneficiaries. It is true that, when we have a major recession, we tend to have more people apply for benefits, but the percentage of them who are actually allowed goes down.

On our next little picture here we have something that explores a little bit more what actually happened in this recession. In this recession, the cost as a percentage of GDP, as indicated earlier, did go up. But why was that? It is mainly because the reduction in GDP itself far exceeded the percentage increase in the cost of disability benefits.

The next slide even more graphically illustrates this. The right-hand bars on the next slide show you the number change, that is the reduced numbers of workers we had in our economy as a result of the recession, versus the short left-hand bars, which show the increase in the number of disabled worker beneficiaries. The reduction of the workforce was much higher in the recession than the increase in beneficiaries, and that is really why our cost as a percentage of GDP has temporarily gone up.

So, when we go to this next slide, we can see what we have seen before. Back in 1995, we were projecting that the trust fund reserves would deplete in 2016, as Senator Wyden said. We had this wonderful period from 1995 to 2005. Some might recall it being referred to as the New Economy, when people thought great productivity would go on forever. That did go on forever. As a result of that, the projections our trustees made did get a little bit more optimistic. This late recession has brought us back to reality, and we are back to 2016.

I am almost at the end here. This next slide gives you something that some have seen before, but it just gives a breakdown of the increase between 1980 and 2010, over that 30-year period, where we had almost a tripling in the number of disabled worker beneficiaries. But we show, if you move from left to right, that was largely because of the increase in the general population of working age and the change in the age distribution. On the next slide, another item that Senator Wyden——

The CHAIRMAN. If you would not mind, Mr. Goss—and I am very interested in your testimony—I just know you are a little bit over your time.

Mr. GOSS. Oh. All right.

The CHAIRMAN. I want to be sensitive to my colleagues.

Mr. GOSS. All right. If I can just go to what is really the next-to-the-last slide just for one really quick item—and this is really what we are facing. What we are facing is the reserve depletion coming up at the end of 2016. We depend on you all to come up with something. On the very last slide we do have something that was included in the testimony. It is one possibility for keeping the benefits whole going forward, which is a tax rate reallocation, much as we did in 1994 and many times before.

Thank you very much. I wish we had more time.

The CHAIRMAN. Great. Well, I know you are going to get many questions from Senators.

Mr. GOSS. Oh. All right. I hope so.

[The prepared statement of Mr. Goss appears in the appendix.]

The CHAIRMAN. And now let us go to Ms. LaCanfora.

STATEMENT OF MARIANNA LaCANFORA, ACTING DEPUTY COMMISSIONER, OFFICE OF RETIREMENT AND DISABILITY POLICY, SOCIAL SECURITY ADMINISTRATION, BALTIMORE, MD

Ms. LACANFORA. Chairman Wyden, Ranking Member Hatch, members of the committee, thank you for inviting me to discuss the Social Security Disability Insurance program. I am Marianna LaCanfora, Social Security's Acting Deputy Commissioner for Retirement and Disability Policy.

The DI program provides benefits to disabled workers and their dependents. Workers become insured under the program based on their contributions to the Disability trust fund. For this reason, the DI benefit is rightfully described as an earned benefit.

When we decide whether a person qualifies for DI benefits, we are required to follow the definition of disability that Congress included in the Social Security Act. The Act generally defines disability as the inability to engage in any work—substantial gainful activity—due to a medically determinable physical or mental impairment that has lasted, or is expected to last, for at least 1 year or to result in death. This is a very strict standard of disability, and most people do not meet it.

In fact, while 57 million Americans report living with disabilities, only 14 million disabled individuals receive our benefits. This includes more than 1 million veterans. To apply the statutory definition of disability, we do a rigorous, structured analysis of each case using a 5-step sequential evaluation process. At step one, we determine whether a person is working and engaging in substantial gainful activity. If so, we deny that claim.

At step two, we assess the existence and severity of a person's impairment, using objective medical evidence. If we do not find a severe impairment, we deny the claim.

At step three, we determine whether the severe impairment matches the criteria of a listing. The listings describe, for each major body system, the impairments considered so debilitating that they would reasonably prevent someone from working. If a person has a listing level "severe" impairment, we allow that claim. If not, we proceed to step four.

At step four, we consider, in light of a person's impairment, whether that person can do any work that they have successfully done before. If so, we deny that claim.

At step five, we also consider an individual's age, education, and work experience, and determine whether they can do work that exists in the national economy. If they can, we deny the claim. If they cannot do any work that exists in the national economy in significant numbers, we will allow that claim.

Our partners at State agencies, called the Disability Determination Services, make initial disability decisions. They also reconsider the decisions of denied claimants when they appeal. Persons denied benefits by the DDS can request a hearing before a Federal administrative law judge, and thereafter they also have the right to appeal to our appeals council and then in Federal district court.

Without question, administering the Social Security Disability program is a uniquely complex and challenging task. Our goal is to keep pace with medicine, science, technology, and the world of work. We consult with the foremost experts and have partnerships across government.

Currently, we are collaborating with the National Academy of Science's Institute of Medicine to update all of our disability rules with the most current medical science. We are also collaborating with the Department of Labor to update all of our occupational information, and we are collaborating with the Retirement and Disability Research Consortium to build an evidentiary base for potential policy improvements.

In recent years, deep budgetary cuts have made administering the Disability program more difficult. In fact, for the last 3 years prior to 2014, our agency received an average of nearly $1 billion less than the President requested for our administrative budget, including our program integrity work. We lost about 11,000 employees over that 3-year period. That level of chronic under-funding caused service degradation and increased our backlogs.

While our budget level in fiscal 2014 meets our needs more adequately than in prior years, it is insufficient to make up for all the losses in those prior years. We still have significantly fewer employees than we had in fiscal year 2010, our workloads remain high, and we must make difficult trade-offs as we balance service with our program integrity work.

Sustained and adequate funding is critical. The fiscal year 2015 President's budget would allow us to better balance our important service and program integrity efforts. We need your support of the President's budget to meet our obligations to the public we serve.

Thank you for the opportunity to be before you today. I would be happy to answer any questions.

The CHAIRMAN. Thank you very much.

[The prepared statement of Ms. LaCanfora appears in the appendix.]

The CHAIRMAN. We welcome, now, Ms. Vallas. Welcome.

STATEMENT OF REBECCA D. VALLAS, ASSOCIATE DIRECTOR, POVERTY TO PROSPERITY PROGRAM, CENTER FOR AMERICAN PROGRESS ACTION FUND, WASHINGTON, DC

Ms. VALLAS. Thank you, Chairman Wyden, Ranking Member Hatch, and members of the committee. My name is Rebecca Vallas, and I am the associate director of the Poverty to Prosperity Program at the Center for American Progress.

The subject of today's discussion is of the utmost importance to all of us as Americans, because any of us could find ourselves in the position of needing to turn to Disability Insurance at any time.

Imagine that tomorrow you are cleaning out your gutters, you fall off a ladder, and you suffer a traumatic brain injury and spinal cord damage, leaving you paralyzed and unable to speak. Unable to work for the foreseeable future, you have no idea how you are possibly going to support your family.

Now, imagine your relief when you realize an insurance policy that you have been paying into your entire working life will be there for you and help keep you and your family afloat. That insurance policy is Social Security. I am sure we can all agree that no one wants to see this important program weakened or its basic but crucial benefits cut.

In fact, the American people have made clear, time and again, that they are strongly supportive of Social Security and strongly opposed to benefit cuts. Indeed, recent polling by Pew found that that was just about the only thing Americans could agree on. I look forward to discussing how we can work together to strengthen this vital program so that it can continue to protect American men, women, and children for decades to come.

I will make three main points today. First, Social Security Disability Insurance, or DI, provides basic but essential protection that workers earn during their working years. Social Security protects more than nine in 10 American workers and their families in case of life-changing disability or illness.

As Marianna noted, DI is coverage that workers earn. With every hard-earned paycheck, American workers pay into the system through payroll tax contributions which serve more or less as insurance premiums. DI, thus, provides insurance that is otherwise out of reach for most families. Just one in three private-sector workers has employer-provided long-term disability insurance, and those plans are often far less adequate than Social Security. Coverage is especially scarce for low-wage workers, so in effect Social Security corrects for a market failure, ensuring that American workers and their families have basic but essential insurance that most of us could never afford on the private market.

As the chairman noted, DI benefits are incredibly modest, but they are incredibly vital to American workers and their families. For more than 80 percent, DI is their main or sole source of income, and benefits are so modest that nearly one in five disabled worker beneficiaries lives in poverty, but, without DI, more than half would be poor. Disabled workers use DI for basic needs such as paying their rent, paying their mortgage, affording food, affording co-pays on needed, often life-sustaining medications. Without Social Security, the alternatives for many would be unthinkable.

My second main point today is that Social Security's eligibility criteria are stringent, and only workers with the most severe disabilities and illnesses qualify for benefits. I will not repeat the definition of disability which Marianna so ably explained, but I will point out that what the definition of disability requires is that a worker not only be unable to do his or her past jobs, but also any other job in the national economy at a level where he or she could earn even $270 per week.

According to the OECD, comparing our DI program to other industrialized nations, we have one of the strictest disability standards in the entire industrialized world, and the majority of applicants are denied under this strict standard. Many are terminally ill. Thousands die each year waiting for their needed benefits, and nearly one in five beneficiaries dies within 5 years of receiving benefits.

Third and finally, it is no surprise that action will soon be needed to address the program's finances. As Chief Actuary Goss pointed out, the 1995 trustees' report provided ample warning of DI's reserve depletion in 2016, and the program's finances have been on a predictable path ever since.

Unfortunately, a great deal of misinformation has been proffered about this vital program, and I am sure we can all agree that this misinformation does not serve an honest debate. The reasons for the program's period of rapid growth, which the Chief Actuary noted has now come to an end, are well-understood and are chiefly demographic. The growth was not a surprise, nor does it indicate that the program is anything but working as intended.

Fortunately, as the chairman noted, a simple, routine step that Congress has taken nearly a dozen times in the program's history, in a bipartisan manner on every occasion, would put DI and the entire Social Security system on sound financial footing for the next 2 decades. It is called reallocation, and it has occurred no less than 11 times, about equally in both directions. The last time reallocation was done in 1994, it was enacted by a unanimous vote in both the House and Senate, receiving the bipartisan support of several Senators who serve on this committee today.

In closing, I would like to borrow the words of Robert Ball, who served as Commissioner of Social Security under Presidents Kennedy, Johnson, and Nixon. Commissioner Ball noted, "I see little merit in doing anything less than financing Old-Age and Survivors Insurance and Disability Insurance on approximately equal terms."

The most important point, of course, is to maintain confidence in the Social Security system as a whole. When it comes to Social Security, the will of the American people is clear: they value and support this program and, indeed, want to see it strengthened. Policymakers have many options to ensure long-term solvency of the overall system and a window of 20 years to arrive at a package that will accomplish that goal.

In the meantime, policymakers should take the common-sense step of enacting a simple payroll tax reallocation, as has been done

11 times in the past, to keep DI on sound footing past 2016. Failure to do so would be not only unprecedented, but also nothing short of devastating to millions of disabled workers and their families.

I would be happy to take any questions that you have, and thank you.

The CHAIRMAN. Thank you very much, Ms. Vallas.

[The prepared statement of Ms. Vallas appears in the appendix.]

The CHAIRMAN. Dr. Richard Burkhauser, we are glad to have you. Please proceed.

STATEMENT OF RICHARD V. BURKHAUSER, Ph.D., PROFESSOR, CORNELL UNIVERSITY, AND VISITING SCHOLAR, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. BURKHAUSER. Thank you, Senators. I love to solve problems, and one of the wonderful things about my life is that Cornell University now pays me an enormous amount of money to solve the problems that I choose to solve.

If you want to take a fresh look at what is going on with SSDI, I think you have to answer and solve these two puzzles. First is, what accounts for the growth in the prevalence rate of SSDI recipients as part of the working-age population? Second is, will this growth continue into the future? We have heard some discussion about this already.

I certainly agree with the previous speakers that increasing the retirement age is important, the aging of the population is important, and women's labor force growth is important. But Mary Daly at the San Francisco Federal Reserve Bank and Jon Schwabish at the CBO, as well as David Autor at Harvard and Mark Duggan at Stanford, using shift/share analysis in separate research papers, argue that while these one-time factors are important, they only explain part of the growth in SSDI prevalence rates. As can be seen in slide 1, Daly and Schwabish find that only about 56 percent of this growth since 1980 is explained by these factors.

The factors that account for the other 44 percent have not been discussed by the other members of the panel, and they are critical. What is driving that 44 percent? Well, in my view, it is public policy changes that have eased entry into the system: relaxation of entry rules through changes in mental illness criteria; the use of back pain, making it more difficult for CDRs to remove people who are able to work; and, more importantly, the way that Social Security gatekeepers have used these rules in their decision-making.

In a 2013 *American Economic Review* article, Nicole Maestas and her co-authors, one a researcher from the Social Security Administration, found that, in 23 percent of all cases heard by DDS folks, the decision was based on the luck-of-the-draw of whether the applicant got a hard or easy evaluator. The problem is that it is increasingly difficult to make these hard decisions on medical criteria alone. In more than 50 percent of these cases, the decision has to be made on vocational criteria.

So, having said that, if you look at the next slide, what the Office of the Chief Actuary has nicely done—and these numbers are available on the SSA website—is show us what history has told us, that between 1977 and 2013 there was a rapid rise in the number of people on the rolls. Look especially at the period between 1992, where it was 3.47 million, to 2012, where it was 8.83 million.

More boldly, the Chief Actuary has told us that this growth is going to substantially decrease. As a matter of fact, after 2025, it is going to stabilize and not increase at all. I hope that is the case. But the work of Daly and Schwabish and of Autor and Duggan suggests otherwise. Daly, Duggan, and I were each members of outside panels asked to evaluate the Chief Actuary's methods and assumptions over the last dozen years, so we have talked to him about his predictions over the years.

The next slide will show you why I am doubtful that the Chief Actuary's predictions will come true. This is a history of the Office of the Chief Actuary's predictions over the last 25 years about growth in SSDI prevalence rates, the very predictions that he is making today. What we see in the black line is the actual increases. In 1988, he predicted that growth would not be very great, and he was wrong. In 1991, he predicted growth was not going to be very great, and he was wrong. In 1996, he actually predicted growth that was greater than what happened over the next few years. This is the projection he is now arguing is the one that got it right, if you extend it out to 2013. But in 2001, he predicted that it was going to be less than that, and in 2005 he also predicted that it was going to be less than that. And these predictions were wrong.

What is going on here? Why is it so hard for him to predict the future? Well, because it is hard for anyone to predict the future. But it is also because, in his predictions of the future, he has not taken into consideration in a systematic way the 44 percent of growth that is accounted for by changes in the SSDI program itself. Policy changes matter.

So let us go to the next slide. What I am urging you to do—and what I am urging the Social Security Administration to do—is to put a band around possible future growth increases. The top line shows you what would happen to growth if it simply increased at the same rate it has been increasing since 1980. We see substantial growth much above the growth that is predicted by the Chief Actuary.

Why does this matter? It matters because, if you really believe that these are once-and-done changes in the increase in the SSDI rolls, then a once-and-done, one-time single increase in SSDI taxes will match long-term revenues to long-term expenditures. But, if that is not the case, there will be continuous growth in prevalence rates, and this one-time tax increase will only be a down payment on the future growth in expenditures. In that case, we need to think more carefully about structural changes that will slow down this future growth.

Thank you.

The CHAIRMAN. Thank you very much, Doctor. I know we are going to have a good discussion with colleagues on both sides.

[The prepared statement of Dr. Burkhauser appears in the appendix.]

The CHAIRMAN. Ms. LaCanfora, let me start with you. Back as a young guy, I ran the Senior Citizens Law Service and Gray Panthers. We followed these programs very carefully. I particularly looked at this question of whether it was somehow easy to get these benefits, and I have tried to follow this over the years.

I was struck, in preparing for the hearing, by a *Los Angeles Times* article, specifically a comment by a Jerry Mashaw, who is an authority on these issues at Yale Law School. He said something that really struck me. I am curious. You have been in the field for years and years—I gather decades—and I would be curious if you think this is generally true.

Mr. Mashaw from Yale Law School said, "It is unlikely that someone able to work will voluntarily opt instead for disability benefits that pay, on average, one-third of the mean wage, require a 6-month waiting period for application, a 2-year waiting period for medical benefits, and provide any benefit to fewer than one-half of those who apply."

Just as a general proposition—and you may not have heard of this or this particular gentleman—is that pretty much accurate, in your view, given your years in the field?

Ms. LACANFORA. That does reflect my experience. I started my career taking claims from the very disabled individuals whom we are talking about, and I spent years doing that, so I have run into these folks personally. I think generally people want to work, and they come to us as a last resort.

The CHAIRMAN. Let me walk through some of the other matters that relate to exactly what you have to do to earn this benefit. My understanding is that an individual has to work a quarter of their adult life and 5 of the last 10 years. Is that generally accurate?

Ms. LACANFORA. That is a generally accurate summary of what it takes to become insured for these disability benefits, yes.

The CHAIRMAN. And I think you heard me talk earlier about—and she is going to sort of be the face of my focus on this program—Ms. Dempsey, who was here, Stephanie Dempsey, and the link between this and chronic illness, about which we already have a bipartisan bill in this committee and in the House as well.

My understanding is that, in many instances, we are talking about individuals who are chronically ill, and, in order to qualify, an individual has to be unable to engage in substantial gainful activity by reason of a medically determinable physical or mental impairment expected to last at least a year or result in death. Is that essentially the link between the program and chronic illness?

Ms. LACANFORA. Exactly. And I would just add, in terms of chronic illness, when we do terminate benefits for individuals based on medical Continuing Disability Reviews, we see about a fifth of those folks come back onto the disability rolls within 8 years of being terminated, which just further, I think, makes your point that a lot of these folks have chronic illnesses.

The CHAIRMAN. And the last point dealt with this matter of applications being approved. What the staff informed me is that last year well over half—I mean, it is something like 40 percent—of the applications were actually approved after you got through the various levels of appeal. Is that correct?

Ms. LACANFORA. That is correct. I would also add that, right now, our allowance rate is the lowest that it has been in decades.

The CHAIRMAN. Let me ask just one other question, if I might, because colleagues have a great interest in this, and that is on the work activity of those in the disability program. From the seat of your pants you say, all right, these are modest benefits, benefits, as I understand it, that are lower than the minimum wage, so there certainly would be a substantial number of people who would work if they could. So, if you could, comment on the work capacity, the ability of those on disability to work.

Ms. LaCanfora. What we see is that about 28 percent of our beneficiaries on the DI rolls have some level of earnings, but only 10 percent actually exceed what we call the trial work period level, which is a very minimal level of earnings below the poverty level.

In terms of people who actually leave the disability rolls due to work, they represent less than 1 percent of all individuals. So, while we see people attempting to work, what we see is that, because of chronic illnesses and other debilitating conditions, work becomes sporadic, and folks have an inability of sustaining that work over a reasonable period of time.

The Chairman. I am essentially out of time, but let me just wrap up, if I might, with this. Give us, given your years in the field, your assessment of employers hiring individuals with disabilities. I would be interested in your experience. Are employers readily available who want to hire individuals with disabilities in our country?

Ms. LaCanfora. I think we have a tremendous amount of work to do in that arena. Recently, the Department of Labor promulgated regulations under section 503 that require Federal contractors to hire people with disabilities, and that is certainly a step in the right direction.

I think there are other things we can do. But our experience is that people struggle, truly struggle, to find jobs, particularly when they have lower levels of education and less skill in the workplace. It is very difficult to sustain work and to find work in this country.

The Chairman. Very good.

Let us go now to Senator Hatch. I am over my time.

Senator Hatch. Well, thank you, Mr. Chairman.

The Office of the Actuary highlights many reasons why demographics help to explain some of the changes over time in benefits and benefit growth in DI and on the retirement side of Social Security. It also mentions some other factors, one of which is changes in policy. Now, regarding those changes, the Congressional Budget Office has identified that the ways in which people could qualify for the DI program were expanded by legislation in the early 1980s.

According to CBO, that legislation “allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of a clear-cut medical diagnosis.”

Now, the CBO also says that, “The easing of the eligibility criteria increased the importance of subjective evaluations in determining whether applicants qualified for benefits.” CBO also says that, “Those changes in policy led to a substantial expansion in the share of DI beneficiaries with mental or musculoskeletal disorders.”

Now, my question for all of you panelists is whether you agree with what CBO has to say and, if so, whether that points to a need to carefully examine how the DI program treats sometimes subjective evaluation of claims that include symptoms of mental or musculoskeletal disorders. Yes, sir?

Mr. GOSS. If I may, thank you very much, Senator Hatch. Those are great questions. There are two little pictures that are on pages 8 and 9 of my written testimony that we did not actually get to, but I would like to just tell you about those a bit. We actually do monitor and we do pay attention to, for instance, the percentage of newly entitled disabled worker beneficiaries who have impairments of different types.

On those graphs you will see, on pages 8 and 9, that, if we look at younger people, younger new disabled worker beneficiaries aged 30 to 39, women in particular, the percentage of the new entitlements that came on our rolls with a mental impairment has not changed from the early 1980s through 2010. So it simply has not changed. We should talk further with Doug Elmendorf and folks at CBO.

If you look at the second one, which is for people coming newly on our rolls at ages 50 to 59, the share of those coming on with a mental impairment is much, much smaller at the older ages, and that also has not changed over the last 30 years. So, I think we need some more conversation on this.

The one point that really is important—and you will see that on the slide on page 9—is that the share of all the new disabled worker entitlements coming on the rolls at age 50 to 59, men and women alike, who have musculoskeletal impairments has risen, but interestingly, at exactly the same time, the number of people coming on the rolls with cardiovascular impairments has decreased. Between the two of those, they have maintained exactly the same share over that time.

So there is much more to look at here, but the mental impairment issue, the share age-by-age for men and women who have been coming on with mental impairments, really has not changed over the last 30 years.

Ms. LACANFORA. I would like to just—oh, I am sorry.

Senator HATCH. No, go ahead. You go ahead, and then Dr. Burkhauser.

Ms. LACANFORA. I would like to just briefly add, we do not award benefits to people solely based on allegations of pain. We do not. As I said in my opening remarks, a person must have a medically determinable impairment based on objective medical evidence from a medical provider, so we do not adjudicate claims based on pain or symptoms reported by claimants.

We do consider allegations of pain, and we look at them in terms of all of the medical evidence that we get, and we look for consistency and credibility in the evidence, but we do not pay benefits based on pain alone.

I also want to say that we do not diagnose people with impairments; we follow the medicine. We look for the evidence that has been crafted over a person's medical longitudinal history, and we use that evidence to award or deny benefits, but we are not making diagnoses at the Social Security Administration.

Senator HATCH. I was just quoting CBO, so I just wanted to see what you had to say.

Dr. Burkhauser?

Dr. BURKHAUSER. So I think CBO is following the economic research on this issue. We certainly know that in the 1980s there was a change in the criteria for evaluating mental illness, and we know that the share of people coming onto the roles with that as their primary condition has risen substantially. We also know that the prevalence rate of people on the disability rolls under age 40 has been rising faster than older people, and in large part that is because of persons with a mental illness as their primary diagnoses.

In addition, Autor and Duggan, in their work, agree that for the average wage worker, SSDI benefits do not replace a large share of that worker's average yearly wage earnings. But for lower-wage workers, that replacement rate has been rising over time. They find empirical evidence that this increase has had some effect on the decision of low-wage workers to try to get onto the SSDI program.

Now, I am not talking about fraud or abuse here. That is not the issue. The issue is that we are increasingly putting a burden on our DDS people to make very difficult decisions about who—on an unclear borderline—gets on the program and who does not.

Maestas found that 23 percent of those people who apply get on the rolls by the luck of having either a harsh evaluator or an easy evaluator. But more importantly, she found that those people who do not get on the rolls, if you follow what happens to them afterwards, work more than the people who did get on the rolls. So that is clear evidence of a program effect that is published in the *American Economic Review*.

Senator HATCH. My time is up.

Ms. VALLAS. Senator, if I could just add a couple of notes. Is that all right?

Senator HATCH. Sure.

Ms. VALLAS. Thank you. I just wanted to point out a couple of things about the 1984 legislation that you referenced. I mean, first of all, it was the result of many years of careful study on a bipartisan basis and actually resulted—it was legislation that was passed unanimously and with great bipartisan support, and signed into law by President Reagan.

Again, after years of careful study and examination of what the correct procedures and policies should be, it did not change the definition of disability in the statute. But what it did do, parts of which Marianna referenced, was to direct SSA to update its mental listings so that it would bring them in line with what current practice was at the time, which was the updated diagnostic and statistical manual.

Secondly, it clarified the way that pain was evaluated to ensure that allegations of pain would only be considered in the presence of a medically determinable impairment that could reasonably be expected to cause the pain.

Thirdly, it directed—and this was important, and I think especially in light of the chairman's story of Stephanie Dempsey—SSA to consider the combined effect of multiple impairments. Previously, if you had multiple significant impairments but none on its own rose to the level of the statutory definition of disability, you would be denied benefits. This corrected that and updated it.

The CHAIRMAN. Thank you very much. I just have to get my colleagues into this.

Senator Stabenow?

Senator STABENOW. Thank you very much, Mr. Chairman, for this very important hearing. I first just have to say, as somebody who has spent a great deal of my adult life fighting for mental health parity, that I have a difficult time with this discussion, because I think it is a good thing that we are now treating serious disabilities above the neck, as well as those below the neck.

I am pleased, Mr. Goss, to see, based on the numbers, we have not seen things change overall. But, Mr. Chairman, as I know you know, there are serious disabilities in the brain as well as every other organ in the body.

But let me back up, if I might. I do have a question, but I do want to start by saying, Mr. Chairman, that, first of all, I think Social Security is a great American success story. We all think of it as retirement, and yet we also know it is a survivor benefit.

I know colleagues here who have talked about the fact that, for them, the working parent passed away before their 18th birthday, and their family literally survived on Social Security. We also know, although we do not think about it, those of us who are fortunate enough not to find ourselves in a serious injury, this is a disability policy. So this is a great American success story. It is about security, and it is about insurance, and it is about all paying in.

I am also, Mr. Chairman, not surprised, if we are looking at numbers between 1970 and 2012, that we are seeing costs change. Health care has changed, research has changed. We now spend 1 out of 5 Medicare dollars on Alzheimer's because, as we are living longer and getting older, those costs are going up—for SSI Disability as well. I am not surprised at that, since we are living longer, and we are seeing more things.

VA—the blessing is that more people are surviving war. The challenge is that we have more costs, because we have long-term disabilities for people. So this is not a surprise to me. I would hope that we would not make this a political issue in the long run. We have, in fact, reallocated 11 times between the 3 pots.

This is about adjustments between the three pots of Social Security, and it ought to be a no-brainer just to do this, in my judgment. I would hope that, in fact, that is what we would do. I also would hope that we would stop cutting the agency so that, in fact, you could continue to aggressively pursue the backlog, which I am very concerned about.

Let me ask, Ms. LaCanfora, if you could talk a little bit more about the difficulty in qualifying for these benefits. More people in a recession applied? I am not surprised. People have no other income, so they say, "Maybe I will apply here." It does not mean that the number of people who were qualified went up disproportionately because more people applied, but I do think that it is important to answer the comment that has been made several times by other distinguished panelists that it is the luck of the draw. Is this the luck of the draw?

Ms. LACANFORA. No. Actually, I would say at the initial level, at the Disability Determination Services, we award 33 percent of applicants, which means that we deny two-thirds of them. Overall, we allow less than half of all of the applicants who apply for SSDI, which means we deny more than half of them.

So I think the criteria are strict. As Rebecca said, in comparison with other nations, we know it is very strict. Your impairment has to be expected to last 12 months or you have to be expected to die from the impairment.

Another point, to reference the research that Dr. Burkhauser just referenced, where he mentioned that people who are denied benefits oftentimes earn more money than those who get on the rolls, that very research showed that the denied applicants earn, on average, $3,000 to $4,000 a year more than those who get the benefits. That is not a lot of money.

That same research also showed that, of those denied applicants, half of them had zero earnings. So I do not think that denying applicants is necessarily the solution here. What we would like to see is more emphasis put on research and demonstration, because everybody agrees that individuals with disabilities, many of them want to work.

We have to figure out, in a coordinated way at the Federal, State, and local levels, in conjunction with the private sector, how we provide the necessary supports for them to be able to do that.

Senator STABENOW. Thank you very much.

Ms. Vallas, could you talk a little bit more about what Social Security Disability Insurance means to the average worker and what options people would have if we did not have the disability program?

Ms. VALLAS. Thank you for the question, Senator. I think, to the average worker, what Disability Insurance really means is peace of mind. It means that they know that in case—and, as you said, hopefully this does not happen—but in the event of a significant and life-changing disability or illness, they have the protection that they and their family will be able to stay afloat and make ends meet. That is really significant. I mean, it really, I think, symbolizes what makes Social Security, as you said, such a great success story.

As far as what kinds of alternatives people would have, I think, sadly for most, there really are few alternatives. As I noted in my opening statement, very, very few American workers have access to employer-provided long-term disability insurance, and even for those who are fortunate enough to have that coverage, those plans are typically far less adequate than what Social Security provides.

So the realistic alternative for many people, if they did not have DI, would be nothing, would be homelessness, would be skipping meals, would be not being able to afford needed co-pays on life-sustaining medications, really horrific things to envision. That is why I think DI is such an important program, and I am really glad we are all having a conversation today about how to strengthen it for those beneficiaries for whom it is really a lifeline.

Senator STABENOW. So, if someone was not paying into this insurance system called Social Security and then being able to get the benefit from disability, chances are we as taxpayers would be paying a cost in another way for those individuals with no income who would find themselves in other places, other public assistance programs.

Ms. VALLAS. That is very possible.

Senator STABENOW. So this is an insurance system.

Mr. Goss, just to take 1 quick second about the demographics again, in terms of the changes, the number of people who qualify—if you might, just speak a little bit more again to the demographic changes.

Mr. GOSS. Thank you very much. I think statistics can tell us lots of things, but we have to take care in the statistics we are looking at. What I presented here mainly, and many other people have talked about, is the increase in the number of disabled worker beneficiaries. That is largely—I think even Dr. Burkhauser would agree—the result of the increasing general population at working ages and the age distribution.

Now, we can look at statistics in a different way. We can look at the percentage of the working-age population that is getting benefits. That takes away the increase in the population. We can look at the percentage of the population receiving benefits by age. That takes away the effects of the age distribution change. We can also look at the percentage of the insured population at each age. That takes away all three of the effects.

Now, if you look at it that way, then of course the share of the increase that is due to increase in population, increase in insured status, and the changing age distribution is zero, because you have come up with a statistic that ignores this. So I think we just have to be very careful when comparing prevalence rates to increases in numbers.

But, if I might say one other thing, we have heard mentioned several times, and I think you mentioned it also, the luck of the draw. If I may, I think Dr. Burkhauser mentioned several times, he referred to a paper by Nicole Maestas in *American Economic Review* in 2013. It happens that that paper was reviewed. I reviewed it back in 2012 before it came out.

In fact, Dr. Burkhauser and I even talked about the 23 percent statistic that was mentioned in that. Let me share with you what that 23 percent statistic actually is. That 23 percent statistic was a matter of the researchers looking at a range of different Disability Determination Service examiners, individual examiners, and looking at their personal, individual rates of allowance, including the allowance rates that come from appeals afterwards.

The very highest and the very lowest allowance rates for the two individuals were 23 percentage points apart. Now, Nicole Maestas and I talked quite a bit about this. If you would look at her paper actually in the *American Economic Review*, wonderfully, she put a footnote in about the 23 percent and modified it along the ways that we had discussed. One way was to say, eliminate the top 1 percent and the bottom 1 percent, and the 23 percent shrinks to 11 percent.

The CHAIRMAN. Mr. Goss, respectfully, Senator Brown has been incredibly patient.

Mr. GOSS. I apologize.

Senator BROWN. I will listen to Mr. Goss all day. I have had him in my office, and I like listening to him, Mr. Chairman——

Senator STABENOW. Would you like to ask him to continue his discussion?

Senator BROWN [continuing]. But I appreciate the time.

The CHAIRMAN. I thought Dr. Burkhauser wanted to continue this. We are going to have a second round, because our colleagues do feel very strongly about it. So we can continue on this question of the paper and the 23 percent.

We will now go to Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. It is an honor to be on this committee and to work on issues that matter to so many people's lives like this. I have been in the Senate only 7½ years. I have learned a number of things. One of them is, when I hear some of my colleagues talk about strengthening and improving a program like social insurance, I always listen with caution.

I noticed in the *Wall Street Journal* a Republican aide was quoted about this hearing, saying, "Senator Hatch hopes to focus on the disability issue to catalyze a broader discussion." I think "broader discussion," to me, means discussions of Social Security at large, discussions of Medicare, discussions of social insurance overall.

I think we always need to approach this with caution, and I caution also putting it in historical context. I carry this letter around that was given to me by someone in my office. Her father—she is roughly my age, without giving away anybody's age—found this letter in her grandfather's—her father is 88. He found this letter sent to her grandfather from the Pennsylvania Gas and Electric Company dated December 24, 1936.

So this was a letter written by the vice president of this company in 1936 to one of his employees, adequately, not well-paid, but getting along. He writes, "Dear Fellow Employee: On August 14, 1935, Congress passed the Social Security Act," something probably few of these employees had ever really much heard of in 1936. "Under a provision of this Act, the company is required to deduct 1 percent of your wage beginning next week, and then 1.5 percent to 2.5 percent, then 3 percent. These deductions are designed to provide for retirement at age 65."

So you get this letter from your boss, you do not really know what Social Security is, and they are saying, we are going to take 3 percent of your wages and we are going to give it back to you, and maybe some more, at age 65. It occurs to you, wait a minute, nobody in my family has even lived to 65 in the last couple of generations. So this stuff is not easy. There are always misconceptions—the same with Medicare, the same with the Affordable Care Act.

Why this concerns me is, there was a recent poll that showed 72 percent of Republicans, 64 percent of conservatives, agree with the statement, the Affordable Care Act has helped no one, no one, zero, no one. In another recent poll, 23 percent of all Americans believe Barack Obama is not an American, and another 17 percent are not sure.

So, when I hear these attacks on Social Security Disability Insurance—there is sort of the "good" Social Security. That is what Congressmen's mothers and fathers get. That is the "good" Social Security. Then there is Social Security Disability, which is a bunch of people who do not want to work, or they are people of color, or they are mostly women, or they are low-income people and they are scamming.

I mean, we hear these stories. When any of us contribute to these kinds of beliefs, these kinds of doubts, we know how hard it is to enact and run these social programs. Everybody loves Social Security. Now, the only way to really attack Social Security is to go in the back door through Disability Insurance, because that is not my mom and dad getting Social Security, that is those other people.

That is why these hearings are so important and why telling the truth at these hearings is important and not using one story to besmirch the reputation of the whole program with millions of people, 85 million Americans. Six-point-five million Americans used the VA last year, a total of 85 million patient visits. There were problems there, serious problems.

But you know, most people get pretty good care from these government programs, whether it is Social Security Disability, whether it is any kind of social insurance. That is just a cautionary note that I would like to share with my colleagues, and I hope that we can keep this sort of on the straight and narrow and not use this to discredit something beyond what its intents are.

So my question, starting with Ms. Vallas—and maybe any of you can chime in too—these stories are about, as you said so well, Ms. Vallas, individual people with real names, real problems, and real concerns. Lincoln used to say, when his staff would say, you have to stay in the White House and win the war, you have to free the slaves, you have to preserve the Union, he would say, no, I have to get my public opinion back. He understood it is real people out there who are affected by real decisions.

Mike from Cincinnati, OH owned a small construction business. At 60, he suffered a massive stroke. This was even more serious than if he fell off a ladder. He suffered a massive stroke that left him paralyzed, unable to speak over the past 7 years. Mike is now 67. His medical expenses depleted his IRA. He had prepared for the future as well as any small businessman could. If he did not have SSDI, his family does not know what he would have done.

Are benefits for people like him adequate, are they too generous? What are they?

Ms. VALLAS. Thank you for the question, Senator. I think we have all talked about how important this program is, and it is really nothing short of vital for beneficiaries. But benefits are incredibly, incredibly modest.

As the chairman noted, they are just over $1,100 per month, which breaks down to about $300 a week. So, at a level that is so low, and when we know that eight in 10 beneficiaries count on DI for their sole or primary source of income and fully one-third count on it as their only source of income, it really is no surprise that one in five beneficiaries lives in poverty, even with the vital assistance from those benefits.

So when you ask, are they adequate, I mean, they are incredibly vital, but I think that there would be room for having a conversation about strengthening the benefits that people count on and that are so important to them so that we can provide people insurance so that they would not be living in poverty if something happens to them, but rather would be able to be above the Federal poverty level.

Senator BROWN. Dr. Burkhauser, too adequate, too generous?

Dr. BURKHAUSER. Well, I guess what I would say is, for people who are able to work, I would much prefer to put my money in accommodation and rehabilitation to slow their movement onto the rolls. I think that is the major issue. As a government, what are we going to do to try to keep people in work as long as possible? These are very tough issues.

Sweden, Great Britain, and Holland, over the last 15 years, have radically changed their approach to the population with disabilities by putting more energy into accommodation and rehabilitation rather than into benefits on the rolls. Because of that, those——

Senator BROWN. Do you want to expand the Earned Income Tax Credit then, because that incents people to work?

Dr. BURKHAUSER. That would be a wonderful idea. The 1996 welfare reform under President Clinton demonstrated that when you made work pay for single moms, you dramatically changed the way that single moms led their lives and tremendously increased their workforce employment.

I would love to see a disability worker's tax credit for kids 18 to 25, for instance. This is an age group not now eligible for the Earned Income Tax Credit. This kind of a disability tax credit could allow them the opportunity, even if they could only work part-time, to still have sufficient income so that they could make more than they would on SSDI. These are the kinds of innovative ideas that I hope we can talk about. That would be great.

The CHAIRMAN. Let us do this. We are going to continue this, I know, on a second round.

Senator Nelson?

Senator NELSON. Just to put it into perspective for me, there are 650,000 Floridians receiving disability benefits. It is about 6.2 percent of all Florida residents between the ages of 18 and 64, so it is substantial. Yet, if we do not act, those benefits are going to be cut. So, Ms. Vallas, what would their life look like if they saw a 20-percent reduction in their monthly checks?

Ms. VALLAS. Thank you for the question, Senator. As I pointed out in my response to your colleague Senator Brown, the benefits are already incredibly modest, and many beneficiaries are already living in poverty, so there really is no room in their household budgets for cuts. Many are already making tough choices between, do I pay my gas bill or do I pay my electric? Do I take half a pill so that I can afford transportation to go to see a doctor? If those are the choices that they are already making, a 20-percent benefit cut would be nothing short of devastating for folks who are already struggling to get by with these vital, but modest, benefits.

Senator NELSON. Let me ask Mr. Goss and Ms. LaCanfora, we do not hear a lot about how the rate of awards has remained relatively flat for disability, and we have seen a number of people rejected over the last few years. What does this say about the strict eligibility standards?

Mr. GOSS. If I could just start on that. What we have seen overall for about the last 20 or 30 years is that the rate of award has remained quite constant; that is, of the percentage of people who apply. That has remained quite constant. That does vary somewhat, as we have discussed so far today, with the state of the economy. When we have a very, very weak economy and more people apply, we have a lower award rate.

But another way of looking at this too is the disability incidence rate, which is the share of the number of people who are living in our society and are insured, actually receiving benefits. That, for men—it goes up and down, as everything does—but that has remained quite constant for men over time.

That has increased somewhat, we must tell you, for women at exactly the same time over the last 30 to 40 years, so that we have doubled the share of women who in fact are insured for disability benefits. So we have gone from 35 to 70 percent of women in our workforce having enough recent work to be insured for disability benefits, and over that same time the disability incidence rates for women have gone up. There is a relationship there, clearly, but we just want to make sure that we are clear that incidence rates have gone up somewhat, but it is highly associated with the share of women who are insured.

Senator NELSON. Well, what do you think, Ms. LaCanfora, about the strict eligibility standards?

Ms. LACANFORA. I would add only, to reinforce the point I made earlier, that the requirements are very strict. Less than half of all applicants are awarded benefits overall after exhausting all of their appeals. In order to qualify for benefits, the disability must last a minimum of 12 months or be expected to result in death. We see, as Ms. Vallas said, I think, one in five men and one in seven women dying within 5 years of getting disability benefits.

The only other thing I would like to mention is that, from a quality review perspective, we have very robust quality review at Social Security, which we are always enhancing. At the Disability Determination Services where we make our initial and reconsideration determinations, our quality is consistently above 99 percent, so we think we are also making accurate and consistent decisions—always with room for improvement, of course, but we are pretty good at what we do.

Senator NELSON. Thank you, Mr. Chairman.

The CHAIRMAN. Let us stay with Mr. Goss on this matter of women, because of course this has been a very significant aspect of the growth. As you said, it was foreseen, expected, and now it is predicted.

Let us talk a bit about how SSDI and the challenges with respect to women in the workforce continue to play out in this debate. It seems to me that, in many instances, we know that the incomes of women are lower, so then they would have a lower benefit.

Then they would, in many instances, take time out to raise children, care for an older parent. What are the implications of these kinds of trends, and do you think that this is an important challenge for us—again, we are going to try to work in a bipartisan way—and what might Congress do about that?

Mr. GOSS. Senator Wyden, that is an extremely, extremely good question and a great insight. I think, first, I would speak to the success story that we have had as a society where women—look at the panel today, look at this room.

Women are much, much more engaged in the workforce and on a consistent basis, and that is why, at this point, we now have essentially the same percentage of women of working age who are insured for disability as for men. That is a great success story.

You are exactly right though, that women are much, much more likely—and I am probably not the best person to speak to this—to take time out during their working years to care for children or care for elders. That has a direct impact on the average earnings level the person has that we use for determining benefit levels and will, therefore, of course, lower the benefit level available to women. With more and more women working in single-parent households, that becomes much, much more important than when we were a society that was much more likely to have two-parent households.

The CHAIRMAN. Does any other panelist want to comment on that?

Ms. VALLAS. I would be happy to chime in, Mr. Chairman, since it is such an important topic, and I am really glad that you brought up the importance of DI to women. As you noted, DI amounts are actually lower for women typically than they are for men, and so it is no surprise that one in four women DI beneficiaries lives in poverty compared with just one in six men, and that is because of, as Chief Actuary Goss noted, time out to care for children and for other reasons, and also lower lifetime earnings.

Women are actually slightly more likely to become disabled than men are and to face chronic illness, and that is actually consistent across the U.S., as well as other nations. But, given that women on average have lower earnings and higher rates of poverty, DI is especially important for women.

Both lower earnings and higher rates of poverty are actually themselves risk factors for chronic illness and for disability, and they can also leave individuals with less to fall back on in the event of a significant disability or illness. So, DI is especially important for women.

The CHAIRMAN. Do any other panelists want to comment on that? I want to let my colleagues have a second round. The only thing I want to do is make two comments. Maybe for the record, Mr. Goss, we can have you respond to the comments that Dr. Burkhauser made with respect to his judgments about the accuracy of some of your projections and whether the growth rate is understated. I think that would be helpful to have for the record. We could probably go on all morning with the battle of the actuaries, both of whom have very distinguished credentials.

I also would like—and we can do this off-line—to follow up on that last question that Senator Brown asked you, Dr. Burkhauser. Senator Brown has been a great champion of the Earned Income Tax Credit, which I have been a very, very strong supporter of as well. This will be a major issue as we go forward. Senator Hatch and I talked about bipartisan tax reform.

Senator Brown asked you about supporting the Earned Income Tax Credit, and you said you did and made a comment with respect to disability. So I am interested in hearing more about the details of what the two of you were talking about in that last question Senator Brown asked. He has been a great champion of the Earned

Income Tax Credit, and I am very much in support of what he is working on.

Senator Hatch?

Senator HATCH. Well, I do not know anybody who wants to hurt anybody who has a legitimate disability claim, but we also have a $17 trillion, going on $18 trillion national debt. We also have an inability to raise more funds. We also have all kinds of other impingements on the Federal budget.

So naturally, part of the reason for this hearing is to see if there is some way we can resolve this problem and yet not hurt anybody. So anybody who is taking the position that, oh well, the Republicans are just against Social Security, I mean, that is a really, really offensive thing.

But it does concern me that the CBO—I mentioned it in my opening remarks—says the number of DI beneficiaries increased nearly 6-fold between 1970 and 2012. Now, there may be a lot of really good answers to that. You have tried to answer that, Mr. Goss. Over the past 40 years or so, outlays for benefits have grown by more than 9 times.

Now, sooner or later we wonderful people here in Congress are going to have to look at that $18 trillion debt and find some way of making payments that are just, reasonable, and decent and get rid of any kind of misspent payments. We have plenty of those throughout the Federal Government. So I am just concerned. Who wants to hurt anybody on Social Security? I do not.

But I would like to direct this question to Dr. Burkhauser, and Ms. Vallas as well. In your testimony, Ms. Vallas, you discussed the U.S. DI program in relation to other OECD countries and identified some quotes from OECD reports saying that, by some measure, U.S. eligibility criteria are stringent.

Yet, as I understand experiences of the other OECD countries, many have been confronting rapid growth rates in their disability programs by increasing the stringency of their eligibility criteria and changing policy to try to accommodate, where possible, the abilities of disabled workers to participate in whatever gainful activity that they are able to perform. They are having problems like we are, it seems to me.

So let me start with Ms. Vallas to see what your thoughts are about recent international experiences with disability programs, followed by whatever observations you would like to bring out here, Dr. Burkhauser. Help us to understand this. Help us to know how to solve this problem. Not just, we need more money, which is the request of everybody in the bureaucracy today, because we do not have more money to give.

So, how do we do that? I wish our friends on the liberal side would find some ways of cutting out the unessential programs in government so that we can do a better job for you. But I would like to have that answered.

Ms. VALLAS. Thank you for the question, Senator. There is definitely a lot of attention that is being paid to what is happening overseas, and I think there have been a lot of questions raised about whether what we are seeing in the Netherlands, which Dr. Burkhauser often refers to, or in other nations, might serve as a reform model for the United States.

Senator HATCH. Yes.

Ms. VALLAS. I would note that, even after reforms that we have seen in the Netherlands, the U.K., and elsewhere, the United States actually still has the lowest disability recipiency rates measured as a share of the working-age population, and we also spend comparatively little compared to those other countries, even after their massive disability benefit reforms.

So I think the U.S. already has a disability income support system which, as we have said, has one of the strictest disability standards and least generous benefit structures in the industrialized world. So to look to other countries which started with much more lax disability benefit definitions and much more generous benefits, they have effectively engaged in massive reform to try to get closer to where we are, yet, we are still actually doing better on those measures in terms of spending less and having a smaller share of our population receiving benefits. So, for those reasons, I think they might actually be better served looking to us as a reform model than vice versa.

Senator HATCH. Dr. Burkhauser?

Dr. BURKHAUSER. Well, no one can accuse Sweden and Great Britain and the Netherlands of being conservative governments that do not use government funding to provide for their folks with disabilities. But over the last decade, major changes have occurred in the Dutch system, in the Swedish system, and in the British system that have substantially reduced the prevalence rate of people in their working-age population receiving disability benefits.

They did not do it primarily by moving people off the rolls; they did it by slowing the movement onto the rolls of these folks by providing accommodation, rehabilitation, and incentives for private corporations to provide these kinds of help so that they had a work-first environment.

The problem with Social Security Disability Insurance is that it is a pure transfer program. The Social Security Administration is great at keeping records and paying people benefits. It is not in a position to provide accommodation and rehabilitation as an alternative. So we should look to what, for instance, the Dutch have done.

The Dutch have said that, for the first 2 years, private corporations are required to take care of the long-term disability needs of their workers. Thereafter, if any of their workers come onto the rolls, their experience-rated taxes go up in the way that we do in the United States with State Worker's Compensation programs.

These reforms have essentially given the responsibility to private corporations to provide the kind of necessary accommodation or rehabilitation that will slow people coming onto the rolls. For corporations that do that, they pay less in payroll taxes than the firms that do not do it. These kinds of incentives, I think, are structural changes that we should think about in reforming our DI program. They will make all people with disabilities better off.

Ms. VALLAS. Senator, if I could add just one more note.

Senator HATCH. Sure.

Ms. VALLAS. One of the proposals that has been floated—the source being countries such as the Netherlands, and Dr. Burkhauser has voiced support for this proposal—is to experience-rate disability insurance here in the United States.

I think it is worth being very careful as we explore that sort of option, given that if our shared goal here, as it seems everyone in this room agrees, is to best support workers with disabilities as well as we possibly can, experience-rating would be very likely to have the effect of actually providing employers with a disincentive to hire workers with disabilities. That is something we should be very cautious about as we consider potential reform.

Senator HATCH. All right. My time is up.

The CHAIRMAN. Colleagues, Senator Hatch and I have each had two rounds. Senator Cardin has not had his first, and Senator Brown would like to ask some additional questions. So let us recognize Senator Cardin. He has a hectic schedule today, and we are happy he is here.

Senator CARDIN. Well, thanks for acknowledging my schedule. I appreciate that, Senator Wyden. Senator Brown was not happy that I showed up when I did, but thank you for being pleased. Let me thank all the witnesses. I was following some of your testimonies, and I do apologize for not being here. The Senate Foreign Relations Committee is holding hearings on Iraq, which is urgent today.

I really appreciate this hearing, because I think it is critically important that members of the Senate and the public fully understand why we are having an issue with the DI trust fund, the different rates that go into the OASI and the DI trust funds, the demographic changes that have taken place in our country, and the changes in the law that increase the age of eligibility for Social Security retiree benefits.

It is not unusual to see an imbalance between the two funds. It is my understanding that the last time this imbalance occurred and this Congress took action was 1994. If I am correct, I believe it was unanimous action in both the House and Senate. I see everybody nodding. Shaking heads do not get into the record, so "yes"?

Ms. VALLAS. Yes, Senator.

Senator CARDIN. Thank you. Thank you for pointing that out. So it was not a controversial issue. If I am also correct, I believe that, before the 1983 changes, the amount of funds going into Disability Insurance was much higher than it is today. So we reduced the amount going into the Disability Insurance trust fund when we made the 1983 reforms, recognizing we did not need as much in the fund at that time. Again, you are shaking your heads.

Ms. VALLAS. Yes, Senator.

Senator CARDIN. I just want to make sure the record is correct on all these issues.

Senator Wyden, your opening comments are so correct—Disability Insurance is critically important to the people of this country. I could tell you about people in my State who depend upon Disability Insurance. Our office has helped many people go through the system, trying to make it as easy as possible for people who deserve to be on the program to receive benefits. Senator Hatch, I agree we have to make sure the integrity of the programs is maintained. That is absolutely essential, and I fully support that.

But I really want to emphasize that the imbalance between the two trust funds is not unusual. I hope Congress will do everything we can to protect the integrity of the system and ensure that those who are entitled to benefits receive them in a timely way. We should also look at any outliers in the system to see whether they are appropriate.

But at the end of the day, we, on a non-partisan and non-political basis, recognize that contributions have been adjusted between the two trust funds to make sure that both programs are adequately protected and that we have adequate revenues in the funds to last us for some time. So it is reasonable to look at an adjustment.

I will make one last point. Back in 1994 and 1995, the President, in his budgets, submitted adjustments. We do not have OMB here today, but I would welcome their thoughts as to whether they support in their budget for next year an adjustment between the two trust funds.

Ms. LACANFORA. Yes. I am actually the Assistant Deputy Commissioner, actually the Acting Deputy Commissioner for Policy at Social Security, so I can say that the administration and the Social Security Administration do support reallocation.

Senator CARDIN. Oh, good. Well then, put it in the budget. Get it to OMB so that we have that direct request: what number you want to see adjusted, how you want to see it adjusted. I think it would be important to have leadership from OMB, and then, Senator Wyden and Senator Hatch, we would have better information on the long-term impact that reallocation would have on the trust funds.

I think this hearing has been very helpful in putting this issue in perspective for us. There is no reason to panic. We always want to do a better job in the way we manage the trust funds, but I would hope that we would have guidance as to how we can make sure there is no anxiety in 2016 that we would not be able to pay full benefits under the Disability Insurance program.

With that, Mr. Chairman, I thank you for the time.

Mr. GOSS. Senator Cardin, might I just add that I am the Chief Actuary at Social Security, and we do, at the conclusion of every Trustees' report, produce a memo, at request, of what kind of reallocation potentially could be done to do just what you said, to equalize the trust funds. We have one of those now. It would be a temporary reallocation just for about 10 years of, at most, having 0.1 percent of the overall payroll tax rate shifted from OASI to DI for a brief period of time.

And I might just add, if you wanted to completely fix the 75-year projected shortfall for DI, we estimate that to be 0.32 percent of our tax base. So, if the payroll tax of 6.2 percent were increased by 0.16 percent for employers and employees each, that would eradicate the shortfall over the next 75 years. I am not suggesting that that is something that you want to do or that the American people would want, I just wanted to sort of put that in perspective.

Senator CARDIN. I appreciate that. Mr. Chairman, just very briefly, my point was that we normally adjust the existing revenues in order to make sure that we do not run out of funds with one trust fund versus the other. The overall solvency of the Social Security system, including the Disability Insurance program, is something I know this committee is very interested in.

Mr. GOSS. Our current projection is 2016 reserve depletion for DI, 2035 for OASI. They could be equalized at 2033 with a reallocation.

The CHAIRMAN. For our guests, I will tell you, Senator Cardin is always worth waiting for, and you have heard it again. [Laughter.]

Senator Brown?

Senator BROWN. I was thinking the same thing, Mr. Chairman. Thanks.

I want to follow up on Senator Cardin's comments and questions about how—and we talk about this around here all the time—we need a more predictable tax system, we need a more predictable set of rules. You know the anxiety as we move up close to a debt ceiling, or the anxiety of a reauthorization of a program and how important predictability is.

So just to expand a bit on that, Ms. Vallas, if you would sort of help us with this. How does reallocation actually work? We have done it, as Senator Cardin said and as you said in your testimony, a number of times. We know there is precedent. Does it cost anything? Is there any alternative? If you would, walk us through exactly how it has happened in the past and how it could happen now so we can reach some consensus, as we used to, so we could do this quickly.

Ms. VALLAS. Thank you for the question, Senator. As was pointed out very well by Senator Cardin, this has been really the traditional non-controversial and routine step that Congress has taken 11 times in the program's history since 1957. It has gone actually both ways. About half the time OASI has been the fund that has needed to have funds shifted towards it, and about half the time it has been DI. So really, as Senator Cardin said, the two have sort of always been considered together, and there have been reallocations made whenever needed, and on a bipartisan basis on every occasion.

The way it works is, I like to think of it as though there is a spigot of water coming down out of the ceiling and there are two buckets. One of them is a much larger bucket, that is the OASI bucket, and most of the water is going into that bucket. The other bucket, a much smaller bucket, is the DI bucket, and a little trickle of water is going into that one.

What reallocation does is, it actually shifts where the water is going so that slightly more goes into one or the other fund depending on its needs. So the plan that the Chief Actuary has laid out in the trustees' report and in a memo is a hypothetical plan for how you shift the water coming into those buckets.

Senator BROWN. If the water represents cost, there is no additional cost.

Ms. VALLAS. That is exactly right. There would be no need for additional taxes, there would be no need for——

Senator BROWN. And this is no surprise that this is happening. Again, we knew this was about to happen at some point in the future, correct?

Ms. VALLAS. That is exactly right. We knew back in 1995 that we were going to be where we are today, here today talking about

2016. So actually the program has been on a tremendously predictable path since the last time reallocation happened in 1994.

If I might, I just wanted to expand on a point that Senator Cardin raised, which is a very important one, which is kind of taking a walk back in history. If you look back at 1983 to that package of reforms that the Senator mentioned, one of the consequences of that package of reforms was actually a significant loss to DI because DI's share of the payroll taxes, the water trickling into that bucket, was significantly cut.

If DI's share of payroll taxes had actually continued to rise as scheduled under law previous to 1983, we would not be having this conversation today. DI would not be in need of shoring up. The 1994 reallocation partially addressed that long-term under-funding of DI, but it did not fully correct the under-funding that had happened since 1983. So what we really need to do is sort of finish the job that the 1994 reallocation started.

Senator BROWN. Thank you, Ms. Vallas. Let me shift to another question for you. We all talk here about how we want people to work, we want to reward work in this society. I appreciate Dr. Burkhauser's support of the Earned Income Tax Credit; that is one of the ways we do it. But there seems to be a myth that Disability Insurance is the cause of otherwise healthy workers leaving the workforce. Explain, Ms. Vallas and anyone else who wants to take it, how Disability Insurance serves actually as a work incentive.

Ms. VALLAS. Thank you for the question. The DI program actually contains an array of strong work incentives and protections for beneficiaries if their conditions improve and they are able to attempt to return to work.

So actually, given those significant work incentives, which include beneficiaries being encouraged to work up to the substantial gainful activity level to supplement their benefits—that is up to about $1,070 per month—they are encouraged to do that. They are also encouraged to take advantage of a trial work period which fully protects their benefits but which allows them to attempt to return to work to see if that is going to be feasible given their health.

Given those strong work incentives, one would expect that, if beneficiaries had significant work capacity, we would be seeing a lot of them taking advantage of these strong work incentives. We would expect that a lot of them would actually be supplementing their meager earnings so that they would have a little more to get by on each month, but that is actually not what we see. As Marianna noted, what we see is actually very few beneficiaries with sufficient work capacity to have any earnings at all.

Actually, Marianna noted, I think, something that I will repeat, because I think it bears repeating. If you actually look at the applicants who were denied benefits—so people who were found not disabled enough to reach that strict disability standard—we see incredibly little work by them after the denial. So, I think that really underscores how strict the disability standard is.

Senator BROWN. I have one related question, and you can finish, if the chairman is all right with that. These people working who are getting disability, they are paying into Unemployment Insurance, right?

Ms. VALLAS. That is right, Senator.

Senator BROWN. All right. Yes, if you would like to comment on that question, if that is all right, Mr. Chairman——

Ms. LACANFORA. I was just going to add—oh, I am sorry.

Senator BROWN. Is it all right for her to comment too?

The CHAIRMAN. Yes.

Senator BROWN. All right. Thank you.

Ms. LACANFORA. I just wanted to add to what Ms. Vallas said by pointing out that I think there is some common ground here in terms of a path forward. One of the things that Dr. Burkhauser mentioned was slowing the entrance of individuals onto the rolls, and another way to look at that is with what we call early intervention. I think that we are very interested in exploring the idea of early intervention.

How do you help people who have a desire to work despite their disability, to do that in a way that works for them? There are three proposals in the President's fiscal 2015 budget, demonstration projects that we would like to get the funding to run, that would do exactly that, that would explore ways to incentivize individuals with disabilities to work, to stay in the workforce, before they come on the disability rolls.

One of them includes, for example, looking at individuals who have been denied benefits. What happens to those folks? How can we keep them working so that they do not end up deteriorating further and having to come back and apply for Social Security again? We would also like to look at tax incentives for employers and test how that might work and what that might look like.

Lastly, we would like to also look at people who could use vocational and other rehabilitation supports, and coordinate with States to see what State services might help people with disabilities return to work.

So I would just like to reiterate that I think we have some common ground with respect to exploring early intervention strategies to help people return to work, and that will have, likely, the collateral benefit of slowing some of the growth in the rolls.

The CHAIRMAN. Senator Brown, does that respond to your question?

Senator BROWN. Yes, I think so. I am done.

Senator HATCH. But does Dr. Burkhauser have anything to add to that? Because I would be interested just to see what he has to say.

Dr. BURKHAUSER. Yes. So to argue that the Social Security Disability Insurance system encourages work is just odd. It is true that, once you are on the disability program, that is, you have spent a year or two proving that you cannot work, then there is some opportunity to work at that point.

But that clearly is the wrong moment to apply interventions to encourage work. What you really want to do is focus on slowing people down from leaving the workforce and moving onto the disability program in the first place.

The CHAIRMAN. I am not sure you disagree with him much. Is that true?

Ms. LACANFORA. Well, that is right. I am trying to point out some commonality here. Again, we have a proposal in the 2015 budget to test those very early intervention strategies that would keep people in the workforce before they come onto the disability rolls.

The CHAIRMAN. Let us do this, because we have to wrap up. I was pleased, because I thought the two of you were moving together there. I always like to kind of quit while I am ahead. Senator Hatch and I were basketball players in our youth, and you would always like to make one shot before you left. I think the two of you were moving closer together on this early intervention point. Feel free to add additional materials for the record.

I know that Senators on both sides of the aisle are going to have questions for all of you, and I am really very appreciative of the fact that you have allowed us, once again, to do what Senator Hatch and I feel so strongly about, and that is have big debates about important issues, and do it in a thoughtful way where people express themselves.

I am still interested in seeing the back-and-forth, by the way, on the projections for the program between Dr. Burkhauser and Mr. Goss, and you will be getting questions from a number of our Senators.

You heard me refer to Stephanie Dempsey, who sat where you are, Mr. Goss. She is, for me, the face of this program, a woman who did everything right who just got walloped by every possible illness, who takes 19 medications, all stacked up where Mr. Goss is.

We can figure out a way, as Senator Cardin said, and I think very eloquently, to make sure that the safety net is in place for her and address program integrity, and we can do it in a bipartisan way. You have helped us with that. We are going to have plenty of questions for you in the days ahead.

With that, the Finance Committee is adjourned.

[Whereupon, at 11:54 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

American Enterprise Institute
for Public Policy Research

Statement before the Senate Committee on Finance
On "Social Security: A Fresh Look at Workers' Disability Insurance"

SSDI Program Growth Will Continue Unless Fundamental Reforms Are Implemented

Richard V. Burkhauser

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American Enterprise Institute

July 24, 2014

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

SSDI Program Growth Will Continue Unless Fundamental Reforms Are Implemented

Richard V. Burkhauser, Cornell University and AEI

July 24, 2014

This testimony is primarily based on: Richard V. Burkhauser and Mary C. Daly. 2011. *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Policy for Change*, AEI Press: Washington DC, and extensions of that work in Burkhauser and Daly (2012), Daly, Lucking, and Schwabish (2013), Daly (2014) and Burkhauser, Daly, McVicar and Wilkins (2014).

The Social Security Disability Insurance (SSDI) program is growing at an unsustainable pace. Since 1970 the number of disabled worker beneficiaries has increased nearly six-fold, rising from 1.5 to 8.8 million in 2012. This rapid growth in the rolls has put increasing pressure on program finances. Inflation-adjusted SSDI expenditures have risen by more than six-fold from $20 to $137 billion (in 2012 dollars) over this same period. Based on current growth, the SSDI program is projected to be insolvent by 2016 (Social Security Administration, 2014).

The rapid rise in caseloads and costs are made more worrisome when put in the context of the broader goals of the SSDI program—to protect the economic well-being of people with disabilities. Since the passage of the Americans with Disabilities Act of 1990 (ADA), the employment of those with disabilities has declined considerably and their household income has remained flat. Increasingly, people with disabilities are substituting SSDI benefits for labor market earnings, making them net withdrawers rather than net contributors to the tax base during their working age. This outcome challenges the finances of the SSDI program and is at odds with the view of disability codified in the ADA that people with disabilities are able and willing to participate in the labor market.

WHY HAVE SSDI CASELOADS RISEN?

Possible explanations for SSDI program growth can be broadly classified into two groups: (1) those that are focused on one-time events not directly related to the program itself—the aging of the population, changes in the underlying severity of disability, the entry of women into the labor force, or the increase in the normal age of retirement from 65 to 66 in the Social Security Old-Age and Survivor Insurance program (OASI); and (2) those that are focused on changes in program rules or their application—the cyclicality of application rates, the growth in SSDI benefits relative to wage earnings, and specific changes in rules and their interpretation and implementation over time.

Recent work by Daly, Lucking and Schwabish (2013), updated in Daly (2014), using shift share analysis argues that once these one-time unrelated factors are accounted for, 43.8 percent of the growth in SSDI recipiency rates between 1980 and 2012 is program related and will continue to affect program growth in the future. Research by Duggan and Imberman (2009) and by Autor and Duggan (2006, 2010) looking at somewhat different periods, find that these program-related changes affected individual behavior and accounted for an even larger share of program growth. More importantly all these researchers predict these program-related factors will continue to do so in the future.

Non-Program-Related Growth Factors

Changes in the age distribution

The most obvious potential driver of SSDI growth is the aging of the population. Since SSDI benefits are conditioned on having a disability, and disability generally rises with age, the aging of the baby boom generation will, on net, push up the SSDI rolls. A simple way to gauge the impact of this change is to fix SSDI recipiency rates by age group in some period and let growth in the rolls evolve based on changes in the age structure of the population. Autor and Duggan (2006, 2010) do this and find that between 1984 and 2003, changes in age structure accounted for about 6 percent of the increase in SSDI receipt among the non-elderly population over the period. Daly, Lucking and Schwabish (2013), updated in Daly (2014), find that between 1980 and 2012 the aging of the population accounted for 17.9 percent of SSDI recipiency growth. (See Figure 1.)

Changes in health and work disability

Another potential driver is health. To qualify for SSDI benefits, individuals must have a medically determinable ailment expected to last for at least 12 months or result in death. If the health of the insured population has declined over time this would influence program enrollment and growth. Surveys asking about activity and work limitations point to a relatively stable pattern in these measures over the last two decades. Although work and activity limitations rise with age, there is little evidence that the prevalence within an age-group of such limitations has increased over time. (For additional discussion see: Burkhauser and Daly 2011)

Entry of women into the workforce.

Changes in the labor force participation of women also have influenced program growth. Since SSDI is an insurance program, eligibility for benefits requires a fixed number of quarters of covered employment. The substantial increase in the labor force participation of women has increased both their SSDI coverage and their receipt of disability benefits. It is straightforward to compute the magnitude of this change on the total growth in SSDI rolls. Autor and Duggan (2006, 2010) make these computations as do Daly, Lucking and Schwabish (2013). They both conclude that the increased number of women in the paid labor force can only explain a fraction of the total rise in SSDI caseloads since the mid-1980s. For instance, Daly, Lucking and Schwabish (2013), updated in Daly (2012), find that between 1980 and 2012 the increased number of women in the paid labor force can explain 16.5 percent of growth.

However they recognize that in 1980, women's SSDI recipiency rate was well below that of men, even after accounting for the lower eligibility of women. Analysts don't agree on what explains this gap. Some argue it reflects underlying health differences between men and women. Others maintain that women eligible for SSDI were not representative of the entire population of women in 1980 and that a more representative sample of women would have had a recipiency rate similar to men's. They quantify this assumption by setting the recipiency rate for women equal to that of men in 1980. As Figure 1 shows, this adds another 12.8 percent to their estimates of how much the greater eligibility of women has contributed to rising recipiency rates.

Daly, Lucking and Schwabish (2013), updated by Daly (2014), then add a final non-program-related factor—the increase of the normal retirement age to 66 over this period. Doing so accounts for another 9.1 percent of SSDI growth.

Combining the estimated contributions of population aging, changes in health, the entry of women into paid work, and the change in the OASI retirement age, Daly, Lucking and Schwabish (2013), updated in Daly (2014), still find that 43.8 percent of SSDI caseloads over the last three decades are accounted for by program-related factors. (See Figure 1.) These are factors whose changes have encouraged workers to increasingly apply for, and Social Security gatekeepers to increasingly determine them eligible for, SSDI benefits. And, most importantly, these are factors that will continue to do so and continue to be missed in projections of SSDI program growth that do not account for them.

Program-Related Growth Factors

Changes in SSDI rules and their implementation.

Caseload fluctuations line up with changes in Social Security Administration (SSA) policies that make it easier or harder to gain entry to the SSDI rolls. In the late 1970s and early 1980s relative caseloads fell, first because program gatekeepers were urged to more strictly interpret existing rules and then because Congress, in 1980, required SSA to reevaluate all current recipients to see if they still met the medical standards. This rule change, which was rigorously enforced by SSA at the start of the new Reagan administration, resulted in a drop in the SSDI rolls despite a major recession. By 1983 the widespread reevaluation of those already on SSDI was halted as the courts and then Congress restricted the SSA's power to reevaluate beneficiaries. Furthermore, in 1984, responding to a backlash against restrictive cuts imposed in the Social Security Disability Amendments of 1980, policymakers expanded the ways in which a person could medically qualify for the SSDI program. The 1984 legislation moved away from a strict medical listing determination of eligibility to one that also considered an applicant's overall medical condition and ability to work. These changes meant that applicants could qualify for SSDI based on having multiple conditions, even when no single condition would meet the SSDI eligibility threshold. In addition, the legislation allowed for symptoms of mental illness and pain to be counted when assessing SSDI eligibility, regardless of whether the person had a verifiable medical diagnosis.

The expansion of eligibility to more difficult-to-measure impairments that do not precisely meet the medical listings means that SSA has increasingly been tasked with making more subjective decisions about the impact that presenting impairments might have on an applicant's work ability. For applicants who do not meet or exceed the medical listings, program administrators consider a set of vocational criteria. While these criteria have not changed over the history of the SSDI program, their use by program gatekeepers to determine benefit eligibility has risen dramatically since 1991. Currently, they are used to justify the majority of new awards, especially among those with the more difficult-to-determine conditions of mental illness and musculoskeletal conditions—the primary condition of more than 50 percent of all newly enrolled beneficiaries. (See Burkhauser and Daly, 2011 for fuller discussion.)

Effects on behavior and implications for work capacity

The effect of this growing share of marginal applicants is a substantial variation in the flow of applicants onto the rolls. This variation comes both from fluctuations in applicant inflow and variations in decision making among SSDI gatekeepers. For example, Maestas, Mullen, and Strand (2013) using SSA administrative records find that at the initial Disability Determination Stage (DDS) of decision making, 23 percent of new applicants in 2005 were marginal cases whose admittance into the program was determined by the luck of drawing an easier rather than a stricter DDS gatekeeper. Importantly, when they compare the subsequent work histories of those who entered the program in this way with a matched set of applicants who drew a stricter DDS gatekeeper, they find the latter group's employment was on average 20 percentage points higher. This difference is even greater for those with less severe medical conditions. This research suggests that, increasingly, applicants admitted to the SSDI rolls on these looser criteria have greater work capacity than assumed for those receiving SSDI benefits.

The differences in allowances are important, especially when one considers how application rates fluctuate with economic conditions. Plots of the SSDI application rate and the national unemployment rate show that, with the exception of the double-dip recession in the 1980s, application rates are highly correlated with the business cycle. They rise during recessions and fall during periods of economic growth. Disability application rates hit record highs during the Great Recession and have only modestly declined since then. Most research on the consequence of business cycles on application rates finds that economic conditions play a substantial role in SSDI application and award patterns over time. (See Burkhauser and Daly 2012)

In sum, a large share of SSDI growth (43.8 percent based on Daly, Lucking and Schwabish, 2013, updated in Daly, 2014) has been driven by factors other than an aging workforce, health declines, the increasing SSDI coverage of women, and changes in the OASI normal retirement age. Loosening of program rules in the 1980s has made it more difficult for gatekeepers to judge eligibility and increased the likelihood that applicants facing rising replacement rates or declining economic opportunities will apply for SSDI benefits. A growing number of individuals being allowed onto the rolls could work in some capacity and would do so if they were not judged eligible for benefits.

One clear indicator these program-related factors have an independent effect on program growth can be seen in Figure 2. While it is certainly the case that aging baby boomers have increased program growth as they have become a larger share of the work force, Figure 2 shows that the growth in the prevalence of SSDI program receipt compared to 1970 has been far higher at younger than at older ages. The most rapid growth has been among those ages 25 through 39. Because these recipients are likely to stay on the rolls many more years than those who enter at older ages, their lifetime impact on program costs will be far higher.

Not factoring in the important role policy changes have had and will continue to have on program growth can importantly affect SSDI program growth projection. Figure 3 is based on official Office of the Chief Actuary (OCACT), Social Security Administration, historical and projected SSDI beneficiary populations (Social Security Administration, 2014). Beneficiary numbers were obtained from http://www.socialsecurity.gov/OACT/STATS/DIbenies.html and projections from http://www.socialsecurity.gov/OACT/TR/2013/tr2013.pdf, accessed 7/22/2014.

The data from 1977 to 2013 nicely documents the rapid growth in the SSDI rolls discussed above. There is no disagreement among scholars with respect to these numbers. The data from 2015 to 2035 are based on OCACT projections of future growth. They are remarkably optimistic projections that suggest that the one-time events that have propelled SSDI growth since the early 1980s have, for the most part, run their course. There is very modest growth between 2013 and 2025 and little or no growth over the following 10 years. Hence, a one-time increase, for instance, in the SSDI payroll tax will solve both the short- and longer-term SSDI solvency problem.

Figure 4 comes from Daly, Lucking and Schwabish (2013), updated in Daly (2014), and based on Social Security Administration, 2013, OCACT projections. It shows actual SSDI prevalence rates between 1980 and 2012 and OCACT projections of future prevalence rates at various times in the past as well as their 2012 projection. In almost all cases, these projections have substantially underestimated future SSDI program growth. The reason is that OCACT has not fully taken into consideration the influence of program effects on past behavior that accounts for the 42.8 percent of program growth discussed above. This is program growth that will continue into the future unless fundamental changes are made in SSDI policy. My guess is that absent this policy change, OCACT's current projections will once again underestimate actual SSDI program growth.

Figure 5 from Daly, Lucking and Schwabish (2013), updated in Daly (2014), provides an alternative projection of program growth that shows how much more program growth will be if the 42.8 percent of that growth estimated by Daly, Lucking and Schwabish (2013) and updated in Daly (2014) continues into the future at the same average rate it has occurred since 1980. To the degree that this unexplained growth in the OCACT projections once again occurs, any one-time increase in Social Security taxes to solve the SSDI deficit problem through 2035 will only be a down payment on future tax increases.

THE CASE FOR FUNDAMENTAL CHANGE

Evidence that growth in U.S. disability rolls has to a large extent been driven by policy and associated behavioral responses among gatekeepers and workers with disabilities are consistent with those found for the Netherlands during a period when it was known as the "sick country of Europe." (Aarts, Burkhauser and de Jong, 1998). Following many failed attempts to modify the system from within, in 2001, the Netherlands decided to fundamentally restructure the system. As can be seen in Figure 6, the results have been notable; the share of the Dutch work force receiving disability benefits has declined significantly and has done so without raising the rolls in other transfer programs at the same time that the share of the U.S. work force receiving disability benefits has grown. (See Figure 6 based on Figure 5.1 in Burkhauser and Daly, 2011).

Burkhauser, Daly, McVicar, and Wilkins (2014) extend this analysis to Great Britain, Sweden, and Australia and show a similar pattern of disability prevalence rates that are highly sensitive to disability policy changes. After major increases in their disability prevalence rates, Sweden and Great Britain also introduced fundamental reforms into their systems that have reduced their disability prevalence rate over the last decade.

The Dutch reforms focused on reducing inflows onto long-term disability benefits by making employers more directly bear program costs. The reforms required all Dutch firms to fund the first two years of disability benefits to their workers and to pay an experience-rated disability tax based on the number of workers they subsequently moved onto the long-term Dutch disability insurance program. These reforms provided incentives for employers, who are in the best position to offer accommodation and rehabilitation, to do so in lieu of moving workers with disabilities onto cash transfers. Research shows that the reforms led to the development of a private sector market for disability insurance and the management of impaired workers, which is credited, in part, with a significant decline in inflows to disability cash benefits. Importantly, the research shows that the reduction in inflows owes to the fact that workers with disabilities are more regularly returning to work (de Jong, 2008; van Sonsbeek, 2010).

In the spirit of the Dutch reforms, recent proposals by Autor and Duggan (2010) and Burkhauser and Daly (2011) call for prioritizing supported work over cash benefits for people with disabilities. Like the Dutch, both proposals focus on slowing the movement of workers with impairments onto the SSDI rolls, rather than attempting to reduce the current beneficiary population via the stick of greater enforcement (tried in the 1980s) or the carrot of changing the incentives for current beneficiaries to return to work (impetus for Ticket to Work). Such fundamental reforms would end the archaic and counterintuitive policy currently in place that provides access to work-focused support only after SSDI applicants have gone through an extended process of demonstrating that they are unable to work.

Autor and Duggan (2010) propose a new mandate on all firms to provide the first two years of "short-term" disability insurance. This would increase the willingness of employers to provide additional accommodation and rehabilitation by more directly linking the cost of disability payment to firms. It would also create growth in the private insurance market and greater case management of workers following the onset of a work-limiting impairment and hence greater return to work. However, it could result in substantial added costs to the system.

Alternatively, Mary Daly and I (Burkhauser and Daly 2011) argue that like the Dutch, the United States should impose some form of experience rating on firms paying into the SSDI system. Raising the SSDI payroll tax of firms whose workers enroll in the system at above-average rates and lowering the SSDI payroll taxes on firms whose workers enroll at below-average rates via experience rating would more directly link the costs to the firm of one of its workers moving onto the SSDI program. Employers who bore the costs for both options would be more incentivized to make the investments in accommodation and rehabilitation that could prolong the employment tenure of a worker with a disability. This is currently the system used to fund state workers' compensation benefits, and the best practices from these state programs could be considered for SSDI as well. Alternatively, employers who provide short-term private disability insurance for employees and whose private insurance agents cooperate with SSDI gatekeepers in managing their cases could be granted a reduction in SSDI tax rates, while firms that did not offer such private insurance could be charged higher SSDI tax rates. Either of these reforms would bend the cost curve of projected SSDI program expenditures by reducing incentives for employers and employees to overuse the system.

Although the details differ, the messages of the Autor and Duggan and Burkhauser and Daly proposals are the same: The current SSDI program built on the assumption that disability and employment are mutually exclusive states is both archaic and fiscally unsustainable. Fundamental reform is needed to restore solvency to the U.S. disability insurance system and to support continued employment and greater self-sufficiency among workers with disabilities.

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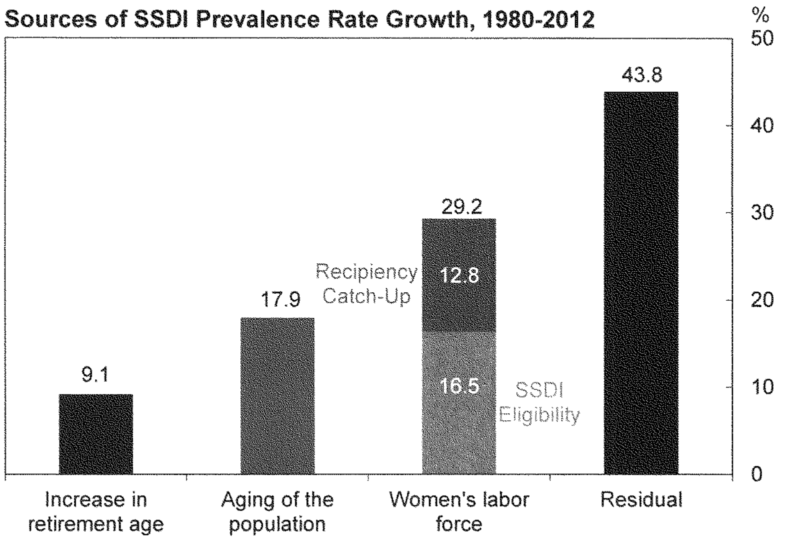
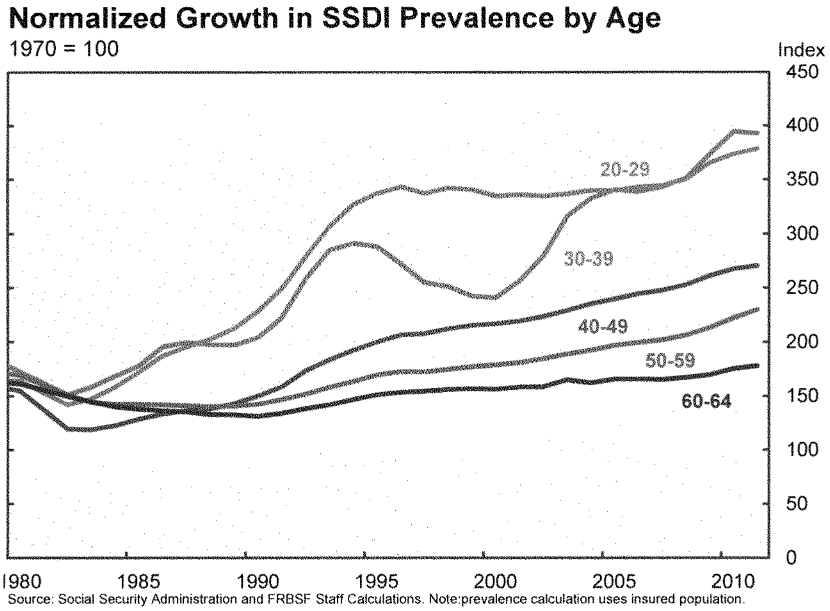


Source: Social Security Administration, Bureau of Labor Statistics, and FRBSF Staff Calculations. **http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/**

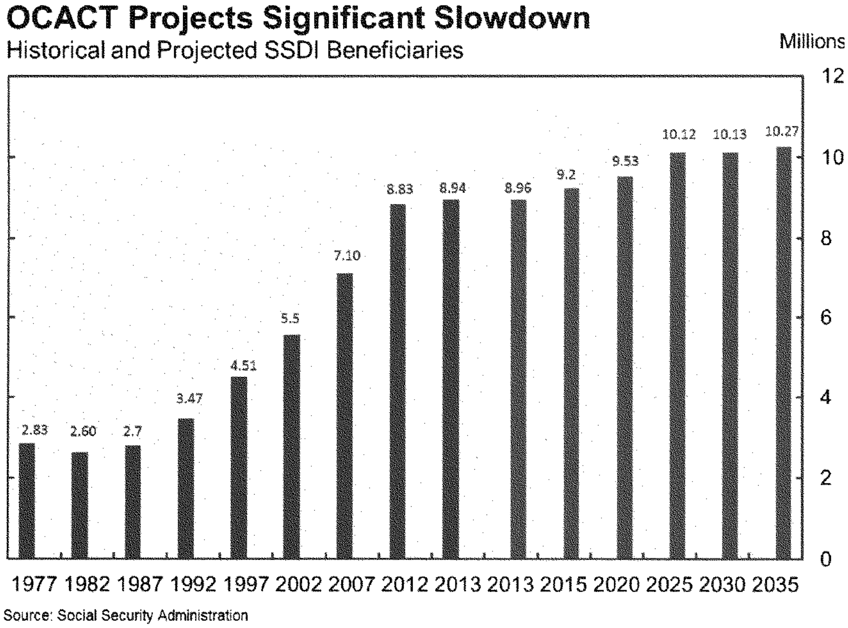
Figure 1. **(Source: Daly 2014)**


Normalized Growth in SSDI Prevalence by Age

1970 = 100

Source: Social Security Administration and FRBSF Staff Calculations. Note:prevalence calculation uses insured population.

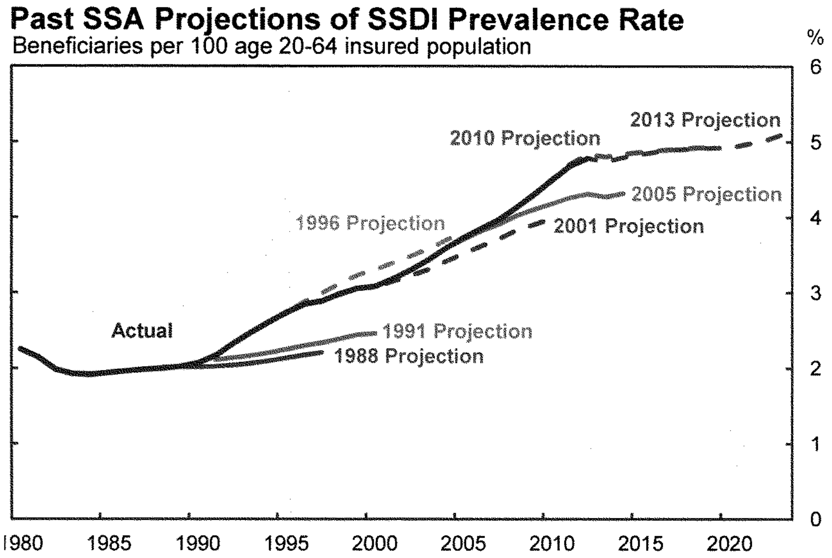
Figure 2. (Source: Daly 2014)


OCACT Projects Significant Slowdown

Historical and Projected SSDI Beneficiaries

Source: Social Security Administration

Figure 3. (Source: SSA 2014)

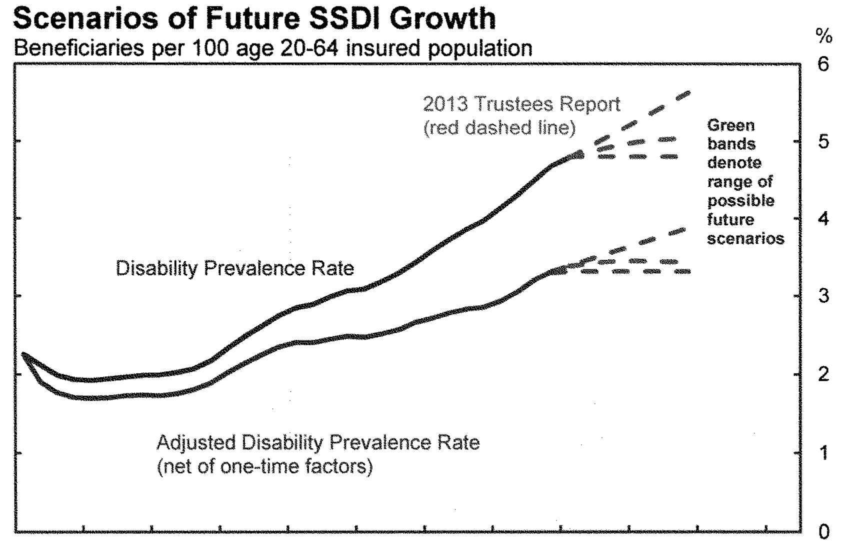


Past SSA Projections of SSDI Prevalence Rate

Beneficiaries per 100 age 20-64 insured population

Source: Short and Long range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program, (various years), Bureau of Labor Statistics, Census Bureau, and FRBSF Staff Calculations. **http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/**

Figure 4. (Source: Daly 2014)



Scenarios of Future SSDI Growth

Beneficiaries per 100 age 20-64 insured population

Source: Short Range Actuarial Projections of the Old-Age, Survivors, and Disability Insurance Program (2013), Census Bureau, and FRBSF Staff Calculations. **http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/**

Figure 5. (Source: Daly 2014)

Comparison of U.S. and Dutch disability beneficiaries per 1,000 workers

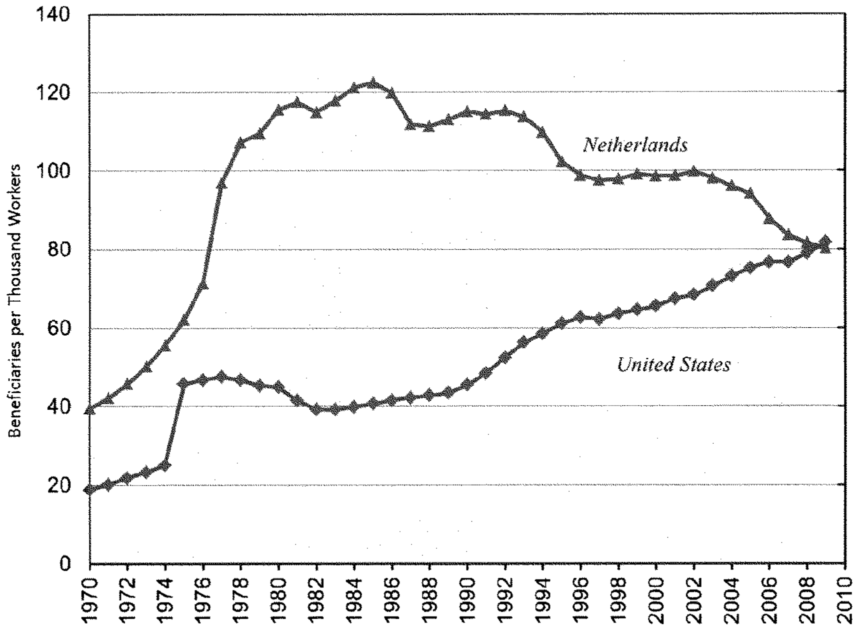


Figure 6. **(Source: Burkhauser and Daly 2011)**

RESPONSES TO QUESTIONS FOR THE RECORD FROM RICHARD BURKHAUSER

From the Committee on Finance hearing

"Social Security: A Fresh Look at Workers' Disability Insurance"

July 24, 2014

From Chairman Wyden

For all witnesses:

During the hearing, it appeared there was some common ground around the idea of helping individuals with disabilities, who are able to, remain in the workforce. There was a brief discussion around the idea that services and supports provided before an individual needs to apply for SSDI may improve outcomes for individuals with work-limiting disabilities. Ms. LaCanfora touched on the proposals in the President's budget. I would like to hear more about those proposals. I would also like to ask each of you to describe where we should focus our resources and what additional research needs to be done around appropriate work supports and services for individuals with disabilities.

- How well are the current array of supports and services working?
- Are there areas that could be improved?
- How can we better utilize technology—both for assisting workers to remain on the job and to help identify who can most benefit from early intervention?
- Finally, how can early intervention strategies be structured so that employers are not influenced to avoid hiring workers who may be at higher risk of becoming permanently disabled?

Burkhauser Response:

The vast majority of research has shown that accommodation and rehabilitation are most likely to be successful the sooner they are applied following the onset of a work related impairment. That is, once the medical condition that is causing the impairment has been stabilized some management mechanism must be in place to determine what combination of accommodation, rehabilitation, and temporary compensation benefit should be administer to encourage return to work for those with residual work capacity and compensation for those who have none. That mechanism varies by country. Daly, McVicar, Wilkins and I provide an overview of how this is done in the USA, Australia, Sweden, the Netherlands, and Great Britain in our February, 2014 piece in the IZA Journal of Labor Policy: http://www.izajolp.com/content/3/February/2014.

We show what lessons the USA can learn from reforms that have already taken place in these other OECD countries to more toward a "work-first" disability program model. The Obama Administration is taking a very first step toward a "work-first" approach in the three demonstration projects that they propose SSA run. But a great deal more needs to be done to either incentivize employers and workers to engage in work-first activities as has been done in the Netherlands or to better co-ordinate accommodation/rehabilitation management together with compensation payments in one overarching administrative unit as has been done in Sweden. These are the two extremes of where this necessary "case management" could reside.

In the USA we have the worst of all worlds because "case management" doesn't exist anywhere. Unlike the Netherlands, employers have little incentive to provide accommodation and rehabilitation via the use of private disability insurance firms in the USA. And, unlike Sweden, in the USA, government provision of this management is split between SSA that provides the disability benefits and VR that provides the rehabilitation. There is little coordination between these two government providers of money and services to working age people with disabilities.

Instead of SSDI being a last resort provider of permanent benefit for those with no residual work capacity, it is increasingly become a first resort program. Only after its beneficiaries have proven, over a year or two of effort, that they have no residual work capacity are then admitted into the SSDI rolls and at this late date offer incentives to work.

For Mr. Goss and Dr. Burkhauser:

As we discussed during the hearing, there was some differences in the projections for the SSDI program between Mr. Goss and Dr. Burkhauser. Since there was not time during the hearing, I want to offer you both this opportunity to respond for the record. Is there any additional material you believe the committee should know regarding the issues discussed during the hearing?

Burkhauser Response:

My testimony on the latest SSDI projections by the Office of the Chief Actuary was largely based on updated figures that Mary Daly provided me based on her paper with Brian Lucking, and Jon Schwabish and her January 2014 presentation at the annual NAIS meetings on a panel with Steve Goss, the current Chief Actuary.

Here is a link to that paper: The Future of Social Security Disability Insurance written by Mary C. Daly, Brian Lucking, and Jonathan A. Schwabish.

http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/

Here is Daly's PowerPoint presentation that contains all these figures.

http://www.nasi.org/sites/default/files/events/161/Mary_Daly.pdf

Here is an additional link to a *Washington Post* editorial board piece of September 21, 2013 that discusses the Daly, Lucking and Schwabish paper and provides links to the work of Autor and Duggan that parallels the work by Daly, Lucking, and Schwabish.

http://www.washingtonpost.com/opinions/social-security-disability-insurance-needs-major-reform/2013/09/21/6efb945c-222f-11e3-a358-1144dee636dd_story.html

In my testimony I was stating what I believe is the general view among academic economists with respect to what has been driving prevalence rates in SSDI. If you haven't done so already you should talk to Daly, Autor, and Duggan about their work.

In my testimony I focused on the prevalence rate because it is at the heart of the debate about the role that social security policy changes play in SSDI and SSI program growth. The prevalence rate is the policy outcome parameter that OECD studies focus on in their analysis of disability program growth and it is the one that Daly, McVicar, Wilkins and I focus on in our comparison of disability program growth in the USA, Australia, Sweden, the Netherlands and Great Britain in our February, 2014 piece in the IZA Journal of Labor Policy.

http://www.izajolp.com/content/3/February/2014

Sweden, the Netherlands and Great Britain have all initiated structural reforms of their disability systems that have led to their prevalence rates falling in the 2000s. The USA has not done so and that explains in part why our prevalence growth rates are the highest among these countries. My testimony was intended to make you aware of facts—we are experiencing growth in our prevalence rates and it is the view of outside the beltway experts that this prevalence rate will continue to grow. Whether this is a good or bad policy outcome is certainly debatable, but it is not debatable that this growth has in fact occurred. Another fact is that Social Security policies are related to its growth. While no one can predict the future with certainty, I would suggest that until the Office of the Chief Actuary does a better job of incorporating the behavioral consequences of SSDI policy changes into its forecasts of future growth it will understate that growth.

Questions for Dr. Burkhauser from Senator Hatch

1. I recently asked CBO to analyze alternative ways in which the DI and OASI trust funds could remain solvent in the long run if we were to rely solely on increasing taxes. The results were sobering, identifying that large tax increases would be necessary and that for many options, taxes would increase significantly for many middle class American workers.

   Of course, on the tax side, options include increasing payroll tax rates or increasing the maximum amount of earnings subject to the payroll tax. In either case, we would be talking about some significant tax hikes on middle class employees and on employers. And, it would be difficult to maintain a promise of not hiking taxes, including payroll taxes, on the middle class with the tax hikes that many advocate. For example, according to CBO, if you raise the so-called "tax max" to cover 90 percent of earnings, you would be imposing a 12.4% tax increase on earnings between $117,000 and around $240,000, and that would only take care of around 30% of Social Security's financial shortfall.

I worry about the adverse labor market effects of those options. Whether or not you think that someone earning more than $117,000 is in the middle class or is rich, if you increase taxes at a 12.4% or higher rate on each additional dollar of earnings, even with accompanying benefits, it seems to me that both labor demand and labor supply would be adversely effected. And that, of course, means fewer people working and fewer jobs available. Fewer jobs is the last thing this economy needs.

Do you agree that there would be adverse labor market effects from higher payroll taxes and/or an increase in the so-called "tax max," and that those effects would be felt by middle class Americans?

Burkhauser Response:

Most economist believe that the incidence of the payroll tax falls entirely on the worker. So an increase in the taxable maximum would increase the marginal tax rate of workers earning more than $117,000 by a full 12.4 percentage points. The tax would be partially offset by the increase in their AIME. But because most of these workers are likely to already have an AIME that places them above the 0.15 bend point, these future benefits are quite small relative to the current increase in their taxes. Most of the workers who would be subject to this tax increase are not among the top 1 percent of tax filers. That is among the "top earners" in the United States.

Hence I would agree that this increase in marginal tax rates will have an adverse labor supply effect on them and that the majority of those who will be affected by it are much more likely to be in the upper part of the middle class than among the top 1 or 2 percent of income tax filers.

2. The Chief Actuary of the Social Security Administration testified during the hearing that "...the share age-by-age for men and women that have been coming on with mental impairments really has not changed over the last 30 years." Do you agree and are you aware of any research findings that differ from the claim that the share of DI claimants or beneficiaries with mental impairments has not changed over the last 30 years?

Burkhauser Response:

One of the best sources of information on the SSDI and SSI programs is the Social Security Advisory Board that gets its information from the SSA. Enclose is a set of Tables created by SSAB in 2012.

http://www.ssab.gov/FactsFigures.aspx

Below is Chart 27 from that SSAB set of Tables:

27. Initial DI Worker Awards by Major Cause of Disability—Calendar Years 1975-2010

Year	Mental, psychoneurotic, & Personality disorders	Cancer/Neoplasms	Circulatory System	Musculoskeletal System
1975	11%	10%	32%	17%
1980	11%	15%	26%	18%
1985	18%	15%	19%	13%
1990	23%	14%	16%	16%
1995	22%	16%	14%	12%
2000	23%	16%	13%	18%
2005	26%	14%	11%	20%
2010	23%	14%	11%	26%

Source:
U.S. Social Security Administration, Office of Research, Evaluation and Statistics, *SSA-831 File*, data received August 2011

As can be seen "mental, psychoneurotic and personality disorders" were the major conditions for 11 percent of new DI awards in 1980 and 23 percent in 2010. The other major condition to grow was "musculoskeletal systems" which grew from 18 percent in 1980 to 26 percent in 2010. Together these two condition were the major cause of a disability for almost one-half (49 percent) of new beneficiaries in 2010, up from 29 percent in 1980.

The Foreseen Trend in the Cost of Disability Insurance Benefits

Statement of

Stephen C. Goss

Chief Actuary, Social Security Administration

Before
the Senate Committee on Finance

July 24, 2014

Testimony to the Senate Committee on Finance
“The Foreseen Trend in the Cost of Disability Insurance Benefits”

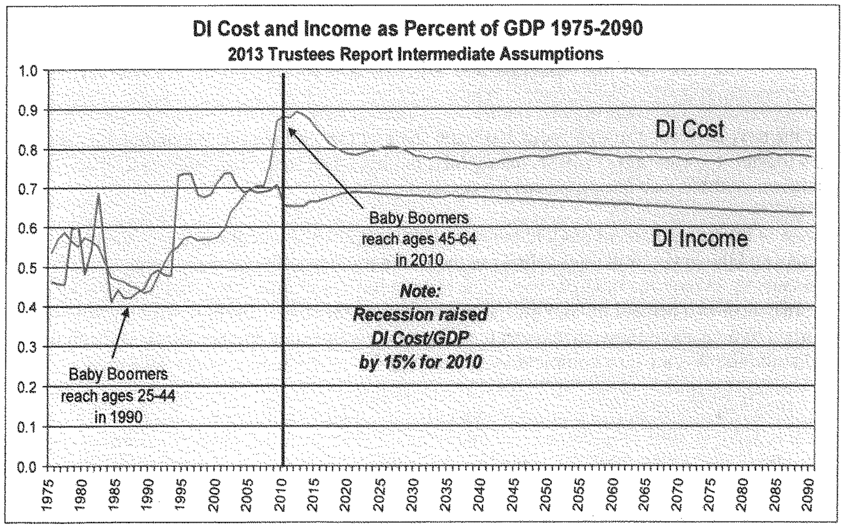
Stephen C. Goss, Chief Actuary, Social Security Administration
July 24, 2014

Chairman Wyden, Ranking Member Hatch, and members of the committee, thank you very much for the invitation to speak to you today on this very important subject. We are all focused on the actuarial status of the Social Security Disability Insurance program, because the reserves are projected to become depleted late in 2016. Without legislative action, benefits scheduled in the law will not be payable in full on a timely basis once these reserves are depleted. Therefore, I will present to you today the reasons, which we have long anticipated and understood, for the recent rise in DI cost and the shortfall we face.

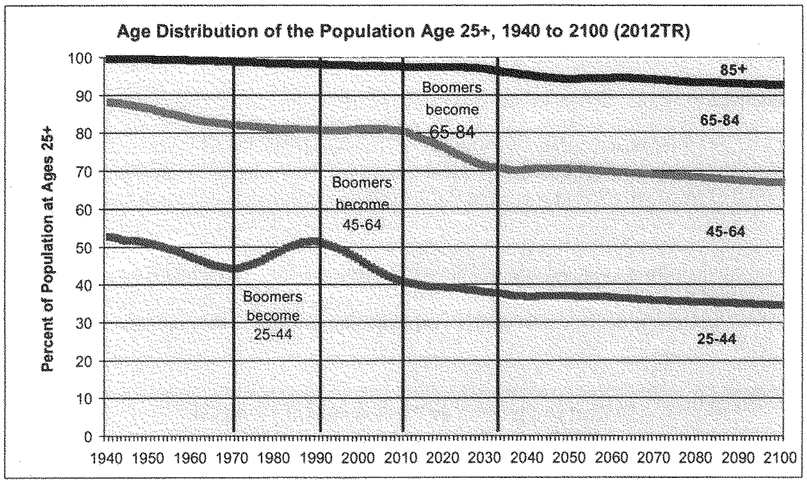
Background

Many analysts have raised questions about the “sustainability” of the recent period of rapid growth in the numbers of DI beneficiaries and the cost of their benefits. I am glad to report that this period of rapid growth: (1) was foreseen, (2) can be explained, and (3) is now at its predicted end.

The figure below shows that the cost of DI benefits declined from just under 0.6 percent of GDP in 1980 to just over 0.4 percent of GDP in 1990, and then increased to nearly 0.9 percent of GDP by 2010. These changes are almost entirely explained by changes in the population and the economy.


DI Cost and Income as Percent of GDP 1975-2090
2013 Trustees Report Intermediate Assumptions

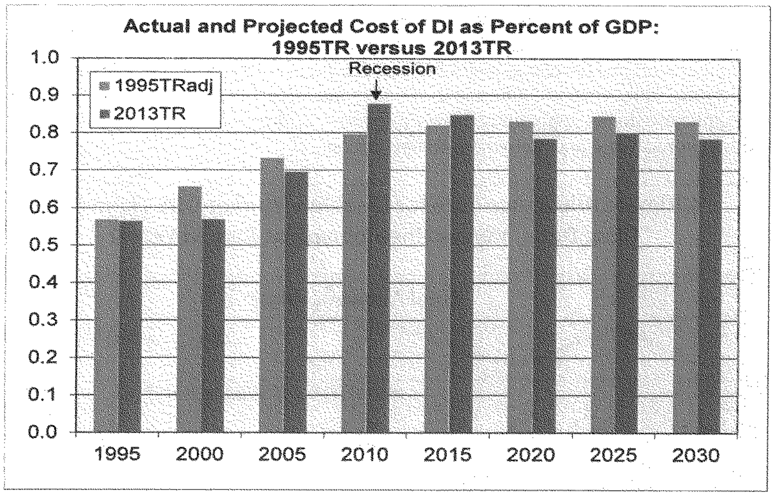
Between 1970 and 1990, there was a dramatic change in the age distribution of the working-age population, as the baby boomers (born 1946-1965) entered young adulthood. This caused employment and GDP to rise much more than DI cost, as the baby boomers were still under age 45 by 1990. However, from 1990 to 2010 the baby boomers moved from young adults under age 45 to older working ages 45-64. Because they were replaced at younger adult ages by low-birth-rate generations born after 1965, the share of working-age adults who were in disability-prone ages (45-64) grew rapidly from 1990 to 2010. The great recession of 2008 resulted in lower GDP, making DI cost relative to GDP rise even more by 2010. After our economy fully recovers, we project DI cost will stabilize at just under 0.8 percent of GDP.



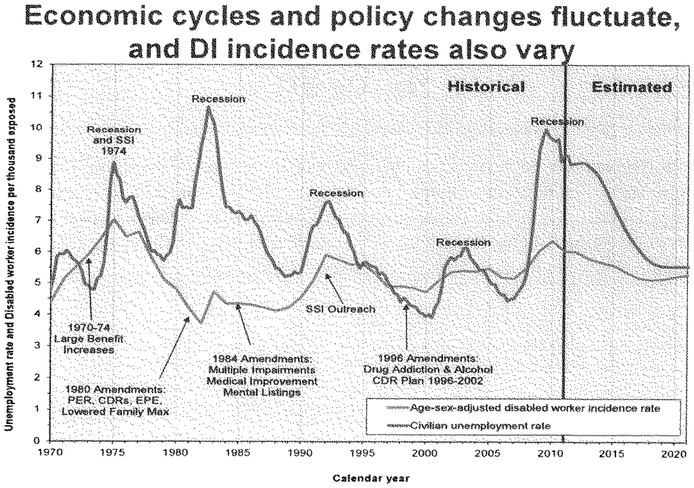
Over the next 20 years, through about 2035, the share of the working age population that is aged 45-64 (disability-prone ages) will shrink rapidly, putting a halt to the rise in DI cost. This population shift has also been foreseen for decades.

The rise in DI cost as percent of GDP between 1990 and 2010, due to the aging of the baby boomers and the lower birth rates following them, is a prelude to the increase in retirement cost our society faces over the next 20 years. The drop in birth rates after 1965 makes the rising retirement cost as a percent of GDP just as predictable as the rise in disability cost. What is most important to note about these changes in the population is that they are permanent shifts in the age distribution that are now complete for DI and will be complete in 20 years for OASI.

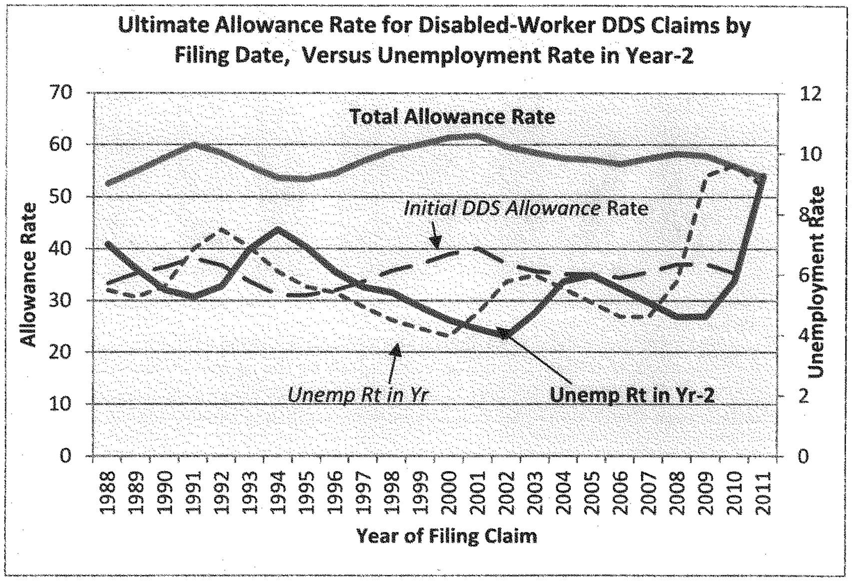
In the 1995 Trustees Report, we projected that the cost of DI benefits would rise from 0.6 percent of GDP in 1995 to 0.9 percent by 2025. Since 1995, historical GDP has been revised upward (by 5 percent for 1994 for example). Adjusting for this change in estimated GDP since 1995 through the levels estimated for 2013, we see the 1995 Trustees Report projected DI cost represents 0.85 percent of GDP by 2025. Except for the effects of the unanticipated recession that started in 2008 (with full recovery expected by about 2020), actual DI cost as a percent of GDP has been and is now projected to be lower than expected in 1995.


Actual and Projected Cost of DI as Percent of GDP: 1995TR versus 2013TR

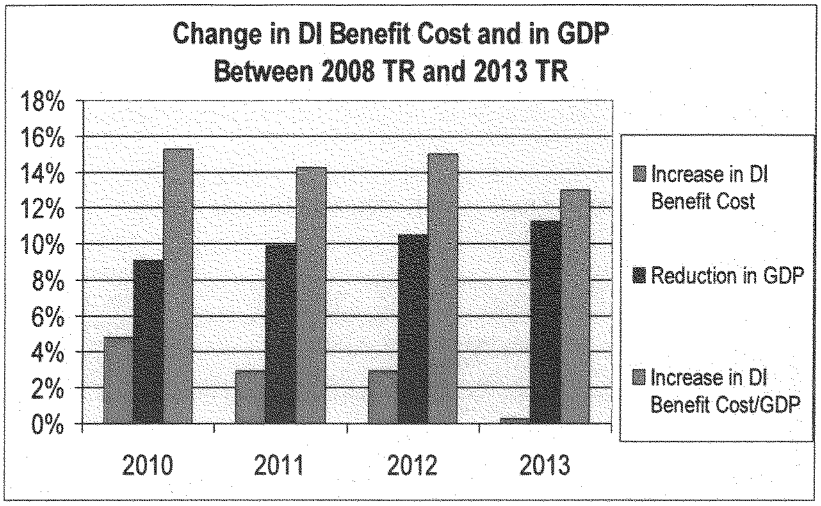
The implications of past economic cycles and various changes in the law on DI cost can be seen by their effects on disabled worker "incidence rates," which are the percent of insured workers who become newly disabled in a year. The figure below compares the incidence rate (adjusted for changes in the age distribution of the population) to the civilian unemployment rate.


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

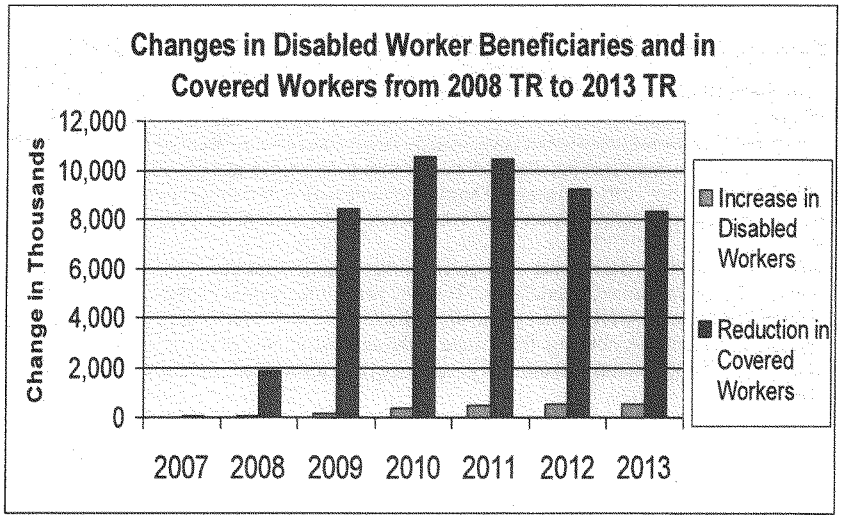
During recessions, applications for DI benefits rise, but the percent of applications that are approved for benefits generally declines because the standard for qualifying for DI benefits is based on the ability to do work that exists in the economy, whether or not job openings are plentiful at the time. The figure below shows how initial allowance rates by the state Disability Determination Services (DDS), and total allowance rates, including those allowed at appeal, respond to increases and decreases in disability applications (claims) as unemployment rises and falls. Allowance rates change counter to the civilian unemployment rate with about a 2-year lag, as many applicants do not apply immediately following job loss while they are seeking employment or receiving unemployment compensation.



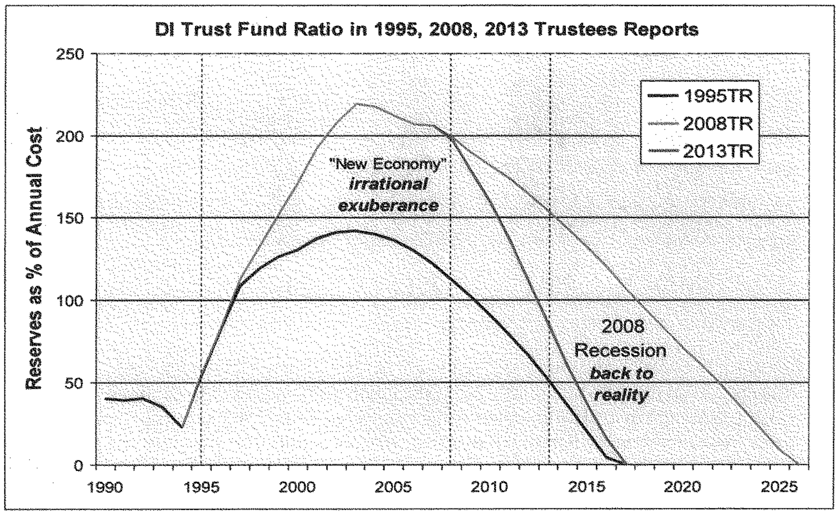
The effect of the recent recession is particularly noteworthy because it illustrates that the change in DI cost as percent of GDP in an economic downturn is affected far more by a drop in GDP than by a rise in DI cost. Compared to our projections in the 2008 Trustees Report where no recession was anticipated, DI cost turned out to be less than 3 percent above the level expected, but GDP turned out to be more than 10 percent lower than expected.



The difference between the unanticipated reduction in employment and the increase in DI beneficiaries is even more dramatic. For 2010, the number of workers with earnings in covered employment was more than 10 million lower than projected in the 2008 Trustees Report. On the other hand, the increase in the number of disabled worker beneficiaries was only about 0.3 million more than projected.



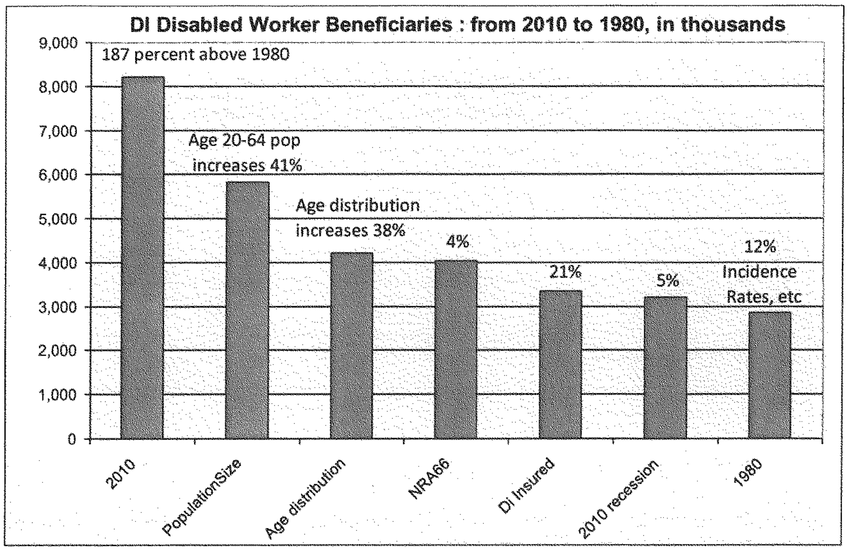
Over longer periods, however, the unanticipated effects of specific economic cycles tend to offset one another. In 1995, the Trustees projected that the DI Trust Fund reserves would deplete in 2016. The figure below shows that this projection was quite accurate, even though the Trustees anticipated neither the period of extraordinary and unsustainable economic growth and the positive trust fund buildup experienced between 1995 and 2005, nor the recession of 2008, which essentially offset the positive effects between 1995 and 2005.



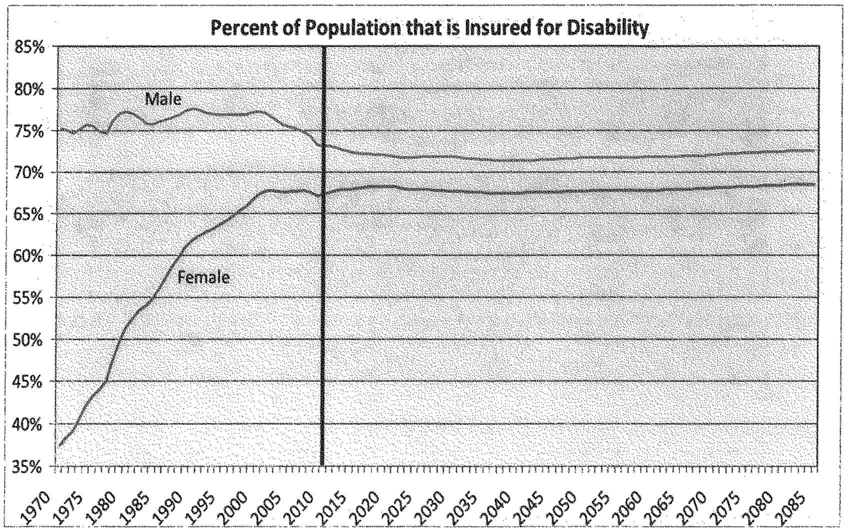
Why Did the Number of Disabled Worker Beneficiaries Increase from 1980 to 2010?

The change in DI cost is closely related to changes in the numbers of disabled worker beneficiaries. This makes sense because average benefit levels are designed to roughly keep pace with the average wage level, but have actually fallen short of that. Between 1980 and 2010, the total annual DI benefit cost per disabled worker rose from $5,445 to $15,139, an increase of roughly 3.5 percent per year on average. During the same period, the national average wage index (AWI) grew substantially faster at an average rate of 4.1 percent per year.

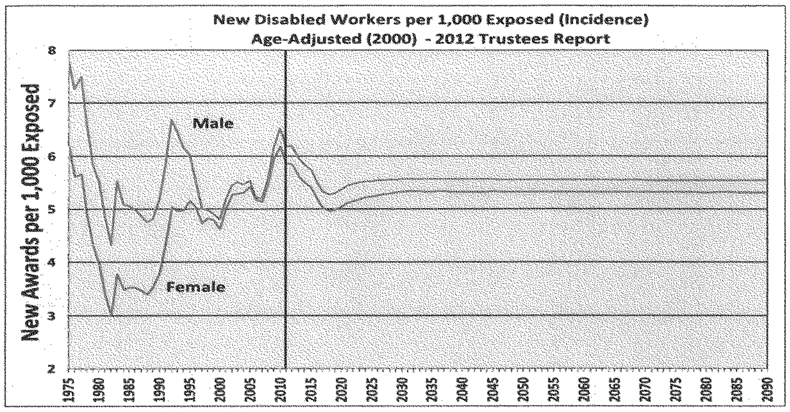
Between 1980 and 2010, the number of disabled worker beneficiaries nearly tripled from 2.9 million to 8.2 million worker beneficiaries. This 187 percent increase is explainable largely by the overall growth in the working age population (disabled worker benefits are payable only until the normal retirement age, now 66), the change in the age distribution of this population, changes in employment, insured status and disability incidence rates for women, and the recent severe recession.



The increase in the percent of working age women who have worked consistently enough to be disability insured is remarkable, nearly doubling since 1970.

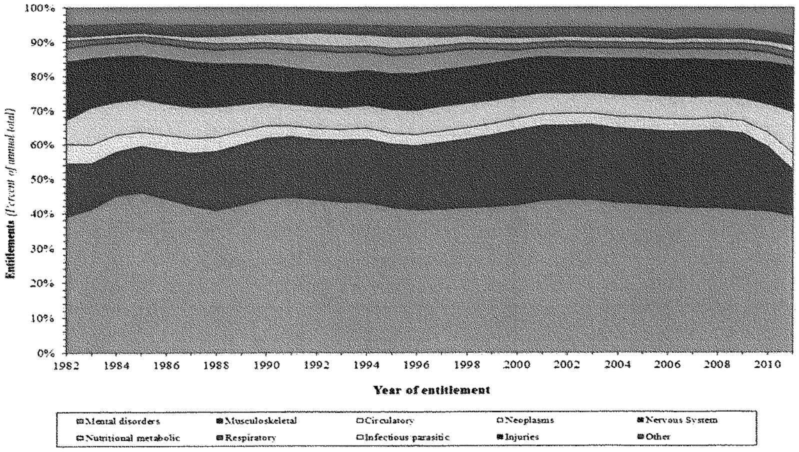


In addition, disability incidence rates increased for women, as their likelihood of being insured increased. Incidence rates are now close to the level experienced for men.



Considerable attention has been focused on disability adjudication standards. Many have raised questions about the distribution of newly entitled disabled workers by impairment diagnosis. This is a particularly important question for women who have experienced such large increases in the likelihood of being insured and the likelihood of becoming disabled. We have looked at the historical trend in this distribution by age group.

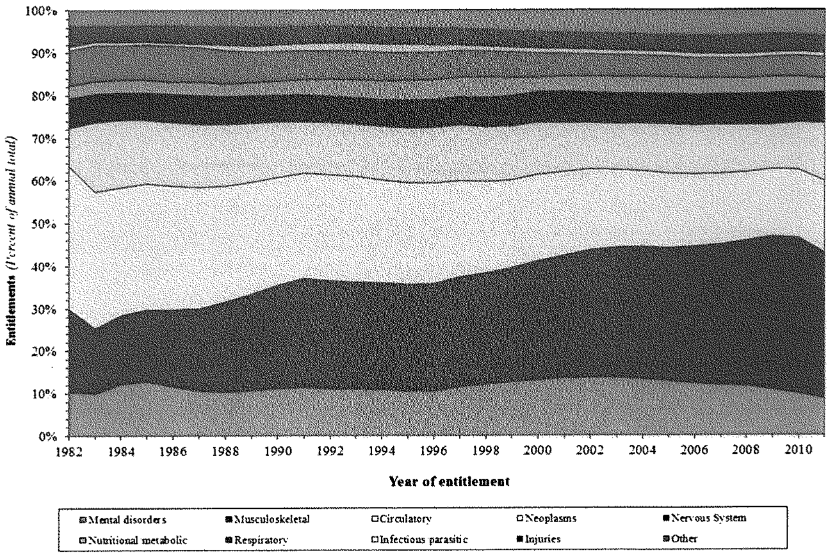
Distribution of Female New Disabled Worker Entitlements at Ages 30-39 by Impairment



For younger women, the distribution has stayed remarkably consistent over the past three decades. The distribution is similar for men.

For older women and men becoming newly entitled for disabled worker benefits, the distribution has also remained consistent over time with two exceptions. We show the trend for males below because the effects of the exceptions are more apparent than for women. The share of new beneficiaries with musculoskeletal impairments has increased substantially, while the share with circulatory impairments has declined. However, the combined share for these two diagnosis groups has remained about the same.

Distribution of Male New Disabled Worker Entitlements at Ages 50-59 by Impairment

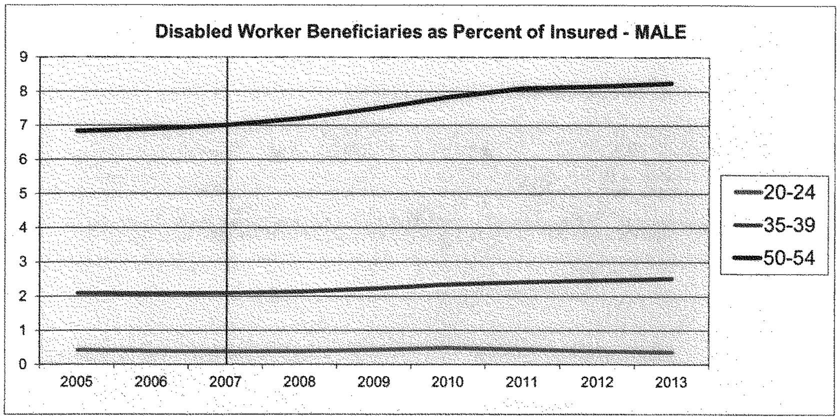


Disabled Worker Beneficiary Prevalence Rates

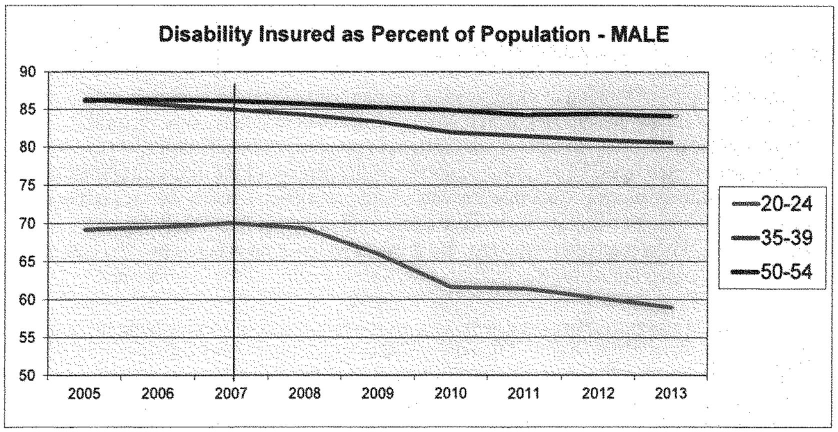
There are many ways of looking at the growth in the number of disabled worker beneficiaries. Care should be exercised in selecting which years and which concepts are most helpful in explaining change over time. In addition to changes in numbers of beneficiaries, we can look at changes in "prevalence rates." Prevalence rates tell us the percent of the insured population that is receiving benefits currently. Care must be taken with prevalence rates as changes in the age distribution of the insured population can have a profound effect on the overall "gross" prevalence rate. This is particularly the case for gross prevalence rates between 1990 and 2010, when the working age population was getting older with the aging of the baby boomers.

Disabled worker prevalence rates can also be considered more narrowly by viewing these rates separately by gender and age groups. Of course, this approach omits from consideration the effects of increased population size, changes in the age distribution of the population, and changes in the percent of the population that is insured. Even in this specific analysis, care is required to avoid any misunderstanding of changes over time.

The figure below shows that male disabled worker prevalence rates at ages 35-39 and 50-54 increased significantly after 2007 as the recession began to reduce employment and cause some additional numbers of individuals to apply for benefits.

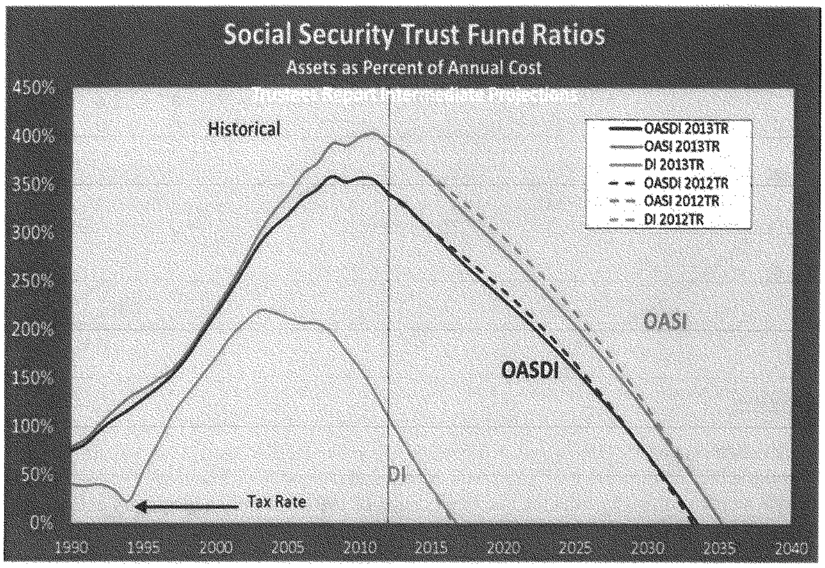


However, the prevalence rates increased not only because more workers applied and started to receive benefits, but also because the number of individuals who maintained disability-insured status was reduced by the recession. As seen below, the reduced employment rates in the recent recession reduced the percent of the population that has had sufficient recent earnings to maintain insured status for disability. This reduction in the number of insured individuals directly increases the prevalence rate. Therefore, increases in prevalence rates in hard economic times result not only from more individuals applying for benefits, but also from fewer workers maintaining their insured status.



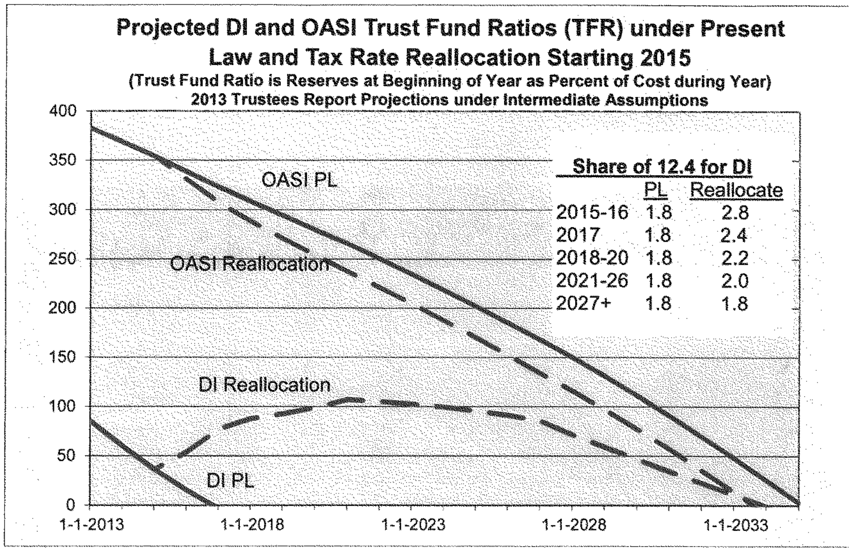
Adjustments to Financing or Cost Needed Soon

Because the DI Trust Fund reserves are now projected to become depleted late in 2016, with continuing tax income sufficient to cover only 80 percent of the scheduled benefits at that time, change is needed soon. Numerous possibilities are available for adjusting revenue or benefit levels for the DI program, and for the Social Security OASDI program as a whole.



The projected shortfall requires that either scheduled revenues be increased by 25 percent, or cost be reduced by 20 percent, or some combination of these approaches. Because the trust finds cannot by law borrow, adjustments before reserve depletion are essential if abrupt cuts in benefits are to be avoided.

Given the immediacy of the need, one option to avoid sudden cuts in DI benefits is to enact a temporary tax-rate reallocation between the OASI and DI Trust Funds. Such reallocations have been enacted numerous times in the past, most recently in 1994 when the DI Trust Fund was just 8 months away from reserve depletion. The following figure illustrates just one possible tax rate reallocation that the Congress may consider. This approach would cause a temporary reallocation of a part of the OASI tax rate to the DI program, sufficient to equalize the expected reserve depletion dates for the two Trust Funds.



Projected DI and OASI Trust Fund Ratios (TFR) under Present Law and Tax Rate Reallocation Starting 2015

(Trust Fund Ratio is Reserves at Beginning of Year as Percent of Cost during Year)

2013 Trustees Report Projections under Intermediate Assumptions

Share of 12.4 for DI

	PL	Reallocate
2015-16	1.8	2.8
2017	1.8	2.4
2018-20	1.8	2.2
2021-26	1.8	2.0
2027+	1.8	1.8

Conclusion

The increased cost of the DI program has been foreseen for decades, as it is largely the product of demographic changes that have been well known and understood. The 1995 Trustees Report provided ample warning that the tax rate reallocation of 1994 was only a temporary extension of the year of reserve depletion for the DI Trust Fund. We are now in need of adjustments once again to either permanently increase revenue or decrease cost for the DI program to assure scheduled benefits will be fully payable on a timely basis in the future. Due to the relatively strong status of the OASI Trust Fund, a tax rate reallocation can be enacted at relatively small cost to the OASI reserves and projected date of reserve depletion. However, even with this possibility, the overall Social Security program would still face a shortfall with reserve depletion for the combined trust funds projected for 2033. Adjustments will be needed before that time to avert sudden reductions in the amounts of benefits that are payable under the law.

The Office of the Chief Actuary at the Social Security Administration stands ready to assist in any way in developing the proposal that will eventually be enacted by the Congress to maintain the actuarial status of these funds. We have developed estimates for many proposals that would improve the actuarial status of the trust funds. Our estimates for both comprehensive proposals and individual provisions developed by members of Congress and other policy makers are available at http://www.socialsecurity.gov/OACT/.

Again, thank you very much for the opportunity to share this information with you. I am happy to answer any questions you may have.

SOCIAL SECURITY
Office of the Chief Actuary

August 6, 2014

The Honorable Ron Wyden, Chairman
The Honorable Orrin Hatch, Ranking Member
Senate Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senators Wyden and Hatch:

I appreciate greatly the opportunity to have testified to you and the members of the committee on July 24. Unfortunately, due to time limitations, it was not possible to comment on three important issues that were raised in the hearing. Chairman Wyden suggested following up on these issues, so I am sending this letter as an extension of my submitted testimony and the discussion at the hearing.

The three issues are: (1) the accuracy of projections for the Disability Insurance program in the annual Trustees Reports to Congress; (2) the prevalence of receipt of disability benefits in the U.S. versus that in some other countries, such as the Netherlands and Sweden; and (3) the nature of a statistic suggesting that 23 percent of disabled worker applicants are "marginal cases". I hope the following information will be useful to you and the committee in further exploring the status the Disability Insurance program.

(1) Accuracy of Trustees' Projections for Disability Insurance (DI)

In his testimony, Dr. Richard Burkhauser provided Figure 4, reproduced from work by Mary Daly in 2014. This figure shows 10-year projections of disabled worker beneficiaries per 100 workers with DI insured status from selected past Trustees Reports. The values illustrated show that the projected numbers of disabled worker beneficiaries were too low in the 1988, 1991, and 2005 Trustees Reports.

For the projections in the 1988 and 1991 Trustees Reports, it is correct that we substantially underestimated the numbers of disabled workers for years after 1990. The reason for this is straightforward and has been documented and long since corrected.

One of the main drivers of the increase in the number of disabled workers between 1990 and 2010 is the movement of the baby boom generations (born in 1946 through 1965) from under age 45 to over age 45 during this 20 year period. Unfortunately, our projection methods for the near-term (10 years) did not, prior to the 1992 Trustees Report, properly reflect this transition. As a

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result, our projections of disabled workers for the 1991 Trustees Report fell substantially short of the actual experience that evolved through the year 2000.

For the 1992 Trustees Report, this shortcoming was addressed. (See page 92 and surrounding pages of the 1992 report at http://www.ssa.gov/history/reports/trust/1992/1992e.pdf.) The projected number of disabled worker beneficiaries for the year 2000 was increased by 22 percent, from 4.0 million in the 1991 Trustees Report to 4.9 million in the 1992 Trustees Report. The projected number of disabled worker beneficiaries for the year 2000 in the 1992 Trustees Report was within 3 percent of the actual number experienced for that year.

Perhaps the most obvious discrepancy Burkhauser and Daly point out is the values projected for years through 2014 in the 2005 Trustees Report, when the economic recession that started at the end of 2007 was not anticipated in the Trustees' assumptions. The recession had the dual effects of (1) increasing the numbers of workers applying for benefits, with some being allowed on the basis of their medically determined condition; and (2) reducing the number of workers in the economy, leading to lower numbers of workers who retained disability insured status than had been projected before the recession. Note that workers can lose insured status as a result of being unemployed for a year, or even less, because workers must earn 20 out of the last 40 quarters of coverage to be disability insured. These two effects both increased the number of disabled worker beneficiaries and reduced the number of insured workers, as described in my original testimony.

I am happy to report that our current projections of the number of disabled worker beneficiaries over the next several years, just released in the 2014 Trustees Report, are reduced from the level projected in the 2013 Trustees Report. This reduction reflects lower actual levels of disability applications and allowance rates over the past year than had been assumed for the 2013 Trustees Report. With these reductions, we are now projecting the numbers of disabled worker beneficiaries to return to the levels projected in the 2008 Trustees Report (the last report before the recession was recognized) by the year 2025.

Projections into the future are inherently uncertain. We are constantly improving our methods and reviewing our assumptions with experts from all fields. At this time, we believe that our methods very well reflect the demographic patterns of aging that we will be confronted with in the future.

(2) Disability Prevalence in the U.S. Versus Other OECD Countries

In Figure 6 of his testimony, Dr. Burkhauser provided a comparison of disability prevalence rates (disability beneficiaries per 1,000 workers) for the U.S. and the Netherlands from 1970 through 2009. The source of the figure is indicated as "Burkhauser and Daly 2011." This figure shows the prevalence for the Netherlands rising dramatically through 1982, but dropping after 1992 to a level equal to that for the U.S. by 2009. This is one illustration of the success of the Netherlands in bringing disability prevalence down to a level close to what we have in the U.S.

However, in subsequent work by Burkhauser and Daly, published just this year in the IZA Journal of Labor Policy (http://www.izajlop.com/content/3/1/4), the authors provided data on disability recipiency (prevalence as a percent of the working age population) from 1970 to 2012, for Australia, Great Britain, the Netherlands, Sweden, and the U.S. This comparison shows some reduction for Great Britain, the Netherlands, and Sweden in recent years, and increases of similar magnitude for Australia and the U.S. after 1990. The resulting prevalence rates for 2010 through 2012, however, are over 8 percent for Sweden, about 6 percent for Great Britain and the Netherlands, over 5 percent for Australia, and a comparatively low 4 percent for the U.S. (The prevalence rate for the U.S. is elevated recently by the recession. For years 2009 and 2010, the U.S. unemployment rate was at 9.5 percent, whereas the unemployment rate for the same period was just 4.0 percent in the Netherlands.)

In addition, the 2014 figure shows increases in prevalence rates for the U.S. on a "gross" basis, which does not adjust for the aging of the working age population, as the baby boom generations rose from ages 24 through 43 in 1990 to ages 45 through 64 in 2011. This shift in the age distribution of the working age population explains much of the increase in the gross prevalence rates for the U.S. between 1990 and 2010 to 2012. Regardless of how we look at the figure, the U.S. has a relatively low disability prevalence rate in comparison to the countries the authors considered.

(3) Statistic Suggesting That 23 Percent of Disabled Worker Applicants Are "Marginal"

In his testimony, Dr. Burkhauser indicates that Maestes et al., in their paper published in the American Economic Review (AER) in 2013, found that "23 percent of new applicants in 2005 were marginal cases whose admittance into the program was determined by the luck of drawing an easier rather than a stricter DDS gatekeeper." It is critically important that we understand exactly what this statistic really represents.

Maestes et al. derived the 23-percent value by comparing the allowance rate for the single highest-allowing DDS examiner to the allowance rate for the single lowest-allowing DDS examiner in their 2005-2006 experience study. This statistic in no way implies that 23 percent of all disability applicants are somehow identifiable as "marginal cases." Due to variation in the average severity of impairments for cases assigned to individual DDS examiners, we cannot even say that these two examiners would have a 23-percentage-point difference in their allowance rates if they were assigned identical cases. While it is clear that disability determinations are complicated and subject to some degree of judgment, this statistic does not support stating that 23 percent of applicants are marginal cases.

In pre-publication review, we recommended that the authors (Maestes et al.) clarify this statistic and provide more meaningful statistical measures of the variation in allowance rates on the basis of DDS examiner assignment. The authors did make this clarification in their final AER paper, so all should be careful with any citation of the 23-percent statistic.

Specifically, footnote 43 in the final AER paper makes clear that this 23-percent statistic is misleading. This footnote explains that "if one eliminated the top and bottom 1 percent of DDS examiners, then the marginal applicants would represent just under 11 percent...of all applicants." Even more important, the footnote further explains that "if all applicants were reassigned to the average examiner in their DDS office, only 2 percent...of applicants would have a new outcome." The latter statement clarifies that random assignment of cases to different disability examiners within a DDS results in only 2 percent of the applications being decided differently than if all examiners made their decisions in exactly the same way.

Thank you for considering these observations that I did not have the opportunity to offer at the July 24 hearing. Please let me know if you have any additional questions and if there is any way I and my office can provide assistance in the future.

Sincerely,

Stephen C. Goss

Stephen C. Goss
Chief Actuary

RESPONSES TO QUESTIONS FOR THE RECORD FROM STEPHEN GOSS

From the Committee on Finance hearing

"Social Security: A Fresh Look at Workers' Disability Insurance"

July 24, 2014

From Chairman Wyden

For all witnesses:

During the hearing, it appeared there was some common ground around the idea of helping individuals with disabilities, who are able to, remain in the workforce. There was a brief discussion around the idea that services and supports provided before an individual needs to apply for SSDI may improve outcomes for individuals with work-limiting disabilities. Ms. LaCanfora touched on the proposals in the President's budget. I would like to hear more about those proposals. I would also like to ask each of you to describe where we should focus our resources and what additional research needs to be done around appropriate work supports and services for individuals with disabilities.

- How well are the current array of supports and services working?
- Are there areas that could be improved?
- How can we better utilize technology—both for assisting workers to remain on the job and to help identify who can most benefit from early intervention?
- Finally, how can early intervention strategies be structured so that employers are not influenced to avoid hiring workers who may be at higher risk of becoming permanently disabled?

Response from Stephen Goss:

In order to qualify for disabled worker benefits under the Disability Insurance program, a worker who has been employed recently, as required for insured status, must be found to be severely disabled on the basis of a medically determinable impairment that results in the inability to perform work at the level of substantial gainful activity that exists in the national economy. Broad interventions for the population, like the increased availability of health insurance through Medicaid and exchanges under the ACA, should help many individuals from suffering unnecessary degradation in their impairments, thus allowing then to remain in the workforce longer. In addition, a targeted intervention program, providing medical and vocational support to individuals who applied for DI benefits and were found not to qualify, may help these individuals maintain and even increase their work capacity, again helping them to remain at work.

For Mr. Goss and Dr. Burkhauser:

As we discussed during the hearing, there was some differences in the projections for the SSDI program between Mr. Goss and Dr. Burkhauser. Since there was not time during the hearing, I want to offer you both this opportunity to respond for the record. Is there any additional material you believe the committee should know regarding the issues discussed during the hearing?

Response from Stephen Goss:

I would like to provide greater clarification of three issues brought forth at the hearing that relate to projections for the DI program. These are: (1) the accuracy of projections for the Disability Insurance program in the annual Trustees Reports to Congress; (2) the prevalence of receipt of disability benefits in the U.S. versus that in some other countries, such as the Netherlands and Sweden; and (3) the nature of a statistic suggesting that 23 percent of disabled worker applicants are "marginal cases". These issues are discussed in the letter I sent on August 6, 2014 to the Chairman and the ranking member, and requested be entered as an amendment to my written testimony. The contents of that letter are provided immediately below.

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Perhaps the most obvious discrepancy Burkhauser and Daly point out is the values projected for years through 2014 in the 2005 Trustees Report, when the economic recession that started at the end of 2007 was not anticipated in the Trustees' assumptions. The recession had the dual effects of (1) increasing the numbers of workers applying for benefits, with some being allowed on the basis of their medically determined condition; and (2) reducing the number of workers in the economy, leading to lower numbers of workers who retained disability insured status than had been projected before the recession. Note that workers can lose insured status as a result of being unemployed for a year, or even less, because workers must earn 20 out of the last 40 quarters of coverage to be disability insured. These two effects both increased the number of disabled worker beneficiaries and reduced the number of insured workers, as described in my original testimony.

I am happy to report that our current projections of the number of disabled worker beneficiaries over the next several years, just released in the 2014 Trustees Report, are reduced from the level projected in the 2013 Trustees Report. This reduction reflects lower actual levels of disability applications and allowance rates over the past year than had been assumed for the 2013 Trustees Report. With these reductions, we are now projecting the numbers of disabled worker beneficiaries to return to the levels projected in the 2008 Trustees Report (the last report before the recession was recognized) by the year 2025.

Projections into the future are inherently uncertain. We are constantly improving our methods and reviewing our assumptions with experts from all fields. At this time, we believe that our methods very well reflect the demographic patterns of aging that we will be confronted with in the future.

(2) Disability Prevalence in the U.S. Versus Other OECD Countries

In Figure 6 of his testimony, Dr. Burkhauser provided a comparison of disability prevalence rates (disability beneficiaries per 1,000 workers) for the U.S. and the Netherlands from 1970 through 2009. The source of the figure is indicated as "Burkhauser and Daly 2011." This figure shows the prevalence for the Netherlands rising dramatically through 1982, but dropping after 1992 to a level equal to that for the U.S. by 2009. This is one illustration of the success of the Netherlands in bringing disability prevalence down to a level close to what we have in the U.S.

However, in subsequent work by Burkhauser and Daly, published just this year in the IZA Journal of Labor Policy (http://www.izajlop.com/content/3/1/4), the authors provided data on disability recipiency (prevalence as a percent of the working age population) from 1970 to 2012, for Australia, Great Britain, the Netherlands, Sweden, and the U.S. This comparison shows some reduction for Great Britain, the Netherlands, and Sweden in recent years, and increases of similar magnitude for Australia and the U.S. after 1990. The resulting prevalence rates for 2010 through 2012, however, are over 8 percent for Sweden, about 6 percent for Great Britain and the Netherlands, over 5 percent for Australia, and a comparatively low 4 percent for the U.S. (The prevalence rate for the U.S. is elevated recently by the recession. For years 2009 and 2010, the U.S. unemployment rate was at 9.5 percent, whereas the unemployment rate for the same period was just 4.0 percent in the Netherlands.)

In addition, the 2014 figure shows increases in prevalence rates for the U.S. on a "gross" basis, which does not adjust for the aging of the working age population, as the baby boom generations rose from ages 24 through 43 in 1990 to ages 45 through 64 in 2011. This shift in the age distribution of the working age population explains much of the increase in the gross prevalence rates for the U.S. between 1990 and 2010 to 2012. Regardless of how we look at the figure, the U.S. has a relatively low disability prevalence rate in comparison to the countries the authors considered.

(3) Statistic Suggesting That 23 Percent of Disabled Worker Applicants Are "Marginal"

In his testimony, Dr. Burkhauser indicates that Maestes et al., in their paper published in the American Economic Review (AER) in 2013, found that "23 percent of new applicants in 2005 were marginal cases whose admittance into the program was determined by the luck of drawing an easier rather than a stricter DDS gatekeeper." It is critically important that we understand exactly what this statistic really represents.

Maestes et al. derived the 23-percent value by comparing the allowance rate for the single highest-allowing DDS examiner to the allowance rate for the single lowest-allowing DDS examiner in their 2005-2006 experience study. This statistic in no way implies that 23 percent of all disability applicants are somehow identifiable as "marginal cases." Due to variation in the average severity of impairments for cases assigned to individual DDS examiners, we cannot even say that these two examiners would have a 23-percentage-point difference in their allowance rates if they were assigned identical cases. While it is clear that disability determinations are complicated and subject to some degree of judgment, this statistic does not support stating that 23 percent of applicants are marginal cases.

In pre-publication review, we recommended that the authors (Maestes et al.) clarify this statistic and provide more meaningful statistical measures of the variation in allowance rates on the basis of DDS examiner assignment. The authors did make this clarification in their final AER paper, so all should be careful with any citation of the 23-percent statistic.

Specifically, footnote 43 in the final AER paper makes clear that this 23-percent statistic is misleading. This footnote explains that "if one eliminated the top and bottom 1 percent of DDS examiners, then the marginal applicants would represent just under 11 percent…of all applicants." Even more important, the footnote further explains that "if all applicants were reassigned to the average examiner in their DDS office, only 2 percent…of applicants would have a new outcome." The latter statement clarifies that random assignment of cases to different disability examiners within a DDS results in only 2 percent of the applications being decided differently than if all examiners made their decisions in exactly the same way.

Questions for Mr. Goss from Senator Hatch

1. In your testimony, you identified that under current law, "...the level of revenue or income for the [DI] program is a little bit less than what is scheduled for the cost of the program...." Please quantify, in present- and dollar-value terms, by how much revenue for the DI program is a little less than the cost under current law and projections.

Response from Stephen Goss:

Under the intermediate projections of the 2014 Trustees Report, the DI Trust Fund reserves, along with current tax revenue are projected to be sufficient to pay all scheduled DI benefits in full and on time until the end of calendar year 2016. At the end of 2016, however, the reserves are projected to become depleted at which point continuing tax revenue would be sufficient to pay 81 percent of scheduled benefits on a timely basis. This is actually up from 80 percent projected in the 2013 Trustees Report because DI applications and allowance rates have both been lower over the past year than was projected for the 2013 Trustees Report. By 2088, scheduled revenue is still projected to be enough to cover 80 percent of the cost of scheduled DI benefits under current law. For calendar year 2017, the projected cost of the DI program is $161.2 billion, and the scheduled tax revenue is projected to be $133.6 billion. The shortfall of $27.6 billion for 2017 is equivalent to $24.4 billion in present value discounted dollars. In addition, this shortfall for 2017 is a little less than 0.12 percent of projected Gross Domestic product for 2017.

2. In the President's most recent budget, he withdrew an earlier proposal to use broad adoption of the so-called "chained CPI" in government indexation, including for cost of living adjustments in Social Security, along with some corresponding benefit increases to protect the vulnerable. The President subsequently abandoned his earlier proposal because, as administration officials have made clear to me, it is only on the table if the President is first assured of getting another tax hike, on top of the bracket-creep effect in the chained CPI proposal and in addition to the more than $630 billion tax hike he got in the fiscal cliff agreement.

Absent that proposal, with respect to DI, the President's most recent budget, which the Social Security Administration supports, calls for:

- Reduction of an individual's entitlement to a DI benefit in any month in which the individual also receives a state or federal unemployment benefit;
- Enhancement of debt collection for delinquent debts associated with DI;
- Development of a process to collect Worker's Compensation information from states and private insurers to "correctly offset DI benefits and reduce SSI payments:"
- Termination of benefits for a stepchild in the same month as benefits are terminated for a parent upon divorce;
- Various authorizations or reauthorizations of demonstration authority or authority to experiment to help people with disabilities;
- And a couple of other relatively minor changes to DI.

In light of the impending exhaustion of DI trust fund assets sometime around 2016, I wonder how far the President's proposals go in helping confront the financial challenges facing DI and Social Security more generally. Please identify how many years or months of additional DI trust fund solvency would be generated from the President's current budget proposals?

Response from Stephen Goss:

Because the date for the projected depletion of DI Trust Fund Reserves is just over 2 years from today, most changes that might be considered to correct the long range financial imbalance for this program cannot be enacted and implemented quickly or fully enough to significantly affect the projected date of reserve depletion. Even changes considered by Senator Coburn, and documented with our estimates provided to him on July 18, 2011 at http://www.ssa.gov/cgi-bin/solvency.cgi could not substantially affect this date. In particular, changes that might limit benefits under the program, like those considered by Senator Coburn or the proposal to offset DI benefits by amounts received concurrently from unemployment compensation, would phase in only gradually and have little effect in the next 2 years. As shown in our letter of March 4, 2014 to then Director of OMB Sylvia Mathews Burwell at the same link as above, immediate implementation of the offset for concurrent receipt of unemployment compensation would lower DI cost by only $0.22 billion in 2017. As a result, many policymakers are now considering additional revenue for the DI program to avert a sudden drop of almost one fifth in scheduled DI program benefits at the end of 2016.

3. You testified that: "The one point that really is important, and you will see that on the slide on page 9, is that the share of all the new disabled worker entitlements coming on the rolls at age 50 to 59, men and women alike, that have musculoskeletal impairments has risen, but interestingly at exactly the same time, the number of people coming on the rolls with cardiovascular impairments has decreased. Between the two of those, they have maintained exactly the same share over that time." I do not understand why the point "really is important" that for a subset of beneficiaries, a share associated with musculoskeletal impairments has risen but there has been, perhaps, about an equal decline in the share associated with some other impairment, such that those two shares taken together might have been relatively unchanged. Perhaps you could explain why lack of significant change in overall share of the two independent impairment categories taken together is important.

Response from Stephen Goss:

For both younger men and younger women becoming newly entitled for DI disabled worker benefits over the past almost 30 years, the distribution by impairment diagnosed has not changed in any appreciable way. The percent diagnosed with mental and other impairments has remained remarkably consistent for these younger newly disabled workers. In this context, it is notable that the only appreciable changes in the distribution of older newly entitled disabled workers over the past roughly 30 years is an increase in impairments diagnosed as muscular skeletal, and a roughly offsetting decrease in the share with impairments diagnosed as cardiovascular in nature. Whenever we see distributions that are generally stable over long periods, any exceptions to that stability are important. We note that great progress has been made over the past 30 years with various interventions that have prevented death and have enhanced functionality for many who have suffered from cardiovascular impairments. Given this information, we would expect a reduction in the share of new entitled older disabled worker diagnosed with a work-limiting cardiovascular impairment. If cardiovascular impairment were independent from all other potentially disabling impairments, we might have expected to see the reduction in new entitlements due to cardiovascular impairments spread proportionally across all other impairments. That is not the case. Instead, the reduced share for cardiovascular impairment matches the increased share for muscular skeletal impairment. This shift could be just coincidence, but it also suggests the possibility of a relationship between these impairments. We believe this is an important observation and is worth further exploration.

4. You testified that "...we [actuaries at SSA] do, at the conclusion of every Trustees' report, produce a memo at request of what kind of reallocation potentially could be done to do just what you said, to equalize the trust funds. We have one of those now. It would be a temporary reallocation just for about 10 years of at most having 0.1 percent of the overall payroll tax rate shifted from OASI to DI for a brief period of time." Please provide evidence of the request of the SSA actuaries and who made the request to produce a memo specifying how to reallocate among trust funds to in some sense equalize them.

Response from Stephen Goss:

We have been producing the memorandum mentioned since 2010, and have done so for each year since that time. We have received requests for an example of potential reallocation of the OASI and DI combined payroll tax rate from congressional staff and many others. This example has not been viewed as a specific proposal, but just as a possibility. We do occasionally receive requests of general interest from multiple sources where it is not necessary or desired to identify a particular requester. Another example of this is our Actuarial Note number 151 on the implications of unauthorized immigrants for the OASDI program http://www.ssa.gov/oact/NOTES/n2010s.html. This note was actually an update of an earlier letter requested by Senator Durbin on the same topic. We posted Actuarial Note number 151 without identifying a particular requester.

We note that the reallocation enacted into law in 1994, 8 months before the then projected depletion of DI Trust Fund reserves was specifically designed to extend the reserves of the DI Trust Fund, but not to extend the depletion date for the DI fund as far as then projected for the OASI Trust Fund. Because there is no limit on the number of reallocation approaches that could be considered, we have not attempted to develop any further examples. However, if the Committee or any member would like to explore other options for extending the DI reserve depletion date, we will be eager to assist in the development of other options and to provide estimates of the implications.

5. In a July 28, 2014 memorandum available on the Office of the Chief Actuary of SSA's website under "Proposals Affecting Trust Fund Solvency," a reallocation scheme involving reallocation of payroll tax

receipts which under current law go to the OASI trust fund to provide benefits to retired workers and their survivors over to the DI trust fund intended under current law to provide benefits to disabled American workers. That scheme would accelerate OASI reserve depletion, forcing retired workers and their survivors to take around a 12% across-the-board reduction in benefits. Relative to current law, what would be the effect of the reallocation scheme presented in the July 28 memorandum between 2033 and 2036 on retired beneficiaries and their survivors?

Response from Stephen Goss:

Under the intermediate assumptions of the 2014 Trustees Report, the OASI Trust Fund reserves are projected to become depleted in 2034, at which point continuing tax revenue would be sufficient to finance 75 percent of scheduled benefits. Under the temporary tax rate reallocation in our July 28, 2014 memorandum, the OASI reserves would become depleted one year earlier, in 2033, and continuing tax revenue would be sufficient to finance 75 percent of the benefit cost. Thus, the reallocation that would extend the DI reserves by 17 years (from 2016 to 2033) would make depletion for the OASI reserves 1 year sooner. The difference is primarily due to the relatively small size of DI costs compared to that for the OASI program. The level of financing available for OASI benefits after 2034 (the date of OASI reserve depletion projected under current law) would be unaffected by the hypothetical reallocation.

6. You said during the hearing that "…the share age-by-age for men and women that have been coming on with mental impairments really has not changed over the last 30 years." Others have claimed, however, that there has been a very rapid increase for some classes of beneficiaries. Is it true that the mental disability incidence rate as a share of the insured population has been unchanged over the last 30 years for all age classes?

Response from Stephen Goss:

It is not necessarily true that the disability incidence rate for mental impairments as a percent of the insured population has stayed the same over the past 30 years for all age and gender groups. What we have observed is that the share of the total incidence rate that is due to mental impairment has remained the same for men and women alike for age groups 30-39, and 50-59. Where incidence rates have increased or fallen for a given age and gender the incidence rate for mental impairment has increased or fallen in proportion to the total, suggesting that mental impairments have not been disproportionally responsible for changes in incidence rates. This relationship is particularly notable for women. Over the period when the percent of women who were DI insured increased to a level close to that for men, the incidence rate for women also rose to a level close to that for men. We are studying this simultaneous increase in insured and incidence among women. However, it does not appear that mental impairments have played a disproportionate role in this increase in incidence rates for women.

September 23, 2014

Stephen Goss responses to follow-up questions for the record from Senator Hatch, related to the Senate Finance Committee hearing titled "Social Security: A Fresh Look at Workers' Disability Insurance," held on July 24, 2014.

Hatch Question 1. In your testimony, you identified that under current law, "…the level of revenue or income for the [DI] program is a little bit less than what is scheduled for the cost of the program…" Please quantify, in present-and dollar-value terms, by how much revenue for the DI program is a little less than the cost under current law and projections.

Your response includes the following: "For calendar year 2017, the projected cost of the DI program is $161.2 billion, and the scheduled tax revenue is projected to be $133.6 billion. The shortfall of $27.6 billion for 2017 is equivalent to $24.4 billion in present value discounted dollars."

Unfortunately, my question may not have been posed a precisely as necessary to obtain the information I desire. I am interested in the long-term disconnect between revenue and cost (75-year or infinite horizon), and not just for a single year such as 2017. So, could you quantify, in present, dollar-value terms, by how much revenue for the DI program is a little less than the cost under current law and projections over a 75-year and infinite horizon?

Answer: Table IV.B5 in the 2014 Trustees Report indicates that the present discounted value of the projected cost for paying scheduled benefits from the DI Trust Fund over the next 75 years (2014-2088) is $8,436 billion, and the unfunded obligation (shortfall of revenue needed to pay scheduled benefits) for DI over this period is $1,202 billion. The shortfall over the 75-year period thus represents 14.2 percent of the cost of paying scheduled benefits in full, which is 0.31 percent of projected taxable payroll over the period and just 0.11 percent of GDP over the period.

Projections that extend through the infinite horizon are inherently problematic and highly uncertain. The projections provided in the Trustees Reports are only rough extrapolations and are provided only for the OASDI program as a whole. Table VI.F1 in the 2014 Trustees Report indicates that the unfunded obligation for the entire OASDI program rises from 1.0 percent of GDP over the next 75 years to 1.4 percent of GDP through the infinite horizon. However, most of this increase is for the OASI program, where cost grows in the future due to increases in life expectancy after age 62. For the DI program, benefits are payable only until the disabled worker attains the normal retirement age (67 as of 2027 and later), so increases in longevity are less significant for DI cost. The OASDI unfunded obligation as a percent of program cost is 16.4 percent for the next 75 years, and the shortfall for the 75th year (2088) is 26.8 percent of cost for the year. For DI, however, the unfunded obligation over the next 75 years is 14.2 percent of cost, but the shortfall for the year 2088 is just 19.6 percent of cost for the year. As a rough approximation considering these trends, the unfunded obligation for the DI program through the infinite horizon would be no more than 0.12 percent of GDP, or approximately $2 trillion in present discounted value.

Hatch Question 2. In the President's most recent budget, he withdrew an earlier proposal to use broad adoption of the so-called "chained CPI" in government indexation, including for cost of living adjustments in Social Security, along with some corresponding benefit increases to protect the vulnerable. The President subsequently abandoned his earlier proposal because, as administration officials have made clear to me, it is only on the table if the President is first assured of getting another tax hike, on top of the bracket-creep effect in the chained CPI proposal and in addition to the more than $630 billion tax hike he got in the fiscal cliff agreement.

Absent that proposal, with respect to DI, the President's most recent budget, which the Social Security Administration supports, calls for:

- Reduction of an individual's entitlement to a DI benefit in any month in which the individual also receives a state or federal unemployment benefit;
- Enhancement of debt collection for delinquent debts associated with DI;
- Development of a process to collect Worker's Compensation information from states and private insurers to "correctly offset DI benefits and reduce SSI payments:"
- Termination of benefits for a stepchild in the same month as benefits are terminated for a parent upon divorce;
- Various authorizations or reauthorizations of demonstration authority or authority to experiment to help people with disabilities;
- And a couple of other relatively minor changes to DI.

In light of the impending exhaustion of DI trust fund assets sometime around 2016, I wonder how far the President's proposals go in helping confront the financial challenges facing DI and Social Security more generally. Please identify how many years or months of additional DI trust fund solvency would be generated from the President's current budget proposals?

Your response identified that program changes cannot be enacted quickly and fully enough to significantly influence DI trust fund reserve depletion and briefly discussed proposals contained in a Social Security reform proposal put forward by Senator Coburn. However meritorious are the changes proposed by Senator Coburn, I do not believe that they are relevant to the question that I posed to you. The specific question that I posed was: "Please identify how many years or months of additional DI trust fund solvency would be generated from the President's current budget proposals?" Those proposals are reproduced, again, above in the six bullet points that I listed. Of those, your response dealt only with the proposal to offset concurrent receipt of unemployment compensation and DI benefits. My question asks for the trust-fund-solvency effects of ***all*** proposals put forward in the President's most recent budget related to DI.

Answer: Based on the projections under intermediate assumptions of the 2014 Trustees Report, we would need reductions in DI cost and increases in DI revenue totaling roughly $1 billion between now and the end of calendar year 2016 in order to delay the date of DI Trust Fund reserve depletion into 2017. Our estimate for the first of the provisions you list above (offsetting DI benefits for receipt of unemployment insurance benefits) would reduce DI cost through 2016 by only about $30 million. The other provisions you list above would either have relatively small cost effects through 2016, or have not been fully specified such that we can develop an estimate at this time. Therefore, while we cannot provide a precise estimate of the DI cost effects of enactment of the provisions mentioned above, it is unlikely that such enactment between now and the end of 2016 would reduce DI benefit cost enough to extend the date of DI reserve depletion significantly beyond the date estimated under current law in the 2014 Trustees Report.

Over the long-range 75-year projection period, the DI program is projected to have an actuarial deficit of 0.33 percent of payroll under intermediate assumptions of the 2014 Trustees Report. Enactment of the first provision mentioned above would reduce the actuarial deficit by about 0.01 percent of taxable payroll. Again, due to lack of specification, we cannot provide precise estimates for the other provisions cited.

Hatch question 5. In a July 28, 2014 memorandum available on the Office of the Chief Actuary of SSA's website under "Proposals Affecting Trust Fund Solvency," a reallocation scheme involving reallocation of payroll tax receipts which under current law go to the OASI trust fund to provide benefits to retired workers and their survivors over to the DI trust fund intended under current law to provide benefits to disabled American workers. That scheme would accelerate OASI reserve depletion, forcing retired workers and their survivors to take around a 12% across-the-board reduction in benefits. Relative to current law, what would be the effect of the reallocation scheme presented in the July 28 memorandum between 2033 and 2036 on retired beneficiaries and their survivors?

To provide further clarity on your response, as I understand it, the "reallocation" would serve to impose a 25% reduction in a retiree's benefits for an additional year. What dollar amount, and percent change in benefit, would that reduction amount to for a: very-low AIME 30-year scaled earner; low AIME 30-year scaled earner; medium AIME 30-year scaled earner; and high AIME 30-year scaled earner?

Answer: The specific hypothetical tax reallocation modeled in our July 28, 2014 memorandum would extend the ability to pay DI scheduled benefits in full from late in 2016 to part way through 2033. Because DI revenue through this nearly 17-year period represents only about 80 percent of the cost of scheduled benefits under current law, the modeled reallocation would result in the ability to pay about 25 percent higher DI benefits for those 17 years. The cost of this extension would be borne by the OASI Trust Fund as you suggest. With OASI Trust Fund reserve depletion 1 year earlier (2033 rather than 2034), revenue available for that 1 year would be sufficient to pay only 75 percent of scheduled benefits, or 25 percent less than projected for that 1 year under the current-law tax-rate allocation between OASI and DI. . If the Congress failed to act in order to avert this reserve depletion, and the decision was to pay benefits timely but with a 25 percent reduction for all OASI beneficiaries, then monthly benefits during this period would be reduced by about $193, $253, $417, and $552 for retired worker beneficiaries who retired at about the average age of 64 with career average earnings (AIME) consistent with our hypothetical very-low, low, medium, and high scaled workers, respectively. Note that these values are expressed in levels that are CPI-indexed from 2033 back to 2014, as shown in table V.C7 of the 2014 Trustees Report. These values reflect expected growth in wage levels in excess of the CPI between 2014 and 2033 and thus are not directly comparable to benefit and wage levels that are paid today. If we express these values in dollars indexed from 2033 back to 2014 using the average wage index (rather than just the CPI), then we would have values more comparable to benefits and earnings of today and more comparable to the benefit level illustrations in the Social Security statement available online. On the wage-indexed basis, the dollar levels of monthly benefit reductions, consistent with benefits shown in Actuarial Note 2014.9 at http://www.ssa.gov/oact/NOTES/ran9/index.html, would be about $142, $186, $306, and $406 for retired worker beneficiaries who retired at about the average age of 64 with career average earnings (AIME) consistent with our hypothetical very-low, low, medium, and high scaled workers, respectively.

Hatch question on depletion projections. Surrounding the hearing there was, surprisingly to me, a great deal of discussion about how SSA had projected, back in 1995, a DI trust fund reserve depletion in 2016 (though other years projected different depletion dates). Some seem to have taken that projection, which surrounded 1994 Social Security reforms, along with recent projections of, again, a 2016 depletion date to tell the following story: We have known for around 20 years that the DI trust fund would deplete in 2016, so it is not news. And, since we've known that depletion is coming, we shouldn't be surprised about a possible need for payroll tax reallocation. According to that narrative, it would seem as though Congress, in 1994 or 1995, anticipated no need for further action to improve financing in Social Security programs and felt that nothing would have to be done until 2016, when a DI trust fund depletion would again arise. However, there are statements to the contrary in the Congressional Record surrounding the 1994 legislation. For example, with respect to the reallocation of the time, it was said that "...we have to recognize that this transfer is just a Band-Aid. It is a temporary solution." It was said that "Today's action, although predominantly a stop-gap measure, at least buys us time until we can implement fair and effective changes to ensure the long-term solvency of Social Security. This is something we owe not only to today's retirees—but their children and grandchildren as well." It was said that "We recognize, however, that this transfer is just a Band-Aid, and that the administration has to take a serious look at why the disability insurance program is in trouble."

Given the focus by many on allegedly having known for a long time, perhaps around 20 years, that the DI trust fund would deplete in 2016, do you believe that the 2016 depletion is any the less a challenge given such alleged foresight? Or, do you believe that Congress and several administrations had a long period of time to shore up Social Security's finances, as was hoped for in 1994 by at least some in Congress, and yet no substantive post-1994 reallocation financial reforms were put in place?

Answer: To your first question, the depletion of DI Trust Fund reserves expected to occur in late 2016 is essentially the challenge foreseen in 1994 and 1995, after the last tax-rate reallocation was enacted. It is certainly not a lesser challenge and is arguably greater in today's perspective because it is so close. It is also true that for 20 years the Congress has had the opportunity to shore up Social Security's finances and has not yet accomplished this. These are excellent questions and deserve a full answer concerning what has happened in the last 20 years.

First, in late 1994 the Congress was faced with imminent depletion of DI reserves in 1995. At the time, the 1994 Trustees Report projected that the OASI Trust Fund Reserves would become depleted in 2036. The tax rate reallocation that was then enacted extended DI reserve depletion by 21 years, then projected for 2016. The offsetting effect of this reallocation on the OASI program was to move the projected reserve depletion date 5 years earlier to 2031. The Congress made this change with the intent of providing more time for careful consideration of possible changes for both DI and OASI to shore up the finances of the combined OASDI program.

Among the reasons that the Congress has not settled yet on adjustments to shore up the finances is the fact that starting in 1995, the U.S. economy entered a 10-year period of extraordinary growth, which had the effect of improving the actuarial status of the trust funds well beyond what had been anticipated in 1995. By the 2005 Trustees Report, the year for DI reserve depletion was projected to be 2027 and, understandably, the pressure for change was not seen to be much greater than it was after the reallocation in 1994.

However, by the 2010 Trustees Report, the unforeseen severe economic recession that started at the end of 2007 caused the projections to worsen to a projected DI reserve depletion date of 2018. By the 2012 Trustees Report, the extended economic downturn caused the projected DI reserve depletion date to move to 2016, where it stands today. Thus, the unexpected positive effects of the extraordinary strong economy from 1995 to 2005 were offset subsequently by the unexpected negative effects of the extraordinary economic downturn starting in 2007. We are exploring ways to better model the effects of changes in the economic cycle so that we can "smooth out" to some degree the effects of the shifts in the economic cycle.

Another reason that Congress has been slowed on making legislative changes for Social Security and particularly DI may be the controversy over what has caused the rising cost of the program in recent years. At this point, we believe we have been able to clarify the demographic and other changes that have caused DI cost to rise over the past 20 years, first at a much slower pace than for revenue, and later at a faster pace than for revenue. We are hopeful that we will be able to move on from the debates about why DI cost has risen and on to adjustments to shore up the program.

In the period between 1995 and now, we have learned a lot and have explored with the Congress and other policymakers a vast array of options for shoring up Social Security's finances. The past 20 years have not been wasted. We believe we are now in a position to work more effectively than ever before with Congress and other policymakers in developing solutions for Congressional consideration. The work of and for the President's Commission (Simpson-Bowles) of 2010 and the Bipartisan Policy Center commission (Rivlin-Domenici) in the same year are two major recent efforts that provide starting points for consideration.

The tax rate reallocation of 1994 was not intended to be a permanent solution, and was intended to maintain focus on DI by keeping its reserve depletion date sooner than the larger OASI Trust Fund. Even with a reallocation in the next few months, the reserve depletion dates for the OASI and DI Trust Funds cannot be extended as far into the future as was accomplished in 1994. As a result, the pressure to act will be greater now than it was back in 1995, for both the OASI and DI Trust Funds. We look forward to working with you, Senator Hatch, as well as the Chairman and all members of the Finance Committee in developing a successful and balanced set of adjustments to shore up the finances for Social Security as a whole, and the DI program in particular.

STATEMENT OF HON. ORRIN G. HATCH, RANKING MEMBER
U.S. SENATE COMMITTEE ON FINANCE HEARING OF JULY 24, 2014
SOCIAL SECURITY: A FRESH LOOK AT WORKERS' DISABILITY INSURANCE

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing on Social Security Disability Insurance:

Thank you, Chairman Wyden, for holding today's hearing. This is an important topic that deserves our immediate attention.

In 2013, the Social Security Disability Insurance – or DI – program provided over $140 billion in benefit payments to nearly 11 million disabled workers and dependents.

According to CBO, the number of DI beneficiaries increased nearly six-fold between 1970 and 2012 and, over the past 40 years or so, outlays for benefits have grown by more than nine times. There are various reasons for the growth, including demographics, changes in the composition of the workforce, relaxation of benefit eligibility criteria, and others.

I hope that we can begin to explore those areas today.

DI benefits are funded from payroll tax receipts and assets in the DI Trust Fund, which are projected to be exhausted sometime around 2016. At that point, under current law, there will be abrupt, across the board benefit cuts of around 20 percent.

No one wants that to happen, which is one reason why we are here today to begin responsibly looking at the DI program. Indeed, it is our responsibility to fully examine this system and work to improve it and its finances where we can.

Some believe that we could solve all or most of the financial challenges facing the DI program and Social Security in general through higher taxes.

I made several requests to the Congressional Budget Office regarding this strategy. And, recent analysis performed in response to those requests shows how difficult this approach can be.

Most proposals to reform Social Security by raising payroll taxes would result in massive tax increases, particularly on middles class Americans, negatively impacting job growth and harming middle income families.

That is hardly what our economy needs.

I think there is definitely more we can do on the program integrity side.

While I don't think that the DI program is rife with fraud, we should work to prevent whatever instances of fraud we can.

And, while I don't think that Administrative Law Judges in the DI program, who hear decision appeals cases, are all bad actors, each erroneous decision can cost the Trust Fund hundreds of thousands of dollars. That being the case, we need to protect against frivolous decision making that can quickly add up to billions of dollars in improper DI benefit payments. Sadly, the Obama Administration's approach to DI and Social Security in general has largely been to remain silent, even in the face of the impending DI Trust Fund exhaustion.

The only major structural change that the administration briefly considered was adoption of the chained CPI in government-wide price indexation coupled with benefit enhancements for vulnerable populations.

However, the President has since withdrawn even that modest proposal and has publicly stated that he would not even discuss the idea unless he was assured of getting yet another tax hike to go along with it.

Mr. Chairman, I come to today's hearing in the interest of having us responsibly examine the DI program to see what can be done, and what we can agree upon, to help improve the program and its finances for today's beneficiaries and future generations.

I also believe that it would be irresponsible to simply take the expedient route of agreeing at this time to merely rubber stamp a payroll tax reallocation without examining the DI program to see what could be changed, what innovations could be considered, and what could be done in the face of projected Trust Fund exhaustion and over $23 trillion in unfunded obligations in the Social Security system.

It is premature to agree on some payroll tax reallocation as a patch of convenience and to kick the can down the road yet again.

I am willing to work with you, Mr. Chairman, and anyone in Congress to see what we can do before DI Trust Fund exhaustion in 2016.

There are many options that we already know about, and we could also examine more innovative ideas.

For example, it could be worth looking at pay-for-success funding models to help fund one of the DI proposals in the President's budget. I am also willing to see if there are ways to improve funding flows for Continuing Disability Reviews in the DI program, another concept found in the President's budget.

In the end, it seems to me that we have two paths to choose from.

One is what I have just traced out, involving inquiry, research, and examination of what we can do to enhance the DI program and its finances and what we can agree upon.
The other is to engage in divisive political rhetoric and demagogue the issue even further, which is irresponsible in my view and not what disabled American workers and all workers insured by DI should tolerate.

As I have tried to make clear, my preference is for the first path of cooperation, bipartisanship, and responsibility. I hope that, in the end, that is the path we take.
Thank you again, Mr. Chairman, for agreeing to hold today's hearing.

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SOCIAL SECURITY ADMINISTRATION

COMMITTEE ON FINANCE

UNITED STATES SENATE

JULY 24, 2014

STATEMENT FOR THE RECORD

MARIANNA LACANFORA
ACTING DEPUTY COMMISSIONER
OFFICE OF RETIREMENT AND DISABILITY POLICY

Chairman Wyden, Ranking Member Hatch, and Members of the Committee:

Thank you for this opportunity to discuss the Social Security Administration's (SSA) disability determination process, which is one of the largest administrative adjudicative systems in the world. We are committed to continuing to improve this process for our disability claimants and to being good stewards of the disability programs. I would like to begin by thanking both Chairman Wyden and Ranking Member Hatch for attending the disability briefing we held in May. We hope to sponsor more events that will help inform Members and their staff about the programs we administer. Today, I will provide an overview of the disability determination process. Before doing so, I will briefly discuss the vital programs that we administer.

Introduction

We administer the Old-Age, Survivors, and Disability Insurance program, commonly referred to as "Social Security," which protects against loss of earnings due to retirement, death, and disability. Social Security provides a financial safety net for millions of Americans—few programs touch as many American lives. We also administer the Supplemental Security Income (SSI) program, funded by general revenues, which provides cash assistance to persons with very limited means who are aged, blind, and disabled, as defined in the Social Security Act (Act).

Other lesser-known but critical services we provide bring millions of people to our field offices or prompt them to call us each year. For example, we issue replacement Medicare cards and help administer the Medicare low-income subsidy program.

We strive to meet the public's expectation of exceptional stewardship of program dollars and administrative resources. The payroll tax contributions of individuals and their employers finance the Social Security program, and we recognize it is our responsibility to administer those resources efficiently. Doing so preserves the public's trust in our programs.

The responsibilities with which we have been entrusted are immense. To illustrate, in fiscal year (FY) 2013 we:

- Paid over $850 billion in Social Security and SSI benefits during the year to a monthly average of more than 62 million beneficiaries, of whom about 15 million received approximately $175 billion in benefits for the year under our disability programs;

- Handled over 53 million transactions on our National 800 Number Network;

- Received over 68 million calls to field offices nationwide;

- Served more than 43 million visitors in over 1,200 field offices nationwide;

- Completed nearly 8 million claims for benefits and nearly 794,000 hearing dispositions; and

- Completed 429,000 full medical continuing disability reviews.

We have a proven track record of providing exceptional service, but it is difficult to maintain without adequate resources. We are a highly efficient organization, and our hard-working employees care deeply about the public they serve.

During FYs 2011-2013, our budget situation was severe. For 3 years in a row, we received nearly a billion dollars less than the President's budget request. Over those years, we had to make some deep reductions in our services to the public and in our stewardship efforts, while still meeting our mission and serving the public as best as possible. We took the following actions.

- We significantly limited hiring, with only minimal hiring in critical front-line areas;
- Reduced the hours that our field offices are open to the public to allow us to complete late-day interviews without using overtime and to complete retirement and disability claims and other post-entitlement work;
- Operated with minimal, non-personnel spending, only funding our most essential costs, such as mandatory contracts, guard services, and rent on our buildings;
- Closed over 500 contact stations and 7 foreign service posts;
- Increased our use of video hearings to improve service and lower travel costs;
- Suspended our lower priority notices and reduced the number of Social Security Statements issued; and
- Provided more information online to reduce printing and mailing costs.

As a result of significantly limited hiring, wait times in field offices increased, callers to our 800 Number had to wait longer to speak with a representative, and hearings processing time increased. In addition, we were not able to ramp up our cost-effective program integrity efforts as planned.

We are pleased that we received additional resources in FY 2014, and we thank you for your support. As a result, we are able to ***begin*** the recovery efforts from 3 years of underfunding. However, it will take time to reverse the impact on services from the years of underfunding. It is critical that we receive the level of funding requested for our agency in the President's FY 2015 Budget.

General Administrative Review Process

When we receive a claim for disability benefits, we strive to make the correct decision as early in the process as possible so that a person who qualifies for benefits receives them in a timely manner. In most cases, we decide claims for benefits using an administrative review process that consists of four levels: (1) initial determination; (2) reconsidered determination; (3) hearing; and

(4) Appeals Council (AC) review.[1] At each level, the decision-maker bases his or her decisions on the Act and our regulations and policies.

In most States, a team consisting of a State disability examiner and a State agency medical or psychological expert makes an initial determination at the first level of review. The Act requires this initial determination.[2] A claimant who is dissatisfied with the initial determination may request reconsideration, which is performed by another State agency team.

A claimant who is dissatisfied with the reconsidered determination may request a hearing.[3] The Act requires us to give a claimant "reasonable notice and opportunity for a hearing with respect to such decision."[4] Under our regulations, an administrative law judge (ALJ) conducts a *de novo* hearing unless the claimant waives the right to appear, or the ALJ can issue a fully favorable decision without a hearing; in these cases, the ALJ issues a decision based solely on the written record.[5] If the claimant is dissatisfied with the ALJ's decision, he or she may request AC review.[6] The Act does not require administrative review of an ALJ's decision. If the AC decides not to review the ALJ's decision, the ALJ's decision becomes our final decision. If the AC issues a decision, the AC's decision becomes our final decision.[7] A claimant may request judicial review of our final decision in Federal district court.[8]

I will now provide an overview of the way we evaluate disability claims.

How We Determine Disability—The Sequential Evaluation Process

The Act generally defines disability, for purposes of programs authorized under the Act, as the inability to engage in any substantial gainful activity (SGA) due to a physical or mental impairment that has lasted or is expected to last at least 1 year or to result in death. SGA is defined as significant work, normally done for pay or profit. Under this very strict standard, a person is disabled only if he or she cannot perform a significant number of jobs that exist in the national economy, due to a medically determinable impairment. Even a person with a severe impairment cannot receive disability benefits if he or she can engage in any SGA. Moreover, the Act does not provide short-term or partial disability benefits.

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[1] 20 C.F.R. §§ 404.900, 416.1400. My testimony focuses on disability determinations, but the administrative review process generally applies to any appealable issue under the programs we administer.

[2] Sections 205(b) and 1631(c)(1)(A) of the Act, 42 U.S.C. §§ 405(b), 1383(c)(1)(A).

[3] For disability claims, 10 States participate in a "prototype" test under 20 C.F.R. §§ 404.906, 416.1406. In these States, we eliminated the reconsideration step of the administrative review process. Claimants who are dissatisfied with the initial determinations on their disability cases may request a hearing before an ALJ. The 10 States participating in the prototype test are Alabama, Alaska, California (Los Angeles North and West Branches), Colorado, Louisiana, Michigan, Missouri, New Hampshire, New York, and Pennsylvania.

[4] Sections 205(b)(1), 1631(c)(1)(A) of the Act, 42 U.S.C. §§ 405(b)(1), 1383(c)(1)(A). A claimant has 60 days after the date he or she receives notice of the determination to request a hearing before an ALJ.

[5] 20 C.F.R. §§ 404.929, 404.948, 416.1429, and 416.1448.

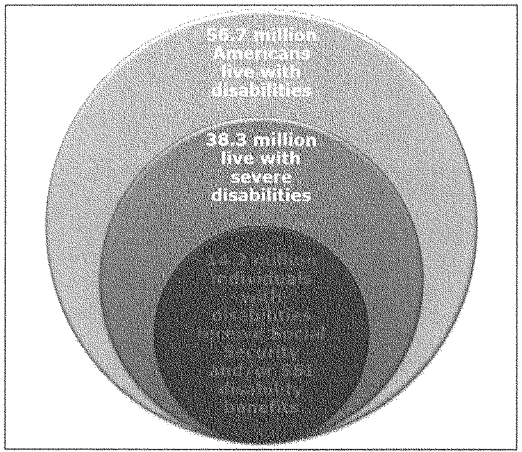
[6] 20 C.F.R. §§ 404.967-404.968, 416.1467-416.1468.

[7] The AC can also grant the claimant's request for review and remand the case to an ALJ. 20 C.F.R. §§ 404.967, 416.1467.

[8] Sections 205(g), 1631(c)(3) of the Act, 42 U.S.C. §§ 405(g), 1383(c)(3).

Our process for determining disability is designed to meet the strict requirements of the law as enacted by Congress. As the graphic below demonstrates, due to strict program requirements, disability beneficiaries comprise a significantly smaller subset of the total number of Americans who report living with disabilities, including severe disabilities.

Who are disability beneficiaries?



Source: U.S. Census Bureau and SSA[9]

We evaluate adult claimants under a standardized, five-step, sequential evaluation process, which we formally incorporated into our regulations in 1978. The rationale behind our sequential evaluation process is to make certain that our adjudication process covers the key requirements of the statutory definition of disability. At step one, we determine whether the claimant is engaging in SGA. The Act establishes the SGA earnings level for blind persons and requires us to establish the SGA level for other persons.[10] If the claimant is engaging in SGA, we deny the claim without considering medical factors.

If a claimant is not engaging in SGA, at step two we assess the existence, severity, and duration of the claimant's medically determinable impairment (or combination of impairments). The Act requires us to consider the combined effect of all of a person's impairments, regardless of

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[9] For estimates of the number of Americans living with disabilities, including severe disabilities, see http://www.census.gov/prod/2012pubs/p70-131.pdf. For the estimate of individuals with disabilities receiving Social Security and/or SSI disability benefits, see http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot/2013-12.html.

[10] Generally, countable earnings averaging over $1,070 a month (in 2014) demonstrate the ability to perform SGA. For blind persons, countable earnings averaging over $1,800 a month (in 2014) demonstrate SGA.

whether any single impairment is severe. Throughout the sequential evaluation, we consider all of the claimant's physical and mental impairments singly and in combination.

If we determine that the claimant does not have a medically determinable impairment, or the impairment or combined impairments are "not severe" (i.e., they do not significantly limit the claimant's ability to perform basic work activities), we deny the claim at the second step. If the impairment is "severe," we proceed to the third step.

Listing of Impairments

At the third step, we determine whether the impairment "meets" or "equals" the criteria of one of the medical Listing of Impairments (Listings) in our regulations.

The Listings describe for each major body system the impairments considered so debilitating that they would reasonably prevent an adult from doing any gainful activity. The Act does not require the Listings, but we have been using them in one form or another since 1955. The listed impairments are permanent, expected to result in death, or last for a specific period greater than 12 months.

If the claimant has an impairment that meets or equals the criteria in the Listings, we allow the disability claim without considering the claimant's age, education, or past work experience.

Residual Functional Capacity

A claimant who does not meet or equal a listing may still be disabled. The Act requires us to consider how a claimant's condition affects his or her ability to perform previous work or, considering his or her age, education, and work experience, other work that exists in significant numbers in the national economy. Consequently, we assess what the claimant can still do despite physical and mental impairments—i.e., we assess his or her residual functional capacity (RFC). We use that RFC assessment in the last two steps of the sequential evaluation.

We have developed a regulatory framework to assess RFC. An RFC assessment must reflect a claimant's ability to perform work activity on a regular and continuing basis (i.e., 8 hours a day for 5 days a week or an equivalent work schedule). We assess the claimant's RFC based on all of the evidence in the record, such as treatment history, objective medical evidence, and activities of daily living.

We must also consider the credibility of a claimant's subjective complaints, such as pain. Under our regulations, disability adjudicators use a two-step process to evaluate credibility. First, the adjudicator must determine whether medical signs and laboratory findings show that the claimant has a medically determinable impairment that could reasonably be expected to produce the pain or other symptoms alleged. If the claimant has such an impairment, the adjudicator must then consider all of the medical and non-medical evidence to determine the credibility of the claimant's statements about the intensity, persistence, and limiting effects of symptoms. The adjudicator cannot disregard the claimant's statements about his or her symptoms simply because the objective medical evidence alone does not fully support them.

We do not consider limitations or restrictions resulting from age, gender, body habitus (e.g., body type and stature), conditioning, or inherent strengths or predispositions attributable to the claimant's medically determinable impairments. We base our RFC assessment on the individual facts of each claimant's case, using consistent policy standards.

Once we assess the claimant's RFC, we move to the next steps of the sequential evaluation.

Medical-Vocational Decisions

At step four, we consider whether the claimant's RFC prevents the claimant from performing any past relevant work. If the claimant can perform his or her past relevant work, we deny the disability claim. "Past relevant work" is generally work that the claimant performed within the past 15 years, lasted long enough for the claimant to learn how to do it, and was SGA.

If the claimant cannot perform past relevant work (or if the claimant does not have any past relevant work), we move to the fifth step of the sequential evaluation. At step five, we determine whether the claimant, given his or her RFC, age, education, and work experience, can do other work that exists in significant numbers in the national economy. If a claimant cannot perform other work, we will find that the claimant is disabled.

We use detailed vocational rules to minimize subjectivity and promote national consistency when we determine whether a claimant can perform other work that exists in the national economy. The medical-vocational rules, set out in a series of "grids," relate age, education, and past work experience to the claimant's RFC. Depending on those factors, the grid may direct a conclusion to allow or deny a disability claim. For cases that do not fall squarely within a vocational rule, we use the rules as a framework for decision-making. In addition, an adjudicator may rely on a vocational expert or other vocational resources to identify other work that a claimant could perform.

As this description of our evaluation process makes clear, a claimant cannot receive disability benefits simply by alleging pain or other symptoms. As I mentioned earlier, we require objective medical evidence and laboratory findings that show the claimant has a medical impairment that: (1) could reasonably be expected to produce the pain or other symptoms alleged; and (2) when considered with all other evidence, meets our disability requirements.

The Disability Determination Process

A claimant can apply for disability benefits online, by telephone, or in a field office.[11] An SSA claims representative interviews all claimants filing their claims by telephone or in a field office. During this interview, the claims representative explains the definition of disability and our disability claims process and obtains all required applications and forms. When claimants file online, the online application describes the definition of disability and provides an explanation of the claims process, and a field office employee reviews the information the claimant provides. If a claimant's online application appears incomplete or incorrect, a claims

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[11] We do not yet have an online SSI application.

representative will contact the claimant. If a claim does not require a medical determination, the claims representative may make an initial determination. For example, if a claimant seeking Social Security disability benefits is not insured for coverage, the claims representative will deny the claim. In most cases, the claims representative forwards the claim to the State Disability Determination Services (DDS) to make a disability determination.

At the DDS, the claim is assigned to a disability examiner. The examiner requests evidence, schedules follow-ups, confirms that all medical documentation is complete, and determines that there is enough medical evidence to make a disability determination. If the examiner needs additional medical evidence, he or she will re-contact the claimant, re-contact the medical source, or schedule a consultative exam.

Once the examiner decides there is sufficient medical evidence to make a determination, the examiner works with a licensed medical expert or an expert in the field of Psychology to determine whether the claimant is disabled. The type of expert that the disability examiner works with—including their area of specialization—depends upon the nature of the disability alleged by the claimant. When deciding the claim, the examiner and medical or psychological expert must consider all of the evidence in the file and make a determination based on a preponderance of the evidence. In some States, experienced examiners, known as single decision makers, may make certain disability determinations on their own.

If the DDS finds the claimant disabled, we notify the claimant and alert the field office to begin payment effectuation. By statute, 50 percent of the allowances proposed by the DDS undergo a rigorous quality review by our Federal examiners to ensure accuracy prior to payment effectuation.[12] If the DDS does not find the claimant disabled, the DDS sends the claimant a denial notice that explains the determination and provides the claimant with additional information, such as how to appeal the determination. Any claimant dissatisfied with the initial determination may appeal it by requesting reconsideration.

Reconsideration

As mentioned earlier, reconsideration generally is the first level of appeal in our disability claims process. The reconsideration determination is a thorough and independent examination of all evidence on record and is made by a different examiner than at the initial level. The disability examiner at the reconsideration level is not bound by the determination made at the initial level.

If the claimant is dissatisfied with the reconsidered determination, the claimant has 60 days after the date he or she receives notice of the determination to request a hearing, which is held before an ALJ. We may extend the 60-day deadline for good cause. A claimant may request an extension of time to file an appeal at every level of agency review and may request an extension of time to file a civil action in Federal court.

Hearings and Appeals Process

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[12] Sections 221(c)(3)(C) and 1633(e) of the Act.

The Supreme Court has noted that our hearing system is "probably the largest adjudicative agency in the western world."[13] We have nearly 75 years of experience in administering the hearings and appeals process. Since the passage of the Social Security Amendments of 1939 (1939 Amendments), the Act has required us to hold hearings to determine the rights of individuals to old-age and survivors' insurance benefits.

To hold the hearings required by the 1939 Amendments, we established the Office of the Appeals Council (OAC) in 1940. The OAC consisted of 12 "referees" and a Central Office staff.[14] The referees, who heard cases and issued decisions, were located in each of the then-12 regional offices across the country.[15] The Central Office consisted of a three-member AC and a consulting referee. The Chairman of the AC also served as the head of the OAC. To promote uniformity and ensure correct decisions, the AC was authorized to review all referees' decisions. The 1939 Amendments allowed claimants to appeal our final decisions to Federal court.

After establishing the OAC, we changed the name of that component several times. Since 2006, we have called it the Office of Disability Adjudication and Review (ODAR). ODAR manages the hearings and AC levels of the administrative review process.

Hearing Level

When a hearing office receives a request for a hearing from a claimant, the hearing office staff prepares a case file, assigns the case to an ALJ, and schedules a hearing. The ALJ reviews the case *de novo*, which means that he or she is not bound by the determinations made at the initial and reconsideration levels. The ALJ considers any new medical and other evidence that was not available to prior adjudicators. The ALJ also considers the claimant's testimony and the testimony of any medical and vocational experts called for the hearing.

In contrast to Federal court proceedings, our ALJ hearings are non-adversarial. Formal rules of evidence do not apply, and the agency is not represented by an attorney.[16] At the hearing, the ALJ serves as fact-finder and decision-maker, and takes testimony under oath or affirmation. The claimant may elect to appear in-person at the hearing, via video teleconferencing, or by telephone in extraordinary circumstances. The claimant may appoint a representative who may

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[13] *Heckler v. Campbell*, 461 U.S. 458, 461 n.2 (1983).

[14] In August 1959, we changed the title of referee to "hearing examiner," which was the term used in the Administrative Procedure Act of 1946. In 1972, the Civil Service Commission changed this title to "Administrative Law Judge."

[15] We have increased our adjudicatory capacity to address rising workloads. By 1957, we had 75 referees. In 1973, our ALJ corps exceeded 500 judges for the first time. Currently, there are over 1,400 judges in our ALJ corps.

[16] During the 1980s, we piloted an agency representative position at select hearing offices. However, a United States District Court held that the pilot violated the Act, intruded on qualified decisional independence, was contrary to congressional intent that the process be "fundamentally fair," and failed the constitutional requirements of due process. *Salling v. Bowen*, 641 F. Supp. 1046 (W.D. Va. 1986), vacated as moot, No. 86-2121 (4th Cir. June 15, 1987). We subsequently discontinued the pilot due to the testing interruptions caused by the *Salling* injunction and general fiscal constraints. We experienced significant congressional opposition once the pilot began. For example, members of Congress introduced legislation to prohibit the adversarial involvement of any government representative in Social Security hearings, and 12 Members of Congress joined an *amicus* brief in the *Salling* case opposing the project.

submit evidence and arguments on the claimant's behalf and call witnesses to testify. The ALJ may call vocational and medical experts to offer opinion evidence, and the claimant or the claimant's representative may question these witnesses.

If, following the hearing, the ALJ believes that additional evidence is necessary, the ALJ may leave the record open and conduct additional post-hearing development (e.g., the ALJ may order a consultative exam). Once the record is complete, the ALJ considers all of the evidence in the record and decides the case based on a preponderance of the evidence in the administrative record.

A claimant who is dissatisfied with the ALJ's decision generally has 60 days after he or she receives the decision to ask the AC to review the decision.

Appeals Council

Upon receiving a request for review, the AC evaluates the ALJ's decision, all of the evidence of record, including any new and material evidence that relates to the period on or before the date of the ALJ's decision, and any arguments the claimant or his or her representative submits. The AC may grant review of the ALJ's decision, or it may deny or dismiss a claimant's request for review. The AC will grant review in a case if: (1) there appears to be an abuse of discretion by the ALJ; (2) there is an error of law; (3) the actions, findings, or conclusions of the ALJ are not supported by substantial evidence; or (4) there is a broad policy or procedural issue that may affect the general public interest. The AC will also grant review if there is new and material evidence relating to the period on or before the date of the hearing decision that results in the ALJ's action, findings, or conclusion being contrary to the weight of the evidence currently in the record.

If the AC grants a request for review, it may uphold part of the ALJ's decision, reverse all or part of the ALJ's decision, issue its own decision, remand the case to an ALJ, or dismiss the original hearing request. When it reviews a case, the AC considers all of the evidence in the ALJ hearing record (as well as any new and material evidence that relates to the period on or before the date of the ALJ's decision), and when it issues its own decision, the AC bases the decision on a preponderance of the evidence.

As mentioned earlier, if the AC makes a decision, it is our final decision. If the AC denies the claimant's request for review of the ALJ's decision, the ALJ's decision becomes our final decision. If the claimant completes our administrative review process and is dissatisfied with our final decision, he or she may seek review of that final decision by filing a complaint in Federal district court. However, if the AC dismisses a claimant's request for review, he or she cannot appeal that dismissal.

Federal Court Level

In District Court, an attorney usually represents the claimant and attorneys from the United States Attorney's office or our Office of the General Counsel represent the Government. When we file our answer to the complaint, we also file with the court a certified copy of the administrative record developed during our adjudication of the claim.

The Federal District Court considers two broad inquiries when reviewing one of our decisions: whether we followed the correct legal standard, and whether our decision is supported by substantial evidence of record. On the first inquiry—whether we have applied the correct law—the court typically will consider issues such as whether the ALJ applied the correct legal standard for evaluating the issues in the claim, such as the credibility of the claimant's testimony or the treating physician's opinion, and whether we followed the correct procedures.

On the second inquiry, the court will consider whether the factual evidence developed during the administrative proceedings supports our decision. The court does not review our findings of fact *de novo*, but rather, considers whether those findings are supported by substantial evidence. The Act prescribes the "substantial evidence" standard, which provides that, on judicial review of our decisions, our findings "as to any fact, if supported by substantial evidence, shall be conclusive."[17] The Supreme Court has explained that substantial evidence means "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion."[18] The reviewing court will consider evidence that supports the ALJ's findings as well as evidence that detracts from the ALJ's decision. However, if the court finds there is conflicting evidence that could allow reasonable minds to differ as to the claimant's disability and the ALJ's findings are reasonable interpretations of the evidence, the court must affirm the ALJ's findings of fact.

If, after reviewing the record as a whole, the court concludes that substantial evidence supports the ALJ's findings of fact and the ALJ applied the correct legal standards, the court will affirm our final decision. If the court finds either that we failed to follow the correct legal standards or that our findings of fact are not supported by substantial evidence, the court typically remands the case to us for further administrative proceedings or, in rare instances, reverses our final decision and finds the claimant eligible for benefits.

Disability Research

We are always on the lookout for new partnerships with other agencies and experts to evaluate key aspects of our disability process. Current partnerships include: our collaboration with the National Academy of Science's Institute of Medicine to revise our disability guidelines to reflect the most up-to-date medical knowledge; our collaboration with the Department of Labor to update our occupational information; our collaboration with the research community (e.g., the Disability Research Consortium) to refine our policy development; and our collaboration with the National Institutes of Health to continue to explore the possible use of computer adaptive testing in the disability program and advance analytic techniques to maximize the accuracy, timeliness, and consistency of decisions.. We also conduct research to improve employment opportunities for our beneficiaries who want to return to work. For example, we are partnering with the Departments of Education, Labor, and Health and Human Services to implement Promoting Readiness of Minors on SSI, or PROMISE. PROMISE is a joint initiative intended to

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[17] Sections 205(g), 1631(c)(3) of the Act, 42 U.S.C. §§ 405(g), 1383(c)(3).

[18] *Richardson v. Perales*, 402 U.S. 389 (1971).

improve the provision and coordination of services and supports for child SSI recipients and their families to enable them to achieve improved educational and employment outcomes and, as a result, reduce the child SSI recipient's long-term reliance on SSI. The President's Budget also requests resources and demonstration authority for us to work in partnership with other agencies to test early intervention strategies to help people with disabilities remain in the workforce.

Conclusion

Making disability decisions for Social Security programs is a challenging task that has been complicated by deep budgetary cuts in recent years. Our highly trained disability adjudicators follow a complex process for determining disability, consistent with the legal requirements designed by Congress.

The programs we administer demand stewardship that is worthy of their promise of economic security from generation to generation. We are firmly committed to sound management practices and know the continued success of our programs is inextricably linked to the public's trust in them.

I thank you for your interest in our disability determination process.

RESPONSES TO QUESTIONS FOR THE RECORD FROM MARIANNA LaCANFORA
From the Committee on Finance hearing:
"Social Security: A Fresh Look at Workers' Disability Insurance."
July 24, 2014

Questions from Chairman Wyden

1. **During the hearing, it appeared there was some common ground around the idea of helping individuals with disabilities, who are able to, remain in the workforce. There was a brief discussion around the idea that services and supports provided before an individual needs to apply for SSDI may improve outcomes for individuals with work-limiting disabilities. Ms. LaCanfora touched on the proposals in the President's budget. I would like to hear more about those proposals. I would also like to ask each of you to describe where we should focus our resources and what additional research needs to be done around appropriate work supports and services for individuals with disabilities.**

   - **How well are the current array of supports and services working?**

     Due to our strict definition of disability, very small percentages of the general Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) beneficiary population are able to work at all. Yet, in both the Ticket to Work (Ticket) and State Vocational Rehabilitation (VR) programs, more than76 percent of beneficiaries perform some level of work after beginning these services, and more than 16 percent do not collect disability benefits for one or more months due to work outcomes achieved through these programs..

     In addition, it should be noted that the Department of Labor's (DOL) American Job Center network continues to provide training and employment services and achieve successful employment outcomes for disability beneficiaries who are participating in the Ticket program. Increasingly, DOL's Employment and Training Administration has encouraged public workforce entities to become active Employment Networks (ENs) under the Ticket program. We are also collaborating with DOL on its Disability Employment Initiative (DEI). Since the DEI's inception in 2010, one of its major goals continues to be the improvement of education, training, and employment opportunities and outcomes of adults and youth who are unemployed, underemployed, or receiving SSDI or SSI disability benefits.

   - **Are there areas that could be improved?**

     Yes. We are collaborating with DOL and other agencies to make beneficiaries, employers, and service providers aware of DOL's recent Section 503 rule conforming Section 503's nondiscrimination requirements to those under the ADA and strengthening the affirmative action obligations imposed on Federal contractors to employ and advance in employment workers with disabilities. Additionally, we asked our Work Incentives Planning and Assistance grantees and our Protection and Advocacy for Beneficiaries of

Social Security grantees to target efforts toward transition-age youth based on results from our Youth Transition Demonstration. The VR program, which is funded by the Department of Education, is also undergoing some improvements, in part due to recent changes made to the program by the Workforce Innovation and Opportunity Act.

- **How can we better utilize technology – both for assisting workers to remain on the job and to help identify who can most benefit from early intervention?**

  The fiscal year (FY) 2015 President's Budget includes three proposals to develop early intervention demonstration projects. The first demonstration would test the effect of providing early intervention services to people who are at risk of becoming long-term SSDI or SSI disability beneficiaries. The second demonstration would test the effect of using FICA tax credits to encourage employers to retain workers who are injured or who develop a disability. Under the third demonstration, we would work with existing State programs to provide services for workers who are on path toward Social Security disability benefits. We need to conduct those demonstrations to answer your question properly.

  We also use technology to encourage our beneficiaries to return to work. We have an award-winning website dedicated to the Ticket program, www.choosework.net, which we advertise on our general website. We also use a comprehensive social media campaign, emphasizing technology to inform, assist, and update beneficiaries about employment support services and issues directly related to finding and sustaining employment. This technology includes the use of social media, email, webinar, and other campaigns, which have received multiple industry awards.

- **Finally, how can early intervention strategies be structured so that employers are not influenced to avoid hiring workers who may be at higher risk of becoming permanently disabled?**

  In our FY 2015 Budget Justification, we propose an early intervention project that would offer incentives to employers to encourage them to retain workers who are injured or who develop an injury on the job. The demonstration would allow employers to be reimbursed by an amount equal to the FICA and Medicare taxes paid to returning workers for a period of time that would depend on the number of weeks the worker is off the job. By focusing on financial incentives for retaining workers instead of penalties (such as "risk adjusting" SSDI), employers would not be discouraged from hiring workers who may be at risk of becoming disabled.

2. **In your testimony, you mention partnering with other agencies to test early intervention strategies that will help people with disabilities remain in the workforce instead of seeking SSDI benefits. From what I have learned about the SSDI program, many people spend a lot of time going through the application process. It is not easy to get SSDI benefits. It isn't until sometime after that process has ended, however, and a person has been awarded benefits that SSA informs them about work incentives in the SSDI program. With this in mind, I see value in trying to implement some "work**

support" strategies up front. I would like to learn more about how SSA plans to manage this new workload.

Please provide a detailed explanation of SSA's role in these early intervention projects, specifically how these projects might complement or add to SSA's current mission to administer the SSDI and SSI programs for people who are unable to work.

We entered in partnerships with the Department of Health and Human Services, the Department of Education, and DOL to develop three early intervention proposals that were included in the FY 2015 President's Budget. If funded, our role in these projects will be to oversee the research, working with the appropriate agencies to implement the projects. If Congress were to implement new programs based on this research, our role would depend on the actual program created. It is therefore difficult to provide a detailed explanation of SSA's role in future early intervention projects, since that role has yet to be designed and could take several different forms. For example, one option discussed in our budget proposal would target denied SSDI applicants for employment services. Under such a program, we would clearly have a role in identifying the eligible population and referring them for services from the appropriate program. Our role may be more limited under a different scenario.

Questions from Senator Hatch

1. **The Office of the Chief Actuary of SSA identifies many reasons why demographics help explain some of the changes over time in benefits and benefit growth in DI and in the retirement side of Social Security. It also points to some other factors, one of which is changes in policy. Regarding those changes, the nonpartisan Congressional Budget Office identifies that legislation in the early 1980s expanded the ways in which people could qualify for the DI program. According to CBO, that legislation "allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of clear-cut medical diagnosis." CBO also says that "[t]he easing of the eligibility criteria increased the importance of subjective evaluations in determining whether applicants qualified for benefits." And, CBO says that "[t]hose changes in policy led to a substantial expansion in the share of DI beneficiaries with mental or musculoskeletal disorders..." In your remarks at the hearing, you said that you wished to clarify something that I had said, and went on to argue that SSA does not award benefits to people solely base on allegations of pain. Of course, what I had said involved quotes from the nonpartisan CBO, and those quotes identify CBO's assessment of effects of past legislation. I don't believe that I had stated, as your clarification could be taken to suggest, that SSA awards benefits to people solely based on allegations of pain. That said, do you disagree with the assessment of the nonpartisan Congressional Budget Office?**

   We respectfully disagree with the Congressional Budget Office's characterization of the effects of the Social Security Disability Benefits Reform Act of 1984 (1984 Amendments). Prior to enactment of those amendments, we already had a policy for evaluating pain and other symptoms; the 1984 Amendments codified that existing policy on a temporary basis. Moreover, Section 223(d)(5) of the Social Security Act (Act) prohibits us from approving a disability claim unless there is objective medical evidence establishing the existence of the disability, such as medical signs and findings established by medically acceptable clinical or laboratory techniques. If we receive a disability claim and the evidence does not establish a medically determinable impairment, the statute requires us to deny that claim.

2. **In relation to a hearing on the President's fiscal year 2015 budget, I asked Treasury Secretary Lew about administration proposals surrounding the Disability Insurance program. With respect to one of the few proposal put forward in the budget, Secretary Lew wrote that: "...the Budget proposes to reduce an individual's DI benefit in any month in which that person also receives a State or Federal unemployment benefit, generating $2.6 billion in DI savings over ten years. Overall, the proposal would generate $3.2 billion in savings over ten years across the DI and UI programs." Given your expressions of policy that SSA supports, please identify:**

   a. **whether or not SSA supports the President's budget proposal to prevent the simultaneous receipt by a worker of DI benefits for a worker receiving unemployment insurance benefits;**

      We support the President's Budget. The budget includes a proposal to offset the receipt of SSDI benefits by the amount of any unemployment insurance (UI) the worker receives. Specifically, the proposal would impose a dollar-for-dollar reduction of SSDI benefits by the amount of UI compensation.

b. **whether or not SSA supported the President's prior budget proposal for federal government-wide adoption of the so-called "chained CPI" for things such as cost of living adjustments, along with some carve-outs for vulnerable populations; whether or not SSA now supports withdrawal of the chained CPI proposal, given that the most recent budget of the President does not contain the proposal; and SSA reason for supporting withdrawal of the proposal, if indeed that is the case.**

We support the President's Budget. In last year's budget, the President made clear that chained Consumer Price Index (CPI) was a proposal that – among others – the President was willing to accept as part of a balanced compromise to address our long-term deficit challenges, even if it was not a policy he would have preferred to put forward in isolation.

This year's budget reflects the President's vision of the best path forward and includes measures like further reforms to health care spending, tax reform, and immigration reform to address our long-term deficit challenges. This year's budget does not include the chained CPI proposal. While the President remains open to including measures like the chained CPI as part of a balanced compromise, as long as it also includes protections for the vulnerable, and he believes that the measures in this year's budget are the best path forward for strengthening the economy, protecting the middle-class and seniors, and addressing our long-term deficit challenges.

3. **You testified that: "I am actually the Assistant Deputy Commissioner, actually the Acting Deputy Commissioner for Policy at Social Security, so I can say that the administration and the Social Security Administration do support reallocation."**

a. **What, in particular, do you mean in supporting "reallocation," since that is a vague term which could mean many things, including reallocating resources between a DI trust fund, an OASI trust fund, a HI trust fund, or the general fund of the Treasury?**

To avoid DI trust fund reserve depletion, the Administration believes – and I agree – Congress must take action, as it has in the past, to reallocate the payroll tax rate between the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds. This would prevent a deep and abrupt cut in benefits for vulnerable people with disabilities.

b. **The only specific proposal of reallocation that I am aware of is one put forward by the actuaries at the Social Security Administration (see, under "Proposals Affecting Trust Fund Solvency" at http://www.ssa.gov/oact/solvency/index.html, the July 28, 2014 proposal). Therefore, is the administration's and SSA's support of reallocation that you provided in your testimony support of that proposal?**

No. I was unaware of the actuaries' memorandum when I testified.

c. **If not, what, in your testimony, were you providing support of on behalf of the administration and SSA?**

We believe Congress should take action to reallocate the payroll tax rate between the OASI and DI trust funds so beneficiaries have certainty regarding the vital benefits provided by the DI program.

d. **Your testimony that the administration supports reallocation is taken to mean an expression of the Presidential administration's support of policy. I have not seen a Statement of Administration Policy in anything related to "reallocation," so please provide information about how you have been made aware of the administration's policy support.**

Secretary Lew called for reallocation of the payroll tax rate between the OASI and DI trust funds at the March 6, 2014 House Ways and Means Committee hearing on the President's 2015 Budget, as did Director Burwell at the March 5, 2014 House Budget Committee hearing on the President's 2015 Budget.

e. **Should the Finance Committee expect to learn, in the future, any further information about the administration's support of lack thereof of any other policies related to Social Security programs?**

The Administration will continue to express its views through various sources, such as budget documents, legislative proposals, public statements, and congressional testimony.

f. **In SSA's, and the administration's, support of "reallocation," does SSA and the administration support reallocation as a stand-alone change in the law, or does SSA and the administration also wish to consider additional actions to address DI finances?**

The Administration supports reallocation as a stand-alone change in the law.

The Administration also urges Congress to take action to strengthen the DI program. This includes fully funding continuing disability reviews (CDR) to ensure that only those eligible for benefits continue to receive them. We appreciated the funding provided for that purpose in the FY 2014 Omnibus Appropriations Bill, and we hope to build on that in FY 2015 and future years. We are also seeking demonstration authority for the disability program so that we can identify effective ways to help people with significant disabilities succeed in the workforce.

g. **In SSA's support of reallocation, does it matter whether a policy decision to reallocate resources from one trust fund to another occurs as soon as possible, or would any time between now and the end of 2016 be consistent with whatever is the particular policy that you support?**

As I stated in my answer to Question 3c, we believe Congress should take action to reallocate the payroll tax rate between the OASI and DI trust funds so beneficiaries have certainty regarding the vital benefits provided by the DI program.

h. **Does SSA support my proposal, put forward in my opening remarks at the hearing, that we should explore, examine, and study available ideas, including innovative ideas such as social-impact financing models supported by the President, as we approach the impending DI trust fund exhaustion?**

The DI program provides a vital safety net for those Americans who make up the most vulnerable segment of society. Therefore, we believe that any changes to it should be evidence based. We believe conducting demonstration projects is the best way to gather the evidence needed to evaluate policy options.

i. **Do you "support reallocation" that would take place this year?**

As stated in my answer to Question 3c, we believe Congress should take action to reallocate the payroll tax rate between the OASI and DI trust funds so beneficiaries have certainty regarding the vital benefits provided by the DI program.

4. **Given that you chose to express support for a policy concept, are there other policy concepts that SSA supports, such as whether SSA supports increasing the amount of maximum earnings subject to payroll taxes, or increases in payroll tax rates, or benefit cuts, or other policy concepts?**

The President's Budget includes proposals aimed at improving the administration of our programs, including the DI program. One proposal would provide mandatory funding for early intervention demonstrations intended to build the evidence base for policy innovation. Another proposal would provide a dedicated, dependable source of mandatory funding for us to conduct CDRs and SSI non-medical redeterminations. The latter proposal includes the creation of a new account, called Program Integrity Administrative Expenses, which will reflect mandatory funding for our program integrity activities beginning in FY 2016. We expect the mandatory funding to enable us to substantially decrease a backlog of 1.3 million medical CDRs. With the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's Budget, we expect a net deficit savings of nearly $35 billion in the 10-year window and additional savings in the out-years. These savings include Medicare and Medicaid program effects.

5. **You identify, with respect to qualifications for DI benefits under current law, that "[t]his is a very strict standard of disability and most people do not meet it." You use of the qualifier "very," when describing the strictness of the standard. According to what metric have you determined that the standard is very strict?**

Compared to other disability programs, our disability definition is very strict. For example, private insurers may pay disability benefits if policyholders cannot perform their current work. By contrast, the inability to perform current work does not qualify people for DI benefits; they must also prove that given their age, education, and work experience, their medical condition prevents them from performing any work that exists in significant numbers in the national economy. Private insurers may also pay disability benefits to policyholders whose medical condition prevents them from working for several weeks. By contrast, a person seeking DI benefits must have a medical condition that has lasted or is expected to last at least 12 months or result in death.

Furthermore, Congress established that the standards for qualifying for DI benefits would be very strict compared to other public disability programs, which have different purposes. For example, the Department of Veterans Affairs provides disability benefits to compensate veterans with a disease or injury incurred or aggravated during active military service. However, a veteran receiving such compensation may not have an impairment that meets SSA's definition of disability and, therefore, may not receive DI benefits.

I would also note that Congress itself has characterized the definition of disability as strict. For example, the Social Security Amendments of 1956 (1956 amendments) created the SSDI program. The House Ways and Means Committee report that accompanied the 1956 amendments includes the following language:

> Your committee has designed a conservative program for disability insurance benefits. ... [A]n individual who is able to engage in substantial gainful activity will not be entitled to disability insurance even though he is in fact severely disabled.

H.R. Rep. No. 1189, 84th Congress, 1st Sess., at 5.

During a Senate debate on the 1956 amendments, a member of the Finance Committee, Senator Walter George, echoed this view:

> A second requirement which the individual must meet [to be eligible for disability benefits] is that he must be so disabled that he is "unable to engage in any substantial gainful activity." I ask you Senators to note this requirement very carefully. . . . This is a very conservative requirement.

102 Cong. Rec. 15107 (July 27, 1956).

Since the 1956 amendments, Congress has further tightened the definition of disability for purposes of our programs. The Social Security Amendments of 1967 clarified that the medical condition must prevent a disability claimant from engaging in any substantial gainful activity existing in significant numbers in the national economy regardless of whether work exists in the immediate area in which a person lives, whether a job vacancy exists for a person, or whether he or she would actually be hired for work. The legislative history indicates that Congress passed this law to overturn judicial interpretations of the Act that effectively made it easier for persons to be eligible for disability benefits. In addition, the Contract with America Advancement Act of 1996 revised the definition to exclude people for whom a substance abuse disorder is a contributing factor material to the finding of disability.

6. **In the hearing, you stated, in regard to DI eligibility awards and criteria: "So I think the criteria is strict. As Rebecca said, in comparison with other nations we know it is very strict." Given your evident agreement with Ms. Vallas's selective quote from OECD work leading you to believe that "we know" criteria are very strict, note that the OECD also reports that the U.S. disability benefit recipiency rate is above the OECD;, that the U.S. recipiency rate has been on an upward trajectory since the early 1980s; and that U.S. public spending on sickness and disability, at 11 percent of all U.S. public spending, is above the average. Further, for the U.S., the OECD says:**

    - **That the share of the working age population between ages 20 and 64 who are enrolled in disability rose from 3.6% in 1980 to 6.6% in 2010;**
    - **That much of the increase in recent decades reflects a relaxation of eligibility restrictions and increased replacement rates;**
    - **That efforts are needed to reduce the reliance on disability benefits because few of the recipients ever return to the workforce;**
    - **And, that "disability program reforms are needed to stem the tide of new enrolments."**

    a. **How can U.S. criteria be very strict in comparison with other nations, while also having had a higher recipiency rate than average?**

    According to the Organization for Economic Co-operation and Development (OECD) figures published on page 60 of its 2010 report (http://ec.europa.eu/health/mental_health/eu_compass/reports_studies/disability_synthesis_2010_en.pdf), the U.S. recipient rate for disability benefits is in the middle range of OECD countries, with several countries having higher rates (e.g. Denmark, Finland, Ireland, Netherlands, Norway, Sweden, United Kingdom) while a few countries have lower rates of recipiency (e.g. Canada, France, Germany, Israel, Switzerland). These rankings however are to be used with considerable caution, as emphasized in the OECD report, because recipiency rates in each country are heavily influenced by the interaction of the disability insurance program with other public programs, notably unemployment, cash sickness insurance, and the early retirement provisions of old-age insurance programs. It is presumed that in countries with relatively low recipiency rates, persons with disabilities may opt to use public programs other than disability insurance to exit the labor market.

b. **Does SSA agree with OECD's assessment that disability program reforms are needed to stem the tide of new enrollments?**

Program reforms could be crafted to reduce the number of new enrollments, or conversely, revenue could be generated to pay for the existing system. In the United States, the "tide of new enrollments" is due largely to demographic changes that have long been predicted. In November 2013, our researchers published a paper titled Growth in New Disabled-Worker Entitlements, 1970–2008. This research found that three factors: (1) population growth, (2) the growth in the proportion of women insured for disability, and (3) the movement of the large baby boom generation into disability-prone ages—explain 90 percent of the growth in new disabled-worker entitlements over the 36-year sub period (1972–2008). In his testimony before the House Ways and Means Subcommittee on Social Security, our Chief Actuary has made a similar argument (http://ssa.gov/legislation/testimony_120211.html and http://ssa.gov/legislation/testimony_031413a.html).

c. **Are you aware of other cross-country assessments of DI eligibility "strictness," other than reports from the OECD and, if so, please summarize what you feel to be the consensus from the literature.**

We are not aware of other cross-country assessments of DI eligibility "strictness."

7. **You testified that there are 57 million Americans who report living with disabilities. What is the source of that figure, to whom are reports being made and in response to what prompting, and do you have time series evidence on the number of Americans who report living with disabilities over the past 30 years or so?**

The source of the figure is the U.S. Census Bureau, Survey of Income and Program Participation, June–September 2005 and May–August 2010, figure 1, Prevalence of Disability for Selected Age Groups: 2005 and 2010. This statistic also appears in our hearing testimony at http://www.ssa.gov/legislation/testimony_072414.html.

We also note that how "disability" is defined and thus the questions that are asked makes a big difference on the count. As such, we point you to other Federal surveys, some of which contain longer time series (one example is the National Health Interview Survey, conducted by the National Center for Health Statistics, see http://www.cdc.gov/nchs/fastats/disability.htm).

For estimates of the number of Americans living with disabilities, including severe disabilities, see http://www.census.gov/prod/2012pubs/p70-131.pdf.
For the estimate of individuals with disabilities receiving Social Security and/or SSI disability benefits, see http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot/2013-12.html.

8. **You testified that: "Our goal is to keep pace with medicine, science, technology, and the world of work." SSA also represented, in the hearing, that the impending DI trust fund**

asset exhaustion was foreseen decades ago. Yet, as I understand it, SSA uses, in disability benefit award determinations, 37-year old medical criteria, 35-year old vocational criteria, and 23-year old guidelines to determine what jobs exist for individuals with disabilities.

a. **Do you feel that SSA has met its goal of keeping pace with medicine, science, technology, and the world of work?**

   Keeping pace with medicine, science, technology, and the world of work is a constant and incremental process. We have partnerships with numerous experts on a wide array of policy developments, including the following:

   - We contract with the Institute of Medicine (IOM) to help develop our medical policies, and we are currently using IOM to provide expertise on mental disorders in children and psychological testing. Since FY 2007, we have been aggressively updating our medical criteria, and we published eight Final Rules and 15 Social Security Rulings on specific impairments. We are now completing seven additional Final Rules based on the public comments we received. With the completion of these additional rules, we will have made updates in the criteria for each body system. We plan to remain on a three-to-five-year cycle to update all of our criteria.
   - We are working to reduce or eliminate our reliance on the Dictionary of Occupational Titles. We are collaborating with the Bureau of Labor Statistics (BLS) to develop new and enhanced vocational data in our Occupational Information System (OIS). We have completed several phases of this project and we are on track to begin a large-scale pre-production test that will involve collecting data from a nationwide sample of 2,500 establishments.
   - We are also researching whether changes to our vocational policies may be warranted. We first worked with the Disability Research Consortium to better understand the use of age, education, and work in disability programs. We are now assembling a group of federal partners and medical, aging, and employment experts for further discussion.
   - We are working on research with the National Institutes of Health to explore the use of functional assessment tools in our disability program.

b. **Why has it taken so long for SSA to update criteria and guidelines, especially in light of SSA's representation that the agency has foreseen the current demographic challenges facing its programs and had foreseen the 2016 DI trust fund asset exhaustion as early as 20 years ago?**

   We update our medical listings on a three to five year cycle. It is not the case that we have allowed 20 years to elapse without changing any of our criteria.

Moreover, according to our Chief Actuary, updating our medical and vocational criteria has not had, and will not have, a significant impact on the date the Disability Insurance Trust Fund reserves are depleted. Rather, these updates are necessary to keep pace with medicine, science, technology, and the world of work. Our programs are very complicated, and any changes have far-reaching implications for millions of beneficiaries; therefore, any changes must be carefully researched and built upon a sound evidence base. We have been aggressively pursuing policy updates for years, as described in the examples under question 8a.

c. **When will SSA have updated its criteria and guidelines to a point where the agency can say that it has met its goal of having kept pace with medicine, science, technology, and the world of work?**

Keeping pace with medicine, science, technology, and the world of work is a constant and incremental process. We are on a three-to-five-year cycle to update each of our medical listings. During that cycle, we are seeking input from medical experts and other stakeholders to gather the most current information necessary. Similarly, when we finalize our OIS (see question 8a), we will need to remain vigilant and retain our partnership with BLS to maintain current, high-quality data.

9. **You testified that SSA is collaborating with the Retirement and Disability Research Consortiums to "... build an evidentiary base for potential policy improvements." Please provide evidence of such collaboration that has taken place over the past two years, and explain how that collaboration has helped build and evidentiary base.**

We established the Retirement Research Consortium (RRC) in 1998 to enhance our research capacity, to build ties with the university-based research community, and to build a strong base of research on Social Security retirement policy issues. We established the Disability Research Consortium (DRC) in 2012 with similar goals in mind, but focused on the Social Security disability programs and related policy issues.

We have funded numerous research studies through the RRC and DRC, creating a body of evidence that can be tapped as policy questions arise. Some major categories of emphasis for RRC research include:

- potential Social Security reforms (individual accounts, equity investment, changes to the full retirement age and the early eligibility age, the earnings test, working longer, claiming later),
- pensions and retirement saving (the decline of traditional pensions, growth of defined contribution retirement accounts, automatic enrollment and default contributions, the annuity puzzle),
- the effects of the Great Recession, and
- the potential effects of the Affordable Care Act.

Some major areas of emphasis for DRC research include:

- demographics (impairment trends and geographic variation in SSDI/SSI),
- work and education (early intervention, VR, and work incentives),
- interactions with other State and federal programs (unemployment insurance, workers compensation, veterans' benefits, Affordable Care Act),
- potential reforms (changes to Substantial Gainful Activity (SGA)),
- vocational factor elements, benefit offset, and
- international comparisons.

Both the RRC and DRC are funded through cooperative agreements. Like grants, cooperative agreements provide considerable independence for researchers to propose and study topics that are relevant and important to the research and policy community, using state-of-the-art data and methods. Unlike grants, cooperative agreements give our agency the opportunity to collaborate with the researchers to shape the research agenda on topics that are of great interest to our agency as well as the broader policy community. In addition, collaboration through these cooperative agreements allows our agency to provide the expertise in policy, program operations, and data that is required to conduct these research projects. We obtain broad input within our agency and from external partners as we develop our research agenda.

Some notable RRC studies from the last two years that contribute to the evidentiary base for potential policy improvements include the following:

- Adding Employer Contributions to Health Insurance to Social Security's Earnings and Tax Base – looks across income groups at the effects on payroll tax receipts and OASI and DI benefits of including employer-sponsored health insurance in taxable income.

- Does Household Debt Influence the Labor Supply and Benefit Claiming Decisions of Older Americans? – finds that not only does the presence of debt influence older adults' behavior, but also the amount and type of debt – particularly outstanding mortgages.

- How Do the Changing Labor Supply Behavior and Marriage Patterns of Women Affect Social Security Replacement Rates? – examines the interrelationships between increased labor supply of women, changing marital patterns of women, and increases in the Social Security full retirement age on Social Security replacement rates for women.

- Evaluating Web-Based Saving Interventions: A Preliminary Assessment – examines the effect on savings of the "Boost Your Savings" dial implemented by the Vanguard Group in the context of 401(k) retirement plan websites.

- Social Security Benefit Claiming and Medicare Utilization – examines Medicare utilization at various ages to assess how the health status of individuals varies with the age at which they claim Social Security benefits.

- The Social Security Windfall Elimination and Government Pension Offset Provisions for Public Employees in the Health and Retirement Study – estimates the effects of the Windfall Elimination Provision and Government Pension Offset on the Social Security benefits (including spouse and survivor benefits) and pre-retirement assets accumulated by affected households.

- Active vs. Passive Decisions and Crowdout in Retirement Savings Accounts: Evidence from Denmark – assesses whether retirement savings policies such as tax subsidies or employer-provided pension plans increase total saving for retirement or cause individuals to shift assets across accounts.

- Earnings Adjustment Frictions: Evidence from the Social Security Earnings Test – examines earnings adjustments and adjustment costs in response to the Social Security annual earnings test.

Some notable DRC studies from recent years that contribute to the evidentiary base for potential policy improvements include the following:

- Understanding the Increase in Disability Insurance Spending – identifies the share of the increase in spending attributable to: (1) demographic changes, (2) policy changes, and (3) labor market developments to determine whether the 30-year trend of rising spending on disability benefits is likely to continue or, alternatively, whether disability insurance spending is likely to stabilize.

- Disability Insurance and Health In Europe and the U.S. – examines the efficiency of such programs in their ability to screen applicants, finding large differences in the efficiency of DI systems across countries, with Switzerland, Italy, Denmark, and the United States ranking above, and Sweden and the Netherlands ranking below, most European countries.

- How Financial Incentives Induce Disability Insurance Recipients to Return to Work – analyzes a Norwegian program that reduced DI benefits by approximately $0.6 for every $1 in earnings that they accumulated above the SGA threshold to help understand work capacity among SSDI enrollees, and how elastic their labor supply is to changes in financial incentives.

- Youth with Disabilities at the Crossroads: The Intersection of Vocational Rehabilitation and Disability Benefits for Youth with Disabilities – studies state VR agencies' provision of services to youth with disabilities and differences in outcomes based on Social Security benefit receipt status.

- Exploring the Growth of the Child SSI Caseload in the Context of the Broader Policy and Demographic Landscape – explores the extent to which SSI caseload growth over the past two decades reflects trends in disability diagnoses among children, the incentives implicit in the provisions of the SSI program, and the parameters of other social programs serving overlapping populations, such as special education programs.

- Assessing the Interaction of Unemployment Insurance and Social Security Disability Insurance – explores the effects of UI benefits on SSDI rolls. This paper adds to an ongoing set of research on unemployment and disability begun under the RRC.

Additional studies and briefs on retirement and disability topics can be found on the RRC and DRC websites at the following links:

- Boston College Center for Retirement Research;
- University of Michigan Retirement Research Center;
- National Bureau of Economic Research Retirement Research Center;
- Mathematica Policy Research, Center for Studying Disability Policy, Disability Research Consortium; and
- National Bureau of Economic Research Disability Research Center.

10. You testified that: "We lost about 11,000 employees over that three-year period." That period, according to your testimony, is "the last three years prior to 2014." I have not been able to verify that number of SSA staff reductions, and find smaller amounts based on publicly available data produce by SSA. Please identify the source of your number.

The following table includes our end-of-year on-duty employee counts for FY 2010 through FY 2013. The counts include a breakout of both SSA federal employees as well as employees working in the State Disability Determination Services (DDS) offices. Our on-duty counts come from our payroll system. Biweekly, data is fed into the system by the Department of Interior, via an accounting feeder file.

	FY 2010	FY 2011	FY 2011 Change Over FY 2010	FY 2012	FY 2012 Change Over FY 2010	FY 2013	FY 2013 Change Over FY 2010
Federal Staff	70,202	66,873	(3,329)	64,907	(5,295)	62,199	(8,003)
State DDS Staff	18,269	17,066	(1,203)	16,075	(2,194)	15,280	(2,989)
Total On-Duty 1/	**88,471**	**83,939**	**(4,532)**	**80,982**	**(7,489)**	**77,479**	**(10,992)**

11. You testified that "for the last three years prior to 2014, our agency received an average of nearly $1 billion less than the President requested for our administrative budget, including our program integrity work." And you go on to identify that difference relative to the President's request in his budget, which has not received a vote in Congress, as: "That level of chronic under-funding..." In what sense is a one year shortfall relative to a Presidential budget request "chronic under-funding?"

For the three-year period of FY 2011 through FY 2013, our agency received a total of $2.745 billion less than our President's budget requests. This averages out to be $915 million, or nearly $1 billion less per year. The chart below shows our President's Budget request and our appropriations for FYs 2011–2013.

In Millions

Fiscal Year	Pres Budget	Final Enacted	Difference
2011	$12,378.9	$11,423.6	$955.3
2012	$12,522.2	$11,446.2	$1,076.0
2013	$11,760.0	$11,045.6	$714.4
Total	$36,661.1	$33,915.4	$2,745.7

In each of these three years, we planned and budgeted based on the President's Budget level, then had to make major mid-year adjustments to accommodate significant reductions, compounding the impact of this chronic underfunding.

12. You testified that "right now our [DI claim] allowance rate is the lowest that it has been in decades." Please provide a time series of allowance rates, along with how those rates are measured, for as long past as SSA has available data.

The tables below provide a time series of allowance rates, at all adjudicative levels (initial, reconsideration, hearing, Appeals Council, and federal court) from FYs 1993–2013.

We calculate the overall allowance rate by dividing the number of allowances by the number of decisions.

Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Allowance Rate	36%	32%	31%	31%	31%	33%	35%	35%	37%	37%

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Allowance Rate	36%	36%	35%	35%	35%	35%	37%	35%	33%	31%	30%

13. In your testimony, you described that "our experience is that people struggle, truly struggle, to find jobs..." You concluded by saying that: "It is very difficult to sustain work and to find work in this country." Please elaborate on your conclusion.

Employment rates are lower for persons with disabilities than for those without disabilities. BLS reports that 26.8 percent of persons with a disability between the ages of 16 and 64 worked in 2013 compared to 70.7 percent for persons without a disability. Likewise, the unemployment rate for persons with a disability (age 16 to 64) was 14.7 percent in 2013, which is higher than the rate for persons without a disability (7.2 percent). (Source: http://www.bls.gov/news.release/disabl.a.htm)

Our beneficiaries have even lower rates of employment. Following a cohort of individuals who were awarded DI benefits in 1996, 28 percent worked and had earnings of at least $1,000 as of 2006, but no more than 16 percent worked in any year. Only 10 percent of them worked enough to complete their trial work period, and fewer had benefits suspended (6.5 percent) or terminated (3.7 percent) as a result of work. (Source: http://www.ssa.gov/disabilityresearch/documents/TTW5_Brief_2_DIcohort_REV2.pdf)

Our research shows beneficiaries who try to work have difficulties sustaining work over time. Many disabled beneficiaries work for extended periods but work part time at jobs with low wages and few benefits.

14. In the hearing, you identified that: "At the Disability Determination Services where we make our initial and reconsideration determinations, our quality is consistently above 99 percent..." Please provide data, along with a definition of the measure, showing the above-99 percent "quality," as well as a time series of those data to corroborate your claim of consistency.

Our Office of Quality Review (OQR) conducts a robust quality assessment of the initial and reconsideration decisions issued by our State DDS partners. By statute, OQR reviews at least 50 percent of the DDS proposed allowances to ensure accuracy of the decision prior to payment effectuation. We use a predictive model to select the most error-prone cases for review.

In addition, by regulation, OQR conducts a quality assurance (QA) review of a statistically valid sample of DDS initial allowances and denials, as well as a sample of reconsiderations, to evaluate and report on DDS performance accuracy. The Net Accuracy rate to which I referred is the percentage of correct DDS decisions as measured by these QA reviews. The net accuracy rate is derived from the net error rate, which is defined as the number of corrected deficient cases with changed disability decisions plus the number of deficient cases that are not corrected within 90 days from the end of the period covered by the report, divided by the number of cases reviewed. The following chart depicts the DDS initial and reconsideration net accuracy as reported by OQR for the FYs 2010–2013:

Initial Net Accuracy

Fiscal Year	2010	2011	2012	2013
Accuracy Rate	98.1%	97.6%	97.9%	98.0%

Reconsideration Net Accuracy

Fiscal Year	2010	2011	2012	2013
Accuracy Rate	97.1%	96.8%	96.8%	97.3%

While these figures are not over 99 percent, my underlying point that our DDS determinations are consistently of a high quality still stands.

15. **You testified during the hearing that: "There are three proposals in the President's fiscal 2015 budget, demonstration projects that we would like to get the funding to run..." Please provide your summary of the successes and failures of SSA in setting objectives and metrics in demonstration projects that SSA has run in the recent past.**

We have substantial experience in conducting demonstrations that yield clear results. For example, our Accelerated Benefits demonstration found that providing health benefits to uninsured SSDI beneficiaries in the 24-month Medicare waiting period sharply improved their health status. Our Youth Transition Demonstration interventions in West Virginia and Miami, Florida found that providing employment supports and benefit counseling substantially increased paid employment among SSI youth. The Mental Health Treatment Study found employment supports and coordinated-care services increased employment and reduced hospitalizations for individuals with schizophrenia and other disorders. Results from our demonstrations are published in top, peer-reviewed journals. We report to Congress annually with updates on demonstration projects conducted under the authority in Section 234 of the Act. For additional information, please see: http://www.ssa.gov/disabilityresearch/demos.htm.

16. **In your testimony for this hearing to take a "fresh look" at the disability insurance program, you chose to spend a significant amount of time discussing SSA's desires for more funding. Based on SSA data, SSA's administrative budget has increased by 34%, well above the 24% growth in the number of disabled and retired beneficiaries. Over the past 10 years, Social Security's Limitation on Administrative Expenses (LAE, which is akin to administrative budget) has cumulated to nearly $105 billion. As Acting Deputy Commissioner of the Office of Retirement and Disability Policy at Social Security, it appears that a proportionately large share of what you wish to share with Congress in a hearing to take a fresh look at the disability insurance program involves SSA budget matters. Therefore, it must be that one of the dominate concern in the Office of Retirement and Disability Policy at Social Security is budget matters. Given that, please identify what the Office of Retirement and Disability Policy would consider, given available work-load and beneficiary and claimant projections internal to SSA, to be an amount of LAE funding for the next 10 years that would be sufficient to provide what your Office would view to be an amount that would allow you to adequately serve the needs of your agency.**

    As I testified, administering the Social Security disability program is a uniquely complex and challenging task. The Office of Retirement and Disability Policy's (ORDP) goal is to keep pace with medicine, science, technology, and the world of work. However, recent years of budgetary cuts have made administering the disability program more difficult. One of the barriers we have faced in achieving that goal is the administrative budget of the agency. Without adequate and timely funding, we cannot ensure that we can keep pace with medicine, science, technology, and the world of work.

    Our agency's administrative budget has increased over the past 10 years and the statement regarding the 34 percent increase is accurate – the FY 2014 enacted funding level is 34 percent higher than the FY 2005 enacted level. But while the number of our disabled and retired beneficiaries has increased by 24 percent, we have seen even more substantial increases in many of our workloads, which continue to be at historical highs. For example, compared to FY 2005 our hearings workload is 42 percent higher and our retirement and survivors claims have increased by 36 percent.

    While ORDP is not responsible for securing and managing the financial resources needed by SSA and its employees, our office and the rest of our agency relies on timely and adequate resources to fulfill our responsibilities.

17. **The analytical perspectives of the President's fiscal year 2015 budget contains the following:**

    > **"As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget**

proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond."

The budget, which I understand SSA supports, identifies that the return on investment on Social Security's Continuing Disability Reviews (CDRs) is calculated based on the "direct marginal costs of processing additional CDRs."

a. **Given SSAs support of the budget, SSA must understand what they are supporting and therefore what is in the budget and accompanying explanations. Therefore, please identify what "direct marginal costs of processing additional CDRs" means, since it seems inconsistent with what I have been led to understand are the calculations that give rise to the 9:1 and 4:1 numbers referred to in the text.**

   By "direct marginal costs of processing additional CDRs," we are referring simply to the costs of processing CDRs that will increase or decrease based upon the volume of CDRs processed. These costs do not include various fixed costs, such as agency overhead, rent, or information technology (IT) spending, that do not vary based upon the level of work processed.

b. **Please also explain what is meant by 2014 ROIs begin temporarily lower "because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities." What does additional overhead costs mean? And what, in the ensuing sentence, is meant by "The Budget proposes to return to funding only the direct marginal costs of CDFs in 2015 and beyond?" What does funding direct marginal costs mean, and what would other, indirect costs, be; overhead costs?**

   Unlike in previous years, when we supplemented discretionary program integrity funding with other LAE funds to cover the full costs of processing program integrity workloads, including overhead such as IT costs, rent, and other support for those performing program integrity work, etc.), the dedicated program integrity funding source in FY 2014 is designed to cover all of the costs of processing program integrity work during the fiscal year. As stated in the budget, our agency anticipates returning to the historical approach in future years. The adjustment in 2014 was important because a large increase in program integrity funding was provided late in the year. This approach enabled us to ramp up the staffing resources needed to process significantly higher program integrity levels in upcoming fiscal years while using our LAE funding for all other critical agency workloads in FY 2014.

   As I stated in my answer to Question 17a, "direct marginal costs of processing additional CDRs" refers simply to the costs of processing CDRs that will increase or decrease based upon the volume of CDRs processed. These costs do not include various fixed costs, such as agency overhead, rent, or IT spending, that do not vary based upon the level of work processed.

I agree that we must have a clarity of ideas and language on proposals relating to important issues, including the proposal relating to program integrity funding. I want to ensure that the agency and your staff come to a common understanding about the intent of the program integrity proposal in the President's Budget. Consequently, the agency will work with you, Senate staff, and others in developing a common understanding of key terms and proposals.

Questions for the Record, from Ranking Member Hatch, for Acting Deputy Commissioner LaCanfora regarding the July 24, 2014 Committee on Finance Hearing titled "Social Security: A Fresh Look at Workers' Disability Insurance."

Thank you for your responses to questions that I posed earlier. Some responses prompt further inquiry, found below, in the interest of clarifying the policies and policy positions of the Social Security Administration.

1. **In your response to my prior question 3b (reproduced below), you identified that you were unaware of the Social Security actuaries' memorandum when you testified. Your testimony was given on July 24, 2014 and the actuaries' reallocation proposal was put forth publicly on July 28, 2014. Following your testimony and the time at which you responded to my original question 3b, Acting Commissioner Colvin identified on July 31, 2014 that "If reallocation were to occur, SSA's actuary projects that reserves in both the OASI and DI trust funds would be available through 2033." The only specific proposal of reallocation that I am aware of is the actuaries' proposal, and that proposal puts forward one particular reallocation scheme (out of many schemes that could be constructed) which generates projected reserve depletion of the OASI trust fund and the DI trust fund in the same year: 2033. Given that Acting Commissioner Colvin identifies that specific reallocation dating scheme, it would seem that she supports the proposal put forward by the Social Security actuaries. Given that, and given that you now are presumably aware of the proposal put forward by the Social Security actuaries, is the Social Security Administration's support of reallocation support of that proposal?**

   To avoid Disability Insurance (DI) trust fund reserve depletion, the Administration believes that Congress must take action, as it has in the past, to reallocate the payroll tax rate between the Old-Age and Survivors Insurance (OASI) and DI trust funds. The July 28, 2014 proposal is one of many options that could address this need.

   > Original question 3b: The only specific proposal of reallocation that I am aware of is one put forward by the actuaries at the Social Security Administration (see, under "Proposals Affecting Trust Fund Solvency" at http://www.ssa.gov/OACT/solvency/index.html , the July 28, 2014 proposal). Therefore, is the administration's and SSA's support of reallocation that you provided in your testimony support of that proposal?

2. **In your response to my prior question 3f (reproduced below), you identified that the administration supports reallocation as a stand-alone change in the law. I assume that by "stand-alone change in the law" you mean that the President's administration supports a reallocation of payroll tax inflows from the OASI ("retirement") trust fund to the DI ("disability") trust fund, with no other change put forward in the reallocation legislation that would alter in any other way any part of the law governing the OASI and DI programs. Has there ever before been a legislated "stand alone" reallocation of payroll tax inflows from the OASI trust fund to the DI trust fund with no other accompanying changes in any part of the law governing OASI and DI programs included in the legislation that gave rise to the reallocation?**

We are not aware of a stand-alone legislation that reallocated payroll tax inflows from the OASI trust fund to the DI trust fund. However, there has been stand-alone legislation that reallocated payroll tax flows from the DI trust fund to the OASI trust fund. Specifically, Public Law 96-403 (1980) amended section 201(h) of the Social Security Act to increase the amount of the payroll tax allocated to the OASI Trust Fund, while decreasing the amount allocated to the DI Trust Fund.

> Original question 3f: In SSA's, and the administration's, support of "reallocation," does SSA and the administration support reallocation as a stand-alone change in the law, or does SSA and the administration also wish to consider additional actions to address DI finances?

3. **Your response to my prior question 3g (reproduced below) did not address the question that I asked. The question involved timing, and your response merely identified that Congress should, in the eyes of SSA and the administration, "reallocate the payroll tax rate" to provide some notion of certainty. Of course, the certainty that SSA and the administration seek involves arriving at legislation that would postpone reserve depletion in one trust fund and accelerate reserve depletion in the other, ensuring that benefit cuts relative to "scheduled benefits" can be expected to occur later for disabled American workers and a bit sooner for retired American workers who are not disabled. In the interest of providing certainty, it would seem that resolution of any uncertainty ought to occur as soon as possible. Indeed, Acting Commissioner Colvin has agreed with what she has identified as the administration's belief that Congress should act to reallocate the payroll tax rate "as soon as possible." Do you agree? If so, and given that Presidential support for any reallocation scheme adopted by Congress would be essential toward provision of certainty, is it the case that the precise reallocation scheme that the President supports is the one put forward by the Social Security actuaries and, if not, are you aware of what proposal would the President support and which would not be acceptable?**

I agree with Acting Commissioner Colvin and the Administration that Congress should act to reallocate the payroll tax between the OASI and the DI trust funds as soon as possible to prevent a near term cut in benefits for vulnerable individuals with disabilities.

As the Social Security Board of Trustees noted in this year's report, legislative action is needed as soon as possible to address the DI program's financial imbalance. Congress may consider responding to the impending DI Trust Fund reserve depletion as it did in 1994, by reallocating the payroll tax rate between OASI and DI.

> Original question 3g: In SSA's support of reallocation, does it matter whether a policy decision to reallocate resources from one trust fund to another occurs as soon as possible, or would any time between now and the end of 2016 be consistent with whatever is the particular policy that you support?

4. **In response to my prior question 4 (reproduced below), you identified that: "With the requested level of discretionary funding for program integrity in 2015 and the**

mandatory funding in 2016 through 2024, according to the President's Budget, we expect a net deficit savings of nearly $35 billion in the 10-year window and additional savings in the out-years." Please identify what the gross budgetary cost to the general fund would be over the 10 year window associated with the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's budget.

With the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's Budget, we expect a net general fund savings of roughly $18 billion in the 10-year window and additional savings in the out-years.

5. **Also, in relation to my prior question 4 asking whether SSA supports policy concepts other than reallocation, you identify proposals in the President's budget "aimed at improving the administration of our programs, including the DI program." I take that to mean that SSA supports those proposals. Given that the administration supports reallocation as a stand-alone change in the law, it follows that the administration only supports the program administration proposals in the President's budget in separate legislation. Are you aware of whether the administration agrees with that implication of its support for reallocation only on a stand-alone basis?**

   The Administration supports reallocation between the OASI and DI trust funds as a stand-alone change to the law but that does not mean we would object to a bill that coupled it with other proposals in our Budget. We look forward to providing technical assistance to Congress as it determines the best legislative path forward for reallocation.

6. **Also, in relation to my prior question 4, do the SSA and the administration support any changes to the OASI and/or DI program involving an increase in the maximum amount of earnings subject to payroll taxes for American workers earning between the current maximum of $117,000 up to $250,000? Please answer in the affirmative (yes) or the negative (no), given that it would be an inefficient use of legislative resources to arrive at policy proposals that would end up being vetoed by the administration.**

   Yes, in the context of broad Social Security reform, the Administration would consider proposals that would ensure the sustained viability of the program.

   > <u>Original question 4</u>: Given that you chose to express support for a policy concept, are there other policy concepts that SSA supports, such as whether SSA supports increasing the amount of maximum earnings subject to payroll taxes, or increases in payroll tax rates, or benefit cuts, or other policy concepts?

7. **In response to my prior question 6b (reproduced below) asking whether SSA agrees with an OECD assessment that disability program reforms are needed to stem the tide of new enrollments, you did not respond in the affirmative or the negative. Rather, you identified that program reforms could be made along several dimensions and that SSA research has identified three factors that are claimed to explain 90 percent of the growth in new disabled-worker entitlements over the 1972-2008 period. Does SSA**

agree with the OECD assessment that reforms are needed to stem the tide of new enrollments?

As we noted in our original answer, the increase in enrollment is due largely to predicted demographic changes. For example, in November 2013, SSA researchers published a paper titled "Growth in New Disabled-Worker Entitlements, 1970–2008." This research found that three factors—(1) population growth, (2) the growth in the proportion of women insured for disability, and (3) the movement of the large baby boom generation into disability-prone ages—explain 90 percent of the growth in new disabled-worker entitlements over the 36-year sub period (1972–2008).

8. **Relatedly, SSA puts forward OECD findings with respect to the "strictness" of DI eligibility in the U.S. relative to other countries as support for identifying DI eligibility criteria as being very strict. The OECD has, in addition to claiming with respect to the U.S., that "disability reforms are needed to stem the tide of new enrollments," written that: "Much of the increase [in U.S. new DI enrollments] in recent decades reflects a relaxation of eligibility restrictions and increased replacement rates, as well as an influx of disabled war veterans (Autor, 2011; Autor, Duggan and Lyle, 2011)." In your response to one of my prior questions, in which I pointed to the nonpartisan Congressional Budget Office's identification of legislation in the early 1980s having "allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of clear-cut medical diagnosis," you respectfully disagreed with CBO's characterization of the effects of the Social Security Disability Benefits Reform Act of 1984. Do you also disagree with the OECD claim that much of the increase in DI enrollments in recent decades reflects a relaxation of eligibility restrictions? If so, then is it reasonable to conclude that SSA takes in agreement the findings and assertions of the OECD which support SSA's findings and positions, but SSA disagrees with other findings and assertions of the OECD which do not support SSA's findings and positions, in which case OECD findings and assertions are not necessarily reliable indicators of the facts about the U.S. DI program administered by SSA?**

For reasons explained in our answer to question 6b, we respectfully disagree with OECD's explanation of DI program growth. For the reasons set forth in our original response, we believe it is reasonable to disagree with this explanation, while agreeing with OECD's assessment of DI program eligibility criteria.

> <u>Original question 6b</u>: Does SSA agree with OECD's assessment that disability reforms are needed to stem the tide of new enrollments?

9. **Your response to my earlier question 9 (reproduced below) usefully points to products produced by the Retirement and Disability Research Consortiums. Thank you. For some of the links to studies that you provided, I was unable to access any studies, particularly ones that, once the link is accessed, pull up information from the National Bureau of Economic Research's (NBER) Disability Research Center within the NBER Aging Program. The information provided seem to be abstracts of research papers, or perhaps are proposals and not research "studies." Is there a way to obtain those studies**

and papers, or are the "studies" under the NBER Aging Program only proposals at this point?

We have attached the requested papers separately. Please note that while SSA provides financial support for RRC and DRC research, all opinions, conclusions, and recommendations presented are those of the respective studies' authors.

> Original question 9: You testified that SSA is collaborating with the Retirement and Disability Research Consortiums to "...build an evidentiary base for potential policy improvements." Please provide evidence of such collaboration that has taken place over the past two years, and explain how that collaboration has helped build and [sic] evidentiary base.

10. **Your response to my earlier question 10 (reproduced below) identifies that: "Our on-duty counts come from our payroll system. Biweekly, data is fed into the system by the Department of Interior, via an accounting feeder file." The 11,000 employee loss over a three-year period does not correspond to what I have been able to determine based on publicly available data. Are the data, or other employee counts based on the data, provided into your payroll system by the Department of Interior publicly available?**

The actual data provided in the payroll system by the Department of the Interior is not publicly available. The information generated includes, but is not limited to, sensitive Personally Identifiable Information (PII). Some of that PII includes Social Security numbers, addresses, and pay grades of employees.

> Original question 10: You testified that: "We lost about 11,000 employees over that three-year period." That period, according to your testimony, is "the last three years prior to 2014." I have not been able to verify that number of SSA staff reductions, and find smaller amounts based on publicly available data produce [sic] by SSA. Please identify the source of your number.

11. **Your response to my earlier question 11 (reproduced below) identifies that: "In each of these three years [2011, 2012, 2013], we planned and budgeted based on the President's Budget level, then had to make major mid-year adjustments to accommodate significant reductions, compounding the impact of this chronic underfunding." Is it a prudent risk-management decision to plan and budget on the basis of levels that for three consecutive years were in excess of the realized amounts? Also, please identify, over the course of a 20 (fiscal year) period prior to 2011 the number of times realized (actual) funding equaled the President's Budget level.**

To ensure that I am providing you with complete responses to your questions, I asked our Deputy Commissioner for Finance, Budget, Quality and Management to prepare responses to your questions. Below are those responses.

We often begin the fiscal year under a continuing resolution. Continuing resolutions make it challenging to plan, since we do not know how much funding will ultimately be provided to us to operate the agency for the full year. We must carefully balance spending, i.e., spending *too much early on versus spending too little, which can have unnecessary negative effects on service to the public and on our stewardship efforts.*

From FY 1991 through FY 2011, we received the President's Budget request (or more) in four of those years. More often than not, we did not receive the full President's Budget level; in some of those years, we received very close to our request while in other years we were cut significantly. Cumulatively, SSA received a total of $3.7 billion less in administrative resources than the President's Budget request level. There also have been times when our program integrity work was fully funded, but we did not receive full funding of our overall administrative budget request. For example, in FY 2014, we received less than the President's Budget request, but our program integrity work was funded at the level authorized by the Budget Control Act of 2011. This funding allowed us to increase our CDR effort in FY 2014 by about 20 percent compared to FY 2013 and set the stage for doing even more in FY 2015.

> Original question 11: You testified that "for the last three years prior to 2014, our agency received an average of nearly $1 billion less than the President requested for our administrative budget, including our program integrity work." And you go on to identify that difference relative to the President's request in his budget, which has not received a vote in Congress, as: "That level of chronic under-funding..." In what sense is a one year shortfall relative to a Presidential budget request "chronic underfunding?"

12. **Your response to my earlier question 14 (reproduced below) identifies net accuracy rates of 98.1% (initial net accuracy) and 97.1% (reconsideration net accuracy) for fiscal year 2010. In testimony delivered on January 24, 2012 before the Subcommittee on Social Security of the House Committee on Ways and Means, then Deputy Director Colvin stated that: "Overall, our SSDI payments are highly accurate. Our most recent data show that, in FY 2010, 99.3 percent of all SSDI payments were free of an overpayment, and 99.0 percent were free of an underpayment. While we are proud of our high accuracy rate for SSDI payments, we recognize that our SSI overpayment accuracy rate falls short of that high standard. To a large extent, inaccuracy is inherent in the complex program rules and the delays in receiving income data. SSI payments can change each month due to income and resource fluctuations and changes in living arrangements. Our overpayment accuracy rate, though improving, reflects that complexity. In the SSI program, 93.3 percent of all payments were free of an overpayment, and 97.6 percent of all payments were free of an underpayment, a significant improvement from FY 2008." Are the accuracy rates that you identified in your response to my earlier question 14 different from the ones referred to in the quote above? Also, please provide additional information about the meaning of the net accuracy rate and net error rate that you identify, and what can be inferred from those rates about subsequent (to the initial and reconsideration levels of appeals) about the likely numbers of DI claims denied at the initial and reconsideration levels but subsequently appealed and approved. For example, does a reconsideration net accuracy rate of, say, 97 percent mean that there is a 97 percent point estimate of the likelihood that a reconsidered DI applicant who was denied was denied accurately, and therefore a 3 percent likelihood that a subsequent appeal would be successful?**

Thank you for the opportunity to clarify this response. The information we provided during the testimony on January 24, 2012 refers to our non-disability *payment accuracy reviews (also known as "stewardship" reviews) of the Old-Age, Survivors, and Disability Insurance (OASDI) programs. These reviews measure only non-disability factors of eligibility and payment and provide the basic measure the agency uses to report on the accuracy of OASDI benefit payments.*

When we discuss net accuracy for disability determinations, we mean the percentage of disability determinations in which the State agencies made correct determinations. This calculation is based on the number of corrected cases that result in a changed disability determination plus the number of incorrect disability determinations that are not corrected within 90 days, divided by the number of cases reviewed. The net accuracy figures represent the combined disability determination allowance and denial accuracy rates.

We also note that after a State agency denies a disability claim at the initial level of review, the claimant can make new allegations and submit new evidence at the reconsideration level of review. This new information could justify a different, favorable determination at the reconsideration level. In that instance, the favorable reconsidered determination would not signal that the unfavorable initial determination was inaccurate. Thus, the net accuracy rate for disability determinations does not necessarily predict the likelihood that an appeal would be successful.

> Original question 14: In the hearing, you identified that: "At the Disability Determination Services where we make our initial and reconsideration determinations, our quality is consistently above 99 percent…" Please provide data, along with a definition of the measure, showing the above-99 percent "quality," as well as a time series of those data to corroborate your claim of consistency.

13. **Your response to my earlier questions 17a and 17b includes statements such as: "By 'direct marginal costs of processing additional CDRs,' we are referring simply to the costs of processing CDRs that will increase or decrease based upon the volume of CDRs processed. These costs do not include various fixed costs, such as agency overhead, rent, or information technology (IT) spending, that do not vary based upon the level of work processed" The response is confusing. A marginal cost typically refers to an incremental change in total cost associated with an incremental change in the activity (say, a one unit change in the level of CDRs). Of course, fixed costs would not show up in a marginal cost, because fixed costs do not change with an incremental change in an activity (that is the nature of the costs' fixity). However, what you refer to as a marginal cost is a cost that increases or decreases based upon the volume of an activity, which is typically not thought of as a "marginal cost" but, rather, is regarded to be a variable cost. The confusion generated by the way in which the cost information, and its relation to the "return on investment (ROI)" for CDRs, leads to confusion about precisely what is being claimed about returns to "investments" in CDRs and, consequently, concern about the administration's views about allocating significant resources to an activity for which the returns on allocating those resources seem not to be clearly articulated and possibly not clearly understood. As SSA has identified in**

some of its writings, the ROI on CDRs measures the expected present value of future program savings relative to amounts spend on CDRs. More specifically, as expressed by SSA in a 2013 report, for example (http://www.ssa.gov/legislation/FY%202011%20CDR%20Report.pdf), the ROI is computed as the estimation ratio of program savings to administrative costs which, for FY2011, was calculated "by dividing the estimated present value of total lifetime benefits saved from periodic CDR cessations, $5.4 billion (including OASDI, SSI, Medicare and Medicaid savings) by the $409 million we spent to conduct periodic CDRs in FY2011." This, then, is a ratio of expected total program savings to total spending on CDRs and should not be taken to represent a marginal saving or marginal cost or marginal savings. In SSAs CDR reports, what is elsewhere loosely called an ROI is clearly stated to be a "savings-to-cost ratio," which is clearly not a marginal return on CDR investments. Yet, in the President's FY2014 budget, it was stated that: "SSA estimates that each additional $1 spent on CDRs would save the Federal Government $9, yet SSA has a backlog of 1.3 million overdue CDRs." (emphasis added). Such a claim of a marginal return of $9 to each incremental $1 spent is not consistent with the way SSA measured the 9:1 ratio of expected total program savings to total spending on CDRs that was the relevant projected total savings relative to total CDR cost ratio at the time. Promoting an "investment" in CDR activities as something for which every additional dollar spend would generate a savings return to the government corresponding to SSAs total expected savings relative to total CDR spending ratio is misleading, at best. Given my understanding of ROI calculations made by SSA and typical use of the concept of marginal costs, please further explain what is meant in the President's fiscal year 2015 budget by the statement that: "As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs." Please also indicate whether you agree, or not, that what are loosely called returns on investments in CDRs are actually ratios of total expected savings to total CDR spending, and are not identifications of what SSA would expect to receive for each dollar or for an incremental dollar spent on CDRs.

Thank you for the opportunity to further explain my answers to questions 17a and 17b. The cost of completing our important program integrity work increases or decreases based upon the volume of work we complete, exclusive of fixed costs, such as agency overhead, rent, or IT spending, that do not vary based upon the level of work processed.

Regarding your second inquiry, as your narrative suggests, we have indicated in our Reports to Congress that the estimated ratio of program savings to administrative costs is calculated by dividing the estimated present value of total lifetime benefits by the amount we spend to conduct periodic CDRs. We agree that our return on investment discussions in the President's Budget are indeed ratios of total estimated savings over ten years to planned CDR spending. We do not discuss incremental costs or savings. We will continue to work to ensure consistent referencing of our program integrity costs.

We would be glad to arrange a further discussion about the ROI calculations between you, our Chief Actuary, and staff of our Office of Budget.

Original question 17: The analytical perspectives of the President's fiscal year 2015 budget contains the following: "As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond."

The budget, which I understand SSA supports, identifies that the return on investment on Social Security's Continuing Disability Reviews (CDRs) is calculated based on the "direct marginal costs of processing additional CDRs."

a. Given SSAs support of the budget, SSA must understand what they are supporting and therefore what is in the budget and accompanying explanations. Therefore, please identify what "direct marginal costs of processing additional CDRs" means, since it seems inconsistent with what I have been led to understand are the calculations that give rise to the 9:1 and 4:1 numbers referred to in the text.

b. Please also explain what is meant by 2014 ROIs begin temporarily lower "because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities." What does additional overhead costs mean? And what, in the ensuing sentence, is meant by "The Budget proposes to return to funding only the direct marginal costs of CDFs in 2015 and beyond?" What does funding direct marginal costs mean, and what would other, indirect costs, be; overhead costs?

Questions for the Record, from Ranking Member Hatch, for Acting Deputy Commissioner LaCanfora regarding the July 24, 2014 Committee on Finance Hearing titled "Social Security: A Fresh Look at Workers' Disability Insurance."

Thank you for your responses to questions that I posed earlier. Some responses prompt further inquiry, found below, in the interest of clarifying the policies and policy positions of the Social Security Administration.

1. In your response to my prior question 3b (reproduced below), you identified that you were unaware of the Social Security actuaries' memorandum when you testified. Your testimony was given on July 24, 2014 and the actuaries' reallocation proposal was put forth publicly on July 28, 2014. Following your testimony and the time at which you responded to my original question 3b, Acting Commissioner Colvin identified on July 31, 2014 that "If reallocation were to occur, SSA's actuary projects that reserves in both the OASI and DI trust funds would be available through 2033." The only specific proposal of reallocation that I am aware of is the actuaries' proposal, and that proposal puts forward one particular reallocation scheme (out of many schemes that could be constructed) which generates projected reserve depletion of the OASI trust fund and the DI trust fund in the same year: 2033. Given that Acting Commissioner Colvin identifies that specific reallocation dating scheme, it would seem that she supports the proposal put forward by the Social Security actuaries. Given that, and given that you now are presumably aware of the proposal put forward by the Social Security actuaries, is the Social Security Administration's support of reallocation support of that proposal?

   > Original question 3b: The only specific proposal of reallocation that I am aware of is one put forward by the actuaries at the Social Security Administration (see, under "Proposals Affecting Trust Fund Solvency" at http://www.ssa.gov/OACT/solvency/index.html , the July 28, 2014 proposal). Therefore, is the administration's and SSA's support of reallocation that you provided in your testimony support of that proposal?

2. In your response to my prior question 3f (reproduced below), you identified that the administration supports reallocation as a stand-alone change in the law. I assume that by "stand-alone change in the law" you mean that the President's administration supports a reallocation of payroll tax inflows from the OASI ("retirement") trust fund to the DI ("disability") trust fund, with no other change put forward in the reallocation legislation that would alter in any other way any part of the law governing the OASI and DI programs. Has there ever before been a legislated "stand alone" reallocation of payroll tax inflows from the OASI trust fund to the DI trust fund with no other accompanying changes in any part of the law governing OASI and DI programs included in the legislation that gave rise to the reallocation?

> Original question 3f: In SSA's, and the administration's, support of "reallocation," does SSA and the administration support reallocation as a stand-alone change in the law, or does SSA and the administration also wish to consider additional actions to address DI finances?

3. Your response to my prior question 3g (reproduced below) did not address the question that I asked. The question involved timing, and your response merely identified that Congress should, in the eyes of SSA and the administration, "reallocate the payroll tax rate" to provide some notion of certainty. Of course, the certainty that SSA and the administration seek involves arriving at legislation that would postpone reserve depletion in one trust fund and accelerate reserve depletion in the other, ensuring that benefit cuts relative to "scheduled benefits" can be expected to occur later for disabled American workers and a bit sooner for retired American workers who are not disabled. In the interest of providing certainty, it would seem that resolution of any uncertainty ought to occur as soon as possible. Indeed, Acting Commissioner Colvin has agreed with what she has identified as the administration's belief that Congress should act to reallocate the payroll tax rate "as soon as possible." Do you agree? If so, and given that Presidential support for any reallocation scheme adopted by Congress would be essential toward provision of certainty, is it the case that the precise reallocation scheme that the President supports is the one put forward by the Social Security actuaries and, if not, are you aware of what proposal would the President support and which would not be acceptable?

> Original question 3g: In SSA's support of reallocation, does it matter whether a policy decision to reallocate resources from one trust fund to another occurs as soon as possible, or would any time between now and the end of 2016 be consistent with whatever is the particular policy that you support?

4. In response to my prior question 4 (reproduced below), you identified that: "With the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's Budget, we expect a net deficit savings of nearly $35 billion in the 10-year window and additional savings in the out-years." Please identify what the gross budgetary cost to the general fund would be over the 10 year window associated with the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's budget.

5. Also, in relation to my prior question 4 asking whether SSA supports policy concepts other than reallocation, you identify proposals in the President's budget "aimed at improving the administration of our programs, including the DI program." I take that to mean that SSA supports those proposals. Given that the administration supports reallocation as a stand-alone change in the law, it follows that the administration only supports the program administration proposals in the President's budget in separate legislation. Are you aware of whether the administration agrees with that implication of its support for reallocation only on a stand-alone basis?

6. Also, in relation to my prior question 4, do the SSA and the administration support any changes to the OASI and/or DI program involving an increase in the maximum amount of earnings subject to payroll taxes for American workers earning between the current maximum of $117,000 up to $250,000? Please answer in the affirmative (yes) or the negative (no), given that it would be an inefficient use of legislative resources to arrive at policy proposals that would end up being vetoed by the administration.

   Original question 4: Given that you chose to express support for a policy concept, are there other policy concepts that SSA supports, such as whether SSA supports increasing the amount of maximum earnings subject to payroll taxes, or increases in payroll tax rates, or benefit cuts, or other policy concepts?

7. In response to my prior question 6b (reproduced below) asking whether SSA agrees with an OECD assessment that disability program reforms are needed to stem the tide of new enrollments, you did not respond in the affirmative or the negative. Rather, you identified that program reforms could be made along several dimensions and that SSA research has identified three factors that are claimed to explain 90 percent of the growth in new disabled-worker entitlements over the 1972-2008 period. Does SSA agree with the OECD assessment that reforms are needed to stem the tide of new enrollments?

8. Relatedly, SSA puts forward OECD findings with respect to the "strictness" of DI eligibility in the U.S. relative to other countries as support for identifying DI eligibility criteria as being very strict. The OECD has, in addition to claiming with respect to the U.S., that "disability reforms are needed to stem the tide of new enrollments," written that: "Much of the increase [in U.S. new DI enrollments] in recent decades reflects a relaxation of eligibility restrictions and increased replacement rates, as well as an influx of disabled war veterans (Autor, 2011; Autor, Duggan and Lyle, 2011)." In your response to one of my prior questions, in which I pointed to the nonpartisan Congressional Budget Office's identification of legislation in the early 1980s having "allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of clear-cut medical diagnosis," you respectfully disagreed with CBO's characterization of the effects of the Social Security Disability Benefits Reform Act of 1984. Do you also disagree with the OECD claim that much of the increase in DI enrollments in recent decades reflects a relaxation of eligibility restrictions? If so, then is it reasonable to conclude that SSA takes in agreement the findings and assertions of the OECD which support SSA's findings and positions, but SSA disagrees with other findings and assertions of the OECD which do not support SSA's findings and positions, in which case OECD findings and assertions are not necessarily reliable indicators of the facts about the U.S. DI program administered by SSA?

   Original question 6b: Does SSA agree with OECD's assessment that disability reforms are needed to stem the tide of new enrollments?

9. Your response to my earlier question 9 (reproduced below) usefully points to products produced by the Retirement and Disability Research Consortiums. Thank you. For some of

the links to studies that you provided, I was unable to access any studies, particularly ones that, once the link is accessed, pull up information from the National Bureau of Economic Research's (NBER) Disability Research Center within the NBER Aging Program. The information provided seem to be abstracts of research papers, or perhaps are proposals and not research "studies." Is there a way to obtain those studies and papers, or are the "studies" under the NBER Aging Program only proposals at this point?

> Original question 9: You testified that SSA is collaborating with the Retirement and Disability Research Consortiums to "...build an evidentiary base for potential policy improvements." Please provide evidence of such collaboration that has taken place over the past two years, and explain how that collaboration has helped build and [sic] evidentiary base.

10. Your response to my earlier question 10 (reproduced below) identifies that: "Our on-duty counts come from our payroll system. Biweekly, data is fed into the system by the Department of Interior, via an accounting feeder file." The 11,000 employee loss over a three-year period does not correspond to what I have been able to determine based on publicly available data. Are the data, or other employee counts based on the data, provided into your payroll system by the Department of Interior publicly available?

> Original question 10: You testified that: "We lost about 11,000 employees over that three-year period." That period, according to your testimony, is "the last three years prior to 2014." I have not been able to verify that number of SSA staff reductions, and find smaller amounts based on publicly available data produce [sic] by SSA. Please identify the source of your number.

11. Your response to my earlier question 11 (reproduced below) identifies that: "In each of these three years [2011, 2012, 2013], we planned and budgeted based on the President's Budget level, then had to make major mid-year adjustments to accommodate significant reductions, compounding the impact of this chronic underfunding." Is it a prudent risk-management decision to plan and budget on the basis of levels that for three consecutive years were in excess of the realized amounts? Also, please identify, over the course of a 20 (fiscal year) period prior to 2011 the number of times realized (actual) funding equaled the President's Budget level.

> Original question 11: You testified that "for the last three years prior to 2014, our agency received an average of nearly $1 billion less than the President requested for our administrative budget, including our program integrity work." And you go on to identify that difference relative to the President's request in his budget, which has not received a vote in Congress, as: "That level of chronic under-funding..." In what sense is a one year shortfall relative to a Presidential budget request "chronic underfunding?"

12. Your response to my earlier question 14 (reproduced below) identifies net accuracy rates of 98.1% (initial net accuracy) and 97.1% (reconsideration net accuracy) for fiscal year 2010.

In testimony delivered on January 24, 2012 before the Subcommittee on Social Security of the House Committee on Ways and Means, then Deputy Director Colvin stated that: "Overall, our SSDI payments are highly accurate. Our most recent data show that, in FY 2010, 99.3 percent of all SSDI payments were free of an overpayment, and 99.0 percent were free of an underpayment. While we are proud of our high accuracy rate for SSDI payments, we recognize that our SSI overpayment accuracy rate falls short of that high standard. To a large extent, inaccuracy is inherent in the complex program rules and the delays in receiving income data. SSI payments can change each month due to income and resource fluctuations and changes in living arrangements. Our overpayment accuracy rate, though improving, reflects that complexity. In the SSI program, 93.3 percent of all payments were free of an overpayment, and 97.6 percent of all payments were free of an underpayment, a significant improvement from FY 2008." Are the accuracy rates that you identified in your response to my earlier question 14 different from the ones referred to in the quote above? Also, please provide additional information about the meaning of the net accuracy rate and net error rate that you identify, and what can be inferred from those rates about subsequent (to the initial and reconsideration levels of appeals) about the likely numbers of DI claims denied at the initial and reconsideration levels but subsequently appealed and approved. For example, does a reconsideration net accuracy rate of, say, 97 percent mean that there is a 97 percent point estimate of the likelihood that a reconsidered DI applicant who was denied was denied accurately, and therefore a 3 percent likelihood that a subsequent appeal would be successful?

> Original question 14: In the hearing, you identified that: "At the Disability Determination Services where we make our initial and reconsideration determinations, our quality is consistently above 99 percent..." Please provide data, along with a definition of the measure, showing the above-99 percent "quality," as well as a time series of those data to corroborate your claim of consistency.

13. Your response to my earlier questions 17a and 17b includes statements such as: "By 'direct marginal costs of processing additional CDRs,' we are referring simply to the costs of processing CDRs that will increase or decrease based upon the volume of CDRs processed. These costs do not include various fixed costs, such as agency overhead, rent, or information technology (IT) spending, that do not vary based upon the level of work processed" The response is confusing. A marginal cost typically refers to an incremental change in total cost associated with an incremental change in the activity (say, a one unit change in the level of CDRs). Of course, fixed costs would not show up in a marginal cost, because fixed costs do not change with an incremental change in an activity (that is the nature of the costs' fixity). However, what you refer to as a marginal cost is a cost that increases or decreases based upon the volume of an activity, which is typically not thought of as a "marginal cost" but, rather, is regarded to be a variable cost. The confusion generated by the way in which the cost information, and its relation to the "return on investment (ROI)" for CDRs, leads to confusion about precisely what is being claimed about returns to "investments" in CDRs and, consequently, concern about the administration's views about allocating significant resources to an activity for which the returns on allocating those resources seem not to be clearly articulated and possibly not clearly understood. As SSA has identified in some of its writings, the ROI on CDRs measures the expected present value of future program savings

relative to amounts spend on CDRs. More specifically, as expressed by SSA in a 2013 report, for example (http://www.ssa.gov/legislation/FY%202011%20CDR%20Report.pdf), the ROI is computed as the estimation ratio of program savings to administrative costs which, for FY2011, was calculated "by dividing the estimated present value of total lifetime benefits saved from periodic CDR cessations, $5.4 billion (including OASDI, SSI, Medicare and Medicaid savings) by the $409 million we spent to conduct periodic CDRs in FY2011." This, then, is a ratio of expected total program savings to total spending on CDRs and should not be taken to represent a marginal saving or marginal cost or marginal savings. In SSAs CDR reports, what is elsewhere loosely called an ROI is clearly stated to be a "savings-to-cost ratio," which is clearly not a marginal return on CDR investments. Yet, in the President's FY2014 budget, it was stated that: "SSA estimates that each additional $1 spent on CDRs would save the Federal Government $9, yet SSA has a backlog of 1.3 million overdue CDRs." (emphasis added). Such a claim of a marginal return of $9 to each incremental $1 spent is not consistent with the way SSA measured the 9:1 ratio of expected total program savings to total spending on CDRs that was the relevant projected total savings relative to total CDR cost ratio at the time. Promoting an "investment" in CDR activities as something for which every additional dollar spend would generate a savings return to the government corresponding to SSAs total expected savings relative to total CDR spending ratio is misleading, at best. Given my understanding of ROI calculations made by SSA and typical use of the concept of marginal costs, please further explain what is meant in the President's fiscal year 2015 budget by the statement that: "As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs." Please also indicate whether you agree, or not, that what are loosely called returns on investments in CDRs are actually ratios of total expected savings to total CDR spending, and are not identifications of what SSA would expect to receive for each dollar or for an incremental dollar spent on CDRs.

Original question 17: The analytical perspectives of the President's fiscal year 2015 budget contains the following: "As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond."

The budget, which I understand SSA supports, identifies that the return on investment on Social Security's Continuing Disability Reviews (CDRs) is calculated based on the "direct marginal costs of processing additional CDRs."

a. Given SSAs support of the budget, SSA must understand what they are supporting and therefore what is in the budget and accompanying explanations. Therefore, please identify what "direct marginal costs of processing additional CDRs" means, since it seems inconsistent with what I have been led to understand are the calculations that give rise to the 9:1 and 4:1 numbers referred to in the text.

b.Please also explain what is meant by 2014 ROIs begin temporarily lower "because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities." What does additional overhead costs mean? And what, in the ensuing sentence, is meant by "The Budget proposes to return to funding only the direct marginal costs of CDFs in 2015 and beyond?" What does funding direct marginal costs mean, and what would other, indirect costs, be; overhead costs?

Center for American Progress

Testimony Before the U.S. Senate Committee on Finance

"A Fresh Look at Workers' Disability Insurance"

Rebecca D. Vallas, Esq.,
Associate Director, Poverty to Prosperity Program
Center for American Progress

July 24, 2014

Thank you, Chairman Wyden, Ranking Member Hatch and Members of the Committee for the invitation to appear before you today. My name is Rebecca Vallas, and I am the Associate Director of the Poverty to Prosperity Program at the Center for American Progress.

The subject of today's discussion is of the utmost importance to all of us as Americans, because any of us could find ourselves in the position of needing to turn to Social Security Disability Insurance at any time.

Imagine that tomorrow, while cleaning out your gutters, you fall off a ladder. You suffer a traumatic brain injury and spinal cord damage, leaving you paralyzed, unable to speak, and with significantly impaired short- and long-term memory. Unable to work for the foreseeable future, you have no idea how you are going to support your family. Now imagine your relief when you realize an insurance policy you have been paying into all your working life will help keep you and your family afloat by replacing a portion of your lost wages. It is our Social Security system.

I'm sure we can all agree that no one wants to see this important program weakened, or its basic but crucial benefits cut. The American people time and again have made clear their strong support for Social Security, and their strong opposition to benefit cuts. I look forward to discussing how we can work together to strengthen this vital program, so that it can continue to protect American men, women and children for decades to come.

I will make three main points today:

- **Social Security Disability Insurance provides basic but essential protection that workers earn during their working years.** Social Security protects nearly all American workers in case of life-changing disability or illness. The modest benefits from Social Security Disability Insurance are vital to the economic security of disabled workers and their families.

- **Eligibility criteria are stringent and only workers with the most serious disabilities and illnesses qualify for benefits.** According to the Organisation for Economic Cooperation and Development, or OECD, the Social Security disability standard is among the strictest in the industrialized world. The vast majority of applicants are denied, and those who qualify for benefits often have multiple serious impairments, and many are terminally ill. Few are able to work at all.

- **It's no surprise that action is needed to address the program's finances, and a traditional, routine step would put the entire Social Security system on sound footing for two decades.** Periodic rebalancing of Social Security's trust funds—so that both the retirement/survivorship and disability parts of Social Security rest on sound financial footing—has occurred in a bipartisan manner 11 times in the program's history, with funds shifted in the direction of the Old Age and Survivors Insurance trust fund about half the time, and in the direction of the Disability Insurance trust fund about half the time. As long expected by Social Security's actuaries, rebalancing is again needed and would ensure that Social Security is able to pay all promised benefits until 2033—without changing the health of the combined trust funds.

Social Security Disability Insurance provides basic but essential protection that workers earn during their working years

Social Security was established nearly 80 years ago to ensure "the security of the men, women and children of the nation against the hazards and vicissitudes of life."[i] In 1956, the program was expanded to include Disability Insurance in recognition that the private market for long-term disability insurance was failing to provide adequate or affordable protection to workers.[ii]

Today, nearly all Americans—91 percent of workers ages 21 to 64—are protected by Social Security Disability Insurance.[iii] In all, more than 160 million American workers and their families are protected.[iv] About 8.9 million disabled workers—including more than 1 million veterans—receive Disability Insurance benefits, as do about 157,000 spouses and 1.9 million dependent children of disabled workers.[v]

Social Security Disability Insurance is coverage that workers earn

Both workers and employers pay for Social Security through payroll tax contributions. Workers currently pay 6.2 percent of the first $117,000[vi] of their earnings each year, and employers pay the same amount up to the same cap. Of that 6.2 percent, 5.3 percent currently goes to the Old Age and Survivors Insurance, or OASI, trust fund, and 0.9 percent to the Disability Insurance trust fund. Due to the interrelatedness of the Social Security programs, the two funds are typically considered together, although they are technically separate. The portion of payroll tax contributions that goes into each trust fund has changed several times throughout the years to account for demographic shifts and the funds' respective projected solvency.[vii]

Benefits are modest but vital to economic security

The amount a qualifying worker receives in benefits is based on his or her prior earnings. Benefits are modest, typically replacing half or less of a worker's earnings. The average benefit in 2013 was just over $1,140 per month—not far above the federal poverty level for an individual.[viii]

For more than 80 percent of beneficiaries, Disability Insurance is their main source of income. For one-third, it is their only source of income.[ix] Benefits are so modest that many beneficiaries struggle to make ends meet; nearly one in five, or about 1.6 million, disabled-worker beneficiaries live in poverty.

But without Disability Insurance, this figure would more than double, and more than 4 million beneficiaries would be poor.[x] Disabled workers use their Social Security benefits to meet basic needs, such as rent or mortgage, gas and electric, food, and copays on needed—often life-sustaining—medications.

Average disabled worker benefit (May 2014):

$1,146 per month
$13,752 oer year

Federal poverty level for an individual (2014):

$972 per month
$11,670 per year

Workers who receive Disability Insurance are also eligible for Medicare after a two-year waiting period.[xi]

Social Security Disability Insurance provides protection most of us could never afford on the private market

And there is good reason to offer disability insurance through a public program such as Social Security: private disability insurance is out of reach for most families. Just one in three private-sector workers has employer-provided long-term disability insurance, and plans are often less adequate than Social Security.[xii] Coverage is especially scarce for low-wage workers—just 7 percent of workers making less than $12 an hour have employer-provided disability insurance.[xiii]

Workers in industries such as retail, hospitality, and construction are among the least likely to have employer-provided long-term disability coverage, and coverage is highly concentrated among white-collar professions.[xiv] Access is even more limited on the individual market.

While it is difficult to compare Social Security Disability Insurance with private long-term disability plans given that private plans often exclude certain types of impairments—as well as workers with pre-existing conditions or in high-risk occupations—purchasing a plan of comparable value and adequacy on the individual private market would be unrealistic for most Americans.

> "Coverage by private [disability insurance] carriers is certain to be restricted, because disability insurance confronts all the major impediments to widespread, affordable, and actuarially sound private insurance provision: adverse selection, moral hazard, and covariance of risks. ... Many insurers write group policies, but they differentiate strongly between groups with high and low risks. Some groups are treated as essentially uninsurable. Where risks are high, prices are high as well. The result is that private disability insurance tends to be available only to those groups who need it least; others are priced out of the market."
>
> Michael Graetz and Jerry Mashaw, noted social insurance experts and coauthors of *True Security*.[xiv]

Eligibility criteria are stringent and only workers with the most serious disabilities and illnesses qualify for benefits

Disabled workers face a steep uphill battle to prove that they are eligible for Social Security Disability Insurance. Under the Social Security Act, the eligibility standard requires that a disabled worker be "unable to engage in substantial gainful activity"—defined as earning $1,070 per month, for 2014—"by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than 12 months."[xv] In order to meet this rigorous standard, a worker must not only be unable to do his or her past jobs, but also—considering his or her age, education, and experience—any other job that exists in significant numbers in the national economy at a level where he or she could earn even $270 per week.[xvi]

A worker must also have earned coverage in order to be protected by Disability Insurance. A worker must have worked at least one-fourth of his or her adult years, including at least 5 of the 10 years before the disability began in order to be "insured."[xvii]

The OECD describes the U.S. disability benefit system, along with those of Canada, Japan, and South Korea, as having "the most stringent eligibility criteria for a full disability benefit, including the most rigorous reference to all jobs in the labor market."[xviii]

In practice, proving medical eligibility for Disability Insurance requires extensive medical evidence from one or more medical providers designated as acceptable medical sources (licensed physicians, specialists, or other approved medical providers) documenting the applicant's severe impairment, or impairments, and resulting symptoms. Evidence from other providers, such as nurse practitioners or clinical social workers, is not enough to document a worker's medical condition. Statements from friends, loved ones, and the applicant are not considered medical evidence and are not sufficient to establish eligibility.

Most claims for Disability Insurance are denied under this stringent standard. Nearly 80 percent of applicants are denied at the initial level, and fewer than 4 in 10 are approved after all levels of appeal.[xix] Many wait a year—and in many cases much longer—before receiving needed benefits. Underscoring the strictness of the disability standard, thousands of applicants die each year during the eligibility determination process.[xx] Of those who live long enough to receive benefits, one in five male and nearly one in six female beneficiaries die within five years of being approved.[xxi] All told, Disability Insurance beneficiaries have death rates three to six times higher than other people of their age.[xxii]

Social Security's listing of impairments is organized according to 14 body systems

- Cardiovascular system
- Congenital disorders that affect multiple body systems
- Digestive system
- Genitourinary impairments
- Hematological disorders
- Endocrine disorders
- Immune system disorders
- Malignant neoplastic disorders
- Mental disorders
- Musculoskeletal disorders
- Neurological disorders
- Respiratory system
- Skin disorders
- Special senses and speech

Beneficiaries have a wide range of significant disabilities and debilitating illnesses and many have multiple impairments

Disabled workers who receive Disability Insurance live with a diverse range of severe impairments. The Social Security Administration categorizes beneficiaries according to their "primary diagnosis," or main health condition.[xxiii] As of 2012, the most recent year for which impairment data are available:

- 31.8 percent have a "primary diagnosis" of a mental impairment, including 4.2 percent with intellectual disabilities and 27.6 percent with other types of mental disorders such as schizophrenia, post-traumatic stress disorder, or severe depression.
- 29.8 percent have a musculoskeletal or connective tissue disorder.
- 8.7 percent have a cardiovascular condition such as chronic heart failure.
- 9.3 percent have a disorder of the nervous system, such as cerebral palsy or multiple sclerosis, or a sensory impairment such as deafness or blindness.
- 20.4 percent include workers living with cancers; infectious diseases; injuries; genitourinary impairments such as end stage renal disease; congenital disorders; metabolic and endocrine diseases such as diabetes; diseases of the respiratory system; and diseases of other body systems[xxiv]

A fact not well captured by Social Security's data—given that beneficiaries are categorized by "primary diagnosis"—is that many beneficiaries have multiple serious health conditions. For instance, nearly half of individuals with mental disorders have more than one mental illness, such as major depressive disorder and a severe anxiety disorder.[xxv] Individuals with mental illness are also at greater risk of poor physical health: The two leading causes of death for individuals with mental illness are cardiovascular disease and cancers.[xxvi] Musculoskeletal disorders commonly afflict multiple joints,[xxvii] and individuals with musculoskeletal impairments—typically older workers whose bodies have broken down with age—commonly suffer additional health conditions such as cardiovascular disease, diabetes, and respiratory disease.[xxviii]

The breakdown of impairment categories among Disability Insurance beneficiaries is consistent with global health trends. According to the World Health Organization, the leading causes of disability today in most regions of the world—including the United States—are musculoskeletal impairments and mental disorders.[xxix] The rise in mental impairments around the world is often attributed to increased awareness and reduced stigma of mental illness. Likewise, the global rise in musculoskeletal impairments is attributable to the aging of the population both in the United States and globally—since the risk of experiencing musculoskeletal impairments rises sharply with age—as well as to the drop in mortality.[xxx]

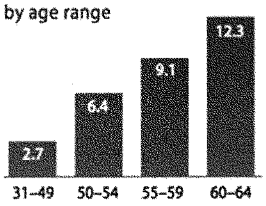
Most beneficiaries are older and had physically demanding jobs

Most beneficiaries of Disability Insurance —7 in 10—are in their 50s and 60s, and the average age is 53. The fact that most beneficiaries are older is unsurprising given that the likelihood of disability increases sharply with age: a worker is twice as likely to experience disability at age 50 as at 40, and twice as likely at 60 as at 50.[xxxi] Before turning to Social Security, most disabled-worker beneficiaries worked at "unskilled" or "semi-skilled" physically demanding jobs.[xxxii] About half—53 percent—of disabled workers who receive Disability Insurance have a high school diploma or less.[xxxiii] About one-third completed some college, and the remaining 18 percent completed four years of college or have further higher education.[xxxiv]

FIGURE 1

The likelihood of receiving Social Security Disability Insurance rises sharply with age

Social Security Disability Insurance prevalence rates by age range



Source: Melissa M. Favreault, Richard W. Johnson, and Karen E. Smith, "How Important is Social Security to American Workers?" (Washington: Urban Institute, 2013), available at http://www.urban.org/UploadedPDF/412847-how-important-is-social-security.pdf.

Few are able to work at all

For beneficiaries whose conditions improve, Social Security Administration policies include strong work incentives and protections to encourage beneficiaries to attempt to return to work. Beneficiaries may earn up to the substantial gainful activity level—$1,070 per month in 2014—without risking their needed monthly benefits. Beneficiaries whose conditions improve enough that they are able to earn more than the substantial gainful activity level are encouraged to work as much as they can for up to 12 months while maintaining their benefits. Those who work above the substantial gainful activity level for more than 12 months enter a nearly three-year "extended period of eligibility," during which they receive a benefit only in the months in which they earn less the substantial gainful activity level.[xxxv] After the extended period of eligibility ends, if at any point in the next five years their condition worsens and they are not able to continue working above that level, they can return to benefits through a process called "expedited reinstatement."[xxxvi] This process allows them to restart their needed benefits without having to repeat the entire, lengthy disability-determination process.[xxxvii] These policies are extremely helpful to beneficiaries with episodic symptoms or whose conditions improve over time.

Yet, unsurprisingly given how strict the Social Security disability standard is, most beneficiaries live with such debilitating impairments and health conditions that they are unable to work at all, and most do not have earnings. According to a recent study linking Social Security data and earnings records before the onset of the Great Recession, fewer than one in five, or 19.5 percent, of beneficiaries did any work during the year.[xxxviii] The vast majority of those who worked earned very little, and just 3.9 percent earned more than $10,000 during the year—hardly enough to support oneself.[xxxix] Just 4 percent earned enough to have their benefits terminated due to earnings, and of those, about one-quarter later returned to receiving benefits.[xl]

If a significant share of beneficiaries were able to work, one would expect a sizeable percentage to take advantage of the previously described work incentives in order to maximize their earnings without losing benefits. But beneficiaries' work patterns indicate otherwise. Fewer than one-half of one percent of beneficiaries maintain a level of earnings just below the substantial gainful activity level.[xli] Further underscoring the strictness of the Social Security disability standard, even disabled workers who are denied benefits exhibit extremely low work capacity afterward. A recent study of workers denied Disability Insurance found that just one in four were able to earn more than the substantial gainful activity level post-denial.[xlii]

How does the United States compare with other countries?

The Social Security disability standard is among the strictest in the industrialized world. As previously noted, the OECD describes the U.S. disability benefit system, along with those of a handful of other nations, as having "the most stringent eligibility criteria for a full disability benefit, including the most rigorous reference to all jobs in the labor market."[xliii]

Social Security Disability Insurance benefits are less generous than most other countries' disability benefit programs. With Disability Insurance benefits replacing 42 percent of previous earnings for the median earner, the United States is ranked 30th out of 34 OECD member countries in terms of replacement

OECD Disability Policy Typology: Country Scores, 2007, In Descending Order

(OECD Average = 25.8)

Sweden	37	Belgium	25
Norway	33	France	25
Portugal	33	Greece	25
Finland	32	Poland	25
Germany	32	Austria	24
Switzerland	32	Czech Republic	24
Denmark	28	Netherlands	24
Hungary	28	New Zealand	23
Luxembourg	28	Australia	21
Mexico	27	Japan	21
Spain	27	United Kingdom	21
Ireland	26	Canada	18
Italy	26	United States	17
Slovak Republic	26	Korea	15

rates.[xliv] Many countries' disability benefit programs replace 80 percent or more of previous earnings.[xlv]

By international standards, the United States spends comparatively little on disability benefits. In 2009, U.S. spending on Social Security Disability Insurance equaled 0.8 percent of gross domestic product, or GDP—again putting the United States near the bottom (27th out of 34 OECD member countries) in spending on equivalent programs. On average, OECD member countries spend 1.2 percent of GDP on their equivalent programs, and many—such as Denmark (2 percent), the United Kingdom (2.4 percent) and Norway (2.6 percent)—spend significantly more.[xlvi]

The share of the U.S. working-age population receiving Disability Insurance benefits—about 6 percent—is roughly on par with the OECD average of 5.9 percent.[xlvii]

In drawing international comparisons, it is well worth noting that in addition to more generous disability benefit systems with less rigorous eligibility standards, European nations tend to have universal paid leave policies, more generous health care systems, higher levels of social spending generally, and more regulated labor markets than the United States.[xlviii]

Growth in the program was expected and is mostly the result of demographic and labor market shifts

As long projected by Social Security's actuaries, the number of workers receiving Disability Insurance has increased over time, due mostly to demographic and labor-market shifts. According to recent analysis by Social Security Administration researchers, the growth in the program between 1972 and 2008 is due almost entirely (90 percent) to the Baby Boomers aging into the high-disability years of their 50s and 60s, the rise in women's labor-force participation, and population growth.[xlix] Importantly, as early Baby Boomers have begun to age into retirement, the program's growth has already leveled off and is projected to decline further in the coming years as Boomers continue to retire.[l]

Due to the importance of these demographic factors, Social Security's actuaries analyze trends in benefit receipt using the "age-sex adjusted disability prevalence rate," which controls for changes in the age and sex distribution of the insured population, as well as for population growth. The age-sex adjusted disability prevalence rate was 4.6 percent in 2013 compared to 3.1 percent in 1980.[li]

Key drivers of the program's growth include:

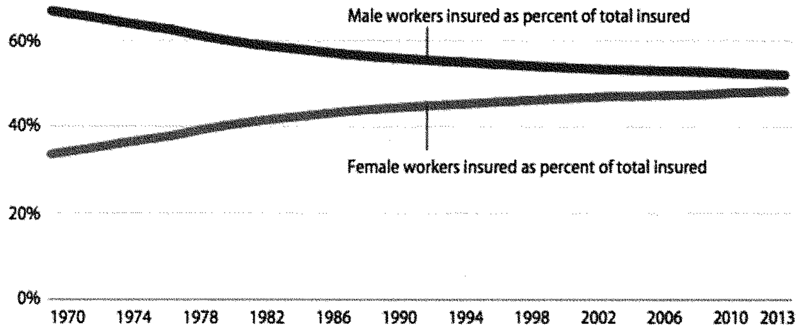
- **Aging population:** The risk of disability increases sharply with age. A worker is twice as likely to be disabled at age 50 as at 40, and again twice as likely at age 60 as at 50.[lii] Born between 1946 and 1964, Baby Boomers have now aged into their high-disability years, driving much of the growth in Disability Insurance.

- **Increase in women's labor-force participation:** Whereas previous generations of women had not worked enough to be insured in case of disability, women today have essentially caught up with men when it comes to being insured for benefits based on their work history.[liii]

FIGURE 2

Women have caught up to men in insured status

Number of male and female workers insured in case of disability, in thousands, 1970–2013



Source: Social Security Administration, "Estimated number of workers insured in the event of disability, by age group and sex, on December 31, 1970-2013," available at http://www.ssa.gov/OACT/STATS/table4c2DI.html (last accessed June 2014).

- **Population growth**: The working-age population—ages 20 to 64—has grown significantly, by 43 percent between 1980 and 2013.[liv] The Center on Budget and Policy Priorities estimates that population growth alone—even if the population were not aging—would have resulted in an additional 1.25 million beneficiaries in 2013 compared with 1980.[lv]

- **Women's catch-up in rates of receipt:** Just as women have caught up with men in terms of having worked enough to be insured for Disability Insurance, the gender gap in rates of receipt of benefits has closed as well. As recently as 1990, male workers outnumbered female workers by two to one, whereas today, nearly 48 percent of workers receiving Disability Insurance are women.[lvi]

- **Increase in Social Security retirement age**: The increase in the Social Security retirement age from 65 to 66, and ultimately to 67, has played a role as well, as disabled workers continue receiving Social Security Disability Insurance for longer before converting to retirement benefits when they reach full retirement age. About 5 percent of Social Security Disability Insurance beneficiaries are ages 65 and 66.[lvii]

The Great Recession in context

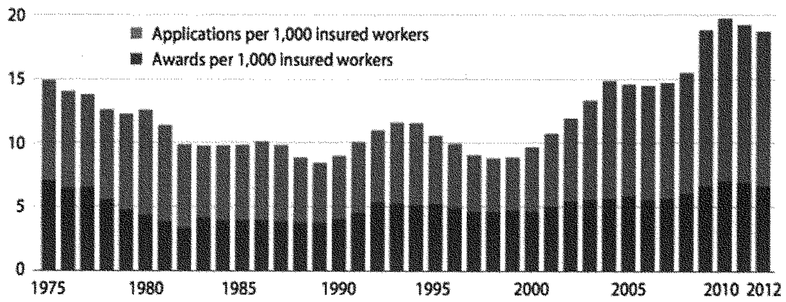
Social Security's actuaries note that the main effect of the recent economic downturn was lower revenue through payroll tax contributions—not an increase in beneficiaries.[lviii] While recessions are typically associated with sharp increases in *applications* for Social Security Disability Insurance, they have a much smaller impact on *awards*. The most recent downturn was no exception, and Social Security's actuaries estimate that just 5 percent of the program's growth from 1980 to 2010 is due to the recession,[lix] likely due to workers with disabilities being disproportionately laid off from employer payrolls when times got tight.

It is important to note that while applications increased during the Great Recession, the award rate—the share of applications approved for benefits—declined,[lx] indicating that applicants who did not meet the rigid disability standard were screened out. A study by Social Security's watchdog examined the 11 states with the highest unemployment rates and found that award rates had dropped in all of them.[lxi]

Moreover, a recent National Bureau of Economic Research study found "no indication that expiration of unemployment insurance benefits causes Social Security Disability Insurance applications."[lxii] Furthermore, a recent report by the White House Council of Economic Advisers examining labor force participation trends since 2007 found that the increase in the number of disabled workers receiving Disability Insurance has had a minimal impact on labor force participation, noting: "in fact, if anything, the increase in disability rolls...have been [sic] somewhat lower than one would have predicted given the predicted cyclical and demographic effects."[lxiii]

FIGURE 3

Applications and awards, disabled workers, 1975–2012



Source: Social Security Administration, "Disabled Workers Applications For Disability Benefits & Benefit Awards," available at http://www.ssa.gov/oact/STATS/table6c7.html (last accessed June 2014).

No surprise that action is needed to address finances, and routine action would put the entire Social Security system on sound footing for the next two decades

It comes as no surprise—and presents no crisis—that action is needed to address Social Security Disability Insurance's finances by late 2016. In 1995, Social Security's actuaries projected that the Disability Insurance trust fund would be able to pay all scheduled benefits until 2016, the OASI trust fund until 2031, and the combined trust funds until 2030.[lxiv] The projections in the 2013 Social Security Trustees Report look remarkably similar, with Disability Insurance expected to remain solvent until 2016, OASI until 2035, and the combined funds until 2033.[lxv] If policymakers did nothing, the Disability Insurance fund would be able to pay 80 percent of promised benefits after 2016—and beneficiaries would face a 20 percent across-the-board cut in their already modest benefits.[lxvi]

Furthermore, the present situation is nothing new. While the OASI fund and the Disability Insurance fund are technically separate, they are typically considered together due to the interrelatedness of Social Security's programs. For example, Social Security's programs share the same benefit formula, beneficiaries regularly move between programs,[lxvii] and changes to one program—such as raising the retirement age—affect both funds.

Since Social Security Disability Insurance was established in 1956, Congress has repeatedly rebalanced the OASI and Disability Insurance trust funds to keep both on sound footing amid demographic shifts and other changes. Rebalancing—by adjusting the share of payroll tax contributions that go into each fund—has occurred in a bipartisan manner 11 times over the years, with additional revenues being directed to the OASI fund about half the time, and to the Disability Insurance fund about half the time.[lxviii] Congress has never allowed a drop in scheduled benefits to occur. Policymakers should again enact a modest, temporary reallocation of the 6.2 percent payroll tax rate between OASI and Disability Insurance to equalize the solvency of the two funds.

1983 Social Security reforms worsened Social Security Disability Insurance's financial health to an extent that the 1994 adjustments only partially addressed

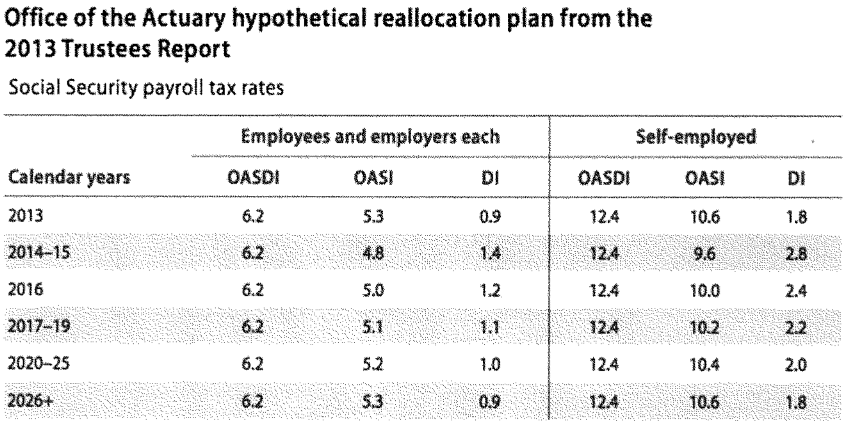
The last round of major changes to Social Security occurred in 1983. Notable components of the 1983 legislation included an increase in the Social Security retirement age (from 65 to 67) and a cut in the share of the payroll tax allocated to the Disability Insurance trust fund.[lxix] At the time of the 1983 changes, the OASI fund was facing insolvency, while the Disability Insurance fund was healthy.[lxx]

The impact of these changes on the Disability Insurance trust fund has been significant. As noted above, increasing the full retirement age worsens the state of the Disability Insurance trust fund since it causes workers to remain on Disability Insurance for longer before converting to Social Security retirement benefits. Additionally, the cut in the share of the payroll tax allocated to Disability Insurance—which had been on schedule to rise from 0.825 to 1.1 percent in 1990—has caused the Disability Insurance fund to receive significantly less revenue in the years since.[lxxi]

In 1994, spurred by the worsening state of the Disability Insurance fund, Congress increased Disability Insurance's share of the payroll tax to 0.9 percent—an improvement over the 0.5-0.6 percent the fund had been receiving after the 1983 legislation, but still significantly lower than the 1.1 percent it had been scheduled to receive prior to the 1983 changes.[lxxii] Disability Insurance's share of the payroll tax remains at 0.9 percent. Had it risen to 1.1 percent as scheduled, we would not be where we are today, and action to shore up the fund would not be needed by late 2016.

Traditional, routine step would put entire Social Security system on sound footing for the next two decades

As noted above, reallocation of payroll tax rates has been a traditional, noncontroversial action, occurring repeatedly, as needed, over the course of the six decades since Social Security Disability Insurance was established. And as long expected, similar action is again required by late 2016. The reallocation plan outlined by Social Security's chief actuary in the 2013 Trustees Report would ensure that both funds remain fully solvent until 2033.[lxxiii] Importantly, reallocation can be done without increasing taxes or cutting benefits, and would keep the combined Social Security trust funds on their current course. Under current law, as well as under reallocation, the combined trust funds will be able to pay all scheduled benefits until 2033.[lxxiv]



Office of the Actuary hypothetical reallocation plan from the 2013 Trustees Report

Social Security payroll tax rates

	Employees and employers each			Self-employed		
Calendar years	OASDI	OASI	DI	OASDI	OASI	DI
2013	6.2	5.3	0.9	12.4	10.6	1.8
2014–15	6.2	4.8	1.4	12.4	9.6	2.8
2016	6.2	5.0	1.2	12.4	10.0	2.4
2017–19	6.2	5.1	1.1	12.4	10.2	2.2
2020–25	6.2	5.2	1.0	12.4	10.4	2.0
2026+	6.2	5.3	0.9	12.4	10.6	1.8

While the combined trust funds are set to remain on sound footing for the next two decades, action will be needed sometime during that time period to ensure the long-term solvency of the overall Social Security system. But in the near term, as Secretary of the Treasury Jacob Lew noted in testimony before the Senate Budget Committee, "There is only one solution the technical experts believe can work in the timeframe between now and 2016. And that's a reallocation of the tax rate, as we've done in the past."[lxxv]

Looking past 2016, there are a number of options for ensuring the long-term solvency of the overall Social Security system without cutting already modest benefits—something that polls consistently confirm most Americans oppose.[lxxvi] One frequently discussed policy option is eliminating the cap on earnings that are subject to payroll taxes so that the 5 percent of workers who earn more than the cap would pay into the system all year as other workers do. A recent survey conducted by the nonpartisan National Academy of Social Insurance found overwhelming support for a reform package that included this and other revenue-enhancing features, while also boosting benefits.[lxxvii] An array of legislation introduced within the past two years has included this and other approaches to strengthen Social Security, reflecting their growing popularity.[lxxviii]

Adequate administrative funding is needed to ensure program integrity

The Social Security Administration, or SSA, operates on an administrative budget equal to about 1.4 percent of the benefits it pays out. The agency requires sufficient administrative funding not only to process applications for and payment of benefits, but also to perform important program integrity work, such as pre-effectuation reviews of disability determinations and continuing disability reviews to ensure benefits are paid only as long as the individual remains eligible.

In recent years, the agency was significantly underfunded. It received more than one billion dollars less than the President's request in FY 2011, 2012, and 2013, and appropriations for its program integrity activities nearly half a billion dollars below the levels authorized by the Budget Control Act of 2011, in FY 2012 and 2013.[lxxix] As a result, during a time of increasing workload due to the Baby Boomers entering retirement and their disability-prone years, the agency lost over 11,000 employees—a 13 percent drop in its workforce—hampering the agency's ability to serve the public and keep up with vital program integrity activities.[lxxx] In a positive step, the FY 14 budget bill enacted earlier this year provided the agency with full funding of the FY 2014 Budget Control Act level for program integrity activities.[lxxxi]

Adequate administrative funding is essential for SSA to make timely and accurate benefit payments[lxxxii] and perform vital program integrity work. Continuing disability reviews are estimated to save some $10 in benefits for every $1 spent on reviews, yet the agency reports a backlog of nearly 1.3 million reviews due to inadequate funding.[lxxxiii] As policymakers consider options for ensuring Social Security's solvency, providing the agency with adequate administrative funding to ensure program integrity presents a common-sense step.

Conclusion

In closing, I would like to underscore the importance of policymakers taking the traditional, routine step of rebalancing the Social Security trust funds prior to the Disability Insurance fund's depletion. In the words of Robert M. Ball, who served as Commissioner of Social Security from 1962-1973, under Presidents Kennedy, Johnson and Nixon: "I see little merit in doing anything less than financing OASI and DI on approximately equal terms. But the most important point, of course, is [...] to maintain confidence in the Social Security system as a whole."[lxxxiv]

Social Security Disability Insurance has been a core pillar of our nation's Social Security system for nearly six decades, offering critical protection to nearly all American workers and their families in the event of a life-changing disability or illness. The program's eligibility criteria are restrictive and benefits are modest, but for those who receive benefits, it is nothing short of a lifeline, providing critical economic security when it is needed most. Policymakers have many options to ensure long-term solvency of the overall Social Security system, and a window of 20 years to arrive at a package that will accomplish that goal. In the meantime, policymakers should enact a simple payroll tax reallocation to keep Disability Insurance on sound footing past 2016. Failure to do so would be nothing short of devastating to millions of disabled workers and their families—and would erode Americans' confidence in the Social Security system.

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[i] U.S. Social Security Administration, "Presidential Statement on Signing the Social Security Act. August 14, 1935," available at http://www.ssa.gov/history/fdrstmts.html#signing (last accessed July 2014).

[ii] In 1948, the Advisory Council on Social Security concluded that "present methods of protection against income loss from permanent and total disability are not adequate. More than 60 life-insurance companies offer such protection, but few individuals purchase it. The cost is high, the terms on which it is sold are restrictive, and most life-insurance companies no longer follow aggressive sales policies with respect to permanent and total disability insurance." 1948 Advisory Council Report, *Recommendations for Social Security Legislation: The Reports of the Advisory Council on Social Security to the Senate Committee on Finance* (Government Printing Office, 1949), p. 69, available at http://www.ssa.gov/history/pdf/48advise6.pdf.

[iii] U.S. Social Security Administration, "Fact Sheet on the Old-Age, Survivors, And Disability Insurance Program."

[iv] Ibid.

[v] Ibid. For veterans figure, see Bailey and Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update."

[vi] The payroll tax cap is adjusted annually. It is $117,000 for 2014. Social Security Administration, "Contribution and Benefit Base," available at http://www.ssa.gov/oact/COLA/cbb.html#Series.

[vii] U.S. Social Security Administration, "Social Security Tax Rates," available at http://www.ssa.gov/oact/progdata/oasdiRates.html (last accessed July 2014).

[viii] U.S. Social Security Administration, "Monthly Statistical Snapshot, December 2013," available at http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/2013-12.html (last accessed July 2014).

[ix] Bailey and Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update."

[x] Authors' calculation based on Ibid.

[xi] There are exceptions to the two-year waiting period for individuals with amyotrophic lateral sclerosis, or ALS, and end-stage renal disease. Beneficiaries with very low incomes and assets may qualify for Medicaid during the two-year waiting period for Medicare.

[xii] Bureau of Labor Statistics, "Table 16. Insurance benefits: Access, participation, and take-up rates, civilian workers, National Compensation Survey, March 2012," available at http://www.bls.gov/ncs/ebs/benefits/2012/ownership/civilian/table12a.htm (last accessed July 2014).

[xiii] Ibid.

[xiv] Ibid.

[xv] This is the statutory definition of disability set forth in the Social Security Act, 42 U.S.C. 416 (i)(1). Substantial gainful activity is set at a different level for individuals who are blind. For 2014, this amount is $1,800. Social Security Administration, Substantial Gainful Activity, available at http://www.socialsecurity.gov/oact/cola/sga.html (last accessed July 2014).

[xvi] *Code of Federal Regulations,* title 20, sec. 416 (960)

[xvii] National Academy of Social Insurance, "What is Social Security Disability Insurance?", available at http://www.nasi.org/learn/socialsecurity/disability-insurance (last accessed May 2013).

[xviii] Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries."

[xix] U.S. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012* (2013), table 59.

[xx] Estimates range as to how many claimants die while awaiting benefits. A 2008 CBS News investigation reported that "over the last two years, at least 16,000 people fighting for disability benefits died while awaiting a decision." CBS News, "Disabled and Waiting," January 14, 2008, available at http://www.cbsnews.com/news/disabled-and-waiting/. The *Wall Street Journal* reported in a 2011 article that 15,043 claimants died during the application process between 2005 and 2011. Damien Paletta and Dionne Searcey, "Growing Case Backlog Leaves the Terminally Ill Waiting," *Wall Street Journal*, December 28, 2011, available at http://online.wsj.com/news/articles/SB10001424052970204296804577121401602777764?KEYWORDS=social+security&mg=reno64-wsj&url=http://online.wsj.com/article/SB10001424052970204296804577121401602777764.html%3FKEYWORDS%3Dsocial%2Bsecurity.

[xxi] U.S. Social Security Administration, Office of the Chief Actuary, "Death Experience by Select Age and Duration," Table 13; see also Kathy A. Ruffing, "Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments" (Washington: Center on Budget and Policy Priorities, 2012), available at http://www.cbpp.org/files/8-9-12ss.pdf.

[xxii] Kathy Ruffing, "No Surprise: Disability Beneficiaries Experience High Death Rates," Center on Budget and Policy Priorities, April 4, 2013, available at http://www.offthechartsblog.org/no-surprise-disability-beneficiaries-experience-high-death-rates.

[xxiii] Table 6 of the Social Security Administration's *Annual Statistical Report on the Social Security Disability Insurance Program*, presents data on disabled worker beneficiaries, using their primary diagnosis. U.S. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012* (2013), available at http://www.ssa.gov/policy/docs/statcomps/di_asr/2012/sect01b.pdf.

[xxiv] Ibid.

[xxv] Ronald C. Kessler and others, "Prevalence, severity, and comorbidity of 12-month DSM-IV disorders in the National Comorbidity Survey Replication," *Archives of General Psychiatry* 62 (6) (2005): 617–627.

[xxvi] Joe Parks and others, "Morbidity and Mortality in People with Severe Mental Illness" (Alexandria, VA: National Association of State Mental Health Program Directors, 2006), available at http://www.nasmhpd.org/docs/publications/MDCdocs/Mortality%20and%20Morbidity%20Final%20Report%208.18.08.pdf; Marion E. Sherman and others, "Analysis of causes of death for all decedents in Ohio with and without mental illness, 2004-2007," *Psychiatry Services* 64 (3) (2013): 245–251, available at http://www.ncbi.nlm.nih.gov/pubmed/23318767; Marion E. Sherman and others, "Analyzing excess mortality from cancer among individuals with severe mental illness," *Cancer* 119 (13) (2013): 2469–2476, available at http://www.ncbi.nlm.nih.gov/pubmed/23585241.

[xxvii] Anthony D. Woolf and Bruce Pflager, "Burden of major musculoskeletal conditions," *Bulletin of the World Health Organization* 81 (9) (2003): 646–656, available at http://www.who.int/bulletin/volumes/81/9/Woolf.pdf.

[xxviii] See, for example, Morgan Slater, Anthony V. Perrucio, and Elizabeth M. Badley, "Musculoskeletal comorbidities in cardiovascular disease, diabetes and respiratory disease," *BMC Public Health* 11 (77) (2011), available at http://www.medscape.com/viewarticle/739186.

[xxix] Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries.".

[xxx] Ibid.

[xxxi] Ruffing, "Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments."

[xxxii] Trapani, Mark & Harkin, Deborah (2011). SSA Occupational and Medical Vocational Claims Review Study: Final Results (for initial level cases), May 2011. https://www.socialsecurity.gov/oidap/Documents/PRESENTATION--TRAPANI%20AND%20HARKIN--OIDAP%2005-04-11.pdf

[xxxiii] Bailey and Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update."

[xxxiv] Ibid.

[xxxv] Social Security Disability Insurance beneficiaries remain eligible for Medicare for seven years no matter how much they earn and irrespective of whether they continue to receive cash benefits through Social Security Disability Insurance. See U.S. Social Security Administration, "The Red Book – A Guide to Work Incentives," available at http://www.ssa.gov/redbook/eng/ssdi-only-employment-supports.htm#a0=3.

[xxxvi] James R. Sheldon, "Expedited Reinstatement of Social Security or SSI Disability Benefits" (Ithaca, NY: Cornell University, 2006), available at http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1225&context=edicollect.

[xxxvii] Expedited reinstatement involves a medical review to ensure that the individual meets the Social Security disability standard. See ibid.

[xxxviii] This study counted beneficiaries as having worked if they did one hour of work or more at any point during the year. Arif Mamun and others, "Employment Among Social Security Disability Program Beneficiaries, 1996–2007," *Social Security Bulletin* 71 (3) (2011): 11–34, available at http://www.ssa.gov/policy/docs/ssb/v71n3/v71n3p11.pdf.

[xxxix] Ibid.

[xl] Ibid.

[xli] Maintaining a level of earnings just below SGA, such that a beneficiary receives both a full DI benefit and the maximum allowable amount of earnings without triggering suspension of benefits, is sometimes referred to as "parking." There is no evidence that even the less than one-half of one percent of beneficiaries who maintain earnings at this level are doing so intentionally. Jody Schimmel, David C. Stapleton, and Jae Song, "How Common is 'Parking' Among Social Security Disability Insurance Beneficiaries? Evidence from the 1999 Change in the Earnings Level of Substantial Gainful Activity," *Social Security Bulletin*, Vol. 71, No. 4, 2011.

[xlii] Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, "Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate the Causal Effects of SSDI Receipt." Working Paper 2010-241 (University of Michigan Retirement Research Center, 2012), Figure A-2, available at http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp241.pdf.

[xliii] Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries."

[xliv] Organisation for Economic Co-operation and Development, "Social Expenditure - Aggregated data," available at http://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG (last accessed June 2014); Kathy Ruffing, "Social Security: We're Number...30!", Center on Budget and Policy Priorities, May 11, 2011, available at http://www.offthechartsblog.org/social-security-we're-number...-30/.

[xlv] Organisation for Economic Co-operation and Development, "Social Expenditure - Aggregated data."

[xlvi] Ibid. Comparing Social Security Disability Insurance with other OECD member countries' equivalent programs, which OECD data refer to as "disability pensions."

[xlvii] As discussed elsewhere in this brief, Social Security's actuaries use the age-sex adjusted prevalence rate to analyze trends in benefit receipt. OECD data use percent of working-age population, so that is the figure used here. Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries."

[xlviii] See, e.g., Alberto Alesina and others, "Why Doesn't the U.S. Have a European-Style Welfare State?" (Cambridge: Harvard Institute for Economic Research, 2001) (discussing generosity of European nations' social welfare systems compared with the United States). The OECD produces an "Overall Strictness of Employment Protection" index; see Organisation of Economic Cooperation and Development, "OECD Employment Outlook," Chart 2.A2.1 (2004), available at http://www.oecd.org/employment/emp/34846856.pdf.

[xlix] David Pattison and Hilary Waldron, "Growth in New Disabled Worker Entitlements, 1970-2008," *Social Security Bulletin* 73 (4) (2013): 25–48, available at http://www.ssa.gov/policy/docs/ssb/v73n4/v73n4p25.pdf.

[l] U.S. Social Security Administration Chief Actuary Stephen Goss, "The Financing Challenges Facing the Social Security Disability Insurance Program," Testimony before the House Committee on Ways and Means, Subcommittee on Social Security, March 14, 2013.

[li] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2013), Table V.C5, available at http://www.ssa.gov/oact/tr/2013/tr2013.pdf.

[lii] Ruffing, "Social Security Disability Insurance Benefits are Vital to Workers with Severe Impairments."

[liii] U.S. Social Security Administration Chief Actuary Stephen Goss, "The Financing Challenges Facing the Social Security Disability Insurance Program."

[liv] U.S. Social Security Administration, "Table V.A2.-Social Security Area Population as of July 1 and Dependency Ratios, Calendar Years 1941-2090," available at http://www.ssa.gov/OACT/TR/2013/lr5a2.html (last accessed July 2014).

[lv] Kathy Ruffing "How Much of the Growth in Disability Insurance Stems From Demographic Changes?" (Washington: Center on Budget and Policy Priorities, 2014), available at http://www.cbpp.org/files/1-27-14ss.pdf.

[lvi] Ibid.

[lvii] Kathy A. Ruffing, Testimony before the Subcommittee on Social Security Committee on Ways and Means U.S. House of Representatives, March 20, 2013, available at http://www.cbpp.org/files/3-20-13ss-test.pdf.

[lviii] U.S. Social Security Administration Chief Actuary Stephen Goss, "The Financing Challenges Facing the Social Security Disability Insurance Program."

[lix] Ibid.

[lx] Social Security Advisory Board, *Aspects of Disability Decision Making: Data and Materials* (U.S. Social Security Administration, 2012), p. 12, available at http://www.ssab.gov/Publications/Disability/GPO_Chartbook_FINAL_06122012.pdf; Stephen C. Goss and others, "Disabled Worker Allowance Rates: Variation Under Changing Economic Conditions" (Baltimore: Social Security Administration, 2013), available at www.socialsecurity.gov/OACT/NOTES/pdf_notes/note153.pdf; Kathy Ruffing, "Disability Benefits Are Hard to Get – Even in Recessions," Center on Budget and Policy Priorities, September 3, 2013, available at http://www.offthechartsblog.org/disability-benefits-are-hard-to-get-even-in-recessions/.

[lxi] Office of the Inspector General, *Impact of Increases in State Unemployment Rates on the Social Security Administration's Disability Programs* (U.S. Social Security Administration, 2013), available at http://oig.ssa.gov/sites/default/files/audit/full/pdf/A-07-12-11209.pdf.

[lxii] Andres I. Mueller, Jesse Rothstein, and Till M. Von Wachter, "Unemployment insurance and Disability Insurance in the Great Recession." Working Paper 19672 (National Bureau of Economic Research, 2013), available at http://www.nber.org/papers/w19672.

[lxiii] The White House, Council of Economic Advisers, *The Labor Force Participation Rate Since 2007: Causes and Policy Implications,"* at 28 (July 2014), available at http://www.whitehouse.gov/sites/default/files/docs/labor_force_participation_report.pdf.

[lxiv] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 1995 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (1995), available at http://www.ssa.gov/history/reports/trust/1995/triif.html.

[lxv] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2013).

[lxvi] Virginia P. Reno, Elisa A. Walker, and Thomas A. Bethell, "Social Security Disability Insurance: Action Needed to Address Finances" (Washington: National Academy of Social Insurance, 2013), available at http://www.nasi.org/sites/default/files/research/SS_Brief_041.pdf.

[lxvii] A common example of movement between programs is that Disability Insurance beneficiaries convert to Social Security retirement benefits when they reach the Social Security retirement age.

[lxviii] U.S. Social Security Administration, "Social Security: Summary of the Major Changes in the Cash Benefits Program."

[lxix] Kathy Ruffing and Paul N. Van de Water, Center on Budget and Policy Priorities, "Congress Needs to Boost Disability Insurance Share of Payroll Tax By 2016," (July 2014), available at http://www.cbpp.org/cms/index.cfm?fa=view&id=4168#_ftn3.

[lxx] Ibid.

[lxxi] Ibid.

[lxxii] Ibid.

[lxxiii] Reno, Walker, and Bethell, "Social Security Disability Insurance: Action Needed to Address Finances."

[lxxiv] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund.*

[lxxv] U.S. Secretary of the Treasury Jacob Lew testified at a March 2014 budget hearing that "there's only one solution the technical experts believe can work in the timeframe between now and 2016. And that's a reallocation of the tax rate, as we've done in the past." Jacob Lew, Testimony before the U.S. Senate Budget Committee, March 6, 2014. Video of Secretary Lew's testimony available at http://www.bloomberg.com/video/lew-testifies-before-senate-on-obama-budget-plan-s0NJ4eyFT5mkoX19pfkdoA.html.

[lxxvi] Most recently, a Pew survey released in June 2014 found that 67 percent of Americans, and large majorities of Americans of both political parties, oppose cutting Social Security benefits in any way. Pew Research Center, "Political Polarization in the American Public" (2014), available at http://www.people-press.org/files/2014/06/6-12-2014-Political-Polarization-Release.pdf.

[lxxvii] The most popular reform package, preferred to the status quo by seven in 10 individuals polled—across generations, income levels, and political affiliations--would: 1) Gradually, over 10 years, eliminate the cap on earnings taxed for Social Security; 2) gradually, over 20 years, raise the Social Security tax that workers and employers each pay from 6.2% of earnings to 7.2%; 3) increase the cost of living adjustment formula, or COLA; and 4) increase Social Security's minimum benefit. Jasmine V. Tucker, Virginia P. Reno and Thomas A. Bethell, "Strengthening Social Security: What Do Americans Want?" (Washington: National Academy of Social Insurance, 2013), available at http://www.nasi.org/sites/default/files/research/What_Do_Americans_Want.pdf.

[lxxviii] Examples include: the Strengthening Social Security Act of 2013, S. 567 and H.R. 3118, introduced by Sen. Tom Harkin (D-IA) in the Senate and Rep. Linda Sanchez (D-CA) in the House; the Protecting and Strengthening Social Security Act, S. 308 and H.R. 649, introduced by Sen. Mark Begich (D-AK) in the Senate and Rep. Theodore Deutch (D-FL) in the House; the Keeping Our Social Security Promises Act, S. 500, introduced by Sen. Bernie Sanders (I-VT), and the No Loopholes in Social Security Act, H.R. 1029, introduced by Rep. Peter DeFazio (D-OR); the Social Security Enhancement and Protection Act of 2013, H.R. 1374, introduced by Rep. Gwen Moore (D-WI); the RAISE Act, S. 2455, introduced by Sens. Begich and Patty Murray (D-WA).

[lxxix] See Testimony of Carolyn Colvin, Acting Commissioner of Social Security, before the U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Social Security, February 26, 2014, available at http://www.ssa.gov/legislation/testimony_022614.html.

[lxxx] Ibid.

[lxxxi] Ibid.

[lxxxii] Adequate administrative funding is also needed for SSA to process beneficiaries' earnings reports and adjust benefits timely for beneficiaries who work. The agency reports that the average processing time for earnings reports is 270 days, which results in needless improper payments, and can be tremendously disruptive to beneficiaries who are all of a sudden—through no fault of their own—hit with an overpayment that they are required to repay.

[lxxxiii] Ibid.

[lxxxiv] Testimony of Robert M. Ball before the U.S. House Committee on Ways and Means, Subcommittee on Social Security, April 22, 1993, cited in Reno, Walker, and Bethell, "Social Security Disability Insurance: Action Needed to Address Finances."

Center for American Progress

RESPONSES TO QUESTIONS FOR THE RECORD

From the Committee on Finance hearing

"A Fresh Look at Workers' Disability Insurance"

Rebecca D. Vallas, Esq.,
Associate Director, Poverty to Prosperity Program
Center for American Progress

July 24, 2014

Question from Chairman Wyden

1. During the hearing, it appeared there was some common ground around the idea of helping individuals with disabilities, who are able to, remain in the workforce. There was a brief discussion around the idea that services and supports provided before an individual needs to apply for SSDI may improve outcomes for individuals with work-limiting disabilities. Ms. LaCanfora touched on the proposals in the President's budget. I would like to hear more about those proposals. I would also like to ask each of you to describe where we should focus our resources and what additional research needs to be done around appropriate work supports and services for individuals with disabilities.
    - How well are the current array of supports and services working?
    - Are there areas that could be improved?
    - How can we better utilize technology—both for assisting workers to remain on the job and to help identify who can most benefit from early intervention?
    - Finally, how can early intervention strategies be structured so that employers are not influenced to avoid hiring workers who may be at higher risk of becoming permanently disabled?

Response to Question #1

There is an array of supports and services available to support workers with disabilities. Medicaid plays a particularly vital role, providing not only health insurance but also critically important supports and services that people with disabilities need in order to work. The Affordable Care Act will dramatically increase access to health insurance for people with disabilities and health conditions—a significant positive step, though one that will fail to achieve maximum benefit if states refuse to expand Medicaid. For workers whose disabilities prevent them from doing substantial work, Social Security Disability Insurance (DI) serves as the bedrock of economic security, providing a modest income floor when most of us have little else to fall back on. For beneficiaries whose conditions improve, the DI program contains strong work incentives and protections.

However, workers with disabilities deserve far more support than they currently receive to help them stay attached to the labor force. Paid leave and paid sick days are vital for workers with disabilities and chronic illnesses, yet many American workers, particularly those in low-wage jobs, lack access to these basic protections. Strengthening the Earned Income Tax Credit for workers without minor children in their care would boost the economic security of workers with disabilities and offset some of the additional disability-related costs incurred in the course of working (e.g., the cost of adaptive equipment, special transportation, etc.). Our nation's Vocational Rehabilitation system plays a vital role in connecting workers with disabilities with needed training and employment opportunities, but is woefully underfunded, leaving many Americans with disabilities stuck on waiting lists for months if not years eagerly awaiting the services and supports they need to work.

The President's fiscal year 2015 budget included three proposals for demonstration projects to test various approaches to "early intervention" to help workers with disabilities stay attached to the labor force. These proposals merit careful consideration.

It should be noted that some proposals—such as "experience-rating" Social Security Disability Insurance—risk incenting employers to avoid hiring workers who live with disabilities or who may be viewed as at risk of experiencing disability or poor health, to avoid the risk of increased payroll taxes if their employees ultimately need to turn to Social Security Disability Insurance. Great caution is warranted in considering such proposals given that they could be counterproductive to the goal of removing barriers for people with disabilities to work.

Questions From Senator Hatch

1. In a recent report that you coauthored, you selectively quote the OECD as having said that the U.S. has "the most stringent eligibility criteria for a full disability benefit, including the most rigid reference to all jobs available in the labor market." The OECD also reports that the U.S. disability benefit recipiency rate is above the OECD average; that the U.S. recipiency rate has been on an upward trajectory since the early 1980s; and that U.S. public spending on sickness and disability, at 11 percent of all U.S. public spending, is above the average. Further, for the U.S., the OECD says:

- That the share of the working age population between ages 20 and 64 who are enrolled in disability rose from 3.6% in 1980 to 6.6% in 2010;
- That much of the increase in recent decades reflects a relaxation of eligibility restrictions and increased replacement rates;
- That efforts are needed to reduce the reliance on disability benefits because few of the recipients ever return to the workforce;
- And, that "disability program reforms are needed to stem the tide of new enrolments."

Since part of your report relies on OECD findings, and given your reliance on OECD data for part of your testimony:

a. Do you agree with the OECD's conclusions that I just listed, including a need for program reforms?
b. Could you identify the metric used by the OECD on stringency of eligibility criteria that you cite, along with any time-series evidence on the evolution of the stringency metric over the past 30 years?
c. If U.S. eligibility criteria are some of the strictest among select groups of countries, how could it also be that the U.S. recipiency rate has been above the OECD average?

Response to Question #1

The figures cited quantifying the increase in the share of the working-age population that receives DI are accurate—and this increase is chiefly due to well-documented demographic and labor market shifts, including the aging of the Boomers into their high-disability years, women's rise in labor force participation, and population growth, as well as the increase in the Social Security full retirement age.[i]

The characterization that the DI eligibility restrictions have been "relax[ed]" is attributed solely to Autor, 2011, and Autor, Duggan and Lyle, 2011, and does not reflect original research by the OECD—nor a cross-country comparison. In alleging that there has been a supposed "relaxation" of eligibility restrictions, Autor and his coauthors refer in their work to the Disability Benefits Reform Act of 1984, which was enacted via a unanimous, bipartisan vote of both the U.S. House of Representatives and the U.S. Senate, and signed into law by President Reagan. That legislation did not change the statutory definition of disability; rather it: 1) directed the Social Security Administration to update its Listing of Impairments for mental disorders to reflect the current understanding of mental impairments including the most up-to-date Diagnostic and Statistical Manual; 2) clarified the way in which pain is evaluated, such that allegations of pain can only be considered in the presence of a documented medical impairment that can reasonably be expected to cause the pain; 3) directed the Social Security Administration to consider the combined effect of multiple impairments; and 4) established the Medical Improvement Review Standard.

DI benefits are less generous than most other countries' disability benefit programs. With DI benefits replacing 42 percent of previous earnings for the median earner, the United States is ranked 30th out of 34 OECD member countries in terms of replacement rates.[ii] Many countries' disability benefit programs replace 80 percent or more of previous earnings.[iii]

As discussed in detail in my written testimony, for beneficiaries whose conditions improve, Social Security Administration policies include strong work incentives and protections to encourage beneficiaries to attempt to return to work. For example, beneficiaries may earn up to the substantial gainful activity level—$1,070 per month in 2014—without risking their needed monthly benefits. Beneficiaries whose conditions improve enough that they are able to earn more than the substantial gainful activity level are encouraged to do so and enjoy strong protections of their DI benefits as well as their Medicare coverage. Yet, unsurprisingly given how strict the Social Security disability standard is, most beneficiaries live with such debilitating impairments and health conditions that they are unable to work at all, and most do not have earnings. If a significant share of beneficiaries were able to work, one would expect a sizeable percentage to take advantage of the program's work incentives in order to maximize their earnings without losing benefits. But beneficiaries' work patterns indicate otherwise. Further underscoring the strictness of the Social Security disability standard, even disabled workers who are denied benefits exhibit extremely low work capacity afterward. A recent study of workers denied Disability Insurance found that just one in four were able to earn more than the substantial gainful activity level post-denial.[iv]

The OECD compares its member countries' disability benefit systems using a "compensation index." As explained in its 2010 report, Sickness, Disability and Work, this indicator is comprised of 10 sub-components, including:

> i) coverage; ii) minimum degree of incapacity needed for benefit entitlement; iii) degree of incapacity needed for a full benefit; iv) disability benefit level (in terms of replacement rate for average earnings with a continuous work record); v) permanence of benefits (from strictly permanent to strictly temporary); vi) medical assessment (from exclusive responsibility of treating doctors to that of teams of insurance doctors); vii) vocational assessment (from strict own-occupation assessment to all jobs available); viii) sickness benefit level (distinguishing short- and long-term sickness absence); ix) sickness benefit duration (including the period of continued wage payment); and x) sickness monitoring (from no checks on sickness absence to strict steps for monitoring and early intervention). A higher score means greater system generosity, with 50 being the score for maximum generosity.[v]

Using this indicator to compare disability benefit systems across member countries, it assigns each country a score and then ranks them accordingly. As the report explains, "the higher the score, the more generous and accessible the benefit system."[vi] The

United States ranks nearly at the bottom on the OECD's compensation index—reflecting the meagerness of its disability benefits and the strictness of the disability standard—with Korea the only nation receiving a lower score. The 2010 OECD report includes countries' compensation index scores for both 1990 and 2007; the United States (and Korea) fall at the bottom for both years.

The OECD further classifies countries' disability benefit systems into groups according to disability policy typology. It groups the United States with Canada, Japan, and Korea, and describes this group of countries as having "the most stringent eligibility criteria for a full disability benefit, including the most rigid reference to all jobs available in the labour market."[vii]

The share of the U.S. working-age population receiving Disability Insurance benefits—about 6 percent—is roughly on par with the OECD average of 5.9 percent.[viii] As discussed in my written testimony, measuring recipiency rates as a straight share of the working age population misses important demographic and labor market factors, such as changes in age distribution (e.g., a surge of Boomers aging into their high-disability years), population growth, and the increase in women's labor force participation, all of which have had a significant impact on the DI program in recent decades. Due to the importance of these demographic and labor-market factors, Social Security's actuaries analyze trends in benefit receipt using an "age-sex adjusted disability prevalence rate," which controls for changes in the age and sex distribution of the insured population, as well as for population growth.[ix]

2. You testified that: "Policymakers have many options to ensure long-term solvency of the overall system and a window of 20 years to arrive at a package that will accomplish that goal."

    a. Given your view that as early as 1995 we have had ample warning of DI's reserve depletion and a subsequent predictable path of finances, it appears that policymakers also had, 20 years ago, a 20-year window to arrive at a package to ensure long-term solvency of the overall system, or at least of the DI program. Would you therefore agree that policymakers failed to use the past 20-year window to arrive at assurance of long-term solvency of the overall system and of the DI program's finances?
    b. By arguing that policymakers have a 20-year window to arrive at a package to ensure long-term solvency of the overall system, it appears that any time of arrival during that period would be agreeable in your view. That would mean that arriving at a solvency package 15 or 19 years forward would be acceptable. Yet, the trustees of Social Security's trust funds repeatedly urge acting sooner rather than later. Do you disagree with what the trustees urge?

Response to Question #2

The Trustees recommended, and Congress intended the 1994 reallocation to extend the solvency of the DI fund enough to meet the Trustees' test of short-range financial adequacy, and to allow time for a study of recent trends in the DI program.[x] Following the 1994 reallocation, the Social Security Trustees projected in the 1995 Trustees Report that the DI fund would be able to pay all scheduled benefits until 2016.[xi] That projection has proven right on target. According to the most recent Trustees Report (2013) available as of the date of this Committee's hearing, DI was projected to remain solvent until 2016.[xii] Since the hearing, the 2014 Trustees Report has been released and again projects DI solvency until 2016.[xiii] The extension in DI's solvency afforded by the 1994 reallocation has served its stated purpose well, given that the factors driving the program's growth have since been examined and well documented. As noted above, as well as in my written testimony, the program's growth is due chiefly to demographic and labor market shifts, including the aging of the Boomers into their high-disability years, population growth, the increase in women's labor force participation, and women's catch-up in terms of rate of DI receipt, as well as the increase in the Social Security retirement age.

The Trustees have urged action by 2016 to prevent depletion of the DI trust fund's reserves. We encourage responsible stewardship of the overall Social Security system thereafter to ensure long-term solvency while protecting beneficiaries.

3. You said during the hearing that "...even after reforms that we have seen in the Netherlands, the U.K., and elsewhere, the United States actually still has the lowest disability recipiency rates measured as a share of the working age population, and we also spend relatively little compared to those other countries, even after their massive disability benefit reforms." Please provide evidence to support your claims.

Response to Question #3

Burkhauser, Daly, McVicar, and Wilkins (2014) show that even after disability benefit system reforms that have occurred in the Netherlands, the U.K., Australia, and Sweden, the United States still has the lowest disability recipiency rates as a share of the working-age population of the five nations studied.[xiv] OECD data confirm this—as well as that the U.S. eligibility standards are stricter, benefits less generous, and spending on disability benefits lower than in most other OECD nations.[xv]

4. The President's fiscal year 2015 budget contains just a few modest proposals directed toward the disability insurance system, and certainly nothing close to addressing the impending exhaustion of DI trust fund assets around 2016. One of the President's proposals is to disallow simultaneous receipt by a worker of DI benefits and unemployment insurance benefits. Do you support that proposal put forward by the President?

Response to Question #4

The DI and Unemployment Insurance (UI) programs were established for different purposes and largely serve different populations. As noted in a 2012 report by the Government Accountability Office (GAO), very few—less than one percent of individuals served by the DI and UI programs—receive benefits from both programs.[xvi] It is the long-standing position of the Social Security Administration and of the courts that receiving UI and DI is not inconsistent. Individuals who receive concurrent benefits do so because they have significant disabilities that make them eligible for DI, and because they have also attempted to work at a low level of earnings but have lost their job through no fault of their own. According to the GAO, the average quarterly concurrent benefit in fiscal year 2010 was about $1,100 in DI and $2,200 in UI for a quarterly average of about $3,300 in total benefits. These benefits can be a lifeline to workers with disabilities who receive them, and to their families. Many DI beneficiaries already struggle to make ends meet—1 in 5 live in poverty and the majority are low-income. Cutting already modest benefits could be nothing short of devastating to individuals and families living on the brink.[xvii] To evaluate the effects of any such change more empirical work needs to be done to increase our understanding of the effects on the DI and UI programs, and on DI and UI recipients.

5. You testified during the hearing that: "We knew back in 1995 that we were going to be where we are today, here today talking about 2016. So actually the program has been on a tremendously predictable path since the last time reallocation happened in 1994."

    a. Please clarify how it is that "we knew back in 1995 that we were going to be where we are today."
    b. Please identify whether we knew that we would be "talking about 2016" in years following 1995, given whatever is your source for claiming knowledge back in 1995.
    c. Please define what is meant by a "tremendously predictable path" of the DI program's finances.

Response to Question #5

The Trustees recommended—and Congress intended—the 1994 reallocation to extend the solvency of the DI fund enough to meet the Trustees' test of short-range financial adequacy, and to allow time for a study of recent trends in the DI program.[xviii] Following the 1994 reallocation, the Social Security Trustees projected in the 1995 Trustees Report that the DI fund would be able to pay all scheduled benefits until 2016.[xix] That projection has proven right on target. According to the most recent Trustees Report (2013) available as of the date of this Committee's hearing, DI was projected to remain solvent until 2016.[xx] Since the hearing, the 2014 Trustees Report has been released and again projects DI solvency until 2016.[xxi]

In addition to estimating DI's solvency with remarkable accuracy in 1995, the Trustees also foresaw that the number of disabled workers receiving DI would increase significantly, and even projected the number of new disabled workers who would turn to DI between 1995 and 2010 almost right down to the exact number. In 1995 the Trustees predicted that the number of DI beneficiaries would rise from 4.2 million in 1995 to 7.9 million in 2010—the actual number in 2010 turned out to be 8.2 million.[xxii] The Trustees were able to predict the increase with such accuracy because it was due chiefly to well-understood demographic and labor market shifts—the aging of the Baby Boomers into their high disability years, the rise in women's labor force participation, and population growth—as well as the increase in the Social Security full retirement age.[xxiii]

6. In response to a question during the hearing about whether there is "no additional cost" beyond merely shifting resources involved in reallocating resources away from the OASI trust fund devoted to benefits for retirees and survivors and toward the DI trust fund, you responded that: "That is exactly right. There would be no need for additional taxes, there would be no need for…." I don't believe that you had time to complete your ideas, and wonder if you claim that there would be no costs to anyone, aside from shifting resources from one trust fund to another, associated with the reallocation idea that you support.

Response to Question #6

Reallocation requires merely an adjustment of the share of payroll taxes allocated to each trust fund. The reallocation plan outlined by Social Security's actuaries would ensure that both funds remain fully solvent until 2033. Reallocation can be done without increasing taxes or cutting benefits, and would keep the combined Social Security trust funds on their current course. Under current law, as well as under reallocation, the combined trust funds are projected to be able to pay all scheduled benefits until 2033.[xxiv]

7. Given your arguments that suggest reallocation of resources among various dedicated trust funds, such as between the OASI trust fund dedicated to retirees and survivors and the DI trust fund dedicated to Americans with disabling conditions, and your view that reallocation is ordinary housekeeping, do you advocate that Congress eliminate the two separate trust funds—OASI and DI—and simply merge them into one pot? If so, please explain why you believe retirees and survivors ought not to have a dedicated trust fund into which they have paid and from which their retirement and survivors benefits are paid. If not, please explain why not given your view that reallocations between OASI and DI have occurred often and are simply matters of ordinary housekeeping.

Response to Question #7

While the OASI and DI trust funds are technically separate, they are typically considered together due to the interrelatedness of Social Security's programs. For example, Social Security's programs share the same tax base and benefit formula, beneficiaries regularly move between programs,[xxv] and changes to one program—such as raising the retirement age—affect both funds. Since Social Security Disability Insurance was established in 1956, Congress has repeatedly rebalanced the OASI and DI funds to keep both on sound footing amid demographic shifts and other changes. Rebalancing—by adjusting the share of payroll tax contributions that go into each fund—has occurred in a bipartisan manner 11 times over the years, with additional revenues being directed to the OASI fund about half the time, and to the Disability Insurance fund about half the time.[xxvi]

8. You cited in your remarks during the hearing 11 or so past reallocations of resources between the OASI and DI trust funds.
    a. How many of those involved a pure reallocation involving alterations of tax rates but no overall combined tax rate increase?
    b. Is there any context surrounding past pure reallocations that you believe are interesting or important to take into account?

Response to Question #8

As noted above, since Social Security Disability Insurance was established in 1956, Congress has repeatedly rebalanced the OASI and Disability Insurance trust funds to keep both on sound footing amid demographic shifts and other changes. Rebalancing—by adjusting the share of payroll tax contributions that go into each fund—has occurred in a bipartisan manner 11 times over the years, with additional revenues being directed to the OASI fund about half the time, and to the Disability Insurance fund about half the time. On six occasions—in 1970, 1980, 1983, 1994, 1997, and 2000—the share of payroll taxes allocated to each fund changed. On three of these instances, funds were shifted to OASI, and on the other three funds were shifted to DI.[xxvii] On an additional five occasions—in 1968, 1978, 1979, 1982, and 1984—the share of payroll taxes allocated to each fund changed alongside a change in the total payroll tax rate. On three of these occasions, funds were shifted to DI, and on two to OASI. In total, these changes amount to 11 reallocations, enacted by six separate laws.[xxviii]

Notably, reallocation has always been done in a bipartisan manner. Indeed the most recent reallocation, in 1994, was enacted with unanimous, bipartisan support in both the House and Senate.

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[i] See written testimony at 8-9.

[ii] Organisation for Economic Co-operation and Development, "Social Expenditure - Aggregated data," available at http://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG (last accessed June 2014); Kathy Ruffing, "Social Security: We're Number…30!", Center on Budget and Policy Priorities, May 11, 2011, available at http://www.offthechartsblog.org/social-security-we're-number…-30/; see also written testimony at 7-8.

[iii] Ibid.

[iv] Nicole Maestas, Kathleen J. Mullen, and Alexander Strand, "Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate the Causal Effects of SSDI Receipt." Working Paper 2010-241 (University of Michigan Retirement Research Center, 2012), Figure A-2, available at http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp241.pdf; see also written testimony at 6-7.

[v] Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries."

[vi] Ibid.

[vii] Ibid.

[viii] Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries."

[ix] See written testimony at 8.

[x] Virginia Reno et al., National Academy of Social Insurance, Social Security Disability Insurance: Action Needed to Address Finances, (2013), available at http://www.nasi.org/sites/default/files/research/SS_Brief_041.pdf.

[xi] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 1995 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (1995), available at http://www.ssa.gov/history/reports/trust/1995/triif.html.

[xii] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2013).

[xiii] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2014 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2014).

[xiv] Richard Burkhauser et al., "Disability Benefit Growth and Disability Reform in the US: Lessons from Other OECD Nations," IZA Journal of Labor Policy, vol. 3(1) (2014).

[xv] Organisation for Economic Co-operation and Development, "Sickness, Disability, and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries"; see also written testimony at 7-8.

[xvi] Government Accountability Office, "Overlapping Disability and Unemployment Benefits Should be Evaluated for Potential Savings," GAO-12-764 (2012), available at http://www.gao.gov/products/GAO-12-764.

[xvii] See my written testimony at 3.

[xviii] Virginia Reno et al., National Academy of Social Insurance, Social Security Disability Insurance: Action Needed to Address Finances, (2013), available at http://www.nasi.org/sites/default/files/research/SS_Brief_041.pdf.

[xix] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 1995 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (1995), available at http://www.ssa.gov/history/reports/trust/1995/triif.html.

[xx] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2013 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2013).

[xxi] The Board of Trustees, Federal OASI and Federal DI Trust Funds, *The 2014 Annual Report of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund* (2014).

[xxii] Ibid.

[xxiii] See my written testimony at 8-10.

[xxiv] Memorandum to Alice Wade, Deputy Chief Actuary, Social Security Administration, "Potential Reallocation of the Payroll Tax Rate Between the Disability Insurance (DI) Program and Old Age and Survivors Insurance (OASI) Program" (July 28, 2014), available at http://www.ssa.gov/oact/solvency/; see also written testimony at 12-13.

[xxv] A common example of movement between programs is that Disability Insurance beneficiaries convert to Social Security retirement benefits when they reach the Social Security retirement age.

[xxvi] See my written testimony at 11-13.

[xxvii] Kathy Ruffing and Paul Van de Water, Center on Budget and Policy Priorities, Congress Needs to Boost Disability Insurance Share of Payroll Tax by 2016 (2014), available at http://www.cbpp.org/cms/?fa=view&id=4168.

[xxviii] Ibid.

The United States Senate
COMMITTEE *on* FINANCE
CHAIRMAN RON WYDEN, D-OREGON
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Wyden Hearing Statement on Keeping the Promise of Social Security

Today, the Committee takes a fresh look at Social Security Disability Insurance – a lifeline that keeps hard-working Americans afloat in the event of catastrophic illness or disability. Obviously, America's workforce has changed dramatically since the program began, and SSDI has changed along with it. In recent decades, for example, more women have earned the protection of disability insurance, the baby boomer generation has gotten older, and the full retirement age for Social Security benefits has gone up.

On a bipartisan basis, Congress must ensure this safety net is not shredded. Where there is abuse, let's find it and fight it. Let's all focus on the vital goal, which is updating and protecting this essential program for generations to come.

Today's hearing is about the realities of an evolving program that reflects changing demographics as well as the challenges of the current economy. As this committee contemplates the future of SSDI, as well as the rights of individuals with disabilities more broadly, it should:

- Address inequities that exist for women in both the workplace and in retirement.
- Create better tools for managing chronic illness and coordinating care.
- Provide adequate agency funding to manage the program, including resources aimed at targeting unscrupulous doctors and lawyers.
- Prioritize access to comprehensive mental health care at every age.
- Encourage greater job creation for individuals with disabilities by employers.

Fortunately, there's a great deal of information about this critical program that will help to sustain it over the long-term.

First, the growth in SSDI over the last 20 years has been due to factors Congress expected. Policymakers – including many former Members of this Committee – planned for a fresh look at the SSDI program in 2016, based on the shifting winds of demographics. One of those changes I've already mentioned – more women earning disability insurance.

Just last week, during a hearing looking at chronic illnesses, the Finance Committee heard testimony from Stephanie Dempsey. Stephanie, a 44-year-old Georgia mother, had always worked. She owned her own home and was happily married.

But in her late 20s, Stephanie was diagnosed with a hereditary heart disease. The quadruple bypass surgery she had at age 30 was just the first of several operations she's undergone to place 27 stents in her arteries. In addition to heart disease, she now suffers the disabling effects of Lupus, arthritis, and a seizure disorder. Stephanie has to take 19 different prescription drugs every day. She had a mountain of prescription bottles stacked up on a tray when she came before the committee. This illness has cost Stephanie her home, her independence and her family.

She wants to work but can't due to her chronic illnesses. However, because she'd worked and earned the benefit, Stephanie was able to use her Social Security Disability Insurance. In the struggle to pay her bills, it has been a big help. It doesn't take care of everything, but it has made a difference.

Stephanie isn't alone – women now make up nearly half of the 9 million workers enrolled in SSDI. And, SSDI supports about 1 million veterans.

Second, let's recognize that Social Security Disability Insurance is not a giveaway. Workers earn coverage for themselves and their families by working. Applicants must have a physician document a medical impairment that renders them unable to do substantial work. Less than 40 percent of applications are approved for benefits, even after appeals.

For workers receiving Disability Insurance, it's usually more than half of their income. The average SSDI benefit for a disabled worker is $1,146 a month, which is just above the individual poverty level. Without the benefit, half of the families receiving SSDI benefits would be in poverty.

Third, we know that it's critically important to make sure disability benefits are going to those who need them. Unfortunately, that's not always easy. A small number of bad apples, like unscrupulous doctors and lawyers, will always be willing to commit fraud. But according to the Social Security Administration's Inspector General, the program's front-line employees are highly skilled at identifying when things are not quite right. In the past 6 months, they've reported over 32,000 suspicious claims to the Inspector General. Disability Insurance payments are more than 99 percent accurate.

Let's not make budgetary changes at the Social Security Administration that result in less oversight and more money lost to overpayments or fraud. That would mean fewer resources for those who rely on the program today, which includes women and their families.

Finally, we know we have to act by 2016 to shore up the Disability Insurance trust fund for the future. In the past, reallocating resources within Social Security has always been routine and non-controversial. Since SSDI began, the combined tax rate has been reallocated 11 times. Some reallocations increased the tax rate going to the retirement trust fund and decreased the rate going to the disability insurance trust fund. Other reallocations did the opposite. The 1980 reforms to Social Security shifted money from disability to the retirement program. In 1994, the disability trust fund needed support, so policy makers decided to reallocate the tax rates to extend the SSDI program and to allow time for more data about the program to be collected. Congress now has 20 years of experience to assess how Disability Insurance is functioning, and maintaining this vital lifeline is critical.

I look forward to engaging in an active dialogue with colleagues on both sides of the aisle as we take a fresh look at the SSDI program and work toward long-term solutions that keep the promise of Social Security's earned benefits for many years to come.

COMMUNICATIONS

Submission of William H. Samuel, Legislative Director

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Senate Finance Committee

"Social Security: A Fresh Look at Workers' Disability Insurance"
July 24, 2014

I thank Chairman Wyden for holding this hearing on the Social Security Disability Insurance ("DI") trust fund, as it is an important, but frequently misunderstood, part of the social insurance our nation has established for our workers and their families. This statement is submitted on behalf of the AFL-CIO and its 56 affiliate unions; our community affiliate, Working America; and our 12.5 million members.

There has been much hyperbole and talk of "crisis" in conversations about the health of the DI Trust Fund, as it is estimated to be depleted by late 2016. But as the Center on Budget and Policy Priorities accurately and succinctly observed just last week, "the necessity [to replenish the fund] comes as no surprise and poses no crisis."[1] For the short to medium term, the financial health of the DI program easily can be addressed; Congress need only look to prior practice.

Social Security's disability program protects American workers and their families in the event of a life-changing disability or illness that prevents substantial work. The largest source of family income for DI beneficiaries is their Social Security benefit.[2] Absent DI benefits, one half of disabled beneficiaries would have been in poverty in 2010.[3] Only a minority of private sector workers have long-term disability insurance at work, either through a group policy or a defined benefit pension plan.

Like Social Security's retirement and survivor benefits, Social Security disability is an earned benefit. The federally required payroll contribution for Social Security (now 12.6 percent of wages up to $117,000, evenly split between employee and employer) funds both the Social

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[1] Kathy A. Ruffing and Paul N. Van de Water, "Congress Needs to Boost Disability Insurance Share of Payroll Tax by 2016; Traditional Step Would Avert Trust Fund Depletion, Benefit Cuts." Center on Budget and Policy Priorities, July 16, 2014, available at http://www.cbpp.org/cms/index.cfm?fa=view&id=4168.

[2] Anne DeCesaro and Jeffrey Hemmeter, "Characteristics of Noninstitutionalized DI and SSI Program Participants, 2010 Update," Social Security Administration, Office of Retirement and Disability, Policy Research and Statistics Note, No. 2014-02, Table 2, February, 2014, available at http://www.socialsecurity.gov/policy/docs/rsnotes/rsn2014-02.pdf

[3] Id., at Table 6.

Security Old Age and Survivor's Insurance Fund ("OASI"), and the DI Fund. Of the total 12.6 percent payroll contribution, 10.6 percentage points go to the OASI trust fund for retirement and survivor benefits, and 1.8 percentage points go to the DI trust fund to provide benefits to disabled workers, their spouses, and their dependent children. The current allocation was enacted in 1994 when Congress last faced the need to rebalance the two funds. It was fully expected then, based on actuarial projections, that the DI fund would require shoring up again in some twenty years.[4]

Thus, as it did not only in 1994, but also ten other times since 1968, Congress simply should rebalance the two trust funds by reallocating the payroll contribution revenue between them. That is, Congress should increase the percentage of the contribution dedicated to the DI fund. As Social Security's Chief Actuary recently testified, "a simple tax-rate reallocation between OASI and DI ... could equalize the future prospects of the trust funds and avoid reserve depletion until 2033." [5] Such action is not complicated, and it should not be controversial.

But Congress must also act for the long term to ensure the long-term solvency of Social Security overall, and its determinations, thus, must be informed by the increasing importance of Social Security's larger component, namely its nearly universal retirement benefit. Given the disappearance of private sector traditional pensions and the serious shortcomings of defined contribution plans, like 401(k) plans, Social Security retirement benefits have become the most important source of Americans' retirement income, with beneficiaries 65 and older counting on it for more than half their income, on average.[6] Projections are that the retirement income crisis will only get worse. Most working-age American households are now on a path to retire with insufficient resources to maintain their pre-retirement standard of living. [7]

There is a good reason that public support for Social Security transcends demographics and party identification. It is a highly efficient and cost-effective program. Given its success and popularity, it should be strengthened and enhanced to benefit those in need of the important retirement, survivor and disability income it provides. As a number of plans put forward in recent years have demonstrated, the modest projected funding shortfall facing the program can be addressed by increasing revenue. What these various plans have in common is that they would tax earnings above the existing cap and that is where the conversation must begin.

While that is a longer-term project, Congress should not delay in ensuring disabled workers and their families will continue to receive the Social Security disability benefits they have earned and that are so critical to their financial security. Congress should reallocate current payroll tax revenue to accomplish this as soon as possible.

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[4] Stephen C. Goss. "The Financing Challenges Facing the Social Security Disability Insurance Program," March 14, 2013, p.1. http://www.ssa.gov//oact/testimony/HouseWM 20130314.pdf.

[5] Goss at 3.

[6] Social Security Administration, Income of the Population 55 or Older, 2012, available April 2014, Table 9.A1, available at http://www.ssa.gov/policy/docs/statcomps/income_pop55/2012/incpop12.pdf

[7] Munnell, Alicia H., Anthony Webb, and Francesca Golub-Sass. "The National Retirement Risk Index: An Update" (*Boston College Center for Retirement Research November 2012)* available at http://crr.bc.edu/wp-content/uploads/2012/11/IB_12-20-508.pdf

CCD

CONSORTIUM FOR CITIZENS
WITH DISABILITIES

Statement for the Record

Committee on Finance
United States Senate

Hearing on
A Fresh Look at Workers' Disability Insurance
July 24, 2014

Social Security Task Force, Consortium for Citizens with Disabilities

Submitted August 7, 2014 on behalf of the Co-Chairs of the Consortium for Citizens with Disabilities Social Security Task Force:

Jeanne Morin, National Association of Disability Representatives
T.J. Sutcliffe, The Arc of the United States
Ethel Zelenske, National Organization of Social Security Claimants' Representatives

* * * *

The Consortium for Citizens with Disabilities (CCD) is a coalition of national organizations working together to advocate for national public policy that ensures the self-determination, independence, empowerment, integration, and inclusion of the 57 million children and adults with disabilities in all aspects of society. The CCD Social Security Task Force focuses on disability policy issues in the Title II disability programs and the Title XVI Supplemental Security Income (SSI) program.

The Co-Chairs of the CCD Social Security Task Force submit this Statement for the Record of the July 24, 2014, Senate Finance Committee hearing on "A Fresh Look at Workers' Disability Insurance."

I. Social Security's Disability Programs Provide Vital Support to People with Disabilities

Our nation's Social Security system provides peace of mind for nearly all Americans. Not only does it provide the foundation for a secure retirement -- it also insures 9 in 10 American workers and their families against the possibility of a life-changing disability or illness that prevents substantial work.[1] This peace of mind is all the more important because most workers have little savings to fall back on in the event of a disability, and the alternatives are limited: only about 1 in 3 civilian workers have long term disability insurance through their employer,[2] and benefits may be less adequate than under Social Security.

In comparison, about 90 percent of workers age 21 to 64 in covered employment can count on Social Security in the event of a qualifying disability.[3] Social Security's disability programs serve as a core component of the Social Security system, offering critical protection in our time of need. According to the U.S. Census, about 57 million Americans, or 1 in 5, live with disabilities and about 38 million Americans, or 1 in 10, have a severe disability.[4] Only those with the most significant disabilities or illnesses—about 14 million non-elderly individuals—receive vital support from our nation's Social Security system.[5]

Social Security Disability Insurance Provides Modest but Vital Support

Social Security Disability Insurance, or **SSDI**, is funded through Social Security payroll tax contributions. It provides benefits to workers who have worked for long enough and contributed enough via payroll taxes to be insured, and who become disabled before reaching full retirement age. SSDI currently provides benefits to about 9 million disabled workers, as well as about 2 million spouses and children of disabled workers.[6] SSDI beneficiaries include about 1 million military veterans, 4.4 million women, 700,000 widow(ers), 1.8 million African Americans, and 1 million Hispanics.[7]

The average SSDI benefit for a disabled worker is about $1,145, just over the federal poverty line.[8] SSDI benefits serve as the main or sole source of income for about 80 percent of beneficiaries.[9] About 1 in 3 SSDI beneficiaries has no other source of income,[10] and nearly 1 in 3 receive such a low SSDI benefit and have such limited income and assets that they also qualify for SSI.[11] SSDI and SSI keep millions of people out of deep poverty and homelessness. Poverty rates are substantially higher for people who report significant disabilities but are not receiving SSDI benefits than for people who have been receiving SSDI benefits for at least 5 years.[12] Without SSDI, an estimated half of beneficiaries would live in poverty; even with benefits, about 1 in 5 SSDI beneficiaries live in poverty, and the majority of beneficiaries are low-income.[13]

Social Security Disability Standard is Strict, and Most Applications Are Denied

The Social Security Act's disability standard is one of the strictest in the developed world. The Organisation for Economic Co-operation and Development (OECD) has scored OECD member nations on a "disability policy typology" which looks at factors relating to disability insurance system eligibility standards and benefit generosity. The OECD finds that the U.S. ranks second-to-last, just above Korea.[14] Most applicants for Social Security disability benefits are denied. Fewer than four in ten are approved, even after all stages of appeal.[15]

Beneficiaries have diverse impairments and conditions such as advanced cancers, kidney failure, congestive heart failure, emphysema, and multiple sclerosis. Many beneficiaries are terminally ill: 1 in 5 male SSDI beneficiaries and nearly 1 in 6 female SSDI beneficiaries die within 5 years of receiving benefits.[16] SSDI beneficiaries are also three times as likely to die as other people their age.[17]

Despite their impairments, many beneficiaries report eagerness to do some work, and some do work part-time. But research indicates that the average earning potential of beneficiaries with "work capacity," using current work incentives and employments supports, is a few thousand dollars per year—clearly insufficient to support oneself.[18]

Demographics Explain Nearly All Growth in Social Security Disability Insurance

The Social Security disability programs have grown significantly since they were signed into law, as well as in recent years. This growth was projected as far back as 1995. According to Social Security's Chief Actuary, the growth in SSDI (from 1980 to 2010) is mostly the result of several factors: substantial growth in the U.S. population; the baby boomers aging into their high-disability years; women entering the workforce in large numbers in the 1970s and 1980s so that more are now "insured" for SSDI based on their own prior contributions; and the increase in the Social Security retirement age so that disabled workers continue to receive SSDI benefits for longer before converting to retirement benefits.[19]

Many experts including Social Security's Chief Actuary caution against overstating the role that the recent economic downturn has played in the growth in SSDI. The Chief Actuary estimates that the 2010 recession accounts for only 5 percent of the growth in SSDI beneficiaries from 1980 to today.[20]

Awards Rates Have Fallen During the Recent Economic Downturn

While economic downturns tend to boost *applications* for benefits, research finds that they have a much smaller effect on *awards*.[21] The 2010 recession was no exception on either front. While applications increased during the 2010 recession, the award rate declined,[22] suggesting that applicants for benefits who did not meet Social Security's strict disability standard were screened out. The drop in the percentage of applicants found eligible at the Administrative Law Judge (ALJ) hearing level has been dramatic, falling by fourteen percentage points between FY 2007 and 2013.[23]

Social Security Disability Programs Reflect Broader Trends Towards "Hidden" Disabilities

In rich nations like the U.S. many people are living longer—but with more disability.[24] Today, the leading causes of disability both in the U.S. and abroad are largely invisible—mental illness and musculoskeletal disorders – a trend reflected in the Social Security disability programs.[25] Nonetheless, denial of such "hidden" disabilities remains sadly common. Misconceptions persist that individuals who "look healthy" ought not to be receiving disability benefits, and that disabilities visible to the naked eye are "unambiguous", whereas impairments less readily observable to an onlooker are labeled "squishy".

Examples of often-hidden yet significant disabilities include advanced cancers, Traumatic Brain Injury (TBI), intellectual disability, Autism, and serious mental illness such as Post-Traumatic Stress Disorder (PTSD) and schizophrenia (among many others).

II. Securing the Future of the Social Security Disability Insurance Program

The Committee launched this hearing by emphasizing the importance of SSDI as an earned benefit for individuals with the most significant disabilities, and noting that Congress will need to act to address current financing challenges to secure the future of the program – namely, that in 2016 the Disability Insurance (DI) Trust Fund will, with incoming revenue, only be able to pay about 80% of scheduled benefits.

The DI Trust Fund's projected 2016 shortfall is not a new development, or an unprecedented one. Since Social Security was enacted, Congress has "reallocated" payroll tax revenues between the OASI (retirement) and DI (disability) Trust Funds in both directions to keep the Social Security programs on an even reserve ratio -- six times using a narrow definition of reallocation, and eleven times using a broader definition of reallocation.[26] After the last reallocation in 1994, the Social Security Board of Trustees accurately projected that similar action would next be required in 2016.[27]

Congress should act expeditiously, as it has done in the past, to reallocate payroll taxes between the DI and OASI trust funds. For example, both Social Security trust funds would be able to pay full scheduled benefits through 2033 by temporarily raising the 1.8 percent DI share of the 12.4 percent Social Security payroll contribution by 1.0 percent in 2013 and 2014, and then by amounts that gradually shrink back to 1.8 in 2025.[28]

As the baby boomers age into retirement, growth in SSDI has already begun to level off and is projected to decline further in the coming years.[29] At the July 24, 2014 Committee hearing, Social Security Chief Actuary

Steven Goss testified that major demographic shifts, such as the aging of the baby boomers, population growth, and the historic entry of women into the workforce in the 1970s and 1980s, have been expected for decades and explain most of the recent SSDI program growth. Chief Actuary Goss testified that these trends are expected to stabilize over the next few years, meaning that the current shortfall in payroll contributions compared to SSDI program costs is also projected to stabilize in the future.

Reallocation is a sensible administrative adjustment that will maintain the confidence of workers that the SSDI system that they have built up over the years will remain available for them and their families, if needed. Surveys repeatedly show that Americans value Social Security and are willing to pay for it because of its importance to workers and their families. Reallocation will also allow time for Congress to carefully develop, consider, and evaluate options for assuring the long-term solvency of both the OASI and DI Trust Funds for generations to come.

III. SSA Needs Sufficient Administrative Funding to Ensure High-Quality Service and Program Integrity

SSA must have sufficient resources to meet the service needs of the public, including people with disabilities. With the baby boomers entering retirement and their disability prone years, SSA is experiencing dramatic workload increases at a time of diminished funding and staff.

SSA's administrative budget is only about 1.4 percent of benefits paid out each year. With the baby boomers entering retirement and their disability prone years, SSA is experiencing dramatic workload increases at a time of diminished funding and staff. For the two years prior to fiscal year (FY) 2014, Congress appropriated $421 million less for SSA's program integrity efforts (such as medical and work continuing disability reviews and Title XVI redeterminations) than the Budget Control Act of 2011 (BCA) authorized. Over the three years prior to FY 2014, SSA received nearly $1 billion less for its Limitation on Administrative Expenses (LAE) than the President's request, and lost over 11,000 employees since FY 2011.

The appropriation for FY 2014 includes full funding of the FY 2014 BCA level for SSA's program integrity reviews, which will allow SSA to increase Continuing Disability Reviews (CDRs). Adequate resources are critical for SSA to perform its program integrity workload. SSA is required by law to conduct continuing disability reviews to ensure that benefits are paid only as long as beneficiaries remain eligible. SSA estimates that every $1 spent on a CDR saves the federal government $9 – but reports a current backlog of 1.3 million CDRs due to many years of insufficient administrative funding.[30]

Appropriation of sufficient resources is essential to preventing service degradation and ensuring that SSA can provide timely and accurate payments and perform necessary program integrity work, including:

- Disability claims processing;
- Pre-effectuation and continuance reviews of Disability Determination Services determinations;
- Disability Determination Services quality review;
- Review of Administrative Law Judge (ALJ) decisions in a manner consistent with law;
- CDRs and redeterminations; and
- Cooperative Disability Investigation (CDI) units.

We urge Congress to provide adequate resources to SSA. At a minimum, Congress should appropriate the amount requested by the President in his budget request. We also support additional funding in the amount required to eliminate both the backlog in processing disability applications and appeals, as well as the continuing disability review backlog.

IV. Reform Proposals

A variety of proposals have been put forward to reform SSDI. While some proposals focus on improving the experiences and opportunities of SSDI beneficiaries, some also seek to achieve cost savings, with an eye toward addressing the DI Trust Fund's solvency. Many SSDI reform proposals are in the early stages of development and have yet to be evaluated in terms of their impact on current and future beneficiaries or on the solvency of the DI Trust Fund. In fact, the Congressional Budget Office (CBO) recently reviewed proposals for fundamental reforms to SSDI, such as moving to a partial disability system or refocusing SSDI on rehabilitation and reemployment. The CBO found that such changes are unlikely to produce significant short-term savings that would address DI Trust Fund solvency by 2016 (and may in some cases increase short-term costs) and that "only limited evidence is available on the potential impact of such changes."[31]

The CCD Social Security Task Force believes that **any reforms to our Social Security system must be evaluated in terms of their impact on current and future beneficiaries**. Any reforms must maintain the current structure based on payroll taxes, preserve Social Security as a social insurance program for everyone who is eligible, guarantee monthly benefits adjusted for inflation, preserve Social Security to meet the needs of people who are eligible now and in the future, and restore Social Security's long-term financial stability.[32] Any reforms to Social Security's disability programs, including SSDI, should conform to core principles including the following:[33]

1. Preserve the basic structure of Social Security's disability programs, including the definition of disability.

2. Efforts should be made to increase employment opportunities and improve employment outcomes for Social Security disability beneficiaries, but those efforts should not be achieved through any tightening of eligibility criteria for cash benefits and/or narrowing of health care benefits.

3. Given that Social Security disability program beneficiaries have already been found unable to perform substantial gainful activity, participation in work or activities to prepare for work should remain voluntary.

4. Eligibility and cash benefits should not be subject to time limits.

5. Fully fund the administrative expenses of the Social Security Administration.

The CCD Social Security Task Force strongly supports increasing efforts to help people with disabilities to work to their fullest potential. As noted above, the basic structure of the Social Security Title II and Title XVI disability programs is sound and should be preserved, but much more can be done to increase economic security and employment among current and future beneficiaries.

The CCD Social Security Task Force has written and testified before Congress extensively regarding the multi-faceted approaches needed to modernize the Social Security disability programs to increase opportunities for work, to provide support to help people with disabilities remain attached to the labor force, and to deliver the training, services and supports that people with disabilities, including SSDI and SSI beneficiaries, may need to return to work. Some of our major recommendations for modernizing the Social Security disability program work incentives are summarized at:

http://waysandmeans.house.gov/UploadedFiles/TTWWIIATest.pdf

These kinds of reforms should be the first line of exploration when considering options for strengthening Social Security's Title II and Title XVI disability programs, and have the best chance of increasing employment while ensuring that people with the most significant disabilities do not risk the loss of vital income support. Many of these recommendations have the potential to also simplify administration and reduce improper payments.

However, as noted by the CCD Employment and Training Task Force, when policymakers consider the employment of people with disabilities, all too often, "the focus is too narrowly placed on a smaller subset of people with disabilities—those on Social Security disability benefits."[34] Indeed, as stated by the National Council on Disability, what is often forgotten is that:

> [R]eceipt of Social Security disability benefits is merely the last stop on a long journey that many people with disabilities make from the point of disability onset to the moment at which disability is so severe that work is, at least temporarily, not possible. All along this journey, individuals encounter the policies and practices of the other systems involved in disability and employment issues. When these systems fail to stem the progression of disability or work at cross-purposes with one another to prevent successful employment retention or return to work, it is often the Social Security disability system that bears the eventual brunt of this failure.[35]

Given this reality, it is unsurprising that early intervention proposals have emerged as a major area of interest for policymakers. Such proposals generally seek to offer employment services and supports to workers soon after the onset of disability or worsening health, with the goal of helping them stay at work. Early intervention offers real promise and should be explored.

However, such proposals would likely serve many people who would never apply or qualify for SSDI or SSI benefits – and should not be conceived of as a substitute for Social Security disability benefits. Additionally, early intervention services should be administered separately from (but in coordination with) the Social Security disability programs and outside SSA, which lacks the relevant capacity and expertise. Other agencies, such as the Department of Labor (DOL), possess demonstrated expertise in job training and have greater access to the early intervention target population (workers with disabilities who are several years away from considering applying for SSDI or SSI). The DOL already administers several programs that provide short-term income support benefits to people wishing to maintain attachment to the workforce (e.g. workers compensation and unemployment insurance) as well as retraining and other services to workers adjusting to changes in the economy or their own circumstances (e.g. the workforce investment system which includes the vocational rehabilitation program administered by the Department of Education).

Development of any system to enhance work by SSDI and SSI beneficiaries must start with the needs of beneficiaries and be designed to meet those needs. If cost saving becomes the major driver of Social Security disability program reform, the unintended consequences for current and potential beneficiaries could be severe. The possibility of even modest cost savings to SSDI or SSI from early intervention programs remains untested. To date, none of the findings reported by SSA's research demonstration projects seeking to assist current SSDI or SSI beneficiaries return to work "show that the demonstrations tested would likely lead to a substantial reduction in caseload sizes".[36] Additionally, certain proposals—such as experience rating—could have the unintended consequence of making it *more* difficult for people with disabilities to obtain employment, by creating disincentives for employers to hire people with disabilities.

As a general matter, we have serious concerns that people with disabilities could be hurt by implementation of untested proposals. We urge thoughtful consideration and testing prior to endorsing or implementing any changes to the Social Security disability programs. In addition, we urge caution in considering changes that could cause individuals to lose access to SSDI or SSI benefits.

In support of SSA's work to inform policymaking through demonstration projects, the CCD Social Security Task Force has developed principles available at:

http://www.c-c-d.org/fichiers/CCD_Disability_Demonstration_Principles-Final-1-14.pdf

V. International comparisons

We urge extreme caution in looking to other countries as models for the United States, for several reasons.

First, as noted earlier, the OECD describes the U.S. disability system, along with those of Korea, Japan, and Canada, as having "the most stringent eligibility criteria for a full disability benefit, including the most rigid reference to all jobs available in the labor market".[37] Additionally, while SSDI replaces only about 42 percent of prior earnings for a median earner, many OECD member countries' disability systems replace 80 percent or more of prior earnings; the U.S. ranks 30th out of 34 OECD member countries in terms of replacement rates.[38] The OECD also reports that the U.S. spends less as a share of its economy on "incapacity-related benefits" than other nations. In 2009, U.S. expenditures on incapacity-related benefits amounted to just 1.5 percent of GDP, compared to an average of 2.4 percent for OECD nations.[39]

It would be inadvisable to try to duplicate reforms implemented in a country with much more generous benefits and a broader definition of disability, or a disability benefit system with several tiers of benefits and eligibility. Such countries' reform experiences have very limited comparability to a system that is already far stricter and has much less generous benefit levels in comparison.

The same is true for a country that lacks a statute or other framework of legal protections similar to the Americans with Disabilities Act (ADA). In the U.S., the ADA provides strong civil rights protections to Americans with disabilities in employment and other areas of public life. It might be necessary in countries lacking such strong civil rights protections to try to accomplish some of the goals of the ADA through reforms associated with disability income support programs, such as the requirement to provide reasonable accommodations and the ability to enforce those rights in court, through alternate means.

Additional aspects of other countries' social and labor systems further limit useful comparisons to the U.S. Countries such as the United Kingdom, the Netherlands, and Germany have much higher levels of expenditures on social assistance generally, and more regulated labor markets than the U.S. People with significant disabilities often require a number of different services and supports (e.g. health care, long-term services and supports including personal attendant care, transportation, and housing) to obtain and maintain employment. It would be a mistake to assume that policies that have worked in countries with universal health care, generous pension structures, national paid sick leave, and higher overall levels of spending on social assistance would also work in the U.S., which lacks such robust complementary policies and programs.

Finally, consideration of reforms in other countries must be informed by data on whether those reforms are producing the intended outcomes; in some cases, evidence suggests limited effectiveness. For example, recent research on Finland has preliminarily found "no evidence of the significant effects of experience rating on the disability inflow."[40] In the United Kingdom, reforms that sought to assist one in six beneficiaries with illness or disabilities to work for at least three months have only achieved the desired result with about one in twenty beneficiaries, two years after implementation of the reforms.[41]

VI. Conclusion

In conclusion, we thank the Committee for holding the recent hearing, "Social Security: A Fresh Look at Worker's Disability Insurance." As outlined in our statement, SSDI is a vital part of our nation's Social Security system, insuring 9 in 10 American workers and their families and providing a lifeline for approximately 8.9 million disabled worker beneficiaries and 2 million spouses and children.

We urge Congress to act expeditiously to reallocate payroll contributions to enable the DI Trust Fund to pay full scheduled benefits for approximately the next two decades. We also urge Congress to provide SSA with adequate administrative funding to support its implementation of the Social Security system including the Title II and Title XVI disability programs, and to reauthorize of SSA's Title II demonstration authority to permit testing of potential enhancements to increase employment opportunities for current and future SSDI and SSI beneficiaries.

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[1] Social Security Administration (February, 2014), Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program, http://ssa.gov/OACT/FACTS/fs2013_12.pdf.

[2] Department of Labor, Bureau of Labor Statistics, Employee Benefits Survey, Table 16. Insurance benefits: Access, participation, and takeup rates, civilian workers, National Compensation Survey, March 2013, http://www.bls.gov/ncs/ebs/benefits/2013/ownership/civilian/table12a.htm.

[3] Social Security Administration, *supra* note 1.

[4] U.S. Census Bureau (2012), Current Population Reports, Americans with Disabilities: 2010, http://www.census.gov/prod/2012pubs/p70-131.pdf.

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National Committee to Preserve
Social Security & Medicare™
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Statement for the Record by Max Richtman, President and CEO
National Committee to Preserve Social Security and Medicare
10 G Street N.E., Suite 600
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Senate Committee on Finance
Hearing on the Social Security Disability Insurance Program
July 24, 2014

Chairman Wyden and Ranking Member Hatch:

On behalf of the millions of members and supporters of the National Committee to Preserve Social Security and Medicare, I want to thank Chairman Wyden and Ranking Member Hatch for holding this hearing entitled "Social Security: A Fresh Look at Workers' Disability Insurance."

As far back as 1995, the Social Security Disability Insurance (SSDI) trust fund has been projected to face a funding shortfall within the next few years. The reasons for this, which I will discuss in more detail later, have been well known for many years, are primarily demographic in nature and are expected to stabilize in the near future.

The 2013 report of the Social Security Trustees projects that the DI trust fund will be substantially depleted sometime in 2016. The trustees go on to say that the income to the DI trust fund at that time will equal only about 80 percent of the trust fund's obligations. Without action by Congress, in 2016 disability benefits that are currently being paid to about 11 million disabled workers and their dependents will either be delayed or will be reduced across-the-board by 20 percent.

This is a heavy burden on the minds of these millions of disabled Americans who constitute some of the most vulnerable members of our society. Congress should take action now to ease that burden by rebalancing the revenue flow into the DI Trust Fund so that it remains able to pay all benefits it owes to disabled beneficiaries and to do so on time.

This rebalancing has been done a total of eleven times since the DI trust fund was established in 1956, and can be done today without compromising the ability of the overall Social Security program to pay benefits for the next 20 years. Rebalancing should be done now and it should be done on a bipartisan basis, as all of the prior rebalancing decisions have been made.

Importance of Disability Insurance to the American People

Social Security provides peace of mind for all Americans. Not only does it provide a foundation for a secure retirement, it also protects nearly all American workers and their families against the possibility of a life-changing disability or illness that prevents them from working.

The peace of mind provided by SSDI is even more important given the harmful effect of the near total disappearance of employer-provided pensions. Compounding the problem is the impact of the persistent economic downturn on Americans' ability to save for retirement, especially when an individual's working years have been shortened by an unexpected onset of disability.

The U.S. Census Bureau estimates that about 57 million Americans—one in five—live with disabilities. Of these, about 38 million, or 1 in 10, have a severe disability. Only those with the most limiting impairments receive support from Social Security.

SSDI currently pays benefits to 8.9 million disabled workers and two million spouses and children. SSDI beneficiaries include more than a million military veterans, 4.4 million women, 700,000 widow(ers), 1.8 million African Americans and one million Hispanics.

Benefits paid by SSDI are modest but vitally important to the workers and families who receive them. The average monthly benefit for a disabled worker is about $1,140, just over the federal poverty line. The importance of these benefits is illustrated by the fact that about 1 in 3 disabled Americans have no other sources of income.

SSDI keeps millions of Americans out of poverty and homelessness. Poverty rates are substantially higher for people who report significant disabilities but are not receiving SSDI benefits than for people who have been receiving SSDI benefits for at least five years. Without SSDI, an estimated 50 percent of beneficiaries would live in poverty. Even with benefits, it is estimated that about 1 in 5 SSDI beneficiaries live in poverty.

Alternatives to SSDI are limited. According to the Department of Labor, only about 1 in 3 civilian workers has long-term disability insurance through their employer, and the benefits these policies provide are often less adequate than the protections provided by Social Security. It has been estimated that in order to replace the family protections provided by Social Security, individuals would have to purchase life insurance policies with a face value of nearly $500,000. The premiums on such policies would cost families thousands of dollars each year.

The Current Shortfall is the Product of Known Demographic Trends

As far back as 1995, the Social Security trustees projected that the DI trust fund's outlays would exceed revenues starting in 2016. The most recent Trustees Report, released in May 2013, confirms this projection. Moreover, it estimates that after the DI trust fund is depleted, revenue coming into the DI trust fund will equal only 80 percent of the fund's benefit obligations. These projections are consistent with those made recently by the Congressional Budget Office.

What accounts for these developments? For decades, demographic shifts have been underway that have led to increases in the number of SSDI beneficiaries with corresponding increases in the cost of the program. The following factors account for most of the growth in the number of individuals receiving benefits from the SSDI program:

- **Growing Labor Force.** During this time, the working-age population (age 20 through 64) increased by about 43 percent. As this population grew, so did the labor force, leading to more Social Security-covered workers who might at some point during their working lives become entitled to SSDI benefits.

- **Aging Population.** The risk of disability increases with age. A worker is far more likely to be disabled at age 50 than at 40 and twice as likely at age 60 than at 50. The baby boomers, who were born between 1946 and 1964, have now aged into their high-disability years, driving much of the growth in the SSDI program.

- **Women's Labor Force Participation.** The number of women entering the workforce since 1970 resulted in a significant increase in the number of women insured for SSDI benefits. In 1980 only 50 percent of women had worked enough to be eligible for SSDI if they were to become disabled. By contrast, women today have essentially caught up with men when it comes to being insured for benefits based on their participation in the labor force.

- **Women's Recipiency Rates Equal Men's.** Women have also caught up with men in terms of the rate at which they become disabled. As recently as 1990, disabled male workers outnumbered disabled female workers by 2 to 1. Today, nearly half of workers receiving SSDI are women.

- **Effect on SSDI of Increasing the Social Security Retirement Age.** Increasing the full retirement age from 65 to 67 has also played a role in increasing the cost of the SSDI program. Keeping disabled workers on SSDI for an additional one to two years before converting to retirement benefits has driven up the cost of SSDI; yet another example of a change to the program, the effect of which was well understood long ago.

As the foregoing discussion of the factors that account for the recent growth in the SSDI program indicates, the vast majority of the increase in the program was well understood many years ago.

SSDI Awaits Routine Technical Correction

Within the next two years, a routine adjustment is required to ensure that the SSDI trust fund will continue to pay 100 percent of promised benefits. As stated earlier, prior Congresses, on eleven occasions, have rebalanced the revenue between Social Security's trust funds without controversy. Congress should do so now.

The projected DI shortfall can be easily eliminated by rebalancing the flow of revenue between the DI and the Old-Age and Survivors Insurance (OASI) trust funds so that they remain on an equal footing and remain fully solvent through 2033. This adjustment can ensure Social Security's solvency for the next twenty years without increasing contributions or decreasing benefits.

More important, this rebalancing will provide peace of mind to the 11 million Americans who receive benefits from the DI trust fund by assuring them that they can be confident their benefits will continue uninterrupted by an artificially-induced shortfall. Now is the time for all Members of Congress to stand up and show their commitment to Social Security and the Americans who have earned benefits from this vitally important program.

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Written Testimony for the U.S. Senate Committee on Finance

"A Fresh Look at Workers' Disability Insurance"

Submitted By:

National Employment Network Association

August 6, 2014

The National Employment Network Association (NENA) is entering its tenth year representing Employment Networks (ENs) across the U.S. that have a contract with the Social Security Administration to provide services to help SSI and SSDI beneficiaries return to self-supporting work. We provide training, peer mentoring, and advocacy to build a strong Ticket to Work (TTW) Program.

Much of this hearing focuses on proposals to avoid a deficit in the Social Security Disability Trust Fund threatened to occur in 2016. NENA supports early intervention to provide work incentives counseling and employment supports prior to adjudication where practicable. However, we believe that most applicants truly cannot work at the time they apply and need the safety net their DI benefits represent. There will always be a need for post-benefits return-to-work programs.

Unfortunately, over time a cultural norm has developed that encourages SSDI beneficiaries to stay on benefits until they reach retirement age. Twelve years after the first Tickets to Work were distributed, a beneficiary is still likely to be the one who seeks out program information on their own rather than SSA reaching out to them. Anecdotal evidence consistently shows that a DI beneficiary who calls SSA's toll-free service center or their local field office to inquire about how working affects their benefits will receive incorrect information about the work incentives. Typically they will be warned in some manner to limit their work to stay below the Substantial Gainful Activity (SGA) level to avoid the dastardly fate of giving up their benefits. Generally they are not given information about the availability of EN or State VR services or Work Incentives Planning and Assistance (WIPA).

To underscore this problem, the testimony of Ms. Vallas of the Poverty to Prosperity Program at the Center for American Progress states, "If a significant share of beneficiaries were able to work, one would expect a sizeable percentage to take advantage of the previously described work incentives in order to maximize their earnings without losing benefits. But beneficiaries' work patterns indicate otherwise."

NENA sees this statistic differently from our direct interface daily with beneficiaries. We contend they do not use the work incentives because 1) they do not know they exist; 2) when they do hear about them, the information is often incorrect; 3) there are other barriers to employment, such as lack of skills as Ms. Vallas mentions; 4) the SGA has reached a point as to discourage work because they are financially better off to work part time and keep their benefits.

An additional and growing problem is that even when beneficiaries do return to work, they are often frustrated by overpayments because SSA has not recorded earnings correctly. Alternatively, the beneficiary was not aware of his responsibility to report or got wrong information about when to report.

We do not make these statements to criticize SSA or Ms. Vallas, but rather to demonstrate the importance of enough resources being available to train and monitor SSA staff to aggressively, repeatedly, and consistently create and disseminate a pervasive message to beneficiaries and their families that SSDI is only a safety net with the expectation that at some point they will return to work even if only part time.

To ensure the viability of the Trust Fund public policy should not only focus on reducing or preventing enrollment but also to increase disenrollment by doing the following:

1. Congress needs to find the courage to eliminate the SGA as it relates to returning to work. Replace it with an offset from first dollar earned similar to the current policy for SSI of reducing benefits $1 for every $2 earned. We have attached a spreadsheet that analyzes the impact of this at different income levels. Adopting this policy would a) encourage beneficiaries to work as much or as little as their capacity allows; b) always result in more spendable income than staying on benefits only; c) always save the Trust Fund money; d) contribute to a stronger economy; e) increase the OASI Trust Fund so beneficiaries enjoy a better retirement.

2. To respond to the resistance to switch from SGA to a benefits offset policy, especially by those who are blind, those already on benefits could be grandfathered and the policy applied only to new enrollees. Cohorts could choose between keeping the SGA policy or switch to the offset

policy. NENA does not necessarily agree with this element, but we understand the political realities when making major changes such as this.

3. Ensure that DI beneficiaries are included in the definition of long-term unemployed relative to the recently enacted Workforce Innovation and Opportunity Act (WIOA). Significant increases in the training funds available to adults who have been out of the workforce for a long time are included in the WIOA but it is currently silent on who qualifies as long-term unemployed. This could remove a major barrier to SSDI beneficiaries returning to work – they lack current skills or can no longer do the same work they did before onset of their disability.

4. Aggressively promote and support recently adopted amendments to Section 503 of the Rehabilitation Act that requires Federal contractors to aspire to having 7% of their workforce in each job title be filled by qualified individuals with disabilities.

5. Reinstate and make permanent the Work Opportunity Tax Credit (WOTC) that expired December 31, 2013. Although this was not significantly used with regard to employees with disabilities in the past, once again, it is because of a policy issue rather than it being unattractive. The previous requirement to self-disclose a disability pre-job offer discouraged people from using it. With the new Section 503 regulations and the protections inherent in that, we believe WOTC would be much more likely used.

6. All stakeholders, especially SSA, must shift their thinking and emphasis to include return to work as an expectation at all levels – pre-benefits, newly approved benefits, annual benefits updates, any point of contact discussions, and ongoing dissemination in public media outlets.

7. Establish an interface between SSA and IRS data systems, where technically feasible, or some other way to record earnings directly to SSA's files at the same time employers report earnings to IRS or other agencies. As long as policy continues tracking earnings by relying on beneficiary self-reporting, the overpayment problem will continue. Although there are currently other ways for SSA to capture earnings information, such as the state unemployment insurance reports and others, this information is usually several months old. Further, field office burden to record the earnings when it is reported is cumbersome and often delayed because of all the other demands in a field office. This is exacerbated by then having to investigate, reconcile, and collect overpayments that should not occur in the first place.

8. Do not conduct more demonstration and pilot projects on any of this. Acting Deputy Commissioner, Marianna LaCanfora, mentioned in her testimony that the president had included three demonstration projects in

his budget. We are not aware of the details of those proposals. Perhaps they are related to early intervention. We could support that. But what we cannot support is any more demonstrations similar to the current Benefits Offset National Demonstration (BOND) project. They take too long and some of the recommendations here have been debated ad nauseam for years. It is time for action.

Thank you for the opportunity to submit written comments. We look forward to any questions you might have.

Sincerely,

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