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***Securing the Future of the Social Security Disability Insurance Program***
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B-318 Rayburn House Office Building

Good morning. Chairman Johnson, Ranking Member Becerra, and members of the Subcommittee. Thank you for inviting me to appear at this hearing on ***Securing the Future of the Social Security Disability Insurance Program***. My remarks are informed by research conducted by the National Academy of Social Insurance (NASI), including a landmark study by a blue-ribbon Disability Policy Panel that conducted a comprehensive review of the Social Security disability insurance (SSDI) program at the request of former leaders of this committee. We were asked to consider whether the program is a strong deterrent to work and to develop low-cost ways to better link beneficiaries with rehabilitation and return to work without jeopardizing benefits for those who cannot work. The Panel's report, ***Balancing Security and Opportunity: The Challenge of Disability Income Policy***, became the blueprint for the Ticket to Work and Work Incentive Improvement Act of 1999 and it remains a valuable reference for understanding the history of SSDI, its purpose, and its relationship to the Americans with Disabilities Act and other policies that affect individuals with disabilities.

My remarks today are informed by NASI research, but do not reflect an official position of the Academy. Our 900 members who are leading experts on social insurance do not attempt to speak with one voice. My remarks today cover: the importance of SSDI for beneficiaries; insights from history; drivers of program growth; and current and future financing challenges.

**IMPORTANCE OF DISABILITY INSURANCE BENEFITS**

Social Security disability insurance (SSDI) is an essential lifeline for millions of Americans. Without it, many families would be in deep financial distress. In August 2011, 8.5 million former workers received disabled-worker benefits, as did 1.8 million of their children. The average disabled worker benefit is modest – $1,070 a month, or about $12,820 a year – which is just above the poverty guideline for individuals living alone ($10,890). Those with one or more dependent children had average family benefits of $1,640, or $19,690 a year, close to the poverty guideline for a family of three ($18,530). Disabled-worker beneficiaries account for many of the 5.3 million working-age Americans who are lifted out of poverty by Social Security (Van de Water & Sherman, 2010). For many, Social

Security is almost all the income they have. Nearly half (46 percent) of disabled-worker beneficiaries rely on benefits for 90 percent or more of their total personal income (DeCesaro & Hemmeter, 2008).

The benefits are insurance that workers pay for through premiums deducted from their pay. In return, workers gain the right to monthly benefits if a disabling condition ends their capacity to earn a living. This insurance role of SSDI remains critically important. It is not made obsolete by the Americans with Disabilities Act (ADA) or by advances in medicine and assistive technology. Such developments expand opportunities for some people with disabilities. But others with disabilities face increasing impediments to work as the demands of work change.

The test of disability for SSDI is very strict – inability to engage in any substantial gainful activity due to physical or mental impairments expected to last at least a year or result in prior death. Many Americans with disabilities work in spite of their impairments, and many individuals who apply for SSDI do not meet the strict test of eligibility.

Broadly speaking, the goals of national disability policy are to fully integrate people with disabilities into all aspects of American society – including equal opportunity, independent living, and economic self-sufficiency. These goals are pursued through varied systems that provide access to health care, appropriate education, rehabilitation, legal protections against discrimination, and wage replacement income when work incapacity strikes.

## LESSONS FROM HISTORY

NASI's Disability Policy Panel reports include a comprehensive history of the SSDI program (Mashaw & Reno, 1996a and 1996b). Many insights from their report remain timely today. I will mention three.

### A bad economy is a huge barrier to employment for individuals with disabilities.

Applications for disability benefits have increased in nearly every economic recession since the program began.[1] When jobs are plentiful and employers are competing for qualified workers, they are highly motivated to accommodate qualified job-seekers with disabilities. When jobs are scarce and firms are laying off workers, those with disabilities who lose their jobs (particularly at older ages) have few prospects for finding work. This is evident in the current downturn. With the overall unemployment rate over nine percent for working-age adults, those with disabilities experienced an unemployment

[1] The single exception is the recession of 1980-81 that coincided with harsh retrenchment policies in adjudicating new claims and reviewing continuing eligibility of those receiving benefits.

rate nearly twice as high, at 17 percent in August 2011 (Bureau of Labor Statistics, 2011). It comes as no surprise that economic recessions increase the likelihood that workers with physical or mental impairments will turn to disability benefits when they lose their jobs and exhaust other resources. While many do not meet the strict test of disability in the Social Security Act, some do. The increase in disability claims during economic downturns is evident in the history of SSDI, in private disability insurance, and in foreign systems. We see this now in the long wake of the Great Recession.

**Recovery and return to work is better than commonly thought.**

The Disability Policy Panel took advantage of unique longitudinal data to find that recovery and return to work by people receiving SSDI was much better than commonly thought. Newly available data confirm these findings and, in doing so, contradict the conventional notion that fewer than one-half of one percent of SSDI beneficiaries leave the rolls to return to work. New Social Security Administration (SSA) data (2011b) that follow people over 10 years after they began SSDI in 1996 find that:

- Just over a quarter (28 percent) had shifted to retirement benefits (including those who died after age 65);
- Nearly a quarter (23 percent) died before reaching retirement age;
- Four percent had benefits terminated because they recovered or returned to work; and
- Less than half (45 percent) were still receiving SSDI.
- The rate of recovery or return to work is 8 percent when based on those still alive and younger than retirement age.

These are more promising findings about recovery and return to work, as well as sobering results about the high rate of death among new beneficiaries.

Many more SSDI beneficiaries work to some degree, even if they do not earn enough to have benefits terminated (Liu & Stapleton, 2010). Young SSDI recipients were most likely to have worked at all and to have left benefits because of work. Of those under 40 when they began benefits in 1996, fully 46 percent had worked in at least one year of the following 10 years. They include 20 percent who completed a trial work period, 16 percent who had benefits suspended after finding work, and 10 percent whose benefits were ultimately terminated due to work.

**Adequate administrative resources are essential to equitably serve applicants, beneficiaries and taxpayers.**

The Disability Panel concluded that efforts to administer the SSDI program without adequate resources ill serve applicants, beneficiaries, and taxpayers. Investment in administrative resources is in relation to the size of the program, at 2.3 percent of program outgo in 2010. Resources need to be adequate to ensure: (1) fair, accurate, and prompt decisions on disability claims and appeals; (2) appropriate service to beneficiaries who seek to work, including accurate information and prompt action to adjust benefits to avoid overpayments, which can make work attempts risky; and (3) timely and predictable review of the continuing eligibility of those receiving benefits.

**DRIVERS OF PROGRAM GROWTH**

When properly measured, participation in the SSDI program has increased modestly. Looking only at raw numbers, recipients roughly doubled between 1995 and 2011 (Figure 1), but that is a misleading measure of prevalence. The number of beneficiaries increased, in large part, because the workforce grew, more women had worked long enough to be insured for benefits, and the large cohort of baby boomers entered their disability-prone years (Ruffing, 2010 and 2011). To elaborate:

**More Women are Insured for Disability Benefits**

To be insured for disability benefits, one must have worked during at least one-fourth of his/her adult lifetime and during five of the ten years before disability onset. Until the great influx of women into the workforce during the 1970s and 80s, relatively few women met those tests. As recently as 1990, male disabled workers outnumbered women by nearly two to one. Now that more women have worked long enough to be insured for disability benefits, more women receive them.

**Baby Boomers are Entering their Disability-Prone Years**

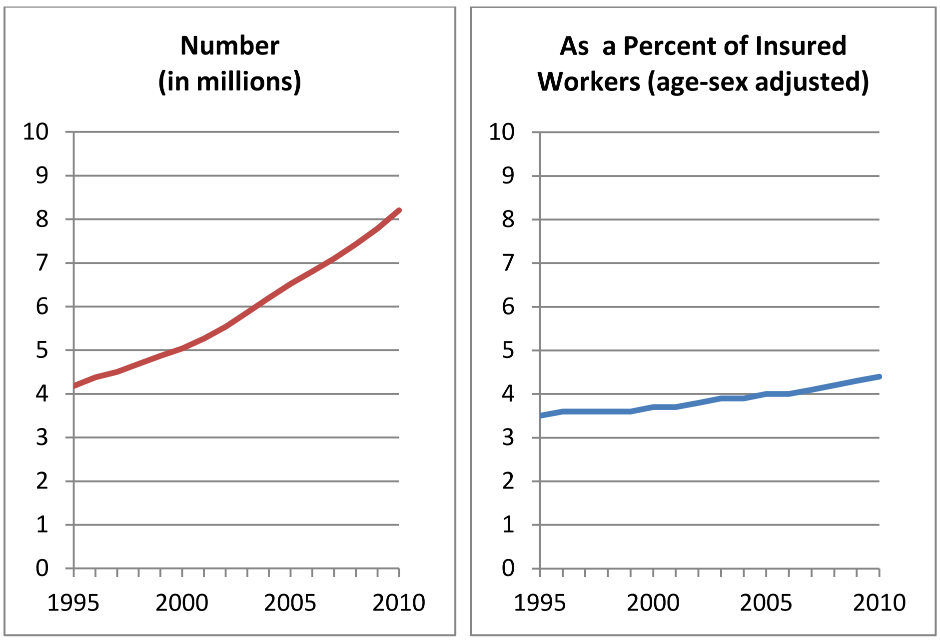
The risk of work disabilities that meet the SSDI test rises sharply with age. People are roughly twice as likely to be disabled at age 50 as at age 40, and twice again as likely to be disabled at age 60 as at age 50. As baby boomers (people born in 1946 through 1964) enter their 50s and 60s, more people are disabled and thus receive benefits.

**Social Security's Full Retirement Age Went Up From 65 to 66**

When SSDI beneficiaries reach the full retirement age, they shift from disability to retirement benefits. The increase in the retirement age has delayed that shift. In December 2010, over 300,000 people between 65 and 66 were collecting disability benefits; under the rules in place a decade ago, they would instead be classified as retired (SSA, 2010).

The Social Security actuaries use an "age- and sex-adjusted disability prevalence rate" that controls for the increase in the insured population and the aging of the working-age population. Between 1995 and 2011, it rose from 3.5 to 4.4 percent – an increase, to be sure, but not as dramatic as some alarmists portray (Board of Trustees, 2011).

**Figure 1: Disabled Worker Beneficiaries, 1995 – 2010**




Source: Board of Trustees, 2011.

The recent increase in prevalence since 2007 reflects the weak economy and persistently high unemployment following the Great Recession. Other possible causes for increasing prevalence of SSDI receipt include declining health coverage and a less forgiving workplace.

**Decline in Health Coverage**

Over the past decade, more working-age Americans were without health coverage from either private insurance or government programs. The uninsured increased from 16 percent to 22 percent of 18 to 64-year-olds between 2000 and 2010 (Table 1). Health coverage declined for all age groups, but was most pronounced among Americans aged 25-54. Without health coverage, workers are at risk of missing care that could prevent or delay the onset of conditions that lead to work incapacity.

| Table 1. Percent of U.S. adults under 65 without health coverage, by age, 2000 and 2010 | | |
|---|---|---|
| | **2000** | **2010** |
| Total 18-64 | 16.4 | 21.8 |
| 18-24 | 25.7 | 27.2 |
| 25-34 | 20.2 | 28.4 |
| 35-44 | 14.5 | 21.8 |
| 45-54 | 11.1 | 18.0 |
| 55-64 | 11.6 | 14.4 |
| Source: U.S. Census Bureau, 2011a: Table C-3. | | |

**A Less Forgiving World of Work**

Various economic studies have sought to understand the decline since 1990 in employment among men who have work-limiting health problems. Several suggest that the availability of SSDI benefits is a leading cause (Autor & Duggan, 2003; Burkhauser & Daly, 2011). Economist John Bound and colleagues (2010) find little or no evidence for this explanation. In fact, they find that much of the decline in employment was among men with work-limitations who did *not* receive SSDI. They conclude that the underlying cause may be a genuine decline in demand for the labor of less-skilled, low-paid men with work-limiting health problems.

This diagnosis matches anecdotal insights discussed at a past NASI conference that asked: "Where are the jobs for people with disabilities?" A senior vice president of the Committee for Economic Development identified "the less forgiving world" to describe challenges faced by less-skilled workers with disabilities. "More intense competition has brought a less forgiving world. … Many risks are now borne by workers in ways that they were not in the old economy where firms were more paternalistic. … Intensified competition is a double-edged sword. … As skills become more valuable, the cost of discriminating against skilled disabled workers might become higher. … As less skilled workers become relatively less valuable, incentives to accommodate their disabilities diminish" (Ooms, 1997). Many who end up receiving SSDI have double disadvantages of significant health problems and limited educational attainment. About 70 percent of SSDI beneficiaries have no more than a high school education. They include 34 percent who lack a high school diploma or GED certificate (Livermore, Stapleton, & Roche, 2009) compared to about 13 percent of the entire working age population (U.S. Census Bureau, 2011b).

A less forgiving workplace can also limit opportunities for individuals with mental impairments. Such conditions are a growing cause of work disability and are the primary diagnosis for one third of disabled worker beneficiaries today (SSA, 2011a). The executive director of the Mental Health Policy Resource Center and an advocate for people with mental illness described how the changing demands of work affect people with mental disabilities. Downsizing and streamlining place greater value on employees' speed, productivity and flexibility. Workers with mental disabilities have a harder time adapting to this kind of environment, and employers are less likely to accommodate people who have difficulty meeting the new demands (Scallet, 1997). A review of experience under the ADA also finds that workers with mental disorders face particular barriers to on-the-job accommodations (Lee, 2008).

**FINANCING CHALLENGES**

Social Security disability insurance remains sustainable and affordable despite the recent modest increase in prevalence of receipt and an upturn in applications following the Great Recession. Of the 6.2 percent of wages up to $106,800 a year that workers and employers each pay for Social Security, 0.9 percent is the premium for SSDI; the rest pays for old-age and survivors insurance (OASI).[2] Viewed separately, the DI fund can cover scheduled benefits until 2018 and the OASI fund can do so until 2038. Combining the two funds shows that lawmakers could reallocate the 6.2 percent premium to equalize the solvency of the two funds, as they have done before, most recently in 1994. The change then was expected to keep DI in balance until 2016. Lawmakers could act in the next few years to reallocate the rate so that both funds would cover all benefits until 2036. After that, new revenues coming in would cover about three fourths of benefits due.

Sustainability is not merely a function of what the program costs. Both sustainability and affordability depend on what Americans are willing to pay. Americans repeatedly report in surveys that they support Social Security and they don't mind paying for it because they value it for themselves, their families, and for the stability it provides to millions of other people who depend on it. Given a choice, they would rather pay more than see benefits cut (Reno & Lavery, 2009; Hess, Hayes & Hartmann, 2011). The additional funds needed to pay all Social Security benefits for the very long term are modest as a share of the total economy. The trustees (2011) project that total Social Security outgo will increase from 4.9 to 6.2 percent of gross domestic product (GDP) between now and 2035 as baby boomers retire, and then remain about 6.0 percent for the rest of the next 75 years (SSDI alone will be about 0.76 percent of GDP then). An increase in spending of 1.3 percent of GDP as boomers retire is affordable; it is much less than the increase of 2.5 percent of GDP that the nation spent on public education as boomers passed from kindergarten through college (SSA, 1991; Reno & Lavery, 2006).

[2] The trust funds also receive income from taxes that upper-income beneficiaries pay on their benefits and from interest earned on trust fund reserves that are invested in Treasury securities. The trustees (2011) project that the two funds combined can pay all benefits until 2036.

Thank you for the opportunity to speak about the importance of the Social Security disability insurance program, lessons we have drawn from studying its history, reasons for recent growth in the program, and prospects for financing it into the long-term future. I will be happy to answer any questions you may have.

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