Topic A: Disability Insurance Program

Is Fundamental Reform Needed?

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Hypothesis put forth to the panel

1) The current federal disability growth trajectory cannot be sustained
   – Obviously not. All factors increasing growth have peaked.
   – Future growth will slow and flatten naturally.
   – This has been understood and projected for decades.

2) Fundamental restructuring of the eligibility and disability service system is required to avoid fund exhaustion, increased tax burdens and unacceptable reductions in the active labor force.
   – Obviously not. Tax rate is simply set too low for the cost.
   – Could increase payroll tax by about 0.4% in 2016, or
   – Could reduce benefits by 20% for 2016 and later, or
   – Some combination of the two!
How Have We Done Projecting DI Trust Fund Solvency?

Figure 1: DI Trust Fund Ratio in 1995, 2008, 2012 Trustees Reports

- 1995TR
- 2008TR
- 2012TR

Reserves as % of Annual Cost

"New Economy"
irrational exuberance

2008 Recession
back to reality
Is DI Out of Control, Taking Over OASDI OASDI?
(Note 7% increase in DI Cost for 2010 Due to Recession)

Chart 1: DI Cost as a Percent of Total OASDI Cost

- 1980: 12.8%
- 2010: 17.9% (16.9% 1995 TR, 17.9% 2012TR)
- 2040: 12.6% (12.6% 1995 TR, 12.4% 2012TR)
As usual, it is mostly about “Aging”

Figure 2: Age Distribution of the Population Age 25+, 1940 to 2100

(2012TR)

As time progresses, the population distribution shifts from younger to older age groups.

- **25-44**: The youngest age group remains relatively constant.
- **45-64**: This group increases as the Baby Boom generation ages.
- **65-84**: This group grows significantly as the Boomer generation enters this age bracket.
- **85+**: The oldest age group increases substantially as the Boomer generation continues to age.

The graph illustrates a clear trend of the population aging over time.
Shift down in tax-paying workers per DI beneficiary is now complete

Figure 3: Workers per Disability Insurance Beneficiary

Baby Boomers reach ages 25-44 in 1990

Baby Boomers reach ages 45-64 in 2010
Thus, DI cost as percent of GDP has peaked, but scheduled income is too low.

Figure 4: DI Cost and Income as Percent of GDP 1975-2090
2012 Trustees Report Intermediate Assumptions

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

DI Cost
DI Income
Disabled worker beneficiaries up by **187%**

I. A **41%** increase in population age 20-64

II. “Aging” added **38%** -- Boomers now 45-64

III. An **8%** increase in insured (net of undocumented population increase) Insured alone much more

IV. A **42%** increase in age-adjusted prevalence:

   *female incidence, younger incidence, lower death rates*
So Where Are We on DI?

- Is the sky falling, cost out of control? **No.**
- Or are we following a path foreseen? **Yes.**

- Actuarial Deficit for DI is 0.37 percent of Payroll

So we could---
- Increase tax rate or eliminate the Tax Max for DI
- Or lower the benefit (PIA level)

- Time limit Benefits, increase vocational grid ages, These would have some small effects
- Note, Increasing NRA shifts cost to DI
• 2) ADDITIONAL MATERIAL FOR DISCUSSION
2) Increased work by women raised insured; partially offset by more undocumented

Figure 5: Percent of Population that is Insured for Disability
3) Recessions matter: applications jumped in recent recession

Figure 7: OASDI DDS Applications: Disabled workers, children and widows (thousands)
3) Incidence rates for women have risen to male level

Figure 8: New Disabled Workers per 1,000 Exposed (Incidence)  
Age-Adjusted (2000) - 2012 Trustees Report
3) Economic cycles and policy changes fluctuate

Figure 9: Effects of Economic Cycles and Policy Changes on DI Incidence Rates
3) Death rates dropping: recovery rates steady since 1985 (half medical, half work)
4) Young females: steady distribution by medical impairment

Figure 12: Female Age 30-39 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)
4) Young males: steady but for HIV bulge in 1986-2000

Figure 13: Male Age 30-39 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)
4) Older females: increased musculoskeletal impairment

Figure 14: Female Age 50-59 disabled worker new entitlement distribution by primary diagnosis (awarded through June 2012)
4) Older males: increased musculoskeletal impairment; less cardiovascular