

**Some Social Security Basics:  
Disability, Benefit Levels, Financial Status,  
Recent Proposals**

---

**Steve Goss and Karen Glenn  
Office of the Chief Actuary  
Social Security Administration**

**National Academy of Social Insurance  
March 5, 2019**

# Social Security Disability Benefits

- 155 million workers under age 66 are insured against becoming unable to work
- 8.7 million workers now receive DI benefits
  - 1.7 million “dependents” – mostly children
- Many more protected from loss of insured status
  - And from lower retirement benefits
- In addition:
  - 1 million disabled adult child beneficiaries
  - 0.3 million disabled widow(er) beneficiaries

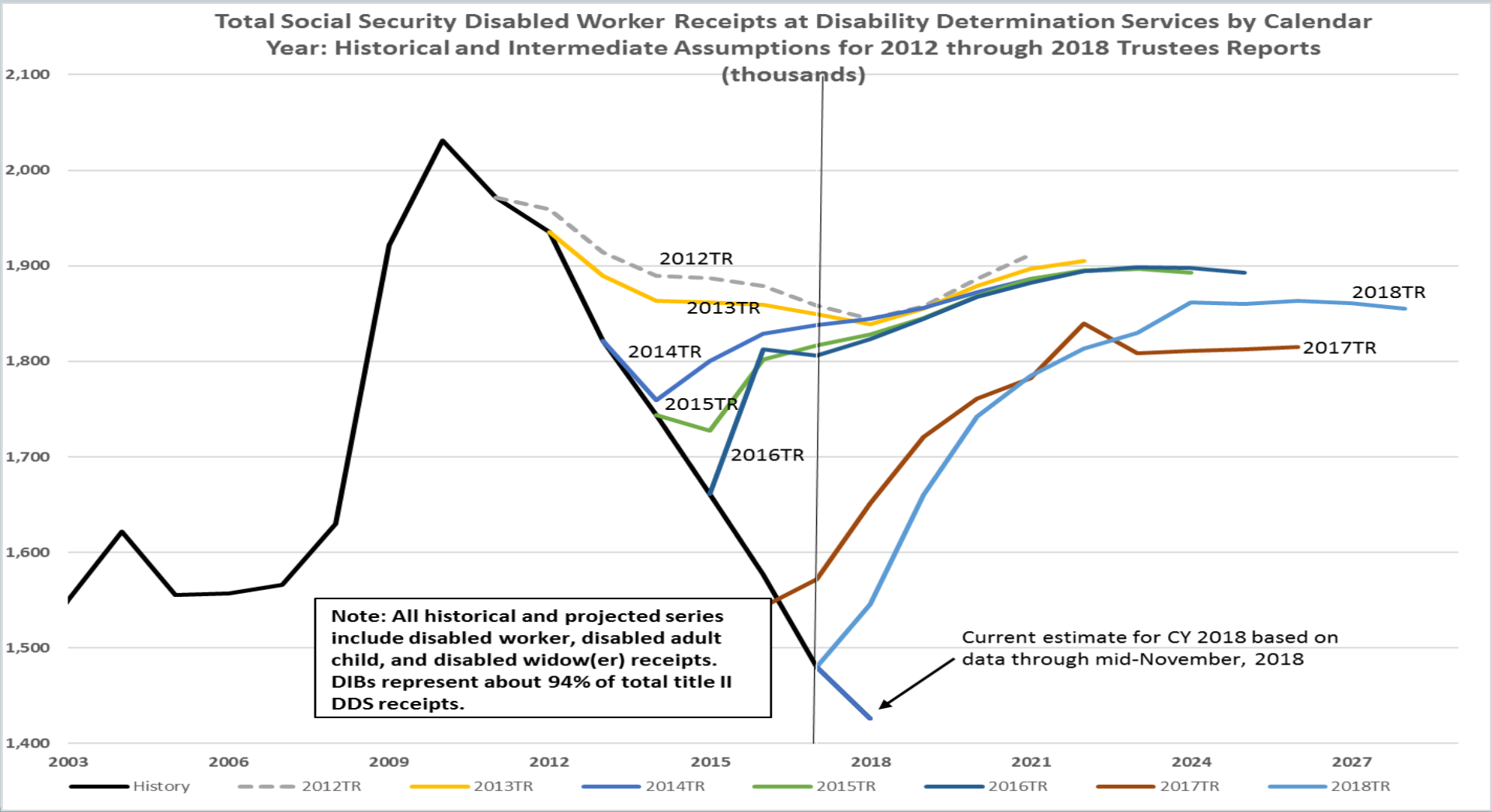
# Social Security Disability Benefits

- Requires inability to “engage in any substantial gainful activity (SGA) due to medically determinable impairment
- May be determined disabled if have “severe” impairments, meeting or equaling specific medical “listings”
- Or if, in addition to a severe impairment, there are substantial functional limitations considering age, education, and past work
- Beneficiaries are monitored for medical improvement by “diaries” with periodic Continuing Medical Reviews
- Beneficiaries are encouraged to return to work which can cease benefits

# Recent Favorable Disability Experience

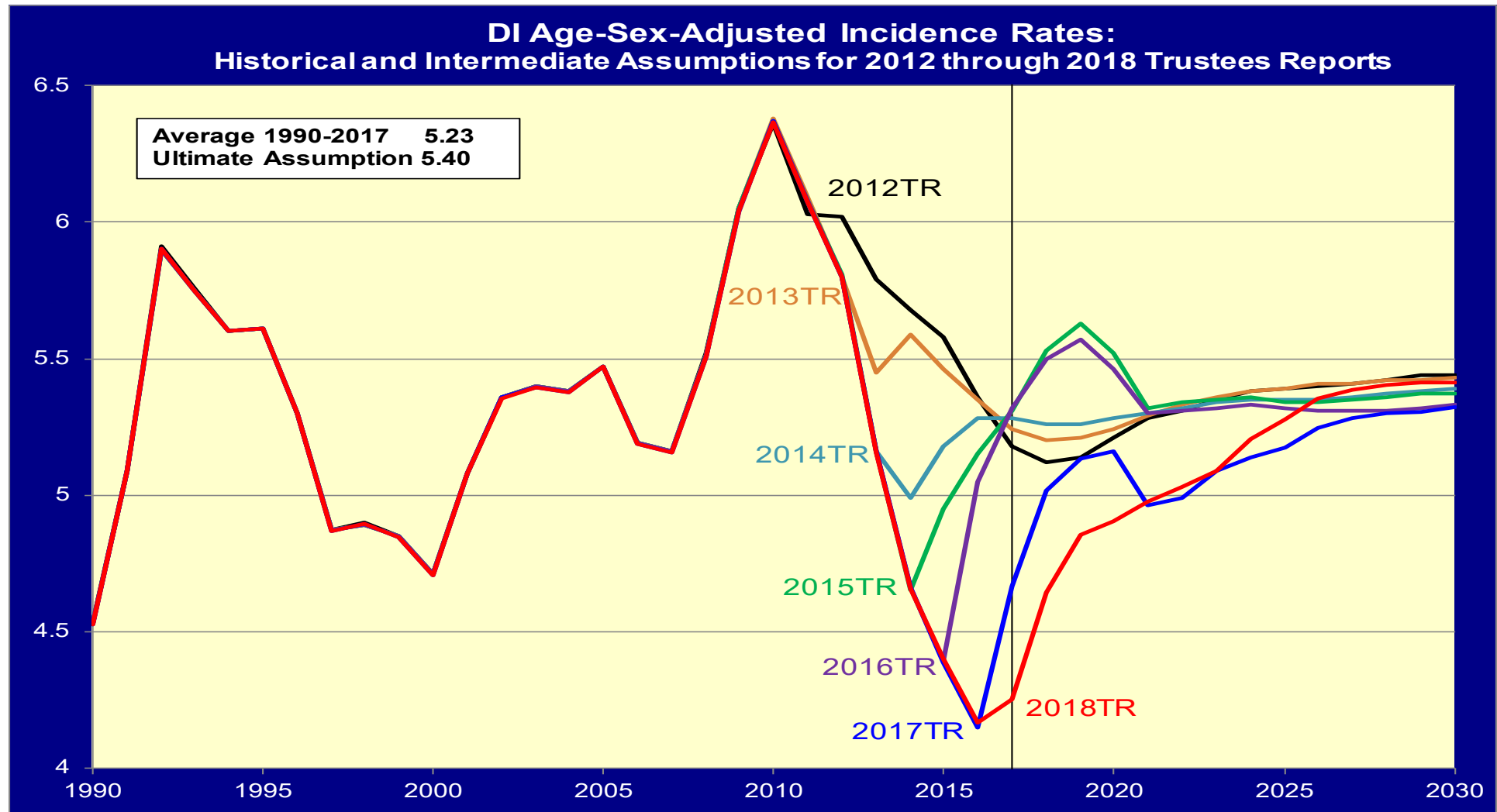
- Applications and incidence are at historic low levels
- Numbers of beneficiaries have been declining since 2013
- Prevalence rates have peaked and are dropping
- What about the future?
  - Are declines temporary, or the new state?
  - Possibilities:
    - ✦ Economy and jobs—*temporary*
    - ✦ Drop in hearings allowance rates—*temporary?*
    - ✦ Increased health care (ACA)
    - ✦ Field office consolidations
    - ✦ Attorney representation
    - ✦ Something more fundamental?

# Applications Are Still Dropping in 2018!



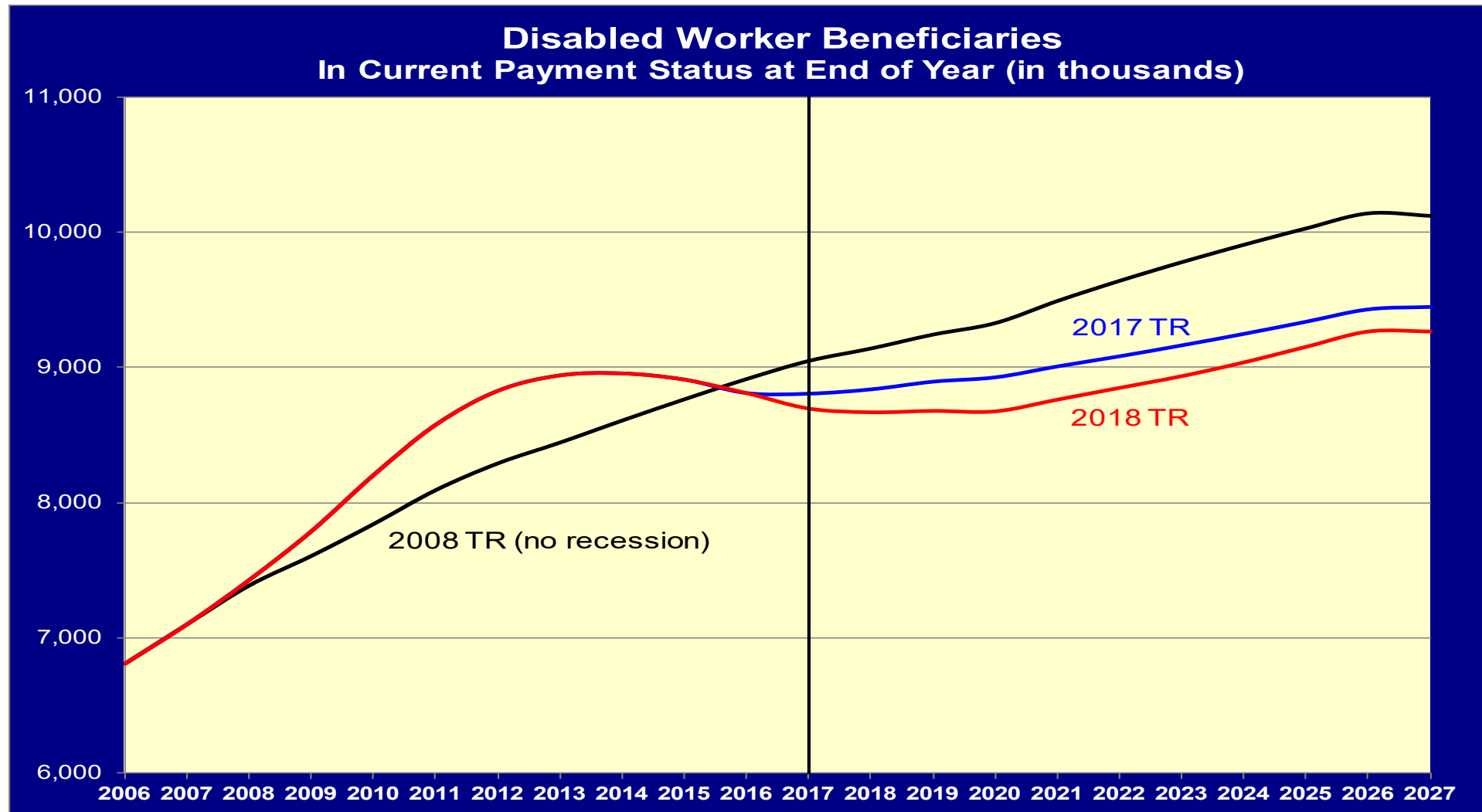
# Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels for 2016 through 2018

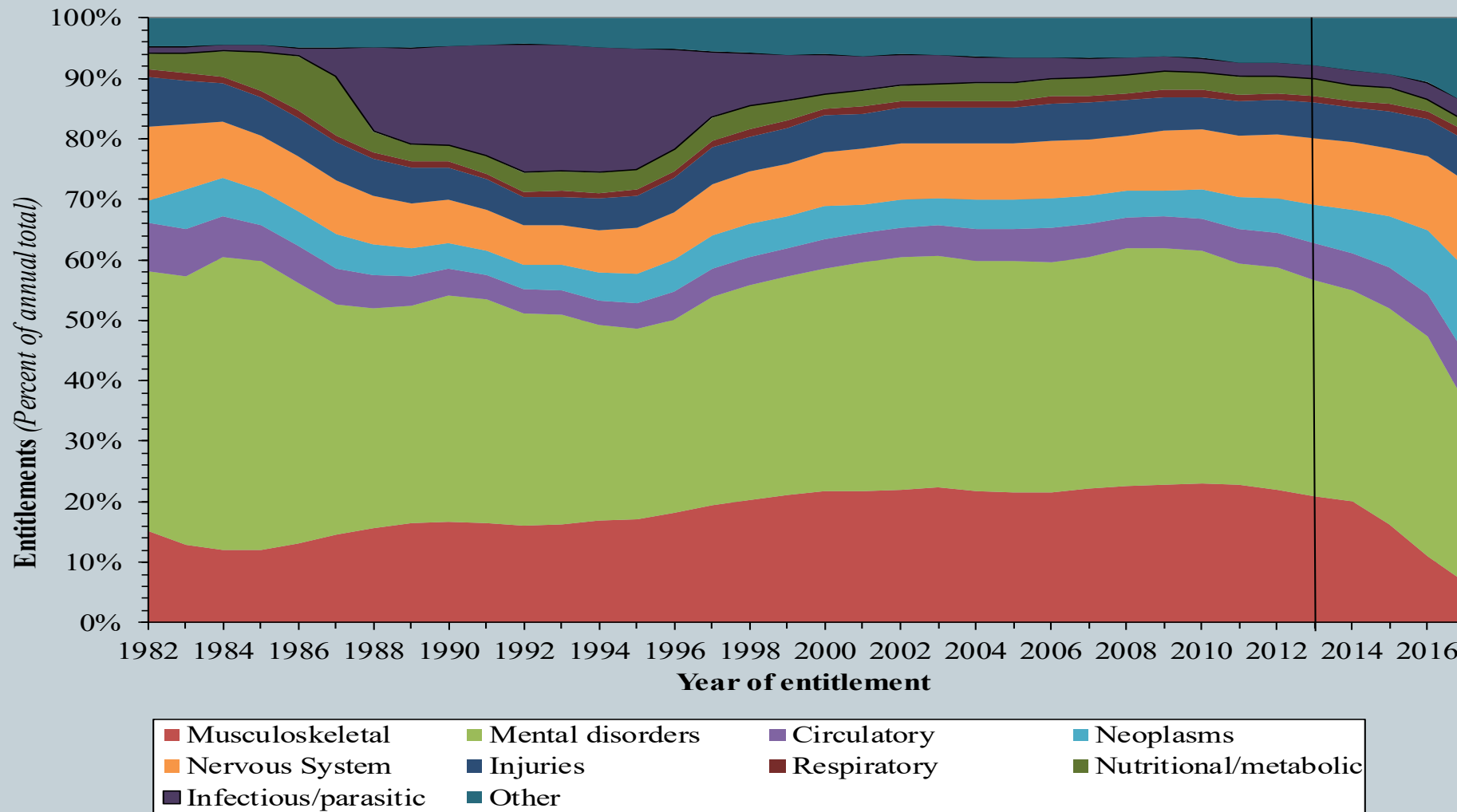


# Fewer Disabled Worker Beneficiaries

Fewer now and in near term based on recent applications and incidence rates

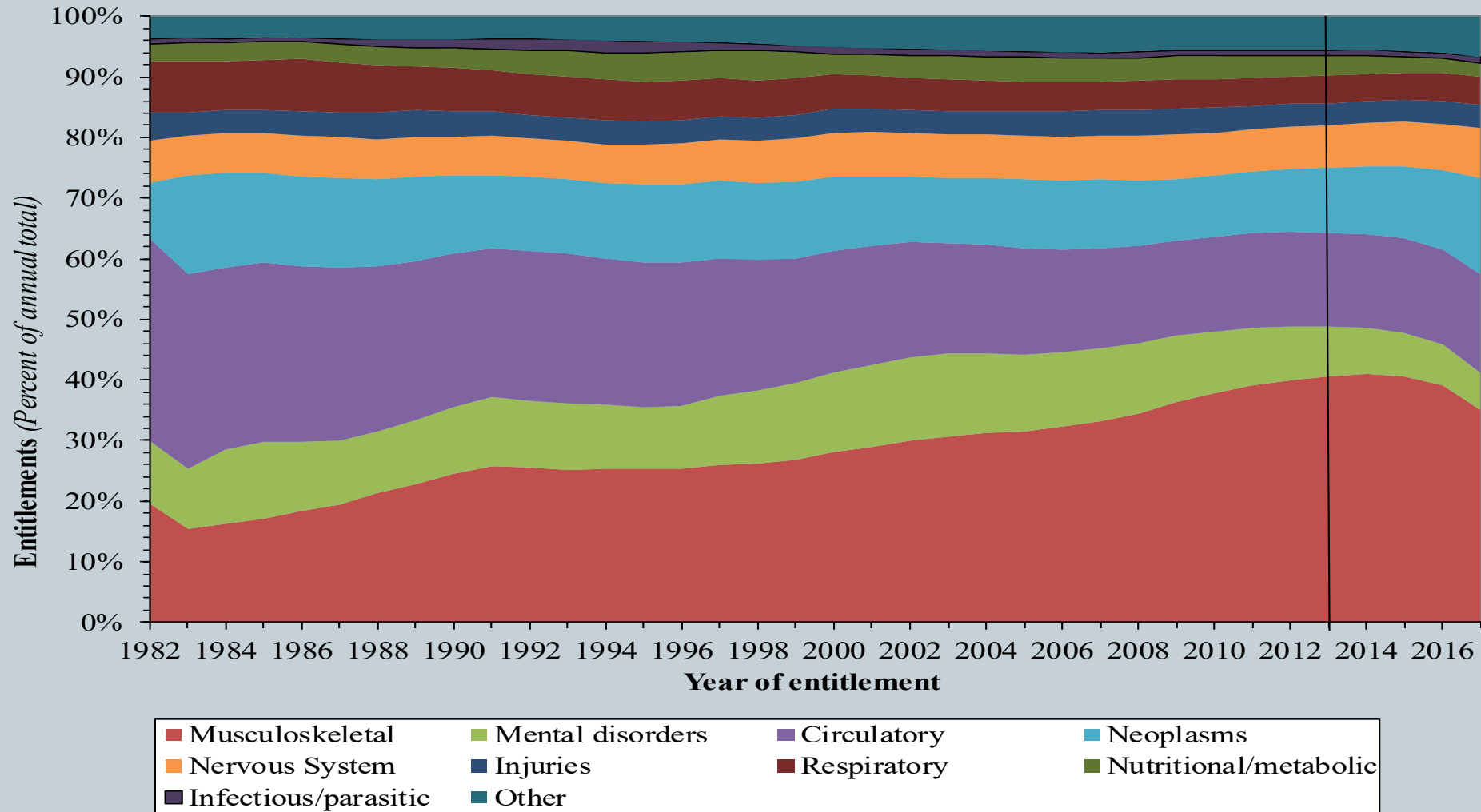


# DIBs awarded through June 2018 by year of entitlement and primary diagnosis code, *males age 30-39 at entitlement*





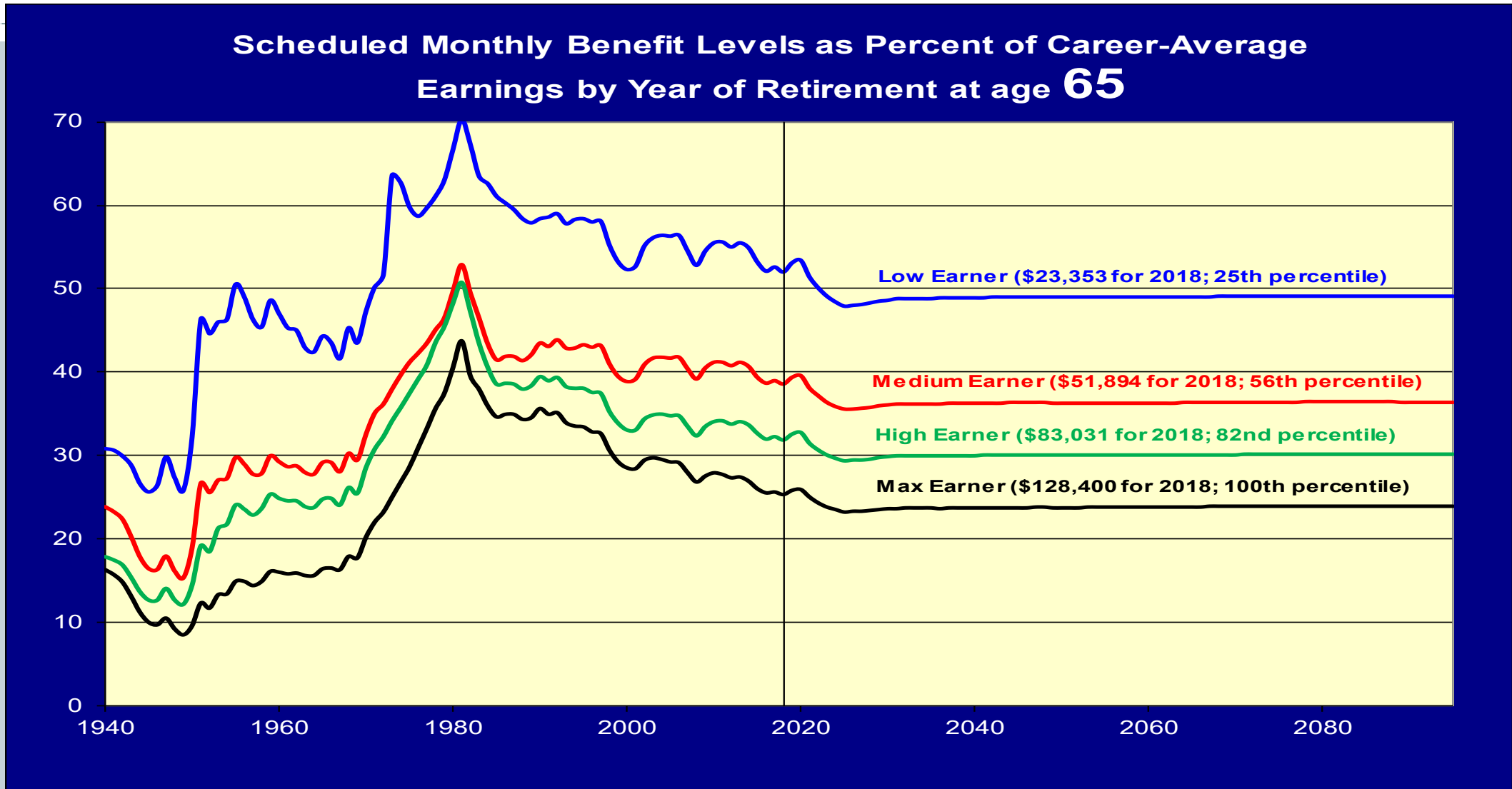
# DIBs awarded through June 2018 by year of entitlement and primary diagnosis code, *males age 50-59 at entitlement*



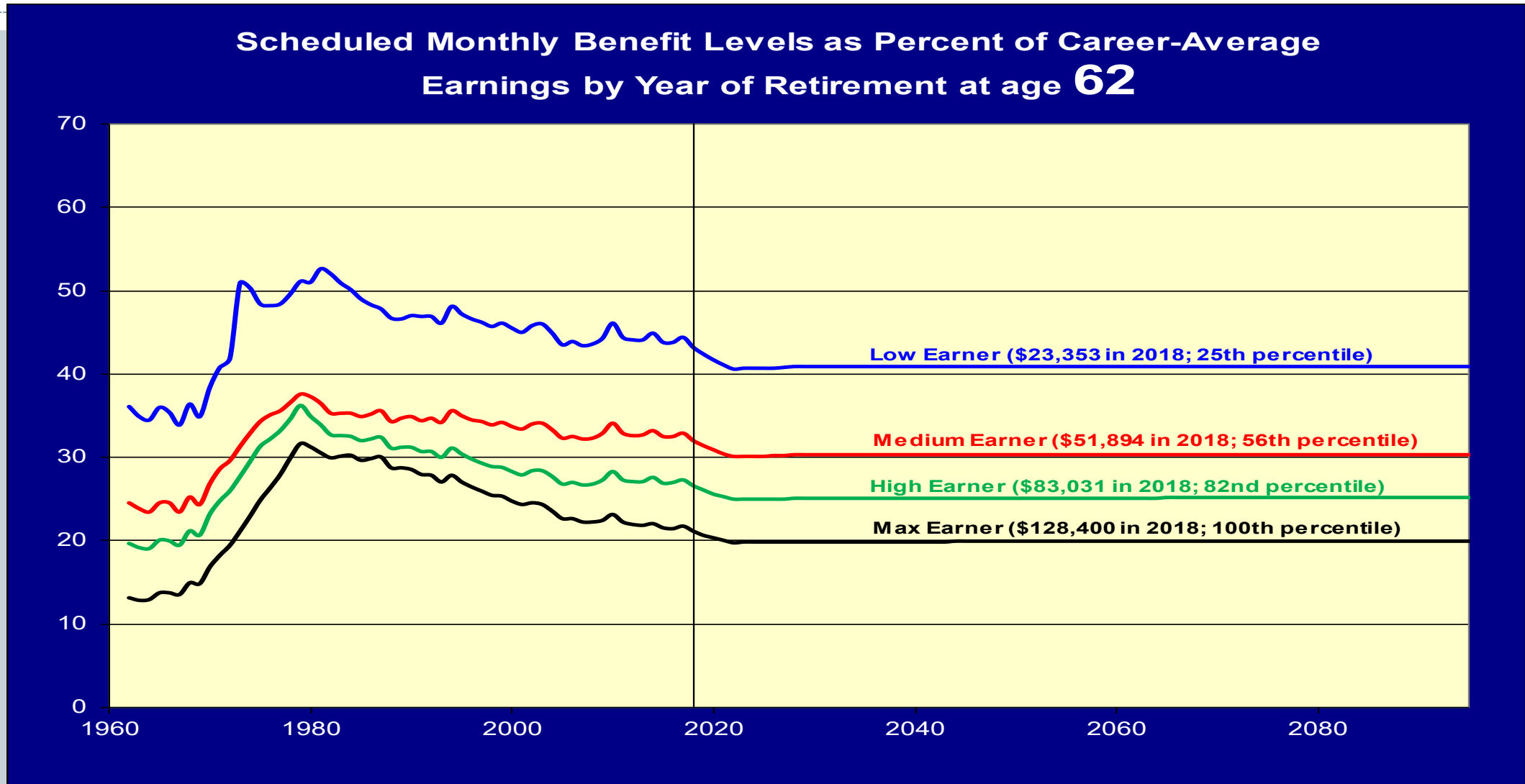
# Social Security Monthly Benefit Levels

- Primary Insurance Amount (PIA) is a progressive formula replacing a portion of worker's career-average past earnings level (highest 35 years of earnings—indexed to average wage—for retirees)
- Benefits replace 40% to 45% of career earnings, on average
  - About 80% for very-low earner, about 28% for steady maximum earner
- Auxiliary beneficiaries (family members) may receive half of the PIA of the retired or disabled worker
  - Surviving spouses may receive 100 percent; other survivors 75 percent
- Total benefits payable on a worker's account limited to “family max”
- Retired-worker and spouse benefits are modified by age at start of receipt

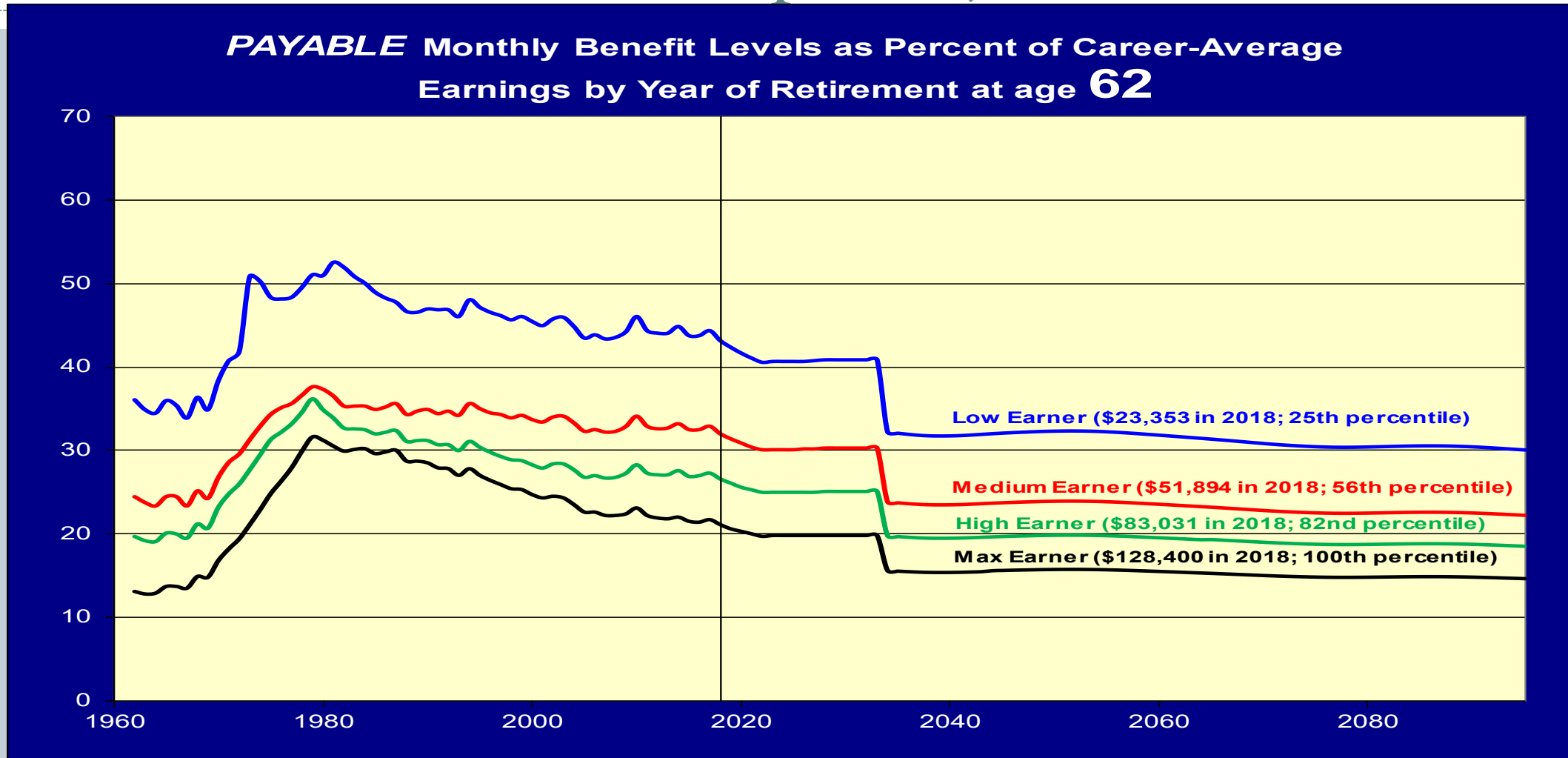
# Replacement Rates Based on the 2018 TR



# How About at Age 62, Where Many Start Benefits?



# Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



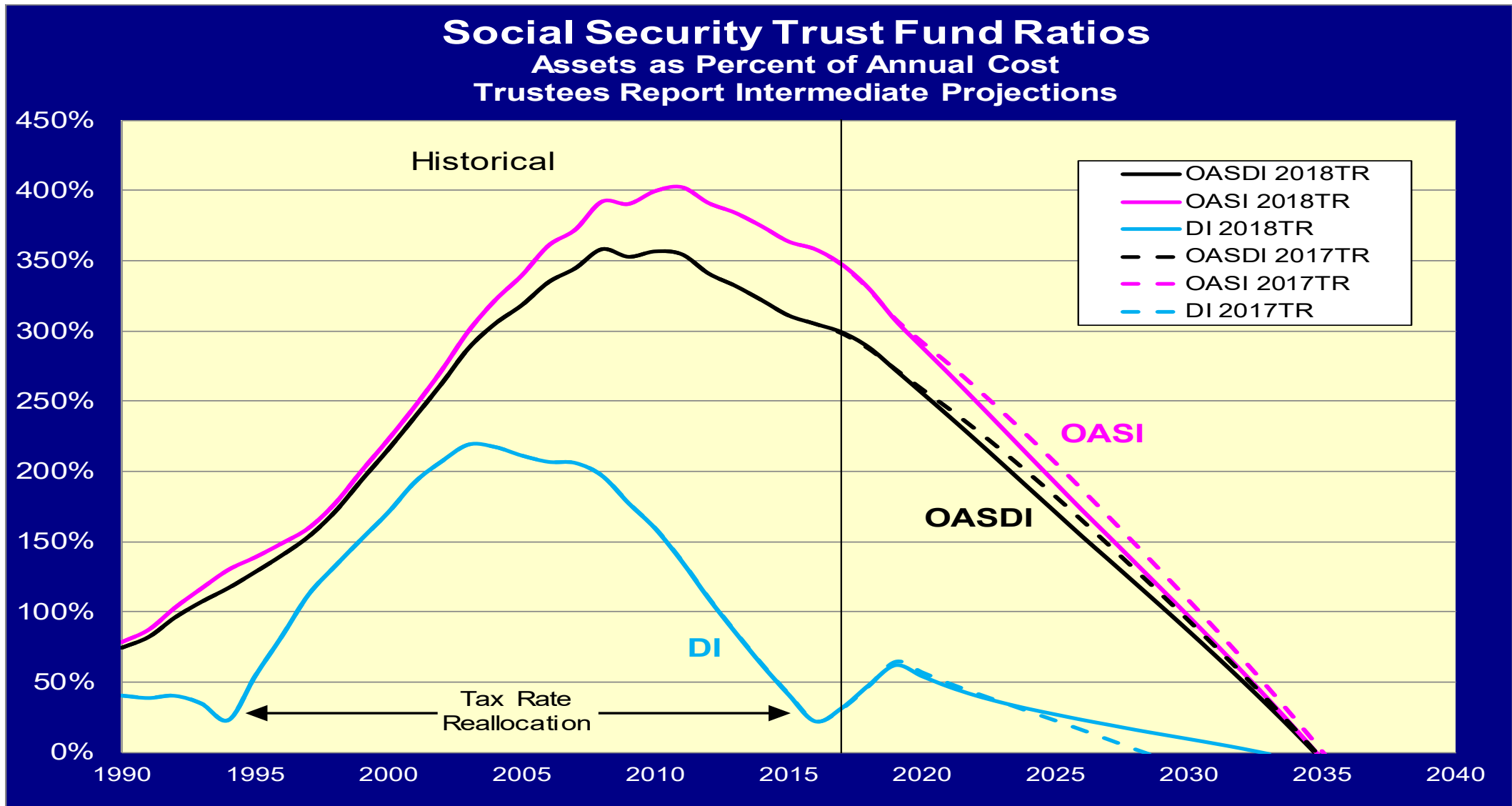
Source: Annual Recurring Actuarial Note #9 at [www.ssa.gov/oact/NOTES/ran9/index.html](http://www.ssa.gov/oact/NOTES/ran9/index.html)

# Social Security Monthly Benefit Levels

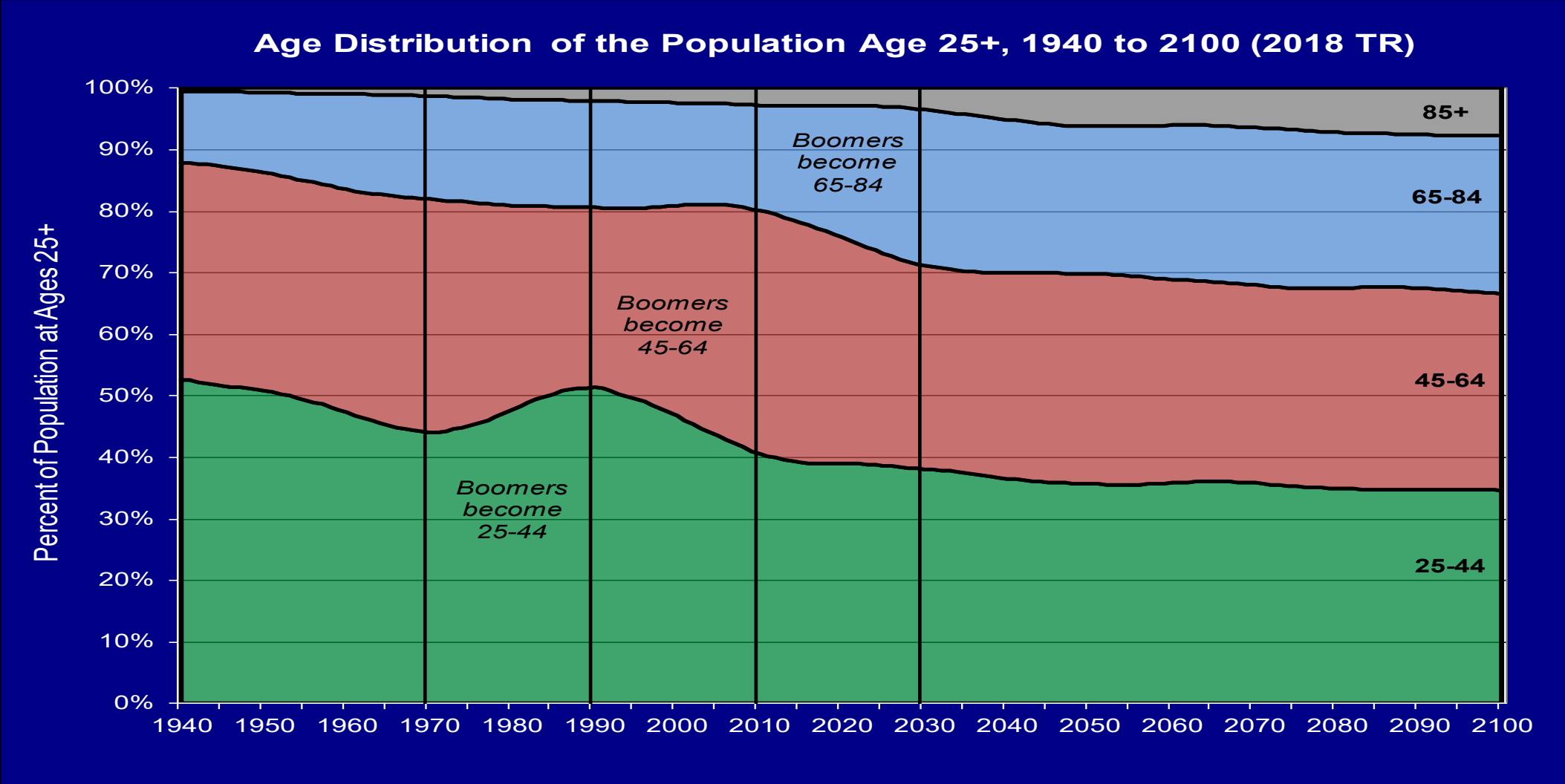
- Monthly benefit level after initial eligibility increases with COLA
  - Based on CPI-W (urban wage earners)
  - Thus, while individuals' benefits keep up with price levels, they fall behind average earnings levels
- Benefit levels from one generation to the next rise with average earnings
- But the “special minimum” benefit has been only CPI-indexed
  - So now applies to virtually no beneficiaries
- Monthly benefit levels may be offset by WEP, GPO, and workers comp
  - Disability benefits may be suspended or ceased due to earnings
  - Other benefits (under the Normal Retirement Age) may be deferred by earnings test

# SOLVENCY: OASDI Trust Fund Reserve Depletion in 2034

Reserve depletion date varied from 2029 to 2042 in reports over the past 26 years (1992-2018)



# Changing Age Distribution Over Last 20 and Next 20 Years Largely Explain the Financial Status of the OASI and DI Trust Funds



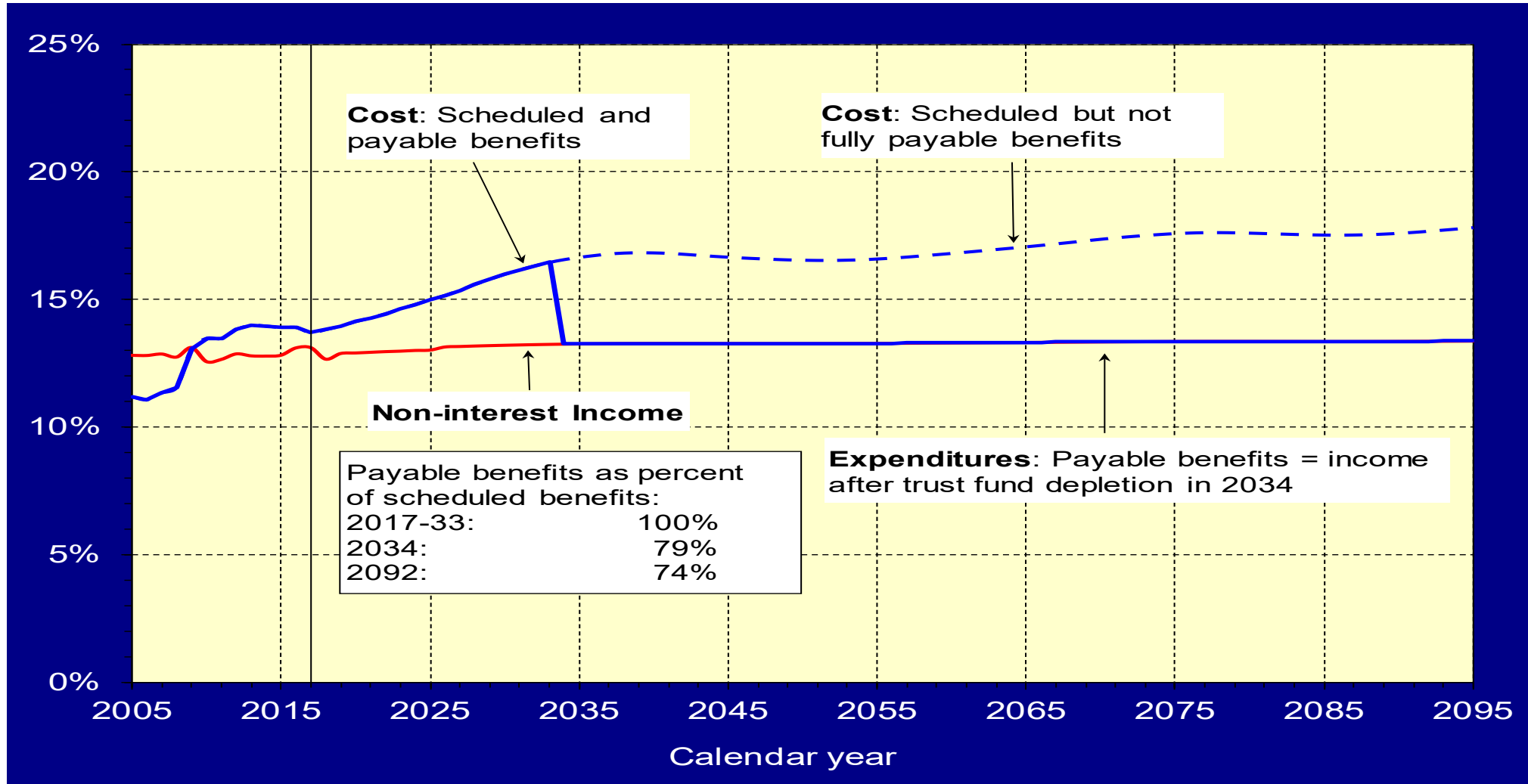


# OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

## Persistent Negative Annual Cash-Flow Balance Starting in 2010

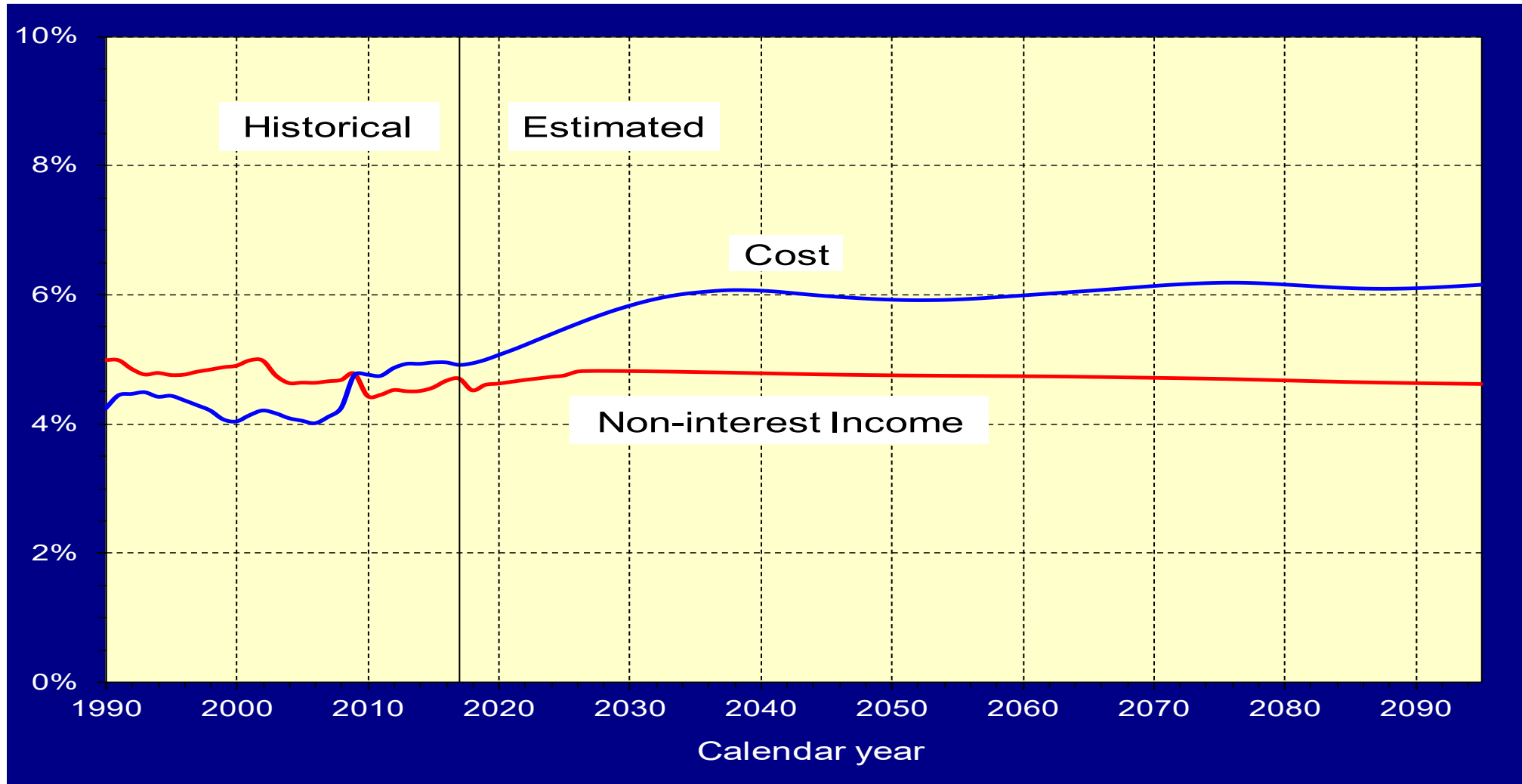
79% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2009: 4.32 percent of payroll



# SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2038, then declines to 5.9% by 2052, and generally increases to 6.1% by 2092



# The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to deplete:
  - Full benefits cannot be paid on time—no borrowing authority
  - So Congress must act, as it always has
- Straightforward solutions:
  - Add revenue and/or lower cost for OASDI
  - Comprehensive changes ***implemented*** by 2034

# How to Fix Social Security Long-Term

## Make choices addressing OASDI deficits 2034-2092:

- Raise scheduled revenue after 2033 by about one-third
- Reduce scheduled benefits after 2033 by about one-fourth
- Or some combination of the two
- Invest trust funds for higher return?
  - Limited help—it is a PAYGO world
  - So invest in coming generations of workers

# Ways to Lower Cost

- Lower benefits for retirees—not disabled?
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements
- Lower benefits mainly for the oldest old?
  - Reduce the COLA: chained CPI?
  - But, some say increase it with the CPI-E (based on purchases of consumers over age 62)

# Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- Raise tax on highest earners?
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains
- Tax investment income?

# Examples of Comprehensive Proposals

- Larson, Blumenthal, Van Hollen—introduced in January 2019
  - Increase revenue to cover shortfall, and increase some benefits
- Johnson—introduced in December 2016
  - Largely reduce scheduled benefits, but eliminate taxation of benefits and add minimum benefits
- Simpson-Bowles Commission—plan released in December 2010, but not introduced
  - A mix of additional revenue and reduced benefits

# Representative John Larson (D-CT) et al, January 2019

- Make PIA formula slightly more generous, more “progressive” (**shortfall ↑8%**)
- Increase the COLA (**↑14%**)
  - Based on CPI-E for all beneficiaries; 0.2pp higher on average
  - Index designed to better reflect the purchases of the elderly
- Improve the minimum benefit (**↑4%**)
- Lower taxation of OASDI benefits slightly (**↑6%**)
- Tax earnings above \$400K (not indexed) with small benefit credit (**↓67%**)
- Increase payroll tax rate gradually from 12.4 percent to 14.8 percent (**↓64%**)
- Would produce “**sustainable solvency**” (**shortfall ↓109%**)

See: [https://www.ssa.gov/OACT/solvency/LarsonBlumenthalVanHollen\\_20190130.pdf](https://www.ssa.gov/OACT/solvency/LarsonBlumenthalVanHollen_20190130.pdf)



# Representative Sam Johnson (R-TX), December 2016

- Make PIA formula less generous but more “progressive” (**shortfall ↓32%**)
- Change to mini-PIA approach (**↓13%**)
- Raise the Normal Retirement Age gradually (**↓32%**)
- Lower the COLA (**↓47%**)
  - Based on chain-weighted CPI for most beneficiaries; 0.3pp lower on average
  - No COLA if prior year’s MAGI is above certain thresholds
- Add a new minimum benefit (**↑9%**)
- Eliminate taxation of OASDI benefits in 2054 and later (**↑15%**)
- Would produce “**sustainable solvency**” (**shortfall ↓100%**)

See: [https://www.ssa.gov/OACT/solvency/SJohnson\\_20161208.pdf](https://www.ssa.gov/OACT/solvency/SJohnson_20161208.pdf)

# Simpson-Bowles Commission, December 2010

- Index NRA to keep ratio of retirement years to work years constant, with exemption for long-career low earners (**shortfall ↓18%**)
- Make PIA formula less generous but more “progressive” (**shortfall ↓45%**)
- Lower the COLA (**↓26%**)
  - Based on chain-weighted CPI; 0.3pp lower on average
- Improve the minimum benefit (**↑8%**)
- Increase benefits 5 percent for older retirees (**↑8%**)
- Increase taxable maximum to cover 90 percent of earnings (**↓ 35%**)
- Cover newly hired state and local gov’t employees (**↓ 8%**)
- Would produce “**sustainable solvency**” (**shortfall ↓112%**)

See: [https://www.ssa.gov/OACT/solvency/FiscalCommission\\_20101201.pdf](https://www.ssa.gov/OACT/solvency/FiscalCommission_20101201.pdf)