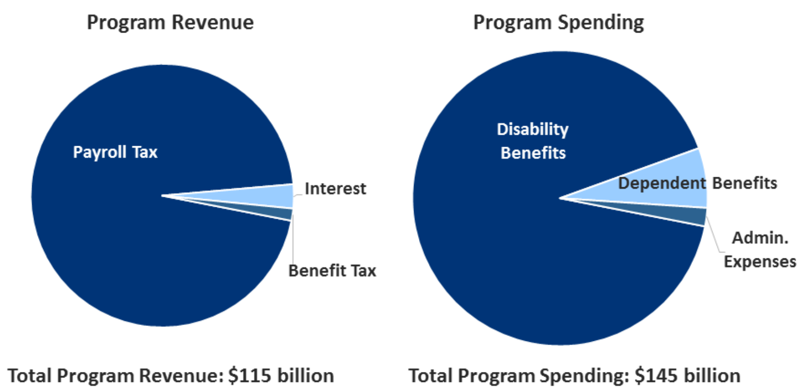
The Social Security Disability Insurance (SSDI) Program – The Financial State of the Program

The McCrery-Pomeroy SSDI Solutions Initiative is a project dedicated to identifying practical policy changes to improve the Social Security Disability Insurance (SSDI) program and other services for people with disabilities. With the SSDI trust fund less than two years from depleting its reserves, these solutions can help spur a debate on how to ensure the SSDI program best serves workers with disabilities, those who pay into the program, and the economy more broadly. This brief is the third in a series that will outline the details of how the SSDI program works. Below is a description of the current financial state of the program.

Source of Revenue and Spending in the SSDI Program

The Social Security Disability Insurance (SSDI) program is largely a self-funded, pay-as-you-go program which funds current benefits with tax revenue from current workers. Revenue for the program comes primarily from a 1.8 percent payroll tax on a worker's first $118,500 in earnings (indexed to average wage growth) – 0.9 percent is paid each by the employee and employer. These funds, along with a small amount of money from the partial income-taxation of benefits and interest on trust fund assets, are used to pay benefits to workers with disabilities and their dependents and fund the program's modest administrative costs.

Figure 1: 2014 SSDI Program Revenue and Spending

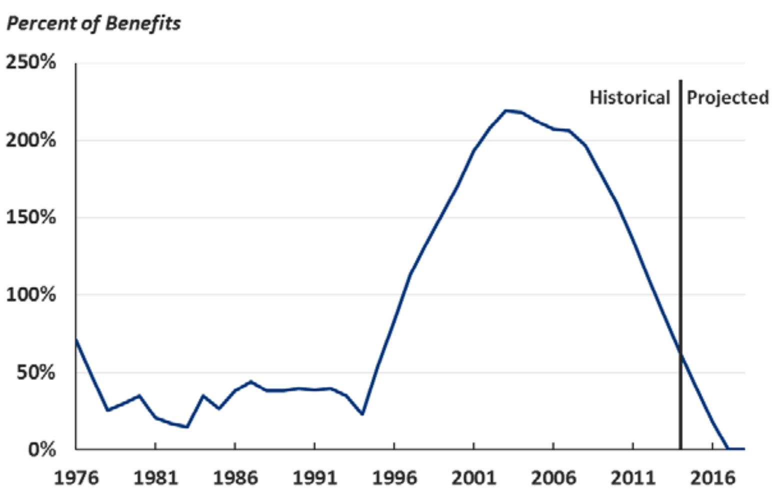


Source: 2015 Social Security Trustees' Report

The Short-Term Financial Outlook of the SSDI Program

Since 2005, the SSDI program has incurred more costs than it has raised in revenue, forcing it to drawdown its trust fund reserves. In 2014, for example, the SSDI program spent $145 billion while raising only $110 billion in tax revenue.[i] As a result of this imbalance, the Social Security Trustees expect the SSDI trust fund reserves to be depleted by the end of 2016 under current law. As a result, only 81 percent of benefits would be payable without Congressional action to avoid this depletion.

Figure 2: SSDI Trust Fund Asset Ratio



Source: 2015 Social Security Trustees' Report

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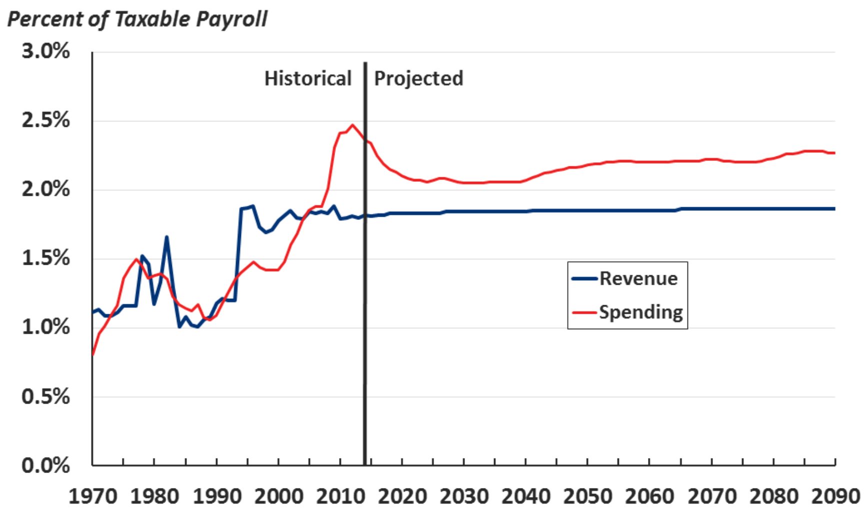
The Long-Term Financial Outlook of the SSDI Program

Assuming scheduled benefits are allowed to continue, the Social Security Trustees expect SSDI's cost to continue growing in nominal dollars over the next decade but to fall substantially as a percent of payroll. After rising from just over $55 billion in 2000 to about $145 billion in 2014, the Trustees project costs will grow to about $180 billion by 2020 and $225 billion by 2025.[ii]

As a percent of taxable payroll, the Trustees believe that costs peaked in the year 2012 at just under 2.5 percent and will decline for a few years as the baby boom population moves from the SSDI program to the old-age program and the economy continues to recover from the Great Recession. Specifically, they project costs will fall to below 2.1 percent of payroll in the 2020s and 2030s before rising to nearly 2.3 percent of payroll by 2090.[iii]

Although costs are projected to fall from their current peak, the Trustees project they will continue to exceed dedicated payroll tax revenue – which will raise between 1.8 and 1.9 percent of taxable payroll throughout the 75-year projection window. As a result, cash deficits will fall from 0.55 percent of payroll in 2014 to just above 0.2 percent of payroll in 2030, and then rise above 0.4 percent of payroll by the early 2080s.[iv]

Figure 3: SSDI Trust Fund Revenue and Spending



Source: 2015 Social Security Trustees' Report

In total, the Trustees estimate the program faces a shortfall of 0.31 percent of payroll over the next 75 years.[v] This means that keeping the trust fund solvent for the 75-year period would require increasing the SSDI payroll tax by about one sixth (from 1.8 to 2.1 percent), reducing SSDI costs by about one seventh, shifting roughly 0.3 points of the 10.6 percent retirement program payroll tax to the SSDI program, or enacting some combination of measures of equivalent size. Importantly, the Congressional Budget Office projects a larger shortfall than the Trustees – roughly 0.7 percent of payroll as opposed to 0.31 percent.[vi]

For more information on the financial state of the SSDI program, see the Committee for a Responsible Federal Budget's Analysis of the 2015 Social Security Trustees' Report, available here.

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[i] See Table IV.A2 of the 2015 Social Security Trustees' Report, available at www.ssa.gov/oact/tr/2015/tr2015.pdf#53.
[ii] Ibid.
[iii] Ibid., Table IV.B1, available at www.socialsecurity.gov/oact/tr/2015/tr2015.pdf#62
[iv] Ibid.
[v] Ibid., Table IV.B5, available at www.ssa.gov/oact/tr/2015/tr2015.pdf#78.
[vi] See the Congressional Budget Office's Answers to Questions From Senator Hatch About Various Options for Payroll Taxes and Social Security on July 11, 2014, available at: http://www.cbo.gov/sites/default/files/45519-QFR_Hatch.pdf#2

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