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"Maintaining the Social Security Disability Insurance Trust Fund's Solvency"
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Mr. Chairman, Ranking Member Becerra, and members of the subcommittee, I appreciate the invitation to appear before you today to discuss the looming depletion of the Social Security Disability Insurance (DI) trust fund reserves and proposals to delay depletion by reallocating payroll taxes from the Old-Age and Survivors' Insurance (OASI) program to the disability insurance program. My testimony will focus on the history of previous payroll tax reallocations and how those actions and the lessons from them apply to the current situation.

I have been involved in issues related to Social Security in a number of capacities as a Congressional staff member and in the non-profit sector for over 20 years. On a personal note, I have significant personal experience with Social Security. I had the responsibility for managing my parents' finances for several months after my mother was gravely injured in an automobile accident, with my stepfather's relatively modest Social Security retirement benefit and my mother's very small Social Security disability benefit providing their only sources of income. I have also come to know many people in the disability community through my mother's work as a disability rights activist and my involvement with groups for people with spinal cord injuries and their family members. These experiences have given me a deep understanding of the importance of the SSDI program as well as the modest level of benefits provided.

My testimony will highlight four basic points about payroll tax reallocation based on my review of prior reallocations:

- First, prior reallocations are more consistent with the approach required by the Johnson rule, which effectively requires that payroll tax reallocation be accompanied by reforms to improve overall trust fund solvency than with current proposals for a clean reallocation.
- Second, the current situation is very different from prior reallocations, which generally rebalanced payroll taxes to bring the allocation of payroll taxes in line with the relative costs of each program and shifted revenues

from the trust fund in a stronger actuarial condition. Neither would be the case with a reallocation enacted in the current scenario.

- Third, clean payroll tax reallocations which were intended to avoid imminent trust fund depletion and buy time for Congress to develop and enact legislation to improve solvency resulted in no actions being taken until the trust fund was facing depletion again. That is a risk we cannot afford to take again given the Social Security trust fund is facing depletion in less than two decades.
- Finally, those three points lead me to the conclusion that depletion of the trust fund should be an impetus for comprehensive Social Security reform that addresses solvency of both OASI and DI programs. Failing that, any reallocation should be for a limited period of time and accompanied by modest changes improving overall trust fund solvency as well as reforms improving the DI program, along with a process that will facilitate action on comprehensive reform in the near future.

I want to stress at the outset that nothing in my testimony is intended to suggest that the Disability Insurance program is fundamentally broken or growing out of control, or to advocate for reductions in benefits or eligibility. Indeed, while there is debate about the exact reason for growth in spending in the disability insurance program, most analysts agree the largest source of growth in the program is anticipated demographic factors including the Baby Boomers aging into the years where disability is most prevalent (45-65), more working women becoming insured by the program, and the increase in the normal retirement age to 66 years old (scheduled for 67) extending the years of eligibility for disability. But to the extent recent growth is due to demographic factors, it should serve as a warning sign for the old-age program, which is beginning to be strained by the same demographic challenges that will contribute to its depletion within the next two decades.

While some action will likely be necessary to reduce the growth in spending in the disability program, any changes must be made with recognition of the critical protections the program provides for a vulnerable population and the modest level of benefits provided. And as I said earlier and will explain in greater detail later in my testimony, action to improve solvency of the disability insurance trust fund is most appropriately addressed in the context of comprehensive Social Security reform that considers a full range of options for changes in benefits and revenues. Absent this, lawmakers should consider policies to improve SSDI.

The Committee for a Responsible Federal Budget has launched the McCrery-Pomeroy SSDI Solutions Initiative – co-chaired by your former colleagues, Representatives Jim McCrery and Earl Pomeroy – to identify potential improvements to the disability insurance program so that it better serves beneficiaries and taxpayers, which we hope will provide you and your colleagues with constructive options to consider. However, my testimony about reallocation reflects my own views and not the views of the McCrery-

Pomeroy SSDI Solutions Initiative or the co-chairs, who have not taken a position on reallocation.

The Johnson rule regarding the Social Security trust fund, which was adopted as part of the House rules package for the 114th Congress, has been portrayed as preventing Congress from addressing the DI depletion through the routine step it has taken many times in the past of reallocating payroll taxes from one program to the other. While the Johnson rule would prohibit legislation reducing the balance of the OASI trust fund, which reallocation legislation would do, it provides an exception for legislation that improves solvency of the combined OASDI trust fund. Thus, the Johnson rule would allow reallocation legislation if it included provisions improving trust fund solvency. This is consistent with several past reallocations.

Congress has enacted legislation reallocating payroll taxes on six occasions. The 1977 and 1983 reallocations were part of major Social Security reforms that extended OASDI solvency overall. The reallocations in 1980 and 1994 were closer to the clean reallocation being advocated today, but with some key differences. The 1980 legislation provided for a temporary reallocation of two years benefiting the OASI trust fund, and was preceded by legislation reforming the DI program and improving trust fund solvency a few months earlier. The 1994 legislation included other changes in the Social Security trust fund that achieved modest savings and was framed as buying time for more significant reforms. The first two reallocations were approved as part of legislation increasing benefits when the overall program had actuarial surplus and a reallocation was necessary to cover a part of the costs of increased benefits, very different than the circumstances we face today.

Background on Previous Reallocations

In the discussion about reallocation it has been stated often that Congress has enacted eleven reallocations. However, as the table below shows, although payroll tax allocations for the two funds have changed 11 times in opposite directions, only 6 bills have been enacted prescribing reallocations, most recently in 1994 – and they were more often than not accompanied by other changes in the program.

Legislation	Year Affected	Trust Fund Benefited	Description
Social Security Amendments of 1967	1968	DI	The bill increased benefits, partially offset by an increase in contributions and benefit base with remainder covered by OASI surplus. Reallocation from OASI to DI covering part of costs of increased benefits in DI.
Tax Reform Act of 1969	1970	DI	Major tax bill with a provision increasing Social Security benefits by 15%. Reallocation aimed at covering costs of benefit increase for DI; OASI's increased benefits covered by fund's prior surplus.
Social Security Amendments of 1977	1978	DI	Major Social Security reform intended to reduce Social Security shortfalls. DI and OASI were both facing shortfalls, though DI's deficit was larger as a percent of payroll tax (47%, compared to OASI's 17%).
	1979	OASI	
	1982	SI	
Allocation of Social Security Tax Receipts of 1980	1980	OASI	Temporary reallocation to avoid depletion of OASI and provide time to enact reforms. Enacted 4 months after legislation reforming DI to achieve savings.
Social Security Amendments of 1983	1983	OASI	Major Social Security reform improving Social Security solvency.
	1984	OASI	
Social Security Domestic Employment Reform Act of 1994	1994	DI	Bill reallocating taxes from OASI to DI to avoid depletion of DI trust fund and restore short term adequacy of DI trust fund. Accompanied by a request for a study to understand the growth in SSDI rolls.
	1997	OASI	
	2000	DI	

The Social Security Disability Insurance program was created in 1956. To finance the new benefits, the legislation established a Disability Insurance (DI) trust fund which was financed by an additional 0.25% of contributions from employers and employees and 0.375% from the self-employed, raising the total employee/employer tax rate to 2.25% in 1957 and ultimately to 4.25% in 1975.

The first reallocation of payroll taxes between OASI and DI was enacted as part of the Social Security amendments of 1967. The bill included a variety of increases in benefits partially offset by an increase in contribution and benefit base, with the remaining costs financed by the actuarial surplus in the trust fund. The tax rates were increased, rising from a rate of 3.8% to 5.9% for employees and employers.

The bill reduced overall OASDI solvency, essentially spending the projected actuarial surplus, but left both trust funds in long term actuarial balance. The legislation shifted some payroll taxes from OASI, which had a surplus of 0.89% of payroll prior to the legislation, to DI, which was facing a deficit of 0.15% of payroll prior to the legislation that would have been exacerbated by the increased benefits in the legislation. After the legislation both trust funds were projected to be in rough actuarial balance over 75 years.

The Tax Reform Act of 1969 included a provision increasing Social Security benefits by 15% with a shift in payroll taxes from OASI to DI to cover the costs of the increased benefits in the DI program. As in 1967, OASI was running a surplus before reallocation, this time at 0.56% of payroll, and DI had a small deficit of 0.03% of payroll. The reallocation of payroll taxes was sufficient to cover the costs of increased benefits in the DI program and leave the DI trust fund with a slight actuarial surplus. The remaining surplus in OASI after the reallocation was also sufficient to cover most of the costs of the benefit increase in OASI, with the OASI trust fund facing a small actuarial shortfall of 0.08% of payroll after the legislation.

The next payroll tax reallocation was enacted as part of the Social Security Amendments of 1977, a comprehensive Social Security reform legislation intended to reduce Social Security shortfalls. It shifted payroll taxes from OASI to DI. Both trust funds were facing shortfalls prior to the legislation, but the DI trust fund was facing depletion in 1979 compared to the early 1980s for OASI and the projected shortfall of 0.38% of payroll in the DI program over 75 years was equal to 47% of revenues, a much greater relative shortfall than the 1.08% of payroll shortfall in OASI program, which amounted to 17% of revenues.

In 1980, the OASI trust fund was facing depletion of its reserves as early as 1981 while the DI trust fund was projected to continue to grow for the next 75 years. Congress responded by enacting legislation temporarily shifting revenues from DI to OASI in 1980. This was partially reversed in 1981 and completely reversed in 1982. At the time, the DI trust fund had a projected surplus of 0.62% of payroll while OASI had a projected deficit of 2.44%. The reallocation was enacted four months after Congress had passed legislation reforming the DI program that achieved savings and improved solvency of the DI trust fund (and the OASDI trust fund as a whole), by 0.22% of payroll. According to the 1981 Trustees Report, the reallocation was enacted in order to "place the assets of the two trust funds relative to outgo on a more even basis during this period, and to allow additional time to resolve the impending OASI financial problem."

At the end of 1981, authority (P.L. 97-123) was given for the trust funds to borrow from one another (including the Medicare Hospital Insurance trust fund), but only until the end of 1982. This authority was exercised several times to cover costs in the OASI trust fund by borrowing from the DI and HI trust funds, with the funds paid back in 1986.

By 1983 the OASI trust fund was facing imminent depletion even with the additional revenues from the temporary reallocation enacted in 1980 and the inter-fund borrowing enacted in 1981. By law, the inter-fund borrowing could not exceed the amount necessary to assure benefit payments through June of 1983, creating a hard deadline for action. .At the time, DI was in relatively strong financial shape, with the Trustees again reporting that the trust fund balance was projected to grow.

The Social Security Amendments of 1983 made a variety of changes to Social Security benefits and revenues extending solvency of the OASDI trust fund and shifted revenues from DI, which had a projected surplus of 0.66% of payroll prior to the legislation, to the OASI program, which had a projected deficit of 2.48% of payroll before the legislation. While the legislation reduced OASI costs, it slightly raised DI's cost (by raising the full retirement age) in addition to reallocating revenues. After the legislation both trust funds were projected to be in rough actuarial balance over 75 years.

After the 1983 amendments, both funds were projected to be solvent through about 2060, based on the economic and technical assumptions at the time. But these estimates were based on record-low SSDI rolls, following the increase in Continuing Disability Reviews and tighter eligibility criteria in the early 1980s. These estimates also failed to fully take into account the effects on DI program enrollment and costs of provisions in the 1983 reforms relaxing eligibility criteria by allowing demographic and vocational factors to be considered during the determination process, as well as allowing one or multiple conditions to jointly qualify workers for SSDI benefits.

DI enrollment and costs rose gradually from their 1983 trough, and DI's share of the payroll tax turned out to be insufficient. By the early 1990s, the DI trust fund began to run into financial problems, prompting the Social Security Trustees beginning in 1992 to recommend a reallocation of payroll taxes from OASI to DI – a measure ultimately enacted by Congress in 1994. At the time, OASI was facing a projected shortfall of 1.46% of payroll (13 % of payroll tax rate) while DI was facing a projected shortfall of 0.66% of payroll (55% of payroll tax rate). The temporary reallocation of 1994 boosted DI's share and held the SSDI rate (in the long run) at 0.9 percent.

Prior to the 1994 reallocation, DI spending represented 14% of total OASDI costs while DI received 11% of total payroll tax revenues. After reallocation, DI's share of payroll taxes was 14%, roughly in line with its share of program costs. In other words, to the extent the shift of payroll taxes from DI to OASI in 1983 ultimately turned out to shift too much revenue from the DI program, the 1994 reallocation corrected that problem and ensured that the DI program was not being shortchanged. This is also evidenced by the fact that the OASI program is now facing the larger long-term shortfall. DI is on a path to be depleted 20 years before OASI not because the allocation of payroll taxes shortchanges the DI program relative to its share of long term costs, but because it faced financial pressures from demographics 20 years before OASI.

The 1994 reallocation was designed by the Social Security Trustees to ensure that the DI trust fund would remain above 100 percent of benefits over the ten-year window, meeting the test of short-range financial adequacy. While the Trustees did not specifically intend for the DI trust fund to be depleted in 2016, it was a reallocation intended to maintain a trust fund ratio of 100% for ten years while costs continued to grow faster than revenues, which would result in the trust fund being depleted in a little over twenty years. But the fact that the Trustees expected the DI trust fund to be depleted by 2016 does not mean further reallocation was anticipated when the 1994 reallocation was enacted as some have suggested. Indeed, when the Trustees initially recommended the reallocation they warned against further reallocation, writing that "[further reallocation] could raise concerns about the financial viability of the OASI program."

After the reallocation was enacted, the Trustees urged Congress to follow reallocation with reforms addressing the shortfall facing the Social Security program, stating "While the Congress acted this past year to restore its short-term financial balance, this necessary action should be viewed as only providing time and opportunity to design and implement substantive reforms that can lead to long-term financial stability."

Differences Between Previous Reallocations and Current Situation

Past reallocations have generally diverted revenue from the program in stronger financial condition to the program in weaker condition. In fact, in four of the six times reallocation was approved, revenues were shifted from a trust fund with a projected actuarial surplus to a trust fund facing a deficit. In the other two instances, revenues were shifted from the trust fund with a smaller relative actuarial deficit to the trust fund with a larger actuarial deficit.

Furthermore, previous reallocations have generally "rebalanced" allocation of payroll taxes to bring allocation of revenues in line with each program's proportion of projected costs. This has been done by shifting payroll taxes to the program with a much greater percentage of total OASDI spending, relative to its share of payroll taxes allocated. For example, as I described before, DI revenues were 11 percent of total OASDI revenues in 1994 and DI costs were 14 percent of total OASDI costs before reallocation. After reallocation, the DI program accounted for 14 percent of both the combined revenues and costs. In 1980, DI received 17 percent of overall revenue and was responsible for 11 percent of total costs prior to reallocation – after reallocation, these numbers were balanced at 12 percent and 11 percent respectively.

The situation today is very different from past reallocations. OASI currently faces a much larger long-term actuarial shortfall than SSDI in relative as well as absolute terms – a shortfall of almost 18 percent of program costs, versus a shortfall equal to 15 percent of program costs for SSDI. Meanwhile, SSDI actually receives a slightly higher proportion of OASDI payroll tax revenue – 14 percent of total OASDI revenues – than its proportion of spending – 13% of total OASDI spending. This means that a reallocation would actually move further away from the proportional allocation of revenues that previous reallocations achieved.

Although the proposal for a reallocation that extends the life of the DI trust fund for nearly two decades is in many ways similar to the reallocation enacted in 1994, the current situation is very different. In 1994, OASI depletion was projected to be 40 years away, so a reallocation of payroll taxes from OASI to DI that sacrificed the long-term health of OASI and accelerated the projected depletion of the OASI trust fund by four years to address the immediate shortfall in the DI trust fund was a reasonable tradeoff since there was plenty of time for Congress to address the long-term shortfalls in OASI. Today the OASI trust fund faces depletion in less than 20 years, leaving much less time to take action to prevent depletion of the OASI trust fund without severe disruptions for beneficiaries and taxpayers.

In addition, the increase in DI costs from the 1980s that led to the shortfall in the DI trust fund in the early 1990s was unexpected and there was uncertainty about what would happen going forward. The Trustees went to great lengths to justify the reallocation on the grounds that earlier projections were wrong and DI costs had grown faster than expected leaving policymakers without time to take action to avoid trust fund depletion. The reallocation was intended in part to provide time to see if the growth in DI benefits would continue and enact changes in DI program if they did. The Trustees requested a report prepared by HHS to examine the sources of growth in the DI program with the goal of determining whether the growth in the program was likely to continue and identifying changes to address the growth. The Trustees even suggested that the reallocation could be partially or fully reversed if the bump in costs turned out to be temporary.

By contrast, the increase in DI costs and projected depletion of DI trust fund reserves in 2016 is due to growth in the program from demographics and other factors that were anticipated. There's little question today that costs will continue to exceed income. The very fact that we knew depletion of the DI trust fund was coming means that a key rationale for the 1994 reallocation does not apply today.

Because Congress failed to heed the warnings of the Social Security Trustees about the need to follow the 1994 reallocation with reforms to address the shortfall facing the Social Security system, some reallocation of payroll taxes into the DI trust fund or inter-fund borrowing will be necessary. There are currently no realistic options for changes in program costs or revenues that would produce sufficient savings in time to prevent depletion of the trust fund in 2016. However, the lessons from previous reallocations and the differences in the current situation from previous reallocations lead to the conclusion that Congress should not enact a clean reallocation, especially one that extends the life of the trust fund for a significant period of time, without enacting reforms that improve the solvency of the OASDI trust fund overall.

The experience with the 1994 reallocation is a warning against a reallocation that kicks the can down the road with the promise of reforms in the future. One of the lessons from 1994 reallocation is that if we enact reallocation legislation delaying depletion without addressing the long-term shortfall facing Social Security system, the pressure on policymakers to act will be reduced and action to restore Social Security solvency will continue to be delayed until we face the crisis of imminent trust fund depletion again. If that happens, we could find ourselves in a similar situation twenty years from now, except instead of being able to avoid trust fund depletion by reallocating payroll taxes, the only options available to policymakers will be extremely steep increases in taxes, deep and immediate reductions in benefits for all beneficiaries, or general revenue transfers to the OASDI trust fund, fundamentally altering the nature of the Social Security program.

Unfortunately we have seen an increasing trend of policymakers failing to deal with issues until we reach a crisis. If we paper over the imminent crisis facing the DI trust fund with reallocation and delay action until we face the crisis of impending depletion of the combined OASDI trust fund, the consequences will be dire for beneficiaries, taxpayers and the Social Security program. The magnitude of the changes necessary to restore Social Security solvency are already greater than they were in 1983. If we continue to delay action for another twenty years the magnitude of changes necessary to restore solvency will be 50% greater than if we act today.

Ideally, the depletion of the DI trust fund should be viewed as a warning about the financial problems facing Social Security and provide the impetus for comprehensive Social Security reform. Comprehensive reform could restore solvency of the OASDI trust fund and temporarily reallocate payroll taxes within a solvent system to prevent either trust fund from being depleted, as the 1977 and 1983 reforms did. The Committee for a Responsible Federal Budget has put forward many options for changes in benefits and revenues to make the Social Security program financially sustainable and developed an online tool, the Social Security reformer, which allows users to choose among a wide range of options to put together a solvency plan.

There are several reasons policymakers should respond to the depletion of the DI program through comprehensive Social Security reform.

First, the OASI trust fund actually faces a larger long-term shortfall than the DI trust fund and, as I noted earlier, the demographic factors that have contributed to impending depletion of the DI trust fund have started to impact the OASI trust fund as well. As former Congressmen Jim Kolbe and Charlie Stenholm noted in an op-ed in Roll Call this week, the depletion of the DI trust fund should serve as a warning buoy calling attention to the demographic tidal wave approaching the OASI program and the need for action. Thus, while depletion of the DI trust fund is the more immediate problem, it highlights the need to take action soon to avoid a much larger long term problem with the OASI program which is rapidly approaching.

Second, because the financing and benefit structure of OASI and DI programs are integrated, most options regarding benefits and revenues affect both OASI and DI. As a result, reforms that focus on the DI program in isolation provide few options to achieve savings without risking significant adverse effects on vulnerable populations. To be sure, there are savings to be achieved in DI through improvements in program integrity and others tweaks of the disability program, but these changes are unlikely to produce enough savings to significantly improve trust fund solvency. There are other reforms that have the potential of improving the DI program, including early intervention initiatives and work supports to encourage and help individuals with disabilities remain in the workforce. These proposals should be considered, but many of these policies would involve upfront costs and uncertain long term savings.

Addressing depletion of the DI trust fund in the context of comprehensive Social Security reform would provide policymakers with a much broader range of options and tradeoffs on both the benefit and revenues side to improve solvency of both the DI and the OASI program.

Finally, comprehensive Social Security reform would allow policymakers to identify interactions between both programs and include provisions to avoid any unintended consequences that reforms in one program would have on the other. And, as noted above, it allows for changes in the benefit structure affecting both programs, which could include improvements in the safety net and poverty protections of the Social Security program that result in strengthened protections for disabled individuals.

Having said that, I recognize that agreement on comprehensive Social Security reform may not be possible before Congress needs to act to avoid depletion of the DI trust fund. Absent comprehensive reform, policymakers should enact a smaller reallocation or inter-fund borrowing to delay depletion by a few years accompanied by modest reforms and a mechanism for further action on Social Security solvency. This would the keep pressure on for action to address the underlying shortfalls, just like the temporary payroll tax reallocation in 1980 and the subsequent limited inter-fund borrowing authority did in the early 1980s, in contrast to the 1994 reallocation that was followed by twenty years of inaction.

Legislation temporarily shoring up the DI trust fund should be accompanied by changes to produce savings in both OASI and DI as well as reforms and pilot projects to improve the DI program. For example, policymakers could set a goal of including enough savings in the OASI program to offset the impact of reallocation on the 75-year balance of the OASI trust fund and make a down payment on improving DI solvency. CRFB has compiled a list of relatively minor changes in Social Security benefits and revenues that produce modest savings and could be included in reallocation legislation to improve OASDI solvency and meet the requirements of the Johnson rule, which I can share with the Committee or members if you are interested.

Legislation temporarily preventing depletion of the DI trust fund should also be used as an opportunity to put in place reforms and pilot projects that could serve as the foundation for further reforms of the SSDI program. There are many good ideas that have the potential of improving the SSDI program and possibly achieving long-term savings and we hope to put additional ideas forward through the McCrery-Pomeroy SSDI Solutions Initiative. However, we don't have enough information to know how well these ideas will work. Testing some of these ideas now will provide policymakers with information about how well these ideas work in practice and ways they can be refined and improved in subsequent legislation providing a longer term solution.

Finally, legislation temporarily shoring up the DI trust fund through reallocation or inter-fund borrowing should include a mechanism or process to prompt action on further reforms to address solvency of the entire system. One option for doing that is the Delaney-Cole Social Security Commission Act, bipartisan legislation introduced last Congress by Congressman John Delaney (D-MD) and Tom Cole (R-OK) which would establish a statutory commission with a mandate to recommend ways to make Social Security solvent for at least 75 years. The policy prescriptions would then be subject to an up-or-down vote in Congress.

Conclusion

While a reallocation of payroll taxes between the OASI and DI trust funds has been portrayed as a routine step that has been taken many times in the past, a clean reallocation of payroll taxes from OASI to DI to extend the life of the DI trust fund until 2033 would be very different than most previous reallocations. Moreover, the circumstances today are very different than they were when previous reallocations were enacted. The experience with previous reallocations has demonstrated that, when trust fund depletion is delayed by reallocating payroll taxes, no further action is taken to address the underlying cause of the shortfall until the trust fund is facing depletion again. Therefore policymakers should not enact a clean reallocation of payroll taxes to delay depletion of the DI trust fund for several years without taking steps to address the shortfalls facing Social Security and enact improvements in the DI program. The Committee for a Responsible Federal Budget stands ready to help this subcommittee and your colleagues in Congress as well as the administration in achieving these goals.