Options to Address SSDI's Financial Shortfall

Marc Goldwein & Ed Lorenzen

The following paper was originally published as a chapter in SSDI Solutions: Ideas to Strengthen the Social Security Disability Insurance Program, *the culmination of the Committee for a Responsible Federal Budget's McCrery-Pomeroy SSDI Solutions Initiative. The rest of the book can be found at* *http://www.ssdisolutions.org/book* *and is available for purchase on* *Amazon.com*.

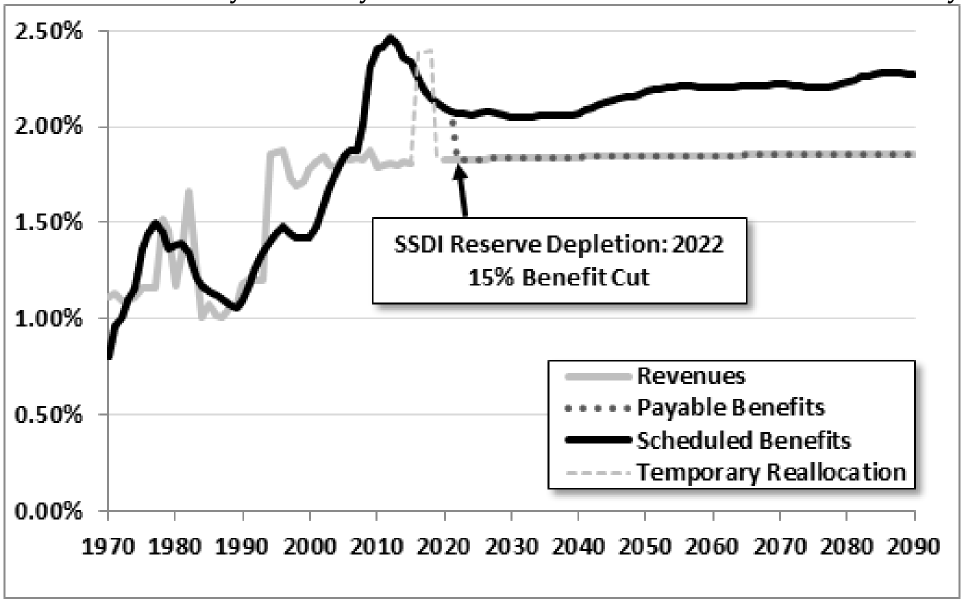
Introduction

The Social Security Disability Insurance (SSDI) program provides a vital source of income for most of its 11 million beneficiaries, and is an important source of income security for the more than 150 million workers currently insured by the program. Yet the SSDI program faces a significant medium and long-term funding gap, even after accounting for the temporary reallocation of payroll taxes included in the Bipartisan Budget Act of 2015.

In 2014 alone, the SSDI program spent over $30 billion more on benefits than it collected in dedicated revenue—which is the equivalent of roughly 0.55 percent of taxable payroll; for context, the dedicated payroll tax for SSDI is typically 1.8 percent of payroll (Trustees 2015). According to the Social Security Trustees (2015), this gap between spending and revenues will persist, declining to just above 0.2 percent of payroll by 2030, remaining relatively stable through 2040, and then rising to more than 0.4 percent by the early 2080s.

As a result of this imbalance, the program is expected to deplete its trust fund reserves by 2022 (Goss 2015), at which point only 85 percent of scheduled benefits could be paid. Over the next 75 years, the SSDI trust fund faces a shortfall of roughly 0.26 percent of taxable payroll based on projections from the Social Security Trustees (2015) and 0.67 percent based on projections from the Congressional Budget Office (CBO 2015).

Figure 1: Social Security Disability Insurance Revenue and Benefits (Percent of Payroll)



Source: 2015 Social Security Trustees' Report & authors' calculations.

Ultimately, policymakers must address SSDI's funding gap by increasing dedicated revenue, reducing program costs, diverting funds into the program from other sources, or some combination of the three. Closing a 0.26 percent of payroll shortfall would be the equivalent of reducing all new and future benefits by 15 percent, increasing dedicated taxes by 14 percent, or diverting enough funds from the old-age program to increase its actuarial imbalance by 10 percent.

In this paper, we put forward concrete policy options which could help to close this imbalance.

Understanding the SSDI Funding Gap

Although we will not put forward any recommendations in this paper, careful study of the financial issues surrounding the SSDI program makes at least a few findings clear.

First, even with the reallocation it will be extremely difficult to avoid trust fund depletion without directing new money into the trust fund. The Bipartisan Budget Act is projected to have extended the life of the trust fund to 2022 (Goss 2015), which is too little time for the most plausible changes in benefits or eligibility to be sufficiently phased in. As a result, either new revenue or some type of direct or indirect transfer or reallocation from the old-age trust fund will likely be necessary, at least in the near-term.

Second, the SSDI program faces a structural gap between spending and revenue—not simply a temporary shortfall. Although the current deficit is projected to subside in the coming years, it is not likely to disappear. Based on estimates from the Social Security Trustees (2015) and factoring in the Bipartisan Budget Act of 2015, policymakers will ultimately need to increase revenue, reduce spending, or divert resources into the program equal to almost 0.3 percent of payroll for long-term solvency. CBO (2015) estimates a gap closer to almost 0.7 percent of payroll.

Third, policymakers cannot count on improvements to the SSDI program, promising as they may be, to close the entirety of its financial shortfall. This book contains a dozen sets of proposals with the potential to improve SSDI in areas such as early intervention and work supports, program administration, interaction with other programs, and structural reforms. Although these and other proposals can make the SSDI program more efficient and effective, the savings they generate are mostly modest, long-term, or highly uncertain. Indeed, many of these proposals require upfront investments that would initially *increase* costs.

And finally, SSDI's financial gap would *ideally* be closed as part of comprehensive Social Security reform that also addresses the Old-Age and Survivors' Insurance (OASI) program. After all, the old-age and disability programs share a common benefits formula and tax base, a number of interactions, and a common cost growth driver in the form of an aging population. Addressing the finances of the two programs together would also allow for much better targeting and many more tradeoffs because the full Social Security population is much larger and more diverse than the SSDI population.

Short of comprehensive reform, however, policymakers must identify changes to avoid SSDI trust fund depletion before 2022, and those changes should preferably improve the long-term finances of the program. These changes could take a variety of forms, ranging from diverting existing resources to SSDI to increasing tax revenue to changing benefit levels, structure, or eligibility rules.

In this paper, we identify a variety of options which could improve SSDI's long-term financial state. Our list is not exhaustive, but it is meant to give a sense of the types of choices available. We focus mainly on options with significant direct financial impacts rather than on those that may indirectly impact costs by changing award decisions or through behavioral effects (though many of the options we discuss may also influence behavior). We do not include options that would generally be applied both to SSDI and OASI such as a change to the Primary Insurance Amount (PIA) formula.

Importantly, we take no view on which of these options are better or worse than other options, nor on the question of whether any of these options should be adopted in the near-term or later in conjunction with comprehensive reform.

A Summary of Options to Improve SSDI's Finances

The summary tables below list many of the options discussed in this chapter to improve the solvency of the SSDI program. The table also measures the 75-year financial impact of these provisions, measured as a share of taxable payroll. By this measure, a combination of changes that reduced the shortfall by above 0.26 percent of payroll would make SSDI solvent (at least on average) over the next 75 years.

Importantly, estimates are based on the full impact of the provisions on the OASDI program, which means a portion of the savings or some costs may actually accrue to the retirement program rather than the SSDI program. No estimates include costs or savings outside of the Social Security program, though both may exist. Most estimates are rough numbers provided generously by the Social Security Chief Actuary. Where we have provided our own estimates, numbers are marked with an asterisk (*). All estimates are based on benefit and revenue projections from the Social Security Trustees, rather than CBO. Estimates marked with a caret (^) indicate that it would produce savings or costs less than 0.005 percent of payroll.

Figure 2: Options to Increase SSDI Income and Resources (with effects on OASI when applicable)

	75-Year Actuarial Impact on SSDI (Percent of Payroll)	**75-Year Actuarial Impact on OASI (Percent of Payroll)**
Social Security Disability Insurance (SSDI) 75-Year Shortfall	-0.26%*	n/a
Direct Funds Into the SSDI Trust Fund		
Reallocate the payroll tax from OASI to SSDI to extend the SSDI trust fund for five years (until 2027)	+0.02%*	-0.02%*
Reallocate the payroll tax from OASI to SSDI to equalize the trust funds (extends until 2034)	+0.05%*	-0.05%*
Reallocate the payroll tax to achieve 75-year solvency (extends until 2090)	+0.28%*	-0.28%*
Allocate taxation of Social Security benefits proportionally	+0.07%*	-0.07%*
Allocate all taxation of SSDI benefits to SSDI, none to Medicare	+0.04%	^
Transfer $120 billion from the OASI fund to the SSDI fund in 2022, extending the SSDI fund for five years	+0.02%*	-0.02%*
Transfer $250 billion from the OASI fund to the SSDI fund in 2022, equalizing the funds' depletion dates	+0.05%*	-0.05%*
Allow interfund borrowing between OASI & SSDI	varies	varies
Merge the OASI and SSDI trust funds	n/a	
Increase SSDI Revenue (Options Begin in 2019)		
Increase the SSDI payroll tax rate from 1.8% to 2.1%	+0.28%*	+0.01%*
Eliminate SSDI taxable maximum	+0.34%	^
Eliminate SSDI taxable maximum for employers only	+0.17%	^
Cover all newly-hired state & local workers under SSDI	+0.01%	^
"Experience rate" the payroll tax	varies	varies

Figure 3: Options to Reduce SSDI Costs

	75-Year Actuarial Impact on OASDI (Percent of Payroll)
Social Security Disability Insurance (SSDI) 75-Year Shortfall	-0.26%*
Modify SSDI Eligibility	
Require applicants to have worked 5 of the last 8 years (instead of 5/10)	+0.12%
Require applicants to have worked 4 of the last 6 years (instead of 5/10)	+0.16%
Only count quarters of coverage with earnings above SGA	+0.13%
Redefine SGA to be the lesser of an individual's AIME & current SGA	+0.01%
Raise "grid" age thresholds with NRA increase & index to age longevity	+0.01%
Raise "grid" age thresholds as outlined in Sen. Tom Coburn's 2011 proposal	+0.04%
Modify Relationship between SSDI and Earliest Eligibility Age	
Convert SSDI beneficiaries to OASI at age 62 (instead of age 66, headed to 67) & apply actuarial reduction for early retirement	+0.50%
Freeze current relationship between EEA & NRA at 4-year difference	+0.18%
Restore relationship between EEA & NRA to 3-year difference	+0.32%
Limit SSDI eligibility to workers who become disabled before age 62 & phase down benefits for those who apply between age 53 and 61, converting to OASI at NRA[1]	+0.13%
Improve Program Administration and Interactions	
Expand CDIs nationwide & enact various anti-fraud policies	^
Reduce SSDI/Unemployment Insurance "Double-Dipping"	+0.01%
Reform & simplify Workers' Compensation offset and close loopholes	+0.01%
Restore reconsideration in prototype states	+0.01%
Close the record to submit evidence one week before ALJ hearings	+0.01%
Eliminate the "controlling weight standard" for medical evidence	+0.02%
Include a government representative at ALJ hearings	^
Other Savings Options	
Reduce maximum period of retroactive benefits from 12 to 6 months	+0.02%
Pay retroactive benefits at half the level of future benefits	+0.02%
Increase waiting period between onset and eligibility from 5 to 6 months	+0.02%
Increasing waiting period between onset and eligibility to 1 year	+0.13%
Fully eliminate dropout years	+0.15%*

[1] If converted to OASI at the EEA instead of the NRA, the estimated impact on SSDI would be +0.45 percent of payroll with the net effect on OASDI at +0.13 percent.

Figure 4: Options to Expand SSDI Benefits

	75-Year Actuarial Impact on OASDI (Percent of Payroll)
Social Security Disability Insurance (SSDI) 75-Year Shortfall	-0.26%*
Benefit Expansions	
Eliminate the waiting period	-0.09%
Require applicants to have worked 4 of the last 10 years (instead of 5)	-0.10%
Allow those age 60 and above to qualify for reduced benefits without meeting the recency of work requirements	-0.01%
Allow SSDI beneficiaries to enroll in Medicare immediately	-0.02%
Establish a poverty-level minimum benefit for SSDI beneficiaries	-0.07% to -0.03%
Reduce an individual's SSDI benefits by $1 for every $2 the individual earns above SGA for all beneficiaries to avoid "cash cliff"	-0.04%
Reduce an individual's SSDI benefits by $1 for every $2 the individual earns beginning at the first dollar	^
Eliminate the payroll tax for SSDI beneficiaries who return to work	-0.01%

Options for Directing Funds into the SSDI Trust Fund

One way to improve the financial strength of the SSDI program would involve directing money currently dedicated to some other government purpose into the SSDI trust fund. A number of options exist for policymakers to enact such a change, including "reallocation" of payroll tax revenue from the old-age program and interfund borrowing or transfers, among others.

Regardless of which option policymakers choose, specific design choices will require policymakers to decide how many years they intend to extend the solvency of the trust fund, as well as whether or not they intend to "offset" any loss of funds. Box 1 of this paper provides an illustrative list of tax and spending options which could be used to offset a reallocation or transfer from the old-age trust fund.

Below are a number of options to direct funds into the SSDI trust fund:

Reallocation of the Payroll Tax
One option to improve SSDI's finances would be to reallocate part of the payroll tax from the Social Security old-age trust fund to the disability insurance trust fund.

Under current law, the SSDI trust fund is generally financed primarily from a 1.8 percent payroll tax, while the OASI trust fund is financed with a 10.6 percent payroll tax. The combined 12.4 percent tax is split evenly between employer and employee, and it applies to a worker's first $118,500 of wages (indexed to average wage growth).

The Bipartisan Budget Act of 2015 temporarily reallocated 0.57 percent of the payroll tax from the OASI trust fund to the SSDI trust fund for the years 2016, 2017, and 2018. This reallocation delayed the projected depletion date of the SSDI trust fund from 2016 to 2022, while the OASI trust fund is estimated to remain solvent through 2035 (Trustees 2015; Goss 2015).

To further extend the life of the SSDI trust fund, policymakers could enact an additional reallocation beyond 2018. The size and length of a reallocation would depend in part on how long policymakers want to extend the solvency of the SSDI trust fund.

For example, a five-year extension and reallocation beginning in 2022 would require shifting an average of about 0.22 percent of the payroll tax into the SSDI program, equivalent of 0.02 percent of payroll over 75 years. That reallocation could be further extended through 2034 in order to align the reserve depletion date of the two trust funds, at a 75-year cost to the OASI program of 0.05 percent of payroll.

The program could be made solvent over 75 years by reallocating 0.30 percent of payroll into the SSDI program permanently beginning in 2022, the equivalent of 0.28 percent of payroll. Other options are also possible.

Figure 5: Reallocation Options (as a percentage of payroll, starting in 2022)

Trust Fund Extension	5 years (Extends to 2027)	12 years (Extends to 2034)	Permanent (Extends to 2090)
Average annual reallocation	0.22%	0.22%	0.30%
75-year actuarial impact on OASI	-0.02%	-0.05%	-0.28%

Source: Authors' estimates based on the 2015 Social Security Trustees' Report.

Reallocation of Other Revenue Streams

Although both Social Security programs and the Medicare Hospital Insurance program are funded mainly from the payroll tax, a small portion of all three programs is funded from the partial income taxation of Social Security benefits. Specifically, Social Security beneficiaries who make above $25,000 (or $32,000 for married couples) must count 50 percent of their Social Security benefits as income for tax purposes. Revenue from taxation of retirement benefits is currently dedicated to the OASI trust fund, and taxation of disability benefits is dedicated to the SSDI trust fund. In 2014, the two trust funds received roughly $28 billion and $2 billion, respectively, in income tax revenue (Trustees 2015). An additional 35 percent of benefits are taxable for individuals making above $34,000 per year (or $44,000 for married couples), with the additional funds dedicated to the Medicare Hospital Insurance trust fund.

In place of the current practice, a larger portion of revenue from taxation of benefits could be allocated to the SSDI trust fund. For example, revenue from taxation of Social Security benefits could be split proportionally to the payroll tax allocation between the programs, rather than based on which benefit is taxed. That would improve the financial state of the SSDI program (and worsen the state of the OASI program) by about 0.07 percent of payroll over 75 years. Alternatively (or additionally), taxation of SSDI benefits currently dedicated to Medicare could instead be dedicated to the SSDI program—a change that would divert the equivalent of about 0.04 percent of payroll.

Trust Fund Transfer

Rather than dedicating a stream of revenue to the SSDI trust fund, policymakers could enact a one-time transfer of funds into the system. Based on estimates from the Trustees, a five-year extension of trust fund solvency (from 2022 to 2027) would require a roughly $120 billion immediate transfer, and an extension through 2034 (from 2022) would require a roughly $250 billion transfer. This transfer could be paid from the OASI trust fund—in which case it would in many ways resemble reallocation—or from another source.

Interfund Borrowing

As an alternative to transferring the money on a permanent basis, policymakers could allow the SSDI fund to borrow from OASI or other funds on a temporary basis. Borrowing authority would allow the SSDI program to continue to pay benefits as needed by drawing from the old-age trust fund, with the expectation that the SSDI fund would ultimately pay back these borrowed funds with interest. Policymakers could allow for unlimited borrowing authority, could limit the dollar amount SSDI could borrow, or could allow borrowing through a certain date. Policymakers could also schedule a loan repayment plan, allow the trust fund to pay interest only, or allow the loan to be rolled over into perpetuity.

Merge the Trust Funds

Rather than shifting resources between the SSDI and OASI trust funds, policymakers could merge the two into a single Social Security Trust Fund. Such a move would allow SSDI and the old-age program to draw from a common pool of resources (funded mainly with the 12.4 percent Social Security payroll tax), and the reserve depletion of those two programs would by definition come at the same time—2034 according to the Trustees (2015) and 2029 according to CBO (2015).

Adjust Responsibilities of SSDI and OASI for Older SSDI Beneficiaries

While the options above would increase the amount of money that goes into the SSDI trust fund by reducing revenue going elsewhere, it is also possible to reduce the money being drawn from the trust fund.

SSDI provides full benefits for recipients until they reach the normal retirement age—currently 66 and scheduled to increase to 67. At that point, the old-age program pays full benefits. One alternative would be for the OASI program to begin paying for benefits at age 65, as it did prior to the recent increase in the normal retirement age.

Another alternative would be to make the OASI trust fund responsible for a portion of benefits beginning at age 62—the equivalent of what it would have paid in reduced benefits to an early retiree—with the SSDI program responsible for the “top off” to full benefits. Beneficiaries would be paid through a single check. This change could (but need not) be offset in future years by continuing that division of payments beyond the normal retirement age.

Box 1. Illustrative Options to Offset Reallocation

Assuming policymakers divert resources from the old-age trust fund to the SSDI trust fund—through reallocation or other means—doing so would modestly worsen the finances of the old-age trust fund. For example, we estimate that a reallocation of resources to extend the SSDI trust fund depletion date by one year would increase the 75-year actuarial shortfall of the old-age trust fund by about 0.01 percent of payroll. A diversion that lines up the reserve depletion dates of the trust funds to 2034, on the other hand, would increase the 75-year shortfall by 0.08 percent of payroll, based on our estimates.

One option to avoid increasing the shortfall of the old-age trust fund would be to offset the loss over 75 years with modest adjustments to the old-age program or revenue base. The table below offers a number of illustrative options:

	75-Year Actuarial Impact on OASI as a Percent of Payroll (*SSDI Impact, when significant*)
Funding Options	
Extension to 2027 (from 2022; five-year extension)	-0.02%(*+0.02%*)*
Extension to 2034 (to equalize reserve depletion dates)	-0.05% (*+0.05%*)*
Extension to 2090 (to achieve 75-year solvency)	-0.28% (*+0.28%*)*
Revenue Offset Options	
Improve collection of pension information from states and localities	+0.01%
Reform and rationalize Windfall Elimination Provisions (WEP)	+0.02%
Eliminate the retirement earnings test	+0.01%
Stop benefit payments for felons with outstanding arrest warrants	+0.01%*
Repeal "RIB-LIM" floor on widow(er)s benefits	+0.03%*
Reduce top PIA bend point from 15% to 14%	+0.03%*
Increase retirement age from 67 to 67 and 1 month	+0.03%*
Eliminate student exemptions from the payroll tax	+0.02%*
Repeal payroll tax exemptions for foreign workers	+0.01%*
Equalize FICA and SECA rates	+0.01%*
Close "John Edwards/Newt Gingrich" tax loophole	+0.02%*
Increase certainty with respect to worker classification	+0.01%*
Repeal deductibility of cafeteria plans	+0.17% (*+0.03%*)
Cover newly hired state and local workers	+0.14% (*+0.01%*)
Raise Taxable Maximum by 2 percent	+0.02%*

Source: * indicates that the estimate is the authors' calculations based on existing CBO, OMB, and Social Security Trustee data. Otherwise, data is based on estimates from the Social Security Chief Actuary.

Options for Increasing SSDI Revenue

Another way to improve the financial strength of the SSDI program would involve increasing the total amount of tax revenue raised and dedicated to the SSDI program. Currently, SSDI is funded primarily by 1.8 percent of the payroll tax (split between employers and employees) on up to $118,500 of wage income.

Below are a number of options to increase revenue going into the SSDI trust fund:

Raise the Payroll Tax Rate

Raising the 1.8 percent payroll tax rate would be one option to strengthen the financial state of the SSDI program. An increase of 0.3 percent beginning in 2019, divided evenly between employer and employee, would be enough to avoid trust fund depletion and achieve 75-year solvency (with a few years of negative balance) based on projections from the Social Security Trustees' report (2015). In other words, the total SSDI payroll tax rate would need to rise from 1.8 percent of payroll to about 2.1 percent of payroll, and the combined Social Security payroll tax rate from 12.4 percent of payroll to about 12.7 percent. A somewhat larger increase would be needed to ensure "sustainable solvency" over 75 years or to achieve solvency by CBO estimates, while a somewhat smaller increase would be needed if it were combined with other options.

Raise the Taxable Maximum

The Social Security payroll tax—for both OASI and SSDI—currently applies to a worker's first $118,500 of wages, a threshold indexed annually with average wage growth. Income above that threshold is not subject to the Social Security payroll tax, nor is it incorporated into benefit calculations. Many Social Security reform proposals would increase or eliminate this "taxable maximum," but it is also possible to raise this threshold for the SSDI payroll tax only.

Fully eliminating the SSDI taxable maximum starting in 2019 without additional benefit credits, therefore imposing an additional 1.8 percent tax on income above $118,500, would improve the financial state of the SSDI program by 0.34 percent of payroll. In other words, this would more than fully eliminate SSDI's 75-year shortfall as estimated by the Trustees and close most of the gap in the 75th year. Obviously, providing SSDI beneficiaries with additional benefits for income above the current taxable maximum would reduce the amount of savings this change would produce, and so, too, would increasing but not eliminating the SSDI taxable maximum.

A variation on this policy would eliminate the taxable maximum for the employer only, effectively increasing the payroll tax on income above the current maximum by 0.9 percent. Coincidentally, a 0.9 payroll surtax is already imposed on high-income workers (on the employee side) for Medicare, and the two taxes could be streamlined as part of this change. In total, this option would reduce the SSDI 75-year shortfall by 0.17 percent of payroll.

Cover All Newly Hired State and Local Workers under SSDI
About one quarter of state and local workers are not covered by Social Security and are instead covered by pensions and disability insurance offered at the state and local level. Although a number of proposals would fully extend Social Security coverage (including payroll tax contributions) from that population, one option is to extend only SSDI coverage. Under this option, all newly hired state and local workers would begin paying a 1.8 percent payroll tax (split between employer and employee) and would become eligible to apply for and receive SSDI. At the normal retirement age, these workers would be paid from their state and local pensions (or from Social Security to the extent they had enough covered work) under current law.

This policy change would improve the state of the SSDI trust fund by less than 0.005 percent of payroll, or somewhat more if enacted in concert with other revenue or benefit changes.

"Experience Rate" the Payroll Tax
When it comes to private insurance, Workers' Compensation, and unemployment insurance, employers generally pay a variable rate depending on the likelihood that their employees will end up relying on insurance benefits (and the degree to which they will). Companies that have dismissed a greater proportion of workers in the past generally pay a higher unemployment insurance payroll tax rate than companies with higher retention rates.

This principle could be applied to SSDI by "experience rating" the 0.9 percent payroll tax that employers pay to the SSDI trust fund. Under this model, the tax rate would go up for some companies and down for others. Depending on design specifics, this policy could increase, reduce, or maintain current revenue collection. To the extent this change incentivized employers to retain and support workers with the potential of otherwise entering the SSDI program, experience rating could also reduce program costs.

Modify SSDI Eligibility

In order to reduce the costs of the SSDI program, one option is to make eligibility criteria stricter and therefore reduce the number of new entrants. Many of the options to slow the growth in the SSDI rolls would focus on changing program administration, modifying incentives, encouraging early intervention, or changing the standards by which one is determined to have a disability. Below are a number of options that instead focus on the mechanical and objective criteria of eligibility:

Modify the Recency of Work Rules
In order to receive SSDI benefits, an individual must generally have worked at least five of the 10 years prior to becoming disabled (fewer years are required for those under age 31). This recency-of-work test is used to determine whether an individual is "insured" and therefore eligible for benefits as a result of their employment record. One option to reduce eligibility would be to tighten this standard. Requiring an individual to have worked five of the past eight years would reduce total Social Security costs by 0.12 percent of payroll over 75 years, with most of the savings

accruing to the SSDI program. A requirement of four of the last six years would reduce costs by 0.16 percent of payroll. Other combinations would also be possible.

Conform the Levels for Substantial Gainful Activity (SGA) and Quarters of Coverage
To become eligible for SSDI benefits, an individual must have worked for a minimum number of quarters of coverage, as defined by quarters in which the person made at least $1,220 (indexed to wage growth). At the same time, to be considered disabled for the purposes of SSDI, an individual generally must be unable to perform Substantial Gainful Activity (SGA) as defined by earning $1,090 *per month* (indexed to wage growth). One result of these two rules is that a person effectively needs to have earned only about $5,000 per year to be considered an eligible worker but a much higher amount of above $13,000 per year to be considered able to engage in substantial work.

Conforming these two numbers would reduce eligibility for the program. For example, changing the definition of quarters of coverage to count only earnings above SGA (about $3,270 per quarter) would reduce the cost of the program by 0.13 percent of payroll over 75 years. Alternatively, policymakers could redefine SGA to be the lesser of current law levels or an individual's average indexed monthly earnings (AIME)—essentially making someone ineligible if he or she can earn what they did prior to having the disability. That would reduce the cost of the program by 0.01 percent of payroll over 75 years.

Modify the Medical-Vocational Guidelines
If an individual has a condition that is not already on the list of pre-checked disabilities that qualify for SSDI benefits, SSA will use a "grid" system called Medical-Vocational Guidelines in order to determine whether their disability limits their ability to participate in the national economy. These grids take into account an applicant's age, education level, Residual Functional Capacity (their capacity to engage in work), work history, and skills. These grids are organized by age level. Disability Determination Services (DDS) agencies use these grids to determine if a condition meets the statutory definition of disability without being one of the medically listed impairments that qualify for benefits.

These grids could be modified in any number of ways, but one option would be to change the age ranges associated with different vocational factors. The thresholds for less restrictive factors are currently ages 45, 50, 55, and 60. Increasing these ages by one year as Social Security's normal retirement age (NRA) rises from 66 to 67, and then indexing them to growing life expectancy, would save about 0.01 percent of payroll over 75 years. Increasing the age 50 threshold to 58, the age 55 threshold to 61, and the top threshold to the EEA as outlined in Sen. Tom Coburn's 2011 proposal would save about 0.04 percent of payroll. Other options are also possible, including changes to the various criteria underlying the grids themselves or even repealing the grids altogether.

Modify Relationship Between SSDI and the Earliest Eligibility Age

Those who enter the SSDI program receive benefits comparable to what they would have received under Social Security from working their entire career and retiring at the NRA. Moreover, once they reach the NRA—currently 66 and headed to 67—their SSDI benefits are "converted" to a retirement benefit that continues to be paid out at the same level. By comparison, those who retire prior to the NRA receive a smaller benefit. For example, workers retiring at the earliest eligible age (EEA) of 62 receive 25 percent less than they would if they retired at the NRA or received SSDI benefits. That gap will widen to 30 percent as the NRA rises to 67. Importantly, because workers can apply for SSDI up until the NRA, this creates a situation where two workers exiting the labor force at the same age could receive very different levels of benefits depending on whether they enter the disability or old-age program. A number of options would adjust the relationship between the SSDI program and the old-age program, particularly as it relates to the EEA.

Convert Disabled Workers to Retired Status at the EEA

Currently, SSDI beneficiaries collect benefits from the SSDI trust fund up until they reach the NRA and then "convert" to retired status in order to receive the identical level of benefits paid from the old-age trust fund. One option to reduce costs for the SSDI program would be to convert a worker to retired status at the EEA of 62, at which point their benefits would be paid from the old-age trust fund. This change would reduce SSDI's actuarial shortfall but would increase the shortfall of the old-age trust fund by a similar amount. To avoid this cost shift and reduce overall costs, a worker's benefits could be actuarially reduced to EEA levels—either gradually or all at once—when they convert to retired worker status. If the reduction was applied immediately, it would save about 0.50 percent of payroll. A more modest version of this policy might simply reduce or freeze cost of living adjustments (COLAs) between the EEA and the NRA.

Freeze the Current Relationship Between SSDI and EEA Level Benefits

Currently, SSDI benefits are paid at a level comparable to collecting at the NRA of 66, whereas EEA-level benefits for those retiring at age 62 are about 25 percent lower. As the NRA rises to 67, this gap will widen, and EEA-level benefits will be about 30 percent lower than SSDI-level benefits. To prevent this gap from growing, one option is to freeze the relationship between SSDI and the EEA so that SSDI benefits are always comparable in size to a worker retiring at age 66—four years after the EEA—even as the NRA rises to 67. This change would reduce Social Security's total actuarial shortfall by about 0.18 percent of payroll, with the distribution of that reduction between the old-age and disability trust funds dependent on when a worker is assumed to "convert" to old-age benefits. Another version of this policy would gradually *restore* the relationship between SSDI and the EEA that existed when the NRA was 65, ultimately calculating SSDI benefits as comparable to a worker retiring three years after the EEA. This policy would likely save about 0.32 percent of payroll.

Eliminate SSDI Eligibility Starting at Age 62

Individuals between the EEA of 62 and the NRA of 66 (approaching 67) may be eligible for either old-age benefits or disability benefits. Because retirement benefits at the EEA are 25 (approaching 30) percent smaller than disability benefits, there may be an incentive for early retirees to apply for the more generous and therefore more costly SSDI benefits. One option to address this concern would be to limit SSDI to workers who become disabled prior to age 62 and require those 62 and over to apply for the old-age program. To avoid a "cliff effect," where potential benefits drop substantially between a 61-year-old disabled worker and 62-year-old disabled worker, policymakers could begin to phase down the value of initial benefits at some earlier age. Enacting this policy with a phase-down beginning at age 53 and converting to the OASI program at the NRA, for example, would generate savings for the Social Security program of about 0.13 percent of payroll. The same overall savings would be achieved if SSDI beneficiaries converted to OASI at the EEA, but it would save SSDI about 0.45 percent of payroll (and there would be a 0.32 percent of payroll cost to the OASI trust fund).

A slightly more modest version of this policy would limit eligibility (with or without a phase-in) to some age between the EEA and NRA. Allowing application until age 63, for example, would ensure no change in Medicare eligibility, which is currently available two years after the onset of a disability or at age 65. A much more modest alternative would be to disallow applications above the current NRA of 66 even as it rises to 67, or to restrict seniors from *applying* for SSDI benefits once they reach the NRA of 67 (which a beneficiary might do in order to collect retroactive benefits).

Provide a Hybrid Old-Age/Disability Benefit for Those Applying after the EEA

As explained above, workers with disabilities who are above the age of 62 (the current EEA) can apply for full SSDI benefits and are also eligible to collect reduced old-age benefits. Rather than allowing workers to collect one or the other, one option would be to pay older workers with disabilities a hybrid of the two benefits based on age relative to the EEA and NRA. For example, a worker who becomes eligible for SSDI benefits at age 63—assuming an EEA of 62 and an NRA of 67—would receive four-fifths of his or her benefits in the form of an unreduced SSDI benefit and the other fifth as an actuarially-reduced old-age benefit. The proportion of benefits paid as unreduced SSDI benefits would go up for younger applicants and down for older applicants. Under this policy, each trust fund would be responsible for its share of the benefit (although recipients would receive only one check), and at the NRA the recipient would convert to retired status—with benefits continued at the same level—as under current law.

Improve Program Administration and Interactions

Although large, unambiguous programmatic savings will generally require changes to benefit levels or eligibility, some reductions in spending can be achieved by improving the determination and adjudication process, strengthening program integrity, or addressing interactions with other programs. Dozens, if not hundreds, of ideas exist to improve the overall administration of the program—some of which are featured in this book. In this section, we focus on a few sets of options that have generally been scored by the Chief Actuary or others as saving money.

Reduce SSDI Fraud

Although fraud is not a major cost driver in the SSDI program, the fraud that does exist imposes an unnecessary cost on the trust fund. Though not always easy to find, fraud has been identified at times from actions of SSDI recipients, their attorneys, physicians, judges, and others. A large number of ideas have been put forward to help reduce fraud. Some ideas include: increasing penalties for involvement in fraud; improving data sharing and matching; excluding evidence from sanctioned sources; focusing on judges, lawyers, and doctors with unusually high award-rates for cases they are involved in; clarifying to beneficiaries the need to fully report earnings and the penalties of failing to do so; and using predictive analytics to better identify fraud. Funding and requiring expanded fraud investigations—particularly Cooperative Disability Investigations (CDIs) between SSA and local law enforcement that currently exist in over half the states—can also help reduce fraud. While these and other antifraud measures can help to improve the overall integrity of the program, the total direct savings are likely to be modest—likely less than 0.005 percent of payroll. The Bipartisan Budget Act of 2015 included many of the most commonly proposed ideas, including expansion of CDIs to all 50 states and territories as well as smaller measures like increasing civil monetary penalties and creating new felony classifications for committing Social Security fraud.

Increase and Improve Continuing Disability Reviews (CDRs)

Under current law, SSDI recipients are supposed to receive regular Continuing Disability Reviews (CDR) to determine whether they remain eligible for the program. Based on likelihood of recovery, recipients are supposed to be reviewed either every 6 to 18 months, 3 years, or 5 to 7 years for medical improvement (often by mail but sometimes with a full review) and are also reviewed regularly for earnings. Those with significant medical improvement or earnings above the SGA amount (about $13,000 per year) are removed from the program. However, CDRs are often not conducted on time, and a significant backlog currently exists. CDRs may also not be conducted efficiently.

According to the Chief Actuary, every dollar we spend on CDRs yields $8 to $12 dollars in current and future savings to federal government programs by removing recovered workers from the SSDI rolls (SSAB 2014, 21). Some have argued to make this funding mandatory (rather than appropriated every year) and somewhat fungible between years in order to better assure these savings materialize.

In addition to or instead of more funding, a number of changes could be made to the CDR process. One option would be to eliminate the current “medical improvement review standard” (MIRS) and require CDRs to determine level of disability rather than level of improvement. Short of this, existing MIRS exceptions under current law could be strengthened, clarified, and used more regularly and consistently. Other options include moving to more individualized “diaries” to determine when someone should receive a CDR, to widen the criteria for conducting “risk-based

CDRs," to increase the number of in-person (as opposed to via mail) CDRs, or to improve wage and medical status reporting and data collection. An aggressive set of reforms to how CDRs are conducted would likely result in additional though likely relatively modest programmatic savings.

Reduce Concurrent Payments with Other Programs

Under current law, SSDI recipients may simultaneously receive cash benefits from other government programs. In many cases, these concurrent receipts are by design, but in other cases this might not be so. For example, a small number of disabled workers have concurrently claimed SSDI benefits and unemployment insurance (UI) benefits, even though the former is for individuals who cannot work and the latter for individuals who are between jobs and looking for work. This "double-dip" could be addressed in a number of ways, though all existing proposals would save about 0.01 percent of payroll.

Workers' Compensation (WC)—a benefit provided for workplace-related injuries and disabilities—has a very significant overlap with SSDI. Under current law, beneficiaries who collect both are limited to a combined SSDI-WC benefit equal to 80 percent of their pre-disability earnings. Generally, the "offset" for excessive benefits comes in the form of lower SSDI benefits, though in 15 states it comes in the form of lower WC benefits. Critics argue the current offset is confusing, can be avoided in part or in whole through a number of loopholes, and is sometimes not applied due to lack of data. Simplifying the offset, improving data reporting, and closing various WC loopholes would likely save a modest amount of money—perhaps about 0.01 percent of payroll. Policymakers could also eliminate the "reverse offset" so that reductions always apply to SSDI rather than WC.

In addition to these two programs, it may be possible to save money by addressing interactions or concurrent receipts with a number of other programs including SSI, military benefits, certain retirement programs, or even private disability insurance.

Reform the Determination and Adjudication Process

A huge number of changes could be made to the SSDI determination process as well as the rules and procedures on evidence and hearings, particularly when it comes to administrative law judge (ALJ) hearings. We will not make an effort here to list the many changes that could improve accuracy and in some cases save money. Instead, we will focus on a few that have been estimated by the Chief Actuary to improve solvency by a significant degree (above 0.01 percent of payroll).

The Chief Actuary estimates that restoring the first appeals step of reconsideration in all states (reconsideration does not exist in 10 states), for example, will save about 0.01 percent of payroll. Closing the record to submit evidence (and keeping it closed) one week before an ALJ hearing would save 0.01 percent of payroll. Eliminating the "controlling weight" for treating physicians—

which gives priority to medical opinions submitted by an applicant's own doctor in the event that evidence might conflict between two medical sources[2]—would save 0.02 percent of payroll.

A number of other changes may also produce significant trust fund savings, however no estimates are currently available.

Other Savings Options

Besides the options above, a number of other policy changes could reduce the cost of the SSDI program. Several of those options are discussed below:

Modify Retroactive Benefits
SSDI recipients can receive up to one year in retroactive benefits for disabilities that were onset prior to approval of their SSDI application excluding the mandatory five-month waiting period. These benefits are paid in the form of a lump-sum check issued after a recipient is determined to be eligible for benefits.

To cut the cost of the program, policymakers could reduce the size or length of retroactive benefits. As one example, reducing the maximum period of retroactive benefits in half to six months would save about 0.02 percent of payroll over 75 years. An alternative policy of paying retroactive benefits up to 12 months but only at half the level of future benefits could also save 0.02 percent of payroll.

Without reducing retroactive benefits, it may also be possible to generate some near-term savings and/or administrative savings by paying retroactive benefits in a worker's next Social Security check or spread out over future checks rather than as soon as eligibility for retroactive benefits is determined.

Increase the SSDI Waiting Period
SSDI has a five-month waiting period between when a person becomes disabled and when they become eligible for benefits. Extending that waiting period would reduce costs to the program by reducing the number of months SSDI would have to pay beneficiaries, and in some cases by discouraging beneficiaries to apply in the first place.

Extending the waiting period from five to six months, as it was prior to 1972, would reduce the program's 75 year shortfall by about 0.02 percent of payroll. Further extending the waiting period to a full year would reduce the shortfall by about 0.13 percent of payroll.

Reduce Dropout Years
Like the old-age program, SSDI benefits are computed using an individual's AIME. For an applicant age 62 or older, benefits are technically calculated based on 40 years of earnings – but the five lowest years (often years with zero earnings) are dropped out so only 35 years remain.

[2] See 20 CFR § 404.1527.

Younger SSDI applications receive fewer "drop-out years," proportionally reduced depending on their elapsed years since 21 through the year before they first become eligible for SSDI benefits. This is known as the "one-for-five" rule, where an applicant will have one year dropped from AIME calculation for every five years that have passed since they turned 21 (Moulta-Ali 2014).

Reducing the number of dropout years would reduce the cost of SSDI by incorporating more low- and zero-earning years into average income calculations, thereby reducing benefit levels.

For example, fully eliminating the dropout years would likely reduce Social Security's 75-year shortfall by about 0.15 percent of payroll, with some of those savings accruing to the SSDI program, and some to the old-age trust fund ("converted" benefits at the normal retirement age would be lower as a result of this change).[3] A smaller reduction in the number of dropout years would generate smaller savings.

Time Limit Benefits

Although SSDI benefits are not intended to be permanent, under current law they continue automatically unless a person voluntarily returns to work or is removed from the program due to earnings or improvement identified through a CDR. One way to reduce program costs would be to make some or all benefits temporary and to require SSDI recipients to reapply (generally on a fast-tracked basis) if they remain disabled.

According to the Chief Actuary, making *all* benefits temporary—lasting between two and five years depending on the likelihood of medical improvement—would save about 0.10 percent of payroll. A much more modest proposal to make benefits temporary for only the small subset of beneficiaries for whom medical recovery is expected would save closer to 0.01 percent of payroll**.**

Benefit Expansions

In addition to options that would reduce or eliminate the SSDI program's financial shortfall, a number of options exist that could improve the overall generosity of SSDI or related programs. Some of those options are discussed below:

Reduce (or Eliminate) the Waiting Period

As explained in the section above, SSDI currently has a five-month waiting period between when a person first becomes disabled and when they become eligible for benefits. One option would be to reduce the length of that waiting period and therefore reduce the number of months a person will have had to be considered disabled before receiving benefits. As an example, policymakers could fully eliminate the waiting period at a cost of 0.09 percent of payroll over 75 years. Retaining but shortening the waiting period would cost less.

[3] Authors' estimates based on information provided by the Social Security Administration's Chief Actuary.

Loosen the Recency of Work Requirement for Some or All Applicants

As explained in the eligibility section, SSDI beneficiaries generally are required to have worked five of the previous 10 years before the onset of a disability. One option to increase the number of workers eligible for SSDI would be to require fewer recent years of work. For example, reducing the recency of work requirement so beneficiaries only needed to work four of the previous 10 years instead of five would cost about 0.10 percent of payroll over 75 years. Any of a number of other combinations would also be possible.

A modified version of this policy would be to maintain the recency of work requirement for most SSDI applicants, but allow those age 60 and above to qualify for reduced benefits without meeting the recency of work requirements. More specifically, this policy would provide those recipients with benefits equal to those provided at Social Security's EEA of 62, which are currently about 25 percent lower (and scheduled to be 30 percent lower) than normal benefits. This change would cost about 0.01 percent of payroll over 75 years.

Allow SSDI Beneficiaries to Enroll in Medicare Immediately

Under current law, SSDI beneficiaries are generally eligible to enroll in the Medicare program prior to the normal eligibility age of 65. However, eligibility for Medicare does not begin until two years after eligibility for SSDI, creating a waiting period during which individuals have to rely on private insurance or Medicaid, or else go uninsured. One option would be to reduce or eliminate this waiting period and instead offer Medicare benefits as soon as an individual begins receiving SSDI payments (or retroactively to the beginning of the eligibility period). The Medicare waiting period could be reduced or eliminated for all beneficiaries, or just for those without access to affordable health coverage. In 2008, CBO (2008) estimated this change could cost between $3 billion and $13 billion per year, or the equivalent of about 0.04 to 0.15 percent of payroll. Since then, the enactment of the Affordable Care Act, which now offers Medicaid or subsidized insurance exchange coverage to many workers with disabilities during the Medicare waiting period, has likely dramatically reduced the cost of this proposal. The impact on the SSDI program itself is also unclear, since better health coverage might make return-to-work more likely, but faster health coverage might increase the attractiveness of the SSDI benefit and therefore total enrollment in the program. According to the Chief Actuary, this policy would increase the size of the shortfall by 0.02 percent of payroll.

Establish a Special Minimum Benefit for SSDI Beneficiaries

Despite receiving SSDI benefits, about one in five SSDI beneficiaries live at or below the poverty line (White House 2015). At $14,000, the average SSDI benefit is large enough to keep an individual out of poverty (about $12,000 for an individual) even without other income. However, many SSDI beneficiaries receive benefits below this average—with about one-third receiving less than $11,000 per year—and not all of them collect Supplemental Security Income (SSI) to make up the difference. One option would be to set a "minimum benefit" for workers with disabilities. Ensuring all primary SSDI benefits at least equal the poverty line would cost about 0.03 percent of payroll over 75 years, or 0.07 percent if that minimum benefit were indexed to wage growth.

Those costs would be incurred to both the SSDI and old-age programs, though a portion would be offset with savings to the SSI program.

Eliminate "Cash Cliff" and Provide Partial Benefits Above the Current SGA

Currently, workers who earn above the SGA level—generally about $1,100 per month this year—risk losing their SSDI benefits. Although an SSDI beneficiary may attempt to work at such levels for nine months without penalty under a "trial work period," after that time their cash benefits will be discontinued. Although SSDI has several mechanisms to encourage work—including a three-year period when a beneficiary can return to SSDI without having to reapply and a seven-year period when they can continue to receive publicly funded Medicare benefits—the loss of cash benefits immediately above SGA creates a "cash cliff" that might discourage additional work effort for some beneficiaries.

One option to address this cash cliff is to reduce benefits gradually as earnings increase rather than all at once after earnings exceed the SGA. For example, the Social Security Administration has tested benefit offset policies that would reduce an individual's SSDI benefits by $1 for every $2 the individual earns above SGA. Applying this offset to all SSDI beneficiaries above SGA, while also eliminating the trial work period, would cost about 0.04 percent of payroll. Applying this benefits offset beginning at or near an individual's first dollar of earnings would be roughly cost-neutral. Other thresholds, offset levels, and parameters are also possible.

Reduce or Eliminate the Payroll Tax for SSDI Beneficiaries Who Return to Work

Almost all workers, including those with disabilities, pay a 12.4 percent Social Security tax split evenly between employer and employee. One option to encourage SSDI beneficiaries to reenter the labor force, encourage employers to hire these workers, and increase take-home pay for those workers would be to reduce the payroll tax for those who were on the SSDI program. Such a payroll tax reduction could be made available for current and past SSDI recipients, or only for those no longer receiving cash benefits; it could be applied to the entire 12.4 percent Social Security payroll tax or only the 1.8 percent SSDI payroll tax; and it could be offered to employers, employees, or both. According to the Chief Actuary, this proposal would cost about 0.01 percent of payroll.

Conclusion

In the near term, some diversion of resources into the SSDI trust fund will be necessary to avoid trust fund depletion. If those funds come from the OASI trust fund, however, it will worsen the already weak financial state of that program. And to the extent this diversion of resources is temporary—even if long-term—lawmakers will need to shore up the financial state of both programs.

Ideally, the next step after addressing SSDI's near-term funding gap would be to pursue comprehensive Social Security reform that addresses the finances of the OASI and SSDI programs simultaneously. In that case, financial improvements to the SSDI program such as the ones described above could be part of a much larger package that ultimately brings total Social Security spending and revenue in line. Alternatively, each trust fund could be addressed separately, in which case the options in this chapter will be that much more important to maintaining the solvency of the SSDI program.

Reforming SSDI should be about far more than addressing its finances. It should be about improving the many aspects of the program, and related supports, for those with disabilities and for society more broadly. As lawmakers continue to pursue these improvements, they should also ensure the financial solvency and sustainability of both the SSDI program and Social Security as a whole.

Acknowledgements

The authors would like to thank Chief Actuary Stephen C. Goss, the staff at the Social Security Administration's Office of the Chief Actuary, and the staff of the Committee for a Responsible Federal Budget for their help in calculating estimates. We would also like to thank Joyce Manchester for her helpful advice and input on this draft.

References

Congressional Budget Office (CBO). 2015. CBO's 2015 Long-Term Projections for Social Security: Additional Information. Available at https://www.cbo.gov/publication/51047.

_____. 2008. "Budget Options, Volume 1: Health Care." (December) Available at https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/reports/12-18-healthoptions.pdf.

Goss, Steven C. 2015. Estimate of the Effects on the OASI and DI Trust Funds of enacting the provisions of Title VIII of H.R. 1314, the "Bipartisan Budget Act of 2015," introduced on October 27, 2015 by Representative John Boehner. Available at https://www.ssa.gov/OACT/solvency/JBoehner_20151027.pdf

Moulta-Ali, Umar. 2014. "Social Security Disability Insurance: Becoming Insured, Calculating Benefit Payments, and the Effect of Dropout Year Provisions." Congressional Research Service (January 24). Available at http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/R43370_gb.pdf.

Social Security Advisory Board (SSAB). 2014. "2014 Disability Policy Panel: Continuing Disability Reviews." Social Security Advisory Board Disability Policy Panel. Available at http://ssab.gov/Portals/0/Documents/2014_DPP_Report_Final.pdf.Social Security Board of Trustees (Trustees). 2015. The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors' Insurance and Federal Disability Insurance Trust Funds. Washington: U.S. Government Publishing Office.

Social Security Board of Trustees (Trustees). 2015. The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors' Insurance and Federal Disability Insurance Trust Funds. Washington: U.S. Government Publishing Office.

The White House (White House). 2015. "Social Security Disability Insurance: A Lifeline for American Workers and Families." *The White House Blog* (July). Available at https://www.whitehouse.gov/sites/default/files/docs/ssdi_national_report_7-17-2015.pdf.