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# **Social Security Disability Insurance (DI) Trust Fund: Background and Solvency Issues**

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## Summary

Social Security Disability Insurance (SSDI) is a social insurance program that provides benefits to insured workers under the full retirement age who meet the statutory test of disability and to their eligible dependents. Unlike some other federal programs, benefit payments and administrative costs associated with the SSDI program are paid not out of the General Fund but from a dedicated Federal Disability Insurance (DI) Trust Fund in the U.S. Treasury.

Like the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, which pays for Social Security retirement and survivor benefits, the DI trust fund is financed primarily through payroll taxes levied on covered wages and covered self-employment income. The two trust funds also receive income from the taxation of some Social Security benefits and from interest earned on trust fund investments. Occasionally, the OASI and DI trust funds receive income via reimbursements from the General Fund of the Treasury. All trust fund balances are invested in special-issue (non-marketable), interest-bearing U.S. government securities. Each trust fund is a separate account in the U.S. Treasury, and the two funds may not borrow from one another under current law.

Increasingly, some Members of Congress and the public have expressed concern over the solvency of the DI trust fund. Total expenditures have exceeded non-interest income since 2005 and have surpassed total income (including interest) since 2009. In 2013, DI income was \$111.2 billion and DI expenditures were \$143.4 billion. To make up for the shortfall between total income and expenditures, the DI trust fund used some of its *asset reserves* (investments) and redeemed a net total of \$32.2 billion in special-issue U.S. government securities.

Under current law, the Social Security trustees project that the DI trust fund will be exhausted in the fourth quarter of calendar year 2016. The Congressional Budget Office (CBO) predicts a similar exhaustion date in early FY2017, which overlaps with the fourth quarter of calendar year 2016. Once the DI trust fund is depleted, the Social Security trustees estimate that the SSDI program will have enough continuing tax revenues to pay 81% of scheduled benefits. This percentage rises to a slightly higher level for 2020 through 2040, before declining to 80% in 2088.

The declining solvency of the DI trust fund is the result of an increasing imbalance between the fund's income and expenditures. Over the past 20 years, tax revenues to the DI trust fund have remained relatively flat as a share of taxable payroll, while expenditures as a percentage of taxable payroll have grown markedly. The increase in expenditures stems largely from the growth in the number of beneficiaries on SSDI. Between 1990 and 2013, the total number of individuals receiving SSDI benefits (disabled workers and their dependents) increased 155.8% (from 4.3 million to 11.0 million). Because benefit payments account for nearly all program spending, the growth in the number individuals receiving SSDI benefits has contributed heavily to the worsening financial condition of the DI trust fund.

Most researchers agree that changes in the demographic characteristics of the working-age population account for a substantial share of the growth in the number of individuals on SSDI. Demographic changes include (1) the aging of the baby-boomer generation, (2) the growth in women's labor force participation, and (3) the overall growth in the insured-worker population. However, there is considerable disagreement among researchers over how non-demographic factors have contributed to the growth in the size of the program, such as changes in opportunities

for work and compensation, changes to federal policy that altered certain program eligibility criteria, and inconsistency in the disability determination and adjudication process. In recent years, a number of researchers have developed proposals to limit the growth in SSDI enrollment.

In the past, Congress has used temporary *cash infusions* to bolster the asset reserves of nearly depleted trust funds. Typically, the aim of this policy is to improve the financial solvency of a trust fund in the short term, in order to give lawmakers additional time to develop and implement longer-term solutions. For example, Congress could authorize interfund borrowing among the OASI, DI, and Medicare's Hospital Insurance (HI) trust funds to strengthen the asset reserves of the DI trust temporarily.

Additionally, Congress could change the allocation of the Social Security payroll tax rate between the OASI and DI trust funds to provide the DI trust fund with a larger share. According to the Social Security Administration's (SSA's) Office of the Chief Actuary, a reallocation of the payroll tax rate to equalize the financial conditions of the OASI and DI trust funds would extend the solvency of the DI trust fund until 2033. However, such a reallocation would also reduce the solvency of the OASI trust fund slightly.

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## Introduction

Some Members of Congress and the public have increasingly expressed concern over the solvency of the Federal Disability Insurance (DI) Trust Fund, from which Social Security Disability Insurance (SSDI) benefits are paid.<sup>1</sup> Total expenditures have exceeded non-interest income since 2005 and have surpassed total income (including interest) since 2009. According to the Social Security trustees, the DI trust fund will be exhausted in the fourth quarter of calendar year 2016 under current law.<sup>2</sup> Once it is depleted, the DI trust fund will have enough continuing tax revenues to pay around 81% of scheduled SSDI benefits. This report provides an overview of the DI trust fund and examines potential solutions to improve the DI trust fund's solvency in the short term.

## Background on the SSDI Program

Enacted in 1956 under Title II of the Social Security Act, SSDI is part of the Old-Age, Survivors, and Disability Insurance (OASDI) program administered by the Social Security Administration (SSA). OASDI is a form of social insurance designed to protect against the loss of income due to retirement, disability, or death.<sup>3</sup> Like Old-Age and Survivors Insurance (OASI), SSDI replaces a portion of an insured worker's earnings based on the individual's work history and career-average earnings in covered employment.<sup>4</sup> Specifically, SSDI provides benefits to insured workers under the full retirement age who meet the statutory test of disability and to their eligible dependents. In July 2014, 10.9 million individuals received SSDI benefits, including 9.0 million disabled workers, 152 thousand spouses of disabled workers, and 1.8 million children of disabled workers.<sup>5</sup>

## Eligibility

To qualify for SSDI, workers must be (1) insured in the event of disability and (2) statutorily disabled. To achieve insured status, individuals generally must have worked in covered

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<sup>1</sup> For example, see U.S. Congress, House Committee on Ways and Means, Subcommittee on Social Security, *First in a Hearing Series on Securing the Future of the Social Security Disability Insurance Program*, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., December 2, 2011, (Washington: GPO, 2012), pp. 4-5, <http://www.gpo.gov/fdsys/pkg/CHRG-112hhrg76319/pdf/CHRG-112hhrg76319.pdf>. See also U.S. Congress, Senate Committee on Finance, *Social Security: A Fresh Look at Workers' Disability Insurance*, 113<sup>th</sup> Cong., 2<sup>nd</sup> sess., July 24, 2014, <http://www.finance.senate.gov/imo/media/doc/07242014%20Wyden%20Hearing%20Statement%20on%20Keeping%20the%20Promise%20of%20Social%20Security%201.pdf>.

<sup>2</sup> The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Table IV.B2, July 28, 2014, <http://www.ssa.gov/oact/tr/2014/index.html> (hereinafter cited as "2014 Social Security Trustees Report"). Projections are based on the trustees' intermediate assumptions.

<sup>3</sup> For more information on the concept of *social insurance*, see Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, vol. 70, no. 3 (August 2010), <http://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p1.html>.

<sup>4</sup> For more information on the OASI program, see CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

<sup>5</sup> Social Security Administration (SSA), *Monthly Statistical Snapshot, July 2014*, August 2014, Table 2, [http://www.ssa.gov/policy/docs/quickfacts/stat\\_snapshot/](http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/) (hereinafter cited as "SSA Monthly Statistical Snapshot").

employment about a quarter of their adult lives before they became disabled and for at least 5 of the past 10 years immediately before the onset of disability.<sup>6</sup> In 2013, 150.5 million workers were insured in the event of disability.<sup>7</sup>

To meet the statutory test of disability, an insured worker must be unable to engage in any *substantial gainful activity* (SGA) by reason of any medically determinable physical or mental impairment that can be expected to result in death or last for at least a year.<sup>8</sup> The monthly SGA earnings limit in 2014 is \$1,070 for non-blind individuals and \$1,800 for statutorily blind individuals.<sup>9</sup> In general, workers must have a severe condition that prevents them from doing any kind of work that exists in the national economy.

## Benefits

SSDI beneficiaries receive cash benefits after a five-month waiting period from their disability onset date.<sup>10</sup> Initial cash benefits are based on a worker's past average monthly earnings, indexed to reflect changes in average wage levels. Benefits paid to current beneficiaries are adjusted to account for inflation through cost-of-living adjustments (COLA), as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). In July 2014, the average monthly benefit was \$1,145.52 for a disabled worker, \$308.89 for a spouse of a disabled worker, and \$341.13 for a child of a disabled worker.<sup>11</sup>

Disabled-worker beneficiaries also receive health care coverage under Medicare following a 24-month waiting period.<sup>12</sup> Furthermore, some SSDI beneficiaries may qualify for Supplemental Security Income (SSI). SSI is a need-based program that provides cash benefits to ensure a minimum income to aged, blind, or disabled individuals with limited income and assets.<sup>13</sup> In July 2014, over 1.6 million disabled individuals under age 65 received both Social Security and SSI cash benefits.<sup>14</sup>

Disabled workers generally maintain their eligibility for benefits as long as they are under their full retirement age, exhibit no substantial medical improvement, and have monthly earnings within the SGA limit.

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<sup>6</sup> See CRS Report RL32279, *Primer on Disability Benefits: Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI)*, by William R. Morton.

<sup>7</sup> SSA, *Disabled Insured Workers*, accessed August 15, 2014, <http://www.ssa.gov/OACT/STATS/table4c2DI.html>.

<sup>8</sup> 42 U.S.C. §423(d)(1).

<sup>9</sup> For more information on SGA limits, see SSA, *Substantial Gainful Activity*, <http://www.ssa.gov/oact/cola/sga.html>.

<sup>10</sup> The first month counted as part of the waiting period can be no more than 17 months before the month of application. For more information, see CRS Report RS22220, *Social Security Disability Insurance (SSDI): The Five-Month Waiting Period for Benefits*, by William R. Morton.

<sup>11</sup> SSA Monthly Statistical Snapshot, Table 2. SSA may offset cash benefits if a disabled-worker beneficiary also receives workers' compensation or other public disability benefits. Moreover, cash benefits to spouses and children of disabled workers are subject to certain maximum family benefit limits.

<sup>12</sup> Due to the five-month waiting period for cash benefits, Medicare eligibility begins 29 months after the onset of disability.

<sup>13</sup> For more information on SSI, see CRS Report 94-486, *Supplemental Security Income (SSI)*, by William R. Morton.

<sup>14</sup> Monthly Statistical Snapshot, Table 1. The vast majority of SSI beneficiaries under age 65 in concurrent receipt of Social Security draw SSDI cash benefits; however, some SSI beneficiaries under age 65 receive dependents' benefits from the Old-Age and Survivors Insurance (OASI) program.

## The Federal Disability Insurance (DI) Trust Fund

A trust fund is an accounting mechanism that records and keeps track of revenues, offsetting receipts, or collections earmarked for the purpose of the specific federal fund.<sup>15</sup> Although Social Security (OASDI) is often viewed as a single program, its financing comes from two legally distinct trust funds.<sup>16</sup> Whereas the Federal Old-Age and Survivors Insurance (OASI) Trust Fund finances the benefits of retired-worker beneficiaries and their dependents, as well as survivors of deceased workers, the Federal Disability Insurance (DI) Trust Fund finances the benefits of disabled workers and their dependents.<sup>17</sup> Each trust fund is a separate account in the U.S. Treasury, and the two funds may not borrow from one another under current law.

For more information on trust funds, see CRS Report R41328, *Federal Trust Funds and the Budget*, by Mindy R. Levit. For more information on the combined OASI and DI trust funds, see CRS Report RL33028, *Social Security: The Trust Fund*, by Dawn Nuschler and Gary Sidor.<sup>18</sup>

### Financing

The OASI and DI trust funds are financed primarily by payroll taxes levied on covered wages and covered self-employment income. Employees and employers each pay Federal Insurance Contribution Act (FICA) taxes, while Self-Employment Contribution Act (SECA) taxes are borne fully by self-employed individuals.<sup>19</sup> As shown in **Table 1**, the FICA tax rate is 7.65% for employees and employers each (15.3% combined), with 6.2% directed to Social Security (OASDI) and 1.45% directed to Medicare's Hospital Insurance (HI) trust fund.<sup>20</sup> Of the 6.2% allocated to Social Security from the FICA tax rate, the OASI trust fund receives 5.3% and the DI trust fund receives 0.9%.

The SECA tax rate is 15.3%, with 12.4% directed to Social Security and 2.9% to Medicare's HI trust fund. Of the 12.4% allocated to Social Security from the SECA tax rate, the OASI trust fund receives 10.6% and the DI trust fund receives 1.8%. Social Security (OASDI) and Medicare tax rates are prescribed in sections 1401, 3101, and 3111 of the Internal Revenue Code (IRC)<sup>21</sup>, and

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<sup>15</sup> See CRS Report R41328, *Federal Trust Funds and the Budget*, by Mindy R. Levit.

<sup>16</sup> 42 U.S.C. §401 (Section 201 of the Social Security Act).

<sup>17</sup> For more information on the Federal Disability Insurance Trust Fund, see SSA, *Disability Insurance Trust Fund*, accessed July 31, 2014, <http://www.ssa.gov/oact/progdata/describedi.html>.

<sup>18</sup> See also SSA, *Trust Fund FAQs*, accessed July 31, 2014, <http://www.ssa.gov/oact/ProgData/fundFAQ.html>.

<sup>19</sup> For information on how FICA and SECA taxes are calculated and credited to the OASI and DI trust funds, see SSA, Office of the Chief Actuary, *Tax Deposits & Adjustments*, accessed August 7, 2014, <http://www.ssa.gov/oact/progdata/taxflow.html>.

<sup>20</sup> The Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended) imposes an additional 0.9% tax on high-income workers with wages and self-employment income over \$200,000 for single filers and \$250,000 for joint filers effective for taxable years beginning after December 31, 2012. The revenues from the 0.9% tax are allocated to the HI trust fund. For more information, see CRS Report R41436, *Medicare Financing*, by Patricia A. Davis. See also Internal Revenue Service, *Questions and Answers for the Additional Medicare Tax*, June 24, 2014, <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>.

<sup>21</sup> The IRC is Title 26 of the U.S. Code.



the allocation of the Social Security payroll tax rate between the OASI and DI trust funds is set in section 201(b) of the Social Security Act.<sup>22</sup>

Social Security taxes are levied on covered wages and covered self-employment income up to a taxable maximum of \$117,000 in 2014.<sup>23</sup> In 2013, payroll tax revenues credited to the DI trust fund amounted to \$105.4 billion or 94.8% of total DI trust fund income.<sup>24</sup>

**Table I. Social Security and Medicare Payroll Tax Rates**

	FICA		SECA
	Employees and Employers, Each	Combined	Self Employed
Social Security			
OASI	5.30%	10.60%	10.60%
DI	0.90%	1.80%	1.80%
OASDI	6.20%	12.40%	12.40%
Medicare			
HI	1.45% <sup>a</sup>	2.90% <sup>a</sup>	2.90% <sup>a</sup>
<b>Total FICA/SECA</b>	<b>7.65%</b>	<b>15.30%</b>	<b>15.30%</b>

**Source:** Table prepared by the Congressional Research Service (CRS).

- a. The Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended) imposes an additional 0.9% tax on high-income workers with wages and self-employment income over \$200,000 for single filers and \$250,000 for joint filers effective for taxable years beginning after December 31, 2012.

In addition to payroll taxes, the OASI and DI trust funds receive income from the interest earned on trust fund investments. When Social Security tax revenues exceed expenditures in a given year, the *surplus* is credited to the trust funds in the form of special-issue (non-marketable) U.S. government securities.<sup>25</sup> These trust fund investments, or *asset reserves*, accrue interest, which the U.S. Treasury credits to the trust funds semiannually in the form of additional U.S. government securities. In 2013, net interest from the DI trust fund's asset reserves totaled \$4.7 billion or 4.2% of total DI trust fund income.<sup>26</sup>

The OASI and DI trust funds also receive revenues from the taxation of Social Security benefits. Beneficiaries who file a federal tax return as an individual with *provisional income* (adjusted gross income, *plus* nontaxable interest, *plus* certain income exclusions, *plus* one-half of Social Security benefits) between \$25,000 and \$34,000 may have to pay income tax on up to 50% of benefits.<sup>27</sup> For beneficiaries filing a joint federal tax return, married couples with provisional

<sup>22</sup> 42 U.S.C. §401(b).

<sup>23</sup> For more information on the taxable maximum, see SSA, *Contribution and Benefit Base*, <http://www.ssa.gov/oact/COLA/cbb.html>. Unlike the Social Security tax rate, the Medicare tax rate applies to all covered earnings.

<sup>24</sup> 2014 Social Security Trustees Report, Table IV.A2.

<sup>25</sup> In the past, the DI trust fund held publicly available securities. For more information on Social Security investment holdings, see CRS Report RS20607, *Social Security: Trust Fund Investment Practices*, by Dawn Nuschler.

<sup>26</sup> 2014 Social Security Trustees Report, Table VI.A2. In 2013, the asset reserves of the DI trust fund earned an effective annual interest rate of 4.5%. For more information, see SSA, *Effective Interest Rates*, accessed July 31, 2014, <http://www.ssa.gov/OACT/ProgData/effectiveRates.html>.

<sup>27</sup> 26 U.S.C. §86. For more information on the taxation of Social Security benefits, see CRS Report RL32552, *Social Security* (continued...)

income between \$32,000 and \$44,000 may have to pay income tax on up to 50% of benefits. Revenues derived from taxing Social Security benefits are credited to the OASI and DI trust funds based on the source of the benefits taxed. In 2013, revenues credited to the DI trust fund from the taxation of benefits totaled \$0.4 billion or 0.4% of DI trust fund income.<sup>28</sup>

Occasionally, the OASI and DI trust funds receive reimbursements from the General Fund of the Treasury for various costs imposed on the two programs.<sup>29</sup> For example, in 2011 and 2012, the OASI and DI trust funds received reimbursements from the General Fund to compensate for the loss of revenues from a temporary payroll tax reduction. In 2013, reimbursements from the General Fund to the DI trust fund totaled \$0.7 billion or 0.6% of DI trust fund income.<sup>30</sup>

## Current and Projected Financial Condition of the DI Trust Fund

The Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (hereinafter “the trustees”) presents an annual report to Congress on the current and projected financial conditions of the OASI and DI trust funds.<sup>31</sup> According to the trustees, the balance of the DI trust fund (i.e., the amount of accumulated trust fund assets) is declining. Total expenditures have exceeded non-interest income since 2005 and have surpassed total income since 2009 (see **Table A-1** in the appendix for more information). In 2013, total DI income was \$111.2 billion and DI expenditures were \$143.4 billion. To make up for the shortfall between total income and expenditures in 2013, the DI trust fund used its asset reserves and redeemed a net total of \$32.2 billion in U.S. government securities.<sup>32</sup> As shown in **Table 2**, the asset reserves held by the DI trust fund decreased from \$122.7 billion at the end of 2012 to \$90.4 billion at the end of 2013.

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(...continued)

*Security: Calculation and History of Taxing Benefits*, by Noah P. Meyerson.

<sup>28</sup> 2014 Social Security Trustees Report, Table VI.A2.

<sup>29</sup> The OASI and DI trust funds receive reimbursements from the General Fund for (1) the cost of noncontributory wage credits for military service before 1957; (2) the cost in 1971-1982 of deemed wage credits for military service performed after 1956; (3) the cost of benefits to certain uninsured persons who attained the age of 72 before 1968; (4) the cost of payroll tax credits provided to employees in 1984 and self-employed persons in 1984-1989 by P.L. 98-21; (5) the cost in 2009-2013 of excluding certain self-employment earnings from SECA taxes under P.L. 110-246; and (6) payroll tax revenue forgone under the provisions of P.L. 111-147, P.L. 111-312, P.L. 112-78, and P.L. 112-96. For more information, see 2014 Social Security Trustees Report, p.146.

<sup>30</sup> 2014 Social Security Trustees Report, Table VI.A2.

<sup>31</sup> 42 U.S.C. §401(c). The Social Security Board of Trustees is composed of six members: the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security, and two public representatives who are appointed by the President and confirmed by the Senate for four-year terms.

<sup>32</sup> For data on OASI and DI investment transactions, see SSA, *Investment Transactions*, <http://www.ssa.gov/OACT/ProgData/transactions.html>.

**Table 2. Annual Operations of the DI Trust Fund, 2003-2013**

(dollar amounts in billions)

Year	Income			Expenditures			Asset Reserves	
	Non-Interest Income <sup>a</sup>	Net Interest on Assets	Total Income	Benefit Payments	Admin. Expenses <sup>b</sup>	Total Expenditures	Net Change During the Year	Amount at the End of the Year
2003	\$78.3	\$9.7	\$88.1	\$70.9	\$2.2	\$73.1	\$15.0	\$175.4
2004	81.4	10.0	91.4	78.2	2.4	80.6	10.8	186.2
2005	87.2	10.3	97.4	85.4	2.6	88.0	9.4	195.6
2006	92.0	10.6	102.6	91.7	2.7	94.5	8.2	203.8
2007	96.6	13.2	109.9	95.9	2.9	98.8	11.1	214.9
2008	98.9	11.0	109.8	106.0	2.9	109.0	0.9	215.8
2009	98.9	10.5	109.3	118.3	3.1	121.5	-12.2	203.5
2010	94.8	9.3	104.0	124.2	3.5	127.7	-23.6	179.9
2011	98.4	7.9	106.3	128.9	3.4	132.3	-26.1	153.9
2012	102.7	6.4	109.1	136.9	3.4	140.3	-31.2	122.7
2013	106.5	4.7	111.2	140.1	3.4	143.4	-32.2	90.4

**Source:** CRS table based on data from The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Table VI.A2, [http://www.ssa.gov/oact/tr/2014/VI\\_A\\_cyoper\\_hist.html#288797](http://www.ssa.gov/oact/tr/2014/VI_A_cyoper_hist.html#288797) (hereinafter cited as “2014 Social Security Trustees Report”).

**Notes:** Totals may not equal subtotals due to rounding.

- Non-interest income* includes net payroll tax contributions, General Fund reimbursements, and revenues from the taxation of benefits.
- Administrative Expenses* include the financial interchange with the Railroad Retirement Board.

## Trustees' Projections

According to the trustees, a trust fund is solvent if it can pay all scheduled benefits in full and on time.<sup>33</sup> One method for gauging solvency is to measure the amount of reserves a trust fund has on hand to cover its expected expenditures over a specified period. A *trust fund ratio* is a measure of a trust fund's asset reserves at the beginning of a year expressed as a percentage of actual or expected total expenditures for that year.<sup>34</sup> The trustees consider a trust fund ratio of 100% in a given year to be a reasonable *contingency reserve* to ensure against the risk of insolvency should unforeseen circumstances (such as an economic downturn) quickly draw down a trust fund's reserves.

To estimate the future financial status of the DI trust fund, the Social Security trustees produce short-range and long-range actuarial projections under three sets of economic and demographic

<sup>33</sup> 2014 Social Security Trustees Report, p. 39.

<sup>34</sup> *Ibid.*

assumptions: intermediate, low-cost, and high-cost. *Intermediate assumptions* represent the trustees' best estimate of the financial condition of the DI trust fund in the future. The *low-cost* and *high-cost* sets of assumptions, on the other hand, depict extraordinarily favorable (low-cost) or unfavorable (high-cost) possibilities for the DI trust fund's future solvency.<sup>35</sup> According to the trustees, actual future costs are "unlikely to be as extreme as those portrayed by the low-cost and high-cost projections."<sup>36</sup> Therefore, projections cited in this report are based on the trustees' intermediate assumptions, unless otherwise specified.

To satisfy the trustees' *short-range test of financial adequacy*, the DI trust fund must maintain a trust fund ratio of 100% or more over a 10-year projection period (2014-2023). If the trust fund ratio is under 100% at the start of the 10-year projection period, it must rise to at least 100% within five years (without becoming depleted) and then remain at or above 100% throughout the rest of the 10-year period. To pass the trustees' *long-range test of close actuarial balance*, the DI trust fund must (1) satisfy the short-range test of financial adequacy and (2) maintain a trust fund ratio above zero throughout the 75-year projected period.<sup>37</sup>

As shown in **Figure 1**, under their intermediate, low-cost, and high-cost sets of assumptions, the trustees project that the DI trust fund ratio will remain below 100% over the entire 10-year projection period. Therefore, the DI trust fund fails both the short-range test of financial adequacy and the long-range test of close actuarial balance under all three scenarios.

Under their high cost and intermediate sets of assumptions, the trustees project that DI asset reserves would continue to decline until depletion in the second and fourth quarters of calendar year 2016, respectively. Moreover, the DI trust fund would continue to run annual cash flow deficits under both sets of assumptions.<sup>38</sup> A *cash flow deficit* occurs when annual expenditures exceed tax revenues.

Under their low-cost assumptions, the trustees estimate that the DI trust fund ratio would fall to 2% in 2019 and 2020 before increasing to 12% in 2023. However, advance tax transfers from the General Fund would be required to pay all scheduled benefits in a timely manner. *Advance tax transfers* are payroll tax receipts credited to a trust fund on the first of the month rather than throughout the month to ensure the timely payment of benefits.<sup>39</sup> The DI trust fund would subsequently run cash flow surpluses under the low-cost assumptions beginning in 2020. A *cash flow surplus* occurs when annual tax revenues exceed expenditures. It is important to note that the low-cost assumptions reflect relatively rapid economic growth, as well as immediate and extreme changes to program enrollment and termination rates.<sup>40</sup>

<sup>35</sup> Ibid., p. 220. According to the trustees, the low-cost set of assumptions assumes relatively rapid economic growth, low inflation, and favorable demographic and program-specific conditions. Conversely, the high-cost set of assumptions assumes relatively slow economic growth, high inflation, and unfavorable demographic and program-specific conditions.

<sup>36</sup> Ibid., p. 18. In addition, the trustees caution against using the low-cost and high-cost estimates as a range of possible outcomes.

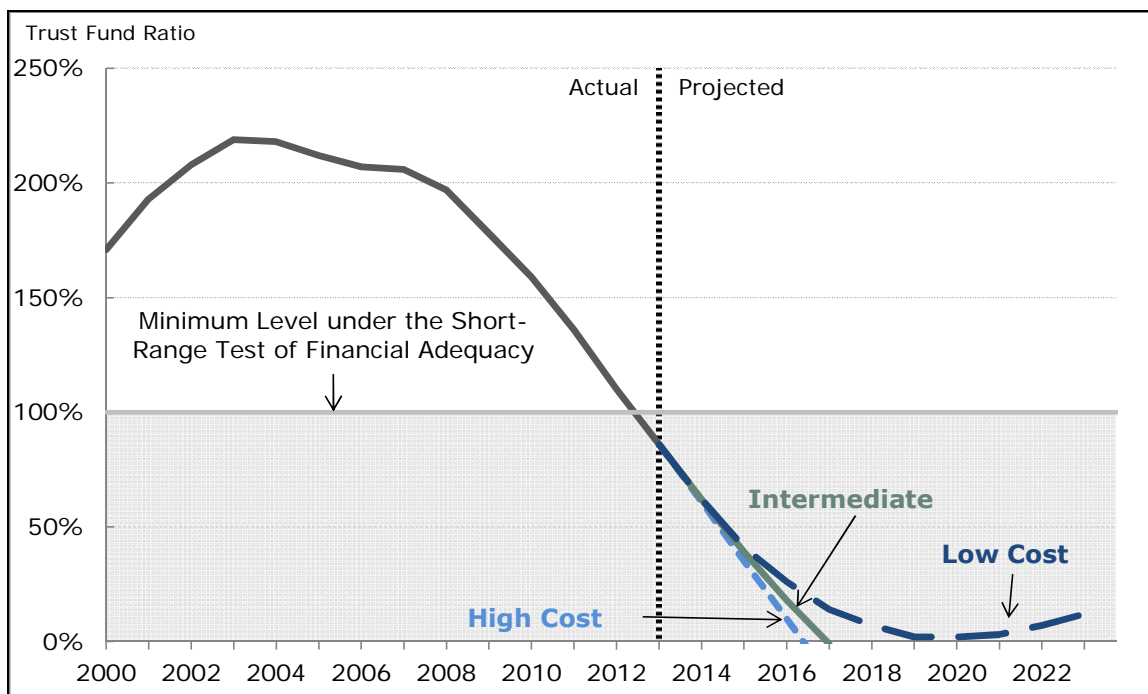
<sup>37</sup> Ibid., p. 62.

<sup>38</sup> Ibid., Table IV.B1, p. 50. Under both high-cost and intermediate sets of assumptions, the trustees project that the DI cost rate (as a percentage of taxable payroll) will continue to exceed the DI income rate through 2090.

<sup>39</sup> Ibid., p. 43. Under current law, advance tax transfers are permitted when the Secretary of the Treasury determines that the assets of the OASI or DI trust funds are insufficient to pay full scheduled benefits for any month (see 42 U.S.C. §401[a]). Advance tax transfers must be repaid to the General Fund with interest.

<sup>40</sup> Ibid., p. 220.

**Figure 1. Actual and Projected DI Trust Fund Ratios, 2000-2023**  
(asset reserves as a percentage of annual expenditures)



**Source:** CRS graph based on data from the 2014 Social Security Trustees Report, Figure IV.B3, at [http://www.ssa.gov/oact/tr/2014/LD\\_figIVB3.html](http://www.ssa.gov/oact/tr/2014/LD_figIVB3.html).

**Notes:** The *trust fund ratio* represents asset reserves at the beginning of a year as a percentage of total expenditures for the year. Therefore, projections will indicate a positive trust fund ratio at the beginning of an estimated trust fund exhaustion year. For example, under their intermediate assumptions, the trustees project that the DI trust fund's asset reserves will be depleted during 2016. However, the trustees estimate that the DI trust fund will have an 18% trust fund ratio at the beginning of 2016 (i.e., \$28.4 billion in projected asset reserves to \$155.8 billion in projected total expenditures).

## CBO's Projections

Based on its April 2014 baseline, the Congressional Budget Office (CBO) projects that the DI trust fund will be exhausted in early FY2017, which overlaps with the fourth quarter of calendar year 2016.<sup>41</sup>

## What Would Happen If the DI Trust Fund's Reserves Were Depleted?

Under current law, the trustees estimate that the DI trust fund will be unable to meet its financial obligations by the end of the fourth quarter of calendar year 2016. Although the DI trust fund will continue to receive revenues from payroll taxes and the taxation of benefits, it will be unable to

<sup>41</sup> U.S. Congressional Budget Office, *Old-Age, Survivors, and Disability Insurance Trust Funds—CBO's April 2014 Baseline*, April 2014, [http://www.cbo.gov/sites/default/files/cbofiles/attachments/43890-2014-04-Social\\_Security\\_Trust\\_Fund.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43890-2014-04-Social_Security_Trust_Fund.pdf). CBO projects that the DI trust fund will have a balance of \$8.0 billion at the beginning of FY2017 (i.e., October 2016).

pay all scheduled benefits in a timely manner. Upon depletion of its asset reserves, the DI trust fund will have enough continuing tax revenues to pay 81% of scheduled SSDI benefits under current law.<sup>42</sup> This percentage rises to a slightly higher level for 2020 through 2040, before declining to 80% in 2088 (see **Figure A-1** in the appendix for more information).<sup>43</sup>

The Social Security Act provides no guidance on the payment of benefits once a trust fund's asset reserves have been depleted and current tax revenues are insufficient to meet current expenditures. Although individuals who meet SSDI's eligibility requirements are legally entitled to disability benefits, a provision in the Antideficiency Act prohibits a federal agency from spending in excess of available funds.<sup>44</sup> Since the Social Security Act stipulates that SSDI benefit payments shall be made only from the DI trust fund, without a change in the law, monthly cash payments to SSDI beneficiaries could be delayed or reduced.<sup>45</sup>

For more information on Social Security trust fund exhaustion, see CRS Report RL33514, *Social Security: What Would Happen If the Trust Funds Ran Out?*, by Christine Scott. For a legal analysis of benefit entitlement in the context of trust fund insolvency, see CRS Report RL32822, *Social Security Reform: Legal Analysis of Social Security Benefit Entitlement Issues*, by Kathleen S. Swendiman and Thomas J. Nicola.

## Factors Behind the Status of the DI Trust Fund

As **Figure 2** illustrates, the declining solvency of the DI trust fund is the result of an increasing imbalance between its income and cost rates (i.e., tax revenues and expenditures, respectively, expressed as a percentage of taxable payroll). *Taxable payroll* is defined as the total effective amount of wages and self-employment income in the economy that is subject to Social Security taxes. Between 2000 and 2013, the DI income rate stayed relatively constant (from 1.78% to 1.81% of taxable payroll), whereas the DI cost rate grew markedly (from 1.42% to 2.43% of taxable payroll).<sup>46</sup>

The increase in the DI cost rate stems largely from the growth in the number of beneficiaries on SSDI. Between 1990 and 2013, the total number of individuals receiving SSDI benefits (disabled workers and their dependents) increased 155.8% (from 4.3 million to 11.0 million).<sup>47</sup> During that time, spending on SSDI benefits doubled as a share of the economy, from 0.42% of gross domestic product (GDP) in 1990 to 0.84% of GDP in 2013.<sup>48</sup> Because benefit payments account for nearly all program expenditures, the increase in the number of SSDI beneficiaries drove the DI cost rate upward.<sup>49</sup>

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<sup>42</sup> 2014 Social Security Trustees Report, p.12.

<sup>43</sup> Ibid.

<sup>44</sup> 42 U.S.C. §423 and 31 U.S.C. §1341.

<sup>45</sup> 42 U.S.C. §401(h).

<sup>46</sup> 2014 Social Security Trustees Report, Table IV.B1.

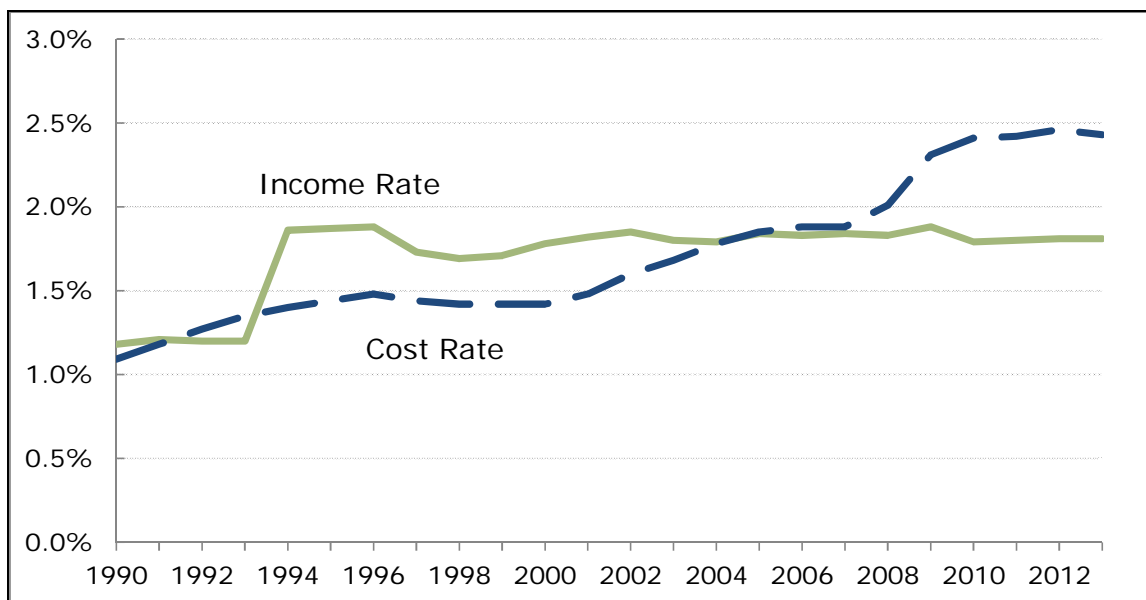
<sup>47</sup> Ibid., Table V.C5.

<sup>48</sup> GDP data are from the U.S. Department of Commerce, Bureau of Economic Analysis, *Current-dollar and "real" GDP*, July 30, 2014, <http://www.bea.gov/national/index.htm>. DI expenditure data are from the SSA, *DI Trust Fund, A Social Security Fund*, <http://www.ssa.gov/oact/STATS/table4a2.html>.

<sup>49</sup> In 2013, benefit payments accounted for 97.7% of DI trust fund expenditures. See 2014 Social Security Trustees Report, Table IV.A2.

**Figure 2. DI Income and Cost Rates, 1990-2013**

(as a percentage of taxable payroll)



**Source:** CRS graph based on data from the 2014 Social Security Trustees Report, Figure IV.B1, at [http://www.ssa.gov/oact/tr/2014/LD\\_figIVB1.html](http://www.ssa.gov/oact/tr/2014/LD_figIVB1.html).

**Notes:** The *income rate* excludes net interest. The *cost rate* includes benefits and administrative expenses. The marked increase in the DI income rate in 1994 stemmed from a reallocation of the payroll tax rate between the OASI and DI trust funds (see the section of the report titled “Payroll Tax Reallocation”). For DI income and cost rate projections, see **Figure A-1** in the appendix.

The rise in disability rolls can be attributed to a number of factors.<sup>50</sup> First, the overall growth in the working-age population increased the number of workers insured for disability.<sup>51</sup> Between 1990 and 2013, the insured-worker population increased 26.0% (from 119.4 million to 150.5 million).<sup>52</sup>

Second, demographic changes in the composition of the insured-worker population contributed to the increase in the number of beneficiaries on SSDI.<sup>53</sup> Most importantly, the aging of the baby-boomer generation increased the number of older workers, who are more likely to become disabled than are younger workers.<sup>54</sup> In addition, growth in the labor force participation rate of women in the latter half of the 20<sup>th</sup> century led to more women being insured for disability.<sup>55</sup> As

<sup>50</sup> See Mary C. Daly, Brian Lucking, and Jonathan A. Schwabish, *The Future of Social Security Disability Insurance*, Federal Reserve Bank of San Francisco, Economic Letter 2013-17, June 24, 2013, <http://www.frbsf.org/economic-research/publications/economic-letter/2013/june/future-social-security-disability-insurance-ssdi/el2013-17.pdf>.

<sup>51</sup> See David Pattison and Hilary Waldron, “Growth in New Disabled-Worker Entitlements, 1970–2008,” *Social Security Bulletin*, vol. 73, no. 4 (November 2013), <http://www.ssa.gov/policy/docs/ssb/v73n4/v73n4p25.html>.

<sup>52</sup> SSA, *Disability Insured Workers*, accessed August 6, 2014, <http://www.ssa.gov/oact/STATS/table4c2DI.html>.

<sup>53</sup> 2014 Social Security Trustees Report, pp. 135-136.

<sup>54</sup> Ibid. See also Kathy Ruffing, *How Much of the Growth in Disability Insurance Stems From Demographic Changes?*, Center on Budget and Policy Priorities, January 27, 2014, Table 1, p. 5, <http://www.cbpp.org/cms/index.cfm?fa=view&id=4080>.

<sup>55</sup> Social Security Advisory Board, *Aspects of Disability Decision Making: Data and Materials*, Table 2b, February 2012, p. 7, [http://www.ssab.gov/Publications/Disability/GPO\\_Chartbook\\_FINAL\\_06122012.pdf](http://www.ssab.gov/Publications/Disability/GPO_Chartbook_FINAL_06122012.pdf). Between 1980 and (continued...)

the size of the female insured-worker population increased, the enrollment rate of women into the SSDI program grew to near parity with men.<sup>56</sup>

Third, changes in opportunities for work and compensation induced more individuals to apply for SSDI. According to SSA's Chief Actuary, economic downturns are associated with a temporary increase in the enrollment rate of insured workers into the SSDI program.<sup>57</sup> During the last recession, the number of SSDI awards per 1,000 insured workers increased 17.9% (from 5.6 in 2007 to 6.6 in 2009).<sup>58</sup>

Fourth, legislative changes to the SSDI program also contributed to the increase in the number of SSDI beneficiaries. For example, the Social Security Amendments of 1983 (P.L. 98-21) raised the full retirement age (FRA) for Social Security retirement benefits, thereby increasing both the number of insured workers in their older and most disability-prone years and the duration of benefit receipt for older SSDI beneficiaries close to the FRA. The increase in the FRA also raised the value of disability benefits relative to early retirement benefits, which likely impelled more individuals between the ages of 62 and FRA to apply for SSDI.

Furthermore, the Disability Benefits Reform Act of 1984 (P.L. 98-460), which changed the evaluative criteria used in making disability determinations, contributed to the growth in the number of SSDI beneficiaries with mental and musculoskeletal disorders.<sup>59</sup> Because such disorders are less likely to result in death compared to other qualifying impairments, the growth in the share of beneficiaries with mental and musculoskeletal disorders likely increased the average duration of benefit receipt, as well as the total number of individuals on disability rolls.

It is important to note that although most researchers agree that changes in the demographic characteristics of the working-age population account for a substantial share of the growth in the number of workers on SSDI, there is considerable disagreement among researchers over how more "difficult to quantify factors" (such as changes in opportunities for work and compensation or changes to federal policy) have contributed to the growth in the program.<sup>60</sup>

For a more detailed analysis of the factors behind the growth in disability rolls, see CRS Report R43054, *Social Security Disability Insurance (SSDI) Reform: An Overview of Proposals to Reduce the Growth in SSDI Rolls*, by William R. Morton.

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(...continued)

2010, the share of working-age women insured for disability increased from 51% to 68%.

<sup>56</sup> Tim Zayatz, *Social Security Disability Insurance Program Work Experience*, Social Security Administration, Actuarial Study No. 122, Table 4, May 2011, p. 21, [http://www.ssa.gov/oact/NOTES/pdf\\_studies/study122.pdf](http://www.ssa.gov/oact/NOTES/pdf_studies/study122.pdf).

<sup>57</sup> U.S. Congress, House Committee on Ways and Means, Subcommittee on Social Security, *Johnson Announces Hearing on the Financing Challenges Facing the Social Security Disability Insurance Program*, Testimony of Stephen C. Goss, Chief Actuary of the Social Security Administration, 113<sup>th</sup> Cong., 1<sup>st</sup> sess., March 14, 2013, [http://www.ssa.gov/legislation/testimony\\_031413a.html](http://www.ssa.gov/legislation/testimony_031413a.html) (hereinafter cited as "Testimony of SSA Chief Actuary Stephen C. Goss, 2013").

<sup>58</sup> SSA, *Annual Statistical Supplement, 2013*, February 2014, Table 6.C7, <http://www.ssa.gov/policy/docs/statcomps/supplement/2013/6c.html#table6.c7>.

<sup>59</sup> See David H. Autor, *The Unsustainable Rise of the Disability Rolls in the United States: Causes, Consequences, and Policy Options*, National Bureau of Economic Research, NBER Working Paper No. 17697, December 2011, p. 5, <http://www.nber.org/papers/w17697>.

<sup>60</sup> Gina Livermore, David Wittenburg, and David Neumark, "Finding alternatives to disability benefit receipt," *IZA Journal of Labor Policy*, 2014, p. 2. <http://www.izajolp.com/content/pdf/2193-9004-3-14.pdf>.



## Possible Short-Term Solutions

To extend the solvency of the DI trust fund, Congress could consider a variety of legislative changes to increase tax revenues, reduce program expenditures (i.e., alter benefits levels or program eligibility requirements), or some combination thereof.<sup>61</sup> In the absence of changes that would restore solvency over the long term, Congress could use temporary *cash infusions* to bolster the asset reserves of the DI trust fund. Typically, the aim of this policy is to improve the financial solvency of a trust fund in the short term, in order to give lawmakers additional time to develop and implement longer-term solutions.<sup>62</sup> This section examines two policy options to shore-up the DI trust fund's asset reserves in the short term: interfund borrowing and a reallocation of the Social Security payroll tax rate. Congress has authorized both of these approaches in the past under similar circumstances.

### Interfund Borrowing

The Social Security Act created the OASI, DI, HI, and Medicare's Supplementary Medical Insurance (SMI) trust funds.<sup>63</sup> Although the four trust funds currently do not have the authority to borrow from one another, Congress could permit temporary borrowing among specified trust funds as a means of improving the solvency of the DI trust fund in the short term.

The last time Congress authorized temporary interfund borrowing was in the early 1980s. In 1981, the OASI trust fund was close to exhaustion with a trust fund ratio (asset reserves as a percentage of total annual expenditures) of 18%.<sup>64</sup> To help maintain the solvency of the OASI trust fund, Congress enacted the "Social Security Amendments of 1981" (P.L. 97-123),<sup>65</sup> which authorized interfund borrowing among the OASI, DI, and HI trust funds until December 31, 1982.<sup>66</sup> Under the 1981 amendments, any trust fund could issue loans to either of the other trust funds. Congress specified that the interest paid on the loans would be equivalent to what the loaned reserves would have earned had the interfund borrowing not occurred. Moreover,

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<sup>61</sup> For a general estimate of the amount of additional payroll tax revenues or cost reductions needed to prevent the DI trust fund ratio from falling below 20% in the short term (2015-2023), see Letter from the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds to the Honorable John A. Boehner, Speaker of the House of Representatives, July 28, 2014, [http://www.ssa.gov/oact/TR/2014/709letter\\_DI\\_House\\_2014.pdf](http://www.ssa.gov/oact/TR/2014/709letter_DI_House_2014.pdf).

<sup>62</sup> For example, a 1980 Senate Committee on Finance report accompanying H.R. 7670 (enacted as P.L. 96-403) stated that the reallocation of the payroll tax rate between the OASI and DI trust funds "is expected to maintain sufficient reserves in the OASI fund to pay benefits through the end of 1981, giving Congress time to take further remedial action next year." U.S. Congress, Senate Committee on Finance, *Reallocation of Social Security Taxes Between OASI and DI Trust Funds*, report to accompany H.R. 7670, 96<sup>th</sup> Cong., 2<sup>nd</sup> sess., September 16, 1980, S.Rept. 96-946, p. 2, <http://www.finance.senate.gov/library/reports/committee/>.

<sup>63</sup> 42 U.S.C. §401, §1395i, and §1395t. Unlike the OASI, DI, and HI trust funds, which are financed primarily through payroll taxes, the SMI trust fund is financed mostly through premiums paid by beneficiaries and general revenues. Because revenues to the SMI trust fund are reset each year to cover expected costs, the SMI trust fund will remain in financial balance indefinitely. For more information on the HI and SMI trust funds, see CRS Report R41436, *Medicare Financing*, by Patricia A. Davis.

<sup>64</sup> 2014 Social Security Trustees Report, Table VI.A1.

<sup>65</sup> P.L. 97-123 is titled "An Act to amend the Omnibus Reconciliation Act of 1981 to restore minimum benefits under the Social Security Act."

<sup>66</sup> "Interfund Borrowing Under the Social Security Act," *Social Security Bulletin*, vol. 46, no. 9 (September 1983), pp. 13-14, <http://www.ssa.gov/policy/docs/ssb/v46n9/v46n9p13.pdf>.

Congress stipulated that the amount of loan transfers between the trust funds could not exceed the amount required to ensure the timely payment of scheduled benefits for a six-month period.<sup>67</sup>

With insufficient funds to pay full benefits on time, the OASI trust fund borrowed \$17.5 billion from the DI and HI trust funds between November and December 1982 (**Table 3**). These loans gave lawmakers a short, six-month window (through June 1983) to address the financial imbalance of the OASI trust fund. On April 20, 1983, Congress enacted the comprehensive Social Security Amendments of 1983 (P.L. 98-21), which made substantial changes to the Old-Age and Survivors program to improve the balance of the OASI trust fund.<sup>68</sup>

**Table 3. Interfund Loans From the DI and HI Trust Funds to the OASI Trust Fund, 1982**

(dollar amounts in billions)

Date of Loan	Total Amount Borrowed	Amount Borrowed From	
		DI Trust Fund	HI Trust Fund
November 5, 1982	\$0.58	\$0.58	a
December 7, 1982	\$3.44	a	\$3.44
December 31, 1982	\$13.50	\$4.50	\$9.00
<b>Total</b>	<b>\$17.52</b>	<b>\$5.08</b>	<b>\$12.44</b>

**Source:** CRS table adapted from Table I in “Interfund Borrowing Under the Social Security Act,” *Social Security Bulletin*, vol. 46, no. 9 (September 1983), p. 14, <http://www.ssa.gov/policy/docs/ssb/v46n9/v46n9p13.pdf>.

**Notes:** Total amounts may not equal subtotals due to rounding.

a. Not Applicable.

As part of the Social Security Amendments of 1983, Congress reauthorized the previously expired interfund borrowing among the three trust funds until the end of 1987. The 1983 amendments required the repayment of all loans, with interest, by December 31, 1989. However, the borrowing authority under the 1983 amendments was never exercised. The 1982 loans from the DI and HI trust funds were repaid by April 1986.<sup>69</sup>

To delay the exhaustion of the DI trust fund temporarily, Congress could reauthorize interfund borrowing among the trust funds. In 2013, the HI trust fund had a trust fund ratio of 83%, and the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds projects that the HI trust fund will be exhausted by 2030 under current law (see **Figure 3**).<sup>70</sup>

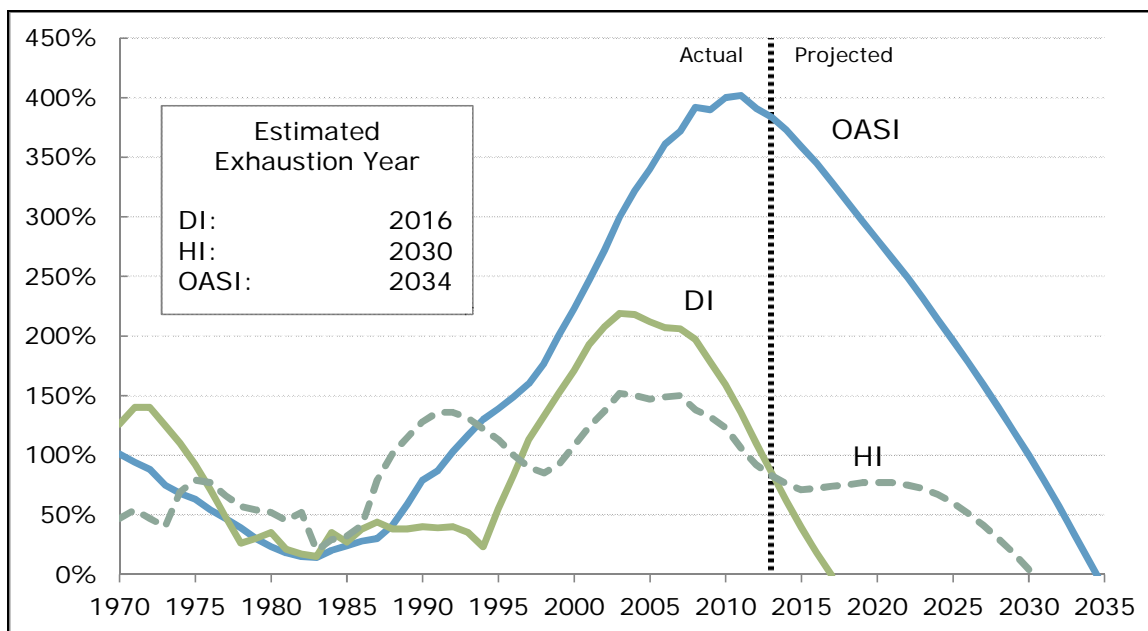
<sup>67</sup> Ibid.

<sup>68</sup> For more information on the 1983 amendments, see John A. Svahn and Mary Ross, “Social Security Amendments of 1983: Legislative History and Summary of Provisions,” *Social Security Bulletin*, vol. 46, no. 7 (July 1983), <http://www.ssa.gov/policy/docs/ssb/v46n7/v46n7p3.pdf>.

<sup>69</sup> SSA, *Research Note #4: Inter-Fund Borrowing Among the Trust Funds*, <http://www.ssa.gov/history/interfundnote.html>.

<sup>70</sup> The Board of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2014 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, July 28, 2014, <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2014.pdf>. Projection is based on the intermediate assumption of the (continued...)

**Figure 3. Actual and Projected OASI, DI, and HI Trust Fund Ratios**  
(asset reserves as a percentage of annual expenditures)



**Source:** CRS graph based on data from the Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs: A Summary of the 2014 Annual Reports*, 2014, Chart E, at [http://www.ssa.gov/OACT/TRSUM/images/LD\\_ChartE.html](http://www.ssa.gov/OACT/TRSUM/images/LD_ChartE.html).

**Notes:** Projections are based on the intermediate assumptions of the 2014 Social Security and Medicare trustees reports. The estimated exhaustion year is the year during which the balance of the trust fund is projected to fall to zero.

The OASI trust fund had a trust fund ratio of 384% in 2013, and the Social Security trustees estimate that the OASI trust fund will be exhausted by 2034 under current law.<sup>71</sup>

## Payroll Tax Reallocation

Another option to improve the solvency of the DI trust fund in the short term is for Congress to reallocate the Social Security (OASDI) payroll tax rate. A payroll tax reallocation would change the amount of Social Security payroll tax revenues directed to the OASI and DI trust funds. By increasing the DI trust fund's share of the payroll tax rate, more income would be credited to the DI trust fund, while less would be directed to the OASI trust fund.<sup>72</sup>

For the purposes of this report, a *reallocation* occurs when the overall Social Security payroll tax rate remains the same but the share allocated to each trust fund changes. As shown in **Table 4**,

(...continued)

2014 Medicare trustees report.

<sup>71</sup> 2014 Social Security Trustees Report. Projection is based on the intermediate assumptions of the 2014 Social Security trustees report.

<sup>72</sup> For current and historical Social Security payroll tax rates, see SSA, *Social Security Tax Rates*, accessed August 15, 2014, <http://www.ssa.gov/oact/progdata/oasdiRates.html>.

Congress has authorized the reallocation of the Social Security payroll tax rate several times in the past.

**Table 4. Legislative History of Payroll Tax Reallocations Between the OASI and DI Trust Funds**

Public Law Number	Name	Reallocation Direction
P.L. 91-172	Tax Reform Act of 1969	OASI to DI
P.L. 93-233	“Social Security Benefits Increase of 1973” <sup>a</sup>	OASI to DI
P.L. 96-403	“Allocation of Social Security Tax Receipts of 1980” <sup>b</sup>	DI to OASI
P.L. 98-21	Social Security Amendments of 1983	DI to OASI
P.L. 103-387	Social Security Domestic Employment Reform Act of 1994	OASI to DI <sup>c</sup>

**Source:** Table prepared by CRS.

**Notes:** For a chronological history of Social Security legislation, see CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*, by Gary Sidor.

- a. P.L. 93-233 is titled “An Act to provide a 7-percent increase in social security benefits beginning with March 1974 and an additional 4-percent increase beginning with June 1974, to provide increases in supplemental security income benefits, and for other purposes.”
- b. P.L. 96-403 is titled “An Act to amend title II of the Social Security Act to make necessary adjustments in the allocation of social security tax receipts between the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund.”
- c. The 1994 reallocation occurred in three stages. The first and third stages reallocated the payroll tax rate from the OASI trust fund to the DI trust fund, while the second stage reallocated the tax rate from the DI trust fund to the OASI trust fund.

The most recent reallocation of the Social Security payroll tax occurred in the mid-1990s (**Table 5**). At the start of 1994, the DI trust fund ratio was 23% and the trustees projected that the DI trust fund would be exhausted in 1995 under their intermediate assumptions.<sup>73</sup> To improve the balance of the DI trust fund, Congress enacted the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387). The act changed the allocation of the Social Security payroll tax rate to provide the DI trust fund with an immediate increase in revenues, as well as a larger share of the total payroll tax rate in subsequent years.

**Table 5. OASDI Payroll Tax Rate Reallocations under the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387)**

Year	Employees and Employers, Each			Self-Employed		
	OASDI	OASI	DI	OASDI	OASI	DI
<i>Rates Scheduled Under the Social Security Amendments of 1983 (P.L. 98-21)</i>						
1990-1999	6.20%	5.60%	0.60%	12.40%	11.20%	1.20%
2000+	6.20%	5.49%	0.71%	12.40%	10.98%	1.42%

<sup>73</sup> U.S. Congress, House Committee on Ways and Means, *1994 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, prepared by The Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 103<sup>rd</sup> Cong., 2<sup>nd</sup> sess., April 12, 1994, H. Doc. 103-231 (Washington: GPO, 1994), p. 14, <http://www.ssa.gov/history/reports/trust/1994/1994.pdf>.

Year	Employees and Employers, Each			Self-Employed		
	OASDI	OASI	DI	OASDI	OASI	DI
<i>Rates Scheduled Under the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387)</i>						
1994-1996	6.20%	5.26%	0.94%	12.40%	10.52%	1.88%
1997-1999	6.20%	5.35%	0.85%	12.40%	10.70%	1.70%
2000+	6.20%	5.30%	0.90%	12.40%	10.60%	1.80%

**Source:** Tabled prepared by CRS.

In justifying the reallocation, a House Committee on Ways and Means, Subcommittee on Social Security report noted that:

[T]he reallocation recommended by the Trustees not only secures the funding necessary to keep the DI program solvent in the short run; it also provides two critical opportunities. First, it provides time for a more detailed study of the DI program—one aimed at identifying with a higher level of certainty the underlying causes of its recent growth. Second, and perhaps even more importantly, the proposed reallocation would provide additional DI program experience to analyze. Is increased growth a temporary or longer-term phenomenon? What role will a stronger economy play in altering this pattern? Answers to these critical questions can be obtained only through the additional time and experience that can be gained through [a] small reallocation of the Social Security tax.<sup>74</sup>

In their 1995 annual report, the trustees projected that the boost in revenues from the payroll tax reallocation would extend DI trust fund solvency from 1995 to 2016.<sup>75</sup>

### Potential Rate Schedule to Extend the Solvency of the DI Trust Fund

To delay the exhaustion of the DI trust fund, Congress could again reallocate the payroll tax rate to give the DI trust fund a greater share of Social Security's payroll tax revenues. In July 2014, SSA's Office of the Chief Actuary prepared a potential rate schedule that is projected to extend the solvency of the DI trust fund in the short-term (**Table 6**).<sup>76</sup>

<sup>74</sup> U.S. Congress, House Committee on Ways and Means, Subcommittee on Social Security, *Social Security Board of Trustees' Recommendation to Reallocate a Portion of the Social Security Payroll Tax to the Disability Insurance Trust Fund*, 103<sup>rd</sup> Cong., 1<sup>st</sup> sess., April 22, 1993, H.Hrg. 781-44 (Washington: GPO, 1993), p. 7.

<sup>75</sup> U.S. Congress, House Committee on Ways and Means, *1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, 104<sup>th</sup> Cong., 1<sup>st</sup> sess., April 3, 1995, H. Doc. 104-57 (Washington: GPO, 1995), <http://www.ssa.gov/history/reports/trust/1995/overview.html>.

<sup>76</sup> SSA Memorandum from Chris Chaplain, Supervisory Actuary, Jason Schultz, Supervisory Actuary, and Daniel Nickerson, Actuary, to Alice Wade, Deputy Chief Actuary, July 28, 2014, [http://www.ssa.gov/oact/solvency/NA\\_20140728.pdf](http://www.ssa.gov/oact/solvency/NA_20140728.pdf).

**Table 6. Potential Reallocation of the OASDI Payroll Tax Rate, 2015 and Beyond**

Year	Employees and Employers, Each			Self-Employed		
	OASDI	OASI	DI	OASDI	OASI	DI
2014 (current law)	6.20%	5.30%	0.90%	12.40%	10.60%	1.80%
2015-2016	6.20%	4.80%	1.40%	12.40%	9.60%	2.80%
2017	6.20%	4.90%	1.30%	12.40%	9.80%	2.60%
2018-2019	6.20%	5.10%	1.10%	12.40%	10.20%	2.20%
2020-2023	6.20%	5.20%	1.00%	12.40%	10.40%	2.00%
2024	6.20%	5.25%	0.95%	12.40%	10.50%	1.90%
2025+	6.20%	5.30%	0.90%	12.40%	10.60%	1.80%

**Source:** Tabled prepared by CRS based on SSA Memorandum from Chris Chaplain, Supervisory Actuary, Jason Schultz, Supervisory Actuary, and Daniel Nickerson, Actuary, to Alice Wade, Deputy Chief Actuary, July 28, 2014, [http://www.ssa.gov/oact/solvency/NA\\_20140728.pdf](http://www.ssa.gov/oact/solvency/NA_20140728.pdf).

**Notes:** Under this potential rate schedule, SSA's Office of the Chief Actuary projects that the asset reserves of the OASI and DI trust funds will both be depleted in 2033. Projections are based on the intermediate assumptions of the 2014 Social Security trustees report.

Like the 1994 payroll tax reallocation, the potential rate schedule would reallocate a larger portion of the Social Security payroll tax rate to the DI trust fund upon implementation and then would taper the allocation over time. Unlike the 1994 reallocation, however, the potential rate schedule would equalize the financial conditions of the OASI and DI trust funds. In other words, if implemented, the OASI and DI trust funds would both be depleted in the same year—2033.<sup>77</sup> Under current law, the trustees estimate that the OASI trust fund will be exhausted in 2034 (see **Table A-1** in the appendix). The Office of the Chief Actuary projects that both trust funds would pass the short-range test of financial adequacy under the potential rate schedule.

Upon depletion in 2033, the Office of the Chief Actuary estimates that the OASI trust fund would have enough continuing tax revenues to cover 75% of Old-Age and Survivors expenditures (declining to 70% in 2088), and the DI trust fund would have enough continuing tax revenues to cover 88% of SSDI expenditures (dropping to 80% in 2088).<sup>78</sup>

## Possible Long-Term Solutions

The last major congressional effort to address the financial status of the OASI and DI trust funds occurred in the early 1980s with the Social Security Amendments of 1983 (P.L. 98-21).<sup>79</sup> Under the 1983 amendments, Congress used a combination of revenue increases and cost reductions to stabilize and eventually improve the solvency of the OASI and DI trust funds. To prevent the

<sup>77</sup> Ibid., p.1.

<sup>78</sup> Expenditures include scheduled benefit payments, other small payments, and administrative expenses.

<sup>79</sup> For more information on the 1983 Social Security Amendments, see John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, vol. 46, no. 7 (July 1983).

projected exhaustion of the combined OASI and DI trust funds in 2033, Congress could enact similar legislation to ameliorate the long-term solvency of the two trust funds.<sup>80</sup>

For information on reform proposals that would affect the long-term solvency of the DI trust fund (or the combined OASI and DI trust funds), see the following resources:

- the “Proposals Affecting Trust Fund Solvency” and “Individual Changes Modifying Social Security” sections of the Office of the Chief Actuary’s website at <http://www.ssa.gov/oact/>;
- CBO’s 2012 report, *Policy Options for the Social Security Disability Insurance Program*, at <http://www.cbo.gov/publication/43421>; and
- CRS Report R43054, *Social Security Disability Insurance (SSDI) Reform: An Overview of Proposals to Reduce the Growth in SSDI Rolls*, by William R. Morton.

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<sup>80</sup> For information on Social Security reform proposals, see CRS Report RL33544, *Social Security Reform: Current Issues and Legislation*, by Dawn Nuschler.

## Appendix. Supplemental Tables and Figures

**Table A-1. Key Dates Projected for the Social Security Trust Funds as Shown Under the Intermediate Assumptions in Trustees Reports from 1983 to 2014**

Year of Report	Year of Projected Exhaustion			Year That Expenditures First Exceed Revenues			Year That Expenditures First Exceed Revenues Plus Net Interest on Assets		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
Intermediate II-B Projections <sup>a</sup>									
1983	b	b	b	c	c	2021	c	c	2047
1984	b	2050	b	2021	2012	2021	2045	2038	2044
1985	2050	2034	2049	2019	2010	2019	2032	2020	2032
1986	2054	2026	2051	2020	2009	2019	2035	2017	2033
1987	2055	2023	2051	2020	2008	2019	2036	2013	2033
1988	2050	2027	2048	2019	2009	2019	2033	2016	2032
1989	2049	2025	2046	2019	2009	2018	2032	2014	2030
1990	2046	2020	2043	2019	2008	2017	2030	2011	2028
Intermediate Projections									
1991	2045	2015	2041	2018	1998	2017	2030	2011	2028
1992	2042	1997	2036	2018	1992	2016	2028	1992	2024
1993	2044	1995	2036	2019	1993	2017	2030	1993	2025
1994	2036	1995	2029	2016	1994	2013	2024	1994	2019
1995	2031	2016	2030	2014	2003	2013	2021	2007	2020
1996	2031	2015	2029	2014	2003	2012	2021	2007	2019
1997	2031	2015	2029	2014	2004	2012	2021	2007	2019
1998	2034	2019	2032	2015	2006	2013	2023	2009	2021
1999	2036	2020	2034	2015	2006	2014	2024	2009	2022
2000	2039	2023	2037	2016	2007	2015	2026	2012	2025
2001	2040	2026	2038	2016	2008	2016	2027	2015	2027
2002	2043	2028	2041	2018	2009	2017	2028	2018	2027
2003	2044	2028	2042	2018	2008	2018	2030	2018	2028
2004	2044	2029	2042	2018	2008	2018	2029	2017	2028
2005	2043	2027	2041	2018	2005	2017	2028	2014	2027
2006	2042	2025	2040	2018	2005	2017	2028	2013	2027
2007	2042	2026	2041	2018	2005	2017	2028	2013	2027
2008	2042	2025	2041	2018	2005	2017	2028	2012	2027
2009	2039	2020	2037	2017	2005	2016	2025	2009	2024
2010	2040	2018	2037	2018	2005	2015	2026	2009	2025

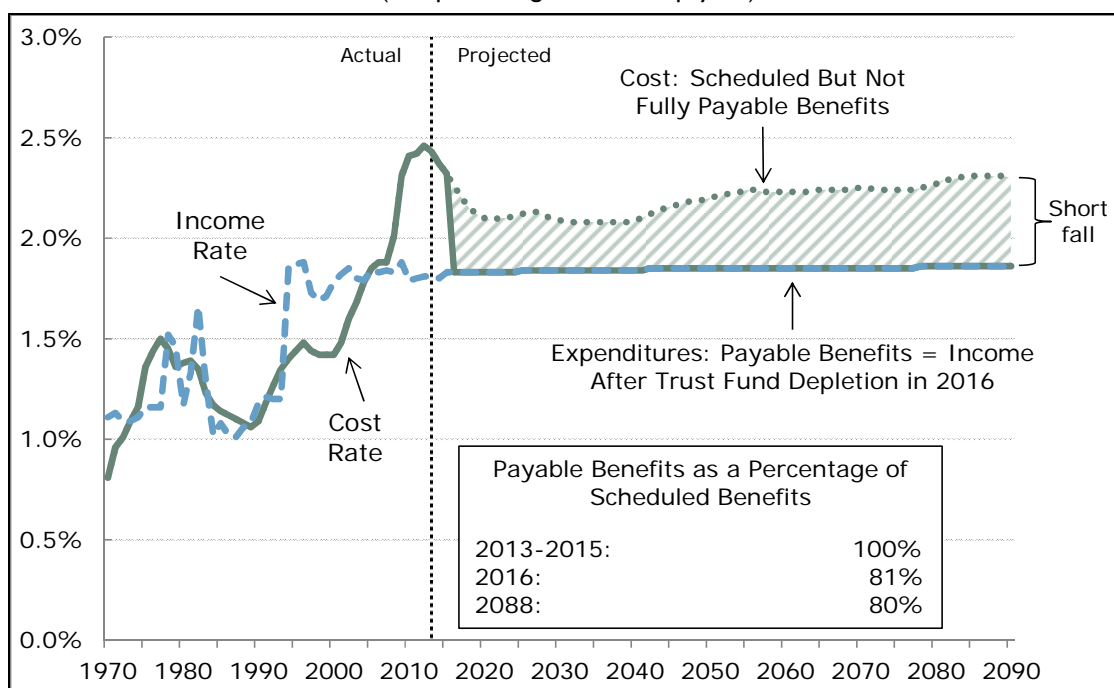


Year of Report	Year of Projected Exhaustion			Year That Expenditures First Exceed Revenues			Year That Expenditures First Exceed Revenues Plus Net Interest on Assets		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
2011	2038	2018	2036	2017	2005	2010	2025	2009	2023
2012	2035	2016	2033	2010	2005	2010	2023	2009	2021
2013	2035	2016	2033	2010	2005	2010	2022	2009	2021
2014	2034	2016	2033	2010	2005	2010	2022	2009	2020

**Source:** Tabled prepared by CRS based on data from 1983-2014 Social Security trustees reports and information provided by SSA.

- a. From 1983-1990, two intermediate forecasts were prepared (II-A and II-B). The intermediate II-B forecast corresponds more closely to the intermediate forecast in subsequent years.
- b. Trust fund expected to remain solvent throughout the long-range projection period.
- c. Not Available.

**Figure A-1. Actual and Projected DI Income and Cost Rates with Scheduled and Payable Benefits, 1970-2090**  
(as a percentage of taxable payroll)



**Source:** CRS graph based on data from the 2014 Social Security Trustees Report, Table IV.B1 and Figure II.D3, at <http://www.ssa.gov/oact/tr/2014/index.html>.

**Notes:** Projections are based on the intermediate assumptions of the 2014 Social Security trustees report. Figure adapted from Figure II.D3 in the 2014 trustees report. The *income rate* excludes net interest. The *cost rate* includes benefits and administrative expenses. The trustees project that, under current law, SSDI benefits will be fully payable at the beginning of 2016 but will fall to 81% of scheduled benefits before the end of the year. When the DI trust fund is depleted, the amount of payable benefits is determined by the level of continuing tax revenues (i.e., expenditures equal income). The shaded area represents the shortfall or deficit between payable and scheduled SSDI benefits once the DI trust fund is exhausted.

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