

***THE SOCIAL SECURITY
DISABILITY INSURANCE
PROGRAM***

AN ANALYSIS

***Report of the
Department of Health and Human Services***

Pursuant to

***A Request from the Board of Trustees
of the Federal Old-Age and Survivors Insurance
and Disability Insurance Trust Funds***

December 1992

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS
Washington, D.C., December 16, 1992

HONORABLE THOMAS S. FOLEY
Speaker of the House of Representatives
Washington, D.C.

Dear Mr. Speaker:

In compliance with Section 709 of the Social Security Act, we reported on April 2, 1992 to each House of the Congress that the reserves of the Disability Insurance (DI) Trust Fund were expected at that time to be exhausted in 1997 and could possibly be exhausted as early as 1995. In that report we recognized the necessity of legislative action to remedy the inadequate future assets of the DI fund but postponed recommending any specific change until an analysis of the DI program experience could be completed.

We asked the Department of Health and Human Services to report back the results of such an analysis so that the Board could make appropriate recommendations to the Congress. That study, entitled *The Social Security Disability Insurance Program: An Analysis*, is enclosed. The study found that the major cause of the DI Trust Fund's financial deterioration has been a rapid increase in program expenditures due to a substantial rise in the number of disabled beneficiaries. Although by no means conclusive, the study suggests that the sizable increases in the last three years in the number of DI awards may have been caused by factors such as the Social Security Administration's outreach efforts to people potentially eligible for disability benefits, court decisions that have made certain disability evaluation criteria more favorable to claimants, and the poor economic conditions that have prevailed since 1989.

Because the analysis of the causes of the recent program growth is inconclusive, it is not possible to determine whether it is a temporary phenomenon or a longer term, more permanent trend. Therefore, we believe that a payroll tax rate reallocation should be used now to remedy the projected financial shortfall in the DI Trust Fund in the next few years. This reallocation could be adjusted if the fund's financial difficulties prove temporary, as would be the case, for example, if the recent poor economic performance is the major cause of the shortfall, and the economy improves.

The precise amount of the reallocation needed should be determined after the 1993 Trustees Report is issued. However, based on the intermediate assumptions in the 1992 Trustees Report, we would recommend that an additional 0.2 percent of the combined OASDI tax rate of 6.2 percent for employees and employers, each, be reallocated from the OASI fund to the DI

fund, effective January 1, 1993. A retroactive reallocation to January 1 is possible because the total OASDI payroll tax rate would not change. Under this schedule, the DI tax rate would increase from its current level of 0.6 percent for employees and employers, each, to 0.8 percent. The OASI tax rate would decrease correspondingly, from 5.6 percent to 5.4 percent.

The recommended reallocation would enable the DI fund to meet the test of short-range financial adequacy without jeopardizing the short-range status of the OASI fund. Under the short-range test, the assets of a trust fund must remain over 100 percent of annual expenditures, or, if initially below that level, reach it by the beginning of the sixth year and remain above 100 percent throughout the remainder of the 10-year short-range period. The reallocation would, of course, adversely affect the long-range financial position of the OASI fund, advancing the projected year of exhaustion of that fund by four years, from 2042 to 2038.

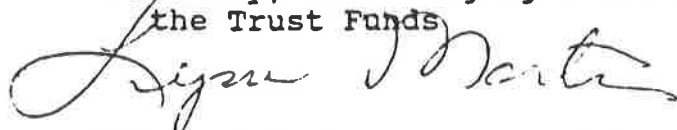
In recommending a reallocation of the tax rate to meet the DI Trust Fund's near-term shortfall, we recognize that future legislation may be needed to further raise the DI tax rate or to lower program expenditures. A further reallocation from OASI would ultimately raise concern about the financial viability of the retirement and survivors program.

In order to be able to address the important longer-range issues facing the DI Trust Fund, the best possible research regarding future disability program experience is needed. Therefore, we also recommend that the Department of Health and Human Services initiate a significant research effort to establish more clearly whether the DI program's recent rapid growth is temporary or a longer term trend. A similar letter is being sent to the President of the Senate.

Respectfully,



NICHOLAS F. BRADY, Secretary of the
Treasury, and Managing Trustee of
the Trust Funds



LYNN MARTIN, Secretary of Labor,
and Trustee



LOUIS W. SULLIVAN, M.D., Secretary
of Health and Human Services, and
Trustee

STATEMENT BY THE PUBLIC TRUSTEES

We did not participate in either the analysis of Disability Insurance (DI) program experience or the development of the recommendation to allocate a higher portion of the combined Social Security tax rate to the DI Trust Fund. As indicated in our separate statement to the section 709 report submitted on April 2, 1992, we do not consider it appropriate as independent trustees to be participants in the process within the Executive Branch of developing specific legislative recommendations for the Congress.

We have, however, reviewed both the analysis and the recommendation. We believe that any solution to the immediate shortfall in the DI Trust Fund should at a minimum result in the DI program meeting the short-range test of financial adequacy, and the recommended reallocation of the tax rate would accomplish that objective.

We believe that additional review is necessary to determine what program or administrative changes may be appropriate to address the long-range actuarial deficit in the DI program. In this regard, we also agree that the best possible research is needed to assist policymakers in formulating solutions to the long-range DI deficit.

As the annual Trustees Report projections have shown for several years, the Old-Age and Survivors Insurance (OASI) program also is in substantial actuarial deficit. The recommended reallocation of the combined Social Security tax rate from the OASI Trust Fund to the DI Trust Fund would increase the long-range actuarial deficit in the OASI program and accelerate the projected year of exhaustion of that fund.

We recommend that the Executive Branch and the Congress work in close cooperation to resolve the long range financial deficits in both the DI and OASI Trust Funds. We remain, as always, ready to consult with the Congress concerning the financial status of the Social Security and Medicare programs.

Respectfully,



Stanford G. Ross
Trustee



David M. Walker
Trustee

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
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page 2 - Honorable Dan Quayle

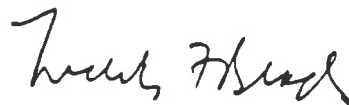
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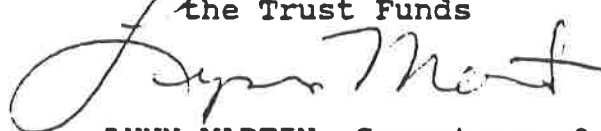
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As the annual Trustees Report projections have shown for several years, the Old-Age and Survivors Insurance (OASI) program also is in substantial actuarial deficit. The recommended reallocation of the combined Social Security tax rate from the OASI Trust Fund to the DI Trust Fund would increase the long-range actuarial deficit in the OASI program and accelerate the projected year of exhaustion of that fund.

We recommend that the Executive Branch and the Congress work in close cooperation to resolve the long range financial deficits in both the DI and OASI Trust Funds. We remain, as always, ready to consult with the Congress concerning the financial status of the Social Security and Medicare programs.

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INTRODUCTION

Each year, the Board of Trustees of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds prepares a report for the Congress on the financial outlook for these funds, based on the Board's evaluation of possible future economic and demographic trends. These estimates are provided in three sets of assumptions, ranging from the more optimistic (alternative I) through the intermediate or "most likely" (alternative II) to the more pessimistic (alternative III) evaluation of existing and anticipated conditions.

Section 709 of the Social Security Act requires the Board to report to each House of the Congress when it determines that the "balance ratio" of an individual trust fund for any calendar year may become less than 20 percent. This balance ratio, also called a trust fund ratio, is the comparison of assets at the beginning of a year to projected expenditures during that year. The Board's report is to include specific legislative recommendations for addressing the inadequate balance ratio.

Under the alternative II assumptions of its 1992 annual report, the Board projected that, although the two trust funds combined would be adequately funded to support both programs well into the future, assets of the DI fund alone would fall below 20 percent of annual expenditures at the beginning of 1996 and would be exhausted in 1997. Under the more pessimistic alternative III estimates in the 1992 report, depletion would occur earlier, in 1995.

This anticipated DI shortfall was reported to the Congress on April 2, 1992 (see appendix). The Board deferred any legislative recommendations, however, until a careful analysis could be undertaken of the disability program, including the allocation of the OASDI tax rate. The Board asked the Department of Health and Human Services to perform this analysis and to present its findings for the Board's consideration in making its recommendations. This report has been prepared in response to that request.

The report describes the disability program today and the factors that have contributed to major fluctuations in the program's growth and estimated cost since its enactment in 1956. It then examines the possible causes of the sharp increase in disability costs since 1989, which has led to the projected shortfall in the DI Trust Fund. The report concludes with Findings from the foregoing analysis and a discussion of possible options for reallocation of the combined OASDI tax rate in order to provide prompt improvement in DI program financing.

I. PROGRAM BACKGROUND

A. *The Disability Insurance Program Today*

The Social Security Act provides for payment of monthly cash benefits to covered workers under age 65 who become unable to work because of severe physical or mental disabilities. To qualify for such benefits, applicants must generally meet two basic requirements: they must have worked a prescribed period of time in employment or self-employment that is covered under the Social Security program and they must have a medically determinable impairment or combination of impairments that prevents them from doing any substantial gainful work activity and that is expected to last at least 12 months or to end in death.

Benefits for disabled workers and their spouses and children are administered by the Social Security Administration (SSA) through its network of field offices and the State Disability Determination Service (DDS) units that make most of the actual disability evaluations based on regulations and instructions provided by the SSA. The sequential disability evaluation process currently in use has evolved through an ongoing effort to evaluate an individual's impairment (or impairments) as fairly, objectively, and scientifically as possible. This process is summarized as follows:

- First, an applicant's current work status is checked to see if he or she is engaging in substantial gainful work. If so, the applicant is denied benefits without further consideration of his or her impairment.
- Next, an applicant's impairment is evaluated to see if it significantly limits ability to do basic work activities. If not, the individual is denied benefits.
- If an individual's impairment is severe, it is checked against a detailed listing of medical impairments to see if it "meets" the criteria specified. If so, the applicant is awarded disability benefits. (Currently, about 56 percent of initial disability awards are made at this stage.)
- If the impairment is not listed, then it is evaluated to see if it is equivalent to (or "equals") the criteria for a similar or related impairment that is listed. If so, benefits are awarded. (About 12 percent of awards are currently decided at this stage.)
- If an applicant has a severe impairment that does not meet or equal the medical listings, "residual functional capacity" is determined to see if the person can still do his or her prior work. An applicant who is still able to perform his or her past work is denied benefits at this stage.
- If an applicant cannot perform his or her past work, then residual functional capacity is considered with age, education and work experience to determine if there is any other work he or she can perform. If not, benefits are granted. (About 32 percent of awards are currently based on these vocational factors.)

Each step of this process is governed by detailed, specific rules and instructions. Impairments must result from physical or mental abnormalities which can be shown by medically acceptable diagnostic techniques and there must be adequate medical evidence in the form of specific signs, symptoms, and laboratory findings. Documentation requirements, both as to evidence considered and the decision process, are extensive. A full range of appellate steps is provided for applicants whose claims are denied, including administrative reconsideration, a *de novo* review by an administrative law judge (ALJ), and subsequent review by an Appeals Council. Applicants who exhaust these steps have recourse to the Federal courts.

Disability benefits are primarily financed by a portion of the Social Security payroll and self-employment taxes paid by workers, their employers, and the self-employed. In addition, relatively small amounts of income are provided through income tax levies on a portion of DI benefit payments of beneficiaries who have substantial other income and through interest earned on mandatory investment of trust fund assets in U.S. Treasury securities. All of the financial operations of the DI program are handled through the Disability Insurance Trust Fund.

Currently about 3.5 million disabled workers and 1.4 million of their family members receive monthly disability payments. Benefit amounts are based on disabled individuals' taxable earnings over their working lives. (The earnings in each year are indexed to take account of increases in average wage levels over the years.) At the end of 1992, the average monthly disability benefit for all disabled workers was \$627. The average for beneficiary families consisting of a disabled worker, a spouse, and one or more children was \$1,076 per month.

Disability program outlays in calendar year 1991 were \$28.6 billion. Of this amount, 96.8 percent represented monthly benefit payments, 0.1 percent payments for vocational rehabilitation services, and 2.8 percent the costs of administering the program. (The remaining 0.3 percent was a transfer of assets to the Railroad Retirement program, as required by the Railroad Retirement Act of 1974.)

As noted in the introduction, DI program expenditures have increased sharply since 1989, leading to a financial imbalance which is expected to exhaust the assets of the DI Trust Fund in the relatively near future. The increase in cost has been exacerbated by slower growth in trust fund income, due to the recent recession. In seeking to identify the causes and possible program ramifications of the unexpectedly rapid growth since 1989 in the number of disabled workers and the consequent rapid depletion of DI trust fund reserves, it is helpful to understand how the program has evolved.

B. *The Early Years—Before 1970*

In its 1935 Report to the President, the Committee on Economic Security recognized the problem workers and their families experience due to loss of earnings during periods of disability. The Committee did not consider the issue in depth or make any recommendation regarding it.

Three years later the first Social Security Advisory Council reported that its members unanimously agreed on the desirability of cash benefits for workers who become permanently and totally disabled. The Council was divided, however, on when to begin benefits. Some members believed that because of the additional costs and administrative difficulties involved, the issue should receive further study.

Over the following 17 years, numerous reports and congressional debates pointed out the serious gap in the nation's income security provisions caused by the lack of cash benefits for disabled workers under Social Security. However, because of concern about the difficulties involved in determining whether a particular individual is disabled and in controlling the cost of a disability cash benefits program, Congress was hesitant about enacting such benefits.

As a first step, the Congress enacted a disability "freeze" provision in 1954. This provision preserved an individual's insured status and benefit amount for purposes of retirement and survivors benefits while he or she was considered to be disabled. The States, which were already administering the Vocational Rehabilitation Act and, as a result, had well-established relationships with the medical profession to obtain the medical evidence needed to determine disability, were given responsibility for making disability determinations. The States were also in a position to make rehabilitation services readily available to those found to be disabled.

A disability cash benefits program was finally enacted in 1956. The concern about the potential cost of the new disability program was addressed in two ways. First, benefits were limited to workers age 50 through 64, the definition of disability was very strict, and the requirements to be insured for disability benefits were tight. Second, a separate disability insurance tax rate and trust fund were established so that the cost of the disability program could be monitored closely and the OASI Trust Fund would not be depleted by unexpected increases in disability costs.

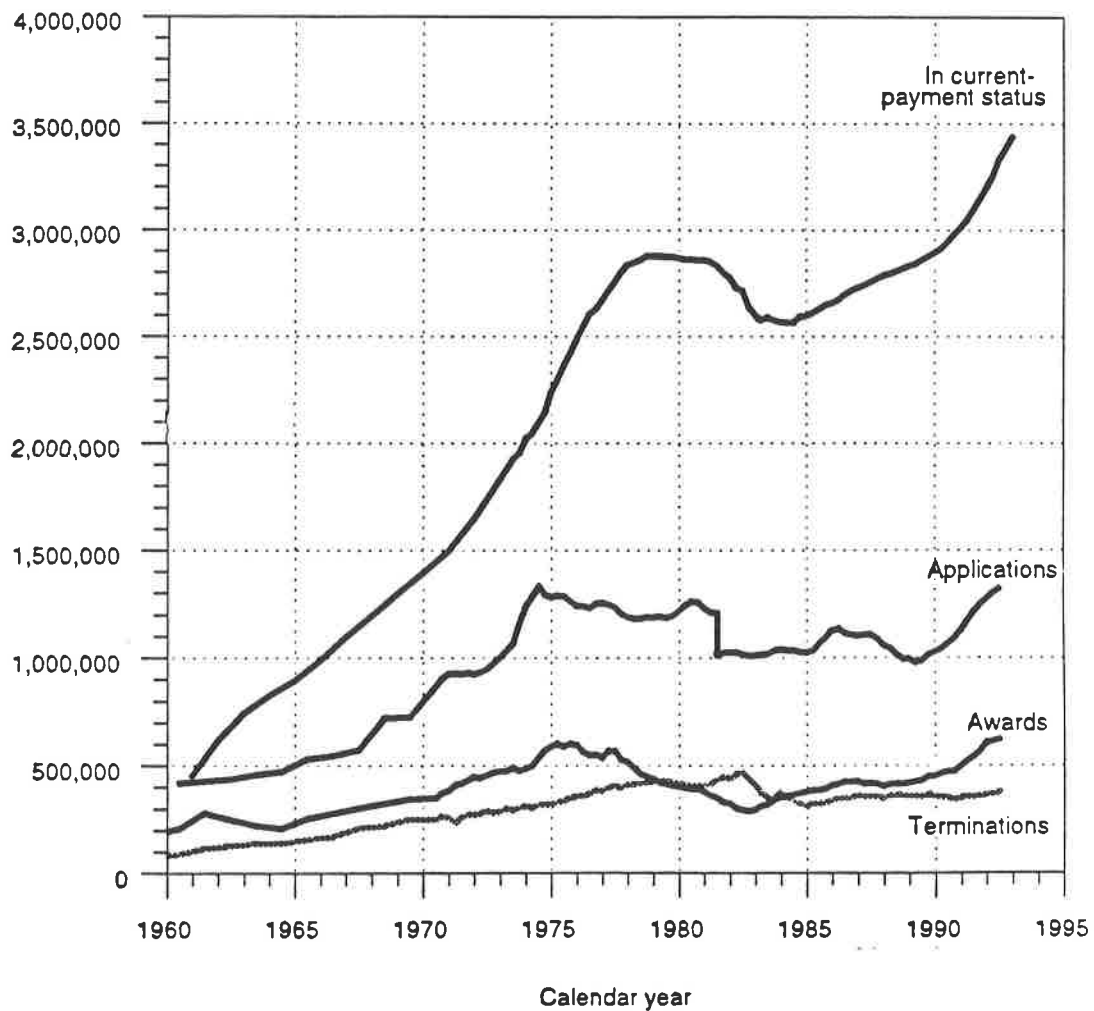
The first disability payments were made for July 1957. Public awareness of these benefits was limited initially, and program growth was relatively slow in 1957-1960. Benefits were extended to qualified individuals younger than age 50 in November 1960. Additional legislation in 1965 and 1967 broadened and further clarified the requirements for disability benefits. The definition was changed from "can be expected to result in death or to be of long-continued and indefinite duration" to the less-restrictive "can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months." These changes opened the program to a much larger potentially qualified population.

Initially, growth in the number of disabled worker beneficiaries was somewhat slower than expected. In the 1960s, however, following the legislative changes described above, the number of disabled workers increased more rapidly than expected.

During these early years, all State DDS decisions to award benefits were reviewed by SSA and errors returned for correction before payments were begun. In addition, the status of about 10 percent of disabled beneficiaries was reviewed each year. The purpose of these "continuing disability reviews" (CDRs) was to identify and terminate benefits of those who had returned to work or whose medical conditions did not continue to meet the disability standard. Disability payments also ceased when beneficiaries were converted to retirement benefits at age 65 or if they died.

The overall numbers of applications for disabled worker benefits, benefit awards and terminations, and the number of beneficiaries on the rolls are shown in chart 1 and table 1 (all tables are at end of text), for the period 1960-1992.

Chart 1.—Disabled worker applications, awards, terminations, and beneficiaries in current-payment status



Note: See footnote 1 in table 1 concerning abrupt reduction in applications starting in October 1981.

C. 1970-1975

A dramatic upswing in the number of workers applying for and receiving benefits under the DI program occurred in the early 1970s. Several events are believed to have contributed to this rapid growth.

First, a major impact on disability program administration resulted from enactment of the Supplemental Security Income (SSI) program in 1972, with benefit payments starting in January 1974. SSA and the State DDSs were given the responsibility for processing initial disability claims under SSI using the same definitions of disability that applied in the Social Security disability program.

About 1.3 million disabled people who were receiving welfare payments under State programs were transferred to the SSI rolls in 1974. Heavy additional workloads resulted from disability redeterminations which SSA conducted regarding the continuing eligibility of these former State welfare recipients for SSI disability payments and from new disability claims under the well-publicized new SSI program. In addition, the Black Lung benefit program implemented in 1970 generated about 500,000 disability claims in the 1970-1974 period for processing by SSA. The publicity and active outreach efforts that accompanied implementation of these new programs are believed to have had the side effect of increasing applications for the DI program.

Second, as indicated in chart 2 and table 2 the economy experienced a severe recession in 1974-1975 with a sizable increase in unemployment and, simultaneously, very high inflation. (The gray areas in chart 2 indicate periods of economic recession.) These economic conditions are thought to have contributed to the increase in applications for disability benefits and to the reduced number of beneficiaries who returned to work.

Third, the level of benefits payable by the Social Security program was substantially increased. Across-the-board benefit increases of 15 percent in 1970, 10 percent in 1971, and 20 percent in 1972 were enacted. Also in 1972, automatic cost-of-living benefit adjustments were enacted in a way that led to rapid, unintended increases in benefit levels for workers who retired, became disabled, or died in 1974-1978. These increases resulted in benefit levels which replaced a much higher percentage of pre-disability earnings—sometimes close to or over 100 percent for younger workers, as indicated in chart 3. This, in turn, made it more financially attractive for people to apply for disability benefits and for disabled worker beneficiaries to remain on the rolls rather than attempt to return to work.

The number of applications for disability benefits under Social Security jumped from 725,000 in 1969 to more than 1.3 million in 1974. Pressures to move these large workloads with limited staffing resulted in a number of processing expediencies:

Chart 2.— Selected economic factors

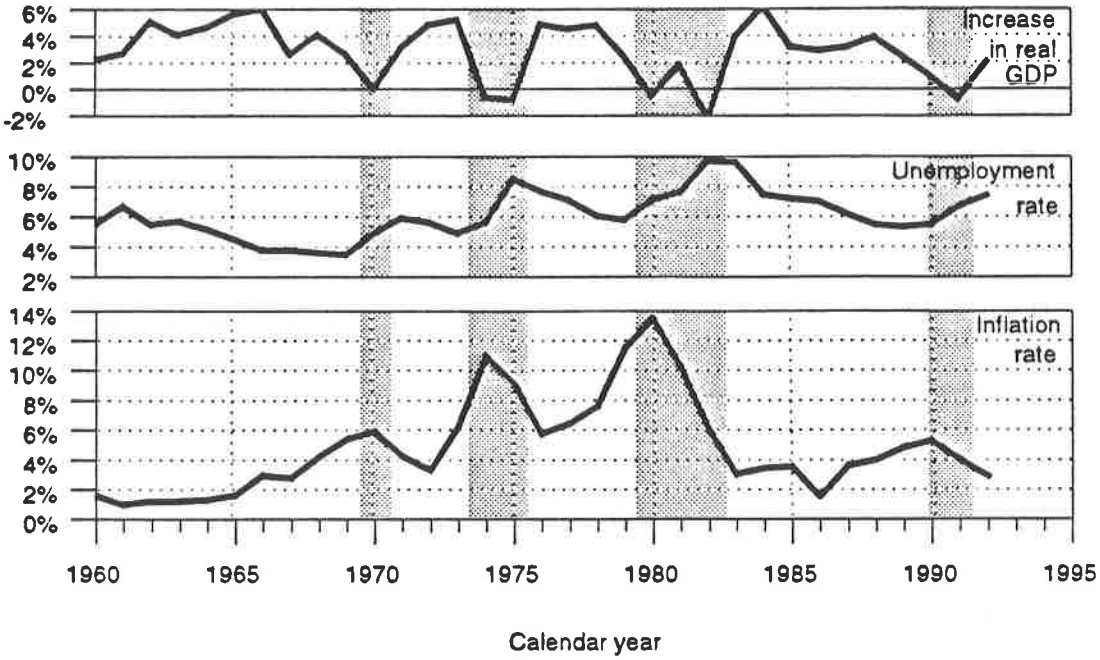
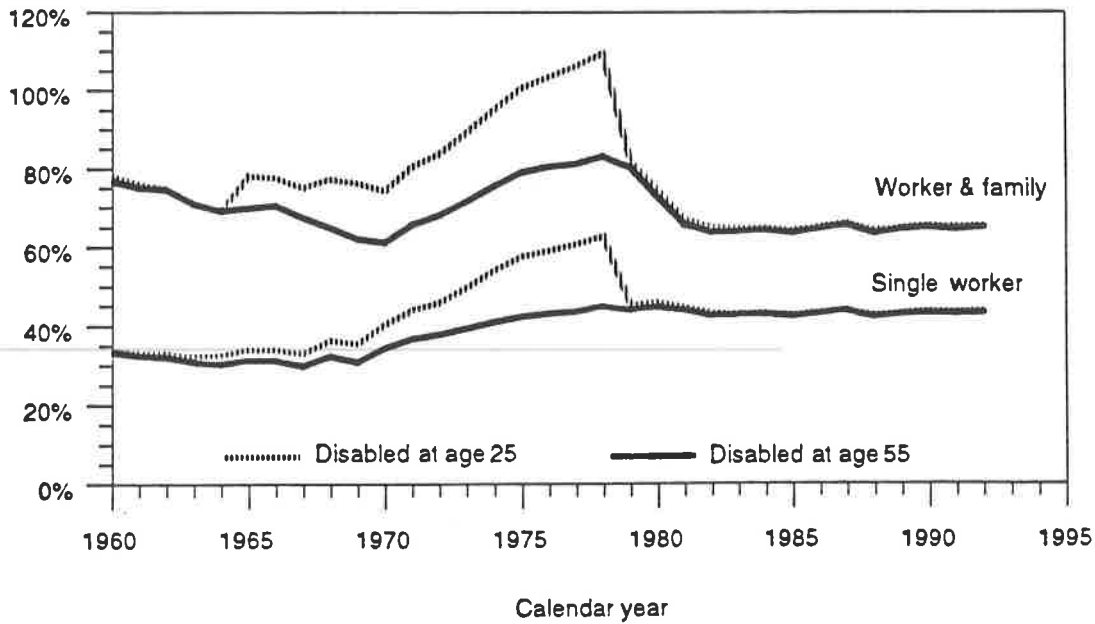


Chart 3.—Replacement ratios for newly disabled workers



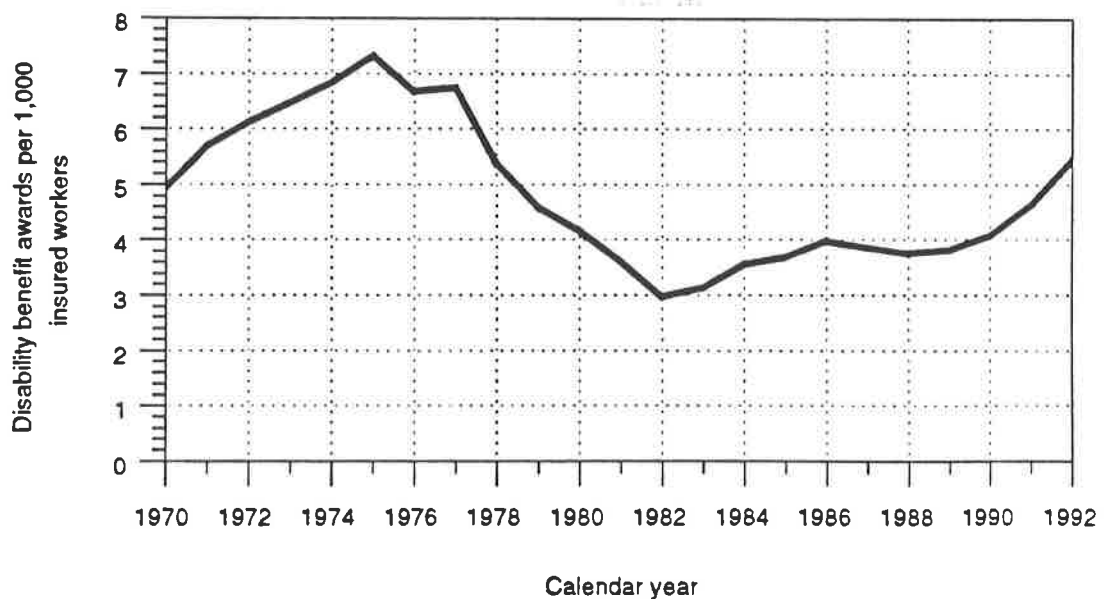
Note: The replacement ratio is defined as the ratio of benefits to pre-disability earnings. Examples shown are for workers who had steady earnings at the average level for all workers.

- SSA review of DDS decisions was reduced from 100 percent to a small national sample and was conducted after, rather than before, payment of benefits was begun.
- Only clear decisional errors were returned for correction (case documentation deficiencies were not).
- Most CDRs were deferred, with less than 4 percent of the beneficiaries on the rolls being reviewed each year.

An apparent result of the huge increases in disability applications and the steps taken to process them was that the accuracy of the disability determination process declined.

Collectively, the changes in benefit levels, economic conditions, and program administration contributed to a sharp increase in the number of new disability benefit awards per 1,000 insured workers (the disability incidence rate). Specifically, the incidence rate rose from 4.9 in 1970 to the (record) level of 7.3 in 1975, as indicated in chart 4 and table 2. Simultaneously, the proportion of beneficiaries whose disability benefits terminated (as a result of recovery, death, or attainment of retirement age) declined from 15.9 percent in 1970 to 13.3 percent in 1975 (chart 5 and table 3). Over one-half of this decline was due to lower recovery rates.

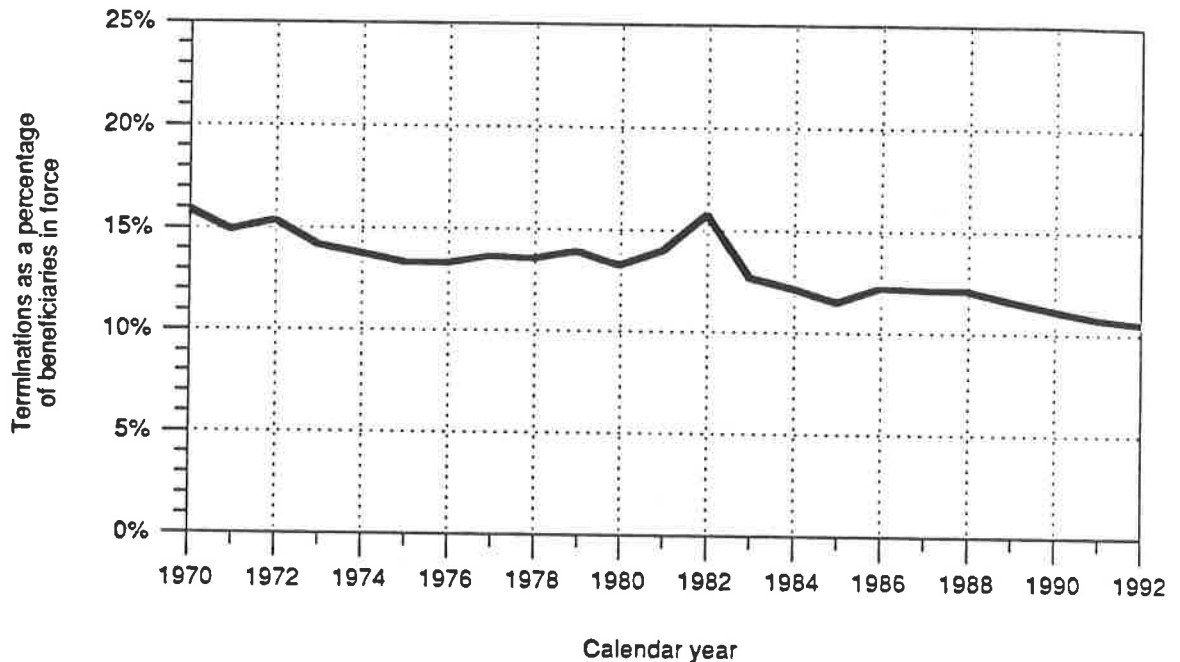
Chart 4.—Disability incidence rates



The rapid growth in the number of workers receiving disability benefits, combined with the large increases in benefit levels, caused aggregate DI benefit payments to almost triple from 1970 to 1975. This, in turn, caused a sharp recollection in both SSA and the Congress of the twin concerns that had been expressed in 1956 when the

DI cash benefits program was enacted: the difficulty of making disability determinations and the potential cost of a disability program. Congressional and agency concern about the rising cost of the program and the resulting drain on the DI Trust Fund stimulated movement toward tightening administration of the program.

Chart 5.—Disability benefit termination rates



D. 1976-1983

A number of administrative and legislative actions in the latter half of the 1970s and early 1980s had the effect of slowing the increase in disability program growth, reversing the upward trend in incidence rates and increasing terminations.

First, more definitive procedural instructions, policy guidance, and training—including emphasis on complete case documentation and exacting evaluation of vocational factors (the applicant's age, education, and work experience)—were provided for the DDS adjudicators. Quality assurance reviews returned more cases for correction of documentation deficiencies and provided more feedback about the nature of the errors, with the result that accuracy rates on initial DDS benefit allowances improved substantially. Also, the number of CDRs was increased.

Second, in 1977, the Congress passed legislation that stabilized benefit levels and ended the unintended increase in the benefits payable to new applicants. In the process, the overly generous benefit levels for younger disabled workers were corrected for new beneficiaries in the future.

Third, the 1980 Amendments made several important changes in the DI program. A preeffectuation (prior to any payment) review process (PER) was mandated, providing for review of an increasingly larger percentage of allowed cases in each of

the next 3 fiscal years (15, 35, and 65 percent, respectively, with 65 percent as the ongoing rate). This legislation also required SSA to perform a CDR for each Social Security disability beneficiary every 3 years unless the individual was judged to be permanently disabled.

In addition, the 1980 Amendments introduced a more restrictive limit on the total amount of monthly Social Security benefits that could be paid to a disabled worker and his or her family, and further modified the calculation of benefits for young disabled workers. Subsequent amendments in 1981 eliminated the minimum Social Security benefit for new beneficiaries and strengthened restrictions on the total amount of governmental disability benefits that could be paid to an individual.

The net results of these actions were dramatic. The initial allowance rate (the proportion of claims awarded benefits by the DDSs) declined by fully one-half, from the 1975 level of 53 percent to 27 percent in 1981. The overall benefit termination rate rose to 15.8 percent by 1982, as a result of the large number of CDRs performed and the resulting six-fold increase in the number of terminations due to recovery (see table 3). Terminations, in fact, outnumbered allowances in the years from 1979 through 1983, resulting in a decrease in the total number of disabled workers on the DI rolls.

The rate at which workers applied for disability benefits also declined substantially, falling by roughly one-fourth between 1975 and 1981. In fact, this decline approximately offset the rapid growth in the insured work force during this period (attributable to the growing entry of the "baby boom" generation into the labor force). Total applications decreased from 1.3 million in 1975 to about 1.2 million in 1976-1981.

The decline in application rates in 1976-1981 may well have been related to the rapid economic growth, with steadily declining unemployment, that occurred during late 1975 through 1979, together with the lower benefit levels resulting from the 1977 Amendments (which became effective in 1979). The analysis for 1981-1983 becomes more complicated, however, because the economy again encountered high inflation, sharply rising unemployment, and a long period of slow or negative growth in late 1979 through early 1983. The application rate might be expected to increase under such economic conditions; in fact, the application rate declined significantly.

A portion of the 1981-1983 decline in the application rate appears to be attributable to improvements in SSA's administrative computer systems. Starting in October 1981, it became possible to obtain an applicant's earnings history almost immediately, rather than after delays lasting anywhere from several days to several weeks. As a result, an applicant's insured status could be determined so promptly that it was unnecessary in many cases to initiate a formal application because the individual was known not to be insured. Thus, the number of applications decreased significantly.

Over half of the decline in application rates during 1981-1983 remains after accounting for the systems changes described above. Thus, there appears to have been a significant decline in the rate despite the worsening economic conditions experienced during the period. Although it can only be speculative, a plausible explanation for this seemingly anomalous behavior of application rates is that the effects of the poor economic conditions were largely offset by a change in public perception concerning the difficulty of qualifying for, and continuing to be eligible for, disability benefits. In particular, the decline in initial allowance rates, the increase in the number of CDRs performed, and the associated very high rates of benefit terminations generated massive and extended negative publicity about administration of the disability program. This publicity almost certainly affected public perceptions—perhaps so strongly that a significant number of newly unemployed workers with physical or mental impairments may have been discouraged from applying for benefits.

E. 1984-1989

By 1984, attitudes about the disability program had undergone another reversal. Congressional and public concern about the large number of beneficiaries—particularly the mentally impaired—who were being removed from the rolls resulted in an administrative moratorium on the CDR process. Many of the individuals whose benefits had been terminated were subsequently returned to the rolls through the appeals process. The number of court cases, particularly class action suits on behalf of both initial disability applicants and people whose benefits had been terminated, increased dramatically during this period.

As a result of the concern about how disability decisions were being made, the Congress passed legislation in 1984 that was intended to reform and provide more uniformity in both initial and continuing disability determinations. The 1984 Amendments included provisions which required:

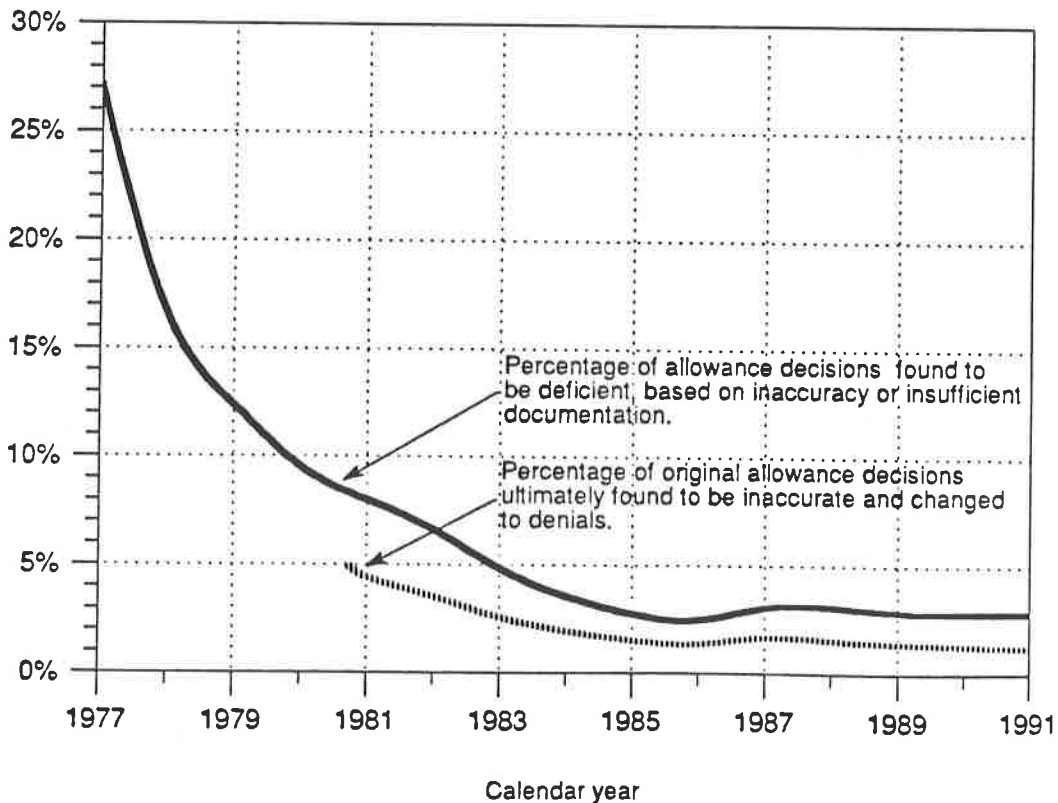
- New mental impairment standards that would focus on evaluating the individual's ability to perform substantial gainful work in a competitive workplace environment;¹
- Consideration of the combined effects of multiple impairments when none is individually considered severe;
- Proof of medical improvement in a beneficiary's condition before benefits may be terminated; and
- Use of SSA's regulatory standard on an interim basis to evaluate pain and a study on the evaluation of pain in disability decisions.

¹ On its own initiative, the Social Security Administration had already begun work on revising and modernizing the standards used to evaluate mental impairments. Thus, the 1984 Amendments supported an initiative that was already taking place through regulations.

In addition to legislative changes, major class action court decisions during the late 1980s resulted in placing greater emphasis in the disability determination process on the opinions of treating physicians, on the role of pain as a disabling factor, and on evaluation of the individual's functional limitations when the medical condition alone is not sufficiently severe to meet eligibility requirements.

Initial disability allowance decisions, which had been declining steadily since 1975 (by an average of 11 percent per year), increased by 13 percent in 1983. Similarly, after having reached its low point of 27 percent in 1981 and 1982, the initial allowance rate increased steadily during 1983-1985 and then remained level at about 35 percent during 1986-1989. At the same time, error rates for initial allowance decisions continued to decline (as shown in chart 6); suggesting that the allowance rate growth was due to the formal policy changes affecting the definition of disability, rather than to a change in the strictness with which the policy was administered.

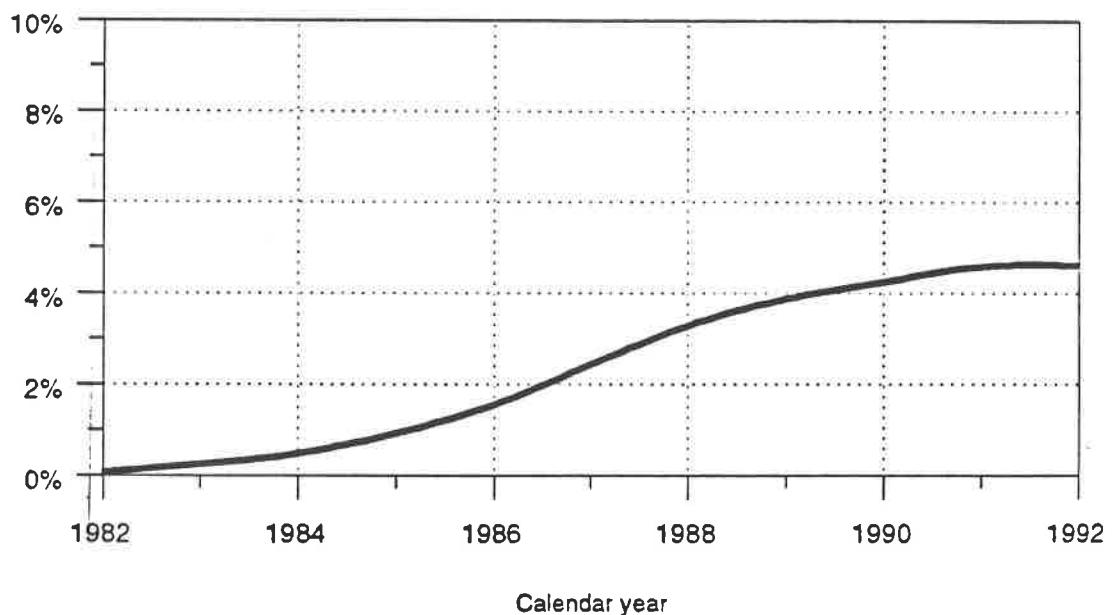
Chart 6.—Error rates on initial DI and SSI disability allowances



The changes in disability evaluation standards during this period not only affected initial disability determinations but also ALJ decisions on the increasing number of appeals of denied claims. Allowance rates at the ALJ level rose substantially, from 51 percent in fiscal year 1985 to 59 percent in 1989 (for all hearings, the vast majority of which involve DI or SSI disability issues).

The publication in 1986 of final regulations revising the standards for evaluating mental impairments resulted in a significant increase in the number of benefits awarded on this basis (as will be discussed further in a later section). Also, there was an increase during this period in the number of benefit awards to individuals with disabilities based on AIDS (acquired immunodeficiency syndrome) or HIV (human immunodeficiency virus) infection, as shown in chart 7. The effect of AIDS/HIV cases on the financial status of the DI program remains small, however, because most beneficiaries collect benefits for only a short period, due to the extremely high mortality rates experienced by AIDS sufferers.

**Chart 7.—Benefit awards based on AIDS/HIV
as a percentage of total DI awards**



Following the moratorium on CDRs in 1984 and the subsequent reinstatement of these reviews under the new medical improvement standard, overall disability termination rates declined significantly. From 15.8 percent in 1982—the peak of the CDR initiative—the termination rate declined to around 12 percent throughout 1984-1989.

In the 1984-1989 period, the aggregate upward effect on disability program costs of legislative changes and court decisions to make the evaluation standard more equitable to claimants was largely offset because the economy grew strongly, with substantial declines in the unemployment rate and low inflation rates. Thus, total DI benefit expenditures rose by an average of 5.1 percent annually from 1984 to 1989 (held down in part by the low inflation), while DI tax income increased by an average of 8.5 percent (in part due to an increase in the DI tax rate of 0.03 percent for employers and employees, each, in 1988-1989, and to the expansion of coverage of workers mandated by the 1983 Amendments).

Costs were also held down because applications for DI benefits remained fairly level, in the neighborhood of 1 million per year, throughout this period despite the significant growth in insured workers. There was a temporary increase in applications in 1986 and 1987 associated with adjudicating a large number of cases under the new mental impairment regulations. (These applications had accumulated while the new regulations were being developed and implemented.) Otherwise, applications varied by only a few percent during this period.

Why applications remained level in these years cannot be explained with certainty. Though again speculative, it is possible that the steady pattern of applications reflected the offsetting effects of (i) continuing growth in the insured workforce and public perception that the rules governing receipt of disability benefits had eased somewhat, and (ii) the rapid economic growth and steadily declining unemployment.

After its initial rebound from the low levels of 1982-1983, the disability incidence rate remained relatively constant, averaging 3.8 benefit awards per 1,000 insured workers during 1984 through 1989.

F. 1990-1991

By all measures, the Disability Insurance program grew much more rapidly than expected in 1990-1991. Applications for disability benefits jumped 8.4 percent in 1990 and another 13.2 percent in 1991. This change, together with a further small increase in the initial allowance rate and a larger increase in the allowance rate at the ALJ level, resulted in an increase in the incidence rate from 3.8 in 1989 to 4.6 in 1991—a relative increase of over 20 percent in only 2 years. At the same time, the termination rate declined to the lowest point ever—10.7 percent—in 1991.

The great majority (as much as 80 percent) of the increase in the number of disability awards was due to the sharp increase in applications—from just under 1.0 million in 1989 to 1.1 million in 1990, and 1.2 million in 1991. The remainder of the increase in awards was due to a small upward change (by 3 percentage points) in the initial allowance rate and a somewhat greater increase (about 7 percentage points) in the hearing appeal allowance rate, as indicated in table 2.

Several factors, which will be discussed in detail later, appear to have contributed to the dramatic upturn in the number of workers applying for disability benefits. Among these factors are increases in unemployment and continued decline in real

wage levels. Also, the public perception of the difficulty of qualifying for disability benefits, particularly with certain medical conditions, became more positive and may have encouraged some workers to apply. In a similar manner, SSI outreach activities generated a substantial number of new SSI disability claims from workers who were also insured for, and therefore were required to file for, Social Security disability benefits (called "concurrent claims").

Although dramatic, the high rate of growth in disability awards in 1990-1991 is somewhat understated because the number of claims awaiting a decision has increased as the rise in applications has caused increased processing times in many of the DDSs.

G. *Financing Response to Past Program Trends*

The financial status of the DI Trust Fund depends directly on the relative balance between the fund's income and expenditures. Program expenditures are largely determined by the provisions in the Social Security Act which set benefit amounts and by the number of disabled workers receiving benefits. The number of disabled workers in turn is determined by both incidence and termination rates.

The DI portion of the Social Security payroll tax provides nearly all income to the DI program. The amount of tax income depends on the number of workers covered under Social Security and their level of earnings, and thus is heavily influenced by economic conditions. The most critical economic factors are the unemployment rate and the rate of growth in covered earnings. The latter affects the earnings levels of individual workers subject to the payroll tax as well as the maximum amount of earnings on which workers must pay Social Security taxes.

As program provisions and economic conditions have changed over the history of the Social Security program, the income and expenditures of the OASI and DI Trust Funds have varied correspondingly. Changes in the actual relative cost of the program generally prompt changes in the actuarial projections for short-term and long-term financing requirements, occasionally requiring adjustments to the tax rate schedule for future years. The adjustments have resulted in either (i) raising both the OASI and DI tax rates or (ii) reallocating the tax rates between the OASI and the DI programs to improve the financial status of one of the trust funds without having to increase overall tax rates. (Sometimes a combination of these approaches has been used.) Changes in the DI tax rate were included in amendments enacted in 1965, 1967, 1969, 1972, 1973, 1977, 1980, and 1983. The more recent tax rate schedules are shown in table 4.

The 1973 tax schedule provided for an ultimate DI tax rate, in 2011 and later, of 0.85 percent each for employees and employers. That ultimate allocation rate was increased under the Social Security Amendments of 1977 to 1.10 percent each in 1990 and later, reflecting increases in the estimates of the future cost of the DI program that were based in part on the high incidence rates experienced in the 1970s up until that time. However, in 1980, a portion of the DI tax rate for 1980 and 1981 was reallocated to the OASI program, which was rapidly exhausting its reserves. This

reallocation was possible because DI program costs had been lower than expected in 1978 and 1979. The Social Security Amendments of 1983 then reduced the ultimate allocation rate for DI to 0.71 percent each beginning in the year 2000. This reflected changes in program cost estimates based in part on the lower incidence rates and higher termination rates experienced in the late 1970s and early 1980s.

Over the 1984-1988 period, the economy performed more strongly than had been assumed at the time of the 1983 Amendments. Although disability incidence rates increased from the lows reached in 1982 and 1983, and termination rates were lower by historical standards during these years, the beneficial effect of the rapid economic growth largely offset the adverse financial effect of the other factors.

Then, with slower economic growth in 1989, recessionary conditions from mid-1990 through early 1991, and slow growth thereafter, DI tax income was about \$4.7 billion (or 4 percent) less in 1989-1992 than projected in 1989. At the same time, the sharp increase in applications and awards in 1990-1991 was, as noted earlier, much larger than had been expected. After a stable incidence rate of about 3.8 awards per 1,000 insured workers during the 1984-1989 period, the incidence rate in 1991 jumped to 4.6—a higher rate than even the most pessimistic estimates in recent Trustees Reports had projected. Noteworthy, too, is the comparison of the actual rate in 1991 to the rate assumed at the time of the last rate reallocation in the 1983 Amendments. Specifically, the incidence rate had been assumed to increase from its 1982 level of about 3.0 awards per 1,000 insured workers to 3.6 per 1,000 in 1991. The actual level in 1991 proved to be about one-fourth higher than the level assumed in 1983.

As a result of the poor economic conditions and the growth in program beneficiaries, tax income to the DI Trust Fund was slowed at the same time that expenditures accelerated. Income and outgo, which had been following a similar path since the 1983 Amendments, were now increasing at significantly different rates—with the result that an operating deficit was expected (and occurred) for calendar year 1992. The gap between income and expenditures was projected to widen further in later years, based on the 1992 Trustees Report, with exhaustion of fund assets in the near future.

Trustees Reports in 1985 and later had warned of possible near-term depletion of the DI Trust Fund under conditions of slow economic growth and rapid increases in benefit awards. In addition, the 1991 report made clear that the DI program failed to meet the new test of short-range financial adequacy adopted by the Trustees beginning with that report. In practice, what happened was that the actual economic and disability experience in 1990 and later resembled the Trustees' pessimistic assumptions of earlier years much more so than the intermediate assumptions.²

² Considered separately, the economic experience was somewhat better than assumed under the pessimistic assumptions but the disability experience was significantly worse.

In retrospect, it seems clear that the tax rate reallocation specified by the 1983 Amendments (which reduced the DI tax rate by 39 percent in 1984 and by 44-47 percent in 1985-1989) was influenced too heavily by the very low disability incidence rates experienced in the years immediately preceding the amendments.

II. *EXPERIENCE SINCE THE 1992 TRUSTEES REPORT*

Available data for 1992 indicate that the adverse economic and programmatic experience of 1990-1991 has continued into 1992. As a result, the DI Trust Fund is now expected to be exhausted early in 1996. The following sections describe the latest actual experience in 1992 and the results of an updated projection for the DI Trust Fund based on that data.

A. *Data for 1992*

Under the intermediate assumptions in the 1992 Trustees Report, the economy was assumed to grow by a total of 0.9 percent over the 18-month period ending June 30, 1992. The actual increase was slightly better, at about 1.2 percent (subject to revisions in the National Income and Products Account data). At about 7.4 percent, however, the 1992 unemployment level has been somewhat less favorable than assumed. Inflation has followed the intermediate assumption very closely, with the actual December 1992 benefit increase equaling the assumed 3.0 percent COLA. Overall, these figures indicate that total DI tax income and average DI benefit levels in 1992 should be very close to the projections.

Applications for disabled worker benefits have continued to grow rapidly in 1992, although the rate of increase is lower than in 1991. Based on actual data through October, applications are estimated to exceed 1.3 million in 1992, an increase of 9.1 percent over 1991. The Trustees Report does not project DI applications; the actual experience to date in 1992, however, is much higher than would be consistent with the award projections in the 1992 Trustees Report.

Benefit awards to disabled workers in 1992 were estimated in the Trustees Report to range from 518,000 to 598,000, with an intermediate estimate of 562,000. Based on data through October, the actual level is expected to fall well outside this range at about 644,000 (an increase of 20 percent over 1991). Consequently, the disability incidence rate for 1992 is expected to be about 5.4 awards per 1,000 insured workers—again, well in excess of the range of 4.3 to 5.0 assumed for 1992 in the Trustees Report.

The large increase in awards in 1992 is partly attributable to the continuing rapid increase in applications and partly to a special administrative initiative adopted early in 1992 to address the growing number of disability applications awaiting adjudication in the State DDSs. Special expedited claims-processing procedures, which were part of this initiative and which had not been implemented at the time the 1992 Trustees Report projections were prepared, have had the effect of accelerating disability determinations in cases where an allowance is expected, thereby causing a one-time increase in awards. This effect is expected to diminish as the backlogs are reduced

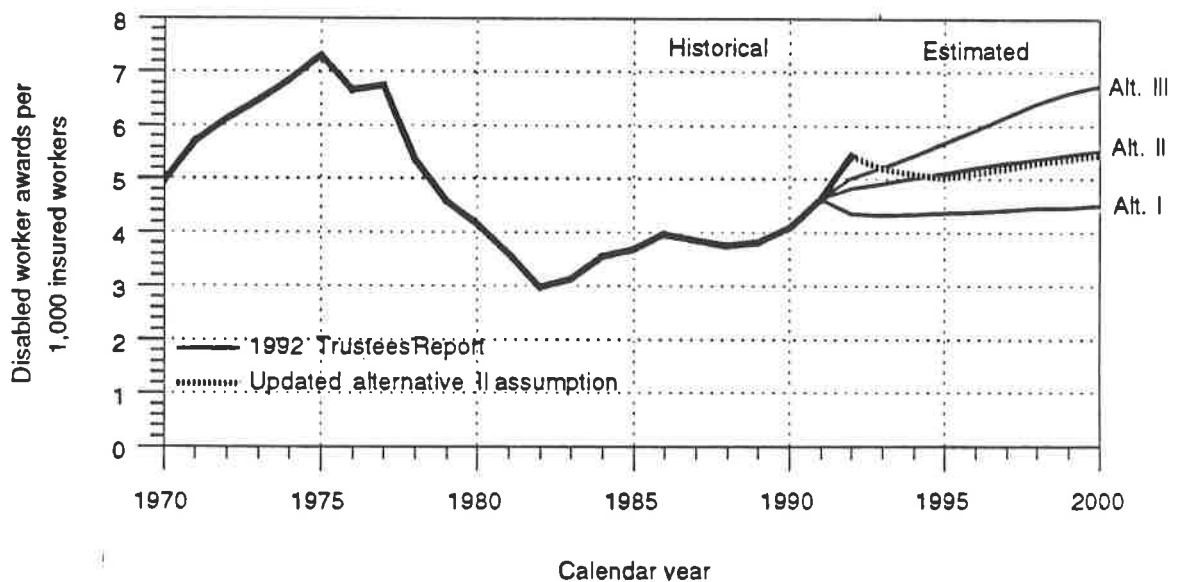
and, in fact, awards in the third quarter of 1992 decreased significantly compared to the first two quarters.

The benefit termination rates experienced in the first three quarters of 1992 have been about the same as the Trustees Report pessimistic assumptions.

B. Updated Projection for DI Trust Fund

Chart 8 shows the projected disability incidence rates under alternatives I, II, and III from the 1992 Trustees Report (the optimistic, intermediate, and pessimistic sets of assumptions, respectively). Also shown are the actual experience in 1992 and the revised intermediate assumption used in the updated trust fund projection. As indicated, the incidence rate is assumed to decline from its 1992 level until returning to the path assumed in the Trustees Report intermediate assumptions.

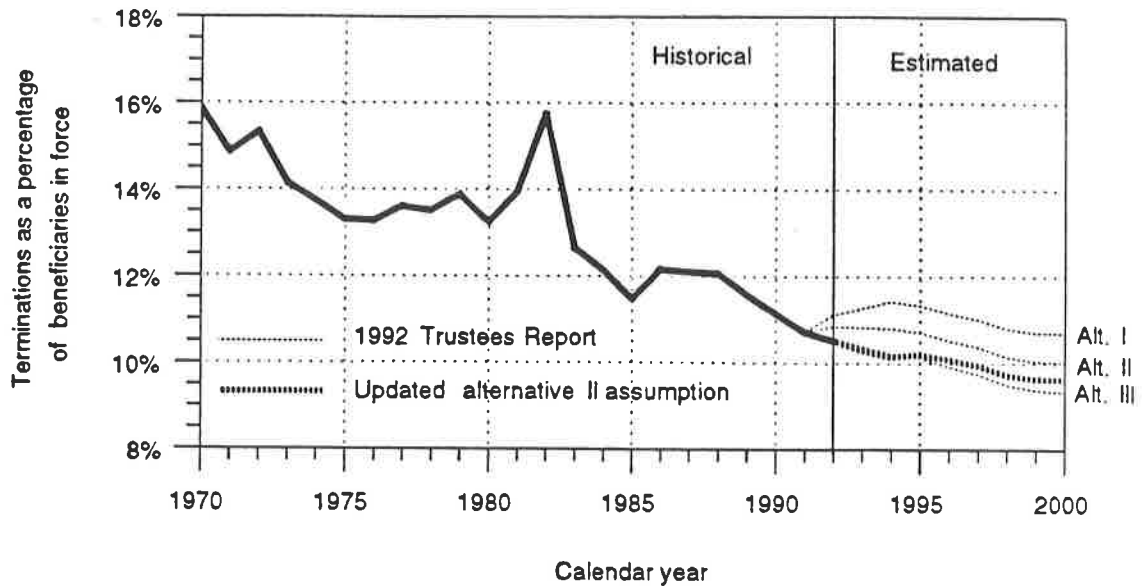
Chart 8.—Updated disability incidence rate assumptions



Similarly, Chart 9 compares the updated termination rate assumption with the 1992 Trustees Report assumptions. The Trustees Report had assumed some increase in terminations (other than conversions to retirement benefits); this increase did not materialize in 1992 and has not been assumed for the updated projection.

All other assumptions were used unchanged from the 1992 Trustees Report (intermediate set). In particular, no updating of the economic assumptions was attempted. Also, the optimistic and pessimistic sets of assumptions have not been updated at this time.

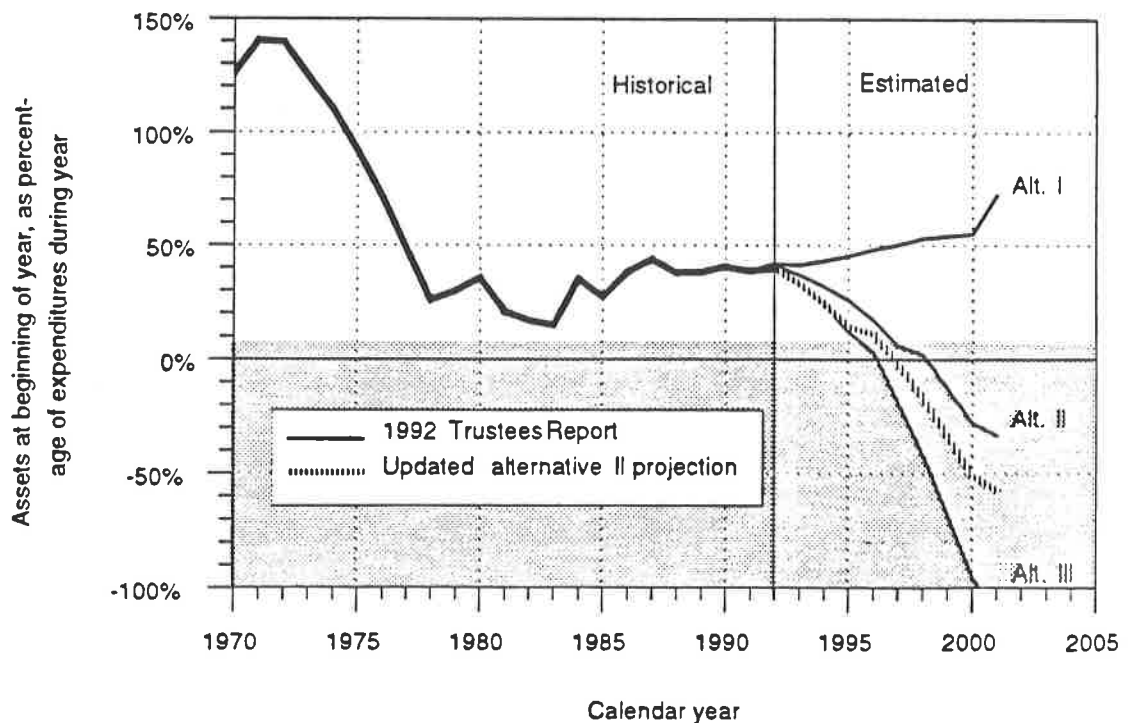
Chart 9.—Updated disability termination rate assumptions



Note: Vertical scale exaggerated to improve clarity of data.

The resulting projection of the financial status of the DI Trust Fund is shown in Chart 10, together with the original range of 1992 Trustees Report alternatives. (The gray area in chart 10 indicates insufficient trust fund assets to pay a month's benefits.) As indicated above, based on the updated intermediate assumptions, the assets of the DI Trust Fund would be exhausted early in 1996 in the absence of corrective legislation.

Chart 10.—Past and projected DI Trust Fund ratios



These projections provide an indication of the effect of the continuing high level of awards experienced in 1992. Although a portion of the increase in awards in 1992 is believed to be temporary as a result of the special claims processing procedures implemented in 1992, it is clear that the present financing of the program is seriously inadequate.

III. *POSSIBLE FACTORS BEHIND CURRENT PROGRAM GROWTH*

A critical question regarding the future financing needs of the disability program is "why has the number of workers receiving disability benefits increased so rapidly since 1989 and will the sharp upward trend continue?" The short answer to this question is that it is not possible to measure the extent to which each of several factors has contributed to the recent growth of the disability program or exactly what their effect will be in the years ahead. Many of the factors that have affected the program in the past are undoubtedly playing a role now. However, some new factors may also be contributing to the number of applications filed, the percentage of such cases that are allowed, and the number of beneficiaries whose benefits are subsequently terminated.

This section describes a number of possible explanations that have been raised for the rapid growth in 1990-1992. In particular, an effort is made to distinguish between general, long-term factors (such as demographic changes), which have been anticipated for many years, and other factors which may have had a more pronounced effect only since 1989.

A summary of the factors possibly contributing to the program growth in 1990-1992 is shown in table 5. As indicated, the table differentiates factors between their effects on applications, allowance rates, and termination rates. In addition, factors primarily affecting 1990-1992 are flagged.

Throughout this section it is important to recall the uncertainty inherent in discussions of this type. These factors are hypothesized to have contributed to recent program growth. The specific relevancy and/or magnitude of each is likely to remain somewhat uncertain for many years. Therefore, it is not possible to predict whether the current rapid program growth is a temporary phenomenon which will diminish with faster economic growth, or whether it is a longer-term, more permanent trend.

A. *Increasing Volume of Applications*

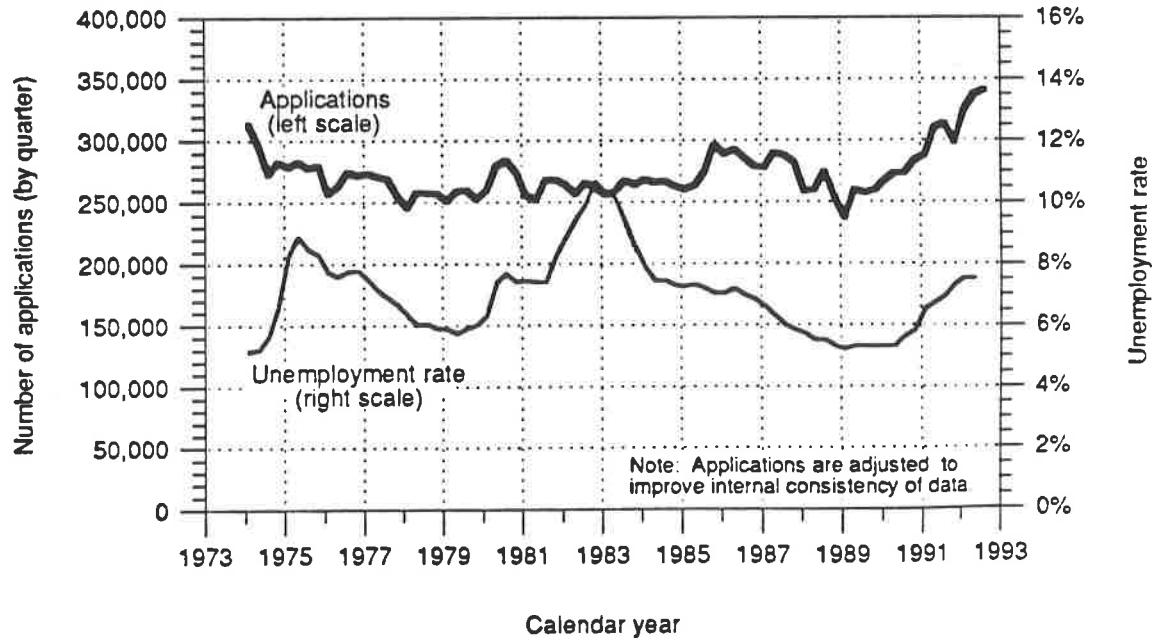
As stated earlier, the large increase in the number of disability applications is responsible for as much as 80 percent of the unexpectedly rapid growth since 1989 in the number of workers awarded disability benefits. Several factors, such as economic conditions, individuals' perceptions of their ability to qualify for benefits, and outreach activities, are believed to affect whether individuals apply for disability benefits. These factors are discussed separately, although various combinations of the factors may influence an individual worker's decision to apply.

1. *Economic Factors*

It generally has been assumed over the history of the disability program that poor economic conditions and increases in unemployment lead to an increase in disability claims. The most direct way this can occur is when severely impaired workers, who were previously able to support themselves despite their disabilities, lose their jobs and apply for benefits. However, other unemployed workers with less severe impairments may also apply as part of their efforts to find new sources of income during an economic downturn.

Past quantitative studies by SSA researchers have disagreed on the existence of such a relationship between unfavorable levels of unemployment and the number of disability applications. Where a statistically significant relationship has been found, it generally has been fairly weak. This relationship is illustrated in chart 11, which contrasts the major fluctuations in the unemployment rate to the relatively steady (prior to 1990) number of disability applications.³ Despite the doubt suggested by the results of past studies, it is plausible that the current extended poor performance of the economy, with the apparent permanent loss of some jobs and the exhaustion of even extended unemployment benefits, has contributed to the rising volume of disability claims over the last 3 years.

Chart 11.—Disabled worker applications vs. unemployment rates



³For purposes of the comparison shown in chart 11, applications have been adjusted to remove normal seasonal variation and the effect of the October 1981 changes in SSA's administrative computer systems.

Additionally, the value of real wages has fallen in recent years, particularly for the less-educated workers in manual labor occupations who make up a substantial portion of the DI applicant population. Wages for the disabled also generally tend to lag behind those of unimpaired workers, growing at a slower rate on the upswing and declining more rapidly in economic downturns. Falling real wages make indexed DI benefits more attractive and may be a factor in the decision to apply for disability benefits for some lower wage workers with medical impairments.

2. *Public Awareness and Perceptions*

Public awareness and perceptions of the disability program change over time. SSA conducts its own public information efforts to alert workers to the fact that disability protection is available to them as part of their Social Security coverage. Advocacy groups for the disabled also run information campaigns. Extensive news coverage due, for example, to congressional hearings or class action court cases helps the public become more aware of the existence of the program. Depending on the nature of the reporting and other public information, individuals' perceptions of their ability to qualify for disability benefits may change, as may their attitude about receiving disability benefits.

A number of factors may be influencing people's perception of their ability to qualify for disability benefits today, including: court decisions that may be viewed as requiring SSA to apply less strict standards; higher allowance rates in the DDSs and at the ALJ level; increased advertising by attorneys specializing in Social Security cases; fewer CDRs and lower termination rates; and outreach efforts to strongly encourage people who may be eligible to apply.

Even without the recent increases in allowance rates, the perception that a "loosening" of requirements has occurred may cause individuals to view the program differently. For example, reports of outreach efforts to locate potential beneficiaries may lead the public to believe that less restrictive standards are being applied or that society is more accepting of paying benefits to the disabled. Based on this perception, more individuals may file applications.

Conversely, if perceptions are that disability evaluation standards are strict and tightly enforced—that applications are intensely scrutinized and few approved—some individuals may be reluctant to apply. For example, an individual with an impairment who is working would be reluctant to forgo his or her income during the 5-month waiting period unless he or she perceived that there would be a substantial probability of qualifying for benefits. As noted earlier, this more negative perception may have been a significant factor in the early 1980s when increased CDRs and changes in the benefit formula generated massive publicity, perhaps contributing to the reduction in the number of applications filed despite this being a period of high unemployment.

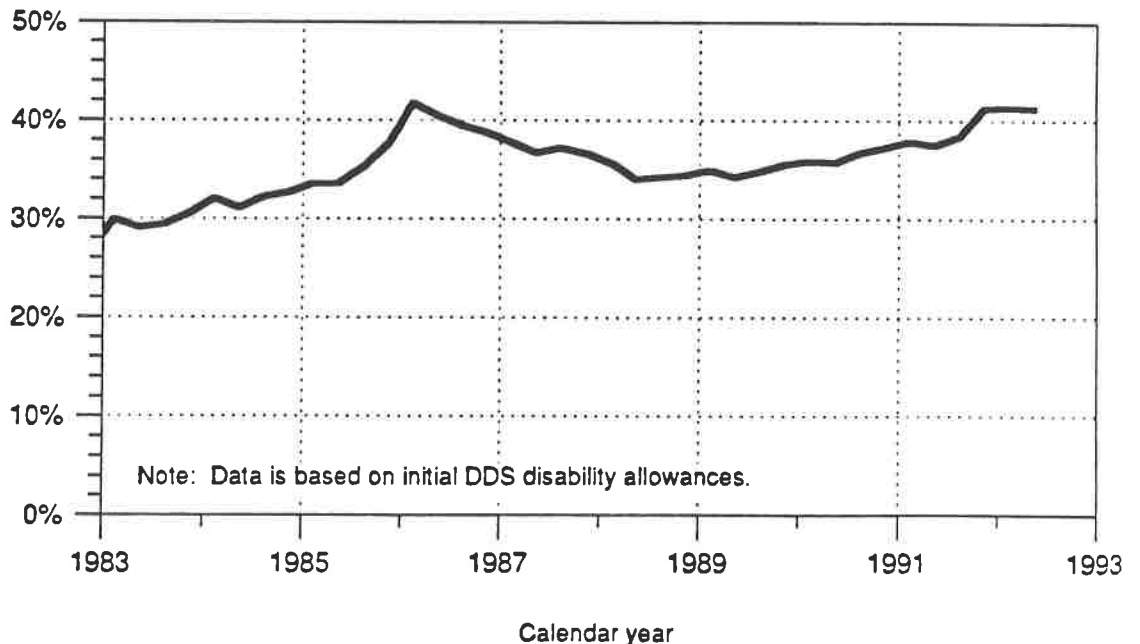
3. *Outreach Activities*

Since the SSI program was enacted in 1972, SSA has undertaken several major SSI outreach efforts. Most recently, starting in 1990 SSA established an extensive program to ensure that all segments of the potential SSI population are made aware of payments for which they might be eligible.

Apart from any perceived change in the difficulty of qualifying for benefits this effort may have caused, it directly increased the number of Social Security disability applications because many of the SSI applicants are also eligible for Social Security DI benefits. In such cases, applicants are required to file for all benefits for which they may be eligible. Other claimants who are not eligible for SSI may simply learn about their Social Security DI protection for the first time through SSI outreach efforts.

Chart 12 shows the proportion and table 6 the numbers of DI benefit awards made to persons who also qualify for SSI benefits. Such concurrent awards increased from about 35 percent of total awards in early 1989 to just over 41 percent by the end of 1991. Table 6 indicates that while initial disability determinations for DI-only benefits rose by about 22 percent in 1990-1992, concurrent DI and SSI determinations increased more than twice as rapidly.

Chart 12.—Percentage of DI benefit awards to persons who also qualify for SSI benefits



4. *SGA Amount*

The amount that a worker may earn and still be considered disabled is defined in regulations and is referred to as the "substantial gainful activity" (SGA) amount. At the beginning of the program in 1957, this amount was set at \$100

per month, and it has been adjusted upward from time to time to reflect changes in prevailing earnings levels. The SGA level had been set at \$300 per month in 1980 and was not increased again until 1990, when it was raised to \$500 per month. This increase allowed beneficiaries on the rolls to earn more without having their benefits terminated and enabled more people who were working (at relatively low wages) to be found to be disabled if their medical condition met the applicable standards.

Although the increase in the SGA amount was substantial, reflecting much of the growth in average wages over the prior 10 years, the effect of the increase on applications is believed to have been fairly small because it was a consideration only to workers with low earnings. This effect was anticipated in program projections, but the timing of the change may have added to the effect of other factors that contributed to the higher application rate in 1990 and later. For example, the increase in the SGA amount, together with the SSI outreach activities, may explain some of the increase in the proportion of DI awards to people who also qualify for SSI benefits.

5. *Proportion of Insured Workers*

The proportion of the nation's workers who are potentially eligible for DI benefits continues to expand. The percentage of workers between the ages of 15 and 64 who are insured in the event of disability rose from about 55 percent in 1970 to an estimated 71 percent in 1992. This overall growth reflects an increase from 35 to 64 percent for females and a stable 75 percent rate for males. While a higher proportion of workers with insured status is consistent with more benefit awards, this long-term trend is very gradual and thus is not a significant factor in the recent sharp upswing in application rates.

6. *Legislative, Regulatory, and Judicial Effects*

Legislative and regulatory changes and court decisions have very likely contributed to the increase in applications as the public perception has spread that disability evaluation criteria have been made more favorable to claimants due to some of these actions. These factors are discussed in the next section because they have more directly affected allowance rates, but one example indicates how a formal policy change may affect application rates. In the *Sullivan v. Zebley* (1990) case, SSA was required to contact the families of about 450,000 children who had applied for SSI disability benefits and will redetermine the claims of over 200,000 of those individuals. While the *Zebley* case involved disabled child recipients under the SSI program, the wide publicity the case received and the strong perception by the public that the Supreme Court had liberalized the standard for disability for some cases may have prompted more workers to apply for Social Security disability benefits.

B. *Increasing Allowance Rates*

The relatively small portion of the growth (as little as 20 percent) in DI awards since 1989 not caused by the increase in applications has been due to increases in both the initial and appeals allowance rates. A number of the factors that have been suggested as having affected the allowance rate in recent years are discussed below.

1. *Legislative and Regulatory Changes*

The net effect of program modifications over the past 10 years has been to make the requirements for entitlement to disability benefits more favorable to claimants. Such changes include:

- a. *Emphasis on Opinion of Treating Physician*—Disability determinations are based on medical documentation regarding the applicant's physical or mental conditions. Reports from the applicant's existing sources of treatment provide the foundation for that documentation, supplemented by consultative examinations requested by SSA to obtain additional information, if necessary. The question of how much weight should be given to the evidence and opinions supplied by the claimant's own physician(s), as compared to that given the results of the consultative examinations, has long been a matter of contention, including class action disputes in the courts.

The 1984 Amendments required that every reasonable effort must be made to obtain medical evidence for disability claims from the applicant's treating physician(s). Regulations implementing this requirement state that under certain circumstances evidence from a treating source will be given "controlling weight." Court decisions also emphasized the importance of evidence provided by treating physicians. The greater emphasis now placed on these physicians' reports (as reflective of longer-term observation of the effects of applicants' impairments) is believed to result in decisions more favorable to the claimant.

- b. *Multiple Impairments Criteria*—Prior to the 1984 Amendments, applicants had to have at least one severe condition to be considered disabled. Multiple impairments, no one of which meets the severity test, are now considered collectively when making the disability decision. If the combined effects of such conditions prevent the applicant from engaging in SGA, he or she is found to be disabled. This is, however, considered to be a minor contributor to the increase in the allowance rate.
- c. *Evaluation of Pain*—Allegations of pain and how they are evaluated in making disability determinations represent another issue that was addressed in the 1984 Amendments and which has been the subject of court suits. Although the presence of pain is not in itself sufficient for a finding of disability, legislative and regulatory initiatives to clarify the standards to be used in evaluating subjective evidence of pain have

focused more attention on the role this factor may play in restricting people's ability to work. Again, this may result in more favorable decisions for applicants, thereby contributing to the higher allowance rates following the 1984 Amendments.

- d. *Mental Impairment Evaluation Criteria*—As a result of the *Minnesota Mental Health* court case in 1982 and subsequent legislation in 1984, SSA consulted with recognized experts in the field of evaluating and treating mental conditions to revise the standards used to adjudicate disability applications based on mental impairments.

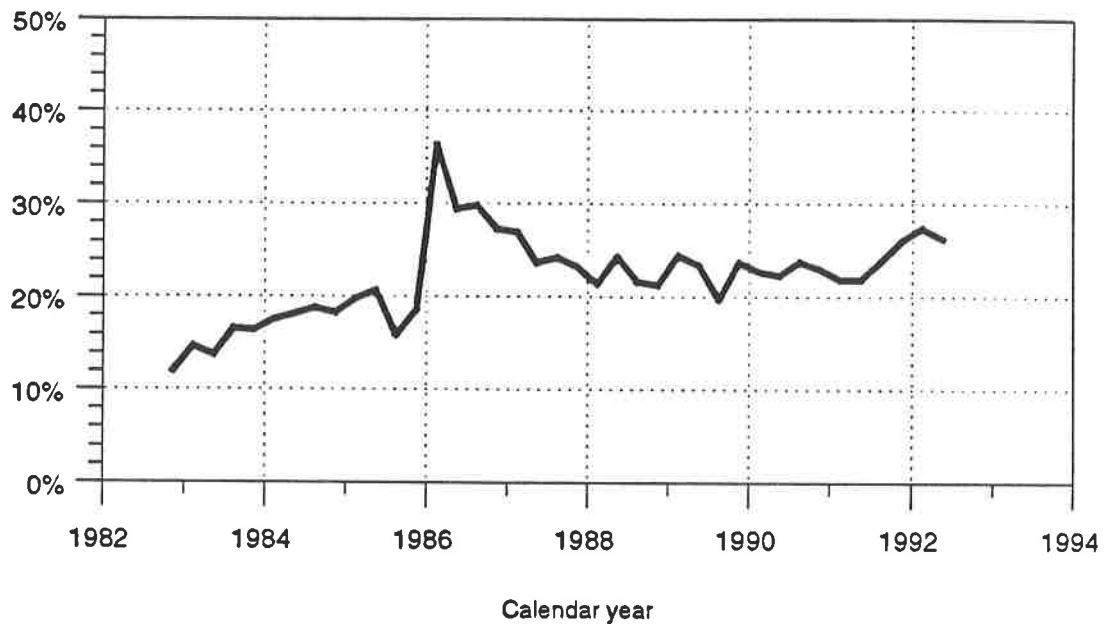
As a result, SSA revised its mental disorders listing criteria in August 1985. Among other changes, for the first time SSA introduced distinct diagnostic and severity criteria for most of these listings and required adjudicators to follow a special technique designed to assist in the process of establishing the presence of a mental impairment and then assessing the degree of limitations resulting from it.

SSA also issued revised procedures and developed a special residual functional capacity form to be used when evaluating mental impairments that are severe, but of less than the severity of mental impairments listed in regulations. The use of this form helps to ensure that the functional limitations resulting from mental impairments are realistically reviewed in relation to a person's ability to work.

Finally, consistent with the 1984 Amendments, SSA issued new rules requiring that DDSs and SSA make every reasonable effort to ensure that a qualified psychiatrist or psychologist completes the medical portion of the case review and any residual functional capacity assessment in unfavorable initial determinations if the evidence indicates the existence of a mental impairment. Also, under the regulations, a standard document which outlines the procedures for evaluating mental impairments must be completed at each step in the administrative review process.

The proportion of disability benefit awards based on mental impairment increased significantly following the introduction of the new standards, as shown in chart 13. (The large, temporary increase immediately following the regulation's effective date was due to processing a large backlog of cases that had accumulated pending the introduction of the new rules and to readjudicating a number of cases denied previously under the old standards.) The proportion of the awards based on mental impairment did not change much in 1990-1992, however. Thus, the recent rapid growth in DI beneficiaries is not attributable to changes involving evaluation of mental impairments.

**Chart 13.—Benefit awards based on mental impairment
as a percentage of total initial DI allowances**



- e. *SGA Amount*—As noted previously, a regulatory change effective January 1, 1990 raised from \$300 to \$500 the amount of monthly earnings considered evidence of ability to work. This change was largely an acknowledgment of wage growth in the economy since the amount had last been increased in 1980. Its result, however, is that a greater proportion of impaired workers employed at marginal wage levels may now qualify for benefits despite their earnings, thereby raising allowance rates somewhat.

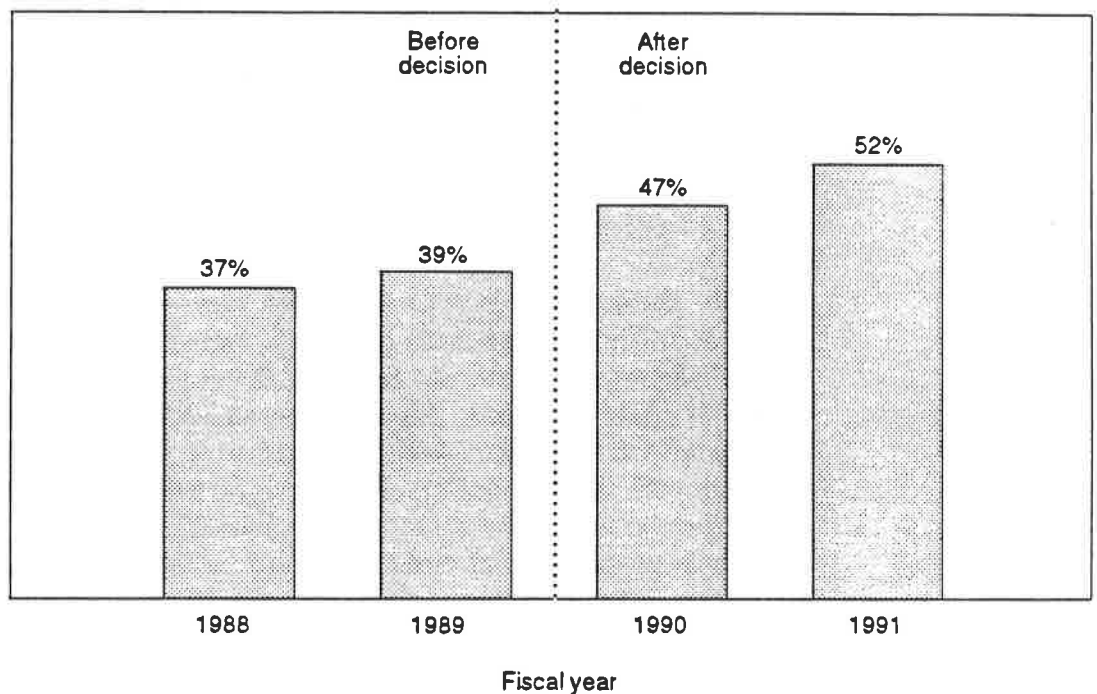
2. *Court Decisions*

Applicants whose disability claims have been denied and who have pursued these claims through the administrative appeals process, including a hearing before an ALJ, may make further appeal through the Federal district courts. The number of such cases increased significantly, especially in the 1980s, not only as individual lawsuits but also as class actions on behalf of groups of denied applicants with a common basis for complaint. In addition to the decisions and settlements already being implemented, there were approximately 50 disability class action suits, together with thousands of individual lawsuits, in active litigation in December 1992.

Virtually all class actions involving disability issues seek interpretations of the law that are favorable to claimants. When litigation involving such interpretations is decided for the plaintiffs or settlement agreements are reached, SSA often must readjudicate the cases in question. For class action suits, this may involve applications for tens of thousands of individuals. Furthermore, the adjudication of new cases may be affected. Thus, the

allowance rate can be affected significantly by the decisions in such cases. This result is graphically illustrated in chart 14, which shows initial allowance rates in Social Security's Seattle Region before and after the *Morrison, Doe, and Decker* court decision (involving the emphasis placed on the opinion of a claimant's treating physician). Although other factors may also have contributed to the substantial increase in the allowance rate in the Seattle Region after the *Morrison* case, this court decision is believed to have been a major factor.

Chart 14.—Initial allowance rates in Seattle Region before and after Morrison, Doe, and Decker court decision



Note: The *Morrison, Doe, and Decker* court decision was first effective in January 1990, and was thus reflected during three-fourths of fiscal year 1990. The allowance rates shown are for disabled workers awarded DI benefits only; concurrent DI and SSI cases are excluded. Other factors besides the court decision may also have contributed to the increase in allowance rates.

The effect of court decisions may be national in scope or may be limited to just those geographical areas under the jurisdiction of the court that rendered the decision. As a result, the program may not be uniformly administered throughout the country. Furthermore, it appears that the national publicity about court rulings that result in a change in policy may subsequently influence disability decisions made in locations outside the court's jurisdiction.

Besides the direct effect on allowance rates, court decisions generate publicity which may affect the public's perceptions about the DI program. As noted previously, changes in perception may encourage (or discourage) potential applicants.

3. *Legal Representation and Appellate Filings and Awards*

The percentage of applicants who retain legal representation to assist them with their claims has increased significantly. For example, 41 percent were represented by attorneys at the hearing level in 1980 versus 53 percent in 1990. These attorney and non-attorney representatives (legal aides, social workers, etc.) are likely to encourage the applicant to pursue any denied claim through all levels of appeal. This is not only believed to have contributed to the 29 percent increase from 1980 to 1991 in the volume of cases decided at the reconsideration and hearing stages, but also is believed to have played at least some role in the increasing proportion of claims that are allowed at these levels.

The increase in allowance rates is particularly noticeable at the ALJ level, where the hearing marks the first point in the disability process at which the claimant and his or her representative are face-to-face with the actual decision maker. ALJ allowance rates had declined somewhat for several years prior to 1987. In 1987 and later, however, these rates have steadily increased (from a low of 48 percent in fiscal year 1986 to 66 percent in fiscal year 1991).

Some of the increase in ALJ allowance rates may be attributable to the changes in the adjudicatory standards that were established by the 1984 Amendments and subsequent regulations. Some of the increase may also be due to the effect of recent court decisions. SSA has issued 52 acquiescence rulings since 1986 to comply with circuit court decisions that were not appealed and that are at variance with Agency policy. Forty-five of these rulings are still in effect, and most of them affect the disability program in some way. Rulings apply to all applicants in the judicial circuit affected by the ruling. ALJs and DDS adjudicators have to ensure that their decisions in new cases are in accordance with applicable acquiescence rulings. As noted earlier, there may also be some broadening effects whereby court decisions in one district influence ALJ decisions elsewhere.

4. *AIDS/HIV*

With the spread of AIDS throughout the country over the past decade and the increase in HIV testing, the number of individuals applying for benefits based on these conditions has steadily and rapidly increased. A very high percentage of all such applicants have been approved. An estimated 30,000 disability awards on the basis of AIDS/HIV were made in 1992, and an estimated 47,000 individuals were receiving disability benefits on the basis of AIDS/HIV at the end of 1992. However, the effects of AIDS on the program have been recognized and accurately projected for a number of years. Thus, while AIDS/HIV applications and awards have increased during 1990-1992, this does not help explain the unexpectedly rapid rates of program growth.

5. *Adjudicative Climate*

The issue of "adjudicative climate" has generated considerable debate throughout the history of the DI program. As early as 1959, for example, this subject was discussed during congressional hearings on administration of the disability program. Such discussions have always been inconclusive, owing to differences in views as to exactly what constitutes "adjudicative climate" and the difficulty of measuring it, however defined. For purposes of this discussion, adjudicative climate is defined as the perceptions of individual disability adjudicators, based on the prevailing national attitudes regarding disability, that may affect how they apply existing formal policy in instances where some judgement is required within the specified evaluation procedures.

The multi-step sequential evaluation process has been developed and refined over the years to make disability evaluations as objective as possible, and concomitantly to reduce to a minimum the role of adjudicators' judgment in determining disability. It is nonetheless true that elements of judgment remain at various steps in the process (and are unlikely ever to be completely eliminated). At most stages, these elements are fairly minor. Whether a person is engaging in SGA, for example, or whether an impairment meets the listings, are straightforward determinations in most circumstances. On the other hand, even with the extensive guidelines in effect, deciding whether a person is able to perform other work in the economy, given his or her age, education, and work experience, frequently involves a certain degree of judgment on the part of the disability adjudicator. Similarly, disabilities involving pain or mental impairment are inherently more difficult to evaluate than conditions with more overt physical manifestations.

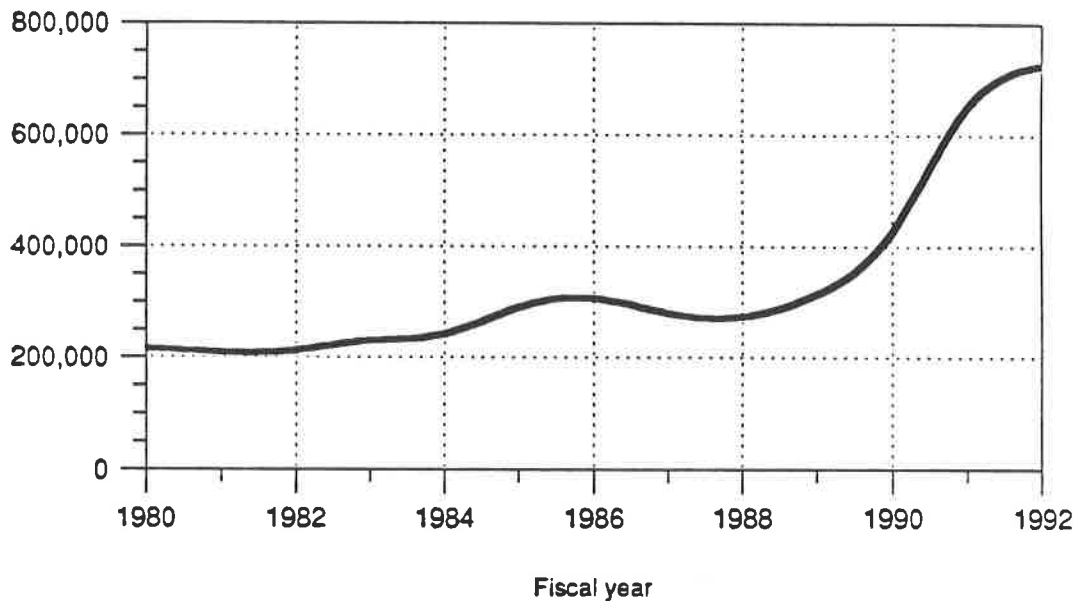
In borderline cases, the issue of adjudicative climate becomes relevant. In particular, adjudicators are presumably attuned to prevailing societal attitudes and philosophies about the way the program should be administered. Such views may be evidenced through changes in legislation and regulations, court decisions, congressional hearings and testimony, media coverage, activities of advocacy groups, and other means.

The extent to which adjudicators may be more inclined to decide borderline cases in favor of applicants cannot be directly measured. However, it is unlikely to have been a substantial factor in the rapid program growth since 1989. First, as noted previously, initial and appeals allowance rates have increased somewhat in recent years, but those increases account for as little as 20 percent of the total increase in benefit awards since 1989 (with the other 80 percent due to the rising number of applications). And second, much of the increase in allowance rates is attributable to the various formal policy changes (described in earlier sections) that were implemented after 1984.

6. *High Workloads*

Some of the increase in 1992 in the number of disability awards is attributable to State and Federal efforts to better manage the high volume of cases awaiting decision in DDS offices. The dramatic increase in applications since 1989 has increased processing times and created backlogs in many States. As shown in chart 15, the total number of pending DI and SSI disability applications nearly tripled between 1988 and 1992. (The figures shown represent all disability claims pending in DDSs, including DI, SSI, and *Zebly* court case claims involving disabled children under SSI.)

Chart 15.—Number of DI and SSI initial disability claims pending in State agencies, fiscal years 1980-1992



In many States, special units have been established to identify and expedite processing of cases involving the most severely impaired applicants. Special simplified procedures are available in such cases to help speed processing. In addition, in early 1991, SSA established procedures requiring the DDSs to give priority attention to claims from people with terminal illnesses. These procedures could be expected to temporarily increase awards and disproportionately elevate the initial allowance rate. This activity is being closely monitored and as the mix of applications processed returns to normal, any temporary artificial inflation of the allowance rate should cease.

7. *Quality Review of Decisions*

The pattern of increasing allowance rates in recent years, together with the dramatic rise in incidence rates, have prompted some analysts to question whether the DI program is being properly administered. In particular, have workload or other pressures resulted in erroneous disability awards? Ongoing quality assurance reviews of a statistically reliable sample of decisions made in the DDSs and in SSA's disability adjudicating components assess the accuracy of all aspects of initial disability case processing. Results of these reviews indicate that the accuracy of the disability determinations is remaining high despite the current heavy workloads in the DDSs.

Recent quality assurance reports show that DDS decisions to allow claims are correct and adequately documented approximately 97 percent of the time, a figure that has remained fairly level since 1985. In addition, because many cases remain allowances after additional needed documentation is obtained, the actual percentage of incorrect allowance decisions after completion of the quality assurance process is currently less than 1.5 percent. The preeffectuation review of Social Security disability allowance cases results in the correction of a sizable proportion of these errors. Under PER, as amended in 1990, 50 percent of allowances are reviewed, with reviews focused on types of allowances most likely to be in error. After allowance errors detected by PER reviews are corrected, the overall accuracy rate of initial allowance decisions in FY 1992 was above 99 percent.

There was initial concern within SSA that the processing procedures adopted at the beginning of 1992 for cases considered likely to become allowances could possibly affect the accuracy of the resulting decisions. In other words, might some disability examiners be tempted to make more favorable decisions in order to benefit from the streamlined procedures available for such cases, particularly in view of the heavy workload pressures they face? Because of this concern, the quality assurance process has been used to closely monitor the accuracy of favorable decisions, and the accuracy of initial allowances has remained stable.

C. *Decreasing Number of Terminations*

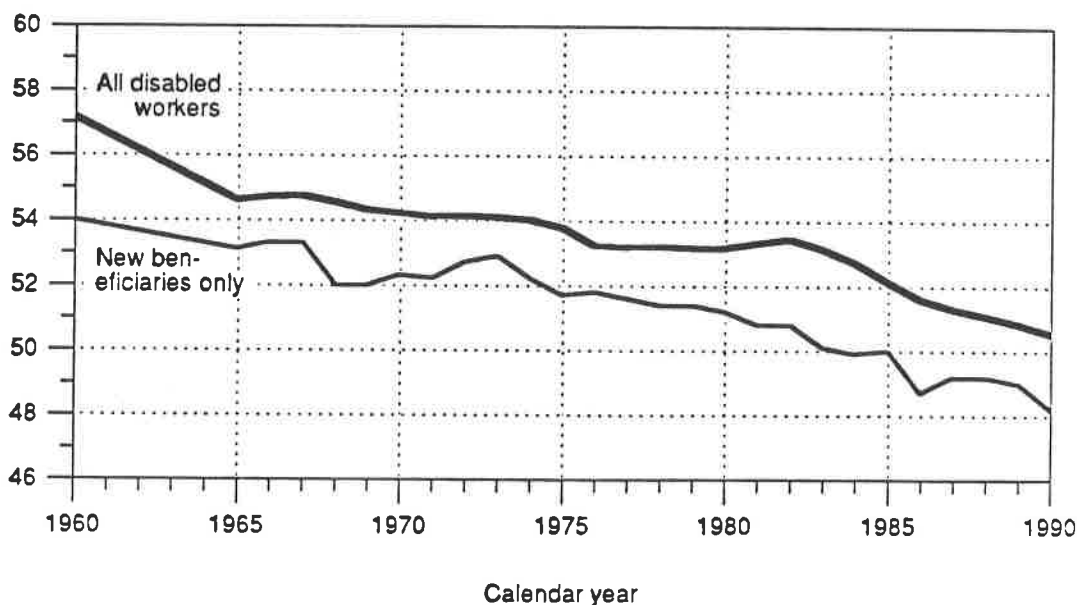
The disability termination rate reflects the percentage of beneficiaries each year whose benefits are either converted to retirement benefits because they reach full retirement age (currently age 65) or whose benefits end because of medical recovery, return to work, or death. Termination rates have been relatively low since the mid-1980s and are continuing to decline.

Probable causes of the decline include demographic and economic factors, the number of CDRs conducted, legislative and regulatory changes, court decisions, vocational rehabilitation (VR) support, legal representation, and appeals of terminations. These factors are discussed below. (To the extent that a number of these factors are the same as described previously in connection with applications and allowance rates, the discussions are abbreviated.)

1. *Demographic Factors*

Average Age of Beneficiaries—Within the past 10 years, the average age of disabled workers at the time they are initially awarded benefits has fallen from about 51 years to just over 48 years. This trend is illustrated in chart 16. The change is due, in part, to the presence in the workforce of the post-World War II "baby boom" generation born between the mid-1940s and the mid-1960s. The large numbers of workers at the younger ages (27 to 46) has resulted in an increase in awards at these ages and thus some reduction in the overall average age at award.

Chart 16.—Average age of disabled worker beneficiaries



In addition, since the introduction of new regulations in 1986 governing evaluation of mental impairments, more awards are being made to people with such impairments, who tend to be younger and physically healthier. These younger beneficiaries have a potentially longer time to stay on the rolls, on average, before termination because of retirement or death.

Due to the lower average age of beneficiaries, a smaller percentage of those on the rolls reaches retirement age each year, thereby contributing to a reduction in the termination rate. Terminations due to attainment of retirement age have also been affected in recent years by the relatively small size of the age cohort for those born in the 1920s, when birth rates were quite low.

Death Rates—Medical and technological advances continue to extend the life expectancy of both male and female workers. Although beneficiaries with severely disabling conditions have benefited from gains in life expectancy in the past, it is not apparent that this trend has continued: age-specific mortality rates have been fairly constant for disabled beneficiaries in recent years. Nevertheless, the younger average age of beneficiaries has resulted in a decrease in terminations due to death.

2. *Economic Factors*

The current downturn in the economy, believed to have contributed to the increasing number of disability applications, may also be affecting some beneficiaries on the rolls who might otherwise return to work despite their disabilities. Higher levels of unemployment make competition for available jobs more fierce, with less likelihood that a disabled worker will be hired over an unimpaired job applicant. Employers may also be less financially able to cooperate in vocational rehabilitation and retraining projects designed to return beneficiaries to the workforce. They also may have less incentive to do so when unemployment increases and competition for available jobs intensifies.

3. *Number of CDRs*

Because of the sharp increases in the numbers of initial applications that began in 1990 and the limited administrative resources available for processing both the new claims and CDRs for existing beneficiaries, SSA found it necessary to target its resources primarily toward the processing of new claims. As a result, in fiscal years 1990-1992 only 144,180, 45,446, and 46,214 CDRs were processed, respectively (excluding SSI and "no decision" cases). These figures are substantially below the number of CDRs that would have to be performed annually in order to meet the 3-year review requirements of the law.

About 4 to 6 percent of beneficiaries for whom CDRs are performed are found, subsequent to all appeals, to no longer qualify for benefits. Thus, the limited number of CDRs performed in recent years has contributed to the decline in termination rates experienced during this period.

4. *Legislation, Regulations, and Court Cases*

Changes in disability evaluation criteria resulting from amendments to the law, new regulations, and court decisions affect the evaluation of current beneficiaries' continuing eligibility for benefits, just as such changes affect allowance rates for new claimants.

In addition, the 1984 Amendments generally require that beneficiaries who do not return to work cannot be removed from the rolls unless it can be established that their conditions have medically improved, even though they may not meet the current disability criteria. The medical-improvement standard has resulted in a substantial reduction in the rate at which beneficiaries are found to no longer qualify for disability benefits, thereby contributing substantially to the reduction in terminations due to recovery since 1984.

5. *Work Incentive Policies, Benefit Continuation, and VR Support*

A disabled worker can continue to receive payments for up to 9 months (called the trial work period (TWP)) regardless of earnings. After the TWP is completed, benefits are ceased if the beneficiary is found to be engaging in SGA.

However, benefits can be reinstated within a 36-month extended period of eligibility (EPE) without a new application if the beneficiary does not continue working. A beneficiary who qualifies for the EPE is also entitled to continuing Medicare coverage, a very important consideration for those considering a return to work who might not qualify for other health insurance or for whom the cost of such insurance would be prohibitive. A Medicare buy-in option is available for beneficiaries to whom payments are terminated due to their return to work.

Also, income-related work expenses can be deducted from gross earnings for purposes of determining ability to perform SGA, and benefits can be continued for beneficiaries in appropriate vocational rehabilitation programs. Despite these work incentives, the proportion of DI beneficiaries who return to work has not increased. Full implementation of the Americans with Disabilities Act should, however, make it easier for disabled beneficiaries who want to return to work to do so.

The DI Trust Fund also reimburses State VR agencies for funds expended on disabled beneficiaries who, as a result of the VR services received, work for 9 continuous months at the SGA level. Prior to 1981, these agencies received formula-based funding from SSA, through the Rehabilitation Services Administration, which accounted for approximately 20 percent of their budgets. In 1981, the current reimbursement system was initiated to link the SSA funding for VR more closely to trust fund savings, with the result that the amounts provided for VR declined sharply. In fiscal year 1991, VR agencies received a total of \$30 million for services to DI beneficiaries.

6. *Legal Representation and Appeals of Terminations*

Beneficiaries whose payments are terminated as the result of a CDR are increasingly likely to take the same advantage of legal representation and the appeals process as do applicants denied in the initial claims process. In particular, legislative changes in the 1980s permitted beneficiaries whose

payments are terminated as a result of a CDR to elect to continue receiving benefits pending a decision at the hearing level. This creates a strong financial incentive to appeal (even though the payments may be subject to recovery if the appeal is unsuccessful) and may help explain the high rate of appeal in CDR cases (73 percent in fiscal year 1991).

IV. FINDINGS

- A. The most critical finding in the foregoing analysis of the disability program, including the experience since the most recent Trustees Report was issued in April 1992, is that the Disability Insurance Trust Fund must be strengthened within the next 2 years. Legislative action to accomplish this is essential both to ensure that disability benefits can continue to be paid on time and to prevent undue public concern that the Social Security program as a whole is in imminent financial difficulty.
- B. The financial difficulty of the DI Trust Fund is primarily due to rapid growth in the number of workers applying for and subsequently awarded disability benefits in 1990-1992, and the consequent increase in benefit payments. In addition, the sluggish economy, with higher unemployment, has reduced payroll tax revenues, while the decline in the proportion of beneficiaries who leave the rolls has increased benefit costs.
- C. A sharp increase in applications for disability benefits in 1990, 1991, and 1992 is responsible for as much as 80 percent of the growth in disability awards. An increase in the percentage of claims which are approved, at the initial, reconsideration, and hearing levels is responsible for the remainder of the increase in awards.

The causes of the increase in applications since 1989 cannot be determined with any exactitude. Slower economic growth and higher unemployment in this period are probable contributing factors. However, heightened public awareness of the availability of disability benefits (as a result of publicity about class action court cases and of SSA's increased SSI outreach program, begun in 1990) is also likely to have contributed to the increase in applications. Changes in public perceptions as to the difficulty of obtaining benefits, following publicity about legislative and court actions, may also have tended to increase applications.

The percentage of disability claims approved has increased significantly since the early 1980s. The causes of this longer-term upward trend also cannot be quantified, but they include the 1984 legislation, court decisions, and regulations—all of which generally changed the disability evaluation criteria in ways that increased the number of applicants who would be found to be disabled.

- D. SSA's quality review process shows that the accuracy of initial disability decisions has remained high and, therefore, has not contributed to the increase in awards. (Many of the relatively few erroneous allowances are identified and corrected through the preeffectuation review procedure.)

- E. A number of factors affect application, allowance, and termination rates at any point in time. However, the separate effects of all factors in play at any point may be cumulative in one direction or go in opposite directions, in which case the separate effects may offset each other to varying degrees. Some factors that affect the program are "controllable," such as legislative and administrative changes, but others, such as changes in demographics and in the economy, are not. Since 1984, virtually all changes in programmatic factors affecting the DI Trust Fund appear to have made it more likely that individuals will apply for, be awarded, and continue to receive disability benefits. Since 1989, economic factors have also had an adverse effect. However, it is not possible at this point to predict whether this current rapid program growth is temporary and will diminish with faster economic growth, or whether it is a longer term, more permanent trend.
- F. Although annual Trustees Reports beginning in 1985 have warned of possible financial problems for DI, the sharp increase in disability costs since 1989 was not anticipated. The history of the program shows that it has been subject in the past to sharp increases and decreases in application rates, the percentage of claims approved, and the proportion of beneficiaries whose payments are terminated due to recovery.

From well before enactment of the cash benefits disability program in 1956, there has been strong concern about the difficulty of estimating the future cost of a disability program. Advances in medical science and elsewhere have not appreciably reduced this difficulty. In addition, major policy changes in the past have had the effect of increasing or decreasing the difficulty of qualifying for disability benefits, thereby complicating the estimation of program cost. The challenge in disability policy for the future appears to be to carefully gauge the magnitude of any policy change in order to avoid excessive shifts in program experience due to such change that may stimulate, in turn, major policy reactions in the opposite direction.

- G. Improvements in several areas of program administration are needed. The number of disability claims awaiting decision should be reduced, and the number of continuing disability reviews conducted each year should be increased. To better understand the need for disability benefits in the 1990s and beyond, a survey of health/disability in the U.S., similar to such studies completed in the 1970s, could be undertaken. The results of such a survey also could assist in estimating the future cost of the disability program.
- H. The net effect of such administrative improvements would have relatively little impact on the financial imbalance currently facing the DI Trust Fund. That imbalance could be corrected through increases in income to the program, reductions in outgo, or some combination of the two. As a practical matter, there seems to be little justification for reductions in outgo. First, the benefit formula has not changed in any significant way since the 1980 Amendments, and is therefore unlikely to have contributed to the recent change in program experience. (While it is true that stable, indexed benefits may be perceived as more attractive during a period of economic hardship, these characteristics are generally considered to be desirable features of a social insurance program.)

Second, steps to curtail the number of applicants who qualify for disability benefits would seem contrary to the intent of many recent legislative and judicial actions. However, continuing eligibility of beneficiaries could be more effectively monitored through periodic disability reviews as noted above.

Third, it would be premature to make major program changes before a more definitive understanding of likely future program experience can be reached.

Additional income could be provided through an overall increase in OASDI taxes, a reallocation of existing taxes between OASI and DI, or through other forms of income, such as increasing revenue from the taxation of benefits or providing a general revenue subsidy. Again, as a practical matter, most attention has focused on proposals to reallocate taxes. Reallocation from OASI to DI, and vice-versa, has been used on several occasions in the past to improve the financial position of a deficient trust fund. Furthermore, the short-range financial condition of the DI Trust Fund could be corrected without jeopardizing the short-range status of the OASI Trust Fund. (Neither fund is adequately financed in the long range.) Options for a reallocation from OASI to DI are presented in the next section.

Finally, it must be remembered that tax rates for the DI program were last set in 1983, at a time when disability incidence rates were at an all-time low. Although the financing schedule was based on projections which assumed a significant increase in incidence rates, the actual increases in the incidence rate proved to be substantially greater than assumed (although still well short of the highest incidence rates experienced in the mid-1970s). In this context, an increase in the DI tax rate allocation does not seem unreasonable.

V. *FINANCING OPTIONS*

Reallocating an additional portion of the total OASDI tax rate to the DI Trust Fund would enable payment of disability benefits for a longer period of time into the future. This could provide short-term financial adequacy to the DI fund without either jeopardizing the short-range adequacy of the OASI Trust Fund or changing the total OASDI tax rates scheduled under present law. Reallocation would also significantly reduce the long-range actuarial deficit of the DI Trust Fund, with a corresponding increase in the OASI deficit. However, because the cost of the DI program is only about one-tenth of OASI program cost, the increase in the OASI deficit would be much smaller, relatively, than the decrease in the DI deficit.

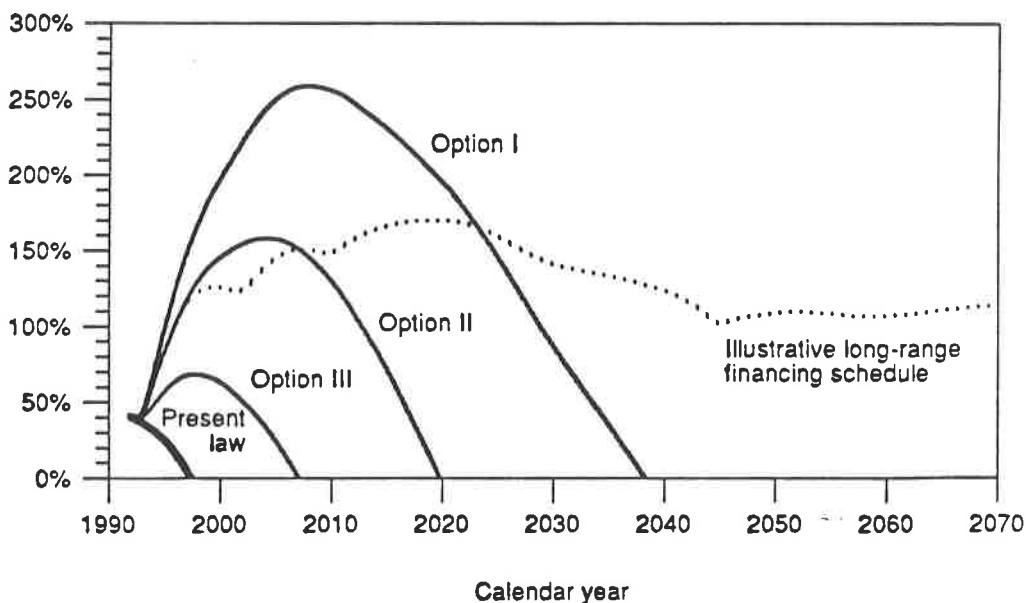
Three options for reallocating the tax rates have been developed and are displayed in table 7. Under all three, the overall OASDI tax rate of 6.2 percent for employers and employees, each, would remain unchanged from the present law. The options differ only in the amount of increase in the tax rate that would be allocated to the DI Trust Fund and the corresponding OASI allocation reduction. The allocation between the two trust funds would change beginning with 1993. (Retroactive reallocation of the tax rate is administratively possible as long as the total OASDI rate does not change.)

These options were developed at the time the 1992 Trustees Report was issued, and thus do not take account of the faster-than-expected program growth in 1992. Consequently, further slight increases in the DI allocation would be necessary to meet the financing goals described below. In practice, it will be necessary to revise the specific reallocation proposals at the time the proposals are considered in order to fully reflect the most recent actual experience. Thus, an appropriate time to consider and enact a revised allocation would be immediately following issuance of the 1993 Trustees Report.

Option 1 is designed to make the OASI and DI Trust Funds more evenly financed in both the short range and the long range. Both funds would meet the Trustees' test of short-range financial adequacy. Specifically, the DI Trust Fund would rise to at least 100 percent of annual expenditures within the next 5 years and remain at or above that level throughout the remainder of the 10-year period. The OASI Trust Fund (which is currently above 100 percent) would remain above 100 percent throughout the 10-year period. In addition, this option would place both funds in approximately the same relative financial status in the long range, with similar asset accumulation rates and dates of exhaustion (between 2035 and 2040).

Option 2 would allocate a smaller portion of the tax rate to the DI Trust Fund than Option 1, but it would be sufficient to enable the fund to meet the short-range test of financial adequacy. Option 3 would move the increased DI tax rate now scheduled for the year 2000 back to 1993 and hold it constant thereafter. This would not be enough to make the fund meet the short-range test of financial adequacy, but it would delay the estimated exhaustion of the DI Trust Fund until the year 2007. The trust fund ratios under each option, based on the intermediate assumptions from the 1992 Trustees Report, are shown in chart 17.

Chart 17.—DI Trust Fund ratios under present law and three tax reallocation options, based on intermediate assumptions from 1992 Trustees Report



It must be noted that for the long range over the next 75 years, neither the OASI nor the DI Trust Fund is in close actuarial balance under present law, and they would remain out of such balance under all three reallocation options, as indicated by the summary actuarial cost projections shown in table 8. To restore actuarial balance within this period would require an increase in the overall ultimate tax rate, a reduction in benefits in later years, an increase in the retirement age, or a combination of such changes.

For purposes of illustration, table 7 also shows a set of tax rates for DI designed to result in a DI Trust Fund ratio of about 100-150 percent of annual expenditures throughout the long-range projection period. The projected DI Trust Fund ratios under this schedule are shown in chart 17. As indicated, if the long-range DI financing shortfall were to be addressed through higher tax rates alone, then ultimately the tax rate would have to increase to about 1.05 percent each for employees and employers. This level is about $1\frac{1}{2}$ times the rate scheduled under present law and is about the same as that scheduled previously under the 1977 and 1980 Amendments.

TABLE 1. NUMBER OF DISABLED WORKER APPLICATIONS, AWARDS, AND BENEFICIARIES AT END OF YEAR, 1960-1992

(Numbers in thousands)

Calendar year	Applications	Change in applications over previous year (%)	Awards	Change in awards over previous year (%)	Beneficiaries at end of year
1960.....	418.6	-	207.8	16.9	455.4
1961.....	NA	-	279.8	34.6	618.1
1962.....	437.0	-	250.6	-10.6	740.9
1963.....	459.8	5.2	223.7	-10.7	827.0
1964.....	473.1	2.9	207.6	-7.2	894.2
1965.....	529.3	11.9	253.5	22.1	988.1
1966.....	544.5	2.9	278.3	9.8	1,097.2
1967.....	573.2	5.3	301.4	8.3	1,193.1
1968.....	719.8	25.6	323.2	7.2	1,295.3
1969.....	725.2	0.8	344.7	6.7	1,394.3
1970.....	868.2	19.7	350.4	1.7	1,492.9
1971.....	924.4	6.5	415.9	18.7	1,647.7
1972.....	947.8	2.5	455.4	9.5	1,832.9
1973.....	1,065.9	12.5	491.6	7.9	2,016.6
1974.....	1,330.2	24.8	536.0	9.0	2,236.9
1975.....	1,285.3	-3.4	592.0	10.4	2,488.8
1976.....	1,232.2	-4.1	551.5	-6.8	2,670.2
1977.....	1,235.2	0.2	568.9	3.2	2,837.4
1978.....	1,184.7	-4.1	464.4	-18.4	2,879.8
1979.....	1,187.8	0.3	416.7	-10.3	2,870.6
1980.....	1,262.3	6.3	396.6	-4.8	2,858.7
1981.....	1,161.2	-8.0 1/	351.8	-11.3	2,776.5
1982.....	1,019.8	-12.2 1/	297.1	-15.5	2,603.6
1983.....	1,019.3	(2)	311.5	4.8	2,569.0
1984.....	1,036.7	1.7	362.0	16.2	2,596.5
1985.....	1,066.2	2.8	377.4	4.3	2,656.6
1986.....	1,118.4	4.9	416.9	10.5	2,728.5
1987.....	1,108.9	-0.8	415.8	-0.3	2,785.9
1988.....	1,017.9	-8.2	409.5	-1.5	2,830.3
1989.....	984.9	-3.2	425.6	3.9	2,895.4
1990.....	1,067.7	8.4	468.0	10.0	3,011.3
1991.....	1,208.7	13.2	536.4	14.6	3,194.9
1992 (preliminary)..	1,317.0	9.0	644.4	20.1	3,462.5

1/ The abrupt decline in applications in 1981 and 1982 is due in part to improvements in SSA's administrative computer systems implemented in October 1981. As a result of these changes, it was frequently unnecessary to process a formal application in cases where a person was found to lack insured status. In addition, the accuracy of applications data may have improved under the automated workload reporting system that was introduced.

2/ Between -0.05 percent and 0.00 percent.

Note: Figures relate to numbers of persons applying for benefits as disabled workers under the Disability Insurance program, number awarded benefits, and number receiving benefits at the end of each year. Figures do not include disabled workers' family members, other disabled Social Security beneficiaries, or disabled SSI recipients.

Source: Office of the Actuary, SSA, and Social Security Bulletin, Annual Statistical Supplement, 1991.

TABLE 2. KEY COMPONENTS OF DISABILITY INCIDENCE RATES, AND INDICATORS OF ECONOMIC PERFORMANCE, 1965-92

Year 1/	Disability incidence rate 2/	Application rate 3/	Allowance rates (%) 4/			Unemployment rate (%)	% change in real GDP
			Initial	Recon. 5/	Hearing 5/		
1965	4.8	10.1	59	(6)	(6)	4.5	5.6
1966	5.2	10.1	62	(6)	(6)	3.8	6.0
1967	5.5	10.5	64	(6)	(6)	3.8	2.6
1968	5.8	12.9	59	(6)	(6)	3.6	4.1
1969	5.0	10.5	56	(6)	(6)	3.5	2.7
1970	4.9	12.2	54	35	42	4.9	0.0
1971	5.7	12.7	51	(6)	(6)	5.9	3.1
1972	6.1	12.7	55	(6)	(6)	5.6	4.8
1973	6.5	14.0	57	(6)	46	4.9	5.2
1974	6.8	17.0	54	31	41	5.6	-0.6
1975	7.3	15.9	53	33	42	8.5	-0.8
1976	6.7	14.9	47	(6)	43	7.7	4.9
1977	6.7	14.6	43	23	47	7.1	4.5
1978	5.4	13.7	40	19	50	6.1	4.8
1979	4.6	13.1	36	17	54	5.8	2.5
1980	4.2	13.3	32	15	56	7.1	-0.5
1981	3.6	11.9 7/	27	13	55	7.6	1.8
1982	3.0	10.2 7/	27	11	53	9.7	-2.2
1983	3.1	10.0	31	14	53	9.6	3.9
1984	3.6	10.1	33	16	52	7.5	6.2
1985	3.7	10.2	36	14	51	7.2	3.2
1986	4.0	10.5	36	17	48	7.0	2.9
1987	3.9	10.2	35	15	54	6.2	3.1
1988	3.8	9.2	34	14	56	5.5	3.9
1989	3.8	8.7	36	15	59	5.3	2.5
1990	4.1	9.2	37	17	63	5.5	1.0
1991	4.6	10.3	39	17	66	6.7	-0.7
1992 (est.)	5.4	11.1	40	(6)	(6)	7.4	2.0

1/ Except where noted, all data are for calendar years and relate only to disabled worker benefit claims under the DI program (i.e., excluding SSI).

2/ Represents number of disability awards per 1,000 insured workers not already receiving DI benefits.

3/ Represents number of applicants for disability benefits per 1,000 insured workers not already receiving DI benefits.

4/ Equals ratio of disability awards to total disability decisions at initial stage of disability determination process, or at reconsideration or hearing stages of appeals process.

5/ Fiscal year rates. Reconsideration allowance rates relate to combined experience for DI and SSI programs. Hearing allowance rates are based on all hearings (including SSI and Medicare), the vast majority of which involve disability issues.

6/ Data not available.

7/ See footnote 1 of table 1.

Note: The overall disability incidence rate depends on the rate at which insured workers file applications for benefits, the rate at which benefits are approved at the initial decision level, the rates at which denied applicants file appeals to the various appeals stages, and the rates at which those appeals are granted at each stage. Available data on appeals filing rates are sketchy, but suggest that filing rates for reconsiderations have generally been in the neighborhood of 45 to 50 percent, with some increase in recent years. Hearings filing rates have been between 60 and 70 percent, again with some increase in recent years. Because some benefit awards relate to applications filed in earlier years, it is not possible to algebraically equate the incidence rates shown for a given year with the application and allowance rate "components" of that year.

TABLE 3. DISABLED WORKER BENEFIT TERMINATIONS, TERMINATIONS BY BASIS, AND BENEFIT TERMINATION RATES, 1960-1992

(Numbers in thousands)

Calendar year	Total terminations	Reason for termination				Benefit termination rate (%) 1/
		Conversion to OASI	Death	Recovery	Other	
1960.....	89.1	42.1	43.5	3.1	0.3	19.4
1961.....	115.5	51.4	60.5	2.9	0.7	18.5
1962.....	128.3	51.3	67.0	9.6	0.4	16.9
1963.....	137.9	50.7	73.3	12.9	0.9	15.7
1964.....	138.6	45.3	75.8	16.5	0.9	14.4
1965.....	156.6	57.0	79.8	18.4	1.4	14.6
1966.....	168.6	59.7	84.4	23.1	1.4	14.3
1967.....	208.9	76.9	92.1	37.2	2.8	16.1
1968.....	222.2	80.3	99.9	37.7	4.3	15.7
1969.....	251.3	93.5	108.8	38.1	10.9	16.5
1970.....	260.4	102.9	105.8	40.8	10.9	15.9
1971.....	266.5	107.0	109.9	43.0	6.6	14.9
1972.....	261.7	106.3	108.7	39.4	7.4	15.3
1973.....	304.8	135.4	125.6	36.7	7.1	14.2
1974.....	321.0	142.7	135.1	36.5	6.7	13.7
1975.....	329.5	157.6	139.8	25.7	7.3	13.3
1976.....	351.5	172.2	137.9	34.1	7.3	13.3
1977.....	401.3	194.3	140.3	60.9	5.7	13.6
1978.....	413.6	192.7	144.9	69.5	6.5	13.5
1979.....	422.5	205.3	141.9	71.7	3.6	13.9
1980.....	406.1	200.0	142.8	60.1	3.2	13.2
1981.....	434.2	197.5	135.9	97.5	3.3	14.1
1982.....	483.8	190.1	129.4	161.6	2.8	15.8
1983.....	453.6	193.7	134.3	122.3	3.3	12.7
1984.....	371.9	185.8	133.9	49.1	3.2	12.2
1985.....	340.0	186.2	136.7	13.6	3.4	11.5
1986.....	341.3	187.2	134.3	15.9	3.9	12.2
1987.....	347.9	177.6	136.1	27.1	7.2	12.1
1988.....	356.1	174.0	141.4	31.6	9.2	12.1
1989.....	351.4	179.7	138.9	26.8	6.1	11.6
1990.....	347.3	178.1	141.4	22.9	4.9	11.2
1991.....	357.4	(2)	(2)	(2)	(2)	10.7
1992 (est.).....	375.3	(2)	(2)	(2)	(2)	10.5

1/ Represents benefit terminations as a percentage of average number of beneficiaries during year. Data source differs from source of terminations by reason; thus, termination rates shown are not fully consistent with number of terminations shown. Inconsistency is generally slight, except for 1982-1984 where there are significant, unresolved discrepancies between the two data sources.

2/ Distribution of terminations by cause is not yet available for 1991 and 1992.

Source: Social Security Bulletin, Annual Statistical Supplement, 1991, with additional data from the Office of the Actuary.

**TABLE 4. OASDI CONTRIBUTION RATES FOR EMPLOYEES AND EMPLOYERS, EACH,
UNDER VARIOUS SETS OF AMENDMENTS
(Percent of taxable payroll)**

Year	OASDI	OASI	DI
1973 Amendments:			
1974-77	4.95	4.375	0.575
1978-80	4.95	4.350	0.600
1981-85	4.95	4.300	0.650
1986-2010	4.95	4.250	0.700
2011 & later	5.95	5.100	0.850
1977 Amendments:			
1978	5.05	4.275	0.775
1979-80	5.08	4.330	0.750
1981	5.35	4.525	0.825
1982-84	5.40	4.575	0.825
1985-89	5.70	4.750	0.950
1990 & later	6.20	5.100	1.100
1980 Amendments:			
1980	5.08	4.520	0.560
1981	5.35	4.700	0.650
1982-84	5.40	4.575	0.825
1985-89	5.70	4.750	0.950
1990 & later	6.20	5.100	1.100
1983 Amendments:			
1983	5.40	4.775	0.625
1984-87	5.70	5.200	0.500
1988-89	6.06	5.530	0.530
1990-99	6.20	5.600	0.600
2000 & later	6.20	5.490	0.710

TABLE 5. SUMMARY OF FACTORS POSSIBLY CONTRIBUTING TO RAPID GROWTH IN THE NUMBER OF DISABLED WORKER BENEFICIARIES IN 1990-1992

Symbols: • indicates probable contributing factor.
 ? indicates possible contributing factor,
 but high degree of uncertainty.

Category	Possible contributing factor	Effects on...			Is primary effect in 1990-92?
		Applica-tions	Allowance rates	Termina-tions	
Economic factors	1990-91 recession (high unemployment, slow wage growth)	•		•	Yes
Demographic factors	Number of insured workers	•			
	Presence of "baby boom" generation in work force			•	
	Small birth cohorts during Depression years HIV/AIDS epidemic	(1) •	•	(2) •	
Legislation	Social Security Disability Benefits Reform Act of 1984:				
	Emphasis on opinion of treating physician	•	•	•	
	Evaluation of pain	•	•	•	
	Multiple impairments criteria	•	•	•	
	Medical improvement standard			•	
	Benefit continuation during appeal of CDR cessation			•	
Regulations	Limits on reimbursement for vocational rehabilitation			•	
	Revised mental impairment listings	•	•	•	
Court decisions	Increase in SGA amount to \$500	•	•	•	Yes
	Emphasis on opinion of treating physician	•	•	•	Yes
Program administration	Evaluation of pain	•	•	•	Yes
	Influence on adjudication of new cases		?		Yes
	SSI outreach initiative	•			Yes
	Workload pressures:				
Reduction in number of CDRs			•	Yes	
Special initiatives to reduce backlogs		?		Yes	
Accuracy of disability determinations		(3)			
Miscellaneous	Public perception	•			Yes
	Role of interest groups	•	?	?	
	Increased representation by lawyers	•	•	•	
	Increased tendency to appeal denials		•	•	

¹ Because the incidence of disability is highest at the older ages, the small birth cohorts from the Depression years have tended to reduce disability applications below the level that would otherwise occur.

² As a result of the very high rates of mortality suffered by persons with AIDS, this factor has had the effect of increasing the number of terminations beyond what would have otherwise occurred.

³ While this factor is sometimes raised as a possible explanation for increased allowance rates, the Quality Assurance Sample indicates that the current disability law, regulations, and administrative policies are being administered accurately.

TABLE 6. DI-ONLY AND CONCURRENT DI/SSI DISABILITY DETERMINATIONS, CALENDAR YEARS 1983-1992

Calendar year	DI-only determinations		Concurrent DI/SSI determinations		All DI determinations	
	Allowances	Total	Allowances	Total	Allowances	Total
<i>Number of determinations (in thousands)</i>						
1983	178.5	493.7	75.2	312.0	253.8	805.7
1984	187.2	485.9	87.8	339.6	275.1	825.5
1985	188.0	454.2	101.0	344.0	289.1	798.2
1986	209.9	507.7	140.6	455.3	350.5	963.0
1987	197.2	493.1	115.7	405.0	312.9	898.1
1988	190.2	486.1	100.1	357.2	290.3	843.3
1989	193.6	477.4	103.3	347.6	296.9	825.0
1990	209.8	502.3	119.5	387.2	329.3	889.5
1991	233.1	525.2	146.8	451.9	379.8	977.2
1992	269.6	589.3	195.7	580.8	465.3	1,170.1
<i>Change from prior year (%)</i>						
1983	—	—	—	—	—	—
1984	4.9	-1.6	16.7	8.9	8.4	2.5
1985	0.4	-6.5	15.1	1.3	5.1	-3.3
1986	11.6	11.8	39.1	32.4	21.2	20.6
1987	-6.1	-2.9	-17.7	-11.1	-10.7	-6.7
1988	-3.6	-1.4	-13.5	-11.8	-7.2	-6.1
1989	1.8	-1.8	3.2	-2.7	2.3	-2.2
1990	8.4	5.2	15.7	11.4	10.9	7.8
1991	11.1	4.6	22.8	16.7	15.3	9.9
1992 (est.)	15.7	12.2	33.4	28.5	22.5	19.7

Note: Data are based on initial disability decisions. Distribution of applications and awards by DI-only versus concurrent DI/SSI status would differ somewhat from relationship shown here.

Source: Quality Assurance Sample, Office of Program Integrity and Reviews, SSA.

TABLE 7. OASI AND DI TAX RATES FOR EMPLOYEES AND EMPLOYERS, EACH,
 UNDER PRESENT LAW AND UNDER THREE TAX REALLOCATION OPTIONS
 (Percent of taxable earnings)

Calendar year	OASDI	OASI	DI
Present law:			
1990-99	6.20	5.60	0.60
2000 & later	6.20	5.49	0.71
Option 1:			
1990-92	6.20	5.60	0.60
1993-94	6.20	5.35	0.85
1995-99	6.20	5.34	0.86
2000 & later	6.20	5.33	0.87
Option 2:			
1990-92	6.20	5.60	0.60
1993 & later	6.20	5.40	0.80
Option 3:			
1990-92	6.20	5.60	0.60
1993 & later	6.20	5.49	0.71
Illustrative long-range financing schedule: 1/			
1990-92	6.20	5.60	0.60
1993-96	(1)	(1)	0.80
1997-2001	(1)	(1)	0.75
2002-2009	(1)	(1)	0.85
2010-2044	(1)	(1)	0.95
2045 & later	(1)	(1)	1.05

1/ Neither the OASI Trust Fund nor the DI Trust Fund is adequately financed in the long range (defined as the next 75 years).

The illustrative financing schedule is included as an indication of the DI tax rates that would be required to fully cover projected DI costs over this period. As such, it is not intended as a reallocation option. It eventually will be necessary to adjust both the OASI and DI financing schedules and/or make appropriate changes to the benefit provisions in order to place each trust fund in actuarial balance over the long range.

Note: The financing schedules shown are based on the intermediate (alternative II) assumptions from the 1992 Trustees Report. Some adjustment will be required to reflect the latest actual experience and updated projections available at the time legislation is considered.

**TABLE 8. ESTIMATED LONG-RANGE ACTUARIAL BALANCE AND YEAR
OF TRUST FUND EXHAUSTION UNDER PRESENT LAW AND UNDER
THREE REALLOCATION OPTIONS**

Measure of financial status	OASDI	OASI	DI
Present law:			
1993 tax rate	6.20%	5.60%	0.60%
Actuarial balance	-1.46%	-1.01%	-0.46%
Year of exhaustion	2036	2042	1997
Option 1:			
1993 tax rate	6.20%	5.35%	0.85%
Actuarial balance	-1.46%	-1.34%	-0.12%
Year of exhaustion	2036	2036	2038
Option 2:			
1993 tax rate	6.20%	5.40%	0.80%
Actuarial balance	-1.46%	-1.21%	-0.25%
Year of exhaustion	2036	2038	2019
Option 3:			
1993 tax rate	6.20%	5.60%	0.60%
Actuarial balance	-1.46%	-1.03%	-0.43%
Year of exhaustion	2036	2041	2007
Illustrative long-range financing schedule: 1/			
1993 tax rate	(1)	(1)	0.80%
Actuarial balance	(1)	(1)	0.00%
Year of exhaustion	(1)	(1)	(2)

1/ See footnote 1, table 7.

2/ Under this financing schedule, and based on the intermediate assumptions, the DI Trust Fund would remain above 100 percent of annual expenditures throughout the long-range projection period.

Notes: 1. The actuarial balances are shown as a percentage of taxable payroll.
2. Estimates shown are based on the intermediate (alternative II) assumptions from the 1992 Trustees Report. Estimates for the DI Trust Fund would be somewhat more adverse if the latest actual experience and updated assumptions were taken into account.

APPENDIX

*Balance Ratio Estimates
for the Disability Insurance Trust Fund*

A Report by the Board of Trustees,
Federal Old-Age and Survivors Insurance
Disability Insurance Trust Funds

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., April 2, 1992

HONORABLE DAN QUAYLE
President of the Senate
Washington, D.C.

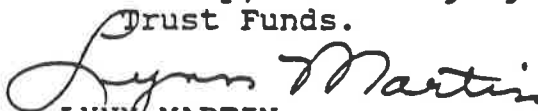
Dear Mr. President: It is our duty to report on the financial outlook for the Disability Insurance Trust Fund, in compliance with section 709 of the Social Security Act. The 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds indicates that the Disability Insurance Trust Fund is expected to be exhausted in 1997 and could possibly be exhausted as early as 1995.

Under section 709, we are required to report to each House of the Congress when the reserves of any trust fund are expected to become less than 20 percent of annual expenditures. The enclosed report by the Board of Trustees, Balance Ratio Estimates for the Disability Insurance Trust Fund, describes these findings, as required by section 709. This report is also being sent to the Speaker of the House.

Respectfully,



NICHOLAS F. BRADY, Secretary of the
Treasury, and Managing Trustee of the
Trust Funds.



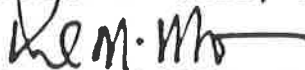
LYNN MARTIN,
Secretary of Labor, and Trustee.



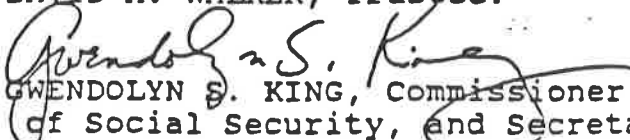
LOUIS W. SULLIVAN, M.D., Secretary of
Health and Human Services, and Trustee.



STANFORD G. ROSS, Trustee.



DAVID M. WALKER, Trustee.



GWENDOLYN S. KING, Commissioner
of Social Security, and Secretary,
Board of Trustees.

LETTER OF TRANSMITTAL

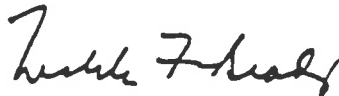
BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., April 2, 1992

HONORABLE THOMAS S. FOLEY
Speaker of the House of Representatives
Washington, D.C.

Dear Mr. Speaker: It is our duty to report on the financial outlook for the Disability Insurance Trust Fund, in compliance with section 709 of the Social Security Act. The 1992 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds indicates that the Disability Insurance Trust Fund is expected to be exhausted in 1997 and could possibly be exhausted as early as 1995.

Under section 709, we are required to report to each House of the Congress when the reserves of any trust fund are expected to become less than 20 percent of annual expenditures. The enclosed report by the Board of Trustees, *Balance Ratio Estimates for the Disability Insurance Trust Fund*, describes these findings, as required by section 709. This report is also being sent to the President of the Senate.

Respectfully,



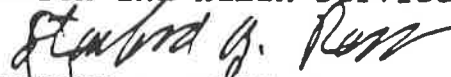
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Treasury, and Managing Trustee of the
Trust Funds.



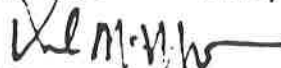
LYNN MARTIN,
Secretary of Labor, and Trustee.



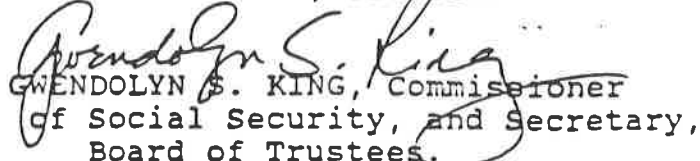
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DAVID M. WALKER, Trustee.



GWENDOLYN S. KING, Commissioner
of Social Security, and Secretary,
Board of Trustees.

Balance Ratio Estimates
for the Disability Insurance Trust Fund

A Report by the Board of Trustees,
Federal Old-Age and Survivors Insurance
and Disability Insurance Trust Funds

Background

Section 709 of the Social Security Act requires the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Board) to submit a report to each House of the Congress when it determines that the balance ratio of a trust fund for any calendar year may become less than 20 percent. The balance ratio is the ratio of assets, at the beginning of a year to expenditures during that year.¹ Section 709 further requires that the report include:

. . . recommendations for statutory adjustments affecting the receipts and disbursements of such Trust Fund necessary to maintain the balance ratio of such Trust Fund at not less than 20 percent, with due regard to the economic conditions which created such inadequacy in the balance ratio and the amount of time necessary to alleviate such inadequacy in a prudent manner. The report shall set forth specifically the extent to which benefits would have to be reduced, taxes . . . would have to be increased, or a combination thereof, in order to obtain the objectives referred to in the preceding sentence.

The Disability Insurance Trust Fund

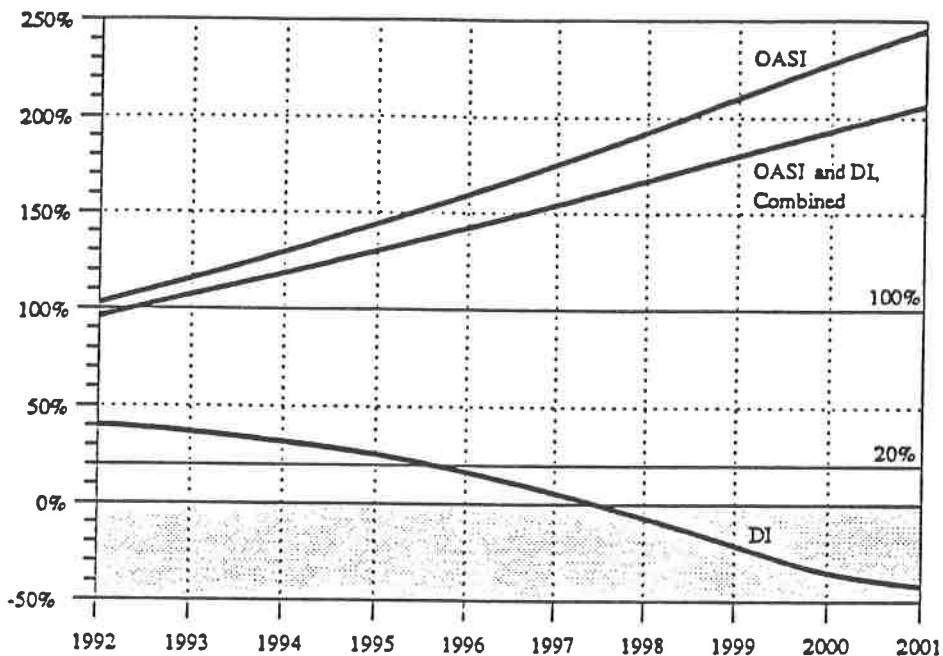
Each year, the Board prepares a report, commonly referred to as the Trustees Report, on the financial outlook for the Social Security trust funds. The Trustees Report provides projections under three alternative sets of economic and demographic assumptions. Under intermediate assumptions (those representing the Trustees' best estimate of future economic and demographic trends) in the 1992 Trustees Report, the assets of the Disability Insurance (DI) Trust Fund are expected to be less than 20 percent of annual expenditures at the beginning of 1996 and are estimated to be exhausted in 1997.

Estimates in the 1992 Trustees Report also show that, although the DI Trust Fund does not meet the short-range test of financial adequacy, the Old-Age and Survivors Insurance (OASI) and DI Trust Funds on a combined basis pass the short-range test of financial adequacy by a wide margin.

¹ This ratio is also called a trust fund ratio in the 1992 Trustees Report.

The following figure shows the estimated balance ratios for the combined OASI and DI Trust Funds and for each fund separately.

Balance ratios for the OASI and DI Trust Funds, separately and combined, under present law based on intermediate assumptions, 1992-2001



The Board is reporting the expected future decrease in the balance ratio for the DI Trust Fund at this time, since the 20-percent reserve level is estimated to be reached within the next 10 years, in accord with the statutory requirement to give due regard to the amount of time necessary to alleviate the inadequacy in a prudent manner.

Maintaining a Balance Ratio of at Least 20 Percent

The following table shows the minimum amounts necessary to keep the DI balance ratio from falling below 20 percent. The amounts of (1) additional tax income, (2) benefit reductions, and (3) a combination of equal amounts of tax income and benefit reductions are shown for each year over the next 10 years. This period was chosen to coincide with the short-range projection period employed in the Trustees Report and because nominal dollar amounts become increasingly less meaningful with longer projection periods.

The additional tax amounts required to meet the 20-percent goal differ somewhat from the reductions in benefit amounts. Tax rate changes affect assets (the numerator of the balance ratio) but not expenditures (the denominator); benefit changes affect both assets and expenditures simultaneously. Under the combined approach, one-half of the amount shown would be raised through additional tax income and one-half would be implemented through benefit reductions.

The decrease in required amounts from 1999 to 2000 reflects the effect of the reallocation of tax rates between OASI and DI that is scheduled under present law for the year 2000. Under this schedule, the DI tax rate is set to increase from its current level of 0.60 percent (for employees and employers, each) to 0.71 percent.

Amounts of change required from present law to prevent
the DI balance ratio from declining below
the 20-percent minimal level under intermediate assumptions
(In billions)

<u>Calendar year</u>	<u>Additional tax income only</u>	<u>Benefit reductions only</u>	<u>Total amounts of additional tax income and benefit reductions, under combined approach</u>
1993	--	--	--
1994	--	--	--
1995	\$1.4	\$0.5	\$0.9
1996	4.9	4.7	4.8
1997	6.5	6.3	6.4
1998	8.2	7.5	8.0
1999	10.1	11.8	10.9
2000	3.7	3.7	3.6
2001	4.8	4.0	4.4
Total, 1993-2001	39.6	38.5	39.0

A trust fund level of 20 percent of annual expenditures would be sufficient to enable the timely payment of benefits but would not provide an adequate reserve against adverse contingencies. A more stringent measure of trust fund strength is the test of short-range financial adequacy. This test was officially adopted and used for the first time in the 1991 Trustees Report. To meet this test, the estimated balance ratio must remain over 100 percent if the current ratio is over 100 percent.

If the current ratio is under 100 percent, then the estimated balance ratio must reach 100 percent by the beginning of the sixth year and remain at or over 100 percent throughout the remainder of the 10-year short-range period. In addition, estimated assets must be sufficient to pay all estimated benefits over the entire 10-year period. The test is applied on the basis of the intermediate assumptions.

Compliance with this test should be an important goal for any statutory adjustments designed to strengthen the financial condition of the DI Trust Fund.

Because the estimated DI balance for 1992 is 41 percent, the financial adequacy test requires that the fund achieve a 100-percent ratio by the beginning of 1997, and remain at or above 100 percent through 2001. For purposes of illustration, estimates were prepared of the changes that would be required to move steadily from the 41-percent balance ratio up to 100 percent at the beginning of 1997 and to remain at 100 percent through the year 2001.

The following table shows the resulting estimated amounts of (1) additional tax income, (2) benefit reductions, and (3) a combination of equal proportions of tax income and benefit reductions.

Amounts of change required from present law for DI
to meet the short-range test of financial adequacy
under intermediate assumptions
(In billions)

<u>Calendar year</u>	<u>Additional tax income only</u>	<u>Benefit reductions only</u>	<u>Total amounts of additional tax income and benefit reductions, under combined approach</u>
1993	\$7.3	\$4.2	\$5.0
1994	8.8	6.1	8.1
1995	10.7	9.0	9.4
1996	12.8	10.1	11.7
1997	7.4	11.7	12.5
1998	9.2	8.2	3.6
1999	11.1	9.6	14.6
2000	4.7	11.8	8.3
2001	5.8	5.3	2.5
Total, 1993-2001	77.9	76.0	75.7

Recommendation

Based on the intermediate estimates in the 1992 Trustees Report, the assets of the DI Trust Fund would be below 20 percent of annual expenditures at the beginning of 1996 and would become exhausted in 1997 in the absence of corrective legislation. Legislative action should be taken to remedy the inadequate future assets of the DI Trust Fund.

During the history of the Social Security program, inadequate assets in either fund have frequently been remedied by reallocating part of the tax rates from the more adequately financed fund to the less adequately financed fund. This has provided additional income for the inadequate fund without requiring an increase in overall tax rates. On the other hand, a reallocation decreases the adequacy of the long-range financing for the fund that has its tax rate reduced.

Alternatively, the Congress could choose: to increase revenues to the DI Trust Fund in another manner; to reduce expenditures through an adjustment to the disability program; or to use a combination of methods to strengthen the financial condition of the trust fund.

Legislative changes that improve the short-range financing of the DI program by at least \$40 billion over the next 10 years are likely to be necessary to assure that the DI Trust Fund balance ratio stays over the 20-percent level. The Board believes that a careful analysis of the program, including the allocation of the OASDI tax rate, should be undertaken before any legislative recommendations are submitted. Therefore, the Board has asked the Department of Health and Human Services to report back the results of its examination of this issue so that the Board will be able to consider appropriate statutory adjustments and make appropriate recommendations to the Congress by December 31, 1992.

APPENDIX

STATEMENT BY THE PUBLIC TRUSTEES

We believe that the Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance (DI) Trust Funds, has taken the appropriate action by submitting this report to the Congress for its consideration.

We think that the severe financial inadequacy of the DI Trust Fund, and its estimated exhaustion in 1997 under the intermediate assumptions of the 1992 Annual Report, requires the Board to make the report mandated by section 709 of the Social Security Act.

As the public members of the Board, we have signed the report and endorse its content. At the same time, we have serious reservations about becoming participants in the process of developing specific legislative recommendations for the Congress to consider to remedy the situation. Because the other members of the Board are also members of the Administration, the proposals they develop necessarily will be within the context of Administration goals and policies. To participate in that development would, we believe, be contrary to the independent role of the Public Trustees.

For that reason, we do not believe it would be appropriate for us to participate in the development of the specific legislative recommendations to be provided to the Congress by the ex officio Board members.

We remain, as always, ready to consult with the Congress concerning the financial status of the Social Security and Medicare programs.

Stanford G. Ross
Trustee

David M. Walker
Trustee