

HEARING ON MAINTAINING THE DISABILITY INSURANCE TRUST FUND'S SOLVENCY

HEARING BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY OF THE COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTEENTH CONGRESS FIRST SESSION

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FEBRUARY 25, 2015
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MAINTAINING THE DISABILITY INSURANCE TRUST FUND'S SOLVENCY

WEDNESDAY, FEBRUARY 25, 2015

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The Subcommittee met, pursuant to other business, at 2:03 p.m.,
in Room B-318, Rayburn House Office Building, the Honorable
Sam Johnson [Chairman of the Subcommittee] presiding.
[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
Tuesday, June 30, 2015
No. SS-01

CONTACT: (202) 225-3625

Chairman Johnson Announces Hearing on the Financial Risk of Returning to Work

U.S. Congressman Sam Johnson (R-TX), Chairman of the House Committee on Ways and Means Social Security Subcommittee announced today that the Subcommittee will hold a hearing on the Social Security Administration's (SSA) management of earnings reports from disability beneficiaries trying to go back to work. The SSA faces difficulties processing earnings reports and adjusting benefits in a timely fashion, in part due to the complexity of the work incentives in the Disability Insurance program. These difficulties can cause large overpayments for disability beneficiaries trying to return to work. **The hearing will take place on Tuesday, June 16, 2015 in B-318 Rayburn House Building, beginning at 2:00 p.m.**

Upon the announcement, Chairman Johnson made the following comment:

"There are two problems for the American taxpayer when Social Security can't manage earnings reports: first, dollars go out that shouldn't; second, individuals who want to work are discouraged from doing so. It's time Congress takes a look at what drives overpayments. The American people want, need, and deserve nothing less."

A list of witnesses will follow. Oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, June 30, 2015**. For questions, or if you encounter technical problems, please call (202) 225-3625 or (202) 225-2610

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submit-

ters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

3. Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at <http://www.waysandmeans.house.gov/>.

Chairman JOHNSON. Thank you. This hearing will come to order and I'd like to welcome our Members today.

Since becoming chairman of the Social Security Subcommittee, I have had 14 hearings on the disability program, including the one today, which is about maintaining Disability Insurance Trust Fund's solvency, and before continuing, I see we have many individuals from the disability community in the audience today. I would like to welcome you all and thank you for coming. You know better than most that this program is not without its problems, and in fact, less than two years from today, the Disability Insurance program will not have enough money to pay full benefits.

Now, as a subcommittee, we've looked at this program from nearly every angle and I think it's fair to say this program can and must work better for people with disabilities, as well as for the hard-working American taxpayer.

A few weeks ago, Representative Cathy McMorris Rodgers and Chairman Paul Ryan met with members of the disability community, including one of our witnesses today, Mr. Phillips. I wasn't able to make that meeting, but I agree strongly with what my colleagues said. We need to have a conversation, a fact-based conversation, on how to make the program work better.

During that meeting, the idea of a commitment to you all, the disability community, came up. As a follow-up to that meeting, Chairman Ryan and I want to extend my hand to you all and offer the following commitment that I ask my colleagues on both sides of the aisle to join me in.

One, ensuring benefits continue to be paid to individuals with disabilities and their family members that rely on them; two, preventing a 20 percent across the board benefit cut; three, making the Disability Insurance program work better; and, four, promoting opportunity for those trying to return to work.

That's a common sense commitment to all Americans, and I know the devil's in the details, but I hope all my colleagues on this Subcommittee, and especially the ranking member, can join me.

Over the coming months, we're going to have plenty more conversations about the disability program and as we have these con-

versations, it's my hope that they will not be hijacked by political point scoring. The American people expect us to work together.

Today we're going to hear from our witnesses about the options to make sure benefits continue to be paid. They will discuss how Congress has addressed Social Security's finances in the past and how Social Security's finances then compare to today.

Many people have said that we have reallocated the payroll tax 11 times. While it's true Congress has shifted the payroll taxes between the two Social Security Trust Funds, it's happened only six times. Moreover, Congress has typically made changes to improve Social Security. Recently, Acting Commissioner Colvin argued for more research into the disability program before making any changes. Well, guess what? That was the same argument in 1994 as well, the last time a reallocation took place.

Now, some like to say the President's proposal to reallocate some of the payroll tax that goes for the retirement program toward the disability program is no big deal. Well, I would argue it is a big deal. The Administration just wants to kick the can down the road and offers no ideas on how to make the program work better. That's not right. Americans who have paid in to Social Security and are currently receiving benefits, as well as today's younger workers, deserve better.

This Congress should and must act to make sure that Disability Insurance benefits continue to be paid in 2016 and beyond to those who rely on them, and in doing so, we ought to make this program work better for those who depend on it.

I thank our witnesses ahead of time for being here today and look forward to hearing your testimony. I really do appreciate you.

I now recognize Ranking Member Mr. Becerra for his opening statement.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Chairman, there is but one Social Security. One single Social Security system provides birth to death protection for American workers and their families.

Just like the 168 million other Americans, I pay into Social Security with every paycheck. My paycheck doesn't have a line that says Disability Insurance and a line that says retirement or survivorship benefit insurance when I pay my contributions in to Social Security. It has one line for Social Security contributions, FICA, FICA/Social Security. My Social Security contributions, just like those of every other American worker, pay for one Social Security system that protects my family and me, along with all other workers and their families, when we need it. You can't break Social Security up into separate pieces.

When we begin our working lives, none of us knows what kind of insurance from Social Security we'll need or at what stage in our lives we'll need it. Some workers die young, leaving family to use the survivors' benefits portion of Social Security. About one in four of today's 20 year olds will become disabled before reaching retirement age and therefore, will need the disability portion of Social Security.

We also know that the risk of serious work-ending disability will rise significantly as Americans age. Americans are twice as likely to qualify for Social Security benefits because of—excuse me.

They're twice as likely to qualify for Social Security benefits because of a disability at age 50 as they are at age 40 and they're four times more likely to qualify at age 60.

These three Social Security protections—disability, retirement, and survivors' benefits—make up a seamless whole, but it seems that some in Congress are trying to segregate Social Security into separate parts, a retirement plan, life insurance, and a disability protection, but Social Security can't be ripped apart.

The 11 million Americans currently receiving Social Security Disability Insurance benefits paid for their benefits with hard work and now they rely on them, just like the other 48 million Americans who receive Social Security as well. They earned this Disability Insurance protection by paying into it every month. This isn't welfare. They earned it with every paycheck. Their benefits average about \$1,100 a month, but for these folks, it's a lifeline.

More than half of disabled workers receiving Social Security would live in poverty without their earned benefits, despite years of hard work before they became disabled, and don't forget, as we've learned in many prior subcommittee hearings, it is very hard to qualify for Social Security on the basis of a disability. The eligibility rules are very strict and only 4 of every 10 applicants are found to have impairments which are severe enough to qualify for Disability Insurance under Social Security.

Historically, Congress has treated Social Security's Trust Funds as one unified reserve. Isn't that the way everyone in America sees it, as one system? Congress has from time to time fine-tuned the Social Security contributions, going into the Trust Fund to ensure that they are equally able to pay Americans the benefits they've earned, whether disability, survivor benefits or retirement.

Congress has never before used an accounting shortfall in one part of the system to prevent earned benefits from being paid to those who earned them elsewhere. The allocation of workers' Social Security contributions has been fine-tuned by Congress for decades, 11 times to date, but it seems like this time, some are trying to rip out Social Security's earned disability protection and make it something separate or claim it is taking resources away from seniors.

This is a manufactured crisis and I urge folks to take a look at some of the—at the chart that's on the screens right now. Social Security has \$2.8 trillion available in its Trust Fund to pay full earned benefits to all recipients. The 11 million people who are facing a 20 percent benefit cut helped build up that surplus with their contributions; however, rather than reassuring all Americans that Congress will let Social Security use its worker-funded reserves to pay 100 percent of earned benefits, this year it appears that my colleagues on the Republican side have adopted an unprecedented new rule that programs in a 20 percent benefit cut for 11 million Americans receiving Social Security Disability benefits.

Americans of all ages and walks of life overwhelmingly support Social Security.

Mr. Chairman, I have a—I have here statements from AARP and the Alliance for Retired Americans who represent millions of American seniors, from Paralyzed Veterans of America, who represent disabled veterans, and from 48 other groups representing disabled Americans. All of them ask Congress to let Social Security use its

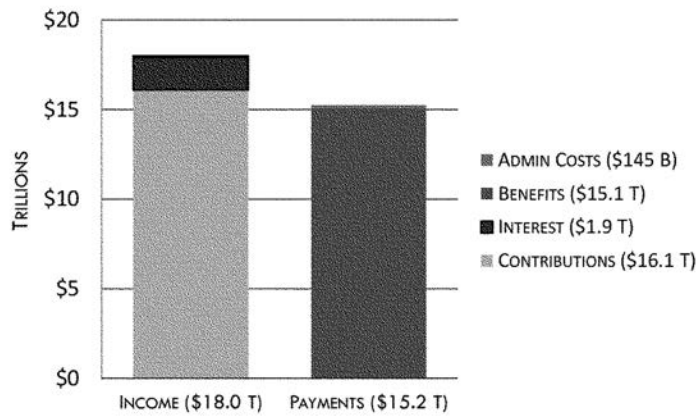
reserves to prevent benefit cuts and they express concern about using earned Social Security benefits as a bargaining chip.

Mr. Chairman, I ask you now to consent to include these statements in the record.

Chairman JOHNSON. Without objection.

[The submission of the Honorable Xavier Becerra follows:]

OVER ITS LIFETIME, SOCIAL SECURITY HAS
RAISED \$18 TRILLION AND PAID OUT \$15.2 TRILLION.



Source: [Office of the Chief Actuary, Social Security Administration](#)

Note: Totals are from inception of Social Security in 1935 through the end of calendar year 2014.

Prepared by the Democratic Staff of the Committee on Ways and Means
Representative Xavier Becerra, Ranking Member, Subcommittee on Social Security



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February 25, 2015

The Honorable Sam Johnson
 Chairman
 Subcommittee on Social Security
 US House Committee on Ways and Means
 Washington, D.C. 20515

The Honorable Xavier Becerra
 Ranking Member
 Subcommittee on Social Security
 US House Committee on Ways and Means
 Washington, D.C. 20515

Dear Chairman Johnson and Ranking Member Becerra:

As the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families, we write in advance of the Committee's hearing on the Social Security Disability Insurance program (SSDI) to express our support for Social Security, including its disability insurance component, and our support for rebalancing the assets of the Social Security trust funds to ensure the earned benefits of 11 million disabled Americans and their families are not reduced or put at risk.

AARP recognizes the need to address the long-term funding shortfall facing Social Security, and we stand ready to engage with Congress, our members and other Americans on ways to strengthen Social Security now and in the future. But, we also recognize that, due to an anticipated shortfall in the SSDI Trust Fund, SSDI beneficiaries are at risk of significant benefit cuts as soon as 2016. This is of particular concern to older workers who are most likely to rely more heavily on SSDI than younger workers, in part because of higher rates of chronic illness and disability at older ages. In fact, 7 out of 10 SSDI recipients are over age 50.

Rebalancing assets among the Trust Funds has been commonly used to prevent such cuts, and it has no impact on the long term solvency of the overall Social Security program. Moreover, rebalancing assets in some manner is the only option available that can prevent benefit reductions in 2016.



Income support in the event of a disability is a critical lifeline for millions of American families. Congress wisely added disability insurance protection to the Social Security system in 1956, under President Eisenhower, and has since modified and improved the program many times. It should be noted that since the creation of the SSDI program in 1956, the United States workforce has more than doubled from 62 million to over 165 million workers, and women today represent half of the workforce and almost half of the SSDI beneficiaries. Less than 6% of the workforce is receiving SSDI, which is consistent with expected rates of disability in the population generally.

By law, Social Security maintains two trust funds -- the Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) trust funds - and they operate independently. Congress has faced shortfalls in both the OASI and DI trust funds many times in the past and shifted revenues between the two trusts. Most recently, in 1994, Congress rebalanced the allocation of Social Security payroll taxes between the OASI trust and the DI trust, based on the Social Security Administration's estimates that rebalancing would adequately fund SSDI benefits for approximately 20 years. Congress forecast accurately, as the Social Security Trustees estimate that the payroll taxes allocated to the Disability Insurance trust fund will cease being adequate to pay full benefits in late 2016. After that, according to the Social Security Actuaries as of 2014, "[p]rojected revenue from non-interest income specified for the DI program is sufficient to support 80 percent of program cost after trust fund depletion in 2016, increasing slightly to 81% of program cost in 2087." The Trustees most recent letter to OMB Director Shaun Donovan dated February 5, 2015, re-stated and did not change these projections. Congressional Budget Office maintains similar projections.

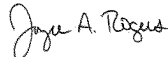
Many experts, including the CBO, have estimated the shortfall is largely due to: 1) general population growth, 2) women's entrance into the labor force and consequent eligibility for SSDI benefits, 3) the increase in the Social Security normal retirement age from 65 to 67, and 4) the aging of the Baby Boom population leading to a higher percentage of older people vulnerable to illness and disability.

One of the most significant challenges facing the SSDI program is the unacceptably long delay in processing applications of disabled workers who have earned the right to their benefits. A large and growing backlog both at the initial claims and appeals level has caused lengthy delays and imposes severe hardships on disabled workers and their families. AARP repeatedly warned the Congress over the past few years that SSA was not receiving funding adequate to meet the increased demand in the administrative workload or to maintain progress on many problems in the processing of disability claims that have existed for many years. We also recognize that enhanced program integrity efforts can improve both initial eligibility approvals and continuing disability reviews. AARP has been among the staunchest advocates requesting program integrity funding; we regret that in recent years that the program has been funded below the levels authorized in the Budget Control Act, reducing the Social Security Administration's ability to maximize integrity efforts.

We believe SSDI program reforms and improvements can be identified that would both improve the fairness of the process for disabled claimants and encourage greater work participation for those who have limited ability to work. We support and will continue to urge that Congress provide adequate resources for the Social Security Administration to conduct timely initial determinations, appeals and continuing disability reviews. But, the highest priority in the near term is to ensure that SSDI beneficiaries -- most of whom are older Americans -- are not put at risk of a 20% benefit cut in the very near future. To prevent any imminent reductions in SSDI benefits, we urge you to rebalance the allocation of Social Security payroll taxes between the OASI trust and the DI trust, as Congress has done with success in the past.

Because of SSDI, millions of disabled Americans are able to live their lives with dignity and support their families. We look forward to continuing to work with you and the other members of the Committee to ensure that all aspects of the Social Security program remain strong for future generations of American workers and their families. If you have any questions, please feel free to call me, or have your staff contact Michele Varnhagen, Senior Legislative Representative, at 202-434-3829.

Sincerely,



Joyce Rogers
Senior Vice President
Government Affairs

cc: The Honorable Paul Ryan, Chairman, Committee on Ways and Means
The Honorable Sander Levin, Ranking Member, Committee on Ways and Means



Statement of Richard Fiesta, Executive Director, Alliance for Retired Americans

The Alliance for Retired Americans, an organization of more than 4.3 million members, strongly opposes any effort to prevent reallocation of the Social Security Trust Funds. Social Security benefits are earned benefits that ensure all Americans will have a modest income available to them when they retire or in the event that a disability prevents them from working. Our members are united in opposition to efforts that pit one group of beneficiaries against another and are committed to fighting to ensure that these earned benefits are there for all Americans when they need them.

February 25, 2015

The Alliance for Retired Americans is a national organization that advocates for the rights and well-being of over 4.3 million retirees and their families.
www.retiredamericans.org



**Paralyzed Veterans
of America**

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Chartered by the Congress of the United States

Statement for the Record
Of
Paralyzed Veterans of America
To the
House Ways and Means Committee
Subcommittee on Social Security
Concerning the Social Security Trust Fund

February 25, 2015

Paralyzed Veterans of America (PVA) appreciates the opportunity to share with the Subcommittee on Social Security this statement to its hearing on maintaining the disability insurance trust fund's solvency. PVA is the only Congressionally-chartered veterans' service organization devoted solely to representing veterans with spinal cord injury and/or dysfunction. Since 1947, PVA has been a strong advocate for programs and services affecting the quality of life of its members. PVA represents millions of Americans for whom Social Security is a foundation of their economic security.

According to the Social Security Administration, there are about 9.4 million military veterans receiving Social Security benefits. This means that nearly one out of every four adult Social Security beneficiaries has served in the United States military. Millions of men and women who raised their right hand and took the oath to protect democracy also paid into a system that promised them financial support upon reaching retirement age or becoming too disabled to work. Most of these veterans are over age 62 and had served during the Vietnam War or earlier. They served their country and upheld their part of the deal; now it seems our government's part of the transaction may have been written with disappearing ink.

In a rules change adopted on the opening of the 114th Congress, the House of Representatives created new hurdles to fixing the Social Security system and exposed disability insurance benefits to the possibility of a 20 percent reduction in 2016. More than ten times since 1968, it has been necessary for Congress to

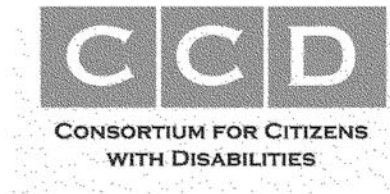
adjust the formula allocating payroll taxes between the Old Age, Survivors and Disability Insurance trust funds to keep the overall Social Security system in balance. This has always been done in a bipartisan manner and has kept America's promise to veterans receiving Social Security benefits while sustaining the system for decades. If this simple rebalancing is used again to put the entire Social Security program on an equal footing, benefits will remain payable at least until year 2033. This would provide time for a thorough, thoughtful and much needed discussion about the future of the overall Social Security system, including both solvency and benefit adequacy. Without this reallocation, Social Security disability insurance benefits face the aforementioned 20 percent cut in 2016. However, the House leadership has created a Hobson's choice with its adoption of a rule that states: "We will prevent the 20 percent cut in disability benefits but only if we cut benefits or raise revenues." And the likelihood of the latter action occurring going into the 2016 election year is minimal.

With the country still recovering from an era that saw the terrorist attacks on September 11, 2001 followed by the longest war in its 235-year history, PVA would assume that any benefits that accrue to our nation's veterans, particularly the most vulnerable, are worthy of preservation. Those who volunteer to serve in our military have a right to expect that those Americans they protect will, in turn, afford them some semblance of protection when they need it. Otherwise, military service will not seem as attractive a career option. In World War II, 11.2 percent of the nation served during the four years of war. In Vietnam, 4.3 percent served during the 12 years of war. Since 2001, only 0.45 percent of the American population has served in the wars in Iraq and Afghanistan. Eroding the safety net to which service members contributed is no way to ensure an adequate fighting force for future conflicts.

By rebalancing the Social Security Trust Funds using a simple adjustment in the amount of payroll taxes going into the retirement and survivors and disability trust funds, and doing so without any new taxes or cuts in benefits, Congress can ensure the stability of the system for the next 18 years and the readiness of our military by making service an attractive career option. But if Congress stays on its present course, we may get neither.

We urge Congress to adopt a clean reallocation of payroll taxes between the two Social Security trust funds to avoid a 20 percent reduction in disability benefits in 2016.

We thank you for the opportunity to offer our views for the record and we would be happy to answer any questions the Committee may have.



**Statement for the Record
U.S. House of Representatives
Committee on Ways and Means, Subcommittee on Social Security
Hearing on "Maintaining the Disability Insurance Trust Fund's Solvency"
Wednesday, February 25, 2015**

The undersigned members of the Consortium for Citizens with Disabilities (CCD) submit the following statement for the record of the February 25, 2015 hearing held by the U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Social Security, on "Maintaining the Disability Insurance Trust Fund's Solvency".

The CCD is a coalition of national organizations working together to advocate for federal public policy that ensures the self-determination, independence, empowerment, integration, and inclusion of the approximately 57 million children and adults with disabilities in all aspects of society. SSDI's modest but vital assistance supports these goals for approximately 11 million Americans, helping beneficiaries with disabilities and their families to meet their everyday needs -- keeping a roof over their heads, putting food on the table, paying for out-of-pocket medical and disability-related expenses, and meeting other basic living expenses.

Congress has known for the last two decades that Social Security's Disability Insurance (DI) fund will need to be replenished by 2016. The need for action now is no surprise, but stems from long-term demographic trends including an aging workforce now in its disability-prone years, and an increase in work by women that has led to an increase in women's eligibility for Social Security including SSDI based on their own work records.

Reallocation will ensure that SSDI is available to both current and future beneficiaries, including the 7 in 10 SSDI beneficiaries who are age 50 and older. SSDI benefits average just \$38 per day for workers with disabilities. Benefits make up the majority of income for 4 out of 5 beneficiaries and provide the sole source of income for 1 in 3 beneficiaries. The impact of any reduction in benefits could be truly devastating.

Congress needs to act expeditiously, as it has done many times in the past, to reallocate existing payroll taxes between Social Security's DI and Old-Age and Survivors' Insurance (OASI) funds. As outlined by Social Security's actuaries, both trust funds would be able to pay full scheduled benefits through 2033 by temporarily raising the 1.8 percent DI share of the current 12.4 percent Social Security payroll contribution to 2.8 percent in 2015 and 2016, and then gradually reducing it back to 1.8 percent by 2025. Congress has reallocated between Social Security's funds in this manner about

equally in both directions to keep the system on an even reserve ratio -- 6 times using a narrow definition of reallocation, and 11 times using a broader definition of reallocation. Reallocation does not require any new taxes and will maintain the long-term solvency of the combined Social Security trust funds at 2033, as currently projected.

Reallocation -- without accompanying cuts to Social Security coverage, eligibility, or benefits -- is the common sense, responsible solution that Congress should enact promptly. Such a reallocation is needed to keep Social Security's promise to the more than 165 million Americans who currently contribute to the system and the nearly 11 million Americans who currently receive SSDI benefits.

Maintaining our Social Security system goes far beyond dollars and cents. It is about strengthening economic security and dignity for all Americans. Consideration of any changes to this vital system must include the voices and views of people with disabilities as well as all Americans who may need SSDI in the future.

Sincerely,

ACCSES
 American Academy of Pediatrics
 American Association of People with Disabilities (AAPD)
 American Association on Health and Disability
 American Foundation for the Blind (AFB)
 American Network for Community Options and Resources
 Association of Assistive Technology Act Programs
 Association of Jewish Family & Children's Agencies
 Association of University Centers on Disabilities (AUCD)
 Attention Deficit Disorder Association
 Autism National Committee (AutCom)
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National Association of State Head Injury Administrators
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 National Council on Independent Living
 National Disability Rights Network
 National Down Syndrome Congress
 National Health Law Program
 National Industries for the Blind
 National Multiple Sclerosis Society
 National Organization of Social Security Claimants' Representatives
 National Respite Coalition
 National Senior Citizens Law Center
 Paralyzed Veterans of America
 SourceAmerica
 Special Needs Alliance
 The Arc of the United States
 United Cerebral Palsy
 United Spinal Association

Mr. BECERRA. Over the long term, Mr. Chairman, Social Security does face a challenge, but it's a manageable one, one I look forward to addressing on a bipartisan basis, keeping in mind the vital role Social Security plays in every American's life, but the first step is to let Social Security use its own money, the money workers

have contributed, to pay Americans the full benefits they need and that they have earned.

And with that, Mr. Chairman, I look forward to the testimony of our witnesses.

Chairman JOHNSON. Thank you.

That was a nice statement. I happen not to agree with you, you know that.

[Laughter]

Mr. BECERRA. I think I was aware of that, Mr. Chairman.

Chairman JOHNSON. As is customary, any member is welcome to submit a statement for the hearing record. Before we move on to our testimony today, I want to remind our witnesses to please limit your oral statements to five minutes. However, without objection, all of the written testimony will be made part of the hearing record.

We have one witness panel today. Seated at the table are Charles Blahous, Ph.D., Public Trustee, Social Security and Medicare Board of Trustees; Ed Lorenzen, Senior Advisor, Committee for a Responsible Federal Budget; Webster Phillips, Senior Legislative Representative, National Committee to Preserve Social Security and Medicare.

And with that, Dr. Blahous, welcome, and thank you for appearing this afternoon. You may proceed.

**STATEMENT OF CHARLES BLAHOUS, PH.D., PUBLIC TRUSTEE,
SOCIAL SECURITY AND MEDICARE BOARD OF TRUSTEES**

Mr. BLAHOUS. Thank you, Mr. Chairman, Mr. Ranking Member, all the Members of the Subcommittee. It is, as always, an honor to appear before the subcommittee, in this case to discuss the financing challenges facing Social Security's Disability Insurance Trust Fund.

If I could, I'd like to issue a brief disclaimer before I begin the main points from my written testimony. As trustees, there are certain things that we deal with and certain things that we don't tend to. Generally, as trustees, we make big picture financial projections for the Trust Funds as a whole. We don't typically analyze alternatives to current law or the policy details of the programs. So I can offer the trustees' projections and some of the history of those projections and statements, but there are no trustees' positions with respect to policy alternatives.

The first point that I would like to make is simply that under our current projections, we are anticipating a financing shortfall in the Disability Insurance Trust Fund, a substantial one, and one that is now nearly immediate. In our last report, we projected that the Fund's reserves would be depleted in the fourth quarter of 2016, at which point the program would only have sufficient revenues to make about 81 percent of scheduled benefit payments, and obviously that date could move a few weeks in either direction, but as we closer to it, it's clear that it's coming very quickly.

Second point is that—and the member statements have already alluded to this—there are certainly issues that are unique to Disability Insurance that many are concerned with, but the biggest problem that the Disability Insurance Trust Fund faces is simply that the entirety of Social Security is out of financial balance, and,

in fact, the actuarial balance in the other Social Security Trust Fund, the Old-Age and Survivors Fund, is actually somewhat later in both absolute and relative terms, and this is relevant today because it means that if Social Security were in actuarial balance today as a whole, we wouldn't need to have a larger share of the payroll tax going to the Disability Insurance Trust Fund.

The main reason that DI is hitting the wall before the Old-Age and Survivors Fund is that the boomers are moving through they have moved through their ages of peak disability incidence before they reach retirement age, and so those pressures are in the process of shifting from the DI Trust Fund to the OASI Trust Fund.

And the third point I'd make is simply that delay in dealing with the larger financing problem is dangerous and this is a point that the trustees' reports have made for the last several years. We always include various illustrations to make this point in each report, but, basically, if we were to take the path of least resistance and just sort of shuffle the accounts around until 2033 and try to act then, it would be too late. By that point, there would be no practical likelihood of being able to fix the shortfall. So anything that has the effect of further delaying the necessary financing corrections is inimical to the interest of the program and its participants.

One example that we give in last year's report is that if you imagine a solution enacted today where we hold current beneficiaries harmless and ask how much would you have to reduce scheduled benefits for people newly coming into the system in order to balance the system's finances and the answer is about 21 percent, which is unpleasant but mathematically doable, but if you tried to do the same thing in 2033, at that point even a 100 percent reduction in benefits for people newly coming onto the rolls would be insufficient to right program finances. So, at that point, it's really too late to fix the shortfall, and so early action is definitely important.

The last point that I would make is simply that it would be a fairly significant break with past practice to have a tax rate reallocation between the Trust Funds without some type of action improving Social Security's overall financing outlook.

Now, obviously, as lawmakers, you're well within your rights to act however you choose, according to whatever rationale you choose, whether it's in keeping with past practice or not, but I think it's important to be aware of not only the adverse substantive implications of further delaying financing corrections, but also just some of the history of how we got here.

Generally speaking, there have been a number of tax rate reallocations throughout Social Security's history. Pre-1972 they tended to be accompanying other benefit increases that were being legislated and the tax rate reallocations reflected the changed expectations of benefits, and then in '77 and 1983, there were tax rate reallocations to reflect the financing corrections that had been enacted in the program as a whole.

What happened in 1994, and I realize I'm running out of time, but in 1994 we had something happen that was fairly unusual. We had a situation where the disability costs had been rising in the late 1980s and early 1990s and there was a view that there wasn't

sufficient information to inform a comprehensive solution at that time. So the trustees came before Congress and basically said we recommend a two-pronged approach. In the near term, reallocate the taxes in order to meet the trustees' short-term solvency test, and also follow-up with more comprehensive reform. And after the taxes were reallocated, the next trustees' message reiterated, "While the Congress acted this past year to restore the short-term financial balance, this necessary action should be viewed as only providing time and opportunity to design and implement substantive reforms that can lead to long-term financial stability," et cetera. "We hope, et cetera, that the Congress will take action over the next few years to make this program financially stable over the long term."

Now, we know that the second half of that didn't happen and now it's 2015 and we're very close to the wall, and it's clear that at this point, there's not enough time to have substantive reforms that would avert Trust Fund reserve depletion without some source of additional revenues to the Disability Insurance Trust Fund. So it seems we're going to have that as at least part of our answer, but what I think both the history and the current projections tell us is that generally speaking, Social Security finances have been sustained to date because lawmakers have stepped up and made some difficult choices. They've raised revenues or slowed cost growth stats whenever they've been confronted with a projection of imminent Trust Fund depletion.

To break with that precedent and to shift funds between the Trust Funds without similar financing improvements could render it more difficult to repair Social Security finances in the future.

Thank you.

Chairman JOHNSON. Thank you.

You know, do you have a solution?

[Laughter]

Mr. BLAHOUS. Well, two-part answer. One is the trustees as a group do not have a position on what's the optimal solution, and, the stat trustees put forth what's called a Section 709 letter that lays out the range of options in terms of an all tax solution, an all benefit restraint solution and combinations between.

You know, all six trustees probably have their own personal views and I'd be happy to respond particularly just to how I would approach the problem, but the trustees as a group do not have a position.

Chairman JOHNSON. Are they all different?

Mr. BLAHOUS. I think there's probably more common ground than is usually supposed. I think there's actually a tremendous amount of common ground between I think different trustees as to how they'd approach the problem.

Chairman JOHNSON. Well, that's good to know. Thank you for your testimony.

[The prepared statement of Mr. Charles Blahous:]

Statement of Charles P. Blahous
Public Trustee for Social Security Trust Funds¹
Before the Subcommittee on Social Security
of the U.S. House of Representatives Committee on Ways and Means
February 25, 2015

Thank you, Chairman Johnson, Ranking Member Becerra, and all of the members of the subcommittee. It is as always an honor to appear before you to discuss the financing challenges facing Social Security's Disability Insurance (DI) trust fund.

The Role of the Social Security Trustees in Developing Financial Projections

The Social Security Act provides for a Board of six program trustees, of whom four are *ex officio* trustees serving by virtue of their Executive Branch positions. These include the Secretary of the Treasury, who serves as the Managing Trustee; the Secretary of Health and Human Services; the Secretary of Labor; and the Social Security Commissioner (or those who are acting in these capacities). Two members of the public (I am one; Robert D. Reischauer is the other) also serve as trustees. The public trustee positions were created in the 1983 program amendments.

The Social Security Act requires, among other duties, that the trustees report annually on the "operation and status of the Trust Funds" and specifies certain material that the annual reports must contain, including estimates of income to and disbursements from the trust funds as well as a statement on their "actuarial status." Section 201(c) of the Act also requires that the report include an analysis of benefit disbursements from the Old-Age and Survivors Insurance (OASI) trust fund with respect to disabled beneficiaries, which appeared in the 2014 annual report beginning on page 216. Section 709 of the Act further requires that if the trustees determine that the "balance ratio of any such Trust Fund . . . may become less than 20 percent," they must provide a report to Congress that specifies, among other things, "the extent to which benefits would have to be reduced, taxes under Section 1401, 3101, or 3111 of the Internal Revenue Code of 1954 would have to be increased, or a combination thereof" to maintain the balance ratio at "not less than 20 percent." The term "balance ratio" refers to the ratio between the trust fund balance at the start of a calendar year to the total expenditures expected from the trust fund during that year. Because the trustees made such a finding in 2014, we issued a section 709 letter last July 28, as we have done in each of the last five years.

¹ I am also a senior research fellow with the Mercatus Center at George Mason University and a research fellow with the Hoover Institution at Stanford University.

Because the trustees' statutory duties focus on projections under current-law benefit and revenue schedules, we do not typically analyze or discuss the merits and demerits of reform alternatives during our deliberations. Accordingly, my testimony focuses on the trustees' current projections for the DI trust fund, and on trustees' statements with respect to the importance of timely financing corrections. This testimony does not address related policy issues in the DI program on which the trustees have taken no position.

Some Basics of DI and OASI Operations

Although it has become customary in many contexts to refer to the finances of the Social Security trust funds as a theoretical combination, under law Social Security has two separate trust funds: the Old-Age and Survivors Insurance (OASI) trust fund, and the DI trust fund. By law each of these separately must have a positive balance to permit benefit payments. Of the total current-law Social Security payroll tax of 12.4% on worker wages, 10.6 points are allocated to the OASI trust fund and 1.8 points to the DI trust fund. Approximately 11 million people receive benefit payments from the DI trust fund, the vast majority of which (93%) go to disabled workers, with lesser amounts distributed to spouses and children.

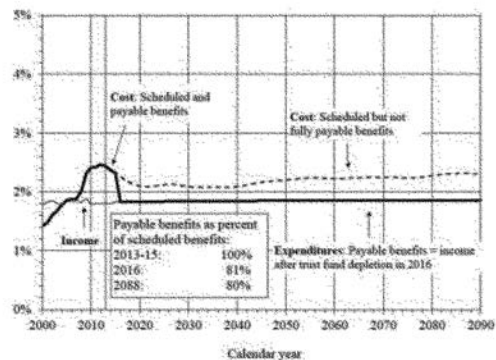
The old-age and disability components of the Social Security program are closely integrated. For example, benefit levels under each are determined using the same basic formula for calculating the "primary insurance amount," or PIA. The PIA is a function of the worker's average wages subject to the Social Security tax, and determines the benefit level payable at retirement age, as it does the benefit level payable through disability insurance. Note that this coordination permits a smooth transition without discontinuities when a disabled individual attains retirement age and his benefit payments shift from the DI trust fund to the OASI trust fund.

Current Projections for the DI Trust Fund

In calendar year 2014, the DI trust fund received roughly \$114.9 billion in revenues, of which roughly \$109.7 billion represented payroll tax contributions, roughly \$3.4 billion interest on the trust fund paid from the government's general fund, and roughly \$1.7 billion deriving from the income taxation of benefits. There were roughly \$145.1 billion in expenditures from the DI trust fund in 2014, of which \$141.7 billion were benefit payments, \$2.9 billion administrative expenses and \$0.4 billion transfers to the Railroad Retirement program. These expenditures, when netted against revenues, caused trust fund reserves to decline from \$90.4 billion at the start of 2014 to \$60.2 billion at year's end.

These figures are relatively close to projections in the 2014 trustees' report. At the time the report was released, we were projecting that DI trust fund reserves would equal roughly \$58.2 billion by the end of 2014, for a so-called "trust fund ratio" of 62. As described above, the trust fund ratio is one hundred times the ratio of the trust fund's reserves to expected expenditures during the following year. Thus, there are now sufficient reserves in the DI trust fund only to finance a little more than half a year's worth of benefits in the absence of other tax revenue. Combining projections for annual revenues, annual expenditures, and carry-over trust fund balances, the 2014 report projected that DI trust fund reserves would be depleted in the fourth quarter of 2016. At that point there would only be sufficient revenue to finance roughly 81% of scheduled benefits.

Figure 1: Projected DI Income, Cost and Expenditures
(As a Percentage of Taxable Worker Wages)



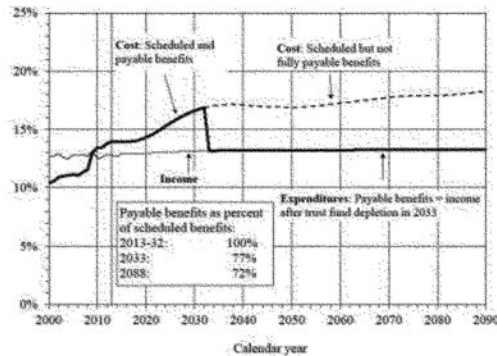
As with the old-age component of Social Security, the shortfall in the DI trust fund is arising because costs have grown faster than the program's revenue base of taxable worker wages. In 1990, the cost of paying DI benefits equaled 1.09% of taxable worker wages. Last year the relative cost was more than double that, at 2.37% of the tax base. Testimony before this subcommittee by the Social Security Chief Actuary in 2013 identified four "cost drivers" in the disability program. These four factors were the increase in the total working-age (i.e., potentially disability-eligible) population, the changing age distribution of the working-age population, the increase in the number of working-age individuals insured for disability benefits, and the increase in disability prevalence among insured workers even after adjusting for age and sex. Of these four factors, the first two are largely symptomatic of the large baby boom generation moving through working-age years and specifically through the ages of peak disability incidence; the third factor largely reflects the increased participation of women in paid employment, and the fourth factor primarily reflects policy changes since the 1980s affecting the frequency of disability benefit awards.

The Chief Actuary's testimony, as well as Figure 1, also notes that economic recessions are typically associated with increases in disability applications and awards, which was certainly true of the recent Great Recession, during which disability costs rose suddenly from 1.88% of the program's tax base in 2007 to 2.41% by 2010.

There clearly are policy issues unique to Social Security DI, ranging from the appropriateness and uniformity of disability award standards, to the adequacy of continuing disability reviews, facilitation of reattachment to the workforce, and benefit termination frequencies. But at the same time it is clear that the financial strains facing Social Security are not unique to or even concentrated on DI. To the contrary, the long-range shortfall in Social Security's OASI trust fund is larger than DI's, both in absolute terms (2.55% of taxable payroll vs. 0.33%) as well as relative to each side's revenues and costs. This is relevant to today's discussion insofar as it suggests that if both OASI and DI were kept in appropriate actuarial balance, DI would not warrant a higher share of the total payroll tax than it currently receives. The primary reason that DI is currently facing an earlier reserve depletion date than OASI is that the entirety of Social Security has been permitted to develop a significant financial imbalance, coupled with the fact that the large baby boom generation has been passing through their ages of peak disability incidence before hitting retirement age.

With the baby boomers aging into their retirement years, we are now in the process of financial pressures shifting from the DI trust fund to the OASI trust fund. This can be seen by comparing Figure 1, showing that DI costs are projected to decline in a relative sense from now through the 2030s, to Figure 2, showing total Social Security costs growing through the 2030s and beyond.

Figure 2: Projected Total Social Security Cost, Income and Expenditures
(Theoretical Combined Trust Funds, as a Percentage of Taxable Worker Wages)



The Importance of Timely Action to Restore Financial Balance

Closing Social Security's financial imbalance will require some combination of cost growth reductions and revenue increases. The trustees do not take a position on the optimal balance between these. Instead the trustees' reports quantify the magnitudes of corrections required under current projections, in addition to providing illustrations of how the choices facing lawmakers grow more difficult with time. For several years, including reports signed by dozens of different trustees, the annual reports have explained that prompt action to address the financial imbalance is in the best interest of those who depend on Social Security, and that the program's future is made less certain by continued delay in enacting necessary substantive reforms. This principle applies with equal force to DI separately, OASI separately, or the OASDI trust funds in combination. From a policy perspective, the ideal course would be comprehensive action to shore up the entirety of Social Security finances at the earliest possible time. However, it may be that lawmakers can only find agreement to enact lesser measures in the near term. An important overriding principle is that any action having the effect of facilitating further delays in necessary substantive reforms is not in the interest of program participants.

The trustees' reports routinely contain both verbal explanations and qualitative illustrations pursuant to this important point. For example in our 2014 annual message, the six trustees wrote that "legislative changes are necessary to avoid disruptive consequences for beneficiaries and taxpayers," and that "earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits." The summary of the 2014 annual reports connects this principle to the question of whether funds should be reallocated between the OASI and DI trust funds, expressing concern that a standalone reallocation "might serve to delay DI reforms and much needed financial corrections for OASDI as a whole. However, enactment of a more permanent solution could include a tax reallocation in the short run." In general the trustees' communications to Congress stress that while some interfund shifting of resources might be necessary to stave off depletion of the DI trust fund in the short term, this should not be done in a way that makes more likely continued delay in enacting necessary financing corrections for the whole of OASDI.

The annual trustees' reports include numerical illustrations of the costs and risks associated with further delaying financing corrections. For example, assume that lawmakers wished to hold all current OASDI beneficiaries harmless in the course of repairing Social Security finances and, for the sake of illustration, assume that taxes are held constant as well. Within these constraints, OASDI as a whole could be put in financial balance today by a reduction of 20.8 percent in scheduled benefits for those initially eligible in 2014 or later. If on the other hand such action were deferred until 2033 (the currently projected date of theoretical combined OASDI trust fund depletion), even 100-percent reductions for those newly eligible for benefits would be insufficient to repair program finances. As the trustees' report states, such "strategies for achieving solvency would not be feasible if delayed until (combined) trust fund depletion in 2033."

This is important because if action on Social Security solvency is deferred until close to 2033, it thus becomes extremely unlikely that lawmakers will ever be able to restore financial balance, virtually forcing an abandonment of the program's historical financing structure that has in the main served the public well for three-quarters of a century. Already, Social Security's total financing shortfall is substantially larger than that closed in the landmark 1983 program reforms. Those reforms were enacted with tremendous difficulty and included a six-month delay in COLAs, a retirement age increase, exposure of benefits to taxation for the first time, covering newly-hired federal workers, and accelerating a previously enacted payroll tax increase, among other measures. Reforms enacted today would need to be roughly twice as severe and if delayed until 2033 would need to be much larger still. For practical purposes the window of opportunity to preserve Social Security's historical financing structure will close long before 2033, and might well be closing soon or even now.

The Historical Basis for the Current Tax Allocation between OASI and DI

As a general rule, reallocations of the tax rates financing the two trust funds have taken place in the context of comprehensive legislation with a significant impact on Social Security's financing outlook, or anticipating the passage of such legislation. Before automatic Social Security benefit indexing was introduced in 1972, there was sporadic legislation to increase benefits *ad hoc*, with some of these amendments including reallocations of tax rates between the trust funds to reflect changed expectations of expenditures under new benefit formulae. Examples include the benefit increases enacted in 1967, 1969, and 1972, as well as a post-indexation benefit increase enacted in 1973. Reallocations of taxes also occurred in 1977 and 1983, in the context of legislation enacting major corrections to Social Security's financing imbalance. DI amendments were also enacted in 1980 with the aim of controlling the growth of program costs, after which taxes were reallocated to reflect these updated policies. The current allocation of payroll taxes between the OASI and DI trust funds was enacted in 1994 in anticipation of the passage of legislation to reform the DI program, as the remainder of my testimony will document.

The 1994 reallocation was enacted with the express intent of providing lawmakers a considered opportunity to enact significant reforms to control the growth of DI costs and improve the program's financial stability. By 1994, DI program costs had grown far beyond projections at the time of the last major Social Security financing reforms in 1983, and were threatening to deplete the DI trust fund. The allocation of taxes between OASI and DI in the 1983 amendments was appropriate at that time given respective OASI and DI cost projections. For example, the 1983 report projected that under the trustees' "II-B" assumptions (those used for the development of the 1983 amendments), DI and OASI would both receive sufficient revenues to maintain long-range actuarial balance, separately and in combination. Indeed, under 1983 assumptions the long-range trust fund ratios for DI were somewhat better than for the OASI fund.

DI costs in the late 1980s and early 1990s, however, were significantly higher than projected in 1983. By 1994, program costs as a percentage of worker wages were over 40% higher than had

been predicted in the 1983 report. The reasons for this unanticipated cost increase were various, and importantly were not fully understood at the time of the 1994 payroll tax reallocation. One important factor was certainly 1984 DI legislation, which in the words of David Autor and Mark Duggan, “profoundly altered the disability determination system, yielding a broader definition of disability.” The SSA office of policy has also theorized that a “major outreach program” instituted by SSA in 1990 “probably contributed. . . to an increase in current beneficiaries (that is, persons eligible for disability benefits under both Social Security and SSI) in the early 1990s.” A recession in the early 1990s also likely contributed to an increase in disability benefit applications. Additionally there were the long-term drivers of DI program growth cited earlier in this testimony. Irrespective of the reasons, however, DI costs had grown far faster than anticipated by the early 1990s, necessitating a legislative response at a time of incomplete information. The situation in 1994 was thus very different from today both substantively and in terms of informational preparedness; in 1994, the impending depletion of the DI trust fund had not been long anticipated and there had not been time to prepare comprehensive reforms in response. By contrast, the now-arriving shortfall has long been anticipated, and more than twenty years have elapsed to allow the enactment of the substantive DI reforms the 1994 reallocation was intended to facilitate.

By the time of the 1993 trustees’ report, the projected depletion of the DI trust fund was just two years away in 1995. In their 1993 annual message, the Board of Trustees together recommended that lawmakers reallocate to the DI fund “a larger share of the overall OASDI tax rate.” However, the body of the 2013 report stated that the public trustees “did not consider it appropriate to participate with the *ex officio* trustees in the analysis of the DI program experience or the development of specific legislative recommendations.” The report did indicate that the public trustees “concurred” in both recommendations for “a tax rate reallocation” and for “the best possible research to assist policymakers in formulating solutions to the projected long-range DI deficit.” In their separate 1993 message, the public trustees again recommended that “additional research be undertaken on a priority basis to better understand the reasons for the recent adverse financial experience of the DI program and likely longer range demands in our society for disability insurance benefits.”

This subcommittee held a hearing on the trustees’ recommendations on April 22, 1993. For that hearing, public trustees Stanford Ross and David Walker submitted a statement reiterating their reasons for not participating in the development of the *ex officio* trustees’ proposals, while also reiterating that they “concurred” in the recommendations both to reallocate payroll taxes in the near term and to conduct research “to assist policymakers in formulating solutions to the projected long-range DI deficit.” The proposed tax reallocation, they stated, was intended to enable the DI trust fund to meet the trustees’ 10-year test of “short-run financial adequacy.” The trustees’ reason for such a reallocation was stated as follows:

“The Board recommended a reallocation designed only to meet the short-term needs of the DI Trust Fund, in part because it is not clear whether the dramatic increase in the number of workers applying for the Disability Insurance benefits that began in 1990 is a temporary phenomenon or a longer term, more permanent trend. . . . The Board of Trustees

recommended in December and reaffirmed when we met this month the need for the best possible research regarding likely future disability experience. . . . Until this work is completed, there is, in our judgment, insufficient information to design specific proposals for the long term. . . . the proposed reallocation for the short term will provide the time and opportunity to prepare and enact any needed changes in a careful and orderly manner.”

In other words, the purpose of the trustees’ recommendation that taxes be reallocated was not as a DI solution in and of itself, and still less to establish the precedent of using additional tax reallocations to bypass the necessity of comprehensive financing corrections; it was, rather, recommended specifically to facilitate such comprehensive reforms. Public trustee Stanford Ross accentuated this point repeatedly in his 1993 appearance before this subcommittee, stating that “it is fundamental that the administration of the DI program needs to be improved,” and later that “the prudent thing would be to meet short-term solvency so that both funds meet the 10-year test, and then to work on the long-term problems of both funds.”

At the time the trustees’ 1994 report was released, legislation to address the impending DI shortfall had still not been enacted. In their message to the public, the public trustees reiterated their call for action:

“The 1994 Report continues to project that the DI fund will be exhausted in 1995. Therefore, we again strongly urge that action be taken as soon as possible to ensure the short-range financial solvency of the DI trust fund. We also strongly urge the prompt completion of the research efforts undertaken by the Administration at the Board’s request. This research may assist the Congress as it considers the causes of the rapid growth in disability costs and addresses, as necessary, any substantive changes needed in the program. Disability Insurance under Social Security is nearly 40 years old. While some reforms have taken place over the years, the public is entitled to a thorough policy review of the program. The recent dramatic growth suggests the possibility of larger underlying issues related to the health and employment circumstances of workers and the need for responsive adjustments in the program.”

Perhaps the most important trustee statements with respect to the intent of the 1994 tax reallocation were made after its enactment. Rather than treating reallocation as itself a solution to DI’s financing challenges, the trustees used their 1995 message to reiterate the need for comprehensive action. In that 1995 message, the Board of Trustees stated:

“The Board believes that the long-range deficit of the DI Trust Fund should be addressed. The Advisory Council on Social Security currently also is studying the financing of the DI program and is expected to recommend later this year ways to achieve long-range actuarial balance in the DI fund.”

In their separate 1995 message, the public trustees were more explicit that the 1994 tax reallocation was only the first step in the intended reform process:

“While the Congress acted this past year to restore its (DI’s) short-term financial balance, this necessary action should be viewed as only providing time and opportunity to design and implement substantive reforms that can lead to long-term financial stability. The research undertaken at the request of the Board of Trustees, and particularly of the Public Trustees, shows that there are serious design and administrative problems with the DI program. Changes in our society, the workforce and our economy suggest that adjustments in the program are needed to control long-range program costs. Also, incentives should be changed and the disability decision process improved in the interests of beneficiaries and taxpayers. We hope that this research will be completed promptly, fully presented to Congress and the public, and that the Congress will take action over the next few years to make this program financially stable over the long term.”

Lawmakers in 1994 could easily have chosen to reallocate sufficient funds to DI to postpone its projected depletion into the 2020s or 2030s but deliberately did not. The projected depletion date for the DI trust fund in the 1995 report was 2016, the same as our current projection. This was done primarily because it was believed that the 1994 reallocation would provide more than sufficient time to enact comprehensive reforms.

Summarizing, Social Security finances have been sustained to date because as a general rule, lawmakers have responded to projections of trust fund reserve depletion by enacting legislation to slow the growth of program costs, increase tax revenues, or both. In the context of such legislation, taxes have also been reallocated between the OASI and DI trust funds to reflect the effects of the legislation on program expenditures. The 1994 reallocation was an exception to this general rule because policy makers did not yet believe there was sufficient information to design appropriate reforms. A primary purpose of the 1994 reallocation was to satisfy the trustees’ short-term (10-year) solvency test, which was regarded as providing more than enough time for the necessary reforms to be enacted.

Areas of Broad Continuing Agreement

As with Social Security policy generally, there is a wide range of opinions about how to best correct the course of DI trust fund finances, and the trustees do not opine on their relative merits. Statements by the trustees have maintained continuity with respect to general principles for reform despite turnover in those serving as trustees. As noted earlier, the 2014 trustees report reiterated that prompt action to correct Social Security finances is desirable, and expressed concern that a standalone reallocation of funds “might serve to delay DI reforms and much needed financial corrections for OASDI as a whole. However, enactment of a more permanent solution could include a tax reallocation in the short run.” At our press conference announcing the release of that

report, Treasury Secretary Jack Lew noted similarly that some means of shifting revenues between the trust funds would probably need to be included in legislation, for the reason that “if you look from now until 2016, there’s probably no other alternative which could produce the desired results between now and then.” The Administration’s budget, which included a proposal to reallocate taxes between the trust funds, included another proposal that would make slight improvements to overall program finances, as some members of Congress have proposed as well. Other proposals to improve both DI and broader OASDI finances to more significant degrees are being developed by numerous outside experts, including Jason Fichtner and Mark Warshawsky at the Mercatus Center, as well as experts working with the Committee for a Responsible Federal Budget and the Bipartisan Policy Center, among others. A recently enacted House rule would also permit revenues to be redistributed between the trust funds providing this is done in the context of legislation improving Social Security finances generally, as recommended consistently by the trustees. My fellow trustee Robert Reischauer and I joined to reiterate this viewpoint in our joint message to the public last year, stating that, “the DI Trust Fund’s impending reserve depletion signals that the time has arrived for reforms that strengthen the financing outlooks for OASI and DI alike.”

Conclusion

Social Security finances have been sustained to date because as a general rule, lawmakers have responded to projections of trust fund reserve depletion by enacting legislation to slow the growth of program costs, increase tax revenues, or both. In the context of such legislation, taxes have also been reallocated between the OASI and DI trust funds to reflect the effects of the legislation on program expenditures. In view of the short time now remaining before projected depletion of the DI trust fund, lawmakers will likely need to effectuate some means of bringing additional revenue into that fund to buy time before its outlay obligations shift further to the OASI trust fund as more of the baby boomers reach retirement age. However, to reallocate taxes between OASI and DI at this time without significant financing reforms would be counter to the trustees’ expressed intent in recommending the current allocation enacted in 1994. While lawmakers would certainly be well within their rights to disregard this prior intent, it is important to be aware of potential adverse ramifications for the Social Security program of doing so. An overriding principle that lawmakers should bear in mind as they consider shifting revenues between the funds is the mounting threat that Social Security faces from continued delays in enacting comprehensive financial corrections. If for example funds were reallocated between the trust funds as a means of delaying such corrections, and lawmakers thereafter did not enact such reforms well before the combined trust fund depletion date of 2033, it is extremely likely that Social Security’s historical financing structure would need to be abandoned due to the unwillingness to meet the requirements of self-financing. In my opinion this would be an unnecessary and unfortunate loss, given the countless important ways in which Social Security has successfully served millions of Americans to date through its historical financing structure.

Chairman JOHNSON. Mr. Lorenzen, welcome. Please proceed.

STATEMENT OF ED LORENZEN, SENIOR ADVISOR, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Mr. LORENZEN. Thank you.

Chairman Johnson and Ranking Member Becerra and Members of the Subcommittee, I appreciate the invitation to appear before you today.

I have been involved in Social Security issues as a congressional staff member and in the nonprofit sector for over 20 years. On a personal note, I had experiences with Social Security as I had the responsibility for managing my parents’ finances for several months after my mother was gravely injured in an automobile accident with only the very modest Social Security support from my

stepfather's retirement benefit and my mother's disability benefit providing their income.

I've also come to know many people in the disability community through my mother's work as a disability rights activist and my involvement with groups for people with spinal cord injuries. These experiences have given me a deep understanding of the importance of the SSDI program and its modest benefit levels.

The Community for a Responsible Federal Budget has launched the McCrery-Pomeroy SSDI Solutions Initiative to identify potential improvements to the DI program. However, my testimony today does not reflect the views in the McCrery-Pomeroy Initiative or the co-chairs who have not taken a position on reallocation.

I will briefly summarize a few conclusions from my review of prior reallocations.

First, prior reallocations have typically been accompanied by reforms to improve overall solvency. The requirements in the Johnson Rule is more consistent with past reallocations than the current proposals for clean reallocation.

Second, prior reallocations generally rebounds payroll taxes to align revenues with the relative cost of each program and shifted revenues from the Trust Fund in a stronger actuarial condition. Neither would be the case with a reallocation enacted today.

Third, clean reallocations, which were intended to avoid imminent Trust Fund depletion and buy time for Congress to enact legislation to improve solvency, resulted in no action until the Trust Fund was facing depletion again. That is a risk we cannot afford to take again given that the entire Social Security Trust Fund is facing depletion in less than two decades.

Finally, depletion of the SSDI Trust Fund should be an impetus for comprehensive Social Security reform that addresses solvency of both OASI and DI programs. Failing that, any reallocation should be for a limited period of time and accompanied by modest changes improving overall Trust Fund solvency and improving the DI program, along with a process that will facilitate further action on comprehensive reform.

Congress has enacted reallocation legislation on six occasions. As Dr. Blahous has said, the first two were part of legislation increasing benefits when the overall program had a surplus and reallocation was necessary to cover the costs of increased benefits in the DI program. That's very different than the situation we have today.

The reallocations in 1977 and '83 were parts of major Social Security reforms that reduced OASDI shortfalls. There were two reallocations in 1980 and 1994 that were closer to clean reallocation being discussed now, but with key differences. The 1980 legislation was a temporary reallocation, benefiting the OASI Trust Fund for two years and was preceded a few months by reforms to the DI program, which improved DI Trust Fund solvency.

The 1994 legislation included modest changes in Social Security, but was framed as buying time for more significant reforms, and as Dr. Blahous noted, the 1994 reallocation was designed by the trustees to ensure that the DI Trust Fund met the test of short range financial adequacy, which resulted in the Trust Fund being extended for a little over 20 years.

However, the anticipated 2016 DI Trust Fund depletion does not mean that further reallocation wasn't anticipated in 1994. In fact, when the trustees initially recommended the reallocation, they warned against further reallocation, writing, "Further reallocation could raise concerns about the financial viability of the OASI program."

Although the President's proposal for reallocation that extends the life of the DI Trust Fund for nearly two decades is in many ways similar to the 1994 legislation, the current context is very different. In 1994, OASI depletion was projected to be 40 years away, whereas now we only have 20 years, leaving much less time to take action without severe disruption for beneficiaries and taxpayers.

A key rationale for the 1994 reallocation does not apply today. The early '90s' shortfall in the DI Trust Fund was unexpected and due to factors that were not understood. In contrast, the current projections of DI Trust Fund have been anticipated for some time.

Because Congress failed to heed the warnings of trustees after 1994, some reallocation to the DI Trust Fund will be necessary. There are no realistic options to provide sufficient savings in time to prevent depletion by 2016. Nonetheless, one of the lessons we have learned is that a reallocation with no reforms will remove pressure on policymakers and increase the chances that we won't act until we face the crisis of imminent Trust Fund depletion again.

If we delay action for another 20 years, we won't be able to solve the problem with reallocation. The only options will be extremely steep increases in taxes, deep and immediate reduction of benefits or general revenue transfers to the combined Trust Fund.

Ideally, DI Trust Fund depletion should be viewed as a warning about the financial problems facing the entire Social Security program and provide the impetus for comprehensive Social Security reform. Addressing depletion of the DI Trust Fund in the context of comprehensive Social Security reform would provide policymakers with a much broader range of options on both benefits and revenue side to improve the solvency of both the DI and OASI program, which, as I said, faces a larger long-term shortfall.

However, agreement on comprehensive Social Security reform may not be possible before Congress needs to act. Absent comprehensive reform, policymakers should enact a smaller reallocation or interfund borrowing to delay depletion by a few years and modest reforms improving Social Security solvency and improving the DI program, along with a mechanism to ensure further action on Social Security solvency, such as the Delaney-Cole Social Security Commission Act.

A smaller reallocation extending the DI Trust Fund for a shorter period of time would keep pressure on to address the underlying shortfalls in the Social Security system, just like the temporary reallocation in 1980 and the subsequent limited interfund borrowing authority did before the 1983 reforms, in contrast to the 1994 reallocation that was followed by 20 years of inaction.

In conclusion, policymakers should not enact a clean reallocation to delay depletion of the DI Trust Fund without taking steps to address the shortfalls facing Social Security and enact improvements in the DI program. The Committee for a Responsible Federal Budget

et stands ready to help the subcommittee and your colleagues in Congress and the Administration to deal with these issues.
[The prepared statement of Mr. Ed Lorenzen follows:]

Testimony of Ed Lorenzen
 Senior Advisor, Committee for a Responsible Federal Budget
 Before the Committee on Ways and Means Subcommittee on Social Security
 Maintaining the Social Security Disability Insurance Trust Fund's Solvency
 February 25, 2014

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

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

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

- First, prior reallocations are more consistent with the approach required by the Johnson rule, which effectively requires that payroll tax reallocation be accompanied by reforms to improve overall trust fund solvency than with current proposals for a clean reallocation.
- Second, the current situation is very different from prior reallocations, which generally rebalanced payroll taxes to bring the allocation of payroll taxes in line with the relative costs of each program and shifted revenues from the trust fund in a stronger actuarial condition. Neither would be the case with a reallocation enacted in the current scenario.
- Third, clean payroll tax reallocations which were intended to avoid imminent trust fund depletion and buy time for Congress to develop and enact legislation to improve solvency resulted in no actions being taken until the trust fund was facing depletion again. That is a risk we cannot afford to take again given the Social Security trust fund is facing depletion in less than two decades.
- Finally, those three points lead me to the conclusion that depletion of the trust fund should be an impetus for comprehensive Social Security reform that addresses solvency of both OASI and DI programs. Failing that, any reallocation should be for a limited period of time and accompanied by modest changes improving overall trust fund solvency as well as reforms improving the DI program, along with a process that will facilitate action on comprehensive reform in the near future.

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

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

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

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

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

necessary to cover a part of the costs of increased benefits, very different than the circumstances we face today.

Background on previous reallocations

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

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

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

The first reallocation of payroll taxes between OASI and DI was enacted as part of the Social Security amendments of 1967. The bill included a variety of increases in benefits partially offset

by an increase in contribution and benefit base, with the remaining costs financed by the actuarial surplus in the trust fund. The tax rates were increased, rising from a rate of 3.8% in to 5.9% for employees and employers.

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

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

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

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

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

By 1983 the OASI trust fund was facing imminent depletion even with the additional revenues from the temporary reallocation enacted in 1980 and the interfund borrowing enacted in

1981. By law, the interfund borrowing could not exceed the amount necessary to assure benefit payments through June of 1983, creating a hard deadline for action. At the time, DI was in relatively strong financial shape, with the Trustees again reporting that the trust fund balance was projected to grow.

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

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

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

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

The 1994 reallocation was designed by the Social Security Trustees to ensure that the DI trust fund would remain above 100 percent of benefits over the ten-year window, meeting the test of short-range financial adequacy. While the Trustees did not specifically intend for the DI trust fund to be depleted in 2016, it a reallocation intended to maintain a trust fund ratio of 100% for ten years while costs continued to grow faster than revenues would result in the trust fund being

depleted in a little over twenty years. But the fact that the Trustees expected the DI trust fund to be depleted by 2016 does not mean further reallocation was anticipated when the 1994 reallocation was enacted as some have suggested. Indeed, when the Trustees initially recommended the reallocation they warned against further reallocation, writing that “[further reallocation] could raise concerns about the financial viability of the OASI program.”

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

Differences between previous reallocations and current situation

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

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

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

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

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

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

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

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

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

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

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

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

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

Addressing depletion of the DI trust fund in the context of comprehensive Social Security reform would provide policymakers with a much broader range of options and tradeoffs on both the benefit and revenues side to improve solvency of both the DI and the OASI program. Finally, comprehensive Social Security reform would allow policymakers to identify interactions between both programs and include provisions to avoid any unintended consequences that reforms in one program would have on the other. And, as noted above, it allows for changes in the benefit structure affecting both programs, which could include improvements in the safety net and poverty protections of the Social Security program that result in strengthened protections for disabled individuals.

Having said that, I recognize that agreement on comprehensive Social Security reform may not be possible before Congress needs to act to avoid depletion of the DI trust fund. Absent comprehensive reform, policymakers should enact a smaller reallocation or inter-fund borrowing

to delay depletion by a few years accompanied by modest reforms and a mechanism for further action on Social Security solvency. This would keep pressure on for action to address the underlying shortfalls, just like the temporary payroll tax reallocation in 1980 and the subsequent limited inter-fund borrowing authority did in the early 1980s, in contrast to the 1994 reallocation that was followed by twenty years of inaction.

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

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

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

Conclusion

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

Responsible Federal Budget stands ready to help this subcommittee and your colleagues in Congress as well as the administration in achieving these goals.

Chairman JOHNSON. Thank you.
I don't know if we can ever figure out how to solve the shortfall, but you all are here to help. Especially if people are on Social Security that don't deserve to be on there, disability in particular.
Mr. Phillips, you're recognized.

**STATEMENT OF WEBSTER PHILLIPS, SENIOR LEGISLATIVE
REPRESENTATIVE, NATIONAL COMMITTEE TO PRESERVE
SOCIAL SECURITY AND MEDICARE**

Mr. PHILLIPS. Thank you, Chairman Johnson and Ranking Member Becerra and Members of the Committee. On behalf of the members of the National Committee to Preserve Social Security and Medicare, I want to thank you for holding this hearing. I'm honored to be here before the committee today.

I started attending hearings in this room in 1987 when I was a new hire at the Office of Legislation at the Social Security Administration. I've formed a reverent attitude toward this commission's—the committee's deliberations and it's the first time I've sat at this table and it is indeed a great honor.

First, a few words about our organization. Our members come from all walks of life and every political persuasion. What unites them is their passion for protecting and strengthening Social Security and Medicare, not just for themselves, but for their children and grandchildren. Our members see Social Security as an intergenerational compact that protects all members of the family. To them, it is a single, integrated system of benefits that provides protection from birth to death. It is a system where all of its parts are equally important.

Before addressing the financial issues confronting the Disability Insurance program, I would first like to briefly describe the nature of the program. First and foremost, Disability Insurance coverage is an earned right. Workers become insured by paying into the system just as they do for retirement and survivors' benefits. Like everyone else, their taxes accumulate in the Social Security Trust Funds, which currently have a balance of about \$2.8 trillion.

Social Security Disability is the largest income support program for disabled Americans providing monthly cash benefits to workers who sustain severe, long-term disabilities. The rules for qualifying are stringent and the people who do qualify have serious health conditions that leave them unable to work in any substantial degree. In fact, one in five women and one in six men dies within five years of being approved for benefits.

The disability program currently pays benefits to 11 million disabled workers and their families. Beneficiaries include more than a million military veterans, 4.4 million women, 1.8 million African Americans, and 1 million Hispanic Americans. Benefits paid by disability are modest, but vitally important to the workers and families who receive them. The average benefit of \$1,980 for the disabled worker is just \$2,300 above the federal poverty line. The importance of these benefits is illustrated by the fact that one in three disabled Americans depend on disability benefits as their sole source of income.

The need to strengthen the financing of the Disability Insurance program is not a surprise. As far back as 1995, the Social Security actuaries have projected that the Disability Trust Fund would face a funding shortfall in 2016. The reasons for this have been well known and are primarily demographic in nature and are expected to stabilize in years to come. Among them are the growth in the working age population, the aging of the Baby Boom generation, women's increased participation in the labor force and also their in-

creased incidents of disability so that it now nearly matches that of men, and the increase in the retirement age that was enacted in 1983, and essentially, I think, perhaps not fully appreciated is what it would do to the disability program.

As the 2016 deadline to avoid default approaches, its looming presence would become an increasingly heavy burden on the minds of the millions of disabled Americans who constitute some of the most vulnerable members of our society. Congress should act now to ease that burden by rebalancing the revenue flow into the DI Trust Fund so that it remains able to pay all benefits it owes to disabled beneficiaries and to do so on time. This rebalancing has been done numerous times since the DI Trust Fund was established in 1956 and can be done today without compromising the ability of the overall program to pay benefits for nearly the next 20 years.

Now is the time for all Members of Congress to step up and show their commitment to Social Security and the millions of Americans who receive disability benefits from the vitally important program.

Concludes my comments and I'll be happy to answer any questions.

Chairman JOHNSON. Thank you for your testimony. I appreciate it. I appreciate all of you talking to us today.

As customary, for each round of questions, I'll limit my time to five minutes and ask my colleagues also to your limit your time to five minutes as well.

In response to the disability program going broke next year, President Obama proposed in his budget to reallocate the Social Security payroll tax for five years.

Dr. Blahous, briefly, in layman terms, talk to us in English. What does that mean?

Mr. BLAHOUS. Well, the trustees don't usually speak in layman's English, but I'll try.

[Laughter]

Chairman JOHNSON. I know that.

Mr. BLAHOUS. The—workers pay a 12.4 percent payroll tax and it is distributed between the Old-Age and Survivors Trust Fund and the Disability Insurance Trust Fund and by law, we can only pay benefits for each—in each category from the respective Trust Fund, and right now, of that 12.4 percent tax, 10.6 goes to the Old-Age and Survivors Trust Fund and the other 1.8 goes to the Disability Insurance Trust Fund, and basically what the Administration has proposed is just to change that allocation so that for the next five years, from 2016 through 2020, another 0.9 points, 2.7—in total 2.7 points, would go to the Disability Insurance Trust Fund and less would go to the Old-Age and Survivors Trust Fund.

Chairman JOHNSON. In actual dollars, what does that mean?

Mr. BLAHOUS. It's about \$330 billion over five years, plus—Chairman JOHNSON. Million?

Mr. BLAHOUS [continuing]. Of course it would compound interest in the Trust Fund, the \$330 billion over the first five.

Chairman JOHNSON. Billion, okay. And over that five-year program, how much does the disability program need to have to pay full benefits?

Mr. BLAHOUS. Over that five-year period?

Chairman JOHNSON. Yeah.

Mr. BLAHOUS. I mean how much are we short?

Chairman JOHNSON. Yeah.

Mr. BLAHOUS. We're basically—it's probably about \$130 billion over that five years.

Chairman JOHNSON. A shortage?

Mr. BLAHOUS. That's right. Those are the—right, those are the shortfalls in the DI Trust Fund over those five years.

Chairman JOHNSON. Well, meanwhile, doesn't shifting money hurt the retirement program? Is it in trouble?

Mr. BLAHOUS. Well, the Old-Age and Survivors Trust Fund definitely faces a shortfall and has a substantial imbalance that needs to be corrected, yes.

Chairman JOHNSON. So if I have this right, over the next five years, the President wants to take 330 billion from the retirement program that's going broke and give it to the disability program, which will be broke next year if we don't do anything.

What's the cash flow deficit that the retirement program is then facing?

Mr. BLAHOUS. Over those five years?

Chairman JOHNSON. Yeah.

Mr. BLAHOUS. It's in the ballpark of \$300 billion over those five years, a little over \$300 billion, \$330—

Chairman JOHNSON. So how do we cover that?

Mr. BLAHOUS. Well, that'll be—that would be a period of time that the Old-Age and Survivors Trust Fund is drawing on its Trust Fund reserves, which are redeemed from the general fund.

Chairman JOHNSON. So the President's plan basically doubles the retirement program's shortfall in order to give disability more money. Is that correct?

Mr. BLAHOUS. Yes. Yes.

Chairman JOHNSON. Mr. Lorenzen, the President's proposed stand-alone reallocation, which violates the House rule that I champion, and now how many reallocations has Congress voted on and of those, how many of those have been done without reform?

Mr. LORENZEN. As I stated in my testimony, Congress has enacted legislation reallocating payroll taxes six times. Several of those had reallocations occurring in several stages or had the reallocation reversed. So there have been 11 different years in which there was a reallocation, but that was of 6 bills—bills that were actually passed by Congress.

Chairman JOHNSON. Well, you keep saying 11. He did too and we only voted six times.

Mr. LORENZEN. Six, yes. I'm saying that a couple of them—for example, the 1994 reallocation did the reallocation over three steps. The most recent 2000—but Congress approved reallocation six times.

Chairman JOHNSON. Okay.

Mr. LORENZEN. And of those six, the first two happened when the Trust Fund was running a surplus. The entire Trust Fund was running a surplus and paid for higher benefits. Since the Trust Fund's been running shortfalls, all of the reallocations have either been part of reform legislation or in anticipation of future reforms. For example, the 1980 was—only about—a short period of time.

The 1994, reallocation would be to some extent the outlier in extending solvency for many years without reforms.

Chairman JOHNSON. The President's proposal would align the solvency dates of the retirement and disability program to 2033; is that correct?

Mr. LORENZEN. Yes.

Chairman JOHNSON. And is that fair to say, that that's unprecedented absent full reform?

Mr. LORENZEN. Correct, the only two times that reallocation has brought the two Trust Funds aligned were after 1977 and 1983 when they were part of comprehensive Social Security reform. They extended both Trust Funds.

Chairman JOHNSON. Do you think that those who are concerned about the disability program's looming insolvency are manufacturing a crisis?

Mr. LORENZEN. No. The 19 percent reduction in benefit and the depletion of the Trust Fund is definitely a crisis. The fact that we've known this is coming for 20 years doesn't make it any less of a crisis. It means that we have seen a crisis coming and failed to act and that's not a reason to continuing delaying acting.

And the depletion of the DI Trust Fund is, in many ways, a warning of even greater crisis facing the Social Security system as a whole, that it could be—the depletion of the DI Trust Fund could be viewed a warning buoy warning of the tidal wave coming to the Old-Age program, and that, as Dr. Blahous, pointed out, if we don't act about the looming crisis facing the Old-Age program, that the—that'll be a much greater crisis with much more severe consequences.

Chairman JOHNSON. Well, isn't that just kicking the can down the road?

Mr. LORENZEN. And if we don't use the warnings of this DI depletion to recognize the problems facing the Old-Age program, that's going to create a greater crisis and that's to the extent that the problem—the DI Trust Fund has been depleted because of demographic pressures, those same pressures are going to be—are now creating problems for the Old-Age program.

Chairman JOHNSON. Well, like the President said, I think we're at the end of the road and don't need to kick it down there any further. We have to signal seriousness in this by making sure some of the hard decisions that are made under our watch today, that they are not someone else's in the future.

In your opinion, as a public trustee, Dr. Blahous, would you agree we can't afford to wait to find solutions?

Mr. BLAHOUS. I do agree and the trustees have stated as a group that the earliest possible action would be desirable and obviously you, as lawmakers, need to figure out how much you can agree on and how much can be enacted. Some is better than none. All is better than some. I don't know what the universe of the possible is, but certainly the—

Chairman JOHNSON. Yeah, like we can ever agree on anything. I don't know.

Mr. BLAHOUS. But the more we can do, the better.

Chairman JOHNSON. Mr. Becerra, you're recognized.

Mr. BECERRA. Thank you, Mr. Chairman.

And actually I think we can agree because I think we all agree there is a challenge at Social Security.

Chairman JOHNSON. You and I can.

Mr. BECERRA. I think we could, yes, and I would urge us, Mr. Chairman, to sit down at some point quietly if we could with some of the experts, the trustees and others to have a good conversation among ourselves as members on the subcommittee and then see if we could come up with something together to make sure that Social Security for the long term is not just strong and vibrant, but that it is something that people can have confidence in.

So I think we can do that. My concern is though that when you impose these artificial rules in our House, in the House of Representatives, that force a 20 percent cut to benefits, that is like holding a gun over the head of 11 million workers who became disabled and say, "Unless Congress does its job, 11 million people are going to see their benefits cut by 20 percent," when you have got \$2.8 trillion in the reserves of the Social Security system that they paid for.

There is where I think it becomes difficult to have a good conversation if we are doing this in a panic mode because we have got an artificial gun to the head of 11 million folks, Americans, who unfortunately became disabled after they were working and are looking to get their earned benefits.

Thank you all for your testimony.

[The prepared statement of Mr. Webster Phillips follows:]



STATEMENT OF WEBSTER P. PHILLIPS
SENIOR LEGISLATIVE REPRESENTATIVE
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON
“MAINTAINING THE DISABILITY INSURANCE TRUST FUND’S SOLVENCY”
FEBRUARY 25, 2015

Chairman Johnson and Ranking Member Becerra:

On behalf of the millions of members and supporters of the National Committee to Preserve Social Security and Medicare, I want to thank Chairman Sam Johnson and Ranking Member Xavier Becerra for holding this hearing entitled “Maintaining the Disability Insurance Trust Fund’s Solvency.” I am honored to appear before the Committee today.

Our members come from all walks of life and every political persuasion. What unites them is their passion for protecting and strengthening Social Security and Medicare, not just for themselves but for their children and grandchildren. Our members see Social Security as an inter-generational compact that protects all members of the family. To them, it is a single integrated system of benefits that provides family protection from birth to death. It is a system where all of its parts, whether SSDI or retirement and survivors benefits, are equally important.

Most seniors have children and grandchildren and are as concerned for their offspring’s well-being as they are for their own. Maybe more so. They may have had sons and daughters who were born with a disabling condition or who became disabled later in life. They are familiar with the disappointment and financial hardship unanticipated events cause and are grateful that Social Security is available to provide help when it is needed. Fundamentally, they understand SSDI’s value and they support the program.

And of course, as the retirement age steadily advances to 67, more and more seniors themselves are receiving SSDI, a reflection of the fact that the incidence of disability increases as we age. In fact, people who are 50 or older make up a significant majority of those who receive SSDI benefits.

The Disability Insurance Program

Before addressing the financial issues confronting the SSDI program, I would first like to briefly describe the nature of the program and the people who benefit from it. First and foremost, SSDI coverage is an earned right. Workers become insured for SSDI by earning enough quarters to qualify and by paying Social Security taxes on their earnings. Like all other workers, their taxes

have accumulated in the Social Security Trust Funds, which currently have a balance of about \$2.8 trillion.

Disability insurance provided through Social Security is the government's largest income support program for the disabled, providing monthly cash benefits to workers who sustain severe, long-term disabilities. To qualify, a person must meet the definition of disability under the Social Security Act. Workers qualify if the Social Security Administration (SSA) determines that an individual is unable to work due to a severe medical condition that has lasted, or is expected to last, for at least one year or result in death. In addition, the medical condition must prevent that individual from performing his or her past work. The medical condition must also prevent the person from adjusting to any other work that exists in the national economy.

This is a very stringent standard, and unsurprisingly, the vast majority of those who apply are unable to qualify for benefits. When compared with disability standards of other economically developed countries, the definition employed by SSA in making disability determinations consistently ranks as one of the most severe. In fact, it isn't uncommon for veterans with severe service-connected disabilities to be denied when they apply for SSDI. Further illustrating the severe nature of this standard is the elevated mortality rate for disabled workers who qualify for SSDI. One in five men and one in six women dies within five years of being approved for benefits.

An essential feature of the SSDI program is the procedural safeguards that are extended to those who apply. Those who disagree with decisions made by SSA have the right to request an appeal. The appeals process consists of a series of reviews made by agency officials that ultimately can be appealed to a federal district court. In most states the initial appeal is the reconsideration, and if the claimant disagrees with this decision, he or she can appeal to an administrative law judge (ALJ) who will independently review the prior decision. The third appeal available to a claimant is a review by the Appeals Council of the decision made by the ALJ. The fourth and final appeal is a suit filed in federal district court. This option is available to claimants whose cases have been denied by the Appeals Council.

While bringing a claim through the entirety of this appeals process can be lengthy, the ability to challenge decisions made by SSA is an essential element of the due-process rights that disabled individuals enjoy as American citizens. These procedures should be maintained and strengthened by providing SSA with adequate funding to make timely and accurate decisions at all stages in the appeals process.

Importance of Disability Insurance to the American People

Social Security provides peace of mind for all Americans. Not only does it provide a foundation for a secure retirement, it also protects nearly all American workers and their families against the possibility of a life-changing disability or illness that prevents them from working.

The peace of mind provided by SSDI is even more important given the harmful effect of the near total disappearance of employer-provided pensions. Compounding the problem is the impact that decades of stagnant wage growth has had on Americans' ability to save for retirement,

especially when an individual's working years have been shortened by an unexpected onset of disability.

The U.S. Census Bureau estimates that about 57 million Americans—one in five—live with disabilities. Of these, about 38 million, or 1 in 10, have a severe disability. As stated previously, only those with the most limiting impairments receive support from Social Security.

SSDI currently pays benefits to 9 million disabled workers and two million spouses and children. SSDI beneficiaries include more than a million military veterans, 4.4 million women, 700,000 widow(ers), 1.8 million African Americans and one million Hispanics.

Benefits paid by SSDI are modest but vitally important to the workers and families who receive them. The average monthly benefit of \$1,165 for a disabled worker is just over the federal poverty line. The importance of these benefits is illustrated by the fact that about 1 in 3 disabled Americans have no other sources of income.

SSDI keeps millions of Americans out of poverty and homelessness. Poverty rates are substantially higher for people who report significant disabilities but are not receiving SSDI benefits than for people who have been receiving SSDI benefits for at least five years. Without SSDI, an estimated 50 percent of beneficiaries would live in poverty. Even with benefits, it is estimated that about 1 in 5 SSDI beneficiaries live in poverty.

Alternatives to SSDI are limited. According to the Department of Labor, only 1 in 3 civilian workers have long-term disability insurance through their employer, and the benefits these policies provide are often less adequate than the protections provided by Social Security.

Strengthening This Vital Program

The need to strengthen the financing of the SSDI program is not a surprise. As far back as 1995, the SSDI trust fund has been projected to face a funding shortfall. The reasons for this, which I will discuss in more detail later, have been well-known for many years. They are primarily demographic in nature and are expected to stabilize in years to come.

The 2014 report of the Social Security Trustees projects that the DI trust fund will be substantially depleted sometime in late 2016. In addition, the trustees reported that the income to the DI trust fund at that time will equal only about 80 percent of the trust fund's obligations. Without action by Congress, in 2016 disability benefits that are currently being paid to about 11 million disabled workers and their dependents will either be delayed or will be reduced across-the-board by 20 percent.

As the 2016 deadline approaches, it will become an increasingly heavy burden on the minds of these millions of disabled Americans who constitute some of the most vulnerable members of our society. Congress should take action now to ease that burden by rebalancing the revenue flow into the DI Trust Fund so that it remains able to pay all benefits it owes to disabled beneficiaries and to do so on time.

This rebalancing has been done a total of eleven times since the DI trust fund was established in 1956, and can be done today without compromising the ability of the overall Social Security program to pay benefits for nearly 20 years. Rebalancing should be done now and it should be done on a bipartisan basis, as all of the prior rebalancing decisions have been made.

The Current Shortfall is the Product of Known Demographic Trends

As far back as 1995, the Social Security trustees projected that the DI trust fund's outlays would exceed revenues starting in 2016. The most recent Trustees Report, released in July 2014, confirms this projection. Moreover, it estimates that after the DI trust fund is depleted, revenue coming into the DI trust fund will equal only 80 percent of the fund's benefit obligations. These consistent projections are the product of demographic shifts that have been underway for many years and that have led to increases in the number of SSDI beneficiaries and corresponding increases in the cost of the program. The following factors account for most of the growth in the number of individuals receiving benefits from the SSDI program:

- **Growing Labor Force.** During this time, the working-age population (age 20 through 64) increased by about 43 percent. As this population grew, so did the labor force, leading to more Social Security-covered workers who might at some point during their working lives become entitled to SSDI benefits.
- **Aging Population.** The risk of disability increases with age. A worker is far more likely to be disabled at age 50 than at 40 and twice as likely at age 60 than at 50. The baby boomers, who were born between 1946 and 1964, have now aged into their high-disability years, driving much of the growth in the SSDI program.
- **Women's Labor Force Participation.** The number of women entering the workforce since 1970 resulted in a significant increase in the number of women insured for SSDI benefits. In 1980, only 50 percent of women had worked long enough to be eligible for SSDI if they were to become disabled. By contrast, women today have essentially caught up with men when it comes to being insured for benefits based on their participation in the labor force.
- **Women's Reciprocity Rates Equal Men's.** Women have also caught up with men in terms of the rate at which they become disabled. As recently as 1990, disabled male workers outnumbered disabled female workers by 2 to 1. Today, nearly half of workers receiving SSDI are women.
- **Effect on SSDI of Increasing the Social Security Retirement Age.** Increasing the full retirement age from 65 to 67 has also played a role in increasing the cost of the SSDI program. Keeping disabled workers on SSDI for an additional one to two years before converting to retirement benefits has driven up the cost of SSDI; yet another example of a change to the program, the effect of which was well understood long ago.

As the foregoing discussion of the factors that account for the recent growth in the SSDI program indicates, the vast majority of the increase in the program was predicted many years ago, and

they can by no means be characterized today as a surprising development or as an impending crisis.

SSDI Awaits Routine Technical Correction

Within the next two years, a routine adjustment is required to ensure that the SSDI trust fund will continue to pay 100 percent of promised benefits. As stated earlier, prior Congresses, on eleven occasions, have rebalanced the revenue between Social Security's trust funds without controversy. Congress should do so now.

The projected DI shortfall can be easily eliminated by rebalancing the flow of revenue between the DI and the Old-Age and Survivors Insurance (OASI) trust funds so that they remain on an equal footing and remain fully solvent through 2033. This adjustment can ensure Social Security's solvency for the nearly twenty years without increasing contributions or decreasing benefits.

But of greatest importance is the fact that rebalancing revenue to the SSDI trust fund will provide peace of mind to the 11 million Americans who receive benefits from the DI trust fund by assuring them that they can be confident their benefits will continue uninterrupted by a predicted and preventable shortfall. Now is the time for all members of Congress to step up and show their commitment to Social Security and the millions of Americans who have earned benefits from this vitally important program.

Chairman JOHNSON. Mr. Phillips, let me ask you a question since you deal with a lot of seniors and a lot of folks who are disabled and on the disability insurance benefit under Social Security. You mentioned that about a million veterans in America today qualify for disability insurance benefits under Social Security. Many of them served their country.

In fact, many of them have a disability as a result of their service to our country and receive these benefits.

How would they be affected if this rule in the House that requires there to be a 20 percent benefit cut to their disability insurance benefits; how would they be affected if this Congress did not come up with a solution and had to live with that rule?

Mr. PHILLIPS. Well, the cuts——

Mr. BECERRA. You need your microphone on.

Mr. PHILLIPS. That is a very good question, and thank you for the prompt.

The dilemma that you would confront is that a veteran, no matter how grievously wounded in combat or otherwise injured or disabled, would face the same reduction in benefits that the ten million non-veterans would receive.

A 20 percent reduction in benefit for the average worker would really be a hard hit. Currently the average benefit is \$13,980 a year. If you take that down by 20 percent, that becomes \$11,184 a year, and the poverty level in the United States for a single individual currently is \$11,670. So you would, in essence, be taking the average disabled individual veteran, otherwise, down and put them into poverty.

Mr. BECERRA. Let me ask you this other question. You probably know quite a few Americans who were workers, became disabled or are on the disability insurance program through Social Security. I want to make sure it is clear to workers who become disabled and, therefore, get disability benefits under Social Security. Did they pay into the Social Security system the way folks who are getting it for retirement paid in?

Mr. PHILLIPS. Yes. The benefits can be paid only if you are insured to receive them. The way the Social Security disability insured status works is it is easier for younger workers to qualify for benefits. Because of their youth, they have not had the opportunity yet to participate as fully in the workforce as they would if they had not become disabled.

But, yes, everybody who gets benefits has to meet the insured status. They have to have paid in enough to qualify.

Mr. BECERRA. And do disabled workers have to reapply once they reach retirement age, 66 or so years of age? Say you became disabled on the job when you were in your 50s and you qualified for disability insurance under Social Security. You reach the age of 66. Do you have to now reapply to see if you can get your Social Security retirement benefits?

Mr. PHILLIPS. No. The transition is seamless. The only people I believe who are really aware of it are the actuaries and the people in the Treasury Department who debit the Old Age and Survivors Insurance Trust Fund for the benefits paid after the person reaches full retirement as opposed to the disability insurance.

Mr. BECERRA. So you go from one to the other because it is one system, the Social Security system.

Mr. PHILLIPS. It is an invisible transition. There is no notice. There is no effect on the benefit amount. The accountants simply make a change as to which fund is being debited.

Mr. BECERRA. Final question, gentlemen, any of the three of you. Are you aware of a proposal in Congress today that would re-

solve the need to do a reallocation of fine tuning of the two accounts so that you can avoid the 20 percent cut?

Mr. BLAHOUS. I am not. I am persuaded we are in a position where no matter what we do we are going to have to have some inflow of funds into the DI Trust Fund.

Mr. BECERRA. Okay.

Mr. LORENZEN. I would agree with that. I think there are changes that you can be made in the DI program with program integrity such as you propose or continued savings reviews that could achieve some savings, but not nearly enough to avoid depletion, and some reallocation is going to be necessary.

Mr. PHILLIPS. I have to agree with both of them, yes.

Mr. BECERRA. Well, thank you for offering your testimony, and we will take your admonition.

And I think, Mr. Chairman, we have an opportunity, I think, maybe to figure out how we can sit down and see if we can come up with something, but short of that I do not think we should put in jeopardy the benefits that people have earned who are now disabled.

So with that I yield back.

Chairman JOHNSON. We need a fix.

We have a vote called, three exactly. Are you all able to stay here while we go vote and come back?

Mr. PHILLIPS. Yes, sir.

Chairman JOHNSON. Thank you very much.

We stand in recess.

[Recess.]

Chairman JOHNSON. We are back in session. I will just call the meeting back in session.

Mr. Renacci, would you care to comment?

Mr. RENACCI. Thank you, Mr. Chairman. Thank you for holding this hearing.

I want to thank the witnesses for being here.

I want to reiterate, Mr. Chairman, your statements. The Social Security Disability Program provides an essential income safety net. We all know that it will be unable to pay full benefits in 2016. I think we want to make sure that it is solvent.

No one is in favor of across-the-board cuts, and we are committed to making sure that does not happen. But no matter how you slice and dice the numbers, Social Security is really on an unsustainable path. This should be of serious concern to my colleagues and the American taxpayers.

Each year the program trustees determine the shortfall between expected revenue and costs over the next 75 years. This shortfall is trillion of dollars in promises that the government cannot keep.

It is also important to note that the shortfall is not reflected in the financial statements published annually by the IRS.

Mr. Chairman, for the record, I would like to submit the graph that is on the board, if there is no objection.

Chairman JOHNSON. Without objection.

[The submission of the Honorable Jim Renacci follows:]



Ohio Public Employees Retirement System

March 22, 2016

The Honorable Sam Johnson
Chairman, Subcommittee on Social Security
House Committee on Ways and Means
2304 Rayburn HOB
Washington D.C. 20515

Dear Chairman Johnson,

I am writing on behalf of the Ohio Public Employees Retirement System (OPERS) to provide comments regarding the need for equal treatment of public servants, especially as it pertains to the application of the Social Security Act's Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

Together, these two provisions present a significant challenge for our members who are eligible for both Social Security benefits and a public pension based on employment that was not covered by Social Security. These individuals will lose some or all of their Social Security benefit simply because they chose a career in public service and were eligible for a Social Security benefit based on their own service or the service of a spouse.

The unfortunate fact of the matter is that many of Ohio's public servants will be impacted by the WEP and/or the GPO. This is because most public employment in Ohio is not covered by Social Security. Instead, Ohio's public servants contribute to one of five statewide public retirement systems, based on their occupation. Of these, OPERS is the largest in Ohio and the eleventh-largest public retirement system in the United States, with total fund assets approaching \$86 billion and more than one million active, inactive and retired members.

Even though OPERS makes every effort to educate its members regarding the impact of the WEP and GPO, many of them are surprised and frustrated to learn just how much their OPERS pension will affect the amount of their anticipated Social Security benefits. These individuals thought they were doing all the right things. They answered the call to public service and tried to plan for a secure retirement, only to discover that their plans were based on a commitment that is no longer valid. Further complicating matters is the fact that many of these affected individuals have little margin for error. The average annual OPERS pension is around \$25,000. Depending on the amount of

their personal savings (if any), the loss of a significant part of their Social Security benefit can leave a substantial hole in their retirement budget. In this regard, the GPO is especially onerous, as it disproportionately impacts women, many of whom have spent most of their lives raising their families and may have worked outside the home for only a short period of time.

The WEP and the GPO have been described as necessary to remove any "advantage or 'windfall' ... [that public servants in non-covered states] would otherwise receive as a result of the interaction between the Social Security benefit formula and the workers' - relatively short careers in Social Security-covered employment."¹ For public servants in non-covered states however, it is clear that these provisions have shifted the balance too far in the opposite direction, to the point that individuals with prior Social Security service are now at a disadvantage if they choose a career in the public sector in certain states.

The question then becomes how to effectively address these provisions in a way that is fair for all Social Security recipients. OPERS is currently in its 81st year of providing retirement security to Ohio's public servants. We appreciate Social Security's important contributions toward ensuring that American workers have access to a secure retirement. In the not-too-distant past, a Social Security benefit was one part of secure retirement, along with pension benefits and personal savings. It is unfortunate that, with the decline of defined benefit pension plans in the modern workplace, many workers have been forced to rely more heavily on their Social Security benefits to make ends meet throughout their retirement. Understanding that, we are not seeking a solution that will harm Social Security or impede its mission.

In the same way, we urge the members of this Subcommittee to consider solutions that will not harm existing public retirement systems in non-covered states. Some observers have suggested that non-covered public servants could simply be folded into the Social Security System, thereby solving the WEP/GPO problem. This policy of "mandatory coverage" is far from a solution however, as it would devastate systems like OPERS. If contributions or employees are redirected from existing public retirement systems to Social Security, the results could be catastrophic. For example, if mandatory coverage was implemented in Ohio, OPERS-covered public employers might have to contribute an additional 6.2% (the current employer contribution under Social Security) of payroll on top of their current contributions to OPERS, which would significantly increase costs for Ohio's taxpayers. Alternatively, if the total employer contribution stayed the same, and the 6.2% was simply reallocated from OPERS to Social Security, the resulting loss of income would force OPERS to implement immediate and drastic benefit cuts. This is

¹ Alison M. Shelton, Congressional Research Service, Social Security: The Windfall Elimination Provision (WEP), January 29, 2010.

to say nothing of the increased burden on Ohio's public servants who would be required to contribute more than 16% of their income to OPERS and Social Security. Clearly, mandatory coverage is not a viable solution.

Fortunately, there is an acceptable solution in the form of the Equal Treatment of Public Servants Act of 2015 (HR 711), which was sponsored by US Representative Kevin Brady (R-TX). Though OPERS has long supported a full repeal of the WEP and GPO, the costs associated with such repeal are prohibitive. Each Congress has produced at least one repeal bill, and while OPERS has advocated in favor of these initiatives, they have seldom received a hearing. To our knowledge, Representative Brady's legislation, which would reform (not repeal) the WEP, is the first bill to account for the costs of modifying that provision. Under HR 711, retirees who are currently subject to the WEP would have their Social Security benefits recalculated and many would receive a larger percentage of the benefits they earned throughout their Social Security-covered careers. Future retirees would be subject to a revised WEP formula that takes their non-covered employment into account when calculating their Social Security benefits. As a result, the significant offsets applied under current law would be decreased. We believe that HR 711 is an important and reasonable first step to addressing an issue that impacts so many of Ohio's public servants. This issue is too important to wait any longer.

Public service is a calling. It should not be penalized or discouraged. These are the men and women that patrol our neighborhoods, fix our roads, and staff our libraries. They maintain our public parks and clean the restrooms in public buildings. They are our friends and neighbors. They took these positions based in part on the opportunity to build a secure retirement. We should honor their service by preserving that opportunity.

We hope that you will support HR 711. We appreciate the opportunity to comment on this important issue, and look forward to working with you to support Ohio's public servants. If you have questions or require further information regarding OPERS' comments, please do not hesitate to contact us.

Sincerely,



Karen E. Carraher
Executive Director

cc: The Honorable Xavier Becerra, Ranking Member, Subcommittee on Social Security;
Members of the Subcommittee on Social Security

Mr. RENACCI. It is interesting because many times down here in Washington we talk about surpluses or we talk about the assets that we have. We sometimes forget that we also have liabilities on a true balance sheet, and my concerns would be and I want to

make sure that all of my colleagues notice that since 2009 to 2014, the unfunded liabilities have doubled.

So even though Mr. Becerra said that we have \$2.8 trillion in surplus, when you take the true balance sheet and show \$10.6 trillion in unfunded liabilities, you have a net deficit of \$7.8 trillion.

Mr. Blahous, would you agree with those numbers?

Mr. BLAHOUS. Actually that \$10.6 trillion deficit counts the value of the Trust Fund. So if you were to take the cash deficits over the next 75 years, they would actually be about \$13.4 trillion, but we count the \$2.8 trillion Trust Fund against that to arrive at the \$10.6 trillion figure.

Mr. RENACCI. So it is even worse than 7.8 percent, and I think that is one thing that we have to start looking at in Washington. I know nobody up here wants to see the fund be insolvent, and I think everybody wants to make sure that the fund is around for the future. We want to make sure it is around for not only disability, but also for retirement, and I think it is very important that as we look at this fund we consider that.

Now, we are talking about shifting from the retirement to disability. Mr. Blahous, would the unfunded liabilities still continue to be there?

I mean, we have a trend here where unfunded liabilities are going up. So if we just shift, would the trend continue to go up?

Mr. BLAHOUS. It would. That is a combined figure for the two Trust Funds, both the Old Age Survivors and the Disability Trust Funds. So that total figure would not be changed by the fact of a transfer.

Mr. RENACCI. Right. So I think we can all agree that if we continue down this path and we talk about shifting funds or moving funds from one fund to the other, we are still talking about in its entirety a Social Security fund that is, as you just said, \$10.6 trillion unfunded going forward; is that correct?

Mr. BLAHOUS. That is correct.

Mr. RENACCI. So I do not have the projections going forward. I had the pleasure or maybe displeasure of working in the business community for 30-plus years before I came to Congress. If I had a balance sheet that showed an unfunded liability growing at this pace, this would be extremely alarming to me. I am assuming it is alarming to the Board of Trustees.

Mr. BLAHOUS. We are very concerned about it, yes.

Mr. RENACCI. Okay. So I think the answer has to be not shifting because if we are shifting we are not doing anything. The unfunded liabilities are continuing. We have to come up with a plan as to how we can fix this program.

One thing I have noticed, the recent growth in the number of DI beneficiaries has been explained, but not all of it. I mean, as I heard in some of the testimony, some of the growth is population, aging, more women working enough to be eligible, and increasing applications from unemployed workers.

However, a cause of a portion of this growth remains unclear. What actions are being taken to get all of those answers and find out what all of the issues are?

Mr. BLAHOUS. There is actually some very good information that has come out of the Social Security Chief Actuary's Office. There

is some testimony that was put together in 2013 that I actually drew heavily from in preparing my own testimony.

It basically breaks down the costs, the drivers of disability costs, into different categories, and it assigns percentages to each one. The percent that comes from just the growth of the working age population, the percent that comes from the aging of the working age population, the percent that comes from the increased insured status of women, and the percent that comes in increases in awards within the insured population.

So they all play a role. I would say I am speaking very crudely here, but it is about two-thirds demographics and about one-third expansions in award incidence per insured member of the population.

Mr. RENACCI. Thank you.

Thank you, Mr. Chairman. I am running out of time.

Chairman JOHNSON. Thank you.

Mr. Doggett, you are recognized.

Mr. DOGGETT. Thank you, Mr. Chairman.

If I understood the answers that each of you gave to Mr. Becerra earlier, it is not a question of whether there needs to be a reallocation of funds to Disability Insurance Program. It is a question of how much and under what conditions.

Is that a fair summary for each of you?

Mr. BLAHOUS. I would say yes.

Mr. LORENZEN. Yes. I think it is a question of does it delay action or does it move the ball forward in solvency for the entire program.

Mr. PHILLIPS. You are right, sir. Nobody has settled on any package of alternatives that would obviate the need for reallocation.

Mr. DOGGETT. Well, thank you very much, and thank you for all of your testimony.

I believe that there are some dangers to our Social Security system, to all of it, but that those dangers have less to do with the fact that we have an aging population which puts more demands on the system and will require some changes than it does from the dangers that are posed within this Congress and from some of the ideological groups that have never accepted the idea of social insurance as a program in which all of society participates. Everyone has a stake, and then should you have the misfortune of disability or the likelihood of retirement, that that system is there and you can count on it. It will be there no matter your circumstance. You will be able to rely upon it.

I believe that there is unanimity that some reallocation will be necessary as we have done 11 times in the past, or six to be more precise from Congress; 11 total times in the past, and that is what must be done here, and it is a question of under what circumstances.

The rule that was adopted on short notice at the beginning of this Congress on a totally partisan basis certainly has been a cause of concern. I agree with the commitment that the chairman made at the beginning of the hearing, but I am concerned about what that means to achieve that commitment in terms of the rule that was adopted.

I do not think that when we make a contribution to Social Security we are dividing in our minds, or any American is, the dif-

ference between old age and disability and survivors. We are contributing toward a package, and the fact that some of this package of contributions may have to be reallocated in order to assure the solvency of the disability portion of the fund is something that is, I believe, a reasonable step, and what the President has called for is a reasonable step.

There may be a need for some changes, some reasonable changes, at the same time, but the reallocation is necessary. As several of you have pointed out, when someone receives disability, a significant number of those who are receiving disability have already achieved age 50. They will soon be switching to the retirement system or will be relying on the retirement system, and they do not have to reapply in order to get retirement.

I think that there have been some indications within this Committee over the last two years that there were some problems with fraud in the disability system, and I think there are some problems, and we need to ferret those out. It is one of the reasons, Mr. Becerra, that I know we came together under your leadership to introduce the Fraud and Error Prevention Act during the last session, and we will be reintroducing something similar.

To the extent that there are examples of fraud and better ways to police that, it is in the interest of everyone, taxpayer and beneficiary, that we get at those problems. But we ought not to use the abuse of the system by some to lead to a limitation on vital benefits that so many people who receive Social Security disability rely upon.

Similarly, I think it is important that we preserve a system, a reasonable system, that allows those who have a disability claim, given the complexities of the Act, to be able to rely on legal counsel to represent them under appropriate circumstances. To the extent that there is, again, any abuse of the system or the way judges operate in that system, let us ferret them out and get to them, but preserving the right of individuals to get access to a disability check and to have effective advocacy within that complex system is an important one for us to preserve.

I hope we can move forward on reintroduction and a markup of the Social Security Fraud and Error Prevention Act as soon as possible.

I yield back. Thank you.

Chairman JOHNSON. Thank you.

The number is six times that we have.

Mr. DOGGETT. Here, but I guess 11 total reallocations.

Chairman JOHNSON. Six.

Mr. DOGGETT. Well, is it not, Mr. Chairman, 11 total reallocations of which Congress has voted, according to the witnesses, six times? Other reallocations?

Chairman JOHNSON. Okay. Thank you.

Mr. KELLY.

Mr. KELLY. I thank the chairman.

While you gentlemen are here, I also like Mr. Renacci came out of the private sector. You made comments earlier about where the revenue comes from for Social Security, and the figures you used were, I believe, you said that it is 12.4 percent. Explain how that breaks down though.

Mr. BLAHOUS. How it breaks down in terms of which Trust Fund it goes to?

Mr. KELLY. Well, no. Who puts the money in?

Mr. BLAHOUS. It comes from the compensation of workers.

Mr. KELLY. But in addition, the 12.4 percent is made up, 6.2 percent from the employer, 6.2 percent from the associate.

Mr. BLAHOUS. Right.

Mr. KELLY. So it is not exactly the worker who is putting in 12.4 percent of his or her income.

Mr. BLAHOUS. Right. I will say that 6.2 percent is directly paid by the employee; 6.2 percent is paid by the employer. Economists generally view the entire 12.4 percent as coming out of the available compensation.

Mr. KELLY. And they cap though at what point? At what point does the contribution stop?

Mr. BLAHOUS. It is about \$113,000.

Mr. KELLY. You are talking about the total.

Mr. BLAHOUS. Yes, 113,000 in wages for the year.

Mr. KELLY. In actual dollars that go into the fund though.

Mr. BLAHOUS. Well, no. That is the wages that are subject to the tax.

Mr. KELLY. Right, right, but the wages that go in does not equate to what actually goes into the fund. It's 12.2 percent of that number. So it is capped.

Mr. BLAHOUS. That is right.

Mr. KELLY. Okay. And I think that is part of the problem, because we have a growing deficit, and we look at it. So I just wanted to make sure that I understood because I think Mr. Renacci hit on the balance sheet. What we are talking about today, and I think for most people that I have talked to back home in Western Pennsylvania, most young people say, "Look. I put money in out of every pay, but I am never going to see that money."

And my question, I guess, is it comes down to we go all the way back to 1994, and we said, okay, we will do something now to make sure because the sustainability and the solvency of this program is absolutely important to the people that we represent.

So in 1994, we recognized that. What changes did we make between 1994 and today to address that situation?

Mr. BLAHOUS. Really almost none.

Mr. KELLY. Nothing.

Mr. BLAHOUS. And I would say pursuant to your point, we are up against the wall now, and there is the threat of a 19 percent sudden benefit reduction facing the disabled. I think part of what we are trying to say in our testimony is that we do not want to be in the same situation again in 2033 where if we just delay and move funds around, then in 2033 we are going to be in the situation where everything is going to be—

Mr. KELLY. I share that opinion with you, but I have only been here four years. I have never seen this body do anything that addresses long-term debt. We talk about it, and then we do something temporarily. We put a Band-Aid over something that needs major surgery, and then we say we papered over a structural problem. It will be all right until it breaks again.

It is broken now. The money that is going into the Social Security fund right now today, being provided by working people and their employers, is the money that is being used to fund. There really is not a large buildup of cash in this program. It is a cash flow situation.

But everything that we look at, there should be sirens and red lights flashing and everything else, but I get the feeling that somehow if we can just get past this crisis, we will be all right because tomorrow the sun is going to come out. So all we have to do is get through the storm tonight. Then tomorrow we will get up and we will go to work. The sun will be out, and everything is going to be fine.

But the reality of all this is Washington's inability to face long-term problems is what continues to drive our debt through the ceiling. I mean, I see us getting to the point where the only payments we can make are interest payments on our debt. We will never be able to address the principal.

Every one of these programs is unsustainable under its current structure, and so I am trying to understand. While we all agree with that, so where is the substantive change? Where is the structural change? Where is the ability not only to recognize that you are on the Titanic and the iceberg is right in front of you as opposed to "do not worry. We can probably get through it tonight and tomorrow we will be on even seas again"?

I just do not understand that. I have been here and this is almost five years. Honestly, coming from the private sector, if this were happening in my business, what I would be doing is advertising that this business is for sale because it is no longer sustainable, the model I am on, and structurally I cannot exist.

Is there anything you see happening that is going to sustain it? We have got to make sure we are able to keep promises to people that we have already made and they feel they have paid into. And the reality of it is they paid some into, but the return on it because of the numbers, the actuaries say, okay, fine, up to a certain point, but people are living a lot longer. So that debt keeps growing and that commitment keeps growing.

What would you suggest right now today? I mean, we have to have serious structural changes to this and not just talk about a temporary transfer of cash to make payments.

Mr. LORENZEN. We definitely need to make structural changes both on the benefits and revenue side. We need to look at the program comprehensively for a solution. Unfortunately, what we have seen with Social Security and with other issues generally is that action happens when there is a crisis and action forcing event.

In contrast, in 1980 we did a reallocation that only extended the Trust Fund for a limited period of time, and there was still a deadline out there and the pressure for action, and then there was inter-fund borrowing. That led to the 1983 reforms which did extend solvency because there was that deadline and that pressure as opposed to 1994 when we did a reallocation that extended the Trust Fund for 20 years and there was no action.

I think there is no shortage of ideas, and we know what the options are in terms of looking at the revenue side or changes in the benefits and retirement age and cost saving adjustments and other

changes, and that there is a policy decision to be made about what the proper mix of actions needs to be taken, but it needs to be taken sooner than later, and unfortunately absent the pressures, it is unlikely that that is going to happen until it is too late.

Mr. KELLY. Well, policy is always trumped by politics, and it is a shame. But we know it is coming. We know it is already here, and we have had our head in the sand for far too long.

This is a very serious thing. If we are going to keep promises, we have to make structural changes.

Thank you. I appreciate it.

Thank you, Chairman.

Chairman JOHNSON. Well, you heard him. What is your solution?

Mr. LORENZEN. Well, I think that we need to look at a combination, and I think there is a wide range. I did work on the Simpson-Bowles Commission, which I thought had a balance, but I think there is, you know, a good range. There needs to be some combination of looking at reducing benefits for middle and higher income workers, increasing the eligibility age with an increase in—

Chairman JOHNSON. What is your number one solution?

Mr. LORENZEN. I do not think there is any one single one. I think it needs to be a combination looking at it together, looking at both on the benefits side and the—

Chairman JOHNSON. You would be lucky if you get concurrence throughout this Committee, much less the Congress.

Thank you.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

I would like to take up maybe where my friend from Butler left off. First of all, I do not feel comfortable with the indictment. Over the course of the last 20 years, Republicans in the House have been in charge 16, 17 of the 21 years. I do not want to have a broad brush indictment for them not doing anything since 1994.

I am embarrassed that when we were in charge for four years that we did not move forward. I do not think it is that hard. The rhetoric about somehow this is a system that is bankrupt and is not going to be there for our young people I think is bogus.

The system if we do not do anything will pay 75 percent of the benefits. The sooner we act, the less disruptive it will be. All of our witnesses agree, notwithstanding the rule that you have passed, that there will be a reallocation. We will waive that point of order, and there will be a reallocation. You witness has said that; our witness has said that.

I really would like us to be able to focus in on what we do going forward. What is the cause? We have had identified that there was a major demographic shift. We have got more women now working, and that was perceived. We have got geezer Baby Boomers like me who are in our prime disability years, some of us more than others, and something that does not get enough attention is that we also back in 1983 where there was bipartisan action, we raised the retirement age.

So there are a lot of people now who are on it for two more years that did not happen. So we have really made a significant demographic shift. I think all of us ought to go visit our Social Security

offices. Talk to the people who work there. Look in the waiting room.

Those of you who have done it, it is an eye opening experience. There is no doubt in my mind that there are a few people who are gaming the system, and I want us to be able as a committee to focus on how we fix that. I would just say respectfully that I do not think the way we fix that is cutting the Social Security Administration by 5,000 people when the work load is going up, which happened recently, and I think we need to reflect on that and talk to the people who are working in those offices about what it means because there are some complex issues in terms of dealing with people with disability. It is not easy.

Now, I want to deal with what the big issue is, and that is we have put off as a Congress, both parties have put off diving in to make the hard decisions. I do not think the decisions are that hard.

When we last were as a Congress dealing with Social Security, I spent a lot of time with people in my community talking about what the situation was, acknowledging that we could not go on for 30 or 40 years. I do not want my kids to be facing a 25 percent reduction.

But as I talked to people they understand that there are about a half a dozen things that are going to happen. We are going to cut benefits. We are going to raise taxes. We are going to broaden the base. We might do something in terms of another benefit cut in terms of what is the inflation rate, and maybe we do something for well off recipients who are treated differently than others, but it is six or seven things.

That has not changed in two years, five years, ten years, 20 years.

You know, Mr. Chairman, one of the things I would like to explore with the committee, maybe we could declare National Fix Social Security Day. I am serious, and it would be maybe the day that Lily got the first Social Security check, and we get ready for it.

I actually drafted legislation in this regard, and I thought I had a Republican co-sponsor who thought differently of it because of some other thing going on, but I think if we had a National Fix Social Security Day where we had every Rotary Club, every church group, every social studies class, every college economics class sit down for an afternoon with some of the terrific Web sites that you can get and a piece of butcher paper and design their own fixes; I think we would be shocked at how much consensus there is.

Everybody is going to pinch a little bit. Nobody is going to get everything they want out of that, but Congress makes it harder than it needs to be, and I appreciate the focus here, that this is just a blip. We will do some reallocation. We will waive the point of order, and maybe we will do something about some of the cheaters, but the elephant in the room, we have got about 20 years and that \$2 trillion surplus that we planned on is going to be exhausted, and we will have to act.

And I would like us to try and do something that involves the public in that action. I think it is not as hard as it would be, and I would love for us to take a shot at it.

Thank you for your courtesy.

Chairman JOHNSON. Thank you.

I think we probably can take a shot at it, especially with all of these guys.

Mr. Buchanan, is he here? He left. How about Mr. Young?

Mr. YOUNG. Thank you, Mr. Chairman. Much appreciated.

And I thank all of our panelists for being here today.

You know, I think our mindset here should be, in this introductory kickoff meeting of the Social Security Subcommittee, we should be focused on structural changes, on fixing the problem, not the reallocation of funds. I think all of us have said from the outset there ought to be reassurance among beneficiaries of this program that all of us are committed to solving this problem and ensuring that the Disability Trust Fund remains sufficiently solvent to pay out benefits that are much needed by a lot of American. So we are all committed to that.

Let us not be distracted, however, by this diversion of funds argument. Let us focus intently on ways to not only make the DI Trust Fund solvent because it is going bankrupt in two years, but to make the larger program solvent using some of the instrument and tools that my good colleague, Mr. Blumenauer just alluded to.

So I do think we can work in a bipartisan way. I really do. I think we have an opportunity, a rare opportunity to do something big on this Subcommittee. That is why I came to Washington, D.C., and you know, let us resist the temptation to demagogue. Let us resist the temptation to question motives. Let us figure out what the real tools and solutions are here.

Dr. Blahous, you said the relative health of the Retirement Trust Fund, Old Age and Survivors Insurance, is much worse than the Disability Trust Fund; is that correct?

Mr. BLAHOUS. It faces the larger actuarial imbalance of the two funds, yes.

Mr. YOUNG. Mr. Lorenzen, to your knowledge has Congress as a matter of historical fact ever shifted funds away from the Trust Fund in worse financial shape to the one in better financial shape?

Mr. LORENZEN. No, that has never happened before. It has always been from the Trust Fund either in a surplus or facing a much smaller deficit.

Mr. YOUNG. So as has been pointed out, we do not have to follow historical precedent on this Committee. We have a prerogative to do something unique, something creative.

I think that would be a bad creative, an irresponsible creative solution as legislators. I think we can have a respectful dialogue about that, but there is no precedent of doing so.

Dr. Blahous, for the past several years the trustees have urged action soon to address the entire Social Security Program's finances. Please explain. I feel a sense of urgency here. Some of it is visceral. Some of it is mathematic. Some of it is informed by conversations I have had that are options for reform become more limited the longer we wait, and it I the latter portion I think would be most instructive for whomever might be either participating in or observing these hearings if you could speak to that matter directly: how our options become more limited over time.

Mr. BLAHOUS. Sure. If I could take two approaches to that.

Mr. YOUNG. Yes, sir.

Mr. BLAHOUS. The first is that there are certain illustrations that we put in the trustees report each year, and we have added them to the report in the last few years precisely to dramatize this point, which is that our options become more difficult the more that we delay.

And one of them I referred to earlier in my testimony, which is that if you assume you want to hold current beneficiaries harmless, and I think for the most part people on both sides of the aisle do want to, and if you just assume purely for the sake of illustration that you are holding tax revenues constant and you ask what would be the size of the benefit restraint you would have to impose on new beneficiaries to get the system in balance; if you enacted that type of solution today you would have to cut those benefits by about 21 percent.

If you tried the same thing in 2033, even 100 percent benefit elimination for people newly coming onto the rolls would be insufficient to repair program finances.

So whole categories of options basically come off the table if you delay to the point where we're nearing Trust Fund depletion. So that's one tack that I would take.

The other is simply from the standpoint of political realism. In 1983, those reforms came very close to not happening. They were intensely difficult to enact, and the program came within a few months of hitting that insolvency point. It was very difficult. They had to do a six-month delay in the COLA. They had to raise the retirement age. They had to accelerate an increase in the payroll tax. They had to bring all of the newly hired federal employees into the system. They had to expose Social Security benefits to taxation for the first time. It almost did not happen.

The shortfall today is already about twice as big as it was then. It is substantially bigger the way that we report it in the trustees report, but we analyze it a little differently today than we did in 1983. If we used the same methods, we would have to inflict about twice as much pain today.

Mr. YOUNG. So let us see if you can do this yes or no. The longer we wait in your estimation, in your moral calculus, do we end up hurting people more if we wait longer to enact structural changes to these programs?

Mr. BLAHOUS. Not only do we end up hurting people more the more we postpone change. I think we render it less likely we can get a solution that retains the historical financing structure of the program. I think we are in that much danger already.

Mr. YOUNG. Thank you all.

I yield back.

Chairman JOHNSON. Thank you.

Mr. Schock, you are recognized.

Mr. SCHOCK. Well, thank you. I think a lot of important facts have gotten out there, and I think job one of fixing any problem is identifying the problem and the cause of the problem.

I, too, would join with Mr. Blumenauer and say the time is now for some action, and the sooner we take action the less bloody and nasty it has got to be, and particularly for my generation and generations to come.

And so I would love to work with you. Obviously the President put together a commission that came up with something that Republicans and Democrats had a compromise on. Simpson-Bowles made reforms to Social Security, never made it to the floor, but I think there are definitely some areas of common ground that have already been identified that I would hope we could work together on.

So I sincerely hope that beyond this meeting today we can maybe start meeting and come up with something.

I mentioned earlier that the overall Social Security Trust Fund is about to become insolvent, and when it does, it would be about a 25 percent cut roughly to current recipients. The quicker one though is disability, and I am wondering if we do not do anything and the solution is using the revenue stream currently that is used to fund them, what would the payroll taxes for the disability fund have to go to to meet the current needs of those on disability?

Mr. BLAHOUS. If we were just doing a change in the disability tax rate to put it back in 75-year actuarial balance, well, I know the average. The actuarial deficit in the Disability Insurance Trust Fund is 0.33 percent of taxable payroll. So in theory you could do, you know, a 0.4 percent payroll tax increase, and that would put DI in actuarial balance.

I am not sure if that solves your cash flow problem though because the annual deficits are bigger than that in the near term. So it's one of the—one of the strange artifacts of Disability Insurance and Old Age Insurance flows, our projections are that the disability deficits are actually at a relative high point now, and they are going to go down a little bit as the Boomers move onto the OASI Trust Fund.

So you would have to have a substantially larger payroll tax increase in the near term just to keep disability afloat, and I am reaching off the top of my head, but maybe 0.6, 0.7 percentage points is a guess. I do know the dollar amount. It is about \$205 billion in additional taxes you need from 2015 to 2023 to go into DI to maintain that balance ratio of 20 percent or more.

Mr. SCHOCK. Well, again, I applaud the chairman for having this hearing, and the work you are doing on the Disability Trust Fund because obviously that is the here and now, quickest one that we have got to deal with, but on the broader issue, I hope that we can move on a comprehensive fix, a long-term fix to the underlying Social Security fund.

I would hate to see a future generation's Social Security dollars that they have paid in swept to pay for the unfunded liability in the Social Security Disability Fund, which it appears is where we are headed if we do not do something more responsible.

I yield back. Thank you.

Chairman JOHNSON. Thank you.

I agree, and, Mr. Reed, you are recognized.

Mr. REED. Well, thank you very much, Mr. Chairman.

If we are going to be sincere about fixing this problem, I think we need to change the rhetoric of this Subcommittee. When I hear the ranking member, my good friend from California, say that it is the rule change that is going to cause people that are in a disability state to suffer a 20 percent reduction in their benefit, that

is just blatantly false, and I would ask the gentleman from California if he is sincere in solving this problem to recognize that it is not a rule change. It is the insolvency of the Disability Trust Fund.

The rule change only deals with the allocation adjustment of the payroll tax that is proposed to be a solution, but am I correct that that has not been enacted? That is going to take a legislative action to do.

So my colleagues on the other side of the aisle are assuming that this body will do something legislatively. I learned in life early on you never assume. You hope for the best. You prepare for the worst.

So this rule change that we have advocated for on our side has in my opinion put this issue out there, out there with enough runway to have an open and honest debate about how to solve this Disability Trust Fund insolvency issue. And we can do it, and we can start with agreement, to my good friend from California, that we need to work together to protect the disability recipient.

But we can also do it better than what they have done before. I am a new member here, coming in 2010. I do not accept the status quo. I do not accept the argument from the panelist that this is the way we have done it so this is the way we should do it going forward.

We came here as a new generation of leaders to implement solutions, and one of the things that I object to is the assumption that we have to use the retirees' money out of their trust to bail this out.

So I put a question to each of you. Are there any other funds available to tap into to do an allocation to the Disability Trust Fund other than the Social Security Retiree Trust Fund?

Mr. BLAHOUS. Just speaking as a trustee, remember I am a trustee not only for the Disability Insurance Trust Fund, but also for the Old Age and Survivors Trust Fund. So from my vantage point from where I sit, the last place I would want you to take it from is the Old Age and Survivors Trust Fund because I am the trustee of that Trust Fund as well. Now—

Mr. REED. It is going to put further pressure on that.

Mr. BLAHOUS. It is going to put further pressure on that. Now, having said that, I would say I have philosophical concerns about tapping general fund revenues to support Social Security because I think that is a very dangerous line to cross as well. Basically once you start subsidizing the program from general revenues, I think that—

Mr. REED. How about in 1981 when they used the Hospital Insurance Trust Fund, which appears to be projected to be solvent until 2030?

And you, Mr. Phillips, are from an organization that wants to preserve Social Security and Medicare. So I guess you do not have a problem with raiding the Hospital Insurance Trust Fund from Medicare to bail this out. Because you do not care where it comes from, just so it is taken care if is how I read your testimony.

Mr. PHILLIPS. As a point in fact you could not take any money out of the Hospital Fund.

Mr. REED. So in 1981 they did not have legislative authority to do that? It was illegal?

Mr. PHILLIPS. It expired. The authority no longer exists for inter-fund borrowing.

Mr. REED. So if we take legislative action and do it?

Mr. PHILLIPS. If you wanted to do it, you need to enact legislation to make that—

Mr. REED. Yes. So you have a problem with raiding Medicare in order to balance the Disability Trust Fund?

Mr. PHILLIPS. Oh, yes, we have—

Mr. REED. I understand your testimony. This is the point. This is the point. We need to do better. We need to do better, and while we have this opportunity here, I am very interested in ways that we can improve the program because what we are doing to people on disability on the Trust Fund is often we are trapping them in this Disability Trust Fund because it is an all or nothing situation.

We can do better than that. I have been with disabled folks, looked them in the eye, and I look them in the eye today and I will say, "We are going to take care if this. We are going to make sure you get that benefit that you need and that you rely upon, but we are going to do better, and we are not going to get you trapped in the disability Trust Fund. If you want to get back to work, we are going to stand with you. We are going to improve that program, and we are going to allow you to have the greatest maximum capability of your life."

And that is what half of the Federal Government does, the American with Disabilities Act. The whole purpose is to get the people in the disability community into mainstream, back to work. Why would we have a Disability Trust Fund that says, "Do you know what? If you go back to work, you are going to lose your benefit." Why? We can do better than that.

So this is the start of the conversation. Thank goodness we changed the rule because if we did not change the rule, do you know what would have happened? Exactly what my colleagues on the other side want to do: hell bent on spending that retiree fund money to bail this out and we wait a year and a half and then do it at the last minute.

We are going to have the conversation now, and the new leaders up here are going to lead that charge with our chairman to make sure that we do a better job for our disability community than what we have been doing up to this point in time.

With that I yield back.

Chairman JOHNSON. Thank you.

Mrs. Black, do you care to comment?

Mrs. BLACK. I do. Thank you, Mr. Chairman. I really appreciate your allowing me to be a visitor on this Committee. Although I have previously been a committee member, I appreciate your allowing me to be here, and I have a real interest in this.

I do want to say my colleague from Oregon who made a comment that we should visit our Social Security Disability Offices and actually work through the program, I highly recommend that. I have done that. I have gone into my local agency as if I were applying. I have also gone to the Office of Determination and all the way to

the ALJ, and it is a very eye-opening experiment, and I would suggest that everybody on this Committee actually do that.

But let me go to a couple of things here, and I may repeat some of the things that have already been said by my colleagues, but one of them is the terminology that is used. It really concerns me that we use words like “rebalancing” and “reallocation” because that really means something different to me. It means robbing Peter to pay Paul.

And, Mr. Phillips, I was interested in your written testimony and also your testimony that you gave us just a little bit ago that say the projected DI shortfall can be easily, easily eliminated by rebalancing the flow. That simply means you take from one fund in order to put into another fund, and that is what I have been brought up to understand is robbing Peter to pay Paul.

So if we take from the OASI, eventually that will go bankrupt, and then where do we take from? We take from the general fund. We are already about \$500 billion we are borrowing each year in that. So that is really not a solution.

I am interested that most of the talk has been the way to solve this is it could be an all tax solution where we increase the tax maybe or we reduce the benefits, maybe do a little bit of work as my colleague from Texas said on looking at fraud.

But what I want to go to is something that I saw during my visit and heard from those who work in this industry, is that we have not done a good job with job reclassification, and that goes to the point that my colleague from New York has just talked about, about getting people back to work. Because at least from my experience of what I saw when I went to these different steps and also what we have heard testimony from others who have come here is that we are not doing a good job in making sure that when someone comes in to apply for disability that what we are trying to do is to get them back into the work force.

I think this is more than just a financial, but this is also a quality of life. And so I do not know whether one of you would like to talk about that, if that is a piece that you have seen and you would like to address, but I think this is a very critical piece that does not get talked about very often.

We talk about reallocations and rebalancing, but the true reform, as my colleague from New York has talked about, is really what needs to be done, not just for the benefit of the financial piece of it, but the benefit for the individual and the quality of life.

So would one of you like to address that issue?

Mr. LORENZEN. I can speak to that. That is definitely an area that needs to be explored for reforms. We found from the Ticket to Work Program, while we should continue once people get onto the DI rolls trying to find them to get back to work, that the really most effective strategies are early intervention strategies that help provide support to people who are disabled to remain in the workforce and other interventions before they go onto the rolls of trying to keep them in the workforce.

Those things may not actually produce much in the way of financial savings, but if an individual is able to stay in the workforce, it is beneficial to that individual, and it is beneficial to society as

a whole. It may produce new savings over the long term, but it also may involve some more costs in the near term.

I think the President's budget has some initiatives that look at trying to do that, but I think we need to be looking at that much more aggressively, trying to find before people go on the rolls what can we do to keep people in the workforce, which I think most people would want to do if they can.

Mrs. BLACK. I do. Mr. Blahous, do you want to weigh in on that?

Mr. BLAHOUS. Well, I do. Labor force attachment is a pet issue of mine not only in the Disability Fund but also with the Retirement Trust Fund. I think there are just fundamental problems with the design of the system, moving people out of consistent attachment to the workforce, people who would otherwise want to be and choose to be, but in some ways the system not only on the disability side, but the retirement side pushes them where they do not want to be.

And I would just accentuate some of the points that have been made here. We have to have legislation of one kind or another. The threat of a 19 percent benefit cut is not because of a House rule or anything else. That is what is happening under current law. We have to have legislation to avert that.

So there is an opportunity here not only to avert that 19 percent benefit reduction, but also to put things on a course where the system is in better shape and it is serving people better in the years ahead.

So I would say rather than looking at the existing rules as a barrier to getting something done, I would look at the process as an opportunity to both shore up the health of disability, protect people who are on disability, make improvements to the way that the program functions so that we are not facing even bigger problems a couple of years from now.

Mrs. BLACK. And I know my time has expired, and thank you, Mr. Chairman, but I would ask any of the panelists who have ideas about how we might be able to look at that particular piece and how we might be able to write some legislation to resolve that.

Because I do believe if you can get people back into the workforce, not only does it make a better quality of life, but you have got to say if somebody gets on Social Security disability at the age of 25 and they live to be 75 and there is 50 years of Social Security disability, that would save us money. But I am more concerned about making sure that people have quality of life.

And so thank you very much for your testimony. Thank you. I yield back, Mr. Chairman.

Chairman JOHNSON. Thank you.

Mr. Becerra, do you have a comment?

Mr. BECERRA. Mr. Chairman, thank you very much.

I just wanted to respond to my friend, Mr. Reed, from New York briefly and say that I respect if we have a different way of looking at that. There is no problem with that. That is what this country is about.

And I think the most important thing that Mr. Reed said is he thinks that, and I agree with this, that we can come together and figure out a way to do this regardless of how we characterize these things.

At the end of the day I think all of us want to make sure that Americans who paid into the system want to go ahead and get their benefits whether disabled or retired. And so I think probably the best thing that has come out of this hearing is that I think pretty much every one of us at this table has said let us figure out a way to sit down and do this.

Mr. REED. Will the gentleman yield?

Mr. BECERRA. Absolutely.

Mr. REED. I will give you my public commitment, as you have given your public commitment to me, to work in a bipartisan basis to accomplish good reforms for the disabled and the recipients of these benefits. So I appreciate that sentiment, and I look forward to working with the gentleman from California on that.

Mr. BECERRA. I look at that as an opportunity for all of us to work together.

So, Mr. Chairman, I just want to say I think it is a good start, a good hearing to be able to move forward, and I think the spirit here is to try to figure out a way to work bipartisanly on this, and I hope we are able to do that.

With that, I yield back, and I thank you for giving me a moment to speak.

Chairman JOHNSON. Thank you.

I appreciate you all waiting for us while we went and voted twice, and you would be interested to know that Mr. Boehner kind of read the Riot Act to everybody because our voting took so long.

Thank you to all our witnesses for your testimony, and thank you to the members who attended today.

This is an important time for the Disability Insurance Program, and I am committed to making sure the benefits millions of Americans and their families count on are there for them, while also making the program work better, and we look forward to you all helping us do that.

We cannot keep kicking the can down the road. The American people want, need and deserve a solution.

With that, the committee stands adjourned. Thank you all for being here.

[Whereupon, at 4:50 p.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]

February 25, 2015 Hearing Record

Questions for the Record

Charles Blahous

Questions from Chairman Sam Johnson:

Q1: Some have argued that since the 1995 Trustees Report estimated the Disability Insurance (DI) Trust Fund would deplete its reserves in 2016, the situation we are facing today should come as no surprise. Have the Trustees consistently projected that the DI Trust Fund would face exhaustion in 2016?

A1: The projected date of the DI Trust Fund reserves' depletion has varied with the year the estimates were made. The currently projected year of depletion (2016) matches the projection from the preceding two trustees' reports as well as, as the question notes, the 1995 report. However, there have been other intervening trustees' reports projecting longer durations for positive balances in the DI Trust Fund. For example, the fund's projected reserve depletion date ranged from 2025 to 2029 in the 2001-08 annual trustees' reports. The projected DI depletion date moved much closer after the Great Recession simultaneously produced an increase in benefit claims and a decrease in program revenues.

It is fair to say it is not a surprise that the DI Trust Fund is facing depletion sooner than the OASI Trust Fund or the theoretical combined OASDI trust funds, though the DI financing crisis is now more immediate than was anticipated prior to the Great Recession. As noted during the February 25 hearing, it has long been expected that under current law DI would face depletion sooner than OASI because the large baby boom generation would pass through its years of peak disability incidence before reaching retirement age. Also as noted during the hearing, the current allocation of taxes between OASI and DI was set to provide "time and opportunity to design and implement substantive reforms that can lead to long-term financial sustainability." In 1993 testimony about the proposed reallocation later enacted in 1994, the public trustees noted that reallocation would enable the DI Trust Fund to meet their 10-year test of "short-run financial adequacy," permitting more than enough time to enact needed financing reforms before depletion. As witness Ed Lorenzen noted at this year's February 25 hearing, the trustees' initial recommendation for reallocation was also accompanied by a warning against further reallocations that "could raise concerns about the financial viability of the OASI program." Summarizing, further reallocation of taxes between OASI and DI in the absence of long-needed financing reforms would be counter to the trustees' expressed intent in recommending the current allocation enacted in 1994.

Q2: In your testimony you noted that the 1994 payroll tax reallocation between the DI and Old-Age and Survivors (OASI) Trust Funds was an outlier, and that lawmakers have usually paired reallocation with other reforms to Social Security. As we consider how to ensure DI benefits continue to be paid in 2016 and beyond, what lessons should Congress take away from the experience of the 1994 reallocation?

A2: The 1994 reallocation exemplifies the problems that can arise from using tax reallocations to postpone needed financing reforms. Historically lawmakers had stepped forward to make tough decisions to slow program cost growth and shore up system finances whenever projected trust fund reserve depletion had become imminent. Because in 1994 it was felt there was insufficient analysis to inform structural reforms to DI, lawmakers reallocated taxes between the Social Security trust funds to buy additional time. The result was that the needed reforms were never enacted, and now Social Security as a whole is in much weaker financial condition than it would have been had reforms not been postponed via tax reallocation. As explained during the hearing, this is not a mistake lawmakers can afford to make again if Social Security's historical financing structure is to be maintained.

Questions from Representative Tom Reed:

Q3: The DI Trust Fund will be depleted in late 2016. I cosponsored Chairman Johnson's rule as part of the House Rules package to bring attention to and address this important issue before us. If the House were to waive the rule, what would be the repercussions?

A3: Waiving the House rule would remove a procedural barrier to reallocating funds between the OASI and DI trust funds in the absence of action to strengthen the finances of Social Security as a whole. Such action would increase the risk that necessary financing reforms would be further postponed to the point that Social Security's historical financing structure is severely jeopardized. On the other hand, upholding the rule would mean that any such reallocation of funds must occur in the context of legislation strengthening Social Security's overall finances, in keeping with most historical precedent and rendering benefits more secure.



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Answers to Questions for the Record
United States House of Representative Committee on Ways and Means
Subcommittee on Social Security
Hearing on "Maintaining the Disability Insurance Trust Fund's Solvency"
February 25, 2015

Questions from The Honorable Sam Johnson

1. In your testimony you noted that 1994 payroll tax reallocation between the Disability Insurance (DI) and Old-Age and Survivors Insurance (OASI) Trust Funds was an outlier, and that lawmakers have usually paired reallocation with other reforms to Social Security. As we consider how to ensure DI benefits continue to be paid in 2016 and beyond, what lessons should Congress take away from the experience of the 1994 reallocation?

The 1994 reallocation was an outlier in that it provided for a permanent shift in revenues to DI that was not accompanied by other reforms to the program. The only other "clean" reallocation was a temporary reallocation enacted in 1980, which was limited to one year with the stated purpose of keeping pressure on Congress to address the underlying shortfall facing the trust fund.

The 1994 reallocation was designed by the Social Security Trustees as a short-term fix to give policymakers time to address the underlying financial imbalance in OASDI. The letters recommending the reallocation and other statements by the Trustees emphasized the need for subsequent action to address the imbalance between revenues and spending. The Trustees reiterated this point in their 1995 report after the reallocation:

*"The condition of the Disability Insurance Trust Fund is more troublesome. While the Congress acted this past year to restore its short-term financial balance, this necessary action should be viewed as only providing time and opportunity to design and implement substantive reforms that can lead to long-term financial stability."*¹

However, because the 1994 reallocation enacted was sufficient to delay depletion of the DI trust fund for over twenty years, there was no urgency for Congress to heed the advice of the Trustees to restore long-term financial stability of the trust fund. In contrast to the temporary reallocation in 1980 and the subsequent limited inter-fund borrowing authority preceding the 1983 reforms, extending solvency of the combined trust fund when borrowing authority was about to expire, the 1994 reallocation was followed by twenty years of inaction.



The main lesson from the 1994 reallocation is when the pressure for action is lifted reallocation delaying trust fund depletion without addressing the underlying imbalances, policymakers avoid action until confronted by the next crisis. The experience following the 1994 reallocation suggests that if Congress enacts a reallocation of payroll taxes sufficient to prevent depletion of the DI trust fund to 2033, as the President has proposed, there will be no action taken to address the shortfalls facing the Social Security program. As a result, in twenty years we could find ourselves facing the imminent insolvency of the combined OASDI fund.

The cost of waiting for comprehensive Social Security reform is high. With every year that passes, the policy choices that will be necessary to fully address the long-term shortfall become more painful and disruptive. In twenty years, the only options left to restore solvency will be extremely high tax increases, deep and immediate reductions in benefits for current as well as new beneficiaries, or general revenue bailouts of the OASDI trust fund, which would fundamentally change the nature of Social Security's financing and place tremendous pressure on the rest of the federal budget.

There are several key differences between 1994 and today which weaken the case for a clean reallocation shifting revenues from OASI to DI and magnify the risks of repeating the experience with the 1994 reallocation. The early 90's shortfall in the DI trust fund was unexpected and due to factors that were not understood, which led the Trustees to recommend reallocation in order to provide time for policymakers to gain a better understanding of the growth of the program and determine what changes to make. In contrast, the current projected depletion of the DI trust fund has been anticipated for over twenty years. Second, DI faced an actuarial shortfall in 1994 that was four times larger than the OASI shortfall in relative terms. Today OASI faces a slightly larger shortfall in relative terms, so reallocating revenues away from OASI would make the larger shortfall worse. Most significantly, in 1994 OASI depletion was projected to be forty years away, whereas OASI is currently projected to be depleted in twenty years. We cannot afford to delay reforms for another twenty years.

Given the growing strains on the OASI program and the consequences of delaying action to address them, Congress should view the imminent depletion of the DI trust fund as a warning about the need to enact comprehensive Social Security reform to put the entire system on a financially stable course. Absent comprehensive reform, reallocation should only cover the shortfalls in the SSDI trust fund for a limited period of time to keep pressure to address the underlying shortfalls with a process that will facilitate action on comprehensive reform. It should also be accompanied by reforms improving overall trust fund solvency, making improvements to the DI program, and testing options for further reform.

2. *Some have argued that reallocation is a routine procedure, and that the need to reallocate revenues to the DI Trust Fund around this time was expected the last time Congress*



reallocated payroll taxes between the trust funds in 1994. Do you agree with that assessment?

When the Trustees initially recommended the 1994 reallocation they were uncertain whether the growth in the DI program would continue. They suggested that and the reallocation could be reversed if the growth in program enrollment subsided and the finances of the DI trust fund might be stronger than they projected. In any event, the Trustees clearly viewed the reallocation as a short-term solution to address the immediate crisis that would need to be followed up with further action by Congress to address the structural imbalance between spending and revenues if costs continued to grow as projected.

The Trustees recommendations, which Congress adopted without change, were specifically designed to ensure short-term fiscal adequacy (a trust fund ratio of 100 percent for the next ten years). The Trustees explained this would provide time to study the causes for the growth in DI enrollment and to design reforms to address the structural imbalance between spending and revenues. It is not surprising that a reallocation designed to maintain a trust fund ratio of 100 percent for ten years left the trust fund on course to be depleted in slightly over twenty years.

The fact that DI depletion was expected to occur absent further action, however, does not mean that the Trustees intended a further reallocation in 2016 unaccompanied by reforms. Indeed, when the Trustees recommended the 1994 reallocation they warned that further reallocations could endanger the financial health of OASI. In a 1992 letter to Congress the Trustees wrote:

"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 necessary to further raise the DI tax rate or lower program expenditures. A further reallocation from OASI would raise ultimately raise concern about the financial viability of the retirement and survivors program."ⁱⁱ

The imminent depletion of the trust fund reserves and the subsequent 19 percent reduction in benefits is a crisis. But that crisis has been looming for twenty years because of the lack of action to restore long-term sustainability to DI. Enacting a further reallocation of payroll taxes without taking action to address the program's structural shortfalls would completely ignore the intentions and warnings of the Social Security Trustees who recommended the 1994 reallocation.



3. *In your testimony you discussed the need to bring DI Trust Fund revenues in line with its costs. The President's Fiscal Year 2016 budget includes a proposal to increase the DI payroll tax rate to 2.7 percent and reduce the OASI payroll tax rate to 9.7 percent for five years. Does the President's proposal bring revenues in line with costs?*

The proposed reallocation of payroll taxes in the President's budget would extend the solvency of the combined DI Fund to 2033 but would not change overall revenues or spending, leaving the projected shortfall facing the combined OASDI trust fund unchanged.

Under the President's proposed reallocation, DI revenues would be almost 22 percent of OASDI payroll tax revenues for the next five years, much higher than the program's share of outlays. Currently, the DI program's share of revenues is roughly the same as its share of costs. The DI tax rate of 1.8 percent collects about 15 percent of OASDI payroll tax revenues, while DI will also comprise 15 percent of OASDI outlays over the next five years.

The President's budget would do little to improve Social Security's finances or address the underlying imbalance facing the Trust Fund. The major exception is the President's support for immigration reform, which, depending on the details, could reduce the 75-year shortfall by 5 to 10 percent. Still, by bringing in new workers who will eventually be paid Social Security benefits, immigration reform would primarily delay the day of reckoning and buy time for other reforms to be phased in – not replace the need to enact such reforms.

The budget does include several proposals which would make modest changes in the DI program, including mandatory funding for Continuing Disability Reviews, which the Office of Management and Budget (OMB) estimates would achieve savings in Social Security of \$9 billion over the next decade and greater amounts beyond that period. It also proposes limiting the concurrent receipt of DI and unemployment insurance benefits, a few program integrity measures that achieve savings in the Social Security system as a whole, and provisions that would increase revenues into the Social Security trust fund.

The proposals in the President's budget would reduce Social Security spending by \$14 billion and increase revenues by \$46 billion over ten years. These savings would improve OASDI solvency, but by a very small amount. It is also worth noting that the budget does not suggest these savings should accompany reallocation legislation. In fact, it calls on Congress to enact a clean reallocation of payroll taxes without other changes to the program that improve its finances.



In his fiscal year 2014 budget, the President proposed a shift to chained-CPI for calculating Social Security COLAs along with provisions to protect low income and vulnerable populations. The 2014 proposal would have closed roughly one-fifth of the long-term shortfall facing Social Security. However, that proposal was dropped from his fiscal year 2015 budget and was not included in the fiscal year 2016 budget either.

4. *Is the President's reallocation proposal the largest shift in payroll taxes between the DI and the OASI funds ever? Has the DI payroll tax ever been as high as the President has proposed?*

The President's proposal would increase the share of the payroll tax going to DI by 50 percent, from 1.8 percent of payroll to 2.7 percent of payroll for the next five years. That would be the largest shift in payroll taxes in absolute terms – and it matches the highest percentage increase – since the two trust funds were created. In comparison, the reallocation in the 1983 Social Security reform act increased the share of payroll taxes going to OASI by roughly 10 percent, from 10.2 percent of payroll to 11.2 percent, from 1990 to 1999; and the 1994 reallocation increased the payroll taxes going to DI by 50 percent, from 1.2 percent of payroll to 1.8 percent.

However, because the proposed reallocation in payroll taxes in the President's budget would only be in place for five years, the total shift in payroll taxes over the ten and seventy five year estimating windows would not be as large as the amount of revenues shifted as a result of the 1994 reallocation of payroll tax rates which permanently reallocated DI and OASI tax rates. The total amount of the proposed transfer in the President's budget would equal roughly 0.08 percent of payroll over seventy five years, compared to a reallocation of 0.40 percent of payroll over seventy five years as a result of the 1994 reallocation.

The reallocation proposed by the President would increase the DI payroll tax rate to 2.7 percent, the highest DI payroll tax rate since the enactment of the program. The highest the DI payroll tax rate has ever been is 1.88 percent, the level it was at from 1994 to 1996 before dropping to the current 1.8 percent rate. In addition, the President's proposal would result in DI taking a much greater share of the total OASDI tax rate than it ever has before. Under the President's proposal, the DI tax rate would represent nearly 22 percent of the total OASDI tax rate, up from 14.5 percent of the total tax rate today and well above the previous high of 15.3 percent of total OASDI tax rate.

¹ Social Security Board of Trustees, *Summary of the 1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, April 3, 1995, <http://www.ssa.gov/history/pdf/1995.pdf>.



⁸ Social Security Board of Trustees, Letter to Congress accompanying Department of Health and Human Services, *The Social Security Disability Insurance Program: An Analysis*, December 16, 1992.



June 16, 2015

The Honorable Sam Johnson
3rd District, Texas
2304 Rayburn House Office Building
Washington, DC 20515

The Honorable Xavier Becerra
34th District, California
1226 Longworth House Office Building
Washington, DC 20515

Dear Chairman Johnson and Ranking Member Becerra,

On behalf of the 1.2 million members of AMAC, the Association of Mature American Citizens, I am writing to offer our thoughts and concerns regarding the Social Security Disability Insurance (SSDI) program ahead of your upcoming hearing entitled, "The Financial Risk of Returning to Work."

Currently, large amounts of taxpayer dollars are wasted as an unintended consequence of the failure to address structural vulnerabilities within SSDI – especially as it relates to incentivizing beneficiaries to return to work. In fact, it takes considerable time for the Social Security Administration (SSA) to process earnings reports of beneficiaries who are actively seeking to rejoin the workforce and to assess a person's physical and mental ability to engage in substantial gainful activity. These factors, among others, lead to overpayments to beneficiaries who have already reentered the workforce in some capacity and whose benefits have not been adjusted accordingly. These overpayments ultimately damage the long-term financial sustainability of SSDI and threaten the integrity of the program, which is financed by taxpayer dollars.

In addition to preventing unnecessary and wasteful spending in this program, AMAC believes that Congress must take steps to limit disincentives to work that are built in to existing federal law and impact programs like SSDI. Recent studies show that fewer people with disabilities are working today than were in the past and that the percentage of the working-age population collecting SSDI benefits has more than doubled since the 1980s. With less than 1 percent of beneficiaries leaving SSDI to return to work in a given year, it is critical that Congress begin to evaluate legislative solutions to reduce overpayments and to encourage physically and mentally able Americans to rejoin the workforce.

As an organization committed to protecting and preserving SSDI, AMAC looks forward to partnering with you and your colleagues to promote solutions that will help disabled beneficiaries return to work and to ensure that SSDI is structurally and financially sound for years to come.

Sincerely,
Dan Weber
President and Founder of AMAC



Tuesday, June 16, 2015

To: House Ways and Means Social Security Subcommittee

NDRN believes that meaningful employment represents one of the best opportunities for people with disabilities as they work toward becoming a productive and independent member in their community. Social Security Disability Work Programs are among one of the many critical avenues for social security beneficiaries to gain access to employment. Unfortunately, employment opportunities continue to be very scarce for individuals with disabilities. The Bureau of Labor Statistics data paint an ongoing grim portrait of workforce participation by people with disabilities, even though work is the only pathway out of poverty. Employment of individuals with disabilities requires a comprehensive approach of supports and services, much of which was outlined in the Ticket to Work and Work Incentive Improvement Act of 1999. While there have been a few changes, many areas of work support have not kept pace with the need for services. Myths and fears around losing benefits persist as do overpayments, premature terminations, and other issues which contribute to the fear of employment.

One program, the Protection and Advocacy for Beneficiaries of Social Security (PABSS) is administered through the NDRN network. This program is funded to provide information and advice about obtaining vocational rehabilitation and other employment services as well as to provide advocacy or other services that a beneficiary needs to secure, regain, or maintain gainful employment. The issues facing individuals returning to the workforce are many and varied. And the costs are often overwhelming, emotionally and financially. While the Rehabilitation Act holds the premise of full employment of individuals with even the most significant disabilities, discrimination is alive and well despite the promise of non-discrimination held in the ADAA. The P&As assist individuals access the services they need to compete in the labor force and help them to understand basic employment rights and how and when to disclose disability. But perhaps the biggest area of confusion lies in complicated program rules in the Social Security Work Incentives.

PABSS staff are regularly encouraging beneficiaries to choose work by explaining that changes in benefits occur gradually as work activity increases, and that access to healthcare continues for periods of time. But perhaps one of the biggest obstacles to returning to work is Overpayments. Beneficiaries as individuals with disabilities are among the poorest people in the country, and work should be an opportunity out of poverty. But too often, when they obtain employment and diligently report earning to SSA, they are slapped with large overpayments that seem punitive in nature and self-defeating to their efforts of self-improvement. Despite the passage of the Social Security Protection Act of 2005 and the requirement for SSA to issue wage receipts,

this procedure is not consistently applied across the country. Wage information continues to sit in piles on the desks of SSA staff without being input into the system, and wage receipts are often not issued for months at a time. Clearly this is a result of insufficient staff to input and process the wage information. The result, many months later is a notice of wage receipt from SSA followed by an overpayment notice and an envelope to remit the amount owing by check or your favorite credit card. This is discouraging and disheartening to the individual who has worked so hard to reach a work goal.

Resources across systems are limited, but we cannot allow funding shortages to undermine the efforts of beneficiaries who seek to improve the quality of their life through work. The programs funded under the Ticket to Work, such as WIPA and PABSS, have not been adjusted upward since their passage in 1999. This clearly has resulted in an actual cut in services and supports. Combined with insufficient staffing at SSA to process wage information in a timely fashion and we have disaster waiting to happen. We need to find better alternatives to SSA staffing, wage reporting, and information management, otherwise work will continue to be little more than a pipe dream.

Respectfully,

Cheryl Bates-Harris
Senior Disability Advocacy Specialist
NDRN



SENT VIA EMAIL

June 30, 2015

The Honorable Sam Johnson, Chairman
House Committee on Ways and Means
Subcommittee on Social Security
Rayburn House Office Building, B-317
Washington, DC 20515

The Honorable Xavier Becerra, Ranking Member
House Committee on Ways and Means
Subcommittee on Social Security
Rayburn House Office Building, B-317
Washington, DC 20515

Dear Chairman Johnson, Ranking Member Becerra, and Members of the Committee:

The National Federation of the Blind is pleased to have the opportunity to submit written comments for the Hearing on the Financial Risk of Returning to Work, held on June 16th, 2015. The National Federation of the Blind believes that blindness is not what holds you back, and those among our members who are also Social Security Disability Insurance (SSDI) beneficiaries know firsthand how the program inadvertently holds them back by making it financially risky to return to work. As an organization, we are very concerned about the looming insolvency of the SSDI trust fund, the complexity of the SSDI system, and most importantly, the broken or missing work incentives for the blind. The current "earnings cliff" is acting as a disincentive for blind SSDI beneficiaries to reach their full vocational potential. We have a proposal to address these concerns by streamlining the SSDI system and incentivizing blind beneficiaries to return to work, ultimately getting people off the rolls and saving the trust fund money.

Our approach has three aspects. First, we recommend a \$2 for \$1 phase out of benefits instead of the current earnings cliff. Second, we recommend that the trial work period (and in effect the extended period of eligibility) be eliminated for blind beneficiaries. Third, we recommend that blind work expenses, which are currently only offered to blind Supplemental Security Income (SSI) beneficiaries, be extended to blind SSDI beneficiaries. These three changes will create incentives for blind SSDI beneficiaries to return to work, a simple system, and streamlined work expenses for blind individuals. Below are the stories of three individuals: Mr. Tony Jones from Texas, Mr. Dave Meyer from Illinois, and Ms. Terri Wilcox from Michigan. Their stories shed light on how the current system disincentivizes work, and illustrates how our proposal will do the opposite, allowing them to attain the work they seek without penalty.

Tony Jones

Mr. Tony Jones is a member of the National Federation of the Blind of Texas. He is currently employed by Yellow Cab/Metro Sedan as an Americans with Disabilities Act (ADA) coordinator in Houston. He sincerely enjoys his work, as his largest task is helping drivers understand the importance of treating passengers with disabilities respectfully and ensuring their safety. For example, he teaches drivers how to properly secure wheelchairs in their vehicles.

As the ADA Coordinator for Yellow Cab, Tony works an average of twenty-nine hours per week at \$12.00 per hour. His hours fluctuate week to week, but on average he makes just over \$1,500 a month. Recently, Tony was offered an opportunity to increase his hours. He turned down the increase in pay because he was concerned that he might exceed \$1,820 in a month. In Tony's case, increasing his workload could actually decrease his take home pay because he would be making more in his paycheck, but it would not be more than he would be foregoing if he exceeded substantial gainful activity (SGA) and lost his SSDI benefit. If his hours continued to increase, or he earned a raise, it is possible he could eventually get back to taking home the total amount he used to before losing his benefits, but there is no guarantee of that. For Tony, it does not pay to work more; it pays to stay on SSDI.

To clarify, Tony's SSDI benefit is \$1,000 per month. When that is added to his monthly income from work of \$1,500, his gross take-home income is \$2,500 per month. If Tony starts working forty hours a week at \$12.00 per hour (instead of twenty-nine hours a week) and he works the average twenty-two days a month, he would earn about \$2,112 (\$12.00 x 40 hours x 4.4 weeks) per month. Since he would exceed SGA (\$1,820), he would lose his \$1,000 SSDI benefit entirely. Instead of grossing \$2,500, as he does working part-time, he would only gross the \$2,112 that he would earn as a full-time employee. That means it actually costs Tony \$388 (\$2,500-\$2,112) a month to work more. This is the opposite of a work incentive.

Instead, the National Federation of the Blind proposes a \$2-for-\$1 phase-out of benefits starting at SGA. Starting the phase-out at SGA is important; there will be no losers under this new system, only winners since it will always pay more to work more. There will be no "donut holes" that SSDI beneficiaries will be trying to avoid. In Tony's case, should he increase his hours and make \$2,112 a month in gross income, the \$292 extra a month that puts him over SGA will not result in the original \$388 penalty, but rather a \$146 loss of benefits (half of the \$292 that he is over SGA) a month, putting his total pre-tax income at \$2,966. That means he would lose one dollar for every two dollars he earns over SGA, and under this scenario, it clearly pays for Tony increase his hours. He could earn his increased salary, still receive his reduced SSDI payments totaling \$854 a month, and save the Social Security Administration (SSA) \$146 a month. This rule would allow Tony to bring more money home, while also paying more money into the SSDI trust fund. This rule would be a clear incentive to work as compared to the current rule.

Although \$146 per month may not seem substantial in terms of savings for the SSDI trust fund, it is at least taking a bite out of the colossal apple. Under the current system, Tony will strategically ensure that he does not earn more than \$1,820 so that he can continue to receive his full \$1,000 benefit and take home as much money as he possibly can. Under our proposed system, he will not hesitate to take promotions and raises. In fact, Tony will very likely receive a raise over time, and the \$146 monthly saving from the SSDI trust fund will almost certainly increase over time.

Dave Meyer

A \$2-for-\$1 phase-out would have also benefited Mr. Dave Meyer, a member of the National Federation of the Blind of Illinois. In the early 1990s, Dave was a part-time music therapist for a school called Marklund. At the time, he was working two days a week and collecting an SSDI benefit of \$700. Dave was a dedicated, hard worker, and his students really benefited from his instruction and connected to the songs he wrote. Recognizing his value, the director of the school asked Dave to work three or four days a week instead of two. Dave was very hesitant to take the promotion because he knew he would be jeopardizing his SSDI benefit. Ultimately, Dave and his employer reached an agreement wherein he would indeed increase his hours, but since he would lose his SSDI benefit, the agreement was contingent upon Dave's ability to secure another part-time job to try to simply balance out his previous take-home pay to his new take-home pay. Unfortunately for Dave, even while working two part-time jobs and averaging over forty hours a week of work, which required him to leave his house before 7:00 a.m. and not return home until almost 11:00 p.m. on some nights, he was making less than when he was working part-time and receiving SSDI benefits! It took him over four years to become a full-time employee and earn a raise before he finally made more income than when he was an SSDI beneficiary. Due to budget cuts, Dave lost that position. He is now discouraged; he is not in the labor force, and he is not looking for work. This experience showed him that it is not worth it to go to work because it does not pay more to work more.

If there were a \$2-for-\$1 phase-out, Dave would have benefited in the past, and he would be motivated now to actively seek work opportunities. But instead, Dave collects a full benefit. Both he and the SSDI trust fund are "losers" under the current system. Dave is not meeting his full vocational potential; the SSDI trust fund is not saving (and earning) money while Dave is a discouraged worker.

Terri Wilcox

Ms. Terri Wilcox is a member of the National Federation of the Blind of Michigan. She taught students voice lessons for Home School Connection in Ann Arbor, Michigan, for many years. She worked as a seasonal worker and was compensated only when students were in school; she received paychecks of \$900, four months out of the year. Terri was confident she could secure more students if she taught privately, but she never took this chance because she feared making too much money and losing her SSDI benefit. Terri expressly said that it did not make financial sense for her to take on more students on a full-year basis because her pay from the school district would have potentially put her over SGA.

Even while staying underemployed and under SGA, the SSDI system penalized Terri's choices instead of incentivizing her to explore and expand. Because Terri's pay schedule was set up so she got paid twice in a three month period (\$900 a month for two months rather than \$600 a month for three months), Terri's limited income still exceeded \$780, meaning each month she earned an income triggered her trial work period and ate away at the months she was supposed to be spending exploring advanced employment options.

The intended goal of the trial work period (TWP) is to offer flexibility for beneficiaries trying to return to work, allowing them to pursue those opportunities without losing benefits. In theory, this aspect of the SSDI program is supposed to incentivize work. However, the system fails to incentivize people to work because the trigger for the TWP is significantly less than SGA, even though the purpose of the system is to allow people to earn more than SGA during this nine-month transition period without jeopardizing benefits. Why is the *trial* work period triggered by an income level well below SGA? As a result of this discrepancy, individuals, such as Terri, who decide to work even part time often trigger their TWP, and, in effect, their extended period of eligibility (EPE), long before they are even near SGA. Then, when they do get close to the actual earnings limit, they are without a buffer period between receiving benefits and obtaining SGA-level work.

Not only are the TWP and EPE confusing, but they clearly do not achieve their intended goals. By replacing the TWP and EPE with a \$2-for-\$1 phase-out, the complicated, confusing system will be streamlined. Blind beneficiaries (and counselors) will no longer need to keep track of how many months beneficiaries have earned over \$780, or keep track of when the EPE starts and concludes, or whether work incentives and flexibilities are available or accidentally used up. Instead, a simple calculation made on income earned can occur each month. Individuals like Terri will no longer be confused about when her TWP and EPE started and ended; it will always pay to work, and it will always pay more to work more.

The \$2-for-\$1 phase-out model is very similar to the SSI model. Innovations in technology make it easy for SSI beneficiaries to report their earnings to the SSA via phone or mobile app, and benefits and eligibility are determined according to that data. If the SSDI system were simplified, the same effective technology could be used by SSDI beneficiaries. This will save time, reduce the number of SSA employees needed to explain the complicated system, and reduce the number of visits confused or in-jeopardy SSDI beneficiaries frequently pay to SSA for clarification.

Blind Work Expenses

In addition to the aforementioned benefit offset, or \$2-for-\$1 phase-out, and the elimination of the trial work period, the third reform we recommend is streamlining the work expenses “deductions” for all blind beneficiaries. Under the current system, blind SSI beneficiaries may utilize blind work expenses (BWE) while blind SSDI beneficiaries can only utilize impairment-related work expenses (IRWE). Under both systems, beneficiaries can deduct work-related expenses from their “SGA cap.” It would be clearer to everyone involved if blind SSDI beneficiaries could utilize BWEs, which allows them to deduct “any expenses reasonably attributable to the earning of any income.” Blind individuals encounter more costs when returning to work than sighted people. For example, if a blind person lives in a rural area, oftentimes no public transportation is available. These individuals have no choice but to use a cab service every day just to get to work. Since such commutes are likely long, fares add up quickly—leading to much more of a cost than a sighted person, who could drive, would have to pay to simply get to work. To even call a cab a blind person might use the browser or mobile app on their mobile phone, but there are very few accessible touch-screen handsets on the market today. Consequently, mobile phones that are accessible are almost always the most expensive option. In addition, blind SSDI beneficiaries who return to work might utilize a refreshable braille display, a braille embosser, and other specialized

technology that can cost thousands of dollars. These are just a few of the barriers blind people face when considering whether to return to work, and then they have to consider whether these expenses are considered BWEs or IRWEs, as some often only fall into one category. To streamline the system, all blind beneficiaries, regardless of whether they are SSI or SSDI beneficiaries, should be able to utilize blind work expenses.

Conclusion

Tony, Dave, and Terri would benefit from a simplified system that gradually phases out benefits. This gradual phase-out will result in a real work incentive that achieves its intended goal of helping blind SSDI beneficiaries return to work. For blind beneficiaries like them, it would mean receiving a raise from their employer, and more money in their pockets. The confusion that currently exists with regard to a TWP and EPE starting and ending would be completely erased. The government would also benefit from a system that gradually phases out benefits. For SSA, it means less people receiving full SSDI benefits every month, and more money into the system. Additionally, a simpler system will result in less work for SSA counselors whose main role is helping SSDI beneficiaries navigate the confusing system.

Employers benefit from a simplified SSDI system, too. For them, it would mean more options for their employees with disabilities and unlimited access to their talents. And under such a system, the potential for full financial independence for SSDI beneficiaries is immeasurable. It will always make sense for beneficiaries to advance in their field and accept raises, which means it will always make sense to pursue promotions and achieve more, eventually becoming economically self-sufficient. It is generally accepted knowledge that success is reached in increments, and we must foster those increments if working SSDI beneficiaries are to reach the peak. With a phase-out of benefits, there will never be a situation in which a step up the ladder means reduced take-home pay.

The elimination of the trial work period and extended period of eligibility will help individuals like Terri. During some months, she has the potential to make over \$780, but in other months, she may make nothing. While it is helpful that the nine-month trial work period does not have to be consecutive, it is unhelpful that the trial work period is triggered when a blind beneficiary earns \$1000 less than SGA. The trial work period as it exists now is a not an accurate trial work period. Many times, it is not an accurate reflection of blind beneficiaries' true potential.

By applying blind work expenses to all blind beneficiaries (SSI as well as SSDI), blind SSDI beneficiaries will have more of an incentive to work. Additionally, the system will be less confusing as well as streamlined. Many blind beneficiaries want to, and are able to, return to work. They simply need the incentive to do so, and the peace of mind to know that returning to work will always pay off for them. There are too many people out there like Dave who had negative experiences returning to work and now will never attempt to return to work again. The combination of simplifying the SSDI system by implanting a \$2-for\$1 phase-out, eliminating the trial work period, and allowing blind individuals to deduct blind work expenses from their SGA cap will be just the motivation that individuals, such as Dave, need to return to work.

Thank you for the opportunity to submit written comments for the Hearing on the Financial Risk of Returning to Work. Blind SSDI beneficiaries, with the proper training and support, can be productive employees. However, navigating a confusing system and the risk of being worse off financially are real concerns for blind SSDI beneficiaries. We sincerely hope that when the subcommittee is brainstorming ideas to help streamline the system and solve the insolvency problem facing the SSDI trust fund, our proposal will be taken into consideration. We are happy to answer any questions that may arise. Thank you again for the opportunity to submit comments.

Sincerely,



John G. Paré, Jr.
Executive Director for Advocacy and Policy
National Federation of the Blind

JGP/rs



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**Written Testimony of Jennifer Laszlo Mizrahi and Philip Pauli of
RespectAbility before the House Committee on Ways and Means Social
Security Subcommittee on the Financial Risk of Returning to Work**

Chairman Johnson, Ranking Member Becerra and Members of the Subcommittee, thank you for your leadership and your interest in the conflicting incentives that disability beneficiaries face when returning to, or seeking, work. My name is Jennifer Mizrahi and I am the President of RespectAbility, a national nonprofit working to enable people with disabilities to achieve the American dream. I myself am dyslexic, spent time as a wheelchair user, and know what it means to parent a child with multiple disabilities. Our policy director, Philip Pauli who is also an expert on these issues, joins me. Most of all, we know that people with disabilities want to have jobs and careers, just like anyone else, and that this can also save big money for taxpayers.

So much of our society has changed over the past 60 years. We have made tremendous progress in technology, medicine, education -- and in the recognition that all people must be treated equally. Why is it, then, that we continue to impose an outdated system on people with disabilities that restricts their ability to work and earn a living?

Our current system was written for another time - back in 1956, when we assumed people with disabilities would live in institutions or with their parents, were denied access to school, and were largely dependent on others throughout their lives. The federal government actually titled one of these programs "Aid to the Permanently and Totally Disabled." They were set up before basic civil rights laws were passed, including the Americans with Disabilities Act (ADA) and the Individuals with Disabilities Education Act (IDEA), which gave people with disabilities access to public schools and spaces.

Under current law, as you know, there are two main benefits programs for providing income support for people with significant disabilities. The first is Social Security Disability Insurance (SSDI) which is a social insurance program designed to replace a portion of a worker's wages should that worker become unable to work due to disability. The second is Supplemental Security Income (SSI), which is an entitlement program that is not financed by a dedicated trust and what tend to be people with developmental disabilities who require services and supports to enter and stay in the workforce. They were designed to help people with disabilities injured on the job or facing poverty, as well as for children with significant disabilities, helping their families offset the higher cost of raising them. However well intentioned, they often prevent people from working.

In 2016, SSDI will have a financial shortfall, and this new fiscal cliff provides an urgent and needed opportunity for new thinking. Currently, to get benefits under SSDI or SSI, individuals must meet the disability definition of "the inability to engage in substantial gainful activity (SGA) by reason of a medically determinable physical or mental impairment expected to last at least 12 months." They can have a job, but the monthly SGA earnings limit to get SSI in 2014 is \$1,070 for non-blind individuals and \$1,800 for statutorily blind individuals. It is extremely difficult to live off these funds, yet millions of Americans do so because being in these

programs gives them access to something far more vital than cash payments - health insurance and other supports through Medicare and Medicaid.

It is critically important that the attention of the legislature and the public be directed at these work disincentives. A system that was designed to help individuals with disabilities instead traps them in a tyranny of low expectations and diminished opportunity. Just recently, the Social Security Administration spent \$47 million to study projects aimed at improving youth transitions. This was a very good use of funds because we must use scientific measures to find the best way to get people with disabilities into gainful employment.

Sadly, like some of the early efforts to cure cancer, the silver bullet was not yet found. The impact of the Youth Transition Demonstration on employment outcomes was minimal, but it confirms one of the critical facts facing youth receiving SSI or Social Security disability benefits. As the project's authors noted: "Fear and misconceptions about" eligibility and transiting to work are "major barriers to successful transitions." The cost to a young person with disability is the loss of the dignity, friendships, income, and purpose that jobs and careers provide. The cost to society is a system of growing expenditures. However, if we can shift the paradigm of work disincentives, then we can achieve the twofold goal of promoting opportunity and saving taxpayer money.

Getting young adults with disabilities jobs will be win-win-win for people with disabilities, employers and taxpayers alike. For every young person with a disability who gets the chance to have a job and otherwise would live on government benefits, taxpayers can save \$300,000. Promoting greater opportunity for young people with disabilities is critical, but it isn't the whole story.

A recent Kessler Foundation survey shows that millions of Americans with disabilities are striving for work. While saving taxpayer money is important, what people want is the opportunity to work. It may be access to a personal care assistant (PCA) to help someone who is quadriplegic get out of bed, dressed and transported to work and to live independently. Someone who is newly blind or deaf may need cash benefits temporarily while they get training in how to function independently and use assistive technology. They may also need free access to computers that will "talk" to or for them as they read or type at work. But then they will be ready to work and may not need a cash stipend.

For someone with cancer or recovering from a stroke, it may be access to healthcare and flexibility in the workplace to allow him or her to go to doctor's appointments or to telecommute. However, in today's system is all or nothing. Even with the Ticket to Work program, because that is overcomplicated, it's an on-off light switch. What we need is a more like a dimmer switch that would enable people with disabilities the opportunity to climb the ladder of success. Otherwise, as we have it today, our policies undermine two basic American values -- hard work and savings. Our own shortsighted policies promote isolation, poverty and waste tax money. **While well meaning, much of our system victimizes people with disabilities. It traps people with low expectations, when they would rather pursue their dreams of work, savings, dignity and independence.**

While keeping a solid safety net for those who need it, we should enable people with disabilities to work, and have procedures in place to allow them back on SSI or SSDI quickly if

they lose their jobs. After all, workplace discrimination still exists and realistically it can take them longer to find new employment. We need to do some short term fixes to deal with the insolvency of SSDI. However, the long term solution is to stop punishing people with disabilities who dare get jobs and become taxpayers.

It's time to embrace the unique characteristics and talents that people with disabilities bring to workplaces, which benefit employers. The US Business Leadership Network (USBLN) recently published the initial findings of their Disability Equality Index (DEI) survey. This survey shows that there are companies out there ready and willing to benefit from the talents of employees with disabilities. Companies like Comcast, Ernst & Young LLC, Lockheed Martin, Sprint and other companies has seen that people with disabilities can be extremely capable and loyal workers. If we find the right jobs for the right people, it will boost companies' bottom line.

Together with our partners at Best Buddies International, the National Association of Councils on Development Disabilities (NACDD), the National Council on Independent Living (NCIL), the National Organization on Disability (NOD), and Paralyzed Veterans of America (PVA), we have developed a resource called the Disability Employment First Planning Tool. This document contains models that are proven to work, be cost effective to implement, and be successful at employing people with disabilities. I urge you to read and share it along with our state-by-state statistics that can help in state performance metric dashboards.

We have already met with leaders from all states (including 40 governors) on these issues. We understand that this work is a marathon, not a sprint. However, together we can win the race.

There are over 1,200,000 people with disabilities between ages 16 and 20 in America. Every year, 300,000 will age into the workforce. Whether they will achieve competitive integrated employment or not depends on high expectations, as well as connecting them to effective programs and supports.

There are proven programs such as Promise, Project SEARCH, Bridges to Work, supported employment and other practices. In 2014, majorities in both the House and Senate voted for the Workforce Innovation and Opportunity Act, the first major investment in the workforce system in a decade and a half. In this law, which is now being implemented, people with disabilities are now a part of the workforce system as a whole. It is now up to the states to implement the mandate handed to by the Congress. I urge you and each state to focus resources on programs that work and plans that reflect best practices. I also urge you to reduce spending on bricks and mortars such as American Job Centers. That is because we are in an era where more and more can be done online. Moreover, proactive planning such as transitioning students from school to work is much more effective than reactive work.

It is also vital to put ending the stigma around disability employment, as it is a key barrier to employment. Twenty-five years after the ADA, while architecture and educational opportunities have changed, negative attitudes and stigmas about people with disabilities have not. Indeed, a Princeton study shows that while people with disabilities are seen as warm, they are not seen as competent. A study published by Cornell Hospitality Quarterly found that all of

the 320 hospitality companies studied share the concern that those with disabilities could not do the work required of their employees. But the fact is that people with disabilities CAN do a great job. For example, Virgin Airways founder Sir Richard Branson and finance wizard Charles Schwab are dyslexic. Scientist Stephen Hawking, like Governor Abbott of Texas, and President Franklin D. Roosevelt before them, are wheelchair users. Author Christopher Nolan has cerebral palsy. He writes using a special computer and his work has been compared to that of Joyce, Keats, and Yates.

I encourage you to read Malcolm Gladwell's book, *David and Goliath*, which extols the strength of people with disabilities. Because traditional ways of doing things don't always work for people with disabilities, Gladwell demonstrates that they compensate for that in ways that benefit the workforce by developing incredible ways to innovate. Indeed, recently I was in Israel where I visited a unit in the Israeli Air Force that uses the talents of people with disabilities to help them do a better job. I also saw how the Israeli Electric Company incorporates more than 250 employees with a full range of disabilities fully inclusively in their work.

Close to home, Comcast, Ernst & Young LLC, Lockheed Martin, Sprint and other companies has seen that people with disabilities can be extremely capable and loyal workers. So what are other employers waiting for? They are still blinded by stereotypes. It's time for people with disabilities to be seen for what they CAN do, and not for what they cannot. Thus, I urge all to ensure that actual public relations campaigns on inclusive employment – which are done using proven scientifically tested messages that work to reduce stigmas – are a part of every plan.

What can people with disabilities do? Think about it.

Beautiful music from a deaf man? It happened. Ludwig von Beethoven.

World changing words from someone with dyslexia? It happened. Thomas Jefferson.

A Super bowl champion NFL player who is deaf? It happened. Derrick Coleman.

A Nobel Prize for a scientist who failed in school? It happened. Albert Einstein.

Secrets of the universe being revealed by a man who uses a wheelchair and who can no longer speak? It's happening. Stephen Hawking.

It's time to change the narrative of how we see people with disabilities so employers can see the ABILITIES they have and the positive impact that can have on the bottom line. It's amazing that such small change can have such a big impact. It can - if it is done in a focused and strategic way.

Recognize the disability. Imagine the possibility. Respect the ability.

Modernization of the full disabilities benefits system would be good for taxpayers, who will not be required to foot the entire bill for a lifetime of dependency; good for businesses who find loyal, reliable, and motivated employees; and good for people with disabilities, who will be

happier, healthier, and lead fuller lives when they are able to work. I invite you to look at the state by state impact of what is at stake. Each of you has a lot of constituents with disabilities who are looking to you to change the system so that they too can achieve the American dream. Updating the benefits system and increasing employment among people with disabilities is a win-win-win.

<http://respectabilityusa.com/resources/for-policy-makers/>

Below you will find state-by-state disability statistics, as well as various op-eds and news pieces on employing people with disabilities.

Disability and Job Data By State

- Alabama: Download the PDF [here](#). Download the PPT [here](#).
- Alaska: Download the PDF [here](#). Download the PPT [here](#).
- Arizona: Download the PDF [here](#). Download the PPT [here](#).
- Arkansas: Download the PDF [here](#). Download the PPT [here](#).
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Thank you for your consideration.

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