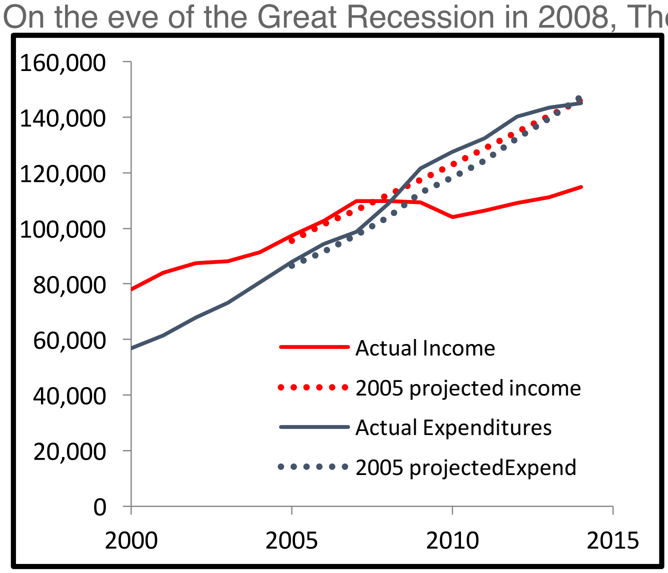
POLICY PRIMER

THE BIPARTISAN BUDGET ACT OF 2015 EXTENDED THE LIFE OF THE DISABILITY INSURANCE TRUST FUND, BUT DID IT FIX THE PROBLEM?

The Social Security Disability Insurance program (DI) is financed from three sources: payroll taxes, taxation of social security benefits and interest and principal from US Treasury Bonds held by the trust fund. A little more than 1 of every 7 dollars of payroll taxes collected for Social Security goes to the Disability Insurance trust fund (1.8 percent of the 12.4 percent total paid by employers and employees). The remaining portion is earmarked for the Old Age and Survivors Insurance (OASI) trust fund. Some income taxes levied on recipients of Social Security benefits are earmarked to pay for DI benefits. If tax revenues are not sufficient to cover expenditures, DI benefits can be paid from the DI trust fund reserves, interest earning U.S. Treasury bonds that have accumulated from past surpluses of revenue over expenditures. Since 2005, DI benefit payments have exceeded revenues from the first two sources and a part of DI benefits have been paid by drawing down trust fund reserves.

On the eve of the Great Recession in 2008, The Social Security Trustees projected that the DI trust fund reserves would not be depleted until 2025. As chart 1 shows, The recession resulted in significantly lower levels of payroll tax revenues than were expected and a slight increase in the number of beneficiaries. Since 2012, the Trustees had been projecting depletion of DI trust fund reserves by 2016, at which point the program's tax revenues would only cover 81 percent of scheduled benefits.



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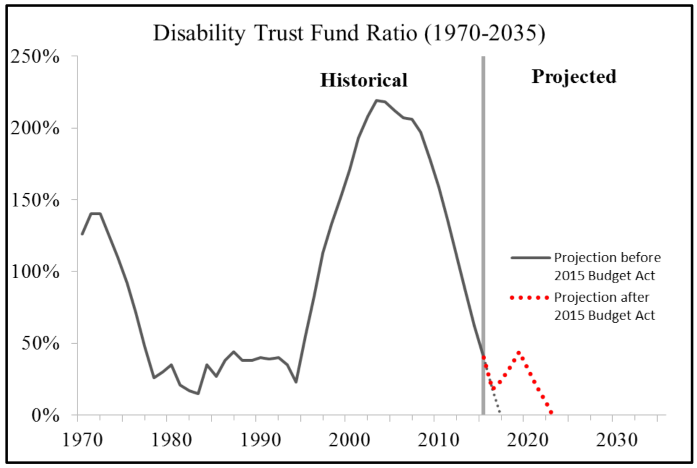
The 2015 Bipartisan Budget Act of 2025, enacted on November 2, 2015, made several changes to the Social Security Act that had the effect of extending the projected date at which DI trust fund reserves are depleted to 2022 (see the red line in Chart 2). The legislation temporarily increased the share of Social Security payroll taxes dedicated to the DI trust fund to 2.37 percent from 1.8 percent for the years 2016, 2017 and 2018. (During those three years, the percentage allocated to the OASI trust fund would fall to 10.03 percent leaving the total combined tax rate of 12.4 percent unchanged.) In 2020, the allocation of payroll taxes between the two trust funds would return to the current levels. The legislation also made slight changes to the way disability insurance claims are adjudicated by State agencies (eliminating the "single-decision maker" process) and increased funding for continuing disability reviews and other program integrity activities. The overall effect of those provisions is to reduce slightly the expected number of DI beneficiaries, and therefore expected future program costs, below what was expected prior to the passage of the Act.



THE LONG TERM SCENARIO

The Trustees of the Social Security program make projections of the system's finances over the next 75 years. The lines in Chart 3 show the historical values and current projections for the cost and income (excluding interest) of the Disability Insurance program as percentage of taxable payroll, known as the “cost rate” and the “income rate”. The bars at the bottom of the chart show the annual balance between revenues and expenditures, The blue lines and bars represents the projection in the 2015 Trustees Report, the red lines and bars show the revised projections after the passage of the Bipartisan Budget Act of 2015.

As the chart indicates, between 1990 and 2004 the DI program had a positive annual balance with income exceeding expenditures. The excess revenue accumulated in the DI trust fund in the form of special issue US treasury bonds. Since 2005, the program has run negative annual balances with expenditures exceeding tax revenue and the assets of the trust fund being expended to make up the difference (see chart 1 above). Over the long-range, projected costs are expected to exceed income for the foreseeable future. Once the Di trust fund reserves are depleted, the program would only have enough revenue to pay about 81% of scheduled benefits.

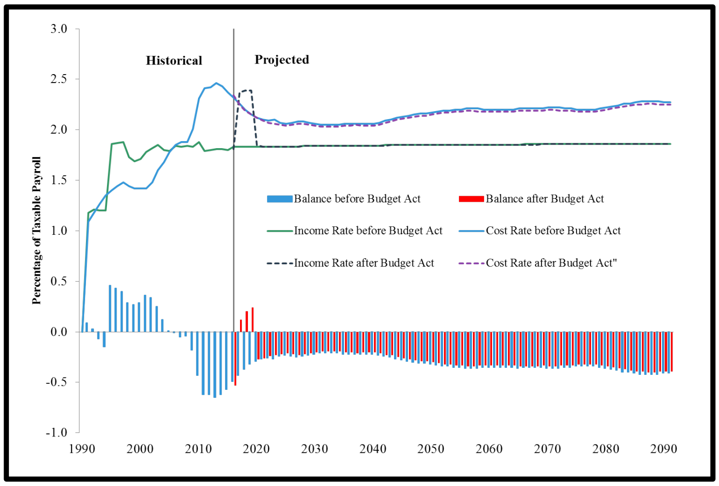


Chart 3 shows that the effect of the Bipartisan Budget Act of 2015 is significant in the short term, but very modest over the long-range. In 2016, 2017 and 2018 revenues will exceed costs before falling back to the rate of 1.8% of taxable payroll that prevailed before passage of the Act. The additional revenue will be enough to push back the date when trust fund reserves are depleted by 6 years. Over the long term however, program costs are still expected to exceed revenues for the foreseeable future with negative annual balances only slightly smaller than before the passage of the Act. If the DI trust fund is depleted in 2022, tax revenues will not be sufficient to pay scheduled benefits after that date.