

BACKGROUND

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Improving Social Security Disability Insurance with a Flat Benefit

Rachel Greszler

Abstract

Social Security Disability Insurance (SSDI) became law in 1956. Since then, it has morphed from a relatively small-scale, anti-poverty program into a massive system that provides benefits to one out of every 20 working-age individuals. Despite its size and expense, the program fails to keep millions out of poverty. Rather than maintaining the current benefit structure, which provides higher benefits to individuals with higher pre-disability earnings, SSDI could better protect the disabled from poverty and improve the program's long-run finances through a flat benefit linked to the federal poverty level.

Social Security's Disability Insurance (SSDI) program has existed for nearly 60 years. Over that time, it has morphed from a relatively small-scale, anti-poverty program into a massive system that provides benefits to one out of every 20 working-age individuals. Despite its size and expense, the program fails to keep millions out of poverty.

Rather than maintaining the current benefit structure, which provides higher benefits to individuals with higher pre-disability earnings, SSDI could better protect the disabled from poverty and improve the program's long-run finances through a flat benefit linked to the federal poverty level.

SSDI Is Broken

According to the 2015 Social Security Trustees Report,¹ the SSDI Trust Fund will be exhausted at the end of 2016, and incoming tax revenues will cover only 81 percent of benefits. Absent congressio-

KEY POINTS

- The SSDI program is broken and will run out of money for paying full benefits near the end of 2016. Significant reforms are required to make SSDI work for the millions of disabled Americans it was designed to assist.
- The purpose of SSDI is to prevent poverty, not to provide income replacement. A flat, poverty-related benefit could lift more than a million SSDI beneficiaries out of poverty by better allocating limited SSDI resources.
- A flat benefit tied to the federal poverty level would reduce SSDI costs by \$168 billion over the next 10 years, covering two-thirds of SSDI's shortfall.
- In addition to a flat benefit, comprehensive SSDI reform should address application and adjudication process flaws, outdated measures of disability, fraud and abuse, inadequate continuing disability reviews, work disincentives, uncoordinated and complex interaction with other government programs, and SSDI's all-or-nothing structure that is contrary to the wide range of recipients' degree of disability and work capacity.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3068>

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

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nal action, this would mean a 19 percent across-the-board reduction in SSDI benefits.

The short answer to why the SSDI program is broken is that too many people enter the program and too few leave it. The percentage of working-age individuals (ages 16 to 64) who receive SSDI benefits has more than doubled since 1990, from 2.3 percent to 5.1 percent.² This rising rate of disability claims—despite Americans’ overall improved health, increased life expectancy, and less physically demanding jobs—suggests that the program is not serving its original purpose.

Unnecessary growth in the SSDI program stems from widespread problems including adjudication process flaws and deficiencies, outdated measures of disability, fraud and abuse, inadequate continuing disability reviews (CDRs), work disincentives, uncoordinated and complex interaction with other government programs, and an all-or-nothing structure that is contrary to the wide range of recipients’ degree of disability and work capacity. These widespread problems call for comprehensive reform.

Flat Benefit: Offering Superior Poverty Protection

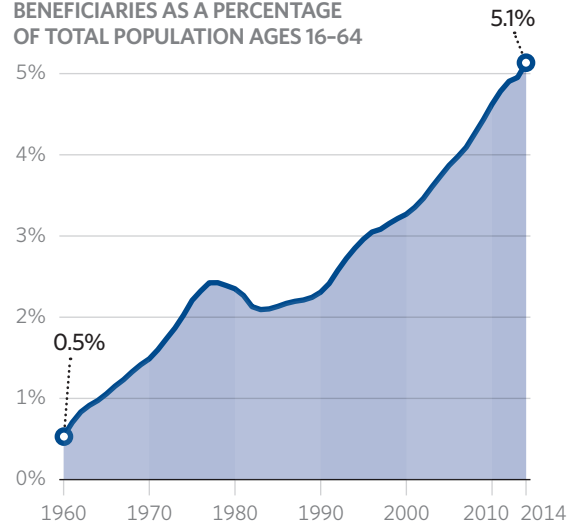
Replacing the current progressive benefit structure with a flat benefit that is linked to the poverty level would lift millions of disabled individuals and their families out of poverty and better accomplish SSDI’s purpose of poverty prevention.

As SSDI has expanded over the decades, it has shifted from its original intent, which was to prevent poverty in the case of disability. Despite the program’s growth, SSDI fails to meet this goal. According to the Administration, 20 percent of all SSDI beneficiaries—roughly 1.9 million—live in poverty.³ Yet, SSDI pays the largest benefits to individuals who are the most likely to have substantial savings

CHART 1

More People Receiving Disability Insurance from Social Security

DISABILITY INSURANCE
BENEFICIARIES AS A PERCENTAGE
OF TOTAL POPULATION AGES 16-64



Notes: 2014 is an estimate based on 10-year growth rates in beneficiaries. Beneficiaries include workers, widowers, and adult children of workers.

Source: Author’s calculations based on data from the U.S. Census Bureau, “Annual Population Estimates, Ages 16 to 64”; and Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program*, 2013, December 2014, http://www.ssa.gov/policy/docs/statcomps/di_asr/ (accessed September 17, 2015).

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or private disability insurance (DI) to supplement their incomes.⁴

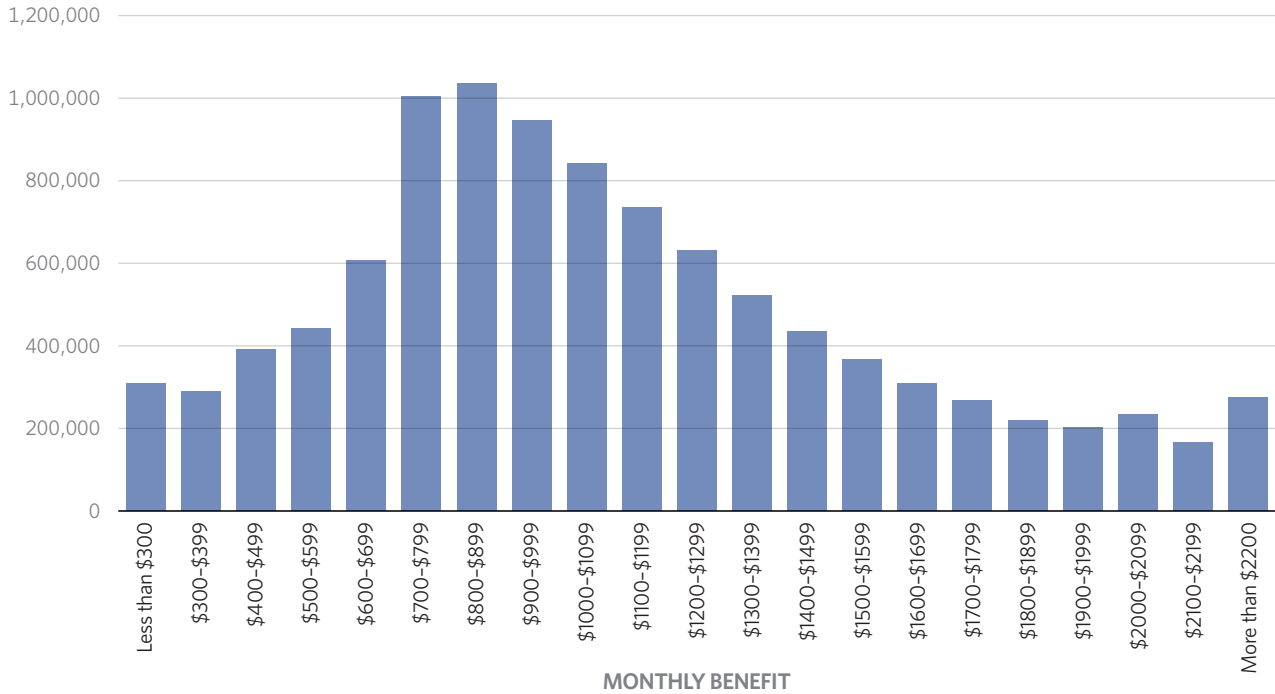
If implemented for new SSDI beneficiaries, a flat benefit would result in lower benefits for some, and higher benefits for others. Most cuts would be relatively minor, however, as only 34 percent of all SSDI benefits exceed 125 percent of the poverty level, and

1. Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 22, 2015, <http://www.socialsecurity.gov/OACT/TR/2015/index.html> (accessed August 31, 2015).
2. Author’s calculations using data from the U.S. Census Bureau Population Estimates and the 2013 *Annual Statistical Report on the Social Security Disability Insurance Program*, Table 3. “All Disabled Beneficiaries,” http://www.ssa.gov/policy/docs/statcomps/di_asr/ (accessed July 8, 2015). The recipiency rate equals the percentage of the population ages 16 to 64 that receives worker, widower, or adult-children disability insurance benefits. The 2014 rate is an estimate obtained by applying the average growth rate in beneficiaries from 2004 to 2013 to the number of beneficiaries in 2013.
3. The White House, “Social Security Disability Insurance: A Lifeline for American Workers and Families,” July 2015, https://www.whitehouse.gov/sites/default/files/docs/ssdi_national_report_7-17-2015.pdf (accessed September 14, 2015).
4. Rachel Greszler, “Private Disability Insurance Option Could Help Save SSDI and Improve Individual Well-Being,” Heritage Foundation *Background* No. 3037, July 20, 2015, <http://www.heritage.org/research/reports/2015/07/private-disability-insurance-option-could-help-save-ssdi-and-improve-individual-well-being>.

CHART 2

Disability Insurance Beneficiaries by Monthly Benefits Received

NUMBER OF BENEFICIARIES



Source: Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2013*, December 2014, Table 5, http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/sect01b.pdf (accessed September 17, 2015).

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only 21 percent exceed 150 percent of the poverty level.⁵

Individuals with higher incomes for whom a flat benefit would result in larger potential benefit cuts are more likely to have substantial private savings, or private DI coverage, that would help minimize their potential income declines. Additionally, since a flat benefit would only affect individuals who applied to the program after the change in benefits, anyone who would be affected by the change could purchase private DI coverage to supplement potential SSDI benefits. An accompanying reduction in the payroll tax, discussed below, would help free up resources for individuals to purchase supplemental private DI coverage.

Immediate Flat Benefit for New Applicants

Individuals who currently receive SSDI benefits would continue to receive their same benefit checks. Those who are already disabled do not have the ability to increase their savings or to purchase private insurance, so they should not be subject to changes in benefits. A flat benefit could be implemented relatively quickly, however, for all new SSDI applicants and beneficiaries.

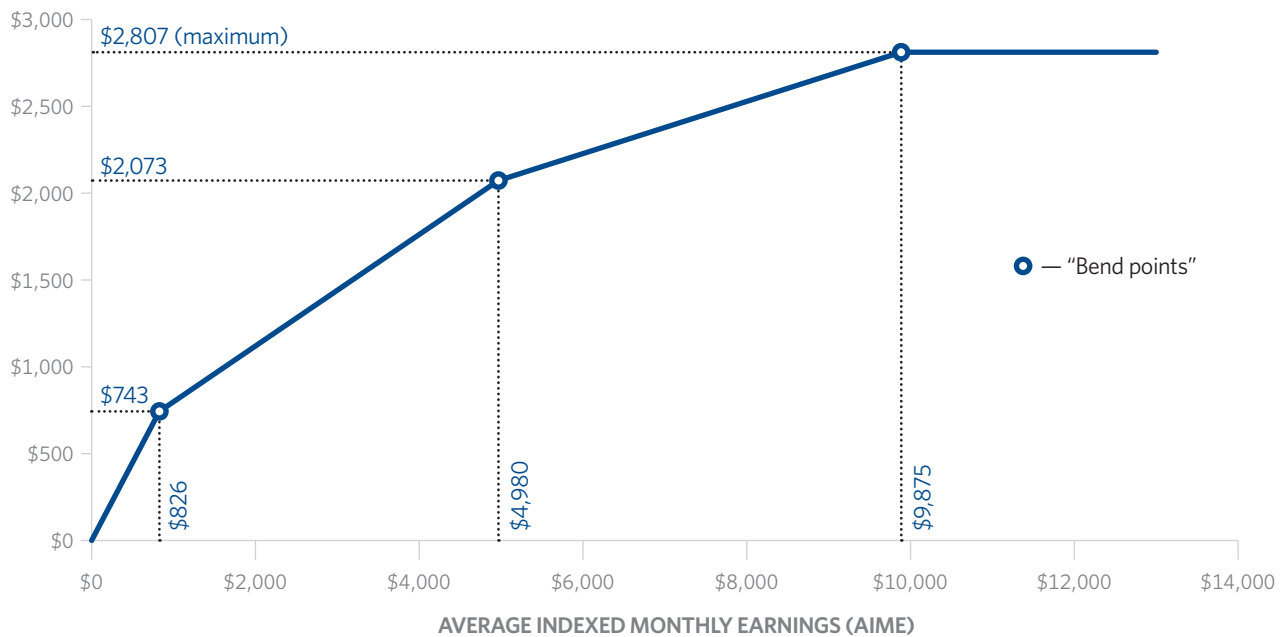
Becoming disabled is not like growing old. Disability is unexpected, whereas growing old is almost universally expected. So while potential changes in Social Security benefits would need to be implemented gradually, changes in SSDI benefits could be implemented fairly quickly. Moreover, workers' expectations for future SSDI benefits are further

5. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2013*, December 2014, Table 5, http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/index.html (accessed August 31, 2015).

CHART 3

How Social Security Disability Benefits Are Calculated Based on Income

PRIMARY INSURANCE AMOUNT (PIA) IN 2015



Sources: Social Security Administration, Fact Sheet, “2014 Social Security Changes,” <http://www.ssa.gov/pressoffice/factsheets/colafacts2014.pdf> (accessed September 17, 2015), and Social Security Administration, “Primary Insurance Amount,” <http://www.ssa.gov/OACT/cola/piaformula.html> (accessed September 17, 2015).

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reduced by the more subjective nature of the program in which eligibility involves far more than age and work history.

Calculating Disability Insurance Benefits. To understand how benefits would change under a flat benefit system, it is helpful to review how benefits are calculated under the current system. SSDI uses the same progressive benefit formula as the Social Security program, whereby higher-income earners receive larger benefits (but a smaller portion of their pre-disability or pre-retirement incomes), and lower-income earners receive smaller benefits (but a higher percentage of their previous incomes).

The formula for calculating SSDI (as well as Social Security retirement) benefits first takes the individual’s average indexed monthly earnings (AIME) over a period of years that varies in length based on the individual’s age at disability. Benefits are then calculated using workers’ AIMEs and a progressive benefit for-

mula: Up to the first \$826 of AIME receives a 90 percent credit, AIMEs between \$826 and \$4,980 receive a 32 percent credit, and AIMEs above \$4,980 receive a 15 percent credit, up to the taxable maximum of \$9,875.⁶

Based on the SSDI benefit formula, a minimum-wage worker (\$14,500 per year) with a sufficient work history to qualify for benefits would receive a monthly check of \$866, replacing 72 percent of his previous earnings. A worker with a previous income of \$50,000 per year would receive a \$1,812 monthly SSDI benefit, replacing 44 percent of his previous salary, and anyone earning at or above the taxable payroll cap of \$118,500 in 2015 would receive a \$2,802 monthly SSDI benefit, replacing 28 percent or less of his previous salary.

Effect on Future Beneficiaries. A flat benefit would mean higher potential SSDI benefits for some, and lower potential SSDI benefits for others. If set equal to 100 percent of the poverty level (\$981 per

6. Social Security Administration, “Disability Planner: How You Qualify for Social Security Disability Benefits,” <http://www.ssa.gov/dibplan/dqualify.html> (accessed August 31, 2015).

month or \$11,772 per year in 2015), workers with less than \$18,800 in annual earnings would receive higher potential benefits, while those with more than \$18,800 in annual earnings would receive lower potential benefits. At this level, roughly 73 percent of current workers would be subject to lower potential SSDI benefits, while 27 percent would be subject to higher potential benefits.⁷ Most workers do not ever receive SSDI benefits, however, and those who do have disproportionately low earnings. Among current SSDI beneficiaries, 47 percent receive below-poverty-level benefits, and 53 percent receive above-poverty-level benefits.⁸

The average SSDI benefit for 2015 is \$1,019 across all beneficiaries, and \$1,165 among disabled workers.⁹ The average spousal benefit is \$317, and the average child benefit is \$350. Under a flat benefit structure, all disabled workers would receive \$981, and the ratio of worker benefits to spouse and child benefits would remain constant, resulting in a flat \$267 spouse benefit and a flat \$295 child benefit.

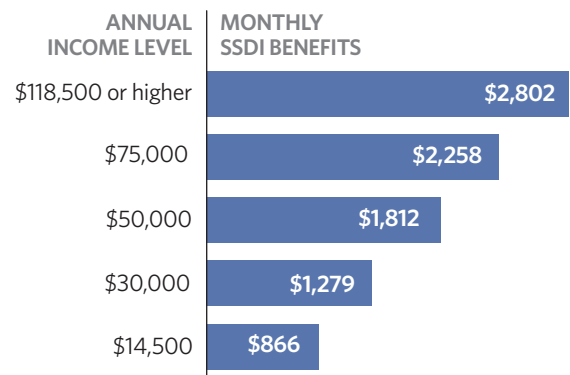
Eligibility for a flat SSDI benefit could follow existing guidelines, which require most workers to have at least 20 credits, or five years of work over the past 10 years in order to qualify for benefits (younger workers need fewer credits). Alternatively, eligibility rules could change in any number of ways. For example, individuals could be required to have worked four of the past six years.

Although a flat benefit would significantly alter the existing benefit structure, increasing benefits for some and reducing benefits for others, a flat benefit would better represent the original purpose of the program: Social Security Disability Insurance is a poverty-prevention program, not an income-replacement program. Income replacement should be left to private insurance, which typically offers more generous coverage and higher benefits than SSDI.¹⁰ Arguably, individuals who would receive less

CHART 4

Highest-Income Earners Receive Largest SSDI Benefit Checks

Individuals who earn \$118,500 a year or more receive a Social Security Disability Insurance check more than three times the size of that awarded to minimum wage workers (those earning \$14,500 a year).



Source: Author's calculations using the Social Security Administration's benefit calculation formula.

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under a flat SSDI benefit are the ones most able to purchase private DI coverage to supplement SSDI.

Improved Solvency. In addition to reducing poverty among the disabled, a flat benefit could improve the solvency of the SSDI program. A flat, poverty-level benefit (\$11,772 in 2015) for *new* SSDI awards would reduce SSDI costs by \$168 billion over the first 10 years.¹¹

Even though it would not be fully phased in for decades (once all existing beneficiaries exit the program), a flat benefit would solve two-thirds (66 percent) of SSDI's \$256 billion shortfall over the next

7. Heritage Foundation calculations based on the 2014 March Current Population Survey, which shows that 27.2 percent of all workers ages 16 to 66 had total earnings from salaries and wages that were below \$18,800 in 2013.

8. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2013*.

9. Social Security Administration, "Monthly Statistical Snapshot," June 2015, http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ (accessed August 11, 2015).

10. Greszler, "Private Disability Insurance Option Could Help Save SSDI and Improve Individual Well-Being."

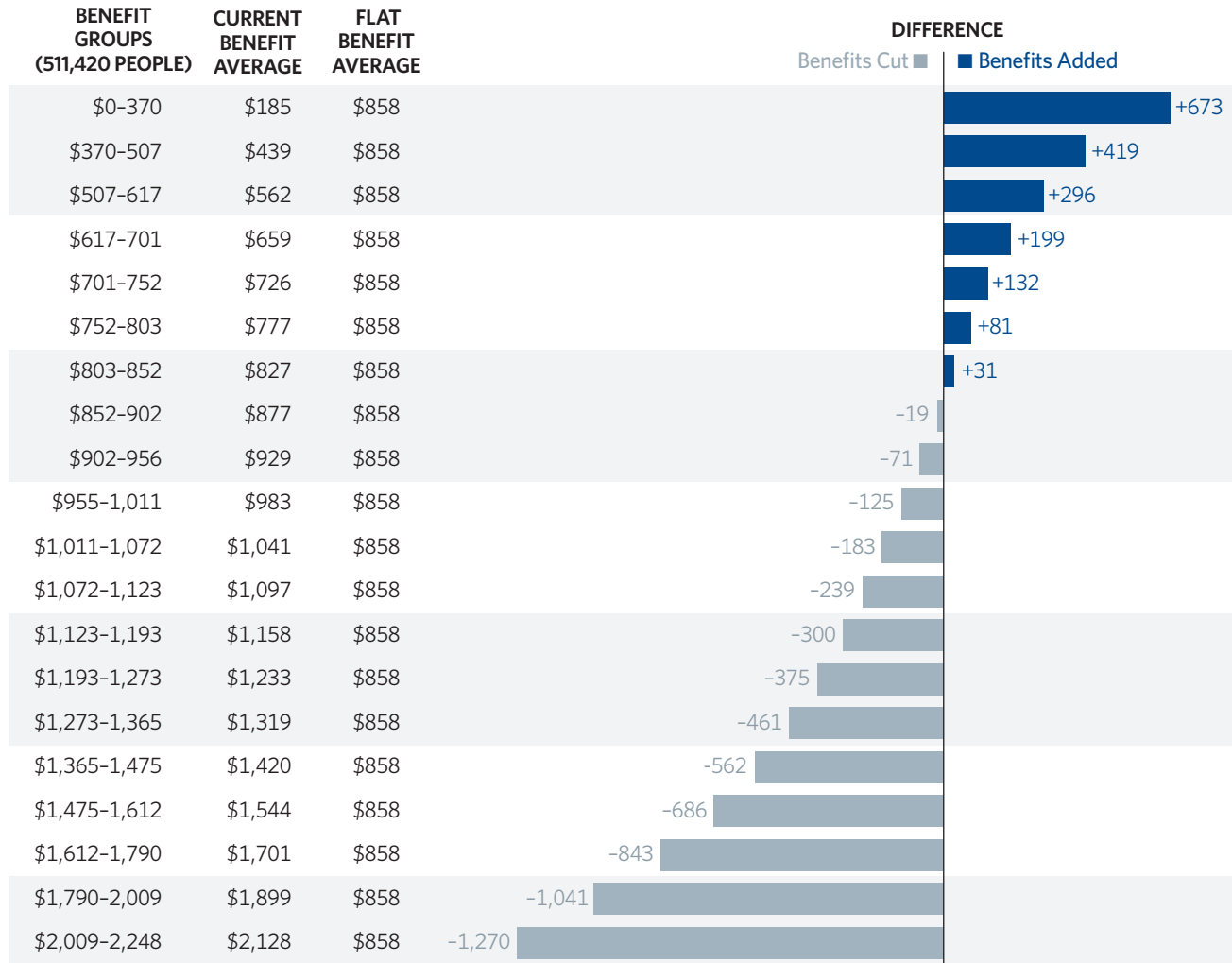
11. See Analytical Appendix for detailed explanation of calculations. The flat benefit would only apply to new award recipients and would not affect any individuals already receiving benefits.

12. Rachel Greszler, "Social Security Trustees: Disability Insurance Program Will Be Insolvent in 2016," Heritage Foundation *Backgrounder* No. 3033, July 24, 2015, <http://www.heritage.org/research/reports/2015/07/social-security-trustees-disability-insurance-program-will-be-insolvent-in-2016>.

CHART 5

Flat Benefit Would Boost Benefits for Low-Income Workers

Under the current SSDI structure, individuals with the lowest incomes also receive the smallest benefit checks. Based on current beneficiaries, an anti-poverty benefit would increase benefits for 36 percent of future beneficiaries while decreasing benefits for the other 64 percent.



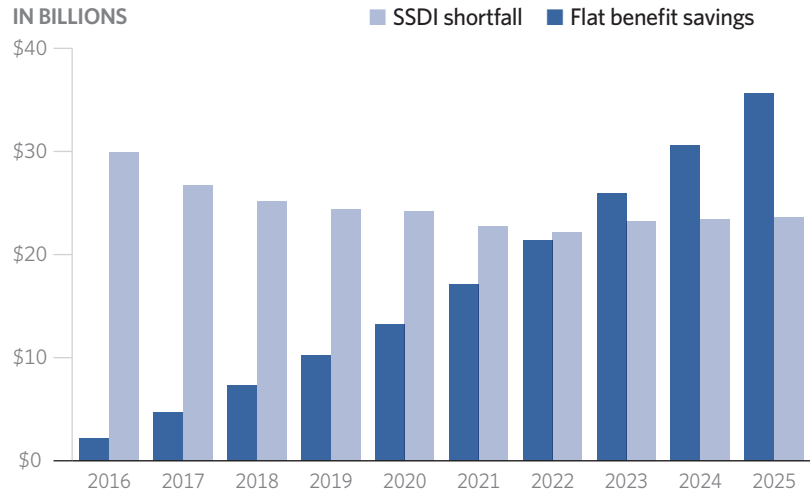
Note: Under this flat benefit plan, all workers would receive an anti-poverty benefit equal to \$981 in 2015, but across all beneficiaries (including children and spouses), the average benefit would be \$858. Data based on the total number of beneficiaries within each \$100 range of benefits was converted into groups with equal numbers of beneficiaries by altering the benefit ranges. Benefits were assumed to be equally distributed across each benefit range, meaning that the same number of people receive \$1,000 checks as receive \$1,001 checks up through \$1,099. The current benefit levels stated under the ranges represent the median value.

Source: Author's calculations using data from Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program*, 2013, December 2014, Table 5, http://www.ssa.gov/policy/docs/statcomps/di_asr/2013/sect01b.pdf (accessed September 21, 2015).

CHART 6

Flat Benefit Would Repair SSDI Insolvency

Over the next 10 years, a flat anti-poverty benefit would solve two-thirds of SSDI's projected \$246 billion shortfall. By using the flat benefit for all workers new to SSDI, the program would save \$168 billion over the next decade with even greater savings to come when beneficiaries under the existing program are fully phased out.



Note: Shortfall for 2025 was estimated based on the average of the prior three years' growth rates.

Source: Social Security Trustees 2015 Annual Report and author's calculations based on 2016 implementation of a flat benefit at the poverty level, applicable to all DI beneficiaries with initial awards in 2016 and later.

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10 years.¹² Savings would increase over time as current beneficiaries (who would be grandfathered into their existing benefit levels) leave the SSDI rolls.

Minimizing Increased Progressivity

Although SSDI and Social Security have the same progressive benefit structure, SSDI is significantly more progressive than Social Security because low-income earners are more than five times as likely as high-income earners to receive benefits.¹³ A flat benefit would further increase SSDI's progressivity because those who earn more and pay more in payroll taxes would no longer receive higher benefits.

A reduction in the payroll tax cap would help offset the increased progressivity of a flat benefit by limiting the total amount of payroll taxes for middle-income to upper-income earners.¹⁴ Over time, as a flat benefit and other SSDI reforms improve the solvency of the program, any savings should be used to reduce the payroll tax cap at its current level of \$118,500 to something closer to between one and

two times the median wage. If individuals receive nothing in return for higher SSDI taxes, there should be a lower limit on effective premiums.

Enhanced Private DI Coverage

The federal government has taken a role in preventing poverty, but it is not the government's role to set income replacement goals across a very diverse population. If individuals want to ensure a certain level of income in case they become disabled, they can obtain private disability insurance to cover any gap in income between an anti-poverty federal DI benefit and what they would need if disabled. As most individuals would desire significantly more than a poverty-level benefit if they became disabled, a flat benefit would presumably increase the rate and level of private DI coverage as middle-income and upper-income earners would seek additional, private coverage.

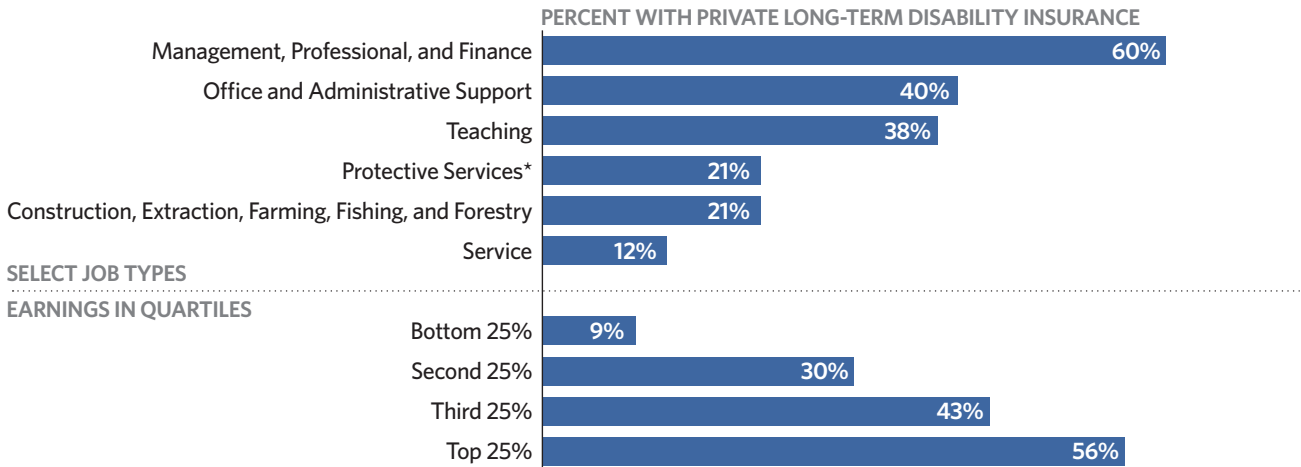
Higher private DI coverage would better protect individuals from a loss of income due to disability. Moreover, private DI offers numerous advantages,

13. Among individuals not in the labor force in 2012, 11.2 percent of individuals without a college degree were disabled compared to 2.0 percent of those with a bachelor's degree and 1.5 percent of those with a graduate degree. James Sherk, "Not Looking for Work: Why Labor Force Participation Has Fallen During the Recession," Heritage Foundation *Background* No. 2722, September 5, 2013, <http://www.heritage.org/research/reports/2013/09/not-looking-for-work-why-labor-force-participation-has-fallen-during-the-recession>.

14. Sherk, "Not Looking for Work."

CHART 7

Access to Private DI Varies Significantly by Job Type and Earnings



* Includes firefighting, policing, and similar professions as defined by the Bureau of Labor Statistics.

Source: Bureau of Labor Statistics, "National Compensation Survey," March 2014, "Table 16. Insurance Benefits: Access, Participation, and Take-Up Rates, Civilian Workers," <http://www.bls.gov/ncs/ebs/benefits/2014/ownership/civilian/table16a.pdf> (accessed September 17, 2015).

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such as faster and more efficient disability determinations, superior return to work assistance, higher coverage, and lower costs.¹⁵

Although not a precise comparison, a Heritage Foundation estimate suggests that individuals could purchase private DI benefits with a roughly 60 percent income replacement rate for about half the cost of SSDI, which provides only a 46 percent replacement rate for a median earner.¹⁶

Other Reforms Needed

A flat benefit at or above the poverty level would essentially eliminate poverty among SSDI recipients, bring the program closer to its original goals, and improve SSDI's solvency. A flat benefit cannot, however, fix many of the program's inherent flaws. SSDI's widespread problems call for comprehensive reform. In fact, fixing SSDI's other problems would be even more important under a flat benefit. That is because a flat benefit could actually exacerbate at least one of SSDI's existing problems.

Currently, an increase in replacement rates (the percentage of prior income replaced by SSDI benefits) for low-income earners has led more low-

income earners to apply for and receive benefits. A flat benefit would further increase benefits for low-income workers, and presumably cause more to apply for SSDI. While a flat benefit would have the opposite effect for high-income earners (reducing benefits and leading fewer to apply), the highly skewed distribution of SSDI benefits toward low-income earners would likely result in a net increase in SSDI applications.

If SSDI were a well-functioning program—one that effectively determined who is and is not able to work, and one that effectively aided rather than impeded individuals' recovery—increased applications would not be a problem. Most people who would apply solely due to a higher flat benefit would not be eligible. But SSDI is not a well-functioning program.

Among SSDI's many problems are: inefficient, complicated, and sometimes detrimental adjudication procedures; outdated rules and definitions; excessive wait times for a disability determination or appeal; non-existent or ineffective recovery and return-to-work assistance; work disincentives; lack of effective continuing disability reviews; and well-known fraud and abuse.

15. Greszler, "Private Disability Insurance Option Could Help Save SSDI and Improve Individual Well-Being."

16. Ibid.

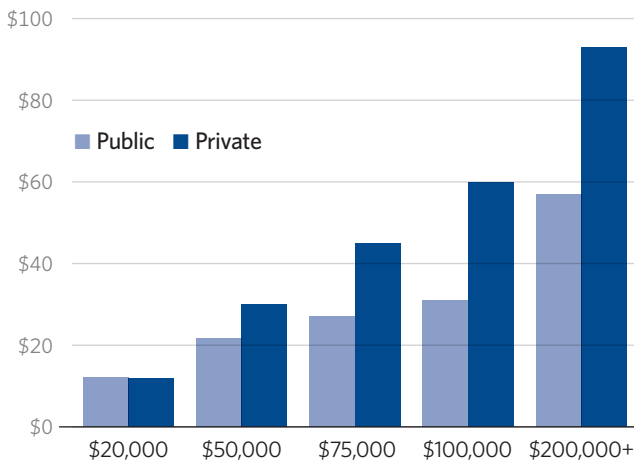
CHART 8

Private Disability Insurance Proves More Advantageous

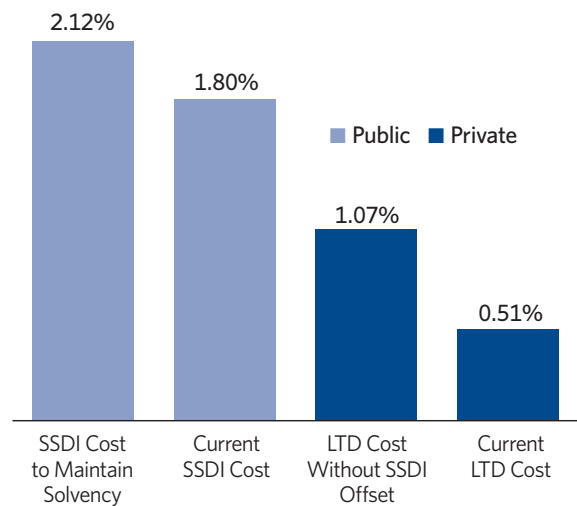
HIGHER BENEFITS. Private disability coverage provides significantly higher benefits than SSDI in all but the lowest of income brackets.

LOWER COSTS. Private coverage costs about 0.51 percent of a worker's income, and SSDI is funded by a 1.8 percent payroll tax. To make SSDI solvent, the payroll tax would have to rise to 2.12 percent.

ANNUAL INDIVIDUAL BENEFITS, IN THOUSANDS, BY INCOME LEVEL



PERCENT OF ANNUAL INCOME



Note: SSDI benefits are capped at \$56,849 for anyone earning \$118,500 or more in 2015, and most private DI programs place a monthly cap on benefits ranging from \$5,000 to \$10,000. In the charts above, a cap of \$7,750 was used.

Sources: Author's calculations using Social Security Administration's benefit calculation formula and typical private DI benefits equal to 60 percent of prior earnings with a \$7,750 monthly benefit cap; author's calculations based on average private LTD cost of \$245/year (*Gen Re Disability Factbook 2013-2014*); and average \$48,186 wage of private LTD recipient (Autor et al.).

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Comprehensive SSDI reform should not only establish long-term solvency, but also correct the program's many flaws and inefficiencies to better serve disabled individuals. Comprehensive SSDI reform should include a flat benefit, substantial adjudication process reforms, modernized definitions and rules, an optional private DI system covering the first two to three years of benefits, time-limited benefits based on disability, enhanced medical and rehabilitative services, and anti-fraud protections and enforcements. The sooner Congress takes on SSDI's many problems, the better it can protect and improve the program for millions of disabled Americans and their families.

—*Rachel Greszler is Senior Policy Analyst in Economics and Entitlements in the Center for Data Analysis, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation.*

Analytical Appendix

Purpose. This analysis identifies the change in SSDI costs if the existing benefit structure were replaced with a flat benefit.

Data. This analysis relies on data and projections from the Social Security Trustees 2015 Report,¹⁷ the *Annual Statistical Report on the Social Security Disability Insurance Program 2013*,¹⁸ and the June 2015 OASDI Statistical Snapshot.¹⁹

Process. This analysis consists of the Social Security Administration's (SSA's) data and projections on current and future SSDI beneficiaries, separating out those beneficiaries who were awarded benefits before 2016 from those first awarded benefits after 2016, replacing the existing average benefit for post-2015 new beneficiaries with a flat benefit set at 100 percent of the poverty level, and then calculating the difference in total benefit payments between a flat benefit and existing benefit projections.

This analysis extends over the 10-year, 2016–2025 time period. Because the flat benefit only applies to post-2015 SSDI beneficiaries, the initial savings are relatively low and grow over time as a larger share of the total SSDI population receives the flat benefit.

Population. The population of SSDI beneficiaries comes from Table V.C5 in the Social Security Trustees 2015 Annual report.²⁰ Population projections are provided in five-year increments in this table. I applied a straight-line extrapolation of all subsets of SSDI beneficiaries (workers, spouses, children, and total) to fill in the remaining years.

Post-2015 SSDI Population. Two separate populations were needed from the existing SSA projections of beneficiaries: those who first received benefits in 2015 or earlier, and those who will receive them in 2016 or later—the “post-2015 recipients.” The post-2015 population was calculated as the difference in total beneficiaries from one year to the next plus the population of terminated or converted beneficiaries:

$$NB_x = B_x - B_{(x-1)} + B_{(x-1)} * term_{x-1} + B_{x-1} * C_{x-1}$$

Where NB = new SSDI beneficiaries, B = total SSDI beneficiaries, term = Termination Rate, and C = conversion rate.

Termination and conversion rates came from figure V.C5 in the Social Security Trustees 2015 Annual report.

After establishing each individual year's pool of new applicants (for 2016 to 2025), I aged each cohort until all beneficiaries had either had their benefits terminated or converted at their normal retirement age. The initial ages of new SSDI beneficiaries for each year was established based on the 2013 age distribution of new SSDI applicants as shown in Table 47 of the Social Security Administration's 2013 statistical report.²¹ This analysis assumes the 2013 age distribution exists for all years in the analysis, meaning that there is no expected change in the average age of initial SSDI beneficiaries.

The distribution data was presented in five-year increments (under 30, 30–34, 35–39...60—normal retirement age (NRA)). I first applied the percent distribution rates equally across each age in a given group (ages 40–44 accounted for 8.16 percent of all awards, so the percent distribution for each individual age year in that range was 1.63 percent). These individual-age percentages were then smoothed between age groups to better reflect the trend in distribution changes between age groups. For example, ages 45–49 accounted for 11.51 percent of all SSDI awards, while 50–54 accounted for 20.35 percent of all awards, meaning that the trend was toward higher distribution rates among older age groups.

I applied the given value for each group to the mean age of each group (for example, 11.51 percent to age 47, and 20.35 percent to age 52) and then applied a straight-line change between the means to establish a value for each age (ages 48–51 in this example). This method resulted in a sum total distribution of

17. Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*.

18. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2013*.

19. Social Security Administration, “Monthly Statistical Snapshot,” June 2015.

20. Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*.

21. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2013*, p. 124.

98.1 percent, so I allocated the remaining 1.9 percent proportionally across each age according to its just-established distribution to achieve a 100 percent total.

I then applied this age distribution to my calculation for each individual year of new DI beneficiaries (2016–2025). The age distribution is important because it plays a large role in when an individual exits the SSDI system. When SSDI beneficiaries reach their NRA under Social Security, their SSDI benefit is converted to a Social Security, or Old-Age and Survivors Insurance (OASI) benefit.

Individuals can also exit the SSDI system through a termination of benefits. The SSA provides termination rates by year, which were used throughout this analysis. While it is possible that termination rates may vary between pre-2016 and post-2015 SSDI beneficiaries, I used the SSA's existing termination rates indiscriminately between the two groups.

Aging of each year-cohort of post-2015 beneficiaries occurs by subtracting the number of terminated and converted individuals each year. Terminated individuals equal the previous year's population times the termination rate, and conversion occurs naturally based on the age distribution of the population.

When individuals reach their NRA, their benefits are converted to OASI benefits. When NRA is not an even number, a proportional percentage of SSDI beneficiaries are converted to retirement benefits. (For example, if the NRA is 66 years and six months and the population of SSDI recipients age 66 in that year is 1,000, half of those individuals (six months divided by 12 months = 0.5) will be converted that year.) A small percentage of remaining 66-year-olds will have their benefits terminated that year, and the remaining will be converted in year X+1.

Alternative Measure of Post-2015 Beneficiaries. Without aging each year of new SSDI beneficiaries over time, I alternatively used the SSA's existing projections for total beneficiaries along with their termination and conversion rates to arrive at the aged population of "old" SSDI beneficiaries currently receiving benefits in 2015. For 2016, those remaining from 2015 equal the 2015 total minus that total multiplied by the termination rate and minus that total multiplied by the conversion rate.

For 2017, the total begins with those remaining in 2016 less those who had their benefits terminated or converted, and this process continues for all subsequent years. This alternative measure assumes that post-2015 SSDI applicants equal total reported beneficiaries less "old" beneficiaries who were already in the system in 2015. This alternative method resulted in a lower number of "new" beneficiaries than the aging process applied to each year's new beneficiaries. In 2025, the gap in the population of post-2015 beneficiaries was 10.3 percent with the alternative method resulting in 879,000 fewer post-2015 beneficiaries (7.7 million versus 8.6 million).

The results presented in this *Background* do not use this alternative method, but rather the aging method that projects the path of future SSDI beneficiaries by age and entry year.

Existing Benefits. The Social Security Trustees 2015 Report provides projected OASI benefit levels by year and type of earner in Table V.C7. To establish projected SSDI benefit levels by year, I used the OASI growth rates of the closest matching earner type. OASI benefits for "scaled low-earnings" beneficiaries were the closest match to current SSDI beneficiaries (based on the June 2015 snapshot). The annual OASI benefit for a scaled low-earner in 2015 is \$11,602, compared with an overall average annual SSDI benefit of \$12,231.²²

Thus, I applied the growth in scaled low-earner benefits to the existing SSDI benefit level to establish a future path of average SSDI benefits under the existing system.

Flat Benefit. The flat benefit for disabled workers was set equal to 100 percent of the federal poverty level in 2015 (\$11,772, or \$981 per month). The spouse and child benefits are set at \$267 per month and \$295 per month, respectively. These levels represent the same reduction of 15.8 percent as established by the disabled-worker benefit. Overall, the average SSDI benefit level across all beneficiaries is \$858 per month or \$10,297 per year.

22. The overall average annual SSDI benefit was \$12,231 in June 2015, while the average disabled worker benefit was \$13,983.