**Testimony of**
**Janice M. Gregory, President**
**National Academy of Social Insurance (NASI)**
**Before the**
**National Commission on Fiscal Responsibility and Reform**
**June 30, 2010**

I am Janice Gregory, the current President of the National Academy of Social Insurance (NASI). NASI is a non-partisan, non-profit organization composed of over 800 scholars from public and private venues who are recognized experts on our nation's social insurance programs, primarily Social Security, Medicare, Workers' Compensation, and Unemployment Compensation, as well as related social policy programs such as Supplemental Security Income and Medicaid.

The Commission faces a difficult task of importance to our nation – that of outlining a path that will ensure the strength of our national fiscal house in both the medium and long term. We commend Commission Members for their dedication and commitment to the task before them.

Although my remarks today will focus on the Social Security program, NASI would be pleased to provide the Commission additional information regarding any of the other national programs that I mentioned.

In these remarks I will briefly address five topics:

- The role of social insurance
- Social Security and the medium-term federal General Fund deficit and debt
- Social Security and the long-term federal General Fund deficit and debt
- Making Social Security whole over the long term
- Public support for Social Security

## *THE ROLE OF SOCIAL INSURANCE*

Governments establish social insurance programs, with their hallmarks of universality (or near-universality) and compulsory participation, when insuring against certain risks serves a societal purpose.

As agrarian economies shifted to economies characterized by industrialization, specialization, mobility of workers, and urbanization, wage earners found that any misfortune that interrupted their current income could mean destitution and poverty for themselves and their families. The old forms of security provided through the interdependence of family members and of interconnected families in small communities no longer sufficed – or even existed – for these individuals. Beginning in the late $19^{th}$ century, social insurance programs began to be established under all forms of government around the world to address the issues of serious economic insecurity that arise wherever more and more individuals work for wages.

Instead of merely providing relief after disaster has struck, programs such as Social Security introduced the idea of preventing economic security by having employees and employers participate in government programs in advance of economic need. In this way, such programs accomplished several societal objectives:

- Providing pride as well as peace of mind to workers concerned about caring for their families as well as their own future, thereby increasing the stability of the government against undue unrest;
- Avoiding disincentives to personal savings by not means-testing benefits;
- Preventing the thrifty from having to pay for the improvident by compelling all workers to insure themselves against the loss of income;
- Undergirding the worker's ability to risk new or different employment opportunities that add to economic growth;
- Improving economic stability by protecting mass purchasing power;
- Working in a counter-cyclical manner to lessen the harmful impact of swings in the economy.

The Social Security Act signed into law 75 years ago cites the Constitutional directive that the government "provide for the general welfare" in its opening lines. The law was seen not merely as a humanitarian gesture but as a necessary underpinning in the modern world for individual liberty, for free enterprise and for democracy.

When he signed the bill, President Roosevelt described it as "a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness." Earlier he had asserted, "This seeking for a greater measure of welfare and happiness does not indicate a change in values. Rather it is a return to values lost in the course of our economic development and expansion." [Message to Congress, June 1934]

## *SOCIAL SECURITY AND THE MEDIUM-TERM FEDERAL GENERAL FUND DEFICIT AND DEBT*

The Social Security program is not a cause of the federal government's current deficit and debt concerns. In fact, the program has been running surpluses since 1984.

While the federal General Fund has shifted from an annual surplus of $86 billion in 2000 to a deficit of $1.55 trillion in 2009 (CBO 2010a), the Social Security program has amassed a trust fund reserve now amounting to $2.5 trillion (Board of Trustees, 2009; CBO 2010a). The trust fund includes government debt borrowed from American workers that the government otherwise would have had to borrow from national and international credit markets.

Moreover, Social Security trust fund reserves are expected to increase to $3.2 trillion by 2015 and to $3.8 trillion by 2020 (CBO 2010b).

It is important to recognize from the start that the Social Security reserve has been built primarily through dedicated FICA taxes paid by lower and middle-income workers and their employers – i.e., a total of 12.4% on wages up to a maximum of only $106,800 in 2010 – and through interest paid on the bonds held in the reserve fund.

The reserves are invested by law in special Treasury securities that are real obligations of the federal government derived from the invested FICA taxes. Indeed, program reserves were essential to the payment of full benefits prior to enactment of program reforms in 1983.

Thus, there is no short or medium-term fiscal challenge for Social Security. The challenge for the Commission in meeting its 2015 deficit reduction goal is put the federal General Fund in better balance.

## *SOCIAL SECURITY AND THE FEDERAL LONG-TERM GENERAL FUND DEFICIT AND DEBT*

The Commission also is charged to make recommendations that "meaningfully improve the long-run fiscal outlook." A few key statistics illustrate the fact that Social Security has only a modest impact on the long-term concerns of this Commission:

- The cost of the Social Security program will rise from 4.9% of GDP today to 6.2% of GDP in 2034, and then decline to about 5.8% of GDP by 2050 and remain at that level (Board of Trustees 2009).

- By contrast, Medicare and Medicaid – themselves driven by the spiraling cost of health care – will rise from 5.7% of GDP in 2008 to about 22% by 2080 (CBO 2009).

- A small reduction in the national health care cost curve would offset the projected increase in Social Security program costs. For example, slowing the rate of health care cost growth by just 15 basis points per year – 0.15 percentage points per year – would produce budgetary savings equivalent to closing the entire 75-year Social Security shortfall (Orszag 2010).

- According to the Center on Budget and Policy Priorities, the cost of the 2001 and 2003 tax cuts, if made permanent, is 1.95% of GDP over the next 75 years, or triple the size of the projected long term Social Security shortfall of 0.65 percent of GDP. (Center on Budget 2005). Furthermore, preserving the 2001 and 2003 tax cuts just for the top 1% of taxpayers nearly matches the entire 75-year Social Security shortfall. (Center on Budget 2008).

***MAKING SOCIAL SECURITY WHOLE OVER THE LONG TERM***

The Social Security program faces a modest shortfall (equal to 0.65 percent of GDP) over the long term, defined for this purpose as 75 years.

While it is impossible to predict the composition or state of our economy 75 years from now, the importance of this program to American workers and families fuels the need to plan for the long term in order to provide stability in its finances. Thus, the Social Security trustees annually examine birth and death rates, wage and price growth, employment expectations, interest rates, and other trends that affect Social Security finances, and, when a projected imbalance emerges, policy makers consider changes to the program's revenue and benefits to redress the imbalance.

Similarly, adequacy analysis often points to areas where program benefits need to be adjusted to address new challenges presented by a changing economy. For example, overall benefits, or benefits for long-term and low-wage workers, may be deemed too low; benefits may be seen as increasingly inadequate for those who live to be very old; or the need to improve education in our nation may lead many to consider restoring the Social Security benefit for students who have lost a parent.

In this regard, I commend to the Commission's members and staff, NASI's October 2009 publication *Fixing Social Security: Adequate Benefits, Adequate Financing.*

Should the Commission decide to address long-term program changes in Social Security, I also highlight the following information as considerations in your discussions:

- The last Social Security payroll tax increase occurred two decades ago, in 1990.

- Historically, Congress has set the level of wages subject to Social Security payroll taxes so that it covered 90% of the aggregate wages of all workers. Today, it covers only about 83% of such earnings.

- Under current law, benefits already will be substantially reduced for future retirees because of the increase in the age for full retirement benefits from 66 to 67 by 2022.

- In addition, pending a substantial reduction in the increase in health care costs, all present and future retirees will face increased allocations of their retirement dollars to Medicare premiums or other health care costs. As a result, CPI increases in Social Security benefits will not keep up with their actual expenses.

- Today's workers are facing more and more present and future risk with less and less certainty because of multiple factors – including shifting job markets, inadequate job re-training programs, unemployment benefits based on short-term unemployment in a time when long-term unemployment is becoming more common, long-term stagnant wage growth for the majority of workers, the loss of wealth for many individuals nearing retirement age because of the collapse of the housing and finance markets, the shift away from private sector defined benefit plans (for the half of the workforce with access to any form of private sector retirement plan).

- Of those age 65 or older in 2008, Social Security provided 83% of the income of the lowest quintile, 82% of the second, 64% of the third, 44% of the fourth, and 18% of the top quintile, which is those with incomes over $55,890. Average benefits are only about $14,000 a year, but, for most of the elderly, Social Security remains their most important source of income.

## *PUBLIC SUPPORT FOR SOCIAL SECURITY*

Despite virtually non-stop concerns expressed for years in the press and elsewhere about the future viability of Social Security, the program enjoys solid support among American workers and their families – perhaps because each person has seen the positive impact of the program on their own families or on those that they know.

A poll conducted in July 2009 by the Beneson Strategy Group for NASI and the Rockefeller Foundation revealed that 88% of Americans say Social Security is more important than ever as a result of the recent economic crisis. Fully three-quarters say it is critical to preserve the program even if it means that working Americans have to pay higher taxes to do so (NASI 2009).

In addition, Social Security provides protections beyond the reach of most workers and does so more economically than an individual working on his or her own is able to purchase in private markets. For example:

- A 30-year old worker with a family enjoys approximately $400,000 in life insurance and $400,000 in disability insurance protection. Since approximately one-third of benefit payments go to disabled workers and survivors of deceased workers, this is a critical benefit.

- Social Security provides an annuity that is based on the overall wage growth in the economy and that is protected by an inflation rider and a 100% survivor protection clause. This benefit would be very expensive for an individual to purchase in the open annuity market, even if one had enough savings to do so.

  An individual relying solely on personal savings to provide for retirement has to save far more than would otherwise be necessary in order to self-insure against investment risk, longevity risk, and inflation risk. Moreover, if the individual reaches retirement age at a time of very high inflation or, like today, of sustained investment stagnation, he or she is likely to come up short as the sequence of investment returns is more important to the individual than average returns over the long term.

Finally, even though the US program is modest, without Social Security, about one half of our elderly would fall below the poverty threshold. It has proved to be one of the most successful and durable public programs in our nation's history. As such we join with others who are concerned that the program remain strong for future generations. We would be pleased to assist the Commission in its deliberations and to respond to any questions you may have.

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NATIONAL ACADEMY OF SOCIAL INSURANCE

# Briefing Book for National Commission on Fiscal Responsibility and Reform

Wednesday June 30, 2010

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*Briefing Book for*

*National Commission on Fiscal Responsibility and Reform,*

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# *Fixing Social Security: Adequate Benefits, Adequate Financing*

**By:** Virginia P. Reno and Joni Lavery
**Published:** October 2009

The purpose of this report is to help analysts, policymakers, journalists, constituent organizations, and interested citizens consider how to bring Social Security into long-range balance in ways that address concerns about benefit adequacy. The report outlines approximately 30 options for putting Social Security's finances into 75-year balance and more than 10 ways to make Social Security more adequate for those who rely on it. All options have long-range cost estimates from Social Security actuaries.

Benefit adequacy options in the report target such financially vulnerable groups as:

- The oldest beneficiaries (over 85 years);
- Widowed spouses of low-earning couples;
- Low-paid workers generally;
- Workers with gaps in paid work due to childcare; and
- Students in college or vocational school who have lost parental support due to death or disability.

Other adequacy options would increase benefits across the board for current and future beneficiaries. Options to balance Social Security's future finances include:

- Lifting the cap (now $106,800) on the earnings from which workers and employers pay Social Security taxes;
- Broadening the base for Social Security taxes;
- Scheduling modest rate increases in the future when funds will be needed;
- Dedicating progressive taxes to pay part of Social Security's future cost; and
- Gradually lowering some future benefits.

The NASI project received support from the Ford Foundation's initiative on Economic Fairness and Opportunity and the Rockefeller Foundation's Campaign for American Workers.

# How Benefits Compare to Earnings

Social Security retirement benefits are designed to replace part of a worker's earnings from work. The formula used to calculate these benefits takes into account lifetime earnings over 35 years. Social Security benefits replace a larger share of past earnings for low earners. While high earners receive larger benefits, their benefits replace a smaller share of what they had been making.

For example, a 65-year-old who retired in 2009 with a lifetime of “medium earnings” (about $41,730 in 2009) would receive about $16,692 a year, which would replace approximately 40 percent of past earnings. A lower earner who made about $18,760 would receive around $10,128 annually, which would replace about 54 percent of past earnings. A worker who always earned the maximum that is taxed and counted for Social Security would receive a benefit that replaced about 28 percent of his or her past earnings.

* Retired Worker age 65, 2009
Source: Annual Trustees' Report, Social Security Administration, 2009; Table VI.F10

# The Role of Benefits in Income and Poverty

Social Security is the major source of income for older Americans. About nine in 10 Americans aged 65 and older received Social Security in 2009. For two out of three of those beneficiaries (64 percent) Social Security was more than half their total income. Social Security is a large share of income because many Americans age 65 and older lack significant income from other sources. Pensions (from private or government employment) were received by about half of married couples (from either the husband's or the wife's career). Among the unmarried, 43 percent of men and 36 percent of women had pensions.

Social Security is the sole source of income for about one in five (22 percent) people aged 65 and older. Certain subgroups are particularly reliant on Social Security. Of those age 65 and older, Social Security is the sole source of income for 36 percent of Hispanics and 35 percent of African Americans.

Social Security plays an important role in keeping older Americans out of poverty. The poverty threshold was $10,830 for an individual and $14,570 for a couple in 2009. About one in 10 Americans age 65 and older is poor, by this measure. If they had to rely only on their income other than Social Security, nearly half would be poor.

# *Children's Stake in Social Security*

**By:** Joni Lavery and Virginia P. Reno
**Published:** February 2008

SUMMARY**:** About 6.5 million children under age 18 – or nearly 9 percent of all U.S. children – received part of their family income from Social Security in 2005. They include 3.1 million children who receive benefits as dependents of deceased, disabled, or retired workers and an estimated 3.4 million other children who do not themselves receive Social Security but live with relatives who do.

Social Security benefits often make the difference in lifting children out of poverty. Of the 6.5 million children in families that received Social Security, fully 1.3 million were lifted out of poverty by Social Security income.

Social Security is the most widespread form of life insurance for American families. Almost all U.S. workers – including men and women in the armed forces – have life insurance through Social Security when tragedy strikes. For example, Social Security continues to pay benefits to more than 2,000 children whose parents died in the terrorist attacks of September 11, 2001.

Children, their parents, and caretakers have an important stake in the future of Social Security. While the program is in strong financial shape over the next decade, it is not in balance for the full 75 years used to assess its finances. Policymakers are considering ways to balance the system by raising revenues, cutting benefits, or both. Because children's benefits are directly tied to benefits earned by their working parents, any across-the-board reduction in workers' benefits would cut insurance protection for children, unless they were specifically exempted. Moreover, even if children's own benefits were exempted, children would share the impact of reductions in benefits paid to others in their families. Analysts and advocates for children have an important role to fill in Social Security policy discussions.

# Social Security's Future Finances

The Office of the Chief Actuary of Social Security makes projections about Social Security finances that are used by the Board of Trustees in their annual report to Congress. The report uses assumptions about population growth—including births, deaths, and net immigration—and the performance of the economy with regard to wages, prices, productivity, and unemployment. These projections are educated guesses about an unpredictable future. The Trustees offer three scenarios: high cost, low cost, and intermediate or "best estimate." According to the 2009 “best estimate”:

- In 2016, spending for benefits would start to exceed tax income. Interest earnings on trust fund securities will help cover benefit costs.

- In 2023, spending for benefits would exceed revenues plus interest on the securities. The funds would begin redeeming the Treasury securities. The cash to redeem the bonds may come from several sources: increased taxes, reductions in other federal government spending, or borrowing through the public sale of Treasury securities. If the money is borrowed, it will increase the federal budget deficit.

- In 2037, the trust fund assets would be exhausted. All the Treasury securities would have been redeemed. Taxes coming in from workers and employers would be sufficient to pay 78 percent of the benefits promised under current law.

- By 2083, the end of the 75-year projection period, incoming taxes would pay about 74 percent of scheduled benefits.

Under the high-cost scenario, the trust funds would be depleted in 2029 instead of 2037. Under the low-cost scenario, Social Security would be solvent for 75 years and beyond. The difference among estimates shows the great uncertainty about the long-term future.

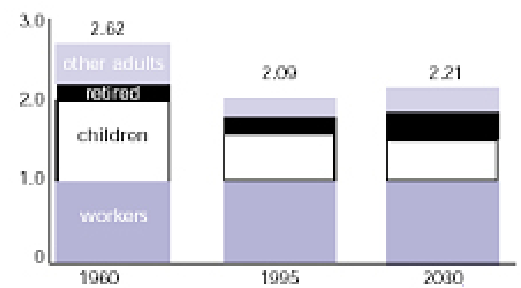
# How Boomers Will Affect Social Security

Social Security faces a financial challenge from the impending retirement of the largest generation in American history, the 76 million persons born in the “baby boom” years, from 1946 through 1964. Boomers began to reach age 62 in 2008. The cost of Social Security will rise faster than tax income because the population over age 65 will grow faster than the working-aged population. Both the baby boom generation and increasing life expectancy after age 65 contribute to an aging population. When Social Security began in 1935, life expectancy at age 65 was 12½ years. Today, it is 18.1 years, and by 2030, it is projected to be 19.5 years. While the number of beneficiaries will grow, tax rates remain unchanged in current law.

By 2030, when the youngest boomers will have reached 65, Americans age 65 and older are projected to number 70.8 million, up from 39 million in 2008. The beneficiary-to-worker ratio, which compares the number of people drawing benefits to the number of workers paying into Social Security, will rise from 31 beneficiaries per 100 workers in 2008 to 46 beneficiaries per 100 workers in 2030.

A broader measure, a consumer-to-worker ratio, portrays a smaller increase in the support burden on workers. The consumer-to-worker ratio compares everyone workers support – themselves, children, retirees, and other adults out of the workforce – to the number of workers. When baby boomers were children in 1960, every 100 workers supported 262 people in total. After the baby boomers grew up and were in the workforce by 1995, the total support burden declined to 200 persons for every 100 workers. By 2030, when the boomers are age 65 and older, the support burden is expected to rise to 221 persons per 100 workers. This would be a smaller support burden than when baby boomers were children.

**Consumer-to-Worker Ratio Over Time**



# Social Security as a Share of the Economy

Because more people will receive benefits, Social Security will grow faster than the total economy, or gross domestic product (GDP). How much faster will it grow as a share of the economy?

Social Security will rise from 4.9 percent to 6.2 percent of the economy by 2035 when all boomers will be over age 65. That is an increase of 1.3 percentage points over what we are paying today in taxes. It will remain about 6 percent of the economy for the next 75 years.

How does that 1.3 percentage point increase compare with past changes in national spending when the baby boomers were children? Public spending for education grew about twice as much as the projected increase in Social Security. Public education spending – by local, state and federal governments – grew from 2.3 percent of GDP in 1950, just before boomers began to enter kindergarten, to 5.2 percent of GDP by 1975. This was an increase of 2.9 percentage points.

# *Economic Crisis Fuels Support for Social Security: Americans' Views on Social Security*

**By:** by Virginia P. Reno and Joni Lavery
**Published:** August 2009

Eighty-eight percent (88%) of Americans say Social Security is more important than ever as a result of today's economic crisis, and three-quarters of Americans say it is critical to preserve Social Security even if it means that working Americans have to pay higher taxes to do so, according to a poll released today by the National Academy of Social Insurance (NASI) and the Rockefeller Foundation.

The poll of 1,488 Americans, conducted between July 7-14 2009 by the Benenson Strategy Group, sends a strong message to policymakers about the value that Americans place on Social Security benefits for themselves and the country as a whole – with over 75 percent of Americans saying that Social Security is or will be an important part of their retirement and nearly half of recipients stating that they would be unable to afford food, clothing or housing without it.

With the vast importance that Social Security has in the lives of so many Americans, an overwhelming number – 90 percent – want Congress to act within the next two years to preserve Social Security.  Americans are willing to pay for Social Security because they value it for themselves (72%), for their families (75%), and for the security and stability it provides to millions of retired Americans, disabled individuals, and children and widowed spouses of deceased workers (87%).

With about 31 million Americans expected to retire in the next decade, the impact of today's economic situation on worker insecurity is clear from the poll:

- 65 % of Americans want to see an increase in Social Security as a result of lost savings
- 78 % of Americans are concerned about having enough money for retirement

Large majorities of Americans support strengthening benefits for those who need them most.

- 78% support extending benefits to children under age 22 of deceased or disabled parents while attending college or vocational school;
- 76% support increasing benefits for widowed spouses of low-earning couples;
- 75% support increasing benefit for people over the age of 85;
- 69% support improving benefits for steady, low-paid workers at retirement; and
- 64% support improving benefits for working parents who take time off to care for children.

# *Tough Times Require Strong Social Security Benefits: Views on Social Security among African Americans, Hispanic Americans, and White Americans*

**By:** Maya Rockeymoore and Melissa Maitin-Shepard
**Published:** February 2010

SUMMARY: Americans agree that Social Security has an important role to play during tough economic times. Worried about the poor economy's effects on their prospects for retirement, Americans want to make sure that Social Security is strengthened for current and future generations. This is particularly true of African Americans (95%) and Hispanics (85%), who are more likely than whites (80%) to assert that Social Security is or will be an important part of their retirement income. Plagued by higher unemployment rates, fewer assets, and worries about paying their monthly bills, African Americans and Hispanics are especially supportive of strengthening Social Security. For example, when given a choice between cutting taxes and government spending or strengthening Social Security in response to the economic crisis and large deficit, two in three Americans (66%) – including 73 percent of African Americans, 67 percent of Hispanics, and 66 percent of whites – support strengthening Social Security over cutting its benefits. African Americans (90%), Hispanics (86%), and whites (75%) also strongly support benefit enhancements, such as extending benefits to college age children whose working parents have died or become disabled. Overall, 88 percent of African Americans, 84 percent of Hispanics, and 74 percent of whites agree that preserving Social Security for future generations is critical, even if it means increasing Social Security taxes on workers. A large majority of African Americans (98%), Hispanics (98%), and whites (90%) also agree that Congress should take action soon to strengthen Social Security's financial outlook and guarantee income for benefit recipients.

# What is Social Security?

Social Security is the foundation of economic security for millions of Americans—retirees, disabled persons, and families of retired, disabled or deceased workers. About 162 million Americans pay Social Security taxes and 51 million collect monthly benefits in 2009. About one household in four receives income from Social Security.

Social Security is largely a pay-as-you-go program. This means that today's workers pay Social Security taxes into the program and money flows back out as monthly income to beneficiaries. As a pay-as-you-go system, Social Security differs from company pensions, which are "pre-funded." In pre-funded retirement programs, the money is accumulated in advance so that it will be available to be paid out to today's workers when they retire. The private plans need to be funded in advance to protect employees in case the company enters bankruptcy or goes out of business.

The average Social Security benefit in May 2010 was:

- $1,169 a month for retired workers;
- $1,128 a month for widows or widowers over the age of 60;
- $1,065 a month for disabled workers;
- $1,801 a month for a disabled worker, spouse and one or more children;
- $2,363 a month for a widowed mother and two children.

The maximum Social Security benefit for a worker retiring at the 2009 full retirement age (66) is $2,323 a month.

# Who Pays for Social Security?

Workers and employers pay for Social Security. Workers pay 6.2 percent of their earnings up to $106,800 a year in 2010. (The cap on taxable earnings rises each year with average wages.) Employers pay a matching amount for a combined tax of 12.4 percent of earnings. Self-employed persons pay both the employee and employer share for a total 12.4 percent. (Half of this tax, the employer share, is a deductible business expense for income tax purposes.) Also, higher-income Social Security beneficiaries pay federal income taxes on their benefit income, and these taxes help pay for Social Security.

In 2008 the average worker made $41,680 a year, according to the Social Security Administration. This worker paid $2,584 a year, or 6.2 percent of salary, and the employer paid an identical amount, with their combined taxes being $5,168. The maximum tax for workers is set at $6,622 in 2009, and in that same year, 6 percent of all workers will earn more than the $106,800 tax cap. Earnings above the cap now account for 17 percent of the aggregate pay of all workers who pay into Social Security.

An additional tax on workers' earnings pays for Medicare hospital insurance. This is a 1.45 percent levy, paid by workers and employers each on all wages, for a total tax of 2.9 percent. Self-employed persons pay 2.9 percent.

# Who Gets Social Security?

About 51 million people collect Social Security benefits each month, and they account for about one in six people in the United States. In about one household in four, someone is receiving Social Security benefits.

About 33 million retired workers receive benefits and another 3 million individuals receive benefits as spouses or children of retired workers. A total of 6.4 million people receive benefits as survivors of deceased workers, and these beneficiaries include 4.2 million aged widows and widowers and 1.9 million children. Another 7.4 million people receive benefits as disabled workers, and 1.8 million people receive benefits as the child or spouse of a disabled worker. A total of 3.1 million children under age 18 receive Social Security and another 0.9 million adults who have been disabled since childhood get benefits as dependents of a retired, disabled or deceased parent.

**Total Beneficiaries: 51,879,000**

| **Social Security benefits, August 31, 2009** | | |
|---|---|---|
| **Beneficiaries** | **Number of Beneficiaries** | **Average Monthly Benefit** |
| **Retired Workers and their Families** | 36,139,000 | |
| Retired workers | 33,239,000 | $1,160 |
| Wives and husbands of retired workers | 2,354,000 | $571 |
| Children of retired workers | 545,000 | $566 |
| **Survivors of Deceased Workers** | 6,395,000 | |
| Widows and widowers and parents aged 60 and older | 4,119,000 | $1,026 |
| Children of deceased workers | 1,882,000 | $745 |
| Widowed mothers and fathers caring for children | 161,000 | $841 |
| Disabled widows and widowers | 232,000 | $683 |
| **Disabled Workers and their Families** | 9,508,277 | |
| Disabled workers | 7,657,000 | $1,062 |
| Wives and husbands of disabled workers | 159,282 | $288 |
| Children of disabled workers | 1,692,000 | $317 |

Source link: http://www.ssa.gov/cgi-bin/currentpay.cgi

# What is Social Security Disability Insurance?

Social Security disability insurance (DI) pays monthly benefits to workers who are no longer able to work due to a significant illness or impairment that is expected to last at least a year or to result in death within a year. It is part of the Social Security program that pays retirement benefits to the vast majority of older Americans. Benefits are based on the disabled worker's past earnings and are paid to the disabled worker and to his or her dependent family members. To be eligible, a disabled worker must have worked in jobs covered by Social Security. In February 2010, 9.8 million individuals received disabled worker benefits.

*Who Pays for Disability Insurance Benefits?*
Workers and employers pay for the DI program with part of their Social Security taxes. Workers and employers each pay a Social Security tax that is 6.2 percent of workers' earnings up $106,800 in 2009. (The cap is adjusted each year to keep pace with average wages). Of the 6.2 percent, 5.3 percent goes to pay for Social Security retirement and survivor benefits and 0.9 percent pays for disability insurance. The combined tax paid by workers and employers for disability insurance is 1.8 percent of wages, while the combined tax for retirement and survivor benefits is 10.6 percent, for a total of 12.4 percent.

*How much does the DI program cost?*
In 2009, the disability insurance trust fund received $109.3 billion, mainly from the 0.9 percent tax on wages that workers and employers both pay. Total payments from the DI trust fund were $121.5 billion, mainly for benefits to disabled workers and their families, resulting in an annual deficit of of $12.2 billion in 2009. The cumulative assets in the disability insurance trust fund totaled $203.6 billion at the end of 2009.

*Who is eligible for DI benefits?*
The Social Security test of disability is very strict. To be eligible for disability benefits, the Social Security law says that the applicant must be “unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or is expected to last for a continuous period of at least 12 months.” Furthermore, the impairment or combination of impairments must be of such severity that the applicant is not only unable to do his or her previous work but cannot, considering his or her age, education, and work experience, engage in any other kind of substantial gainful work which exists in the national economy (Social Security Act, section 223(d)). A person is considered to be involved in substantial gainful activity if he or she earns more than a certain amount. The amount is adjusted each year to keep up with average wages. (In some cases earnings can be reduced by the costs associated with work, such as paying for a wheelchair or services of an attendant. If deductible work expenses bring net earnings below the amount, the individual can be eligible for benefits.) There is a five-month waiting period after the onset of disability before payments begin. If someone suffered a disabling injury in June and met Social Security's disability definition, he or she would become eligible for the first disability payment for December.