The Institute responds to the program's looming insolvency

Understanding Social Security Disability Insurance

On May 31, the 2013 Social Security Trustees' report was released, projecting that with the significant increase in costs and enrollment seen in recent years, the Disability Insurance (DI) trust fund will be insolvent as early as 2016.

The Cato Institute has long been at the forefront of entitlement issues, having commissioned Caroline Weaver to argue in favor of privatizing the Social Security system on these very pages in *Cato Policy Report*'s 1979 inaugural issue. With the increased scrutiny that the DI program received recently, the Institute has redoubled its efforts at reform.

"SSDI was originally created as a modest safety net aimed at severely disabled workers who were close to retirement age," Cato budget analyst Tad DeHaven writes in his new policy analysis, "The Rising Cost of Social Security Disability Insurance." But Congress has expanded benefit levels over the decades. "Instead of providing a wage-replacement back stop for the disabled workers who are permanently incapable, disability insurance has become more like a general welfare program."

At a Cato Policy Forum in June, Jagadeesh Gokhale, senior fellow at the Cato Institute, reinforced this point by outlining the program's broad history and offering some key statistics on how it is functioning. "Are those with marginal health impairments—but with some work ability—enrolled in the program?" he asked. The answer is undoubtedly yes, Gokhale argued, begging the question of what policy changes should be made.

"One familiar refrain from supporters of the current DI system is that we should do no harm," he continued. However, to the extent that easy eligibility erodes work skills and encourages dependency, the program itself may be what is causing damage. One way to address this is to charge SSDI with a dual mandate of not only providing a safety net, but also ensuring that disincentives to work are minimized.

"It is important to support the truly disabled," Gokhale wrote in Cato's Spring 2013 *Regulation*. "However, SSDI's current rules appear to achieve the opposite: provide incentives to people with marginal disabling conditions to remain idle and dependent."

Social Security Disability Insurance (SSDI) is one of the largest federal programs—and one of the most troubled. At a Cato Policy Forum in June, (from left) DAVID AUTOR of the Massachusetts Institute of Technology, STEPHEN C. GOSS of the Social Security Administration, JAGADEESH GOKHALE of the Cato Institute, MICHAEL TANNER of the Cato Institute, and HAROLD POLLACK of the University of Chicago provided insights into the problems with the program's current structure, causes of recent program growth, and prospects for reform.

Among the other panelists, even the supporters of the program raised concerns about its sustainability. David Autor, professor of economics at the Massachusetts Institute of Technology, noted that SSDI is "a crucial piece of the U.S. safety net and has been so for more than 50 years." He nevertheless expressed some concerns about the system, including its misdirection of resources. "Too little money is spent helping workers to remain employed, despite work limitations," he said. "Too much is spent unintentionally fostering long-term dependency."

The chief actuary of the Social Security Administration, Stephen C. Goss, addressed the point often made that, between 1980 and 2012, the number of SSDI beneficiaries increased by 187 percent. But this number is misleading, he said. The effect of a growing and aging population, a large increase in female workers, an adjusted normal retirement age, and elevated unemployment rates during the recession all come together to explain this explosion in beneficiaries over the last three decades.

"It's hard to project the future unless you not only see past trends, but understand what caused them," Goss concluded.

Harold Pollack, the Helen Ross Professor at the University of Chicago's School of Social Service Administration, insisted that "disability policy is one of the quiet successes in American life." Yet, despite the fact that we as a society benefit from such entitlement programs, he added that they necessarily involve "trying to apply a binary standard to a continuous, multidimensional package of impairments." As such, it leaves programs like SSDI "inherently vulnerable" to errors.

In the end, however, it seems clear that such errors are not simply marginal flaws in an otherwise sound system. "SSDI has become financially unsustainable and economically damaging, and policymakers should pursue major spending cuts to the program," DeHaven concluded in his analysis. "They should also explore the potential to transition responsibility for disability insurance from the government to the private sector." ■