

In Brief: The Effects of Social Security Reform Proposals on Social Security Disability Insurance, Supplemental Security Income, and Private Disability Insurance

Much of the current debate on Social Security reform has focused on the investment returns to an individual's payroll tax contribution, often obscuring the unique qualities of Social Security as a social insurance system. Very little attention in the debate has been given to the survivor and disability components of Social Security. As policy analysts, researchers, and lawmakers grapple with ways to make Social Security solvent for the long-term, it is important that they consider the effects various alterations and/or major changes will have on all Social Security beneficiaries.

Close to 152 million workers are covered by Social Security Disability Insurance (SSDI) and close to 6.5 million disabled workers and their family members receive SSDI benefits. Selin Opcin and David Stapleton, authors of "The Effects of Social Security Reform Proposals on Social Security Disability Insurance, Supplemental Security Income, and Private Disability Insurance," examine several of the prominent Social Security solvency proposals and evaluate them in light of what would happen to disability benefits should a particular proposal be implemented.

The study identifies three specific provisions contained in several of the proposals that would affect SSDI benefits negatively: 1) reducing the marginal replacement rates by changing the benefit formula; 2) limiting DI benefits to the Old Age Insurance (OAI) benefits available at age 65; and 3) reducing cost-of-living adjustments. It also shows that reform proposals with individual account components have the greatest potential for reducing SSDI benefits. Individual accounts often go hand in hand with a reduction in promised benefits under the existing program. This means that the person with a disabling condition, who can no longer work and contribute to the individual account portion of the benefit, is faced with a probable reduction in the future total benefit amount.

Several significant effects of reform proposals on the Supplemental Security Income program (SSI) and private disability insurance (PDI) are highlighted. For example, if a reform proposal lowers the SSDI benefit amount, it is logical to assume that there would be greater dependence on both SSI and PDI. In addition, if SSDI were required pay for more of the cost of disability, PDI would certainly have to increase the cost of coverage or change its formula to reduce the level of protection.

The authors also point out that a decrease in SSDI benefits would have a major impact on SSI—a program for persons with disabilities who have low or no income. Individuals eligible for SSI may or may not be eligible to receive an SSDI benefit. The authors note that a decrease in SSDI benefits could impact SSI in two important ways. First, those who are already receiving SSI and SSDI would be eligible for higher SSI benefits to make up for lost SSDI. In addition, SSDI beneficiaries potentially would have lower incomes and become newly eligible for SSI.

Specifically, the potential effects of four prominent proposals that include individual accounts on retirement and disability benefits were analyzed. The main findings include:

- OASI and DI benefits fall more, in percentage terms, for beneficiaries with disabilities than for retired beneficiaries.
- Reductions in DI benefits that would result under some reforms would be at least partially offset for some beneficiaries by increases in SSI or PDI payments. Further, the offsetting increases in SSI and PDI payments will make those benefits more costly and might ultimately undermine support for their availability.

In sum, while the incomes of workers with disabilities would be reduced significantly by a number of reform proposals as currently formulated, if changes were made to these proposals the result could be maintenance of, or even increases in, benefit levels for such workers. Hence, it is important for policymakers to address DI reforms simultaneously with retirement reforms, rather than as an afterthought.

Source: Selin Opcin and David Stapleton, The Lewin Group, *The Effect of Social Security Reform Proposals on Social Security Disability Insurance, Supplemental Security Income, and Private Disability Insurance*. For a copy of the 57-page Issue Paper write for PPI Issue Paper #2001-13, Public Policy Institute, AARP, 601 E Street NW, Washington, DC 20049.

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