

## **Comments for the Record**

### **House Ways and Means Committee Subcommittee on Social Security**

#### **Hearing on Securing the Future of the Social Security Disability Insurance Program**

Friday, September 14, 2012, 9:30 AM

by Michael Bindner  
The Center for Fiscal Equity

Chairman Johnson and Ranking Member Becerra, thank you for the opportunity to submit our comments on this topic. We have twice commented on this topic with essentially identical remarks reflecting our view of this issue, which is made in the context of our overall proposal for tax and entitlement reform. These comments were made to the first session on December 2, 2011 and the second on December 9, 2011. In these comments, we will answer the questions which have arisen earlier in the series and summarize our proposals.

#### **First, is the concept of disability that prevailed at the start of the program in 1956 still appropriate today given advances in medicine, rehabilitation, and the workplace?**

We believe the answer must be no. Since the passage of welfare reform, the concept of disability has increased to include people with learning disabilities brought about by prenatal exposure to illicit drugs, while retaining coverage of people with mood disorders that can be treated quite effectively with medication. Current incentives are more a bar to rehabilitation, as no one wants to give up a life-time benefit for a life-time of work if they have any degree of rationality left. While there are still many mentally disabled people who need continuing assistance, ways should be pioneered to give them incentives to both participate in rehabilitative programs and employment opportunities.

#### **Second, are there ways to better support individuals with disabilities to stay in the workplace?**

Given the time required to receive assistance, this is almost a rude question. It is not easy to get on the disability rolls. Additionally, many who are seeking disability already cannot work, especially in this economy, so the question of staying in the workplace is largely overcome by events.

**Third, can the decision-making process be strengthened so that, when appropriate, awards are made as early as possible and decisions on applications and appeals are made with greater accuracy and consistency?**

Yes. Indeed, the initial award can be made in cooperation with the last employer, who would provide at least a portion of disability income as well as rehabilitative training in lieu of a higher disability insurance tax payment. Such a system would bring about faster determinations of disability, without the need to provide a case management and appeal infrastructure which provides make-work for both bureaucrats and disability lawyers, both of which add no real value to the program while costing taxpayers more and more as backlogs continue to grow and cases are summarily denied on the first reading.

In summary, our solution is to shift funding for disability insurance and rehabilitation entirely to an employer-paid, VAT-like Net Business Receipts Tax, with the payment of disability benefits and rehabilitative care to be covered by either the last employer or a future employer who wishes to take on the new employee's "case" and provide both continued benefits and services until that worker can be productive without continued assistance.

As stated, our proposed solutions are made in the context of a four part tax reform, which form the basis of our analysis. The key elements are:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure that every American family pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

Please allow us to now repeat our proposed solution, which is identical to prior submissions. We will deal with how each of these proposals relates to the circumstances of program participant.

In the event a VAT is adopted, we propose that program participants receive a one time cost of living adjustment (COLA) at the VAT rate in the year the VAT takes effect, with further adjustments in any year the VAT rate increases. This is also applicable if our proposals for a regional VAT are enacted as amendments to the *United States Constitution*.

We propose that Disability Insurance payroll taxes be repealed, with funding coming from our proposed Net Business Receipts Tax. Repealing this tax provides a justification for decoupling the benefit level from past income. An income based benefit should be replaced with a standard benefit. During the application phase, instead of forcing participants onto state welfare rolls, the last employer would pay the standard benefit – which should be at least the minimum wage for a full time worker, if not higher – with this payment offsetting the employers NBRT liability and, if necessary, its VAT collections.

If the employee has dependent children, each child will also receive the refundable expanded Child Tax Credit with their benefits (currently estimated at \$520 per child per month). Please note that we propose elsewhere that the minimum wage be increased to \$12 an hour so that no one is paid primarily through the Child Tax Credit and that both the minimum wage and the credit be automatically adjusted for inflation.

As stated elsewhere, the expansion of the credit is funded by consolidating it with the Earned Income Tax Credit, the deduction for children and limitations on or elimination of the mortgage interest and property tax deductions. The extension of this credit to non-workers is offset by abolishing supplemental retirement programs, such as Supplemental Nutrition Assistance and housing assistance.

Once the application process is complete, the Federal (or regional) government will distribute payments, as well as the expanded refundable Child Tax Credit for any dependent children, all of whom would qualify for Medicare, including any long term care provisions transferred to the federal government from the Medicaid program.

If vocational or educational training is required, as it likely should be in some cases, then the training provider will serve as both “case worker” and conduit for additional benefits, including the Child Tax Credit. Participants would be paid the minimum wage for engaging in training, along with any additional stipend provided to program beneficiaries of the benefit level were set higher.

Client health care would be funded by the federal government, but could conceivably be provided through the health care system provided to employees of the training provider. This is also our proposal for providing education to TANF beneficiaries. This care could take the form of health insurance or of staff medical personnel and facilities. In the event health care reform devolves into a public option or single payer system, the question of who pays for health care will be moot.

Clients who are incapable of completing training and finding employment will be transferred back to beneficiary status, with the training provider paying benefits during any transition period.

Program participants, like TANF participants, would not pay OASI payroll taxes, nor would program providers pay an employer contribution on their behalf or distribute any personal retirement account shares to them as an offset to their Net Business receipts taxes.

Unless they have significant outside income from an inheritance, tort judgment or lottery prize, it is doubtful that program participants will be hit with the Income and Inheritance Surtax. In any case, benefits and tax credits received would not be counted in determining adjusted gross income for this tax, although training stipends probably should be.

Program participation should not be means tested based on any judgment, although beneficiaries of significant inheritances should probably be excluded from the program, although that level should be set rather high – likely at the level where such benefits are taxed, currently proposed at \$50,000 for individuals and \$100,000 for joint filers and qualifying widow(er)s.

Thank you for this opportunity to share these ideas with the subcommittee. We are always available to discuss them further with members, staff and the general public.

## **Contact Information**

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Clients:

The Center for Fiscal Equity has received no outside funding of any kind to support this testimony. It is not representing any interests for pay.