

**Hearing on Maintaining the Disability Insurance Trust Fund's Solvency**

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON SOCIAL SECURITY  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTEENTH CONGRESS  
FIRST SESSION

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**February 25, 2015**

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## **MAINTAINING THE DISABILITY INSURANCE**

### **TRUST FUND'S SOLVENCY**

Wednesday, February 25, 2015

House of Representatives,

Subcommittee on Social Security,

Committee on Ways and Means,

Washington, D.C.

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The Subcommittee met, pursuant to other business, at 2:03 p.m., in Room B-318, Rayburn House Office Building, Hon. Sam Johnson [Chairman of the Subcommittee] presiding.

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\*Chairman Johnson. Thank you. This hearing will come to order and I'd like to welcome our Members today.

Since becoming chairman of the Social Security Subcommittee, I have had 14 hearings on the disability program, including the one today, which is about maintaining Disability Insurance Trust Fund's solvency, and before continuing, I see we have many individuals from the disability community in the audience today. I would like to welcome you all and thank you for coming. You know better than most that this program is not without its problems, and in fact, less than two years from today, the Disability Insurance program will not have enough money to pay full benefits.

Now, as a subcommittee, we've looked at this program from nearly every angle and I think it's fair to say this program can and must work better for people with disabilities, as well as for the hard-working American taxpayer.

A few weeks ago, Representative Cathy McMorris Rodgers and Chairman Paul Ryan met with members of the disability community, including one of our witnesses today, Mr. Phillips. I wasn't able to make that meeting, but I agree strongly with what my

colleagues said. We need to have a conversation, a fact-based conversation, on how to make the program work better.

During that meeting, the idea of a commitment to you all, the disability community, came up. As a follow-up to that meeting, Chairman Ryan and I want to extend my hand to you all and offer the following commitment that I ask my colleagues on both sides of the aisle to join me in.

One, ensuring benefits continue to be paid to individuals with disabilities and their family members that rely on them; two, preventing a 20 percent across the board benefit cut; three, making the Disability Insurance program work better; and, four, promoting opportunity for those trying to return to work.

That's a common sense commitment to all Americans, and I know the devil's in the details, but I hope all my colleagues on this Subcommittee, and especially the ranking member, can join me.

Over the coming months, we're going to have plenty more conversations about the disability program and as we have these conversations, it's my hope that they will not be hijacked by political point scoring. The American people expect us to work together.

Today we're going to hear from our witnesses about the options to make sure benefits continue to be paid. They will discuss how Congress has addressed Social Security's finances in the past and how Social Security's finances then compare to today.

Many people have said that we have reallocated the payroll tax 11 times. While it's true Congress has shifted the payroll taxes between the two Social Security Trust Funds, it's happened only six times. Moreover, Congress has typically made changes to improve Social Security. Recently, Acting Commissioner Colvin argued for more research into the disability program before making any changes. Well, guess what? That was the same argument in 1994 as well, the last time a reallocation took place.

Now, some like to say the President's proposal to reallocate some of the payroll tax that goes for the retirement program toward the disability program is no big deal. Well, I would argue it is a big deal. The Administration just wants to kick the can down the road and offers no ideas on how to make the program work better. That's not right. Americans who have paid in to Social Security and are currently receiving benefits, as well as today's younger workers, deserve better.

This Congress should and must act to make sure that Disability Insurance benefits continue to be paid in 2016 and beyond to those who rely on them, and in doing so, we ought to make this program work better for those who depend on it.

I thank our witnesses ahead of time for being here today and look forward to hearing your testimony. I really do appreciate you.

I now recognize Ranking Member Mr. Becerra for his opening statement.

\*Mr. Becerra. Thank you, Mr. Chairman.

Mr. Chairman, there is but one Social Security. One single Social Security system provides birth to death protection for American workers and their families.

Just like the 168 million other Americans, I pay into Social Security with every paycheck. My paycheck doesn't have a line that says Disability Insurance and a line that says retirement or survivorship benefit insurance when I pay my contributions in to Social Security. It has one line for Social Security contributions, FICA, FICA/Social Security. My Social Security contributions, just like those of every other American worker, pay for one Social Security system that protects my family and me, along with all other workers and their families, when we need it. You can't break Social Security up into separate pieces.

When we begin our working lives, none of us knows what kind of insurance from Social Security we'll need or at what stage in our lives we'll need it. Some workers die young, leaving family to use the survivors' benefits portion of Social Security. About one in four of today's 20 year olds will become disabled before reaching retirement age and therefore, will need the disability portion of Social Security.

We also know that the risk of serious work-ending disability will rise significantly as Americans age. Americans are twice as likely to qualify for Social Security benefits because of -- excuse me. They're twice as likely to qualify for Social Security benefits because of a disability at age 50 as they are at age 40 and they're four times more likely to qualify at age 60.

These three Social Security protections -- disability, retirement, and survivors' benefits -- make up a seamless whole, but it seems that some in Congress are trying to segregate Social Security into separate parts, a retirement plan, life insurance, and a disability protection, but Social Security can't be ripped apart.

The 11 million Americans currently receiving Social Security Disability Insurance benefits paid for their benefits with hard work and now they rely on them, just like the other 48 million Americans who receive Social Security as well. They earned this Disability Insurance protection by paying into it every month. This isn't welfare. They earned it with every paycheck. Their benefits average about \$1,100 a month, but for these folks, it's a lifeline.

More than half of disabled workers receiving Social Security would live in poverty without their earned benefits, despite years of hard work before they became disabled, and don't forget, as we've learned in many prior subcommittee hearings, it is very hard to qualify for Social Security on the basis of a disability. The eligibility rules are very strict and only 4 of every 10 applicants are found to have impairments which are severe enough to qualify for Disability Insurance under Social Security.

Historically, Congress has treated Social Security's Trust Funds as one unified reserve. Isn't that the way everyone in America sees it, as one system? Congress has from time to time fine-tuned the Social Security contributions, going into the Trust Fund to ensure that they are equally able to pay Americans the benefits they've earned, whether disability, survivor benefits or retirement.

Congress has never before used an accounting shortfall in one part of the system to prevent earned benefits from being paid to those who earned them elsewhere. The allocation of workers' Social Security contributions has been fine-tuned by Congress for decades, 11 times to date, but it seems like this time, some are trying to rip out Social Security's earned disability protection and make it something separate or claim it is taking resources away from seniors.

This is a manufactured crisis and I urge folks to take a look at some of the -- at the chart that's on the screens right now. Social Security has \$2.8 trillion available in its Trust Fund to pay full earned benefits to all recipients. The 11 million people who are facing a 20 percent benefit cut helped build up that surplus with their contributions; however, rather than reassuring all Americans that Congress will let Social Security use its worker-funded reserves to pay 100 percent of earned benefits, this year it appears that my colleagues on the Republican side have adopted an unprecedented new rule that programs in a 20 percent benefit cut for 11 million Americans receiving Social Security Disability benefits.

Americans of all ages and walks of life overwhelmingly support Social Security.

Mr. Chairman, I have a -- I have here statements from AARP and the Alliance for Retired Americans who represent millions of American seniors, from Paralyzed Veterans of America, who represent disabled veterans, and from 48 other groups representing disabled Americans. All of them ask Congress to let Social Security use its reserves to prevent benefit cuts and they express concern about using earned Social Security benefits as a bargaining chip.

Mr. Chairman, I ask you now to consent to include these statements in the record.

\*Chairman Johnson. Without objection.

[The information follows: [The Honorable Xavier Becerra Submission](#)]

Mr. Becerra. Over the long term, Mr. Chairman, Social Security does face a challenge, but it's a manageable one, one I look forward to addressing on a bipartisan basis, keeping in mind the vital role Social Security plays in every American's life, but the first step is to let Social Security use its own money, the money workers have contributed, to pay Americans the full benefits they need and that they have earned.

And with that, Mr. Chairman, I look forward to the testimony of our witnesses.

\*Chairman Johnson. Thank you.

That was a nice statement. I happen not to agree with you, you know that.

[Laughter]

\*Mr. Becerra. I think I was aware of that, Mr. Chairman.

\*Chairman Johnson. As is customary, any member is welcome to submit a statement for the hearing record. Before we move on to our testimony today, I want to remind our witnesses to please limit your oral statements to five minutes. However, without objection, all of the written testimony will be made part of the hearing record.

We have one witness panel today. Seated at the table are Charles Blahous, Ph.D., Public Trustee, Social Security and Medicare Board of Trustees; Ed Lorenzen, Senior Advisor, Committee for a Responsible Federal Budget; Webster Phillips, Senior Legislative Representative, National Committee to Preserve Social Security and Medicare.

And with that, Dr. Blahous, welcome, and thank you for appearing this afternoon. You may proceed.

#### STATEMENT OF CHARLES BLAHOUS, PH.D., PUBLIC TRUSTEE, SOCIAL SECURITY AND MEDICARE BOARD OF TRUSTEES

\*Mr. Blahous. Thank you, Mr. Chairman, Mr. Ranking Member, all the members of the subcommittee. It is, as always, an honor to appear before the subcommittee, in this case to discuss the financing challenges facing Social Security's Disability Insurance Trust Fund.

If I could, I'd like to issue a brief disclaimer before I begin the main points from my written testimony. As trustees, there are certain things that we deal with and certain things that we don't tend to. Generally, as trustees, we make big picture financial projections for the Trust Funds as a whole. We don't typically analyze alternatives to current law or the policy details of the programs. So I can offer the trustees' projections and some of the history of those projections and statements, but there are no trustees' positions with respect to policy alternatives.

The first point that I would like to make is simply that under our current projections, we are anticipating a financing shortfall in the Disability Insurance Trust Fund, a substantial one, and one that is now nearly immediate. In our last report, we projected that the Fund's reserves would be depleted in the fourth quarter of 2016, at which point the program would only have sufficient revenues to make about 81 percent of scheduled benefit payments, and obviously that date could move a few weeks in either direction, but as we closer to it, it's clear that it's coming very quickly.



Second point is that -- and the member statements have already alluded to this -- there are certainly issues that are unique to Disability Insurance that many are concerned with, but the biggest problem that the Disability Insurance Trust Fund faces is simply that the entirety of Social Security is out of financial balance, and, in fact, the actuarial balance in the other Social Security Trust Fund, the Old-Age and Survivors Fund, is actually somewhat later in both absolute and relative terms, and this is relevant today because it means that if Social Security were in actuarial balance today as a whole, we wouldn't need to have a larger share of the payroll tax going to the Disability Insurance Trust Fund.

The main reason that DI is hitting the wall before the Old-Age and Survivors Fund is that the boomers are moving through they have moved through their ages of peak disability incidence before they reach retirement age, and so those pressures are in the process of shifting from the DI Trust Fund to the OASI Trust Fund.

And the third point I'd make is simply that delay in dealing with the larger financing problem is dangerous and this is a point that the trustees' reports have made for the last several years. We always include various illustrations to make this point in each report, but, basically, if we were to take the path of least resistance and just sort of shuffle the accounts around until 2033 and try to act then, it would be too late. By that point, there would be no practical likelihood of being able to fix the shortfall. So anything that has the effect of further delaying the necessary financing corrections is inimical to the interest of the program and its participants.

One example that we give in last year's report is that if you imagine a solution enacted today where we hold current beneficiaries harmless and ask how much would you have to reduce scheduled benefits for people newly coming into the system in order to balance the system's finances and the answer is about 21 percent, which is unpleasant but mathematically doable, but if you tried to do the same thing in 2033, at that point even a 100 percent reduction in benefits for people newly coming onto the rolls would be insufficient to right program finances. So, at that point, it's really too late to fix the shortfall, and so early action is definitely important.

The last point that I would make is simply that it would be a fairly significant break with past practice to have a tax rate reallocation between the Trust Funds without some type of action improving Social Security's overall financing outlook.

Now, obviously, as lawmakers, you're well within your rights to act however you choose, according to whatever rationale you choose, whether it's in keeping with past practice or not, but I think it's important to be aware of not only the adverse substantive implications of further delaying financing corrections, but also just some of the history of how we got here.

Generally speaking, there have been a number of tax rate reallocations throughout Social Security's history. Pre-1972 they tended to be accompanying other benefit increases that were being legislated and the tax rate reallocations reflected the changed

expectations of benefits, and then in '77 and 1983, there were tax rate reallocations to reflect the financing corrections that had been enacted in the program as a whole.

What happened in 1994, and I realize I'm running out of time, but in 1994 we had something happen that was fairly unusual. We had a situation where the disability costs had been rising in the late 1980s and early 1990s and there was a view that there wasn't sufficient information to inform a comprehensive solution at that time. So the trustees came before Congress and basically said we recommend a two-pronged approach. In the near term, reallocate the taxes in order to meet the trustees' short-term solvency test, and also follow-up with more comprehensive reform. And after the taxes were reallocated, the next trustees' message reiterated, "While the Congress acted this past year to restore the short-term financial balance, this necessary action should be viewed as only providing time and opportunity to design and implement substantive reforms that can lead to long-term financial stability," et cetera. "We hope, et cetera, that the Congress will take action over the next few years to make this program financially stable over the long term."

Now, we know that the second half of that didn't happen and now it's 2015 and we're very close to the wall, and it's clear that at this point, there's not enough time to have substantive reforms that would avert Trust Fund reserve depletion without some source of additional revenues to the Disability Insurance Trust Fund. So it seems we're going to have that as at least part of our answer, but what I think both the history and the current projections tell us is that generally speaking, Social Security finances have been sustained to date because lawmakers have stepped up and made some difficult choices. They've raised revenues or slowed cost growth stats whenever they've been confronted with a projection of imminent Trust Fund depletion.

To break with that precedent and to shift funds between the Trust Funds without similar financing improvements could render it more difficult to repair Social Security finances in the future.

Thank you.

\*Chairman Johnson. Thank you.

You know, do you have a solution?

[Laughter]

\*Mr. Blahous. Well, two-part answer. One is the trustees as a group do not have a position on what's the optimal solution, and, the stat trustees put forth what's called a Section 709 letter that lays out the range of options in terms of an all tax solution, an all benefit restraint solution and combinations between.

You know, all six trustees probably have their own personal views and I'd be happy to respond particularly just to how I would approach the problem, but the trustees as a group do not have a position.

\*Chairman Johnson. Are they all different?

\*Mr. Blahous. I think there's probably more common ground than is usually supposed. I think there's actually a tremendous amount of common ground between I think different trustees as to how they'd approach the problem.

\*Chairman Johnson. Well, that's good to know. Thank you for your testimony.

Mr. Lorenzen, welcome. Please proceed.

#### STATEMENT OF ED LORENZEN, SENIOR ADVISOR, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

\*Mr. Lorenzen. Thank you.

Chairman Johnson and Ranking Member Becerra and members of the subcommittee, I appreciate the invitation to appear before you today.

I have been involved in Social Security issues as a congressional staff member and in the nonprofit sector for over 20 years. On a personal note, I had experiences with Social Security as I had the responsibility for managing my parents' finances for several months after my mother was gravely injured in an automobile accident with only the very modest Social Security support from my stepfather's retirement benefit and my mother's disability benefit providing their income.

I've also come to know many people in the disability community through my mother's work as a disability rights activist and my involvement with groups for people with spinal cord injuries. These experiences have given me a deep understanding of the importance of the SSDI program and its modest benefit levels.

The Community for a Responsible Federal Budget has launched the McCrery-Pomeroy SSDI Solutions Initiative to identify potential improvements to the DI program. However, my testimony today does not reflect the views in the McCrery-Pomeroy Initiative or the co-chairs who have not taken a position on reallocation.

I will briefly summarize a few conclusions from my review of prior reallocations.

First, prior reallocations have typically been accompanied by reforms to improve overall solvency. The requirements in the Johnson Rule is more consistent with past reallocations than the current proposals for clean reallocation.

Second, prior reallocations generally rebounds payroll taxes to align revenues with the relative cost of each program and shifted revenues from the Trust Fund in a stronger actuarial condition. Neither would be the case with a reallocation enacted today.

Third, clean reallocations, which were intended to avoid imminent Trust Fund depletion and buy time for Congress to enact legislation to improve solvency, resulted in no action until the Trust Fund was facing depletion again. That is a risk we cannot afford to take again given that the entire Social Security Trust Fund is facing depletion in less than two decades.

Finally, depletion of the SSDI Trust Fund should be an impetus for comprehensive Social Security reform that addresses solvency of both OASI and DI programs. Failing that, any reallocation should be for a limited period of time and accompanied by modest changes improving overall Trust Fund solvency and improving the DI program, along with a process that will facilitate further action on comprehensive reform.

Congress has enacted reallocation legislation on six occasions. As Dr. Blahous has said, the first two were part of legislation increasing benefits when the overall program had a surplus and reallocation was necessary to cover the costs of increased benefits in the DI program. That's very different than the situation we have today.

The reallocations in 1977 and '83 were parts of major Social Security reforms that reduced OASDI shortfalls. There were two reallocations in 1980 and 1994 that were closer to clean reallocation being discussed now, but with key differences. The 1980 legislation was a temporary reallocation, benefiting the OASI Trust Fund for two years and was preceded a few months by reforms to the DI program, which improved DI Trust Fund solvency.

The 1994 legislation included modest changes in Social Security, but was framed as buying time for more significant reforms, and as Dr. Blahous noted, the 1994 reallocation was designed by the trustees to ensure that the DI Trust Fund met the test of short range financial adequacy, which resulted in the Trust Fund being extended for a little over 20 years.

However, the anticipated 2016 DI Trust Fund depletion does not mean that further reallocation wasn't anticipated in 1994. In fact, when the trustees initially recommended the reallocation, they warned against further reallocation, writing, "Further reallocation could raise concerns about the financial viability of the OASI program."

Although the President's proposal for reallocation that extends the life of the DI Trust Fund for nearly two decades is in many ways similar to the 1994 legislation, the current context is very different. In 1994, OASI depletion was projected to be 40 years away, whereas now we only have 20 years, leaving much less time to take action without severe disruption for beneficiaries and taxpayers.

A key rationale for the 1994 reallocation does not apply today. The early '90s' shortfall in the DI Trust Fund was unexpected and due to factors that were not understood. In contrast, the current projections of DI Trust Fund have been anticipated for some time.

Because Congress failed to heed the warnings of trustees after 1994, some reallocation to the DI Trust Fund will be necessary. There are no realistic options to provide sufficient savings in time to prevent depletion by 2016. Nonetheless, one of the lessons we have learned is that a reallocation with no reforms will remove pressure on policymakers and increase the chances that we won't act until we face the crisis of imminent Trust Fund depletion again.

If we delay action for another 20 years, we won't be able to solve the problem with reallocation. The only options will be extremely steep increases in taxes, deep and immediate reduction of benefits or general revenue transfers to the combined Trust Fund.

Ideally, DI Trust Fund depletion should be viewed as a warning about the financial problems facing the entire Social Security program and provide the impetus for comprehensive Social Security reform. Addressing depletion of the DI Trust Fund in the context of comprehensive Social Security reform would provide policymakers with a much broader range of options on both benefits and revenue side to improve the solvency of both the DI and OASI program, which, as I said, faces a larger long-term shortfall.

However, agreement on comprehensive Social Security reform may not be possible before Congress needs to act. Absent comprehensive reform, policymakers should enact a smaller reallocation or interfund borrowing to delay depletion by a few years and modest reforms improving Social Security solvency and improving the DI program, along with a mechanism to ensure further action on Social Security solvency, such as the Delaney-Cole Social Security Commission Act.

A smaller reallocation extending the DI Trust Fund for a shorter period of time would keep pressure on to address the underlying shortfalls in the Social Security system, just like the temporary reallocation in 1980 and the subsequent limited interfund borrowing authority did before the 1983 reforms, in contrast to the 1994 reallocation that was followed by 20 years of inaction.

In conclusion, policymakers should not enact a clean reallocation to delay depletion of the DI Trust Fund without taking steps to address the shortfalls facing Social Security and enact improvements in the DI program. The Committee for a Responsible Federal Budget stands ready to help the subcommittee and your colleagues in Congress and the Administration to deal with these issues.

\*Chairman Johnson. Thank you.

I don't know if we can ever figure out how to solve the shortfall, but you all are here to help. Especially if people are on Social Security that don't deserve to be on there, disability in particular.

Mr. Phillips, you're recognized.

STATEMENT OF WEBSTER PHILLIPS, SENIOR LEGISLATIVE  
REPRESENTATIVE, NATIONAL COMMITTEE TO PRESERVE SOCIAL  
SECURITY AND MEDICARE

\*Mr. Phillips. Thank you, Chairman Johnson and Ranking Member Becerra and members of the committee. On behalf of the members of the National Committee to Preserve Social Security and Medicare, I want to thank you for holding this hearing. I'm honored to be here before the committee today.

I started attending hearings in this room in 1987 when I was a new hire at the Office of Legislation at the Social Security Administration. I've formed a reverent attitude toward this commission's -- the committee's deliberations and it's the first time I've sat at this table and it is indeed a great honor.

First, a few words about our organization. Our members come from all walks of life and every political persuasion. What unites them is their passion for protecting and strengthening Social Security and Medicare, not just for themselves, but for their children and grandchildren. Our members see Social Security as an intergenerational compact that protects all members of the family. To them, it is a single, integrated system of benefits that provides protection from birth to death. It is a system where all of its parts are equally important.

Before addressing the financial issues confronting the Disability Insurance program, I would first like to briefly describe the nature of the program. First and foremost, Disability Insurance coverage is an earned right. Workers become insured by paying into the system just as they do for retirement and survivors' benefits. Like everyone else, their taxes accumulate in the Social Security Trust Funds, which currently have a balance of about \$2.8 trillion.

Social Security Disability is the largest income support program for disabled Americans providing monthly cash benefits to workers who sustain severe, long-term disabilities. The rules for qualifying are stringent and the people who do qualify have serious health conditions that leave them unable to work in any substantial degree. In fact, one in five women and one in six men dies within five years of being approved for benefits.

The disability program currently pays benefits to 11 million disabled workers and their families. Beneficiaries include more than a million military veterans, 4.4 million women, 1.8 million African Americans, and 1 million Hispanic Americans. Benefits paid by disability are modest, but vitally important to the workers and families who receive

them. The average benefit of \$1,980 for the disabled worker is just \$2,300 above the federal poverty line. The importance of these benefits is illustrated by the fact that one in three disabled Americans depend on disability benefits as their sole source of income.

The need to strength the financing of the Disability Insurance program is not a surprise. As far back as 1995, the Social Security actuaries have projected that the Disability Trust Fund would face a funding shortfall in 2016. The reasons for this have been well known and are primarily demographic in nature and are expected to stabilize in years to come. Among them are the growth in the working age population, the aging of the Baby Boom generation, women's increased participation in the labor force and also their increased incidents of disability so that it now nearly matches that of men, and the increase in the retirement age that was enacted in 1983, and essentially, I think, perhaps not fully appreciated is what it would do to the disability program.

As the 2016 deadline to avoid default approaches, its looming presence would become an increasingly heavy burden on the minds of the millions of disabled Americans who constitute some of the most vulnerable members of our society. Congress should act now to ease that burden by rebalancing the revenue flow into the DI Trust Fund so that it remains able to pay all benefits it owes to disabled beneficiaries and to do so on time. This rebalancing has been done numerous times since the DI Trust Fund was established in 1956 and can be done today without compromising the ability of the overall program to pay benefits for nearly the next 20 years.

Now is the time for all Members of Congress to step up and show their commitment to Social Security and the millions of Americans who receive disability benefits from the vitally important program.

Concludes my comments and I'll be happy to answer any questions.

\*Chairman Johnson. Thank you for your testimony. I appreciate it. I appreciate all of you talking to us today.

As customary, for each round of questions, I'll limit my time to five minutes and ask my colleagues also to your limit your time to five minutes as well.

In response to the disability program going broke next year, President Obama proposed in his budget to reallocate the Social Security payroll tax for five years.

Dr. Blahous, briefly, in layman terms, talk to us in English. What does that mean?

\*Mr. Blahous. Well, the trustees don't usually speak in layman's English, but I'll try.

[Laughter]

\*Chairman Johnson. I know that.

\*Mr. Blahous. The -- workers pay a 12.4 percent payroll tax and it is distributed between the Old-Age and Survivors Trust Fund and the Disability Insurance Trust Fund and by law, we can only pay benefits for each -- in each category from the respective Trust Fund, and right now, of that 12.4 percent tax, 10.6 goes to the Old-Age and Survivors Trust Fund and the other 1.8 goes to the Disability Insurance Trust Fund, and basically what the Administration has proposed is just to change that allocation so that for the next five years, from 2016 through 2020, another 0.9 points, 2.7 -- in total 2.7 points, would go to the Disability Insurance Trust Fund and less would go to the Old-Age and Survivors Trust Fund.

\*Chairman Johnson. In actual dollars, what does that mean?

\*Mr. Blahous. It's about \$330 billion over five years, plus --

\*Chairman Johnson. Million?

\*Mr. Blahous. -- of course it would compound interest in the Trust Fund, the \$330 billion over the first five.

\*Chairman Johnson. Billion, okay. And over that five-year program, how much does the disability program need to have to pay full benefits?

\*Mr. Blahous. Over that five-year period?

\*Chairman Johnson. Yeah.

\*Mr. Blahous. I mean how much are we short?

\*Chairman Johnson. Yeah.

\*Mr. Blahous. We're basically -- it's probably about \$130 billion over that five years.

\*Chairman Johnson. A shortage?

\*Mr. Blahous. That's right. Those are the -- right, those are the shortfalls in the DI Trust Fund over those five years.

\*Chairman Johnson. Well, meanwhile, doesn't shifting money hurt the retirement program? Is it in trouble?

\*Mr. Blahous. Well, the Old-Age and Survivors Trust Fund definitely faces a shortfall and has a substantial imbalance that needs to be corrected, yes.

\*Chairman Johnson. So if I have this right, over the next five years, the President wants to take 330 billion from the retirement program that's going broke and give it to the disability program, which will be broke next year if we don't do anything.



What's the cash flow deficit that the retirement program is then facing?

\*Mr. Blahous. Over those five years?

\*Chairman Johnson. Yeah.

\*Mr. Blahous. It's in the ballpark of 300 billion over those five years, a little over 300 billion, 330 --

\*Chairman Johnson. So how do we cover that?

\*Mr. Blahous. Well, that'll be -- that would be a period of time that the Old-Age and Survivors Trust Fund is drawing on its Trust Fund reserves, which are redeemed from the general fund.

\*Chairman Johnson. So the President's plan basically doubles the retirement program's shortfall in order to give disability more money. Is that correct?

\*Mr. Blahous. Yes. Yes.

\*Chairman Johnson. Mr. Lorenzen, the President's proposed stand-alone reallocation, which violates the House rule that I champion, and now how many reallocations has Congress voted on and of those, how many of those have been done without reform?

\*Mr. Lorenzen. As I stated in my testimony, Congress has enacted legislation reallocating payroll taxes six times. Several of those had reallocations occurring in several stages or had the reallocation reversed. So there have been 11 different years in which there was a reallocation, but that was of 6 bills -- bills that were actually passed by Congress.

\*Chairman Johnson. Well, you keep saying 11. He did too and we only voted six times.

\*Mr. Lorenzen. Six, yes. I'm saying that a couple of them -- for example, the 1994 reallocation did the reallocation over three steps. The most recent 2000 -- but Congress approved reallocation six times.

\*Chairman Johnson. Okay.

\*Mr. Lorenzen. And of those six, the first two happened when the Trust Fund was running a surplus. The entire Trust Fund was running a surplus and paid for higher benefits. Since the Trust Fund's been running shortfalls, all of the reallocations have either been part of reform legislation or in anticipation of future reforms. For example, the 1980 was -- only about -- a short period of time. The 1994, reallocation would be to some extent the outlier in extending solvency for many years without reforms.

\*Chairman Johnson. The President's proposal would align the solvency dates of the retirement and disability program to 2033; is that correct?

\*Mr. Lorenzen. Yes.

\*Chairman Johnson. And is that fair to say, that that's unprecedented absent full reform?

\*Mr. Lorenzen. Correct, the only two times that reallocation has brought the two Trust Funds aligned were after 1977 and 1983 when they were part of comprehensive Social Security reform. They extended both Trust Funds.

\*Chairman Johnson. Do you think that those who are concerned about the disability program's looming insolvency are manufacturing a crisis?

\*Mr. Lorenzen. No. The 19 percent reduction in benefit and the depletion of the Trust Fund is definitely a crisis. The fact that we've known this is coming for 20 years doesn't make it any less of a crisis. It means that we have seen a crisis coming and failed to act and that's not a reason to continuing delaying acting.

And the depletion of the DI Trust Fund is, in many ways, a warning of even greater crisis facing the Social Security system as a whole, that it could be -- the depletion of the DI Trust Fund could be viewed a warning buoy warning of the tidal wave coming to the Old-Age program, and that, as Dr. Blahous, pointed out, if we don't act about the looming crisis facing the Old-Age program, that the -- that'll be a much greater crisis with much more severe consequences.

\*Chairman Johnson. Well, isn't that just kicking the can down the road?

\*Mr. Lorenzen. And if we don't use the warnings of this DI depletion to recognize the problems facing the Old-Age program, that's going to create a greater crisis and that's to the extent that the problem -- the DI Trust Fund has been depleted because of demographic pressures, those same pressures are going to be -- are now creating problems for the Old-Age program.

\*Chairman Johnson. Well, like the President said, I think we're at the end of the road and don't need to kick it down there any further. We have to signal seriousness in this by making sure some of the hard decisions that are made under our watch today, that they are not someone else's in the future.

In your opinion, as a public trustee, Dr. Blahous, would you agree we can't afford to wait to find solutions?

\*Mr. Blahous. I do agree and the trustees have stated as a group that the earliest possible action would be desirable and obviously you, as lawmakers, need to figure out how much you can agree on and how much can be enacted. Some is better than

none. All is better than some. I don't know what the universe of the possible is, but certainly the --

\*Chairman Johnson. Yeah, like we can ever agree on anything. I don't know.

\*Mr. Blahous. But the more we can do, the better.

\*Chairman Johnson. Mr. Becerra, you're recognized.

\*Mr. Becerra. Thank you, Mr. Chairman.

And actually I think we can agree because I think we all agree there is a challenge at Social Security.

\*Chairman Johnson. You and I can.

\*Mr. Becerra. I think we could, yes, and I would urge us, Mr. Chairman, to sit down at some point quietly if we could with some of the experts, the trustees and others to have a good conversation among ourselves as members on the subcommittee and then see if we could come up with something together to make sure that Social Security for the long term is not just strong and vibrant, but that it is something that people can have confidence in.

So I think we can do that. My concern is though that when you impose these artificial rules in our House, in the House of Representatives, that force a 20 percent cut to benefits, that is like holding a gun over the head of 11 million workers who became disabled and say, "Unless Congress does its job, 11 million people are going to see their benefits cut by 20 percent," when you have got \$2.8 trillion in the reserves of the Social Security system that they paid for.

There is where I think it becomes difficult to have a good conversation if we are doing this in a panic mode because we have got an artificial gun to the head of 11 million folks, Americans, who unfortunately became disabled after they were working and are looking to get their earned benefits.

Thank you all for your testimony.

Mr. Phillips, let me ask you a question since you deal with a lot of seniors and a lot of folks who are disabled and on the disability insurance benefit under Social Security. You mentioned that about a million veterans in America today qualify for disability insurance benefits under Social Security. Many of them served their country. In fact, many of them have a disability as a result of their service to our country and receive these benefits.

How would they be affected if this rule in the House that requires there to be a 20 percent benefit cut to their disability insurance benefits; how would they be affected if this Congress did not come up with a solution and had to live with that rule?

\*Mr. Phillips. Well, the cuts --

\*Mr. Becerra. You need your microphone on.

\*Mr. Phillips. That is a very good question, and thank you for the prompt.

The dilemma that you would confront is that a veteran, no matter how grievously wounded in combat or otherwise injured or disabled, would face the same reduction in benefits that the ten million non-veterans would receive.

A 20 percent reduction in benefit for the average worker would really be a hard hit. Currently the average benefit is \$13,980 a year. If you take that down by 20 percent, that becomes \$11,184 a year, and the poverty level in the United States for a single individual currently is \$11,670. So you would, in essence, be taking the average disabled individual veteran, otherwise, down and put them into poverty.

\*Mr. Becerra. Let me ask you this other question. You probably know quite a few Americans who were workers, became disabled or are on the disability insurance program through Social Security. I want to make sure it is clear to workers who become disabled and, therefore, get disability benefits under Social Security. Did they pay into the Social Security system the way folks who are getting it for retirement paid in?

\*Mr. Phillips. Yes. The benefits can be paid only if you are insured to receive them. The way the Social Security disability insured status works is it is easier for younger workers to qualify for benefits. Because of their youth, they have not had the opportunity yet to participate as fully in the workforce as they would if they had not become disabled.

But, yes, everybody who gets benefits has to meet the insured status. They have to have paid in enough to qualify.

\*Mr. Becerra. And do disabled workers have to reapply once they reach retirement age, 66 or so years of age? Say you became disabled on the job when you were in your 50s and you qualified for disability insurance under Social Security. You reach the age of 66. Do you have to now reapply to see if you can get your Social Security retirement benefits?

\*Mr. Phillips. No. The transition is seamless. The only people I believe who are really aware of it are the actuaries and the people in the Treasury Department who debit the Old Age and Survivors Insurance Trust Fund for the benefits paid after the person reaches full retirement as opposed to the disability insurance.

\*Mr. Becerra. So you go from one to the other because it is one system, the Social Security system.

\*Mr. Phillips. It is an invisible transition. There is no notice. There is no effect on the benefit amount. The accountants simply make a change as to which fund is being debited.

\*Mr. Becerra. Final question, gentlemen, any of the three of you. Are you aware of a proposal in Congress today that would resolve the need to do a reallocation of fine tuning of the two accounts so that you can avoid the 20 percent cut?

\*Mr. Blahous. I am not. I am persuaded we are in a position where no matter what we do we are going to have to have some inflow of funds into the DI Trust Fund.

\*Mr. Becerra. Okay.

\*Mr. Lorenzen. I would agree with that. I think there are changes that you can be made in the DI program with program integrity such as you propose or continued savings reviews that could achieve some savings, but not nearly enough to avoid depletion, and some reallocation is going to be necessary.

\*Mr. Phillips. I have to agree with both of them, yes.

\*Mr. Becerra. Well, thank you for offering your testimony, and we will take your admonition.

And I think, Mr. Chairman, we have an opportunity, I think, maybe to figure out how we can sit down and see if we can come up with something, but short of that I do not think we should put in jeopardy the benefits that people have earned who are now disabled.

So with that I yield back.

\*Chairman Johnson. We need a fix.

We have a vote called, three exactly. Are you all able to stay here while we go vote and come back?

\*Mr. Phillips. Yes, sir.

\*Chairman Johnson. Thank you very much.

We stand in recess.

[Recess.]

\*Chairman Johnson. We are back in session. I will just call the meeting back in session.

Mr. Renacci, would you care to comment?

\*Mr. Renacci. Thank you, Mr. Chairman. Thank you for holding this hearing.

I want to thank the witnesses for being here.

I want to reiterate, Mr. Chairman, your statements. The Social Security Disability Program provides an essential income safety net. We all know that it will be unable to pay full benefits in 2016. I think we want to make sure that it is solvent.

No one is in favor of across-the-board cuts, and we are committed to making sure that does not happen. But no matter how you slice and dice the numbers, Social Security is really on an unsustainable path. This should be of serious concern to my colleagues and the American taxpayers.

Each year the program trustees determine the shortfall between expected revenue and costs over the next 75 years. This shortfall is trillion of dollars in promises that the government cannot keep.

It is also important to note that the shortfall is not reflected in the financial statements published annually by the IRS.

Mr. Chairman, for the record, I would like to submit the graph that is on the board, if there is no objection.

\*Chairman Johnson. Without objection.

[The information follows: [The Honorable Jim Renacci Submission](#)]

\*Mr. Renacci. It is interesting because many times down here in Washington we talk about surpluses or we talk about the assets that we have. We sometimes forget that we also have liabilities on a true balance sheet, and my concerns would be and I want to make sure that all of my colleagues notice that since 2009 to 2014, the unfunded liabilities have doubled.

So even though Mr. Becerra said that we have \$2.8 trillion in surplus, when you take the true balance sheet and show \$10.6 trillion in unfunded liabilities, you have a net deficit of \$7.8 trillion.

Mr. Blahous, would you agree with those numbers?

\*Mr. Blahous. Actually that 10.6 trillion deficit counts the value of the Trust Fund. So if you were to take the cash deficits over the next 75 years, they would actually

be about 13.4 trillion, but we count the \$2.8 trillion Trust Fund against that to arrive at the \$10.6 trillion figure.

\*Mr. Renacci. So it is even worse than 7.8, and I think that is one thing that we have to start looking at in Washington. I know nobody up here wants to see the fund be insolvent, and I think everybody wants to make sure that the fund is around for the future. We want to make sure it is around for not only disability, but also for retirement, and I think it is very important that as we look at this fund we consider that.

Now, we are talking about shifting from the retirement to disability. Mr. Blahous, would the unfunded liabilities still continue to be there?

I mean, we have a trend here where unfunded liabilities are going up. So if we just shift, would the trend continue to go up?

\*Mr. Blahous. It would. That is a combined figure for the two Trust Funds, both the Old Age Survivors and the Disability Trust Funds. So that total figure would not be changed by the fact of a transfer.

\*Mr. Renacci. Right. So I think we can all agree that if we continue down this path and we talk about shifting funds or moving funds from one fund to the other, we are still talking about in its entirety a Social Security fund that is, as you just said, \$10.6 trillion unfunded going forward; is that correct?

\*Mr. Blahous. That is correct.

\*Mr. Renacci. So I do not have the projections going forward. I had the pleasure or maybe displeasure of working in the business community for 30-plus years before I came to Congress. If I had a balance sheet that showed an unfunded liability growing at this pace, this would be extremely alarming to me. I am assuming it is alarming to the Board of Trustees.

\*Mr. Blahous. We are very concerned about it, yes.

\*Mr. Renacci. Okay. So I think the answer has to be not shifting because if we are shifting we are not doing anything. The unfunded liabilities are continuing. We have to come up with a plan as to how we can fix this program.

One thing I have noticed, the recent growth in the number of DI beneficiaries has been explained, but not all of it. I mean, as I heard in some of the testimony, some of the growth is population, aging, more women working enough to be eligible, and increasing applications from unemployed workers.

However, a cause of a portion of this growth remains unclear. What actions are being taken to get all of those answers and find out what all of the issues are?

\*Mr. Blahous. There is actually some very good information that has come out of the Social Security Chief Actuary's Office. There is some testimony that was put together in 2013 that I actually drew heavily from in preparing my own testimony.

It basically breaks down the costs, the drivers of disability costs, into different categories, and it assigns percentages to each one. The percent that comes from just the growth of the working age population, the percent that comes from the aging of the working age population, the percent that comes from the increased insured status of women, and the percent that comes in increases in awards within the insured population.

So they all play a role. I would say I am speaking very crudely here, but it is about two-thirds demographics and about one-third expansions in award incidence per insured member of the population.

\*Mr. Renacci. Thank you.

Thank you, Mr. Chairman. I am running out of time.

\*Chairman Johnson. Thank you.

Mr. Doggett, you are recognized.

\*Mr. Doggett. Thank you, Mr. Chairman.

If I understood the answers that each of you gave to Mr. Becerra earlier, it is not a question of whether there needs to be a reallocation of funds to Disability Insurance Program. It is a question of how much and under what conditions.

Is that a fair summary for each of you?

\*Mr. Blahous. I would say yes.

\*Mr. Lorenzen. Yes. I think it is a question of does it delay action or does it move the ball forward in solvency for the entire program.

\*Mr. Phillips. You are right, sir. Nobody has settled on any package of alternatives that would obviate the need for reallocation.

\*Mr. Doggett. Well, thank you very much, and thank you for all of your testimony.

I believe that there are some dangers to our Social Security system, to all of it, but that those dangers have less to do with the fact that we have an aging population which puts more demands on the system and will require some changes than it does from the dangers that are posed within this Congress and from some of the ideological groups that have never accepted the idea of social insurance as a program in which all of society participates. Everyone has a stake, and then should you have the misfortune of disability



or the likelihood of retirement, that that system is there and you can count on it. It will be there no matter your circumstance. You will be able to rely upon it.

I believe that there is unanimity that some reallocation will be necessary as we have done 11 times in the past, or six to be more precise from Congress; 11 total times in the past, and that is what must be done here, and it is a question of under what circumstances.

The rule that was adopted on short notice at the beginning of this Congress on a totally partisan basis certainly has been a cause of concern. I agree with the commitment that the chairman made at the beginning of the hearing, but I am concerned about what that means to achieve that commitment in terms of the rule that was adopted.

I do not think that when we make a contribution to Social Security we are dividing in our minds, or any American is, the difference between old age and disability and survivors. We are contributing toward a package, and the fact that some of this package of contributions may have to be reallocated in order to assure the solvency of the disability portion of the fund is something that is, I believe, a reasonable step, and what the President has called for is a reasonable step.

There may be a need for some changes, some reasonable changes, at the same time, but the reallocation is necessary. As several of you have pointed out, when someone receives disability, a significant number of those who are receiving disability have already achieved age 50. They will soon be switching to the retirement system or will be relying on the retirement system, and they do not have to reapply in order to get retirement.

I think that there have been some indications within this Committee over the last two years that there were some problems with fraud in the disability system, and I think there are some problems, and we need to ferret those out. It is one of the reasons, Mr. Becerra, that I know we came together under your leadership to introduce the Fraud and Error Prevention Act during the last session, and we will be reintroducing something similar.

To the extent that there are examples of fraud and better ways to police that, it is in the interest of everyone, taxpayer and beneficiary, that we get at those problems. But we ought not to use the abuse of the system by some to lead to a limitation on vital benefits that so many people who receive Social Security disability rely upon.

Similarly, I think it is important that we preserve a system, a reasonable system, that allows those who have a disability claim, given the complexities of the Act, to be able to rely on legal counsel to represent them under appropriate circumstances. To the extent that there is, again, any abuse of the system or the way judges operate in that system, let us ferret them out and get to them, but preserving the right of individuals to get access to a disability check and to have effective advocacy within that complex system is an important one for us to preserve.

I hope we can move forward on reintroduction and a markup of the Social Security Fraud and Error Prevention Act as soon as possible.

I yield back. Thank you.

\*Chairman Johnson. Thank you.

The number is six times that we have.

\*Mr. Doggett. Here, but I guess 11 total reallocations.

\*Chairman Johnson. Six.

\*Mr. Doggett. Well, is it not, Mr. Chairman, 11 total reallocations of which Congress has voted, according to the witnesses, six times? Other reallocations?

\*Chairman Johnson. Okay. Thank you.

Mr. Kelly.

\*Mr. Kelly. I thank the chairman.

While you gentlemen are here, I also like Mr. Renacci came out of the private sector. You made comments earlier about where the revenue comes from for Social Security, and the figures you used were, I believe, you said that it is 12.4 percent. Explain how that breaks down though.

\*Mr. Blahous. How it breaks down in terms of which Trust Fund it goes to?

\*Mr. Kelly. Well, no. Who puts the money in?

\*Mr. Blahous. It comes from the compensation of workers.

\*Mr. Kelly. But in addition, the 12.4 percent is made up, 6.2 percent from the employer, 6.2 percent from the associate.

\*Mr. Blahous. Right.

\*Mr. Kelly. So it is not exactly the worker who is putting in 12.4 percent of his or her income.

\*Mr. Blahous. Right. I will say that 6.2 percent is directly paid by the employee; 6.2 percent is paid by the employer. Economists generally view the entire 12.4 percent as coming out of the available compensation.

\*Mr. Kelly. And they cap though at what point? At what point does the contribution stop?

\*Mr. Blahous. It is about \$113,000.

\*Mr. Kelly. You are talking about the total.

\*Mr. Blahous. Yes, 113,000 in wages for the year.

\*Mr. Kelly. In actual dollars that go into the fund though.

\*Mr. Blahous. Well, no. That is the wages that are subject to the tax.

\*Mr. Kelly. Right, right, but the wages that go in does not equate to what actually goes into the fund. It's is 12.2 percent of that number. So it is capped.

\*Mr. Blahous. That is right.

\*Mr. Kelly. Okay. And I think that is part of the problem, because we have a growing deficit, and we look at it. So I just wanted to make sure that I understood because I think Mr. Renacci hit on the balance sheet. What we are talking about today, and I think for most people that I have talked to back home in Western Pennsylvania, most young people say, "Look. I put money in out of every pay, but I am never going to see that money."

And my question, I guess, is it comes down to we go all the way back to 1994, and we said, okay, we will do something now to make sure because the sustainability and the solvency of this program is absolutely important to the people that we represent.

So in 1994, we recognized that. What changes did we make between 1994 and today to address that situation?

\*Mr. Blahous. Really almost none.

\*Mr. Kelly. Nothing.

\*Mr. Blahous. And I would say pursuant to your point, we are up against the wall now, and there is the threat of a 19 percent sudden benefit reduction facing the disabled. I think part of what we are trying to say in our testimony is that we do not want to be in the same situation again in 2033 where if we just delay and move funds around, then in 2033 we are going to be in the situation where everything is going to be --

\*Mr. Kelly. I share that opinion with you, but I have only been here four years. I have never seen this body do anything that addresses long-term debt. We talk about it, and then we do something temporarily. We put a Band-Aid over something that needs

major surgery, and then we say we papered over a structural problem. It will be all right until it breaks again.

It is broken now. The money that is going into the Social Security fund right now today, being provided by working people and their employers, is the money that is being used to fund. There really is not a large buildup of cash in this program. It is a cash flow situation.

But everything that we look at, there should be sirens and red lights flashing and everything else, but I get the feeling that somehow if we can just get past this crisis, we will be all right because tomorrow the sun is going to come out. So all we have to do is get through the storm tonight. Then tomorrow we will get up and we will go to work. The sun will be out, and everything is going to be fine.

But the reality of all this is Washington's inability to face long-term problems is what continues to drive our debt through the ceiling. I mean, I see us getting to the point where the only payments we can make are interest payments on our debt. We will never be able to address the principal.

Every one of these programs is unsustainable under its current structure, and so I am trying to understand. While we all agree with that, so where is the substantive change? Where is the structural change? Where is the ability not only to recognize that you are on the Titanic and the iceberg is right in front of you as opposed to "do not worry. We can probably get through it tonight and tomorrow we will be on even seas again"?

I just do not understand that. I have been here and this is almost five years. Honestly, coming from the private sector, if this were happening in my business, what I would be doing is advertising that this business is for sale because it is no longer sustainable, the model I am on, and structurally I cannot exist.

Is there anything you see happening that is going to sustain it? We have got to make sure we are able to keep promises to people that we have already made and they feel they have paid into. And the reality of it is they paid some into, but the return on it because of the numbers, the actuaries say, okay, fine, up to a certain point, but people are living a lot longer. So that debt keeps growing and that commitment keeps growing.

What would you suggest right now today? I mean, we have to have serious structural changes to this and not just talk about a temporary transfer of cash to make payments.

\*Mr. Lorenzen. We definitely need to make structural changes both on the benefits and revenue side. We need to look at the program comprehensively for a solution. Unfortunately, what we have seen with Social Security and with other issues generally is that action happens when there is a crisis and action forcing event.

In contrast, in 1980 we did a reallocation that only extended the Trust Fund for a limited period of time, and there was still a deadline out there and the pressure for action, and then there was inter-fund borrowing. That led to the 1983 reforms which did extend solvency because there was that deadline and that pressure as opposed to 1994 when we did a reallocation that extended the Trust Fund for 20 years and there was no action.

I think there is no shortage of ideas, and we know what the options are in terms of looking at the revenue side or changes in the benefits and retirement age and cost saving adjustments and other changes, and that there is a policy decision to be made about what the proper mix of actions needs to be taken, but it needs to be taken sooner than later, and unfortunately absent the pressures, it is unlikely that that is going to happen until it is too late.

\*Mr. Kelly. Well, policy is always trumped by politics, and it is a shame. But we know it is coming. We know it is already here, and we have had our head in the sand for far too long.

This is a very serious thing. If we are going to keep promises, we have to make structural changes.

Thank you. I appreciate it.

Thank you, Chairman.

\*Chairman Johnson. Well, you heard him. What is your solution?

\*Mr. Lorenzen. Well, I think that we need to look at a combination, and I think there is a wide range. I did work on the Simpson-Bowles Commission, which I thought had a balance, but I think there is, you know, a good range. There needs to be some combination of looking at reducing benefits for middle and higher income workers, increasing the eligibility age with an increase in --

\*Chairman Johnson. What is your number one solution?

\*Mr. Lorenzen. I do not think there is any one single one. I think it needs to be a combination looking at it together, looking at both on the benefits side and the --

\*Chairman Johnson. You would be lucky if you get concurrence throughout this Committee, much less the Congress.

Thank you.

\*Mr. Blumenauer. Thank you, Mr. Chairman.

I would like to take up maybe where my friend from Butler left off. First of all, I do not feel comfortable with the indictment. Over the course of the last 20 years,

Republicans in the House have been in charge 16, 17 of the 21 years. I do not want to have a broad brush indictment for them not doing anything since 1994.

I am embarrassed that when we were in charge for four years that we did not move forward. I do not think it is that hard. The rhetoric about somehow this is a system that is bankrupt and is not going to be there for our young people I think is bogus.

The system if we do not do anything will pay 75 percent of the benefits. The sooner we act, the less disruptive it will be. All of our witnesses agree, notwithstanding the rule that you have passed, that there will be a reallocation. We will waive that point of order, and there will be a reallocation. You witness has said that; our witness has said that.

I really would like us to be able to focus in on what we do going forward. What is the cause? We have had identified that there was a major demographic shift. We have got more women now working, and that was perceived. We have got geezer Baby Boomers like me who are in our prime disability years, some of us more than others, and something that does not get enough attention is that we also back in 1983 where there was bipartisan action, we raised the retirement age.

So there are a lot of people now who are on it for two more years that did not happen. So we have really made a significant demographic shift. I think all of us ought to go visit our Social Security offices. Talk to the people who work there. Look in the waiting room.

Those of you who have done it, it is an eye opening experience. There is no doubt in my mind that there are a few people who are gaming the system, and I want us to be able as a committee to focus on how we fix that. I would just say respectfully that I do not think the way we fix that is cutting the Social Security Administration by 5,000 people when the work load is going up, which happened recently, and I think we need to reflect on that and talk to the people who are working in those offices about what it means because there are some complex issues in terms of dealing with people with disability. It is not easy.

Now, I want to deal with what the big issue is, and that is we have put off as a Congress, both parties have put off diving in to make the hard decisions. I do not think the decisions are that hard.

When we last were as a Congress dealing with Social Security, I spent a lot of time with people in my community talking about what the situation was, acknowledging that we could not go on for 30 or 40 years. I do not want my kids to be facing a 25 percent reduction.

But as I talked to people they understand that there are about a half a dozen things that are going to happen. We are going to cut benefits. We are going to raise taxes. We are going to broaden the base. We might do something in terms of another benefit cut in

terms of what is the inflation rate, and maybe we do something for well off recipients who are treated differently than others, but it is six or seven things.

That has not changed in two years, five years, ten years, 20 years.

You know, Mr. Chairman, one of the things I would like to explore with the committee, maybe we could declare National Fix Social Security Day. I am serious, and it would be maybe the day that Lily got the first Social Security check, and we get ready for it.

I actually drafted legislation in this regard, and I thought I had a Republican co-sponsor who thought differently of it because of some other thing going on, but I think if we had a National Fix Social Security Day where we had every Rotary Club, every church group, every social studies class, every college economics class sit down for an afternoon with some of the terrific Web sites that you can get and piece of butcher paper and design their own fixes; I think we would be shocked at how much consensus there is.

Everybody is going to pinch a little bit. Nobody is going to get everything they want out of that, but Congress makes it harder than it need to be, and I appreciate the focus here, that this is just a blip. We will do some reallocation. We will waive the point of order, and maybe we will do something about some of the cheaters, but the elephant in the room, we have got about 20 years and that \$2 trillion surplus that we planned on is going to be exhausted, and we will have to act.

And I would like us to try and do something that involves the public in that action. I think it is not as hard as it would be, and I would love for us to take a shot at it.

Thank you for your courtesy.

\*Chairman Johnson. Thank you.

I think we probably can take a shot at it, especially with all of these guys.

Mr. Buchanan, is he here? He left. How about Mr. Young?

\*Mr. Young. Thank you, Mr. Chairman. Much appreciated.

And I thank all of our panelists for being here today.

You know, I think our mindset here should be, in this introductory kickoff meeting of the Social Security Subcommittee, we should be focused on structural changes, on fixing the problem, not the reallocation of funds. I think all of us have said from the outset there ought to be reassurance among beneficiaries of this program that all of us are committed to solving this problem and ensuring that the Disability Trust Fund remains sufficiently solvent to pay out benefits that are much needed by a lot of American. So we are all committed to that.

Let us not be distracted, however, by this diversion of funds argument. Let us focus intently on ways to not only make the DI Trust Fund solvent because it is going bankrupt in two years, but to make the larger program solvent using some of the instrument and tools that my good colleague, Mr. Blumenauer just alluded to.

So I do think we can work in a bipartisan way. I really do. I think we have an opportunity, a rare opportunity to do something big on this Subcommittee. That is why I came to Washington, D.C., and you know, let us resist the temptation to demagogue. Let us resist the temptation to question motives. Let us figure out what the real tools and solutions are here.

Dr. Blahous, you said the relative health of the Retirement Trust Fund, Old Age and Survivor Insurance, is much worse than the Disability Trust Fund; is that correct?

\*Mr. Blahous. It faces the larger actuarial imbalance of the two funds, yes.

\*Mr. Young. Mr. Lorenzen, to your knowledge has Congress as a matter of historical fact ever shifted funds away from the Trust Fund in worse financial shape to the one in better financial shape?

\*Mr. Lorenzen. No, that has never happened before. It has always been from the Trust Fund either in a surplus or facing a much smaller deficit.

\*Mr. Young. So as has been pointed out, we do not have to follow historical precedent on this Committee. We have a prerogative to do something unique, something creative.

I think that would be a bad creative, an irresponsible creative solution as legislators. I think we can have a respectful dialogue about that, but there is no precedent of doing so.

Dr. Blahous, for the past several years the trustees have urged action soon to address the entire Social Security Program's finances. Please explain. I feel a sense of urgency here. Some of it is visceral. Some of it is mathematic. Some of it is informed by conversations I have had that are options for reform become more limited the longer we wait, and it I the latter portion I think would be most instructive for whomever might be either participating in or observing these hearings if you could speak to that matter directly: how our options become more limited over time.

\*Mr. Blahous. Sure. If I could take two approaches to that.

\*Mr. Young. Yes, sir.

\*Mr. Blahous. The first is that there are certain illustrations that we put in the trustees report each year, and we have added them to the report in the last few years precisely to dramatize this point, which is that our options become more difficult the more that we delay.



And one of them I referred to earlier in my testimony, which is that if you assume you want to hold current beneficiaries harmless, and I think for the most part people on both sides of the aisle do want to, and if you just assume purely for the sake of illustration that you are holding tax revenues constant and you ask what would be the size of the benefit restraint you would have to impose on new beneficiaries to get the system in balance; if you enacted that type of solution today you would have to cut those benefits by about 21 percent.

If you tried the same thing in 2033, even 100 percent benefit elimination for people newly coming onto the rolls would be insufficient to repair program finances.

So whole categories of options basically come off the table if you delay to the point where we're nearing Trust Fund depletion. So that's one tack that I would take.

The other is simply from the standpoint of political realism. In 1983, those reforms came very close to not happening. They were intensely difficult to enact, and the program came within a few months of hitting that insolvency point. It was very difficult. They had to do a six-month delay in the COLA. They had to raise the retirement age. They had to accelerate an increase in the payroll tax. They had to bring all of the newly hired federal employees into the system. They had to expose Social Security benefits to taxation for the first time. It almost did not happen.

The shortfall today is already about twice as big as it was then. It is substantially bigger the way that we report it in the trustees report, but we analyze it a little differently today than we did in 1983. If we used the same methods, we would have to inflict about twice as much pain today.

\*Mr. Young. So let us see if you can do this yes or no. The longer we wait in your estimation, in your moral calculus, do we end up hurting people more if we wait longer to enact structural changes to these programs?

\*Mr. Blahous. Not only do we end up hurting people more the more we postpone change. I think we render it less likely we can get a solution that retains the historical financing structure of the program. I think we are in that much danger already.

\*Mr. Young. Thank you all.

I yield back.

\*Chairman Johnson. Thank you.

Mr. Schock, you are recognized.

\*Mr. Schock. Well, thank you. I think a lot of important facts have gotten out there, and I think job one of fixing any problem is identifying the problem and the cause of the problem.

I, too, would join with Mr. Blumenauer and say the time is now for some action, and the sooner we take action the less bloody and nasty it has got to be, and particularly for my generation and generations to come.

And so I would love to work with you. Obviously the President put together a commission that came up with something that Republicans and Democrats had a compromise on. Simpson-Bowles made reforms to Social Security, never made it to the floor, but I think there are definitely some areas of common ground that have already been identified that I would hope we could work together on.

So I sincerely hope that beyond this meeting today we can maybe start meeting and come up with something.

I mentioned earlier that the overall Social Security Trust Fund is about to become insolvent, and when it does, it would be about a 25 percent cut roughly to current recipients. The quicker one though is disability, and I am wondering if we do not do anything and the solution is using the revenue stream currently that is used to fund them, what would the payroll taxes for the disability fund have to go to to meet the current needs of those on disability

\*Mr. Blahous. If we were just doing a change in the disability tax rate to put it back in 75-year actuarial balance, well, I know the average. The actuarial deficit in the Disability Insurance Trust Fund is 0.33 percent of taxable payroll. So in theory you could do, you know, a 0.4 percent payroll tax increase, and that would put DI in actuarial balance.

I am not sure if that solves your cash flow problem though because the annual deficits are bigger than that in the near term. So it's one of the -- one of the strange artifacts of Disability Insurance and Old Age Insurance flows, our projections are that the disability deficits are actually at a relative high point now, and they are going to go down a little bit as the Boomers move onto the OASI Trust Fund.

So you would have to have a substantially larger payroll tax increase in the near term just to keep disability afloat, and I am reaching off the top of my head, but maybe 0.6, 0.7 percentage points is a guess. I do know the dollar amount. It is about \$205 billion in additional taxes you need from 2015 to 2023 to go into DI to maintain that balance ratio of 20 percent or more.

\*Mr. Schock. Well, again, I applaud the chairman for having this hearing, and the work you are doing on the Disability Trust Fund because obviously that is the here and now, quickest one that we have got to deal with, but on the broader issue, I hope that we can move on a comprehensive fix, a long-term fix to the underlying Social Security fund.

I would hate to see a future generation's Social Security dollars that they have paid in swept to pay for the unfunded liability in the Social Security Disability Fund, which it appears is where we are headed if we do not do something more responsible.

I yield back. Thank you.

\*Chairman Johnson. Thank you.

I agree, and, Mr. Reed, you are recognized.

\*Mr. Reed. Well, thank you very much, Mr. Chairman.

If we are going to be sincere about fixing this problem, I think we need to change the rhetoric of this Subcommittee. When I hear the ranking member, my good friend from California, say that it is the rule change that is going to cause people that are in a disability state to suffer a 20 percent reduction in their benefit, that is just blatantly false, and I would ask the gentleman from California if he is sincere in solving this problem to recognize that it is not a rule change. It is the insolvency of the Disability Trust Fund.

The rule change only deals with the allocation adjustment of the payroll tax that is proposed to be a solution, but am I correct that that has not been enacted? That is going to take a legislative action to do.

So my colleagues on the other side of the aisle are assuming that this body will do something legislatively. I learned in life early on you never assume. You hope for the best. You prepare for the worst.

So this rule change that we have advocated for on our side has in my opinion put this issue out there, out there with enough runway to have an open and honest debate about how to solve this Disability Trust Fund insolvency issue. And we can do it, and we can start with agreement, to my good friend from California, that we need to work together to protect the disability recipient.

But we can also do it better than what they have done before. I am a new member here, coming in 2010. I do not accept the status quo. I do not accept the argument from the panelist that this is the way we have done it so this is the way we should do it going forward.

We came here as a new generation of leaders to implement solutions, and one of the things that I object to is the assumption that we have to use the retirees' money out of their trust to bail this out.

So I put a question to each of you. Are there any other funds available to tap into to do an allocation to the Disability Trust Fund other than the Social Security Retiree Trust Fund?

\*Mr. Blahous. Just speaking as a trustee, remember I am a trustee not only for the Disability Insurance Trust Fund, but also for the Old Age and Survivors Trust Fund. So from my vantage point from where I sit, the last place I would want you to take it from is

the Old Age and Survivors Trust Fund because I am the trustee of that Trust Fund as well. Now --

\*Mr. Reed. It is going to put further pressure on that.

\*Mr. Blahous. It is going to put further pressure on that. Now, having said that, I would say I have philosophical concerns about tapping general fund revenues to support Social Security because I think that is a very dangerous line to cross as well. Basically once you start subsidizing the program from general revenues, I think that --

\*Mr. Reed. How about in 1981 when they used the Hospital Insurance Trust Fund, which appears to be projected to be solvent until 2030?

And you, Mr. Phillips, are from an organization that wants to preserve Social Security and Medicare. So I guess you do not have a problem with raiding the Hospital Insurance Trust Fund from Medicare to bail this out. Because you do not care where it comes from, just so it is taken care of is how I read your testimony.

\*Mr. Phillips. As a point in fact you could not take any money out of the Hospital Fund.

\*Mr. Reed. So in 1981 they did not have legislative authority to do that? It was illegal?

\*Mr. Phillips. It expired. The authority no longer exists for inter-fund borrowing.

\*Mr. Reed. So if we take legislative action and do it?

\*Mr. Phillips. If you wanted to do it, you need to enact legislation to make that --

\*Mr. Reed. Yes. So you have a problem with raiding Medicare in order to balance the Disability Trust Fund?

\*Mr. Phillips. Oh, yes, we have --

\*Mr. Reed. I understand your testimony. This is the point. This is the point. We need to do better. We need to do better, and while we have this opportunity here, I am very interested in ways that we can improve the program because what we are doing to people on disability on the Trust Fund is often we are trapping them in this Disability Trust Fund because it is an all or nothing situation.

We can do better than that. I have been with disabled folks, looked them in the eye, and I look them in the eye today and I will say, "We are going to take care of this. We are going to make sure you get that benefit that you need and that you rely upon, but we are going to do better, and we are not going to get you trapped in the disability Trust Fund. If you want to get back to work, we are going to stand with you. We are going to

improve that program, and we are going to allow you to have the greatest maximum capability of your life."

And that is what half of the Federal Government does, the American with Disabilities Act. The whole purpose is to get the people in the disability community into mainstream, back to work. Why would we have a Disability Trust Fund that says, "Do you know what? If you go back to work, you are going to lose your benefit." Why? We can do better than that.

So this is the start of the conversation. Thank goodness we changed the rule because if we did not change the rule, do you know what would have happened? Exactly what my colleagues on the other side want to do: hell bent on spending that retiree fund money to bail this out and we wait a year and a half and then do it at the last minute.

We are going to have the conversation now, and the new leaders up here are going to lead that charge with our chairman to make sure that we do a better job for our disability community than what we have been doing up to this point in time.

With that I yield back.

\*Chairman Johnson. Thank you.

Mrs. Black, do you care to comment?

\*Mrs. Black. I do. Thank you, Mr. Chairman. I really appreciate your allowing me to be a visitor on this Committee. Although I have previously been a committee member, I appreciate your allowing me to be here, and I have a real interest in this.

I do want to say my colleague from Oregon who made a comment that we should visit our Social Security Disability Offices and actually work through the program, I highly recommend that. I have done that. I have gone into my local agency as if I were applying. I have also gone to the Office of Determination and all the way to the ALJ, and it is a very eye-opening experiment, and I would suggest that everybody on this Committee actually do that.

But let me go to a couple of things here, and I may repeat some of the things that have already been said by my colleagues, but one of them is the terminology that is used. It really concerns me that we use words like "rebalancing" and "reallocation" because that really means something different to me. It means robbing Peter to pay Paul.

And, Mr. Phillips, I was interested in your written testimony and also your testimony that you gave us just a little bit ago that say the projected DI shortfall can be easily, easily eliminated by rebalancing the flow. That simply means you take from one fund in order to put into another fund, and that is what I have been brought up to understand is robbing Peter to pay Paul.

So if we take from the OASI, eventually that will go bankrupt, and then where do we take from? We take from the general fund. We are already about \$500 billion we are borrowing each year in that. So that is really not a solution.

I am interested that most of the talk has been the way to solve this is it could be an all tax solution where we increase the tax maybe or we reduce the benefits, maybe do a little bit of work as my colleague from Texas said on looking at fraud.

But what I want to go to is something that I saw during my visit and heard from those who work in this industry, is that we have not done a good job with job reclassification, and that goes to the point that my colleague from New York has just talked about, about getting people back to work. Because at least from my experience of what I saw when I went to these different steps and also what we have heard testimony from others who have come here is that we are not doing a good job in making sure that when someone comes in to apply for disability that what we are trying to do is to get them back into the work force.

I think this is more than just a financial, but this is also a quality of life. And so I do not know whether one of you would like to talk about that, if that is a piece that you have seen and you would like to address, but I think this is a very critical piece that does not get talked about very often.

We talk about reallocations and rebalancing, but the true reform, as my colleague from New York has talked about, is really what needs to be done, not just for the benefit of the financial piece of it, but the benefit for the individual and the quality of life.

So would one of you like to address that issue?

\*Mr. Lorenzen. I can speak to that. That is definitely an area that needs to be explored for reforms. We found from the Ticket to Work Program, while we should continue once people get onto the DI rolls trying to find them to get back to work, that the really most effective strategies are early intervention strategies that help provide support to people who are disabled to remain in the workforce and other interventions before they go onto the rolls of trying to keep them in the workforce.

Those things may not actually produce much in the way of financial savings, but if an individual is able to stay in the workforce, it is beneficial to that individual, and it is beneficial to society as a whole. It may produce new savings over the long term, but it also may involve some more costs in the near term.

I think the President's budget has some initiatives that look at trying to do that, but I think we need to be looking at that much more aggressively, trying to find before people go on the rolls what can we do to keep people in the workforce, which I think most people would want to do if they can.

\*Mrs. Black. I do. Mr. Blahous, do you want to weigh in on that?

\*Mr. Blahous. Well, I do. Labor force attachment is a pet issue of mine not only in the Disability Fund but also with the Retirement Trust Fund. I think there are just fundamental problems with the design of the system, moving people out of consistent attachment to the workforce, people who would otherwise want to be and choose to be, but in some ways the system not only on the disability side, but the retirement side pushes them where they do not want to be.

And I would just accentuate some of the points that have been made here. We have to have legislation of one kind or another. The threat of a 19 percent benefit cut is not because of a House rule or anything else. That is what is happening under current law. We have to have legislation to avert that.

So there is an opportunity here not only to avert that 19 percent benefit reduction, but also to put things on a course where the system is in better shape and it is serving people better in the years ahead.

So I would say rather than looking at the existing rules as a barrier to getting something done, I would look at the process as an opportunity to both shore up the health of disability, protect people who are on disability, make improvements to the way that the program functions so that we are not facing even bigger problems a couple of years from now.

\*Mrs. Black. And I know my time has expired, and thank you, Mr. Chairman, but I would ask any of the panelists who have ideas about how we might be able to look at that particular piece and how we might be able to write some legislation to resolve that.

Because I do believe if you can get people back into the workforce, not only does it make a better quality of life, but you have got to say if somebody gets on Social Security disability at the age of 25 and they live to be 75 and there is 50 years of Social Security disability, that would save us money. But I am more concerned about making sure that people have quality of life.

And so thank you very much for your testimony. Thank you. I yield back, Mr. Chairman.

\*Chairman Johnson. Thank you.

Mr. Becerra, do you have a comment?

\*Mr. Becerra. Mr. Chairman, thank you very much.

I just wanted to respond to my friend, Mr. Reed, from New York briefly and say that I respect if we have a different way of looking at that. There is no problem with that. That is what this country is about.

And I think the most important thing that Mr. Reed said is he thinks that, and I agree with this, that we can come together and figure out a way to do this regardless of how we characterize these things.

At the end of the day I think all of us want to make sure that Americans who paid into the system want to go ahead and get their benefits whether disabled or retired. And so I think probably the best thing that has come out of this hearing is that I think pretty much every one of us at this table has said let us figure out a way to sit down and do this.

\*Mr. Reed. Will the gentleman yield?

\*Mr. Becerra. Absolutely.

\*Mr. Reed. I will give you my public commitment, as you have given your public commitment to me, to work in a bipartisan basis to accomplish good reforms for the disabled and the recipients of these benefits. So I appreciate that sentiment, and I look forward to working with the gentleman from California on that.

\*Mr. Becerra. I look at that as an opportunity for all of us to work together.

So, Mr. Chairman, I just want to say I think it is a good start, a good hearing to be able to move forward, and I think the spirit here is to try to figure out a way to work bipartisanly on this, and I hope we are able to do that.

With that, I yield back, and I thank you for giving me a moment to speak.

\*Chairman Johnson. Thank you.

I appreciate you all waiting for us while we went and voted twice, and you would be interested to know that Mr. Boehner kind of read the Riot Act to everybody because our voting took so long.

Thank you to all our witnesses for your testimony, and thank you to the members who attended today.

This is an important time for the Disability Insurance Program, and I am committed to making sure the benefits millions of Americans and their families count on are there for them, while also making the program work better, and we look forward to you all helping us do that.

We cannot keep kicking the can down the road. The American people want, need and deserve a solution.

With that, the committee stands adjourned. Thank you all for being here.

[Whereupon, at 4:50 p.m., the Subcommittee was adjourned.]



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