



EBRI News

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New Research From EBRI:

Preserving Social Security Disability Payments Would Force Far Deeper Cuts in Retirement Benefits, Study Finds

WASHINGTON, DC—Retirement benefits would have to be cut substantially or taxes increased if federal policymakers agreed to protect disability payments as part of any overhaul of Social Security, a new study by the nonpartisan Employee Benefit Research Institute (EBRI) shows.

The study, released today as part of an ongoing EBRI examination of Social Security restructuring options, looks at how retiree benefits would be affected if policymakers adhered to an oft-stated goal of preserving disability benefits. The study also examines issues involved in annuitizing a system of individual accounts within Social Security so as to ensure payment of continued benefits over a person's lifetime. Annuities typically pay a monthly benefit for life. EBRI does not have a position on any of the proposals policymakers are considering.

Although most of the debate over Social Security has focused on *retirement* benefits, the program also pays *disability* and *survivor* benefits as well. According to the EBRI study, if disability benefits are to be preserved at the level provided in current law—as many policymakers say they should—then retiree benefits would face cuts of 25 percent to 40 percent *in addition* to what would be needed to close Social Security's projected long-term funding gap. The alternative would be an equivalent tax increase.

Closing Social Security's long-term gap alone, the study says, would require a one-time 38 percent cut in all benefits starting the year the Social Security Trust Fund surplus is exhausted (estimated in 2041) *or* a combination of benefit cuts and tax increases equaling 38 percent *or* a combination of benefit cuts or tax increases equal to 33 percent over a 50-year period starting in 2015.

“Regardless of the reform proposal, maintaining disability benefits and/or survivor benefits could force even deeper cuts on the retirement side of the program, or increase the revenue necessary to bring Social Security out of its projected actuarial deficit,” said Dallas Salisbury, EBRI president.

The study, “Social Security Reform: The Importance of Disability Insurance and Annuities in Individual Accounts,” is published in the July *EBRI Notes* and is available on the Internet at www.ebri.org. Social Security Trustees reported earlier this year that 39.6 million people receive retiree and survivor benefits, compared with 7.8 million disabled workers and their dependents who receive disability benefits. The average monthly benefit this year is \$955 for all retirees and \$895 for all disabled workers.

((more))

Individual Accounts and Annuities

A second part of the study notes that creating individual accounts within Social Security—as President Bush has advocated—could change the nature of Social Security payouts by possibly including “lump-sum” distributions, rather than the current system of a monthly annuity payment for life. To protect against the risk of beneficiaries outliving their income, however, most individual account proposals have stipulated that some or all of the account must be annuitized.

Using Model 2 from the 2001 President’s Commission to Strengthen Social Security (the closest individual account proposal to what Bush as endorsed), the study reports that 60 percent of the individuals who would receive retiree benefits would need to annuitize some or all of their individual account by 2015 to have a total benefit that exceeds the poverty level.

The study notes that some critical issues remain to be resolved in annuitizing individual accounts. These include how many people would be affected by the annuity requirement, how much of an individual account would be used for the annuity, who would provide the annuities, and how much the annuities would cost beneficiaries. “These are very important administrative factors in determining how successful the provision of benefits under an individual account system might be,” the study says.

The new study builds on the May 2005 *EBRI Issue Brief*, which compared the impact of a Model 2 individual account retiree benefit system with three other options for Social Security in the future. The May study, “Comparing Social Security Reform Options,” also is available on the Internet at www.ebri.org.

Craig Copeland, director of EBRI’s Social Security Reform Evaluation Research Program, was the chief author of both studies. His work was based on assumptions contained in the 2004 Social Security Trustees report, the final report of the President’s Commission to Strengthen Social Security, and utilized SSASIM and GEMINI computer-based simulation models developed by the Policy Simulation Group.

Established in 1978, EBRI is an independent nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. The Institute's mission is to advance understanding of employee benefits and their importance to the nation's economy. EBRI does not lobby and does not take positions on policy questions.

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