



Reports & Testimonies

Bid Protests & Appropriations Law

Key Issues

About GAO

Multimedia

Transforming SSA's Disability Programs for 21st Century America

Transforming SSA's Disability Programs 21st Century America

GAO's Strategic Plan

GAO's High Risk List

Composition of Federal Spending

Federal Spending for Mandatory and Discretionary Programs

Selected Fiscal Exposure: Sorces and Examples (End of 2003)

Another Way to Think About These Numbers

Composition of Spending as a Share of GDP Under Baseline Extended

Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions Are Extended

Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits

Actuarial Deficit of OASI and DI Trust Funds

Key Dates For Trust Funds

Social Security, Medicare, and Medicaid Spending as a Percent of GDP

Current Fiscal Policy Is Unsustainable

We Need a 3-Pronged Approach

The Need to Restructure the Social Security Disability Programs

SSA's Disability Programs Are Expensive and Growing

SSA's Disability Programs Are Difficult to Administer

SSA's Disability Programs Are Out of Date

GAO Placed Modernizing Federal Disability Programs on Its High Risk List

Recent Changes Have Enhanced Work Potential for Some People with Disabilities

SSA's Disability Programs Are Out of Step with This 21st Century Environment

SSA's Disability Programs Are Out of Step with This 21st Century Environment cont'd

SSA's Disability Programs Are Out of Step with This 21st Century Environment cont'd

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SSA Faces Significant Challenges to Reorienting and Transforming DI & SSI

SSA Faces Significant Challenges to Reorienting and Transforming DI & SSI cont'd

SSA Faces Significant Challenges to Reorienting and Transforming DI & SSI cont'd

Concluding Thoughts

Concluding Thoughts cont'd

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Transforming SSA's Disability Programs for 21st Century America



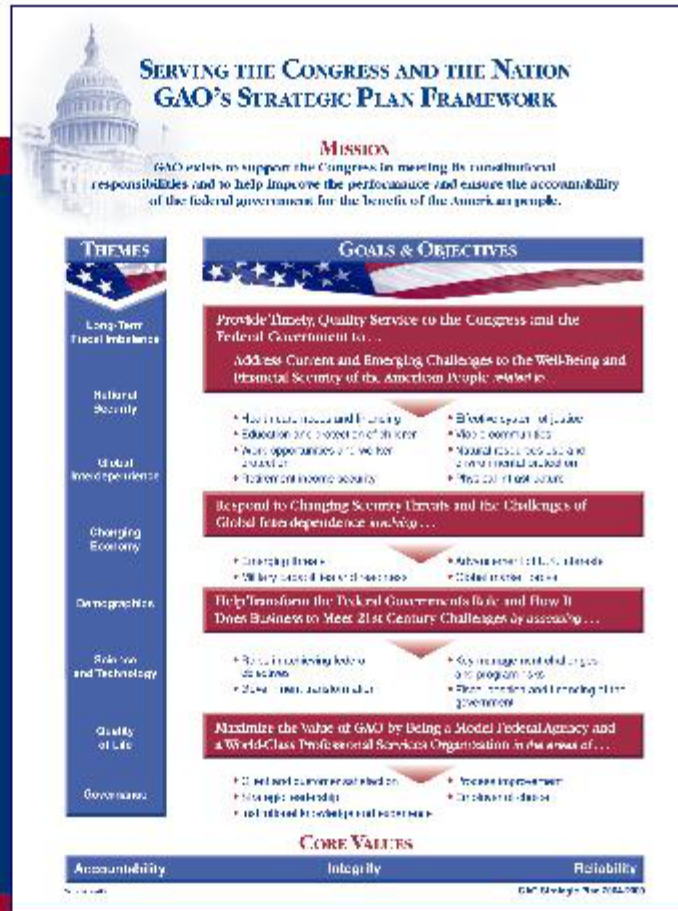
Transforming SSA's Disability Programs for 21st Century America

Social Security Advisory Board

The Honorable David M. Walker
Comptroller General of the United States
April 14, 2004



GAO's Strategic Plan





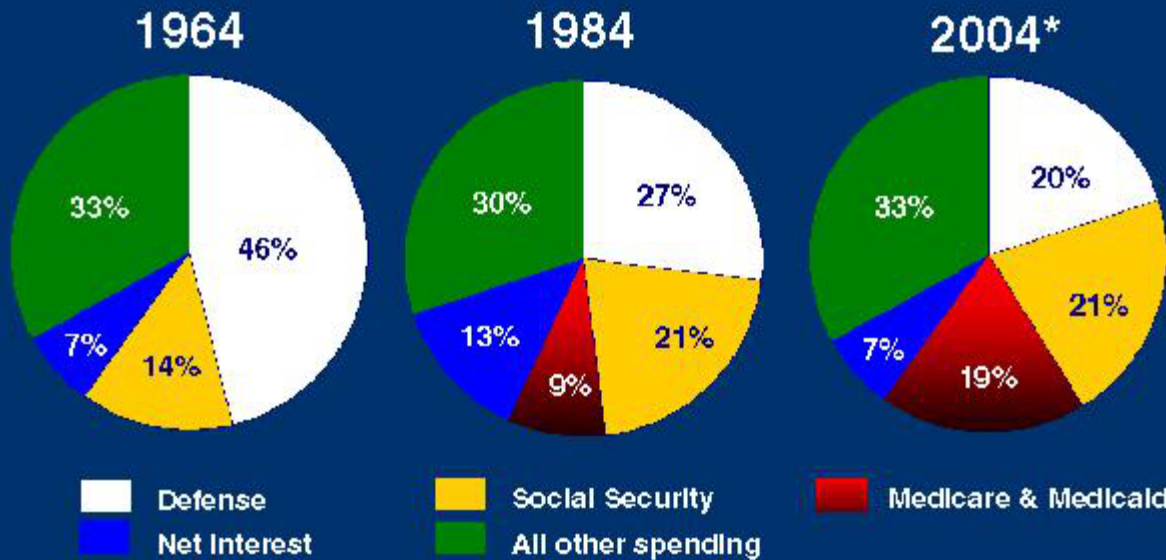
GAO's High Risk List

High Risk Areas	Designated High Risk
Addressing Challenges in Broad-based Transformations	
Protecting Information Systems Supporting the Federal Government and The Nation's Critical Infrastructures	1997
Strategic Human Capital Management*	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook*	2001
Implementing and Transforming the New Department of Homeland Security	2003
Modernizing Federal Disability Programs*	2003
Federal Real Property*	2003
Ensuring Major Technology Investments Improve Services	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
IRS Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
Reducing Inordinate Program Risks	
Medicare Program*	1990
Collection of Unpaid Taxes	1990
DOD Inventory Management	1990
Student Financial Aid Programs	1990
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
Earned Income Credit Noncompliance	1995
DOD Support Infrastructure Management	1997
Medicaid Program*	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program*	2003
Managing Large Procurement Operations More Efficiently	
DOD Weapon Systems Acquisition	1990
Department of Energy Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992

*Additional authorizing legislation is likely to be required as one element of addressing this high risk area.



Composition of Federal Spending

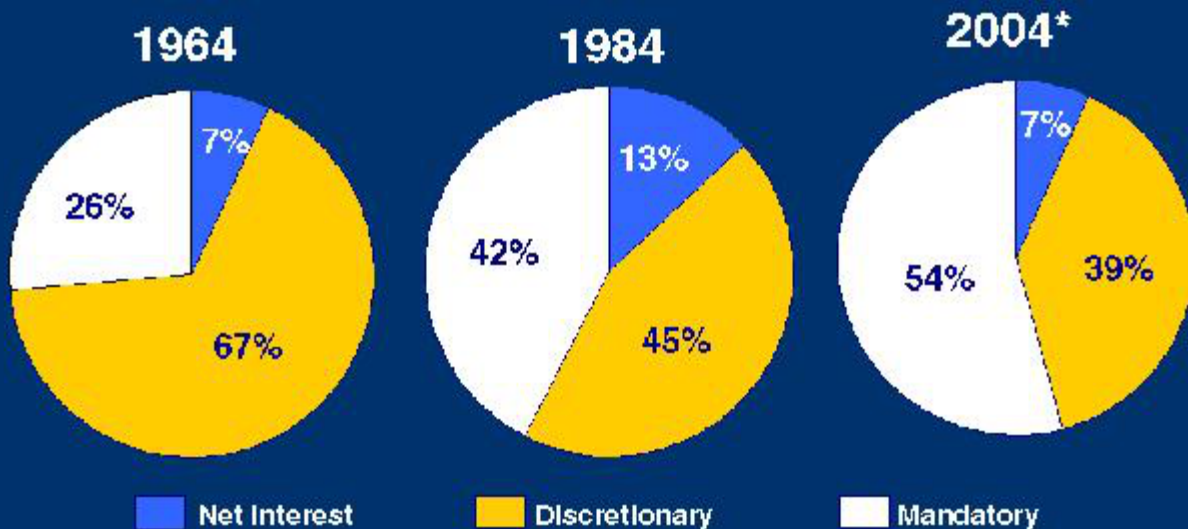


* Current services estimate.

Source: Budget of the United States Government, FY 2005, Office of Management and Budget.



Federal Spending for Mandatory and Discretionary Programs



* Current services estimate.

Source: *Budget of the United States Government, FY 2005*, Office of Management and Budget.



Selected Fiscal Exposures: Sources and Examples (End of 2003)^a

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt (\$3,913) Military and civilian pension and post-retirement health (\$2,857) Veterans benefits payable (\$955) Environmental and disposal liabilities (\$250) Loan guarantees (\$35)
Explicit financial commitments	Undelivered orders (\$596) Long-term leases (\$47)
Explicit financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Implicit exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$2,859) ^b Future Social Security benefit payments (\$3,699) ^c Future Medicare Part A benefit payments (\$8,236) ^c Future Medicare Part B benefit payments (\$11,416) ^c Future Medicare Part D benefit payments (\$8,119) ^c Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

^a All figures are for end of fiscal year 2003, except Social Security and Medicare estimates, which are end of calendar year 2003.

^b This amount includes \$77.4 billion held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

^c Figures for Social Security and Medicare are for debt held by the trust funds (\$1,531 billion for Social Security, \$256 billion for Medicare Part A, and \$2.4 billion for Medicare Part B) and represent present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$10.4 trillion, \$21.8 trillion for Medicare Part A, \$23.2 trillion for Medicare Part B, and \$16.5 trillion for Medicare Part D.

Source: GAO analysis of data from the Department of the Treasury, the Office of the Chief Actuary, Social Security Administration, and the Office of the Actuary, Centers for Medicare and Medicaid Services.

Updated 3/20/04.



Another Way to Think About These Numbers

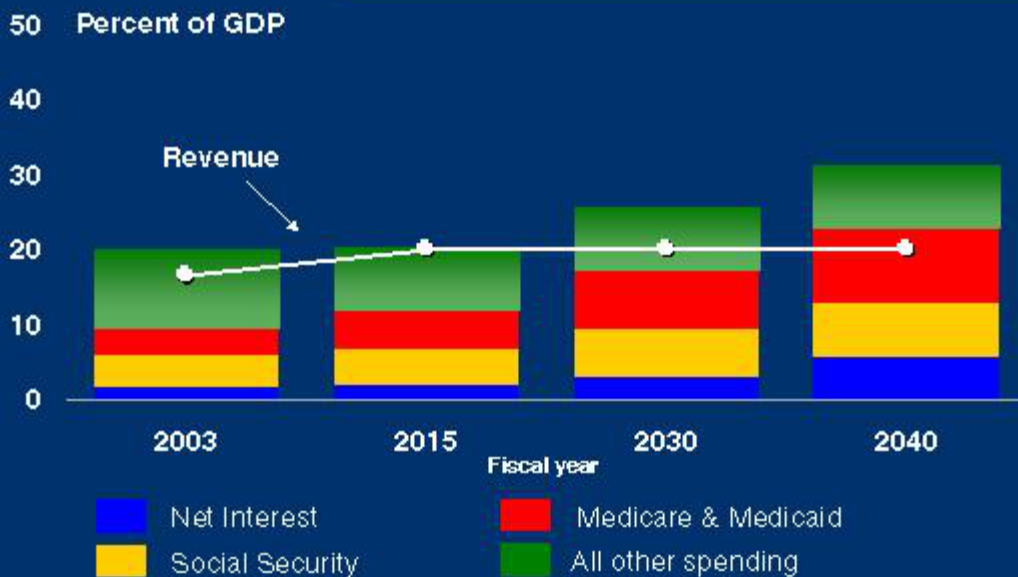
As of the End of FY 03

- Debt held by the public—\$3.9T
- Trust fund debt—\$2.9T
- Gross debt—\$6.8T
- Gross debt per person—about \$24,000
- If we add everything on the previous slide that is not included in gross debt, the burden per person rises to over \$140,000. Alternatively, it amounts to a total unfunded burden of more than \$40 trillion in current dollars, which is about 18 times the current annual federal budget or more than 3 ½ times the current annual GDP.

Note: The calculations only consider a 75-year horizon for Social Security and Medicare.



Composition of Spending as a Share of GDP Under Baseline Extended



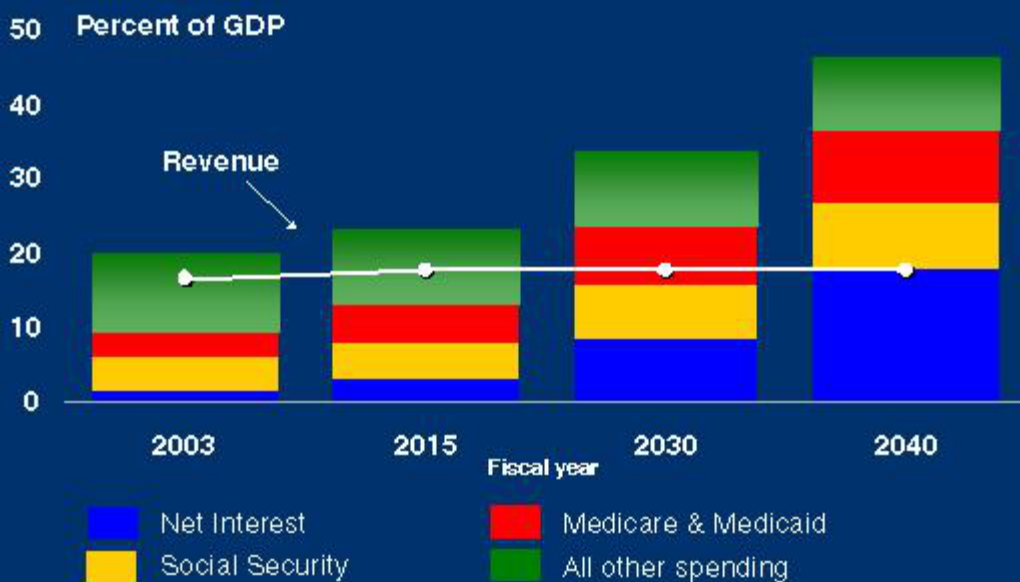
Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's March 2004 analysis.



Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions Are Extended

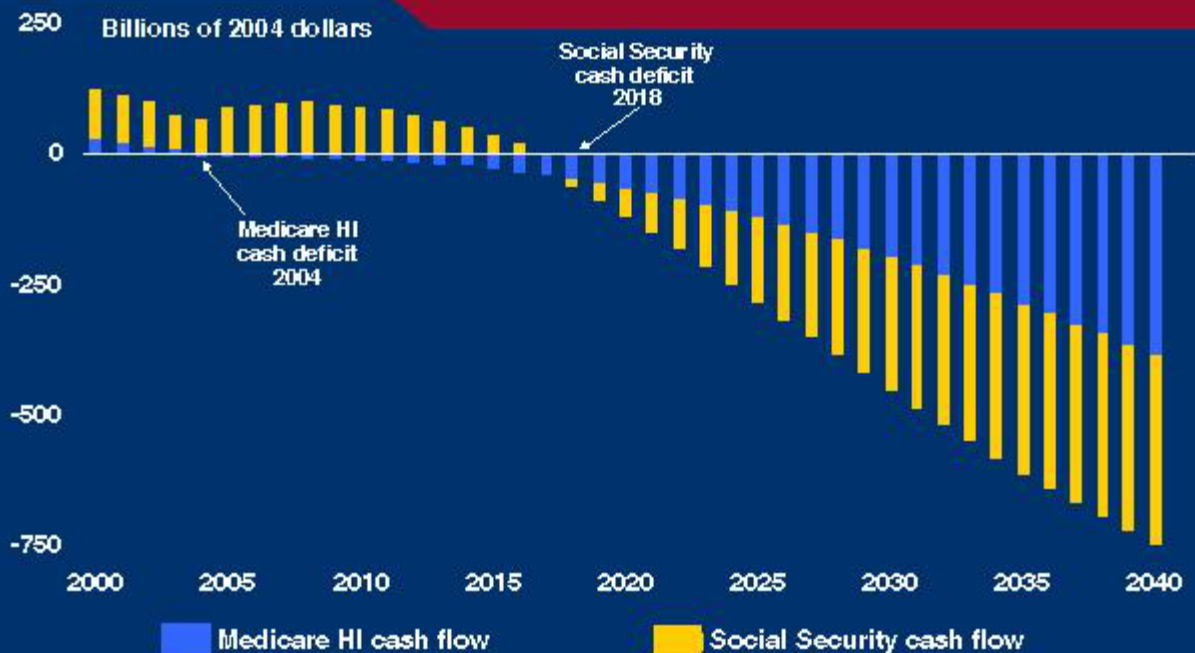


Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's March 2004 analysis.



Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits



Source: GAO analysis based on the intermediate assumptions of *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds* and *The 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. The above excludes Medicare Part B and the newly enacted Medicare Part D benefit.



Actuarial Deficit of OASI and DI Trust Funds

(As a Percentage of Taxable Payroll)

	OASI	DI	OASDI
Actuarial Deficit	1.56	0.33	1.89

Source: Social Security and Medicare Boards of Trustees, 2004

11



Key Dates For Trust Funds

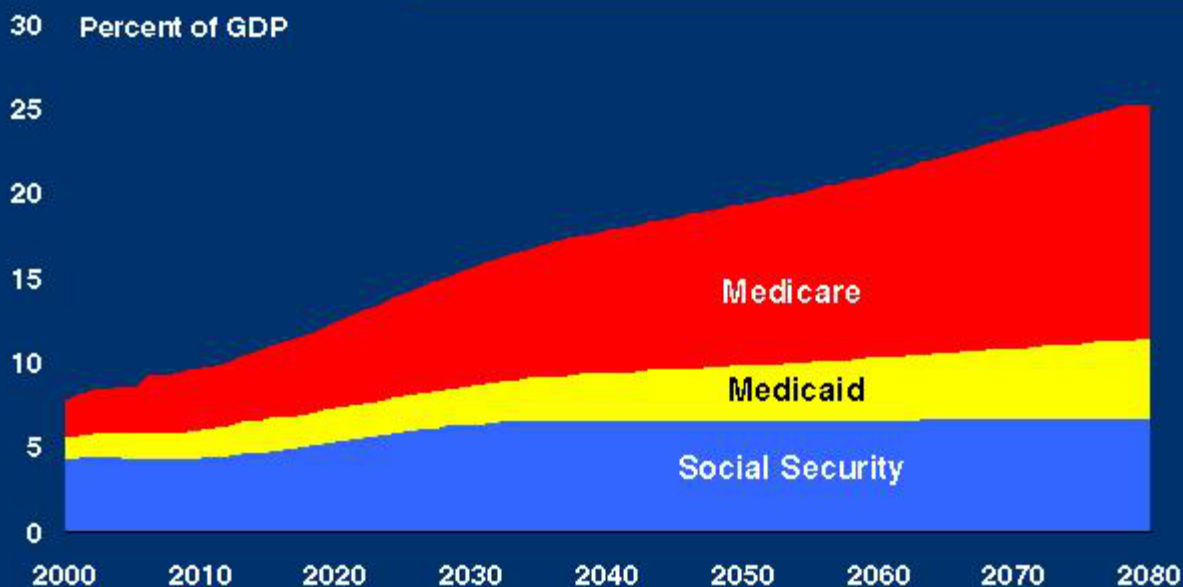
	OASI	DI	OASDI
First Year Outgo Exceeds Income Excluding Interest	2018	2008	2018
First Year Outgo Exceeds Income Including Interest	2029	2017	2028
Year Trust Fund Assets Are Exhausted	2044	2029	2042

Source: Social Security and Medicare Boards of Trustees, 2004

12



Social Security, Medicare, and Medicaid Spending as a Percent of GDP



Note: Social Security and Medicare projections based on the intermediate assumptions of the 2004 Trustees' Reports. Medicaid projections based on CBO's January 2004 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.



Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**
 - We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
 - GAO's simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by about 60 percent or
 - Raising taxes to about 2.5 times today's level
- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**
 - Closing the current long-term fiscal gap based on responsible assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
 - During the 1990s, the economy grew at on average 3.2 percent per year.
 - As a result, we cannot simply grow our way out of this problem. Tough choices will be required.
- **The Sooner We Get Started, the Better**
 - Less change would be needed, and there would be more time to make adjustments.
 - The miracle of compounding would work with us rather than against us.
 - Our demographic changes will serve to make reform more difficult over time.



We Need a 3-Pronged Approach

- Restructure existing entitlement programs
- Reexamine the base of discretionary and other spending
- Review and revise our tax policy and enforcement programs



The Need to Restructure the Social Security Disability Programs

SSA's disability programs are:

- Expensive and growing
- Difficult to administer
- Out of date



SSA's Disability Programs Are Expensive and Growing

- In 2003, DI and SSI benefits:
 - Totaled over \$85 billion
 - 8.6 million working age beneficiaries
- Growth in both programs is expected, with dramatic growth in the DI program as the baby boomers age
- SSA has not sufficiently prepared for this growth and lacks adequate plans for addressing it



SSA's Disability Programs Are Difficult to Administer

- Disability programs:
 - Pay out less than 1/5 of total SSA benefits, but consume over 1/2 of SSA's administrative resources
 - Face long-standing challenges of timeliness, accuracy, and consistency of disability decisions
- SSA has spent over \$100 million to address these problems, but has achieved little to date



SSA's Disability Programs Are Out of Date

- The programs have not kept up with medical, economic, and social changes
- These changes have redefined the relationship between impairment and work



GAO Placed Modernizing Federal Disability Programs on Its High Risk List

- Other disability programs, such as VA's, share similar problems
- In January 2003, GAO added modernizing federal disability programs—including DI & SSI—to its high risk list
- Programs and areas on high risk list need urgent attention and transformation
- Solutions to DI & SSI problems likely to require fundamental changes & legislative action



Recent Changes Have Enhanced Work Potential for Some People with Disabilities

Medical and Technological Advances

- have increased independence of some people with disabilities

The Labor Market

1. has become more service and knowledge-based, presenting opportunities for some

Social Changes

- have altered expectations by focusing on work and self-sufficiency

Demographics

- need to encourage people to contribute longer



SSA's Disability Programs Are Out of Step with This 21st Century Environment

SSA's "all or nothing" disability definition:

- Characterizes person as able or unable to work
- Encourages a focus on incapacity

SSA's disability determination process:

- Focuses on **incapacity**—not on what is needed to return someone to work
- Equates impairment with an inability to work



SSA's Disability Programs Are Out of Step with This 21st Century Environment

- SSA uses outdated criteria when determining whether the definition of disability is met:
 - Medical Listings are not up to date
 - Outdated information used about types and skill demands of jobs in today's economy
- As a result, SSA risks over-compensating or under-compensating claimants



SSA's Disability Programs Are Out of Step with This 21st Century Environment

SSA's eligibility process may discourage applicants from returning to work:

- Return-to-work assistance given only at the end of a lengthy eligibility process, if at all
- Focus on proving incapacity diverts an applicant's attention from returning to work
- During the process, a claimant's motivation, skills, and work habits may erode



SSA's Disability Programs Are Out of Step with This 21st Century Environment

In contrast to SSA's programs, disability programs in the private sector and other countries:

- (1) Intervene as soon as possible to promote and facilitate return to work
- (2) Identify and provide appropriate assistance
- (3) Structure benefits and services to provide incentives to work

These 3 strategies work most effectively when integrated into a comprehensive program



SSA Faces Significant Challenges to Reorienting and Transforming DI & SSI

SSA's two goals for its decision-making process:

- make the right decision the first time
- incorporate return to work into all stages of the decision-making process

SSA's Commissioner is developing a strategy to meet these goals

The framework of her developing strategy for fostering return to work is consistent with GAO's prior recommendations to SSA



SSA Faces Significant Challenges to Reorienting and Transforming DI & SSI

However, the new strategy faces challenges that could hinder progress:

- Risks to successfully implementing the new electronic disability folder
- Human capital problems among disability examiners
- Expected caseload growth in future years



SSA Faces Significant Challenges to Reorienting and Transforming DI & SSI

Fundamentally transforming program design, culture, and operations would involve even more formidable challenges:

- Many parties have a stake in the status quo
- Agency culture and systems can obstruct changing existing ways of doing business
- GAO's work shows that people are central to any serious organizational transformation



Concluding Thoughts

Modernizing and fundamentally reorienting the policies and processes underlying DI and SSI is

- critically needed by our nation
- SSA's obligation

Modest changes at the margins will not be enough



Concluding Thoughts

Incorporating return to work in all aspects of the decision process will require a reorientation

- **from** a focus on incapacity
- **toward** a process that identifies work potential and enhances capacity of those with the ability to work, without jeopardizing the availability of benefits for those who cannot work



Concluding Thoughts

To transform its programs for the 21st century, SSA should

- seek management, regulatory, and legislative solutions as appropriate
- ensure they reflect current science, medicine, technology, law, and labor market conditions
- take a leadership role in developing the inter-agency partnerships and linkages needed to develop effective national disability policies for the 21st century



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