



**SOCIAL SECURITY**  
Office of the Chief Actuary

October 18, 2010

The Honorable Earl Pomeroy  
Chairman, Subcommittee on Social Security  
Committee on Ways and Means  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Pomeroy:

I am writing in response to your letter of September 15, 2010 requesting analysis of effects on Social Security benefit levels for retirees under several possible changes to the program. Alice Wade and Tiffany Bosley have developed the estimates shown in the enclosed tables based on further discussion and clarification with Kathryn Olson, Staff Director of the Subcommittee.

All estimates in tables 1 through 3 are based on the intermediate assumptions of the 2010 Trustees Report. Estimates of the benefit levels and percentage changes for the indicated proposals are provided for retired workers attaining age 65 in years 2010, 2020, and each tenth year thereafter through 2080, with a range of career earnings levels. The earnings levels used for these illustrations reflect hypothetical worker career earnings patterns based on actual worker experience, with career-average annual levels equal to 25, 45, 100, and 160 percent of the national average wage index (AWI), which is estimated to be \$43,084 for 2010. We refer to these hypothetical earner cases as scaled very low, scaled low, scaled medium, and scaled high earners. In addition, estimates are provided for a hypothetical worker with earnings in at least 35 years at the level of the Social Security contribution and benefit base, which is \$106,800 for 2010.

Table 1 compares estimated benefit levels scheduled in current law with estimated benefit levels under the indicated proposals for partial price indexing of benefits across generations of retirees. Table 2 compares estimated benefit levels scheduled in current law with estimated benefit levels under the indicated proposals for increasing the normal retirement age (NRA) beyond increases already scheduled in the law. See the more detailed descriptions of each proposal below. The dollar levels of benefits in each table are expressed in current dollars that are wage indexed using the AWI to the 2010 equivalent level. Wage indexing the dollar level of projected future benefits to the current year allows for easy comparison to current year earnings and benefit levels, indicating the relative standard of living the future benefits would provide. This presentation of future dollar benefit levels is consistent with the estimated future benefit levels provided in the annual Social Security Statement. Each table also shows the percentage change in the benefit compared to the level scheduled in current law.

## **1. Price Indexing the Primary Insurance Amount (PIA)**

The two proposals that you described for partial price indexing the base benefit (Primary Insurance Amount, or PIA) would continue full average wage indexing of the benefit levels from one generation to the next for insured retired workers whose career average earnings level is in the lower 30 and 50 percent of all retirees, respectively. Starting for workers reaching retirement eligibility in 2018, the proposals would gradually reduce the 32 and 15 percent factors in the PIA formula, which apply to the higher career earners, such that the benefits for steady maximum earners would change from one generation to the next at the rate of change in the CPI-W, rather than at the rate of change in the AWI. This would reduce the average growth in benefits for steady maximum earners by about 1.2 percent per year. Reductions from one generation to the next would be smaller for workers retiring with lower career average earnings levels, as shown in Table 1. No reduction would be applied for workers in successive generations at or below the 30<sup>th</sup> and 50<sup>th</sup> percentile of career average earners, respectively.

These proposals would not affect benefits paid from the Disability Insurance Trust Fund. However, under the proposals, disabled workers would receive a portion of the reduction applicable for workers of their age upon reaching NRA, which is the age at which they convert from disabled worker to retired worker benefit status. The reduction applied would be in proportion to the number of elapsed years between ages 22 and 62 for which no disabled worker benefit was received. For example, a worker who became entitled to disabled worker benefits at age 32 would have 10 years (from 22 to 31) of potential work out of the 40 elapsed years (from 22 to 61), and thus would receive at NRA 10/40, or 25 percent, of the reduction applicable for retired workers of the same age who had never been disabled. For a worker who became entitled to disabled worker benefits at age 52, 30 out of 40 elapsed years would be potential work years, and so 30/40, or 75 percent, of the reduction applicable for retired workers of the same age who had never been disabled would apply. Note that disabled workers converting to retired worker benefit status at NRA would retain the PIA formula used for the year of disability entitlement. The proportionate reduction to that formula would be made by reducing the 32 and 15 percent factors above the protected level by the applicable proportion of the full reduction, based on years of disability. For a disabled worker with a career average earnings level (AIME) equivalent to one of the levels indicated in Table 1, the percentage reductions shown in Table 1 for retirees would apply, adjusted by the appropriate proportion reflecting years of disability.

Estimates of the financial effects on the OASDI program for the first of these options, the proposal applying no reduction to the lower 30 percent of career average earners, are available on our Internet site under provision B1.6 (2018) at

<http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B1>.

The second option would have a smaller effect on OASDI long-range solvency, reducing the estimated actuarial deficit by about 0.72 percent of payroll. These estimates are based on the intermediate assumptions of the 2009 Trustees Report. We anticipate these estimates will be similar when updated to reflect the intermediate assumptions of the 2010 Trustees Report.

## **2. Increasing the Normal Retirement Age (NRA)**

The three proposals illustrated in Table 2 would provide for increases in the normal retirement age (NRA) beyond current law. Option 1 would increase the NRA by an additional one month every 2 years after reaching age 67 for those attaining age 62 in 2022 under current law. After 2022, this option would effectively index the NRA to maintain a constant relationship (ratio) between the expected number of years lived after reaching NRA and the potential years of work from age 20 up to NRA. This rate of increase is consistent with the mortality improvement projected under the intermediate assumptions of the 2010 Trustees Report.

NRA option 2 would accelerate the currently scheduled increase in NRA by adding an additional 2 months to the increase for those age 62 in 2018, thus reaching an NRA of 67 one year earlier for those age 62 in 2021. Option 2 would then further increase the NRA after 2021 in the same fashion as for option 1.

NRA option 3 would continue the NRA rate of increase of 2 months per year that applies under current law from 2017 through 2022 (reaching the NRA of 67) until the NRA reaches age 70 for those attaining age 62 in 2040 and later.

In addition to Table 2, we have produced Table 2a which provides the specified NRA and the percentage of the full PIA that would be payable at ages 62, 65, 67, and 70 for each hypothetical worker case shown in Table 2.

Estimates of the financial effects on the OASDI program for the first and second of these options are available on our Internet site under provisions C1.7 and C1.8 at <http://www.ssa.gov/OACT/solvency/provisions/retireage.html#C1>. The third option would have a larger effect on OASDI long-range solvency, reducing the estimated actuarial deficit by about 0.96 percent of payroll. These estimates are based on the intermediate assumptions of the 2009 Trustees Report. We anticipate these estimates will be similar when updated to reflect the intermediate assumptions of the 2010 Trustees Report.

## **3. Indexing Cost of Living Adjustments (COLA) to a Chained Version of the CPI-W**

The Bureau of Labor Statistics produces a modified version of the CPI-U that adjusts for consumer redistribution of purchases on a month-to-month basis across broad categories, or strata, of goods and services. On average, this redistribution tends to move consumption away from categories where prices are rising quickly and toward categories where prices are rising more slowly. The resulting “chained” C-CPI-U has historically averaged an annual increase that is about 0.3 percent less than the unadjusted CPI-U. We assume that the effect of using the chained approach would be about the same for the CPI-W as it has been for the CPI-U. Thus, we assume that a chained version of the CPI-W would result in COLAs that would be about 0.3 percent lower than are expected, on average, under current law.

Because the first COLA for a beneficiary is applied for the December benefit of the year of initial eligibility, this proposal actually has no effect on benefits payable to retired workers at age 62. For years after attaining age 62, however, using this modified CPI for the COLA would result in annual reductions in the benefit that would accumulate with the number of years that elapse. For example, a retired worker at age 75 would have 13 COLAs applied to benefits and so would have a 3.7-percent lower benefit on average than under current law. The average reduction, as shown in Table 3, would be 6.5 percent at age 85 and 9.2 percent at age 95. Reductions due to the lower COLAs would also apply to disabled worker beneficiaries, reflecting the number of years they have been entitled for benefits. For example, a disabled worker beneficiary who is in the 14<sup>th</sup> year of entitlement would have the same average reduction from this proposal as the 75-year-old retired worker beneficiary. A converted retired worker who had earlier been a disabled worker starting 33 years ago would have the same average reduction as a 95-year-old retired worker beneficiary who had never been disabled.

Estimates of the financial effects on the OASDI program for this provision beginning with the COLA in December 2012 are available on our Internet site under provision A4 at <http://www.ssa.gov/OACT/solvency/provisions/cola.html>. These estimates are based on the intermediate assumptions of the 2009 Trustees Report. We anticipate these estimates will be similar when updated to reflect the intermediate assumptions of the 2010 Trustees Report.

We hope these illustrative benefit estimates will be helpful. Please let me know if we may provide further assistance.

Sincerely,

A handwritten signature in black ink that reads "Stephen C. Goss". The signature is written in a cursive style with a large initial 'S'.

Stephen C. Goss  
Chief Actuary

Enclosures

**Table 1. Price Indexing the Primary Insurance Amount (PIA)  
For Worker Retiring at age 65 at Indicated Career Earnings Level**

Year Attain Age 65	<u>Present Law Benefit</u> Monthly Scheduled Benefit Amount (Wage Indexed 2010 Dollars)	<u>Progressive Price Indexing: 30th Percentile<sup>2</sup></u>		<u>Progressive Price Indexing: 50th Percentile<sup>3</sup></u>	
		Change from Present Law Scheduled (Percent Change)	Proposed Monthly Benefit Amount (Wage Indexed 2010 Dollars)	Change from Present Law Scheduled (Percent Change)	Proposed Monthly Benefit Amount (Wage Indexed 2010 Dollars)
<b>Scaled Very Low Earner (\$10,771 for 2010<sup>1</sup>)</b>					
2010	648				
2020	611	0.0	611	0.0	611
2030	579	0.0	579	0.0	579
2040	578	0.0	578	0.0	578
2050	580	0.0	580	0.0	580
2060	580	0.0	580	0.0	580
2070	580	0.0	580	0.0	580
2080	580	0.0	580	0.0	580
<b>Scaled Low Earner (\$19,388 for 2010<sup>1</sup>)</b>					
2010	848				
2020	800	0.0	800	0.0	800
2030	758	0.0	758	0.0	758
2040	756	0.0	756	0.0	756
2050	758	0.0	758	0.0	758
2060	759	0.0	759	0.0	759
2070	759	0.0	759	0.0	759
2080	758	0.0	758	0.0	758
<b>Scaled Medium Earner (\$43,084 for 2010<sup>1</sup>)</b>					
2010	1,397				
2020	1,318	0.0	1,318	0.0	1,318
2030	1,248	-6.3	1,170	-1.9	1,225
2040	1,245	-11.9	1,097	-3.5	1,202
2050	1,249	-16.9	1,038	-5.0	1,187
2060	1,251	-21.1	987	-6.2	1,173
2070	1,251	-24.9	940	-7.1	1,163
2080	1,249	-28.2	897	-7.1	1,161
<b>Scaled High Earner (\$68,934 for 2010<sup>1</sup>)</b>					
2010	1,851				
2020	1,747	0.0	1,747	0.0	1,747
2030	1,654	-9.5	1,498	-7.9	1,524
2040	1,651	-17.8	1,357	-14.9	1,405
2050	1,656	-25.3	1,237	-21.1	1,306
2060	1,658	-31.6	1,134	-26.4	1,220
2070	1,658	-37.2	1,041	-29.9	1,163
2080	1,656	-42.2	957	-29.9	1,161
<b>Steady Maximum Earner (\$106,800 for 2010<sup>1</sup>)</b>					
2010	2,192				
2020	2,126	0.0	2,126	0.0	2,126
2030	2,021	-11.2	1,795	-11.3	1,794
2040	2,016	-21.1	1,591	-21.2	1,588
2050	2,020	-29.9	1,416	-30.1	1,413
2060	2,021	-37.4	1,265	-37.5	1,262
2070	2,021	-44.0	1,131	-42.5	1,163
2080	2,019	-49.9	1,010	-42.5	1,161

<sup>1</sup> Average of highest 35 years of earnings wage indexed to 2010.

<sup>2</sup> Progressive Price Indexing starting for those newly eligible in 2018, holding harmless the lowest 30% of career-average earners.

<sup>3</sup> Progressive Price Indexing starting for those newly eligible in 2018, holding harmless the lowest 50% of career-average earners.

All estimates based on the intermediate assumptions of the 2010 Trustees Report.

Note: For 2010 newly eligible beneficiaries, the annualized career average indexed earnings level is \$22,260 at the 30th percentile and \$37,356 at the 50th percentile. The earnings level above which the 15% PIA factor applies is \$55,032 for those newly eligible in 2010. Bend Points and PIA factors for those newly eligible in 2010 are based on the AWI two years prior to benefit eligibility.

**Table 2. Increasing the Normal Retirement Age (NRA)  
For Worker Retiring at age 65 at Indicated Career Earnings Level**

Year Attain Age 65	<u>Present Law Benefit</u> Monthly Scheduled <u>Benefit Amount</u> (Wage Indexed 2010 Dollars)	<u>Increase Normal Retirement Age: Option 1</u>		<u>Increase Normal Retirement Age: Option 2</u>		<u>Increase Normal Retirement Age: Option 3</u>	
		Longevity Index NRA <u>1 Mth/2Yrs<sup>2</sup></u> (Percent Change)	Proposed Monthly <u>Benefit Amount</u> (Wage Indexed 2010 Dollars)	Longevity Index NRA <u>1 Mth/2Yrs<sup>3</sup></u> (Percent Change)	Proposed Monthly <u>Benefit Amount</u> (Wage Indexed 2010 Dollars)	Index NRA 2 Mth/1Yr <u>to Age 70<sup>4</sup></u> (Percent Change)	Proposed Monthly <u>Benefit Amount</u> (Wage Indexed 2010 Dollars)
<b>Scaled Very Low Earner (\$10,771 for 2010<sup>1</sup>)</b>							
2010	648						
2020	611	0.0	611	0.0	611	0.0	611
2030	579	-1.3	572	-1.9	568	-6.4	542
2040	578	-4.5	552	-5.1	548	-16.3	483
2050	580	-7.7	535	-8.2	532	-19.2	468
2060	580	-10.1	522	-10.6	519	-19.2	469
2070	580	-12.5	508	-13.0	505	-19.2	469
2080	580	-14.9	493	-15.4	491	-19.2	468
<b>Scaled Low Earner (\$19,388 for 2010<sup>1</sup>)</b>							
2010	848						
2020	800	0.0	800	0.0	800	0.0	800
2030	758	-1.3	748	-1.9	743	-6.4	709
2040	756	-4.5	722	-5.1	717	-16.3	632
2050	758	-7.7	700	-8.2	696	-19.2	612
2060	759	-10.1	682	-10.6	679	-19.2	613
2070	759	-12.5	664	-13.0	661	-19.2	613
2080	758	-14.9	645	-15.4	642	-19.2	612
<b>Scaled Medium Earner (\$43,084 for 2010<sup>1</sup>)</b>							
2010	1,397						
2020	1,318	0.0	1,318	0.0	1,318	0.0	1,318
2030	1,248	-1.3	1,232	-1.9	1,224	-6.4	1,168
2040	1,245	-4.5	1,190	-5.1	1,182	-16.3	1,042
2050	1,249	-7.7	1,153	-8.2	1,147	-19.2	1,009
2060	1,251	-10.1	1,125	-10.6	1,119	-19.2	1,010
2070	1,251	-12.5	1,095	-13.0	1,089	-19.2	1,011
2080	1,249	-14.9	1,063	-15.4	1,057	-19.2	1,009
<b>Scaled High Earner (\$68,934 for 2010<sup>1</sup>)</b>							
2010	1,851						
2020	1,747	0.0	1,747	0.0	1,747	0.0	1,747
2030	1,654	-1.3	1,633	-1.9	1,623	-6.4	1,548
2040	1,651	-4.5	1,576	-5.1	1,566	-16.3	1,381
2050	1,656	-7.7	1,528	-8.2	1,520	-19.2	1,337
2060	1,658	-10.1	1,490	-10.6	1,482	-19.2	1,339
2070	1,658	-12.5	1,451	-13.0	1,443	-19.2	1,339
2080	1,656	-14.9	1,409	-15.4	1,401	-19.2	1,338
<b>Steady Maximum Earner (\$106,800 for 2010<sup>1</sup>)</b>							
2010	2,192						
2020	2,126	0.0	2,126	0.0	2,126	0.0	2,126
2030	2,021	-1.3	1,995	-1.9	1,982	-6.4	1,892
2040	2,016	-4.5	1,925	-5.1	1,913	-16.3	1,686
2050	2,020	-7.7	1,865	-8.2	1,855	-19.2	1,632
2060	2,021	-10.1	1,817	-10.6	1,807	-19.2	1,632
2070	2,021	-12.5	1,768	-13.0	1,759	-19.2	1,632
2080	2,019	-14.9	1,718	-15.4	1,708	-19.2	1,630

<sup>1</sup> Average of highest 35 years of earnings wage indexed to 2010.

<sup>2</sup> **Option 1:** After NRA reaches age 67 (first reached for those 62 in 2022), index for constant ratio of life expectancy at NRA to (NRA-20). This increase in NRA is estimated as 1 month every 2 years.

<sup>3</sup> **Option 2:** For those newly eligible in 2018-21, the NRA would be 2 months higher than present law. Once the NRA reaches age 67 (first reached for those 62 in 2021), index for constant ratio of life expectancy at NRA to (NRA-20).

<sup>4</sup> **Option 3:** After NRA reaches age 67 (first reached for those 62 in 2022), increase NRA by 2 months per year until age 70.

All estimates based on the intermediate assumptions of the 2010 Trustees Report.

**Table 2a. Increasing the Normal Retirement Age (NRA)  
Percent of Full Benefit (PIA) Paid**

Year Attain	Year Attain	<u>Present Law Benefit</u>						<u>Increase NRA: Option 1<sup>1</sup></u>						<u>Increase NRA: Option 2<sup>2</sup></u>						<u>Increase NRA: Option 3<sup>3</sup></u>							
		<u>NRA</u>		<u>Percent of Full Benefit Amount</u>				<u>NRA</u>		<u>Percent of Full Benefit Amount</u>				<u>NRA</u>		<u>Percent of Full Benefit Amount</u>				<u>NRA</u>		<u>Percent of Full Benefit Amount</u>					
<u>Age 62</u>	<u>Age 65</u>	<u>Year</u>	<u>Month</u>	<u>Age 62</u>	<u>Age 65</u>	<u>Age 67</u>	<u>Age 70</u>	<u>Year</u>	<u>Month</u>	<u>Age 62</u>	<u>Age 65</u>	<u>Age 67</u>	<u>Age 70</u>	<u>Year</u>	<u>Month</u>	<u>Age 62</u>	<u>Age 65</u>	<u>Age 67</u>	<u>Age 70</u>	<u>Year</u>	<u>Month</u>	<u>Age 62</u>	<u>Age 65</u>	<u>Age 67</u>	<u>Age 70</u>		
				<i>(Percent)</i>								<i>(Percent)</i>												<i>(Percent)</i>			
2007	2010	66	0	75.0	93.3	108.0	132.0	66	0	75.0	93.3	108.0	132.0	66	0	75.0	93.3	108.0	132.0	66	0	75.0	93.3	108.0	132.0		
2017	2020	66	2	74.2	92.2	106.7	130.7	66	2	74.2	92.2	106.7	130.7	66	2	74.2	92.2	106.7	130.7	66	2	74.2	92.2	106.7	130.7		
2027	2030	67	0	70.0	86.7	100.0	124.0	67	2	69.3	85.6	98.9	122.7	67	3	68.9	85.0	98.3	122.0	67	10	66.3	81.1	94.4	117.3		
2037	2040	67	0	70.0	86.7	100.0	124.0	67	7	67.4	82.8	96.1	119.3	67	8	67.0	82.2	95.6	118.7	69	6	59.0	72.5	83.3	104.0		
2047	2050	67	0	70.0	86.7	100.0	124.0	68	0	65.5	80.0	93.3	116.0	68	1	65.1	79.6	92.8	115.3	70	0	57.0	70.0	80.0	100.0		
2057	2060	67	0	70.0	86.7	100.0	124.0	68	5	63.6	77.9	90.6	112.7	68	6	63.3	77.5	90.0	112.0	70	0	57.0	70.0	80.0	100.0		
2067	2070	67	0	70.0	86.7	100.0	124.0	68	10	61.8	75.8	87.8	109.3	68	11	61.4	75.4	87.2	108.7	70	0	57.0	70.0	80.0	100.0		
2077	2080	67	0	70.0	86.7	100.0	124.0	69	3	60.0	73.8	85.0	106.0	69	4	59.7	73.3	84.4	105.3	70	0	57.0	70.0	80.0	100.0		

<sup>1</sup> After NRA reaches age 67 (first reached for those 62 in 2022), index for constant ratio of life expectancy at NRA to (NRA-20). This increase in NRA is estimated as 1 month every 2 years.

<sup>2</sup> For those newly eligible in 2018-21, the NRA would be 2 months higher than present law. Once the NRA reaches age 67 (first reached for those 62 in 2021), index for constant ratio of life expectancy at NRA to (NRA-20).

<sup>3</sup> After NRA reaches age 67 (first reached for those 62 in 2022), increase NRA by 2 months per year until age 70.

Office of the Actuary  
Social Security Administration  
October 18, 2010

**Table 3. Indexing Cost of Living Adjustments (COLA) to a Chained Version of CPI-W  
For Worker Retiring at age 65 at Indicated Career Earnings Level**

Year Attain	<u>Percent Change from Present Law Scheduled</u>				
	<u>Age 65</u>	<u>Age 75</u>	<u>Age 85</u>	<u>Age 95</u>	
					(Percent Change)
					<b>Scaled Very Low Earner (\$10,771 for 2010<sup>1</sup>)</b>
2010					
2020	-0.9	-3.7	-6.5	-9.2	
2030	-0.9	-3.7	-6.5	-9.2	
2040	-0.9	-3.7	-6.5	-9.2	
2050	-0.9	-3.7	-6.5	-9.2	
2060	-0.9	-3.7	-6.5	-9.2	
2070	-0.9	-3.7	-6.5	-9.2	
2080	-0.9	-3.7	-6.5	-9.2	
					<b>Scaled Low Earner (\$19,388 for 2010<sup>1</sup>)</b>
2010					
2020	-0.9	-3.7	-6.5	-9.2	
2030	-0.9	-3.7	-6.5	-9.2	
2040	-0.9	-3.7	-6.5	-9.2	
2050	-0.9	-3.7	-6.5	-9.2	
2060	-0.9	-3.7	-6.5	-9.2	
2070	-0.9	-3.7	-6.5	-9.2	
2080	-0.9	-3.7	-6.5	-9.2	
					<b>Scaled Medium Earner (\$43,084 for 2010<sup>1</sup>)</b>
2010					
2020	-0.9	-3.7	-6.5	-9.2	
2030	-0.9	-3.7	-6.5	-9.2	
2040	-0.9	-3.7	-6.5	-9.2	
2050	-0.9	-3.7	-6.5	-9.2	
2060	-0.9	-3.7	-6.5	-9.2	
2070	-0.9	-3.7	-6.5	-9.2	
2080	-0.9	-3.7	-6.5	-9.2	
					<b>Scaled High Earner (\$68,934 for 2010<sup>1</sup>)</b>
2010					
2020	-0.9	-3.7	-6.5	-9.2	
2030	-0.9	-3.7	-6.5	-9.2	
2040	-0.9	-3.7	-6.5	-9.2	
2050	-0.9	-3.7	-6.5	-9.2	
2060	-0.9	-3.7	-6.5	-9.2	
2070	-0.9	-3.7	-6.5	-9.2	
2080	-0.9	-3.7	-6.5	-9.2	
					<b>Steady Maximum Earner (\$106,800 for 2010<sup>1</sup>)</b>
2010					
2020	-0.9	-3.7	-6.5	-9.2	
2030	-0.9	-3.7	-6.5	-9.2	
2040	-0.9	-3.7	-6.5	-9.2	
2050	-0.9	-3.7	-6.5	-9.2	
2060	-0.9	-3.7	-6.5	-9.2	
2070	-0.9	-3.7	-6.5	-9.2	
2080	-0.9	-3.7	-6.5	-9.2	

<sup>1</sup> Average of highest 35 years of earnings wage indexed to 2010.

Note: Starting Dec 2012, compute the COLA using a chained CPI-W, producing 0.3% lower annual COLAs on average. All estimates based on the intermediate assumptions of the 2010 Trustees Report.



**Congress of the United States**  
**House of Representatives**  
**COMMITTEE ON WAYS AND MEANS**  
WASHINGTON, DC 20515

SUBCOMMITTEE ON SOCIAL SECURITY

September 15, 2010

Mr. Stephen C. Goss  
Chief Actuary  
Social Security Administration  
Altmeyer Building Room 700  
6401 Security Blvd.  
Baltimore, MD 21235

Dear Mr. Goss:

A number of proposals to reduce Social Security benefits for current and/or future beneficiaries have been discussed widely and included on lists of "solvency options" for possible consideration by policymakers. However, there has been little analysis of the effect of these proposals on the benefits that millions of Americans rely on. Most retirees rely on Social Security for more than half of their retirement income and the average retirement benefit is a mere \$14,000 annually. The financial collapse in private investment markets and housing prices and the continuing economic difficulties have made ever more clear the importance of Social Security as the only truly reliable source of retirement income. Members of Congress should be fully aware of how such proposals will affect the financial security of retirees and other beneficiaries.

Please provide an analysis of the following illustrative provisions for their effect on Social Security benefit levels. Please provide a table for each of these provisions that delineates their effect on benefits for various levels of pre-retirement earnings (i.e. low earners, medium earners, etc.), providing the amount and percentage by which monthly benefits would change over time.

**1. Price Indexing the Primary Insurance Amount (PIA)**

- a. Index PIA formula so that benefits for the highest earners would rise with prices rather than wages beginning with individuals newly eligible for OASI benefits in 2018. Create new bend point at the 30<sup>th</sup> percentile of earners. Maintain current-law benefits for earners at the 30<sup>th</sup> percentile and below, and reduce upper 2 formula factors (32 percent and 15 percent) such that the maximum worker benefit grows by inflation rather than the growth in average wages. The proposal would reduce pre-retirement income replacement rates and flatten the benefit formula. (This provision is indexed by the Office of the Chief Actuary (OACT))

as B1.6 on the OACT website).

Also examine the impacts on beneficiaries who start disability benefits at age 32 and at age 52 and are converted to retirement benefits when they attain normal retirement age, as specified in proposal B1.6 on the OACT website.

- b. The same provision as described above in 1.a. but maintain current law for earners below the 50<sup>th</sup> percentile instead of the 30<sup>th</sup> percentile. Also include the analysis for disability beneficiaries described above.

Please note in your analysis the specific annual earnings level, in dollars, represented by the 30<sup>th</sup> percentile and the 50<sup>th</sup> percentile, as well as the annual earnings level represented by the top bendpoint, at which a 15 percent replacement rate begins to apply.

## **2. Increasing the Normal Retirement Age (NRA)**

- a. Index NRA to longevity after the NRA reaches age 67 under current law. Under current law, the NRA reaches 67 for individuals who attain age 62 in 2022 and later. Under this provision, the NRA would be further increased by one month for those attaining age 62 in every other year after 2022. (This provision is indexed by the OACT as C1.7).
- b. Increase the NRA above the levels currently specified in the law for those reaching age 62 in 2018 and later. For those reaching age 62 in 2018, the NRA would be 66 years, 6 months. The NRA would increase 2 months per year for those reaching age 62 in 2019, 2020, and 2021, reaching an NRA of 67 for those turning 62 in 2021. Then, after 2021, index the NRA indefinitely to maintain a constant ratio of expected retirement years (life expectancy at NRA) to potential work years (NRA minus 20). (This provision is indexed by the OACT as C1.8).
- c. Keep current law until NRA reaches 67, then continue to increase NRA by two months every year until it reaches 70.

Please include in your analysis the percentage of full benefits payable at age 62, the early eligibility age, under each of these proposals.

## **3. Indexing Cost of Living Adjustments (COLA) to the Chained Version of CPI-W**

Starting with the December 2012 COLA, compute the COLA using a chained version of the consumer price index for wage and salary workers (CPI-W). This new computation is estimated to result in an annual COLA that is 0.3 percentage points less, on average.

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September 15, 2010  
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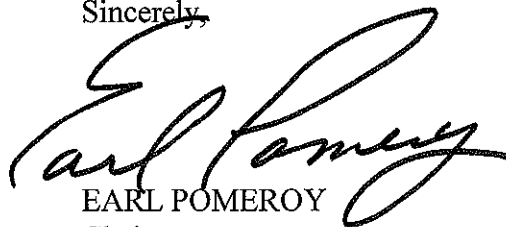
(This provision is indexed by the OACT as A.4).

Because the effects of COLA changes accumulate over a beneficiary's lifetime, please include in this benefit analysis several illustrations of the proposal's effect over time, such as at ages 65, 75, 85 and 95.

I would greatly appreciate receiving your analysis of these provisions by September 24. Please contact Kathryn Olson, Staff Director of the Subcommittee, with any questions.

Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Earl Pomeroy". The signature is fluid and cursive, with a large initial "E" and "P".

EARL POMEROY  
Chairman