



# SOCIAL SECURITY

February 10, 2016

The Honorable Shaun Donovan  
Director, Office of Management and Budget  
Washington, D.C. 20503

Dear Director Donovan:

The President’s Fiscal Year 2017 Budget, released yesterday, included a proposal for enhancing and modifying the approach taken to adjust benefits for Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI) beneficiaries who had earnings that were not covered under the Social Security program. Under the intermediate assumptions of the 2015 Trustees Report, we project that enactment of this proposal would reduce OASDI program cost by about \$8 billion total through Fiscal Year 2026, and that the long-range actuarial balance for the OASDI program would be improved by about 0.08 percent of taxable payroll. Table 1, enclosed, provides annual and summarized long-range estimates of the effects of this proposal on OASDI actuarial status. We have enjoyed working with your staff in the Income Maintenance Branch in the development of this proposal. Many in our office contributed to the development of the proposal and the estimates provided here, principally Jacqueline Walsh and Christopher Chaplain.

Two changes related to OASDI beneficiaries with non-covered earnings are included in the FY 2017 Budget. The first provision would make \$70 million available to State and local governments to facilitate development of systems to provide SSA with complete records of employees who have worked in employment not covered under OASDI, where a vested pension (periodic payment) has been earned based on the non-covered earnings. This information will be required for all individuals attaining vested status before January 1, 2027, and will include the timing and amounts of any periodic or lump-sum payments received based on the non-covered earnings: past, present, and expected future. This information will continue to be updated for the lifetime of included workers and will assure accurate and full application of the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) applicable in current law for all workers who become eligible for any OASDI benefit prior to January 1, 2027. We estimate that additional application of WEP and GPO as a result of this enhanced reporting will result in reductions in OASDI benefit payments totaling about \$8 billion through FY 2026.

**Estimated Reductions in OASDI Benefits from Requiring State and Local Governments to Report Pensions Based on Non-Covered Employment Starting 2017**

| FY   | 2017 | 2018 | 2019 | 2020  | 2021  | 2022  | 2023  | 2024  | 2025  | 2026  | Total |
|--|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>(billions)</i>                          |      |      |      |       |       |       |       |       |       |       |       |
| 2015 Trustees Report Intermediate Baseline | \$0  | \$0  | \$0  | \$0.4 | \$1.0 | \$1.4 | \$1.5 | \$1.4 | \$1.3 | \$1.2 | \$8.3 |

The second provision would apply to all individuals first becoming eligible for any OASDI benefit on or after January 1, 2027. New computations, replacing the former WEP and GPO provisions, will apply to worker and auxiliary beneficiaries for the WEP, and to spousal

beneficiaries for the GPO, when the worker or spouse has any non-covered earnings. The requirement to be in receipt of a pension based on non-covered earnings will be eliminated along with the WEP guarantee and all exemptions.

#### WEP Replacement

The new computation involves three components: (1) a “Super AIME” computed considering all earnings in SSA records (both OASDI covered and non-covered) up to the annual taxable maximum, (2) a “Super PIA” based on the “Super AIME”, and (3) the standard AIME based only on OASDI covered earnings, or “Covered AIME.” The governing PIA for a worker (also applicable for his/her auxiliaries) is then calculated as the Covered AIME multiplied by the ratio of the Super PIA to the Super AIME.

The new computation will be effective for all payments on the record of a retired or disabled worker beneficiary becoming newly eligible for benefits on or after January 1, 2027. As under current law, upon the death of the worker, the governing PIA will revert to the standard PIA based solely on covered earnings.

#### GPO Replacement

Again, three components are used in the computation: (1) a “Super PIA” computed using both OASDI covered and non-covered earnings, (2) a standard PIA (“Covered PIA”) based only on OASDI covered earnings, and (3) an age reduction factor. Each component is calculated using the beneficiary’s own earnings record, without regard to insured status, as if entitlement to worker benefits begins at the same time as application of the offset. If the beneficiary is entitled to any benefit on the basis of a disability, the PIAs will be computed as for a disabled worker and no age reduction factor will apply. The new offset amount will be the difference between the Super PIA and Covered PIA, multiplied by the age reduction factor, if applicable. If the beneficiary is dually entitled, the offset will be deducted from the excess benefit payable as a spouse.

The new offset will apply to benefits paid to a spouse, former spouse, or surviving spouse of an insured worker when the spouse is age 62 and older, or is entitled to any benefit on the basis of disability. The provision is effective for those attaining 62 or becoming newly eligible for a disability benefit on or after January 1, 2027.

We hope these estimates will be helpful. Please let us 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, stylized 'S' and 'G'.

Stephen C. Goss  
Chief Actuary

Enclosure

**Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio**

**Replace Current-Law WEP and GPO with PIA Calculation Reflecting Covered Earnings and Total Earnings, Effective for New Eligibles in 2027 and Later.  
Provide Funding to State/Local Governments to Enforce Current-Law WEP and GPO for Individuals Eligible Before 2027.**

| Year | Proposal   |             |                | Trust Fund Ratio<br>1-1-year | Change from Present Law                                  |             |                |
|------|--|-------------|----------------|------------------------------|--|-------------|----------------|
|      | Expressed as a percentage of present-law taxable payroll |             |                |                              | Expressed as a percentage of present-law taxable payroll |             |                |
|      | Cost Rate  | Income Rate | Annual Balance |                              | Cost Rate  | Income Rate | Annual Balance |
| 2015 | 14.13  | 12.82       | -1.31          | 308                          | 0.00   | 0.00        | 0.00           |
| 2016 | 13.88  | 12.88       | -1.00          | 298                          | 0.00   | 0.00        | 0.00           |
| 2017 | 13.89  | 12.91       | -0.98          | 280                          | 0.00   | 0.00        | 0.00           |
| 2018 | 13.97  | 12.94       | -1.03          | 264                          | 0.00   | 0.00        | 0.00           |
| 2019 | 14.09  | 12.95       | -1.14          | 248                          | 0.00   | 0.00        | 0.00           |
| 2020 | 14.22  | 12.96       | -1.26          | 233                          | -0.01  | 0.00        | 0.01           |
| 2021 | 14.33  | 12.98       | -1.35          | 219                          | -0.01  | 0.00        | 0.01           |
| 2022 | 14.50  | 13.01       | -1.49          | 204                          | -0.02  | 0.00        | 0.01           |
| 2023 | 14.71  | 13.03       | -1.68          | 189                          | -0.01  | 0.00        | 0.01           |
| 2024 | 14.94  | 13.06       | -1.88          | 173                          | -0.01  | 0.00        | 0.01           |
| 2025 | 15.15  | 13.08       | -2.07          | 158                          | -0.01  | 0.00        | 0.01           |
| 2026 | 15.35  | 13.10       | -2.26          | 142                          | -0.01  | 0.00        | 0.01           |
| 2027 | 15.55  | 13.11       | -2.44          | 127                          | -0.01  | 0.00        | 0.01           |
| 2028 | 15.74  | 13.13       | -2.61          | 111                          | -0.01  | 0.00        | 0.01           |
| 2029 | 15.91  | 13.14       | -2.77          | 95                           | -0.02  | 0.00        | 0.02           |
| 2030 | 16.07  | 13.15       | -2.92          | 78                           | -0.02  | 0.00        | 0.02           |
| 2031 | 16.21  | 13.16       | -3.05          | 61                           | -0.03  | 0.00        | 0.03           |
| 2032 | 16.33  | 13.17       | -3.16          | 43                           | -0.04  | 0.00        | 0.04           |
| 2033 | 16.43  | 13.18       | -3.25          | 24                           | -0.05  | 0.00        | 0.04           |
| 2034 | 16.50  | 13.19       | -3.31          | 5                            | -0.05  | 0.00        | 0.05           |
| 2035 | 16.56  | 13.19       | -3.36          | ----                         | -0.06  | 0.00        | 0.06           |
| 2036 | 16.61  | 13.20       | -3.41          | ----                         | -0.07  | 0.00        | 0.06           |
| 2037 | 16.64  | 13.20       | -3.44          | ----                         | -0.07  | 0.00        | 0.07           |
| 2038 | 16.65  | 13.21       | -3.44          | ----                         | -0.08  | 0.00        | 0.08           |
| 2039 | 16.64  | 13.21       | -3.43          | ----                         | -0.08  | 0.00        | 0.08           |
| 2040 | 16.62  | 13.21       | -3.41          | ----                         | -0.09  | 0.00        | 0.08           |
| 2041 | 16.59  | 13.21       | -3.38          | ----                         | -0.09  | 0.00        | 0.09           |
| 2042 | 16.57  | 13.21       | -3.36          | ----                         | -0.10  | 0.00        | 0.09           |
| 2043 | 16.54  | 13.21       | -3.33          | ----                         | -0.10  | -0.01       | 0.10           |
| 2044 | 16.51  | 13.21       | -3.30          | ----                         | -0.10  | -0.01       | 0.10           |
| 2045 | 16.49  | 13.21       | -3.28          | ----                         | -0.11  | -0.01       | 0.10           |
| 2046 | 16.46  | 13.21       | -3.25          | ----                         | -0.11  | -0.01       | 0.11           |
| 2047 | 16.45  | 13.21       | -3.23          | ----                         | -0.11  | -0.01       | 0.11           |
| 2048 | 16.43  | 13.21       | -3.22          | ----                         | -0.12  | -0.01       | 0.11           |
| 2049 | 16.42  | 13.21       | -3.21          | ----                         | -0.12  | -0.01       | 0.11           |
| 2050 | 16.42  | 13.21       | -3.21          | ----                         | -0.12  | -0.01       | 0.11           |
| 2051 | 16.43  | 13.22       | -3.21          | ----                         | -0.12  | -0.01       | 0.12           |
| 2052 | 16.45  | 13.22       | -3.23          | ----                         | -0.13  | -0.01       | 0.12           |
| 2053 | 16.48  | 13.22       | -3.26          | ----                         | -0.13  | -0.01       | 0.12           |
| 2054 | 16.51  | 13.22       | -3.29          | ----                         | -0.13  | -0.01       | 0.12           |
| 2055 | 16.56  | 13.23       | -3.33          | ----                         | -0.13  | -0.01       | 0.12           |
| 2056 | 16.61  | 13.23       | -3.38          | ----                         | -0.13  | -0.01       | 0.13           |
| 2057 | 16.66  | 13.23       | -3.42          | ----                         | -0.13  | -0.01       | 0.13           |
| 2058 | 16.71  | 13.24       | -3.47          | ----                         | -0.14  | -0.01       | 0.13           |
| 2059 | 16.76  | 13.24       | -3.52          | ----                         | -0.14  | -0.01       | 0.13           |
| 2060 | 16.81  | 13.25       | -3.57          | ----                         | -0.14  | -0.01       | 0.13           |
| 2061 | 16.87  | 13.25       | -3.62          | ----                         | -0.14  | -0.01       | 0.13           |
| 2062 | 16.92  | 13.25       | -3.67          | ----                         | -0.14  | -0.01       | 0.13           |
| 2063 | 16.97  | 13.26       | -3.71          | ----                         | -0.14  | -0.01       | 0.13           |
| 2064 | 17.02  | 13.26       | -3.76          | ----                         | -0.14  | -0.01       | 0.13           |
| 2065 | 17.07  | 13.26       | -3.81          | ----                         | -0.14  | -0.01       | 0.13           |
| 2066 | 17.13  | 13.27       | -3.86          | ----                         | -0.14  | -0.01       | 0.13           |
| 2067 | 17.19  | 13.27       | -3.92          | ----                         | -0.14  | -0.01       | 0.14           |
| 2068 | 17.25  | 13.27       | -3.97          | ----                         | -0.14  | -0.01       | 0.14           |
| 2069 | 17.30  | 13.28       | -4.03          | ----                         | -0.14  | -0.01       | 0.14           |
| 2070 | 17.36  | 13.28       | -4.08          | ----                         | -0.14  | -0.01       | 0.14           |
| 2071 | 17.41  | 13.28       | -4.12          | ----                         | -0.14  | -0.01       | 0.14           |
| 2072 | 17.45  | 13.29       | -4.16          | ----                         | -0.15  | -0.01       | 0.14           |
| 2073 | 17.49  | 13.29       | -4.20          | ----                         | -0.15  | -0.01       | 0.14           |
| 2074 | 17.52  | 13.29       | -4.23          | ----                         | -0.15  | -0.01       | 0.14           |
| 2075 | 17.54  | 13.29       | -4.25          | ----                         | -0.15  | -0.01       | 0.14           |
| 2076 | 17.55  | 13.29       | -4.26          | ----                         | -0.15  | -0.01       | 0.14           |
| 2077 | 17.56  | 13.29       | -4.26          | ----                         | -0.15  | -0.01       | 0.14           |
| 2078 | 17.56  | 13.30       | -4.27          | ----                         | -0.15  | -0.01       | 0.14           |
| 2079 | 17.56  | 13.30       | -4.27          | ----                         | -0.15  | -0.01       | 0.14           |
| 2080 | 17.56  | 13.30       | -4.27          | ----                         | -0.15  | -0.01       | 0.14           |
| 2081 | 17.57  | 13.30       | -4.27          | ----                         | -0.15  | -0.01       | 0.14           |
| 2082 | 17.58  | 13.30       | -4.28          | ----                         | -0.15  | -0.01       | 0.14           |
| 2083 | 17.60  | 13.30       | -4.30          | ----                         | -0.15  | -0.01       | 0.14           |
| 2084 | 17.63  | 13.30       | -4.33          | ----                         | -0.15  | -0.01       | 0.14           |
| 2085 | 17.66  | 13.30       | -4.36          | ----                         | -0.15  | -0.01       | 0.14           |
| 2086 | 17.70  | 13.30       | -4.40          | ----                         | -0.15  | -0.01       | 0.14           |
| 2087 | 17.74  | 13.31       | -4.43          | ----                         | -0.15  | -0.01       | 0.14           |
| 2088 | 17.78  | 13.31       | -4.47          | ----                         | -0.15  | -0.01       | 0.14           |
| 2089 | 17.82  | 13.31       | -4.51          | ----                         | -0.15  | -0.01       | 0.14           |
| 2090 | 17.87  | 13.31       | -4.55          | ----                         | -0.15  | -0.01       | 0.14           |

| Summarized Rates: OASDI |           |             |  |
|-------------------------|-----------|-------------|--|
|                         | Cost Rate | Income Rate | Actuarial Year of reserve depletion <sup>1</sup> |
| 2015 - 2089             | 16.46%    | 13.86%      | -2.60% 2034                                      |

| Summarized Rates: OASDI |                       |                             |
|-------------------------|-----------------------|-----------------------------|
| Change in Cost rate     | Change in Income Rate | Change in Actuarial Balance |
| -0.09%                  | 0.00%                 | 0.08%                       |

Based on Intermediate Assumptions of the 2015 Trustees Report

<sup>1</sup> Under present law the year of Trust Fund reserve depletion is 2034