



SOCIAL SECURITY
Office of the Chief Actuary

September 19, 2017

The Honorable Sam Johnson
The Honorable Adrian Smith
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Johnson and Representative Smith:

Enactment of H.R. 3112, the “Providing Choice for Social Security Retirees Act”, which you introduced on June 29, 2017, would provide a “partial lump sum” option for workers becoming initially entitled for retired worker benefits in 2019 or later at an age older than their normal retirement age (NRA). At the time of their initial benefit entitlement (that is, the first month for which benefits will be received), these workers could choose to receive a lump sum amount equivalent to 2 percent (one-fourth of the value) of any 8 percent delayed retirement credits (DRCs) earned up to that time. A 6 percent DRC (the usual 8 percent DRC less the 2 percent converted to a lump sum) would apply for their subsequent monthly retired worker benefits. Any DRCs applicable for a surviving spouse of the worker would be unaffected by this provision.

Under the proposal, the lump sum amount would be calculated using projected unisex mortality for retirees by birth year and age of initial benefit entitlement. We assume that the lump sum amount would be calculated on a present discounted value basis using the assumed future effective interest rates earned on holdings of the combined OASI and DI Trust Funds.

The initial effect of the proposal would consist almost entirely of additional lump sum benefit payments, because the effect of reduced monthly benefits for those who choose to take the lump sum option would not be fully realized on an annual basis for over 20 years. Therefore, while enactment of the proposal would have a negligible net effect on the long-range actuarial balance (that is, less than 0.005 percent of taxable payroll) for the OASDI program, we estimate that it would increase OASDI cost (net of additional revenue from taxation of benefits) by a total of about \$19 billion over the period including calendar years 2017 through 2026 under our assumed take-up rate, described below. For years after 2032, we estimate that enactment of the proposal would generally result in a small net reduction in annual OASDI program cost. The projected year of reserve depletion for the combined OASI and DI Trust Funds would be unchanged, remaining at 2034 as projected under current law.

Table 1, enclosed, presents annual and 75-year-summarized cost rates, income rates, balances, and changes in annual balances for the OASDI program under the proposal. The estimates presented here are based on the intermediate assumptions of the 2016 Trustees Report and reflect

the combined effort of many in the Office of the Chief Actuary, but most particularly Karen Glenn, Chris Chaplain, and Daniel Nickerson.

Under current law, individuals who delay initial retired worker benefit entitlement until after attaining their NRA earn DRCs that increase their monthly benefits by 8 percent for each year of deferral. Because no retirement earnings test applies after attaining NRA, the choice to delay benefit claiming is presumed to be a deliberate choice, in general, with the intent of earning DRCs. Individuals with better than average health and survival prospects can delay the start of receipt of benefits until after NRA, with the expectation of receiving more lifetime value of benefits than would be expected with benefits starting at NRA. Thus, the choice to delay benefit entitlement until after NRA suggests an expectation that the DRCs will provide greater lifetime value, likely based on expectation of longer than average remaining lifetime. Given this motivation for delaying entitlement to earn DRC, it is not clear the degree to which individuals will “cash in” a portion of this earned DRC value by opting for the lump sum at initial benefit entitlement after NRA.

For the purpose of the estimate provided here, we assume that about two-thirds of eligible male initial entitlements over NRA and about one-third of eligible female initial entitlements over NRA will take the partial lump sum. With a take-up rate this high, there would be relatively little antiselection among those taking the lump sum option. That is, the large numbers choosing the lump sum would be reasonably representative of individuals who will live both longer and shorter than average remaining life expectancy. An alternative possible scenario is that far fewer of the individuals earning DRCs will exercise the lump sum option, and that they will be largely those who have unexpectedly had or learned of a serious health condition after attaining NRA. In particular, they now expect to have a shorter remaining life span than they expected when they deferred receipt of benefits at NRA. For this group, taking the lump sum on learning of their unexpected decline in health status would be clearly more attractive than continuing to defer receipt of benefits or applying the full DRC to their future monthly benefits. Under this alternative scenario, the size of both initial and long-term effects on OASDI program cost would be somewhat smaller than under the take-up rates assumed for the estimate presented here.

An additional possible effect of implementing this proposal would be that some individuals who under current law start to receive retired worker benefits at or before NRA might choose to delay their entitlement (start of benefit receipt) past NRA. Some healthier-than-average individuals might start benefits at NRA under current law out of concern that an unexpected change in health status later might shorten their prospects for long life and thus diminish or reverse the expected gain from earning the DRC. For healthy workers at NRA with this concern, deferral of benefit start until after NRA would be more attractive under the proposal, because a portion of the value of the DRCs earned would be available from the lump sum option if a decline in health status occurs. For the purpose of this estimate, we assume that the number of such individuals would be small.

Individuals exercising this option under the proposal would have additional benefits paid at their initial benefit entitlement in the lump sum, but would then receive less-than-full delayed retirement credit in their monthly benefit level thereafter. Therefore, for the latter years of the

long-range projection period shown in Table 1, enactment of the proposal would have a relatively small net effect on OASDI cost.

We hope these estimates are 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, sweeping initial 'S'.

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosure

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

HR 3112 - Provide an option to split the 8-percent delayed retirement credit (DRC) to offer a lump sum benefit at initial entitlement equivalent to 2 percent of the 8 percent DRC earned, and a 6 percent DRC on subsequent monthly benefits. Effective for new entitlements in 2019 and later.

| Year | Proposal | | | | 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 | Trust Fund Ratio 1-1-year | Cost Rate | Income Rate | Annual Balance |
| 2016 | 14.05 | 12.94 | -1.10 | 303 | 0.00 | 0.00 | 0.00 |
| 2017 | 13.72 | 12.92 | -0.80 | 293 | 0.00 | 0.00 | 0.00 |
| 2018 | 13.86 | 12.96 | -0.90 | 277 | 0.00 | 0.00 | 0.00 |
| 2019 | 14.02 | 12.97 | -1.05 | 261 | 0.04 | 0.00 | -0.03 |
| 2020 | 14.17 | 12.98 | -1.18 | 245 | 0.03 | 0.00 | -0.03 |
| 2021 | 14.30 | 13.00 | -1.30 | 230 | 0.03 | 0.00 | -0.03 |
| 2022 | 14.52 | 13.04 | -1.49 | 215 | 0.03 | 0.00 | -0.03 |
| 2023 | 14.79 | 13.06 | -1.73 | 198 | 0.03 | 0.00 | -0.03 |
| 2024 | 15.05 | 13.09 | -1.95 | 181 | 0.02 | 0.00 | -0.02 |
| 2025 | 15.30 | 13.11 | -2.19 | 164 | 0.02 | 0.00 | -0.02 |
| 2026 | 15.48 | 13.13 | -2.36 | 147 | 0.01 | 0.00 | -0.01 |
| 2027 | 15.66 | 13.14 | -2.51 | 130 | 0.01 | 0.00 | -0.01 |
| 2028 | 15.82 | 13.16 | -2.66 | 114 | 0.01 | 0.00 | -0.01 |
| 2029 | 15.97 | 13.17 | -2.80 | 97 | 0.00 | 0.00 | -0.00 |
| 2030 | 16.10 | 13.18 | -2.92 | 80 | 0.00 | 0.00 | -0.00 |
| 2031 | 16.22 | 13.19 | -3.03 | 62 | 0.00 | 0.00 | -0.00 |
| 2032 | 16.33 | 13.20 | -3.13 | 44 | 0.00 | 0.00 | -0.00 |
| 2033 | 16.41 | 13.21 | -3.20 | 26 | -0.00 | -0.00 | 0.00 |
| 2034 | 16.46 | 13.21 | -3.25 | 7 | -0.00 | -0.00 | 0.00 |
| 2035 | 16.49 | 13.22 | -3.28 | ---- | -0.00 | -0.00 | 0.00 |
| 2036 | 16.55 | 13.22 | -3.33 | ---- | -0.00 | -0.00 | 0.00 |
| 2037 | 16.59 | 13.23 | -3.37 | ---- | -0.00 | -0.00 | 0.00 |
| 2038 | 16.61 | 13.23 | -3.38 | ---- | -0.00 | -0.00 | 0.00 |
| 2039 | 16.61 | 13.23 | -3.37 | ---- | -0.00 | -0.00 | 0.00 |
| 2040 | 16.59 | 13.23 | -3.35 | ---- | -0.00 | -0.00 | 0.00 |
| 2041 | 16.56 | 13.23 | -3.32 | ---- | -0.01 | -0.00 | 0.01 |
| 2042 | 16.53 | 13.23 | -3.30 | ---- | -0.01 | -0.00 | 0.01 |
| 2043 | 16.49 | 13.23 | -3.26 | ---- | -0.01 | -0.00 | 0.01 |
| 2044 | 16.46 | 13.23 | -3.23 | ---- | -0.01 | -0.00 | 0.01 |
| 2045 | 16.44 | 13.23 | -3.21 | ---- | -0.01 | -0.00 | 0.01 |
| 2046 | 16.42 | 13.23 | -3.19 | ---- | -0.01 | -0.00 | 0.01 |
| 2047 | 16.40 | 13.23 | -3.17 | ---- | -0.01 | -0.00 | 0.00 |
| 2048 | 16.38 | 13.23 | -3.15 | ---- | -0.00 | -0.00 | 0.00 |
| 2049 | 16.37 | 13.23 | -3.13 | ---- | -0.00 | -0.00 | 0.00 |
| 2050 | 16.36 | 13.23 | -3.12 | ---- | -0.00 | -0.00 | 0.00 |
| 2051 | 16.36 | 13.23 | -3.12 | ---- | -0.00 | -0.00 | 0.00 |
| 2052 | 16.37 | 13.23 | -3.13 | ---- | -0.00 | -0.00 | 0.00 |
| 2053 | 16.39 | 13.24 | -3.15 | ---- | -0.00 | -0.00 | 0.00 |
| 2054 | 16.42 | 13.24 | -3.18 | ---- | -0.00 | -0.00 | 0.00 |
| 2055 | 16.46 | 13.24 | -3.22 | ---- | -0.00 | -0.00 | 0.00 |
| 2056 | 16.51 | 13.25 | -3.26 | ---- | -0.00 | -0.00 | 0.00 |
| 2057 | 16.56 | 13.25 | -3.31 | ---- | -0.00 | -0.00 | 0.00 |
| 2058 | 16.61 | 13.25 | -3.35 | ---- | -0.00 | -0.00 | 0.00 |
| 2059 | 16.66 | 13.26 | -3.40 | ---- | 0.00 | 0.00 | -0.00 |
| 2060 | 16.71 | 13.26 | -3.44 | ---- | 0.00 | 0.00 | -0.00 |
| 2061 | 16.76 | 13.27 | -3.49 | ---- | -0.00 | -0.00 | 0.00 |
| 2062 | 16.81 | 13.27 | -3.54 | ---- | -0.00 | -0.00 | 0.00 |
| 2063 | 16.86 | 13.27 | -3.58 | ---- | -0.00 | -0.00 | 0.00 |
| 2064 | 16.90 | 13.28 | -3.63 | ---- | -0.00 | -0.00 | 0.00 |
| 2065 | 16.95 | 13.28 | -3.67 | ---- | -0.00 | -0.00 | 0.00 |
| 2066 | 17.01 | 13.28 | -3.72 | ---- | -0.00 | -0.00 | 0.00 |
| 2067 | 17.06 | 13.29 | -3.77 | ---- | -0.00 | -0.00 | 0.00 |
| 2068 | 17.11 | 13.29 | -3.82 | ---- | -0.00 | -0.00 | 0.00 |
| 2069 | 17.16 | 13.29 | -3.87 | ---- | -0.00 | -0.00 | 0.00 |
| 2070 | 17.22 | 13.30 | -3.92 | ---- | -0.00 | -0.00 | 0.00 |
| 2071 | 17.26 | 13.30 | -3.96 | ---- | -0.00 | -0.00 | 0.00 |
| 2072 | 17.30 | 13.30 | -4.00 | ---- | -0.00 | -0.00 | 0.00 |
| 2073 | 17.34 | 13.31 | -4.03 | ---- | -0.00 | -0.00 | 0.00 |
| 2074 | 17.37 | 13.31 | -4.06 | ---- | -0.00 | -0.00 | 0.00 |
| 2075 | 17.39 | 13.31 | -4.08 | ---- | -0.00 | -0.00 | 0.00 |
| 2076 | 17.40 | 13.31 | -4.09 | ---- | -0.00 | -0.00 | 0.00 |
| 2077 | 17.41 | 13.31 | -4.10 | ---- | -0.00 | -0.00 | 0.00 |
| 2078 | 17.41 | 13.31 | -4.10 | ---- | -0.00 | -0.00 | 0.00 |
| 2079 | 17.40 | 13.31 | -4.09 | ---- | -0.00 | -0.00 | 0.00 |
| 2080 | 17.40 | 13.31 | -4.09 | ---- | -0.00 | -0.00 | 0.00 |
| 2081 | 17.40 | 13.31 | -4.09 | ---- | -0.00 | -0.00 | 0.00 |
| 2082 | 17.40 | 13.31 | -4.09 | ---- | -0.00 | -0.00 | 0.00 |
| 2083 | 17.42 | 13.31 | -4.10 | ---- | -0.00 | -0.00 | 0.00 |
| 2084 | 17.44 | 13.31 | -4.12 | ---- | -0.00 | -0.00 | 0.00 |
| 2085 | 17.47 | 13.32 | -4.15 | ---- | -0.00 | -0.00 | 0.00 |
| 2086 | 17.50 | 13.32 | -4.18 | ---- | -0.00 | -0.00 | 0.00 |
| 2087 | 17.54 | 13.32 | -4.22 | ---- | -0.00 | -0.00 | 0.00 |
| 2088 | 17.58 | 13.32 | -4.26 | ---- | -0.00 | -0.00 | 0.00 |
| 2089 | 17.63 | 13.33 | -4.30 | ---- | -0.00 | -0.00 | 0.00 |
| 2090 | 17.68 | 13.33 | -4.35 | ---- | -0.00 | -0.00 | 0.00 |
| 2091 | 17.72 | 13.33 | -4.39 | ---- | -0.00 | -0.00 | 0.00 |

| Summarized Rates: OASDI | | | | |
|-------------------------|-----------|-------------|-------------------|--|
| | Cost Rate | Income Rate | Actuarial Balance | Year of reserve depletion ¹ |
| 2016 - 2090 | 16.50% | 13.84% | -2.66% | 2034 |

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

Based on Intermediate Assumptions of the 2016 Trustees Report.

¹ Under present law the year of combined Trust Fund reserve depletion is 2034.