SOCIAL SECURITY

Office of the Chief Actuary

July 18, 2011

The Honorable Tom Coburn
United States Senate
Washington, D.C. 20510

Dear Senator Coburn:

I am writing in response to your request for a preliminary indication of the financial effects on Social Security of a proposal that would alter the retirement ages, the cost of living adjustment, the primary insurance amount benefit formula, the duration of disability benefits, the level of benefits after conversion from disability to retirement status, and the criteria and process for disability determinations. We have worked closely with Katie Bailey and Andrew Dockham of your staff in the development of the proposal. The preliminary estimates provided here reflect our understanding of the intent of the proposal. We have not had time to fully model all of the provisions or the interactions among them. Therefore, we are only able to provide preliminary estimates of the effects of the proposal on the long-range (75-year) actuarial balance for the OASDI program. All estimates are based on the intermediate assumptions of the 2011 Trustees Report.

We estimate on a very preliminary basis that the complete proposal, including interaction among provisions, would improve the long-range OASDI actuarial balance by about 2.40 percent of payroll, eliminating the OASDI actuarial deficit of 2.22 percent of payroll and resulting in a positive actuarial balance of about 0.18 percent of payroll. On this basis, we believe that enactment of this proposal would eliminate the actuarial deficit and would restore solvency for the entire long-range projection period. In addition, it is likely that enactment of the proposal would result in an increasing ratio of trust fund assets as a percent of annual cost at the end of the 75-year period, thus satisfying the requirements for sustainable solvency for the OASDI program.

The proposal includes the following fourteen provisions:

1) Beginning with all newly eligible beneficiaries in 2013, change the primary insurance amount benefit formula for all OASDI monthly benefits as follows:
    a) Create a new bend point at the 40th percentile of new retired worker entitlements;
    b) Increase the current law Primary Insurance Amount (PIA) formula factor of 90 percent to 95 percent gradually between 2013 and 2050;
    c) Maintain below the new bend point the current law PIA formula factor of 32 percent;

d) Above the new bend point and up to the current law second bend point reduce the current law PIA formula factor of 32 percent to 10 percent between 2013 and 2050; and
e) Reduce the current law PIA factor of 15 percent to 5 percent between 2013 and 2050.

We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.96 percent of payroll.

2) After the NRA reaches 67 for those attaining age 62 in 2022 under current law, index the NRA at a rate sufficient to maintain a constant ratio of (a) expected retirement years (life expectancy at NRA) to (b) potential working years (NRA-20). The base ratio would be computed for 2022 using the unisex period life expectancy for 2018 based on final Social Security/Medicare experience. For each year after 2022, the NRA would be determined targeting the base ratio and using the life expectancy from the experience for 4 years prior. Maintain, after 2022, the earliest eligibility age (EEA) for retired worker benefits at 5 years below the NRA. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.45 percent of payroll.

3) Convert disabled worker beneficiaries to retired worker status at EEA for those attaining their EEA in 2012 or later, and apply the actuarial reduction for early retirement applicable at that age. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.50 percent of payroll.

4) Beginning for retired workers newly eligible in 2013, apply actuarial reduction applicable to early retirement to children of early retirees. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.01 percent of payroll.

5) Upon enactment of this proposal, change the applicable ages for the vocational grids used to determine disability. For individuals applying for OASDI disability benefits in 2012 or later, increase the starting age for the "approaching advanced age" category from 50 to 58, and the starting age for the "advanced age" category from 55 to 61. Apply the "advanced age" criteria for higher ages up to EEA, at which age disability benefits are no longer available. We estimate that this provision, assuming enactment of provisions 2 and 3 above, would reduce the OASDI actuarial deficit by about an additional 0.04 percent of payroll.

6) The current spousal benefit is based on 50 percent of the PIA of the other spouse. Reduce this percent each year by 1 percentage point beginning with newly eligible spouses in 2012, until the percent reaches 33. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.12 percent of payroll.

7) Starting with the Dec. 2012 cost-of-living-adjustment ("COLA"), modify the formula used to determine the COLA so that such determinations are based on a chain-weighted version of the Consumer Price Index for Urban Wage Earners and Clerical

Workers. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.52 percent of payroll.

8) The collection of Civil Monetary Penalties on the schedules negotiated by the Inspector General will be deemed to be mandatory. We estimate that this provision alone would reduce the OASDI actuarial deficit by a negligible amount, less than 0.005 percent of taxable payroll.

9) Disability claimants may only have one disability application in process at a time. If a claimant has an application pending at any point in the appellate process, they cannot file another application for disability benefits. We estimate that this provision alone would reduce the OASDI actuarial deficit by a negligible amount, less than 0.005 percent of taxable payroll.

10) Eliminate the "Reconsideration" level of disability appeal. We estimate that this provision alone would ***increase*** the OASDI actuarial deficit by about 0.02 percent of payroll.

11) Close the record for the submission of medical evidence one week before a disability claimant's scheduled hearing before the Administrative Law Judge (ALJ). The record will remain closed thereafter through the appellate process. Consideration at the appeals council (AC) or courts or on remand to an ALJ by AC or court will not consider additional or new evidence. New evidence after the initial ALJ determination is admissible upon cessation of appeal and start of new disability application after the initial ALJ determination. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.01 percent of payroll.

12) Time limit all newly approved disability benefits based on likelihood of improvement, applicable for applications in 2012 and later. Beneficiaries may re-apply for benefits at any point during the final year of the benefit term. When a claimant re-files during the final year of the benefit term, the five-month wait period will not apply. However, denial of a reapplication does not require demonstration of medical improvement. Beneficiaries will receive benefits for the following durations based on categories currently used by SSA:

    a) "Medical Improvement Expected" will receive two years of benefits;
    b) "Medical Improvement Possible" will receive three years of benefits; and
    c) "Medical Improvement Not Expected" will receive five years of benefits.

    For the purpose of this estimate, we assume that the cost of the additional full disability determinations at reapplication will be adequately funded in the future. We estimate that this provision alone would reduce the OASDI actuarial deficit by about 0.10 percent of payroll.

13) Eliminate the lump sum death benefit of $255 starting in 2012. We estimate that this provision alone would reduce the OASDI actuarial deficit by a negligible amount, less than 0.005 percent of taxable payroll.

14) Reallocate funds previously paid through the lump sum death benefit to perform Continuing Disability Reviews ("CDRs"). The Inspector General will evaluate SSA's performance of CDRs as part of its financial statement audit. The "medical improvement standard" is eliminated and the standard of review is whether the individual meets the current definition of disability and qualifies for benefits. We estimate that the incremental effect of this provision, assuming enactment of provision 11, would be to reduce the OASDI actuarial deficit by a negligible amount, less than 0.005 percent of taxable payroll.

We look forward to further work to more fully develop estimates for this proposal. Please let me know if we may provide any further assistance.

Sincerely,

Stephen C. Goss

Stephen C. Goss
Chief Actuary