SOCIAL SECURITY
Office of the Chief Actuary

July 15, 2020

The Honorable John Larson
Subcommittee on Social Security
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Larson:

I am writing in response to your request for our estimates of the financial effects on Social Security of enacting H.R. 7499, the *Social Security COVID Correction and Equity Act*, which you introduced on July 9, 2020. The estimates provided here reflect the implications of enacting the bill in the context of an illustrative scenario that modifies intermediate assumptions and baseline projections of the 2020 Trustees Report. Development and use of this illustrative scenario is necessary in order to analyze and estimate the effects of Section 3 of the bill, because this section would have no effect under a direct application to the projections in the 2020 Trustees Report. The illustrative scenario incorporates reduced economic growth through calendar year 2020, consistent with experience we have seen so far this year. Given the unprecedented level of uncertainty for the future course of the COVID-19 pandemic and its effects on our society, economy, and individual and governmental responses, we must understand that the actual experience for the balance of this year and beyond is very likely to differ substantially from the path illustrated in this scenario.

This bill includes seven provisions with direct effects on the OASI and DI Trust Funds. We have enjoyed working closely with Nancy Perry, Kathryn Olson, Elisa Walker, and Scott Stephanou in developing this proposal to meet your goals. The estimates and analysis provided here reflect the combined effort of many in the Office of the Chief Actuary, but particularly Karen Glenn, Christopher Chaplain, Daniel Nickerson, Kyle Burkhalter, Anna Kirjusina, Michael Clingman, and Sharon Chu.

Section 14 of the bill specifies that any increase in cost or reduction in revenue to the OASI and DI Trust Funds that would occur as a result of enactment of the provisions in the bill will be reimbursed annually from the General Fund of the Treasury. As a result, there would be no net effect on the actuarial status of the OASI and DI Trust Funds. The estimates provided here therefore indicate the magnitude of transfers that would be made from the General Fund of the Treasury to the OASI and DI Trust Funds in future years. Over the period including calendar years 2020 through 2029, we estimate that the total of increased cost and reduced revenue for the OASI and DI Trust Funds would be about $75 billion in nominal dollars, and that the total amount over the period 2020 through 2094 would be about $144 billion in present value dollars (about 0.03 percent of taxable payroll over the period). All of these costs would be reimbursed from the General Fund of the Treasury on an annual basis.

The balance of this letter describes briefly the effects of the seven individual provisions of the bill that would have direct effects on the OASDI program, and for the purpose of analyzing Section 3, a description of the illustrative scenario used here.

> *Section 3. For any year starting with 2020, if the National Average Wage Index (AWI) as computed under current law is lower than the AWI for any previous year, then the largest AWI among all previous years would be used for the purpose of computing the Average Indexed Monthly Earnings (AIME) and the Primary Insurance Amount (PIA) for all beneficiaries who become initially eligible for benefits two years after such year.*

For the purpose of estimating the potential effect of this provision, we use an illustrative scenario, as mentioned above. Under this illustrative scenario, we assume that total wages in 2020 in the U.S. will grow by 10 percent less than had been projected under the intermediate assumptions of the 2020 Trustees Report. In addition, we assume that the total number of workers with any wages in 2020 will be 1 percent less than had been projected for the 2020 Trustees Report. Under these assumptions, the AWI would grow between 2019 and 2020 by 9.1 percent less than the 3.5 percent increase that had been projected in the 2020 Trustees Report, resulting in a 2020 AWI that would be about 5.9 percent below the 2019 AWI. For the purpose of this illustrative scenario, it is assumed that the AWI would increase for 2021 to a level at or above the 2019 AWI, and that increases would occur for all subsequent years as had been projected in the 2020 Trustees Report.

Under current law, using this illustrative scenario, indexing of career earnings (the AIME) and the PIA bend points would result in benefits in 2022 for individuals who become newly eligible in 2022 that would be 5.9 percent lower than the benefit in 2021 for a similar worker who becomes newly eligible in 2021. This provision would instead require that the benefits for individuals who become newly eligible in 2022 be computed using the 2019 AWI level in place of the actual 2020 AWI. This approach would increase the benefit level by 6.3 percent (1/0.941) above the current-law level under the illustrative scenario. The increase in the initial benefit level for those who become newly eligible in 2022 would also apply to their benefits in all years for the rest of their lifetime, and for benefits payable to their survivors and auxiliary beneficiaries based on the benefit computation for eligibility in 2022.

As an example of the effects of a decline in the 2020 AWI on benefit levels, consider a newly eligible retired worker beneficiary in 2021 who had earnings at the level of the AWI over his career. Under the intermediate assumptions of the 2020 Trustees Report, this worker would be eligible for a monthly PIA of about $2,000 in 2021 (subject to a reduction for early retirement). For a similar newly eligible beneficiary in 2022, the PIA in 2022 was projected to be 3.5 percent higher than $2,000, or about $2,070. Under the illustrative scenario, where the AWI would grow by 9.1 percent less from 2019 to 2020 than had been expected, the monthly PIA for the newly eligible worker in 2022 would be about $1,881, which is about $119 lower than the initial benefit for the worker becoming newly eligible in 2021. Assuming enactment of this bill, the PIA for the worker who becomes newly eligible in 2022 would be about $2,000.

The cost for the increase in benefit payments due to this provision under the illustrative scenario would be about $21 billion in nominal dollars over the period 2020-2029, and about $90 billion in present value dollars over the period 2020-2094. As for all provisions in this bill, this added cost for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

Note that reduction in the AWI for 2020 under the illustrative scenario would result in a 10-percent increase in the indexed level of earnings received in 2020 (for benefit computation purposes) for individuals who become initially eligible for benefits after 2022. For those affected, the increase in benefit level would generally be less than 0.3 percent, and would average about 0.15 percent due to this indexation of their 2020 earnings. This provision would not alter that effect.

Section 4. Increase the first PIA formula factor from 90 percent to 93 percent for all benefits payable for months of entitlement from January 2020 through December 2020, including benefits for those who become newly eligible both before and after January 2020.

The cost for the increase in benefit payments due to this provision would be about $17 billion in nominal dollars over the period 2020-2029. As for all provisions in this bill, this added cost for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

Section 5. Increase the special minimum PIA for all benefits payable for months of entitlement from January 2020 through December 2020, including benefits for those who become newly eligible both before and after January 2020.

The cost for the increase in benefit payments due to this provision would be about $15 billion in nominal dollars over the period 2020-2029. As for all provisions in this bill, this added cost for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

Section 6. Replace the current-law thresholds for federal income taxation of OASDI benefits with a single set of thresholds at $35,000 for single filers and $50,000 for joint filers for taxation of up to 85 percent of OASDI benefits, effective for any tax year that begins in calendar year 2019. The amount of revenue from taxation of OASDI benefits that would be allocated to the HI Trust Fund will be at the same level as if the current-law computation (in the absence of this provision) were applied.

The reduction in revenue due to this provision would be about $6 billion in nominal dollars over the period 2020-2029. As for all provisions in this bill, this reduced revenue for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

Section 7. Extend eligibility for student benefits up to age 23 for months of entitlement from January 2020 through December 2020, including benefits for those who become newly eligible both before and after January 2020.

The cost for the increase in benefit payments due to this provision would be about $6 billion in nominal dollars over the period 2020-2029. As for all provisions in this bill, this added cost for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

Section 8. Increase the benefit payable to qualifying widow(er) beneficiaries to 75 percent of the sum of their own retired worker or disabled worker benefit and the PIA of their deceased spouse, for months of entitlement from January 2020 through December 2020, including benefits for those who become newly eligible both before and after January 2020.

The cost for the increase in benefit payments due to this provision would be about $8 billion in nominal dollars over the period 2020-2029. As for all provisions in this bill, this added cost for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

Section 9. Extend eligibility for a child dependent benefit on the account of a beneficiary to whom the child is a grandchild, stepgrandchild, or other first degree, second-degree, third-degree, fourth-degree, or fifth-degree relative of an individual or the individual's spouse, for months of entitlement from January 2020 through December 2020, including benefits for those who become newly eligible both before and after January 2020. Eligibility to the benefit would require custody by court order of the child to the grandparent, stepgrandparent, or other qualifying relative.

The cost for the increase in benefit payments due to this provision would be about $2 billion in nominal dollars over the period 2020-2029. As for all provisions in this bill, this added cost for the OASI and DI Trust Funds would be would be reimbursed on an annual basis from the General Fund of the Treasury.

We hope these estimates are helpful. Please let me know if we may provide further assistance.

Sincerely,

Stephen C. Goss

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