SOCIAL SECURITY
Office of the Chief Actuary

December 21, 2020

The Honorable Chuck Grassley
Senate Finance Committee
United States Senate
Washington, DC 20510

The Honorable Kevin Brady
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Grassley and Ranking Member Brady:

This letter is in response to your December 7, 2020 letter (enclosed) regarding implications of changes in the national average wage index (AWI) for benefit levels under Social Security and potential Congressional actions. The decline in the AWI for 2009 was unprecedented. The possibility of another decline in the AWI for 2020 is apparent, with circumstances being quite different now. Thank you for asking me to address your concerns and to clarify and expand on my statements in the testimony before the House Ways and Means Subcommittee on Social Security on July 17, 2020 (available at https://www.ssa.gov/OACT/testimony/HouseWM_20200717.pdf).

My testimony discussed broadly the implications of COVID-19 on Social Security. Your inquiry refers to the following paragraph on page 4 of the testimony regarding the effect of the decline in the AWI for 2009 on benefit levels for beneficiaries becoming newly eligible in 2011:

> "In 2009, due to the recession, the AWI failed to increase from the level of the prior year for the first time. The AWI for 2009 declined to 1.5 percent below the AWI level for 2008. This affected the benefit levels for all Social Security beneficiaries with initial benefit eligibility in 2011, because workers' earnings and the PIA formula bend points used in benefit computations are wage indexed up through the second year prior to their initial benefit eligibility. As a result, the 2011 benefit for workers who became newly eligible in 2011 was 1.5 percent less than the 2010 benefit for workers with similar career earnings who became newly eligible in 2010. That reduction will persist for the lifetime of those workers who became newly eligible in 2011. While policymakers did recognize this effect in 2010, no changes were made in the law at that time—mainly because the reduction in the AWI and benefit levels was small, and it was known that the first cost of

> living adjustment (COLA) applicable for those affected would be relatively large (3.6 percent, versus no COLA in the prior two years)."

As indicated, the AWI declined for 2009 compared to the prior year, for the first time in the history of this index, which started for 1951. Since 1951, there were several recessions, none of which had resulted in a decline in the AWI, so this was quite unexpected. The implications for benefit levels for those becoming newly eligible (for example, attaining age 62 for retired worker benefits) from one year to the next, is complicated. The primary insurance amount (PIA) computed for January through November of 2011 for those becoming newly eligible in 2011 was 1.5 percent lower than the PIA for workers with equivalent earnings histories who became newly eligible in 2010. However, the difference in benefit level at the time of actual initial entitlement for benefits (which depends on the age at which a retired worker beneficiary chooses to start their benefit entitlement) generally also reflects one or more cost of living adjustments (COLAs), because most new retired worker beneficiaries choose to start their benefit entitlement some months after they attain age 62.

In comparing benefits for retired workers becoming eligible in 2011 versus in 2010, the implications of the first COLA for each group was also unprecedented. Individuals attaining age 62 in 2010 received no COLA for December of their first year of eligibility and through November of the following year. That there would be no COLA for December of 2010 was announced at the same time that the level of the AWI for 2009 was announced, in October 2010. Thus, it was known then that the benefit level for retired workers becoming eligible in 2010 would have no COLA applied for at least the first 12 months of their benefit eligibility (through November 2011).

However, the peculiar circumstance that led to no COLA for December 2010 left little doubt that there would be a positive COLA in December 2011, which would be applicable for December 2011 through November 2012 for those becoming newly eligible in 2011. The large COLA of 5.8 percent for December 2008, which was based on a surge in consumer prices (the CPI-W) for the third quarter of 2008, was followed by a large 5-percent decline in prices by December 2008. This meant that there could be no COLA thereafter until consumer prices rose to a level above that for the third quarter of 2008, offsetting the earlier 5-percent drop. At the time of the computation of the COLA for December 2010 in October 2010, the CPI-W for the third quarter of 2010 was still 0.6 percent below the level for the third quarter of 2008, so there was no December 2010 COLA. At the same time, the CPI had been rising at an annual rate of 2.6 percent from December 2008 to September 2010, and by 1.5 percent from the third quarter of 2009 to the third quarter of 2010. Thus, as of October 2010, a positive COLA for December 2011 was understood to be highly likely. The Trustees Report of August 2010 projected a December 2011 COLA of 1.2 percent, which would have made the PIA level for December 2011 through November 2012 for new retired workers becoming eligible in 2011 just 0.3 percent below the PIA for December 2010 through November 2011 for equivalent retired workers becoming eligible by attaining age 62 in 2010.

In February of 2011, the CPI-W for January was published at a level exceeding the level for the third quarter of 2008, and was followed shortly thereafter by a rapid rise through the third quarter of 2011, resulting in a 3.6-percent COLA for December 2011. As a result, it was known in

October 2011 that the PIA level for December 2011 through November 2012 for new retired workers becoming eligible in 2011 would be more than 2 percent above the PIA for December 2010 through November 2011 for equivalent retired workers becoming eligible in 2010.

Below, please see answers to the three specific questions you have raised.

1. What is the metric by which you ascertain whether a benefit reduction is "small" enough to justify lack of congressional action or large enough to justify action?

Answer: That determination is of course solely at the discretion of Congress. As described above, based on information known in October 2010, including the Trustees' projections of August 2010, the benefit level available for retirees reaching age 62 in 2011 for the 12 months starting in December of their eligibility year was expected to be only around 0.3 percent below the level of benefits for equivalent retirees reaching age 62 in 2010 for the 12 months starting in December of their eligibility year. By October 2011, it was known that there would be no reduction in such benefit levels, but rather an increase for those becoming newly eligible in 2011 compared to those becoming newly eligible in 2010. Following the experience of the reduction in the AWI for 2009, we are better positioned to analyze the implications of a possible large reduction in the AWI for 2020. We have welcomed the opportunity to work with Congressional staff and members on the development of and estimates for proposals to address the implications of a reduction in the AWI.

2. Please explain what you meant by "it was known" [1] what the 2011 COLA[2] was going to be at the time the 2009 AWI reduction was announced on October 15, 2010.

Answer: As described above, all evidence as of October 15, 2010 indicated that there would be a positive COLA for December 2011. However, it was not until October 2011 that the level of the COLA for December 2011 was certain. I was not precise in my testimony when suggesting that the final level of the 2011 COLA was known "at that time," in 2010. My intention was to indicate that the actual level of the 2011 COLA was known in that general time frame (that is, within the year after the drop in AWI was first known), and not that it was known with certainty in October 2010. I apologize for any confusion my imprecise statement has created. It was not at all my intention to mislead.

3. When it was identified to you prior to the hearing that your above quoted statement was misleading, you declined to correct your testimony. Please explain why you chose to present misleading testimony to Congress.

Answer: I have attempted to explain the complexity of this particular issue above. The way in which the first ever drop in AWI for 2009 interacted with COLAs in that time frame resulted in only a small expected reduction in benefits for those newly eligible in 2011. The July 17, 2020

[1] By "known," we mean actual realizations that are recorded in official data and used for benefit determination. Assumptions and forecasts, such as those from Trustees Reports, are not known realizations.

[2] Benefits calculated using the 2009 AWI were first paid in 2011. The 2011 COLA, announced on October 19, 2011, was the first COLA applied to benefits that were calculated using the 2009 AWI, and affected benefits received beginning in January 2012.

hearing and my testimony focused broadly on many current issues related to COVID-19 and Social Security. I appreciate your sharing the concern and asking for the fuller explanation of the complex nature of benefit computations and comparisons. I hope that this response will be helpful in clarifying.

I have enjoyed working with both of you and your staffs from my position in the Office of the Chief Actuary at the Social Security Administration, where I have served as Chief Actuary since 2001, and prior to that as Deputy Chief Actuary. Our office's mission has always been to provide objective information and analysis to assist lawmakers, the Social Security Board of Trustees, the Commissioner of Social Security, and the Administration in maintaining and evolving the Social Security and Supplemental Security Income programs to best serve the American people. We are in very frequent contact with Committee staff and through that presume we are keeping you informed. However, we welcome the opportunity to engage in Committee hearings and letters like this to inform you directly.

We look forward to continuing work with you and your staffs, assisting you in finding the best approaches for improving all aspects of the Social Security programs.

Sincerely,

Stephen C. Goss

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosure

cc:

The Honorable Andrew Saul, Commissioner of Social Security and Trustee of the Old Age and Survivors Insurance and Disability Insurance Trust Funds

The Honorable Steven Mnuchin, Secretary of the Treasury and Managing Trustee of the Old Age and Survivors Insurance and Disability Insurance Trust Funds

Congress of the United States
Washington, DC 20515

December 7, 2020

Stephen Goss
Chief Actuary
Social Security Administration
6401 Security Blvd.
Baltimore, MD 21235

Dear Mr. Goss:

We write to better understand a misleading statement in your recent testimony before the House Ways and Means Subcommittee on Social Security on July 17, 2020.[1] Seniors, individuals with disabilities, and their families count on Social Security to provide important benefits and are understandably concerned by uncertainty about the virus's impact on the National Average Wage Index (AWI) and Social Security benefits.[2]

The AWI typically increases from one year to the next, but has fallen in the past and may do so again in 2020. In 2009 the AWI was lower than the previous year and affected benefits of individuals initially eligible in 2011. According to your testimony, such an individual could have a benefit that is 1.5 percent less than the benefit of an individual with similar earnings who was initially eligible in the prior year and "[t]hat reduction will persist for the lifetime of those workers."

In your testimony you stated: "While policymakers did recognize this effect in 2010, no changes were made in the law at that time—mainly because the reduction in the AWI and benefit levels was small and it was known that the first cost of living adjustment (COLA) applicable for those affected would be relatively large (3.6 percent, versus no COLA in the prior two years)." This statement asserts that the reason no action was taken in 2010 was because the benefit effect was "very small" and future COLAs were "known." Given the importance of accurate representation of decisions by the 111th Congress, we are seeking clarification of this statement.

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[1] "The Impact of COVID-19 on Social Security and its Beneficiaries," hearing of the Subcommittee on Social Security, House Ways and Means Committee, on July 17, 2020. Video and testimonies available at https://waysandmeans.house.gov/legislation/hearings/impact-covid-19-social-security-and-its-beneficiaries.

[2] Among other uses, the AWI is used as an input into determining benefits through its use in wage indexation of workers' past earnings and the primary insurance amount (PIA) formula bend points. Many have speculated that the pandemic may lead to a decline in the AWI for 2020 relative to 2019. Among others who would be affected, anyone born in 1960, who becomes newly eligible for OASDI benefits in 2022, and whose past wages will be indexed in benefit determination using the percent change in the AWI between 2019 and 2020, could see reductions in benefits and replacement rates relative to similar earners whose benefits are determined in adjacent years.

1. What is the metric by which you ascertain whether a benefit reduction is "small" enough to justify lack of congressional action or large enough to justify action?

2. Please explain what you meant by "it was known" [3] what the 2011 COLA[4] was going to be at the time the 2009 AWI reduction was announced on October 15, 2010.

3. When it was identified to you prior to the hearing that your above quoted statement was misleading, you declined to correct your testimony. Please explain why you chose to present misleading testimony to Congress.

The Office of the Chief Actuary provides important information to help Congress decide how to strengthen Social Security. Congress reasonably expects that the information provided is accurate and technically sound, especially during a Congressional hearing. The role of the Chief Actuary ought to be much like an umpire at a baseball game, whose job it is to call balls and strikes, and not like the broadcasters who provide commentary. It is not the job of anyone at the Social Security Administration to justify decisions made by Congress and we are concerned by your recent attempt to do so. We look forward to your prompt reply, and request that you respond by December 21, 2020.

Sincerely,

Chuck Grassley
Chairman
Senate Finance Committee

Kevin Brady
Ranking Member
Committee on Ways and Means

cc: The Honorable Andrew Saul, Commissioner of Social Security and Trustee of the Old Age, Survivors, and Disability Insurance Trust Funds

The Honorable Steven Mnuchin, Secretary of the Treasury and Managing Trustee of the Old Age, Survivors, and Disability Insurance Trust Funds

[3] By "known," we mean actual realizations that are recorded in official data and used for benefit determination. Assumptions and forecasts, such as those from Trustees Reports, are not known realizations.

[4] Benefits calculated using the 2009 AWI were first paid in 2011. The 2011 COLA, announced on October 19, 2011, was the first COLA applied to benefits that were calculated using the 2009 AWI, and affected benefits received beginning in January 2012.