SOCIAL SECURITY
Office of the Chief Actuary

June 21, 2011

The Honorable Xavier Becerra
Ranking Member, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Becerra:

I am writing in response to your letter of June 14, 2011 requesting analysis of effects on Social Security financial status and on benefit levels for retirees assuming enactment of two potential modifications to the automatic annual cost of living adjustment (COLA). Alice Wade, Chris Chaplain, Dan Nickerson, Jason Schultz, Katie Kraft, and Michael Clingman have developed the estimates shown in the enclosed tables based on further discussion and clarification with Morna Miller and Kathryn Olson, Staff of the Subcommittee.

We have developed estimates showing the expected effects of changing the calculation of the COLA, beginning with the COLA computed for benefit eligibility in December 2012. The changes would affect all individuals eligible for any OASDI benefit for December 2012 or later, regardless of their age or how long they may have received benefits prior to that date. The basis for determining the COLA computation would be changed from using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) to using:

1) The chain-weighted version of the Consumer Price Index for All Urban Consumers (C-CPI-U), or
2) The current experimental Consumer Price Index for the Elderly (CPI-E).

All estimates provided in this letter are based on the intermediate assumptions of 2011 Trustees Report.

Summary of Effects

Changing to a Chain-Weighted Price Index

Changing the base CPI used for the COLA to the C-CPI-U, starting with the December 2012 COLA, would reduce the expected average annual COLA in the future by 0.3 percentage point. This change would reduce the long-range OASDI actuarial deficit by 0.52 percent of taxable payroll (from an actuarial deficit of 2.22 percent of payroll under current law to a deficit of 1.70 percent of payroll under this proposal). The annual deficit for 2085 would be reduced by 0.71 percent of payroll (from a 2085 annual deficit of 4.24 percent of payroll under current law to a

deficit of 3.53 percent of payroll under this proposal). Table 1 provides annual estimates of the effects of this proposal on the financial status of the OASDI program.

Tables 1B1 and 1B2 illustrate the effects of this proposed change on benefit levels for several examples of hypothetical workers. These tables provide illustrations assuming that the expected average COLA reduction of 0.3 percentage point would occur at that level each year. Under this assumption, retirees at age 65 in 2015 or later would have had three COLAs (one each for December of the years in which they attained ages 62, 63, and 64) for a total expected reduction in their scheduled benefit of 0.9 percent. Additional annual COLAs thereafter would accumulate to larger total reductions in expected scheduled benefit levels of about 3.7 percent, 6.5 percent, and 9.2 percent for retirees at ages 75, 85, and 95, respectively.

Changing to a Price Index Weighted to the Consumption of the Elderly

Changing the base CPI used for the COLA to the CPI-E starting with the December 2012 COLA would increase the expected average annual COLA in the future by 0.2 percentage point. This change would increase the long-range OASDI actuarial deficit by 0.36 percent of taxable payroll (from an actuarial deficit of 2.22 percent of payroll under current law to a deficit of 2.58 percent of payroll under this proposal). The annual deficit for 2085 is increased by 0.50 percent of payroll (from a 2085 annual deficit of 4.24 percent of payroll under current law to a deficit of 4.74 percent of payroll under this proposal). Table 2 provides annual estimates of the effects of this proposal on the financial status of the OASDI program.

Tables 2B1 and 2B2 illustrate the effects of this proposed change on benefit levels for several examples of hypothetical workers. These tables provide illustrations assuming that the expected average COLA increase of 0.2 percentage point would occur at that level each year. Under this assumption, retirees at age 65 in 2015 and later would have had three COLAs (one each for December of the years in which they attained ages 62, 63, and 64) for a total expected increase in their scheduled benefit of 0.6 percent. Additional annual COLAs thereafter would accumulate to larger total increases in expected scheduled benefit levels of about 2.6 percent, 4.6 percent, and 6.6 percent for retirees at ages 75, 85, and 95, respectively.

The balance of this letter provides a brief analysis of the assumptions used for the estimates.

Consumer Price Indexes: Options for Use in OASDI COLA

1. Consumer Price Index for Urban Wage Earners and Clerical Workers – (CPI-W)

At the time of the initial enactment of automatic COLAs for OASDI in the 1970's there was only one CPI index produced by the Bureau of Labor Statistics (BLS). This index reflects price increases for urban wage earners and clerical workers, about 32 percent of the population. The index was named the CPI-W as other indexes were developed over the years. The CPI-W continues to be used in determining the OASDI COLA.

2. Consumer Price Index for All Urban Consumers, Chain Weighted – (C-CPI-U)

The CPI-U is designed to reflect the consumption pattern of all urban consumers, about 87 percent of the population. Generally, the rate of increase in the CPI-U has been very close to the increase in the CPI-W and for the future we do not expect any significant difference in the average annual increase based on difference in consumption of these two groups.

Since 2000, the BLS has been producing a second version of the CPI-U based on a chain-weighted formula that reflects changes in the distribution of consumer purchases among 211 broad categories (strata) of goods and services on a month by month basis. This chain-weighted version, referred to as the C-CPI-U, has increased by about 0.3 percentage point less than the CPI-U per year on average over the period it has been computed, and we expect this difference will continue into the future.

The standard CPI-U and CPI-E use a fixed distribution (fixed weights) for the 211 broad strata of goods and services. The distribution is updated to reflect changes in consumption patterns every 2 years. The C-CPI-U is developed to reflect changes in the distribution of purchases among the strata every month. The average rate of increase is less for this chain-weighted index because, on average, urban consumers have tended to increase their purchases of items that have low recent price increases, and reduced their purchases of items that have high recent price increases. This shift in purchases across the 211 broad strata of goods and services reflects the discretion the average urban consumer has to change their distribution of purchases "on the margin."

It should be noted that the broad strata represent very different groups of goods and services that are not in general explicit "substitutes" for one another. Therefore, the degree to which individuals, in different circumstances and with different income levels, are able to change their purchases on a discretionary basis across strata likely varies.

Basing the COLA on the C-CPI-U would have a further complication because the initial published value for this index is preliminary. In fact, the final value for the C-CPI-U is not available until 2 years later. We assume that COLAs for this estimate would be based on the initial preliminary value for the C-CPI-U published by the BLS with no subsequent adjustment to reflect the actual final value for the index.

3. Consumer Price Index for Elderly Consumers – (CPI-E)

The CPI-E is designed to reflect the different consumption patterns of consumers age 62 and older. The BLS has for many years produced the CPI-E by applying different weights to the increases in the 211 broad strata of goods and services that are used in all of the indexes. One limitation of the CPI-E is that the distribution of purchases *within* each broad strata grouping of goods and services is the same as for the CPI-U and CPI-W, but the distribution within groups for elderly consumers undoubtedly differs. Based on the data available for the CPI-E, we estimate that over the long-term future the CPI-E will tend to increase at an average annual rate that is about 0.2 percentage point higher than for the broader indexes.

The primary reason that the CPI-E rises faster than the CPI-W and CPI-U is the greater weight on health expenditures, which have risen and are expected to continue rising faster than most other strata. Housing is also a stratum that is weighted higher in the CPI-E, and has generally had relatively high price increases. In very recent years, housing prices have declined significantly, resulting in a break in the longer-term trend for the relatively fast rise in the CPI-E. However, we do not believe housing prices will continue to fall, or even to rise at less than the overall average increase for all goods and services, indefinitely. Therefore we assume that the CPI-E will, over the long run, continue to rise at a relatively fast rate due to the high weight on health services for the elderly.

We hope these estimates and this analysis will be helpful. Please let me know if we may provide further assistance.

Sincerely,

Stephen C. Goss
Chief Actuary

Enclosures

Table 1B1. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
COLA based on a Chain-Weighted Price Index (C-CPI-U) beginning December 2012

Year Attain Age 65	Present Law Scheduled Monthly Benefits[3] (Wage-Indexed 2011 Dollars)	Present Law Scheduled Monthly Benefits[3] (CPI-Indexed 2011 Dollars)	Scheduled Benefit Level Percent Change at age 65: Reduced COLA[4] (Percent change)	Scheduled Benefit Level Percent Change at age 65: Total (Percent change)	Proposal Scheduled Benefit Percent of Present Law: Scheduled (Percents)
Very-Low-AIME ($10,879 for 2011[1]) 30-Year Scaled Earner (8.1% of Retirees[2])					
2011	662	662	0.0	0.0	100.0
2030	585	773	-0.9	-0.9	99.1
2050	586	978	-0.9	-0.9	99.1
2080	586	1,365	-0.9	-0.9	99.1
Very-Low-AIME ($10,879 for 2011[1]) 20-Year Scaled Earner (6.2% of Retirees[2])					
2011	662	662	0.0	0.0	100.0
2030	585	773	-0.9	-0.9	99.1
2050	586	978	-0.9	-0.9	99.1
2080	586	1,365	-0.9	-0.9	99.1
Very-Low-AIME ($10,879 for 2011[1]) 14-Year Scaled Earner (5.2% of Retirees[2])					
2011	662	662	0.0	0.0	100.0
2030	585	773	-0.9	-0.9	99.1
2050	586	978	-0.9	-0.9	99.1
2080	586	1,365	-0.9	-0.9	99.1
Low-AIME ($19,583 for 2011[1]) 44-Year Scaled Earner (13.4% of Retirees[2])					
2011	866	866	0.0	0.0	100.0
2030	765	1,012	-0.9	-0.9	99.1
2050	766	1,280	-0.9	-0.9	99.1
2080	766	1,786	-0.9	-0.9	99.1
Low-AIME ($19,583 for 2011[1]) 30-Year Scaled Earner (6.9% of Retirees[2])					
2011	866	866	0.0	0.0	100.0
2030	765	1,012	-0.9	-0.9	99.1
2050	766	1,280	-0.9	-0.9	99.1
2080	766	1,786	-0.9	-0.9	99.1
Low-AIME ($19,583 for 2011[1]) 20-Year Scaled Earner (2.7% of Retirees[2])					
2011	866	866	0.0	0.0	100.0
2030	765	1,012	-0.9	-0.9	99.1
2050	766	1,280	-0.9	-0.9	99.1
2080	766	1,786	-0.9	-0.9	99.1
Medium-AIME ($43,518 for 2011[1]) 44-Year Scaled Earner (27.0% of Retirees[2])					
2011	1,428	1,428	0.0	0.0	100.0
2030	1,261	1,667	-0.9	-0.9	99.1
2050	1,263	2,109	-0.9	-0.9	99.1
2080	1,262	2,943	-0.9	-0.9	99.1
Medium-AIME ($43,518 for 2011[1]) 30-Year Scaled Earner (4.3% of Retirees[2])					
2011	1,428	1,428	0.0	0.0	100.0
2030	1,261	1,667	-0.9	-0.9	99.1
2050	1,263	2,109	-0.9	-0.9	99.1
2080	1,262	2,943	-0.9	-0.9	99.1
High-AIME ($69,629 for 2011[1]) 44-Year Scaled Earner (20.5% of Retirees[2])					
2011	1,892	1,892	0.0	0.0	100.0
2030	1,672	2,210	-0.9	-0.9	99.1
2050	1,673	2,795	-0.9	-0.9	99.1
2080	1,673	3,900	-0.9	-0.9	99.1
Maximum-AIME ($106,800 for 2011[1]) Steady Earner (5.6% of Retirees[2])					
2011	2,250	2,250	0.0	0.0	100.0
2030	2,045	2,703	-0.9	-0.9	99.1
2050	2,043	3,412	-0.9	-0.9	99.1
2080	2,039	4,754	-0.9	-0.9	99.1

[1] Average of highest 35 years of earnings wage indexed to 2011.

[2] Projected percent of new retired worker awards in 2050 closest to AIME levels and years of work.

[3] After trust fund exhaustion under present law continuing taxes are expected to be enough to pay about three fourths of scheduled benefits.

[4] Starting Dec 2012, compute the COLA using a chained CPI-W, producing 0.3% lower annual COLAs on average.

All estimates based on the intermediate assumptions of the 2011 Trustees Report.

Office of the Chief Actuary, Social Security Administration June 20, 2011

Table 1B2. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
COLA based on a Chain-Weighted Price Index (C-CPI-U) beginning December 2012

Year Attain Age 65	Proposal Benefit as Percent of Present Law Scheduled			
	Age 65	Age 75	Age 85	Age 95
		(Percents)		
Very-Low-AIME ($10,879 for 2011[1]) 30-Year Scaled Earner (8.1% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Very-Low-AIME ($10,879 for 2011[1]) 20-Year Scaled Earner (6.2% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Very-Low-AIME ($10,879 for 2011[1]) 14-Year Scaled Earner (5.2% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Low-AIME ($19,583 for 2011[1]) 44-Year Scaled Earner (13.4% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Low-AIME ($19,583 for 2011[1]) 30-Year Scaled Earner (6.9% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Low-AIME ($19,583 for 2011[1]) 20-Year Scaled Earner (2.7% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Medium-AIME ($43,518 for 2011[1]) 44-Year Scaled Earner (27.0% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Medium-AIME ($43,518 for 2011[1]) 30-Year Scaled Earner (4.3% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
High-AIME ($69,629 for 2011[1]) 44-Year Scaled Earner (20.5% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8
Maximum-AIME ($106,800 for 2011[1]) Steady Earner (5.6% of Retirees[2])				
2011	100.0	97.1	94.3	91.6
2030	99.1	96.3	93.5	90.8
2050	99.1	96.3	93.5	90.8
2080	99.1	96.3	93.5	90.8

[1] Average of highest 35 years of earnings wage indexed to 2011.

[2] Projected percent of new retired worker awards in 2050 closest to AIME levels and years of work.

Note: Starting Dec 2012, compute the COLA using a chained CPI-W, producing 0.3% lower annual COLAs on average.

All estimates based on the intermediate assumptions of the 2011 Trustees Report.

Table 2B1. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
COLA based on a Price Index Weighted to the Consumption of the Elderly (CPI-E) beginning December 2012

Year Attain Age 65	Present Law Scheduled Monthly Benefits[3] (Wage-Indexed 2011 Dollars)	Present Law Scheduled Monthly Benefits[3] (CPI-Indexed 2011 Dollars)	Scheduled Benefit Level Percent Change at age 65: Reduced COLA[4] (Percent change)	Scheduled Benefit Level Percent Change at age 65: Total (Percent change)	Proposal Scheduled Benefit Percent of Present Law: Scheduled (Percents)
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2030	1,261	1,667	0.6	0.6	100.6
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2080	1,262	2,943	0.6	0.6	100.6
Medium-AIME ($43,518 for 2011[1]) 30-Year Scaled Earner (4.3% of Retirees[2])					
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Maximum-AIME ($106,800 for 2011[1]) Steady Earner (5.6% of Retirees[2])					
2011	2,250	2,250	0.0	0.0	100.0
2030	2,045	2,703	0.6	0.6	100.6
2050	2,043	3,412	0.6	0.6	100.6
2080	2,039	4,754	0.6	0.6	100.6

[1] Average of highest 35 years of earnings wage indexed to 2011.

[2] Projected percent of new retired worker awards in 2050 closest to AIME levels and years of work.

[3] After trust fund exhaustion under present law continuing taxes are expected to be enough to pay about three fourths of scheduled benefits.

[4] Starting Dec 2012, compute the COLA using a chained CPI-E, producing 0.2% higher annual COLAs on average.

All estimates based on the intermediate assumptions of the 2011 Trustees Report.

Table 2B2. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
COLA based on a Price Index Weighted to the Consumption of the Elderly (CPI-E) beginning December 2012

Year Attain Age 65	Proposal Scheduled Benefit as Percent of Present Law Scheduled			
	Age 65	Age 75	Age 85	Age 95
		(Percents)		
Very-Low-AIME ($10,879 for 2011[1]) 30-Year Scaled Earner (8.1% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Very-Low-AIME ($10,879 for 2011[1]) 20-Year Scaled Earner (6.2% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Very-Low-AIME ($10,879 for 2011[1]) 14-Year Scaled Earner (5.2% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Low-AIME ($19,583 for 2011[1]) 44-Year Scaled Earner (13.4% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Low-AIME ($19,583 for 2011[1]) 30-Year Scaled Earner (6.9% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Low-AIME ($19,583 for 2011[1]) 20-Year Scaled Earner (2.7% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Medium-AIME ($43,518 for 2011[1]) 44-Year Scaled Earner (27.0% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Medium-AIME ($43,518 for 2011[1]) 30-Year Scaled Earner (4.3% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
High-AIME ($69,629 for 2011[1]) 44-Year Scaled Earner (20.5% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6
Maximum-AIME ($106,800 for 2011[1]) Steady Earner (5.6% of Retirees[2])				
2011	100.0	102.0	104.0	106.0
2030	100.6	102.6	104.6	106.6
2050	100.6	102.6	104.6	106.6
2080	100.6	102.6	104.6	106.6

[1] Average of highest 35 years of earnings wage indexed to 2011.

[2] Projected percent of new retired worker awards in 2050 closest to AIME levels and years of work.

Note: Starting Dec 2012, compute the COLA using a chained CPI-E, producing 0.2% higher annual COLAs on average.

All estimates based on the intermediate assumptions of the 2011 Trustees Report.

Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio
COLA based on a Chain-Weighted Price Index (C-CPI-U) beginning December 2012

	Proposal				Change in Present Law		
	Expressed as a percentage of present-law taxable payroll				Expressed as a percentage of present-law taxable payroll		
Year	Cost Rate	Income Rate	Annual Balance	Trust Fund Ratio 1-1-year	Cost Rate	Income Rate	Annual Balance
2011	13.35	12.52	-0.82	353	0.00	0.00	0.00
2012	13.23	12.87	-0.36	347	0.00	0.00	0.00
2013	13.14	12.86	-0.28	342	-0.04	0.00	0.04
2014	13.11	12.91	-0.20	336	-0.07	0.00	0.07
2015	13.13	12.94	-0.20	331	-0.11	0.00	0.10
2016	13.18	12.96	-0.22	326	-0.14	-0.01	0.14
2017	13.29	12.99	-0.29	320	-0.18	-0.01	0.17
2018	13.41	13.02	-0.39	314	-0.21	-0.01	0.20
2019	13.64	13.03	-0.61	306	-0.24	-0.01	0.23
2020	13.92	13.05	-0.88	296	-0.27	-0.01	0.26
2021	14.22	13.07	-1.15	286	-0.30	-0.02	0.29
2022	14.49	13.08	-1.41	275	-0.34	-0.02	0.32
2023	14.76	13.10	-1.66	263	-0.37	-0.02	0.35
2024	15.01	13.11	-1.90	250	-0.39	-0.02	0.37
2025	15.25	13.13	-2.12	237	-0.42	-0.02	0.40
2026	15.47	13.14	-2.33	223	-0.45	-0.02	0.43
2027	15.67	13.15	-2.52	209	-0.48	-0.02	0.45
2028	15.85	13.16	-2.68	194	-0.50	-0.03	0.47
2029	15.99	13.17	-2.82	178	-0.52	-0.03	0.50
2030	16.11	13.18	-2.93	162	-0.55	-0.03	0.52
2031	16.20	13.19	-3.01	145	-0.56	-0.03	0.54
2032	16.27	13.20	-3.07	128	-0.58	-0.03	0.55
2033	16.33	13.20	-3.13	111	-0.60	-0.03	0.57
2034	16.37	13.21	-3.16	93	-0.61	-0.03	0.58
2035	16.39	13.21	-3.18	75	-0.63	-0.03	0.59
2036	16.39	13.21	-3.18	57	-0.64	-0.03	0.61
2037	16.39	13.21	-3.18	39	-0.65	-0.03	0.62
2038	16.36	13.21	-3.15	20	-0.66	-0.04	0.62
2039	16.32	13.21	-3.11	2	-0.67	-0.04	0.63
2040	16.28	13.21	-3.07	----	-0.67	-0.04	0.64
2041	16.23	13.21	-3.02	----	-0.68	-0.04	0.64
2042	16.19	13.21	-2.98	----	-0.68	-0.04	0.64
2043	16.15	13.21	-2.95	----	-0.68	-0.04	0.65
2044	16.13	13.21	-2.92	----	-0.69	-0.04	0.65
2045	16.10	13.21	-2.89	----	-0.69	-0.04	0.65
2046	16.07	13.21	-2.86	----	-0.69	-0.04	0.65
2047	16.05	13.21	-2.84	----	-0.69	-0.04	0.65
2048	16.03	13.21	-2.82	----	-0.69	-0.04	0.65
2049	16.01	13.21	-2.81	----	-0.69	-0.04	0.65
2050	16.00	13.21	-2.79	----	-0.69	-0.04	0.65
2051	15.99	13.21	-2.78	----	-0.69	-0.04	0.65
2052	15.99	13.21	-2.79	----	-0.69	-0.04	0.65
2053	16.00	13.21	-2.79	----	-0.69	-0.04	0.65
2054	16.01	13.21	-2.80	----	-0.69	-0.04	0.65
2055	16.03	13.21	-2.82	----	-0.69	-0.04	0.65
2056	16.05	13.21	-2.84	----	-0.69	-0.04	0.65
2057	16.07	13.22	-2.86	----	-0.69	-0.04	0.65
2058	16.09	13.22	-2.87	----	-0.69	-0.04	0.65
2059	16.10	13.22	-2.88	----	-0.69	-0.04	0.66
2060	16.11	13.22	-2.89	----	-0.69	-0.04	0.66
2061	16.12	13.22	-2.90	----	-0.70	-0.04	0.66
2062	16.13	13.22	-2.90	----	-0.70	-0.04	0.66
2063	16.14	13.22	-2.91	----	-0.70	-0.04	0.66
2064	16.15	13.22	-2.92	----	-0.70	-0.04	0.66
2065	16.16	13.23	-2.94	----	-0.71	-0.04	0.67
2066	16.18	13.23	-2.95	----	-0.71	-0.04	0.67
2067	16.20	13.23	-2.97	----	-0.71	-0.04	0.67
2068	16.23	13.23	-3.00	----	-0.71	-0.04	0.67
2069	16.25	13.23	-3.02	----	-0.72	-0.04	0.68
2070	16.28	13.24	-3.05	----	-0.72	-0.04	0.68
2071	16.31	13.24	-3.08	----	-0.72	-0.04	0.68
2072	16.34	13.24	-3.10	----	-0.72	-0.04	0.68
2073	16.38	13.24	-3.14	----	-0.73	-0.04	0.69
2074	16.41	13.24	-3.17	----	-0.73	-0.04	0.69
2075	16.45	13.25	-3.20	----	-0.73	-0.04	0.69
2076	16.48	13.25	-3.23	----	-0.73	-0.04	0.69
2077	16.51	13.25	-3.26	----	-0.74	-0.04	0.70
2078	16.55	13.25	-3.30	----	-0.74	-0.04	0.70
2079	16.58	13.26	-3.33	----	-0.74	-0.04	0.70
2080	16.62	13.26	-3.36	----	-0.74	-0.04	0.70
2081	16.65	13.26	-3.39	----	-0.75	-0.04	0.70
2082	16.69	13.26	-3.43	----	-0.75	-0.04	0.71
2083	16.73	13.26	-3.46	----	-0.75	-0.04	0.71
2084	16.77	13.27	-3.50	----	-0.75	-0.04	0.71
2085	16.80	13.27	-3.53	----	-0.75	-0.04	0.71
2086	16.83	13.27	-3.56	----	-0.76	-0.04	0.72

Summarized Rates: OASDI

	Cost Rate	Income Rate	Actuarial Balance	Year of Exhaustion[1]
2011 - 2085	15.70%	14.00%	-1.70%	2039

Summarized Rates: OASDI

	Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
	-0.55%	-0.03%	0.52%

Based on Intermediate Assumptions of the 2011 Trustees Report
[1] Under present law the year of exhaustion is 2036

Office of the Chief Actuary
Social Security Administration
June 20, 2011

Table 2 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio
COLA based on a Price Index Weighted to the Consumption of the Elderly (CPI-E) beginning December 2012

	Proposal				Change in Present Law		
	Expressed as a percentage of present-law taxable payroll				Expressed as a percentage of present-law taxable payroll		
Year	Cost Rate	Income Rate	Annual Balance	Trust Fund Ratio 1-1-year	Cost Rate	Income Rate	Annual Balance
2011	13.35	12.52	-0.82	353	0.00	0.00	0.00
2012	13.23	12.87	-0.36	347	0.00	0.00	0.00
2013	13.20	12.87	-0.34	340	0.02	0.00	-0.02
2014	13.23	12.92	-0.31	333	0.05	0.00	-0.05
2015	13.32	12.94	-0.37	325	0.07	0.00	-0.07
2016	13.42	12.98	-0.45	318	0.10	0.00	-0.09
2017	13.58	13.01	-0.57	309	0.12	0.01	-0.11
2018	13.76	13.03	-0.72	300	0.14	0.01	-0.13
2019	14.04	13.05	-0.99	289	0.16	0.01	-0.15
2020	14.38	13.07	-1.31	276	0.18	0.01	-0.18
2021	14.73	13.09	-1.63	263	0.21	0.01	-0.20
2022	15.06	13.11	-1.95	248	0.23	0.01	-0.22
2023	15.37	13.13	-2.25	233	0.25	0.01	-0.24
2024	15.67	13.15	-2.53	217	0.27	0.01	-0.26
2025	15.96	13.16	-2.80	200	0.29	0.01	-0.27
2026	16.23	13.18	-3.05	182	0.31	0.02	-0.29
2027	16.47	13.19	-3.28	164	0.33	0.02	-0.31
2028	16.69	13.21	-3.48	144	0.34	0.02	-0.33
2029	16.88	13.22	-3.66	124	0.36	0.02	-0.34
2030	17.03	13.23	-3.80	104	0.38	0.02	-0.36
2031	17.15	13.24	-3.91	83	0.39	0.02	-0.37
2032	17.26	13.25	-4.01	61	0.40	0.02	-0.38
2033	17.34	13.26	-4.09	39	0.41	0.02	-0.39
2034	17.41	13.26	-4.14	16	0.42	0.02	-0.40
2035	17.45	13.27	-4.18	----	0.43	0.02	-0.41
2036	17.48	13.27	-4.21	----	0.44	0.02	-0.42
2037	17.49	13.27	-4.22	----	0.45	0.02	-0.43
2038	17.48	13.27	-4.20	----	0.46	0.02	-0.43
2039	17.45	13.27	-4.18	----	0.46	0.02	-0.44
2040	17.42	13.27	-4.15	----	0.47	0.03	-0.44
2041	17.38	13.27	-4.11	----	0.47	0.03	-0.45
2042	17.35	13.27	-4.07	----	0.47	0.03	-0.45
2043	17.32	13.27	-4.04	----	0.48	0.03	-0.45
2044	17.29	13.27	-4.02	----	0.48	0.03	-0.45
2045	17.27	13.27	-4.00	----	0.48	0.03	-0.45
2046	17.24	13.27	-3.97	----	0.48	0.03	-0.45
2047	17.22	13.27	-3.95	----	0.48	0.03	-0.45
2048	17.20	13.27	-3.93	----	0.48	0.03	-0.45
2049	17.18	13.27	-3.91	----	0.48	0.03	-0.45
2050	17.17	13.27	-3.90	----	0.48	0.03	-0.45
2051	17.16	13.27	-3.89	----	0.48	0.03	-0.45
2052	17.16	13.27	-3.89	----	0.48	0.03	-0.45
2053	17.17	13.27	-3.90	----	0.48	0.03	-0.45
2054	17.18	13.27	-3.91	----	0.48	0.03	-0.45
2055	17.20	13.28	-3.92	----	0.48	0.03	-0.45
2056	17.22	13.28	-3.94	----	0.48	0.03	-0.46
2057	17.24	13.28	-3.96	----	0.48	0.03	-0.46
2058	17.26	13.28	-3.98	----	0.48	0.03	-0.46
2059	17.28	13.28	-3.99	----	0.48	0.03	-0.46
2060	17.29	13.29	-4.00	----	0.49	0.03	-0.46
2061	17.30	13.29	-4.01	----	0.49	0.03	-0.46
2062	17.31	13.29	-4.02	----	0.49	0.03	-0.46
2063	17.33	13.29	-4.04	----	0.49	0.03	-0.46
2064	17.34	13.29	-4.05	----	0.49	0.03	-0.46
2065	17.36	13.29	-4.07	----	0.49	0.03	-0.47
2066	17.38	13.29	-4.09	----	0.49	0.03	-0.47
2067	17.41	13.30	-4.11	----	0.50	0.03	-0.47
2068	17.44	13.30	-4.14	----	0.50	0.03	-0.47
2069	17.47	13.30	-4.17	----	0.50	0.03	-0.47
2070	17.50	13.30	-4.20	----	0.50	0.03	-0.47
2071	17.54	13.30	-4.23	----	0.50	0.03	-0.48
2072	17.57	13.31	-4.27	----	0.51	0.03	-0.48
2073	17.61	13.31	-4.30	----	0.51	0.03	-0.48
2074	17.65	13.31	-4.34	----	0.51	0.03	-0.48
2075	17.69	13.31	-4.38	----	0.51	0.03	-0.48
2076	17.73	13.32	-4.41	----	0.51	0.03	-0.49
2077	17.76	13.32	-4.45	----	0.52	0.03	-0.49
2078	17.80	13.32	-4.48	----	0.52	0.03	-0.49
2079	17.84	13.32	-4.52	----	0.52	0.03	-0.49
2080	17.88	13.33	-4.55	----	0.52	0.03	-0.49
2081	17.92	13.33	-4.59	----	0.52	0.03	-0.49
2082	17.96	13.33	-4.63	----	0.52	0.03	-0.49
2083	18.00	13.34	-4.67	----	0.53	0.03	-0.50
2084	18.04	13.34	-4.71	----	0.53	0.03	-0.50
2085	18.08	13.34	-4.74	----	0.53	0.03	-0.50
2086	18.12	13.34	-4.78	----	0.53	0.03	-0.50

Summarized Rates: OASDI

	Cost Rate	Income Rate	Actuarial Balance	Year of Exhaustion[1]
2011 - 2085	16.63%	14.04%	-2.58%	2034

Summarized Rates: OASDI

Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
0.38%	0.02%	-0.36%

Based on Intermediate Assumptions of the 2011 Trustees Report
[1] Under present law the year of exhaustion is 2036

Office of the Chief Actuary
Social Security Administration
June 20, 2011

Congress of the United States
House of Representatives
COMMITTEE ON WAYS AND MEANS
WASHINGTON, DC 20515

SUBCOMMITTEE ON SOCIAL SECURITY

June 14, 2011

Mr. Stephen C. Goss
Chief Actuary
Social Security Administration
Altmeyer Building Room 700
6401 Security Blvd.
Baltimore, MD 21235

Dear Mr. Goss:

Recently, there has been a great deal of discussion of Social Security's annual Cost of Living Adjustment (COLA). For the first time since the COLA was indexed to the Consumer Price Index (CPI), seniors and other Social Security beneficiaries received a zero COLA for two years in a row (December 2009 and December 2010). At the same time, some policymakers and academics have been discussing changing the COLA by indexing it to one of two more recently developed Bureau of Labor Statistics (BLS) indices. Some have proposed cutting the COLA by indexing it to the chain-weighted CPI (C-CPI-U). Others have proposed increasing it by indexing it to the experimental Consumer Price Index (CPI-E), which measures inflation specifically among the elderly.

The median income for senior households is only $24,000 a year, and six out of 10 seniors rely on Social Security for more than half of their annual income. As a result, even seemingly small changes in monthly Social Security benefits can have a profound impact on quality of life for current and future Social Security beneficiaries.

Please provide us with an analysis of the estimated effect on Social Security benefit levels under the following illustrative COLA changes:

1. Indexing the Social Security COLA to the C-CPI-U.
2. Indexing the Social Security COLA to the CPI-E.

Because the impact of a COLA change would multiply over a beneficiary's lifetime, please include in this benefit analysis several illustrations of the proposal's effect as retirees age, such as the average benefit change at 65, 75, 85, and 95.

Thank you very much for your assistance. Please contact Morna Miller at the Social Security Subcommittee with any questions.

Sincerely,

Representative Xavier Becerra
Ranking Member
Ways and Means Subcommittee on Social Security