United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

June 21, 2019

Mr. Robert Beuerlein
Chair
Technical Panel on Assumptions and Methods
Social Security Advisory Board
400 Virginia Avenue SW
Suite 625
Washington, DC 20024

Dear Chairman Beuerlein,

I write to request that the 2019 Technical Panel on Assumptions and Methods (Technical Panel) arrive at findings concerning allegations made in 2016 and 2017 by Members of the United States Senate concerning assumptions made in the 2014 and 2015 annual reports of the board of trustees of the federal old-age and survivors insurance and federal disability insurance trust funds (trustees report). The allegations, detailed in what follows, are political in nature. A precedent for findings by a Technical Panel with respect to allegations of a political nature were published on page 17 of the 2015 Technical Panel's report.[1] That report weighed in on whether it found suggestions by critics of the Office of the Chief Actuary of Social Security who alleged an "intellectual bias in the face of increased political pressures to show a more favorable condition for Social Security finances" to be persuasive or useful.

In June of 2016, three U.S. Senators wrote an essay, published in the HuffPost, alleging that intellectual and political biases of one public trustee led to the following impacts on assumptions used in trustees reports, or elements of the reports, and resulting implications of those assumptions or elements for trust fund solvency:[2]

> "…the 2014 trustees report curiously incorporated a number of assumptions playing up the potential future insolvency of the program — a key talking point in the right-wing war on Social Security. These assumptions were so troubling that the independent Chief

[1] 2015 Technical Panel on Assumptions and Methods, "Report to the Social Security Advisory Board," September, 2015 (available at https://www.ssab.gov/Portals/0/Technical%20Panel/2015_TPAM_Final_Report.pdf?ver=2015-09-24-113145-693).
[2] See "The Koch Brothers Are Trying To Handpick Government Officials. We Have To Stop Them.," HuffPost, June 7, 2016 (available at https://www.huffpost.com/entry/koch-brothers-charles-blahous_b_10325224).

Actuary for Social Security took the unprecedented step of writing a public statement of actuarial opinion disagreeing with the report. After similarly questionable elements appeared in the 2015 report, the Chief Actuary repeated this extraordinary public rebuke."

Those allegations gained national attention, including discussions in at least one hearing in Congress, and they threaten public confidence in the integrity of the Social Security trustees reports.

The allegations contained in the quote above are:

1. The 2014 trustees report incorporated assumptions, resulting from impacts of a single public trustee's biases, which led to "playing up" of the potential future insolvency of Social Security which, in turn, led the Chief Actuary to be so troubled that he wrote a public statement of actuarial opinion disagreeing with the report.

2. Questionable elements similarly appeared in the 2015 trustees report, leading the Chief Actuary to repeat a public rebuke of the report.

With respect to allegation 1, note that the Statement of Actuarial Opinion that follows the 2014 trustees report (beginning on 248 of the report, available at https://www.ssa.gov/OACT/TR/2014/tr2014.pdf) questions two things:

a) "The stochastic simulations include random annual variations in several key parameters, but these annual variations tend to cancel out over time so the *average* variation for each parameter diminishes with longer periods, approaching zero variation across the simulations. (See Actuarial Study 117 at www.socialsecurity.gov/OACT/NOTES/s200s.html for additional details). For this and other reasons, the variation reflected in the stochastic simulations is unreasonably small." (italics and reference original).

b) "…the variation across the three alternative scenarios was increased this year by reversing the assignment of ultimate price inflation assumptions between the low-cost and high-cost scenarios."

With respect to allegation 2, see the discussion of "Federal Budget Accounting" in the 2015 Statement of Actuarial Opinion on page 256 of the 2015 trustees report (available at https://www.ssa.gov/OACT/TR/2015/tr2015.pdf). The only possible "questionable elements" that the Actuary discusses would be inclusion of a footnote in the Social Security trustees report directing the reader to an appendix in the contemporaneous Medicare trustees report. The Chief Actuary for Social Security writes that:

c) "…the footnote on page 64 of this report directs the reader to an appendix in the Medicare Trustees Report, which states, 'The trust fund perspective does not encompass the interrelationship between the Medicare and Social Security trust funds and the overall federal budget.' The reader of this report should consider this 'overall' federal unified

> budget perspective with care because the assumptions underlying unified budget accounting are inconsistent with the assumptions of trust fund accounting."

With respect to allegation 1 and a), examination of Actuarial Study 117 does not appear to shed light on the Chief Actuary's opinion, and it is not clear what diminishing long-run average parameter variation means. Nonetheless, it is also not clear why whatever is meant by the Chief Actuary's claim of "unreasonably" small variation would be consistent with assumptions that would lead to "playing up the future insolvency of the [Social Security] program."

It *is* clear that in the appendix displaying results of stochastic simulations, the 2014 trustees report cautioned readers of limitations of the stochastic simulation results (p. 182), including a statement that "…readers should understand that the true range of uncertainty is larger than indicated in this appendix." If assumptions were made leading to "unreasonably small" *variations*, it is difficult to understand how small variability leads to "playing up the potential future insolvency" of Social Security. Consequently, it seems entirely false to take a) to be a reason to believe that a single public trustee had an impact of generating what the Actuary believes to be unreasonably small variability in simulations which, in turn, would somehow play up future insolvency of Social Security, though I leave it to your Panel to make your own assessment.

With respect to allegation 1 and b), according to Table II.C.1 on page 8 of the 2014 report, Consumer Price Inflation is assumed to be higher for the low-cost scenario than for the high-cost scenario; and, the reverse was true in, for example, the 2013 report. High price inflation may correspond with high nominal wage growth, with high wage growth then leading to strong growth in payroll tax revenue; and, high price inflation likely corresponds to high benefit growth, with the payroll tax revenue effects occurring in advance of many of the ensuing benefit growth effects. If the revenue effects dominate the benefit effects, then high inflation corresponds with an improved actuarial outlook. Then, an assumption of high price inflation can reasonably be assigned to a low-cost scenario, since "low-cost" is often interpreted as a scenario depicting a relatively positive outlook for trust fund solvency.

The trustees reports for 2013 (p. 177) and 2014 (p. 176) provide long-range sensitivity analyses, including illustrations of effects of varying assumptions about price inflation. In both reports, it is identified that: "The time lag between the effects of the CPI changes on taxable payroll and on scheduled benefits explains these patterns. When the rate of increase in the CPI is greater and the real-wage differential is constant, then: (1) the effect on taxable payroll due to a greater rate of increase in average wages occurs immediately; and (2) the effect on benefits due to a larger COLA occurs with a lag of about 1 year. As a result of these effects, the higher taxable payrolls have a stronger effect than the higher benefits, which results in lower cost rates. Each 1.0-percentage-point increase in the rate of the change in the CPI increases the long-range actuarial balance by about 0.22 percent of taxable payroll."

Consequently, it seems entirely false to take b) to be a reason to believe that a single public trustee had an impact of generating price-inflation assumptions across the low-cost and high-cost scenarios that somehow play up future insolvency of Social Security, though I leave it to your Panel to make your own assessment.

With respect to allegation 2, and c), note that the Actuary did not question any assumptions of the report but, rather, opined on one single matter. That matter was inclusion of a footnote in the report pointing readers to an appendix of the contemporaneous Medicare trustees report which discusses interactions between Social Security and Medicare trust funds and the federal budget. Such a discussion has been part of the Medicare trustees reports for some time, and has not been controversial.

A similar opinion of the Actuary was included in the Statement of Actuarial Opinion in 2014, and has been similarly included in the Statement of Actuarial Opinion for every Social Security trustees report since 2014.[3] The opinion is that care must be exercised in differentiating between unified budget accounting and a "trust fund perspective," with emphasis put on the idea that "the actual operations of the trust funds under current law do not draw on other Federal resources."[4]

The main point of the recurring Actuary's opinion seems to be that the budget appendix of Medicare trustees reports explains effects on the federal budget if scheduled Social Security benefits were paid, but those benefits cannot be paid beyond trust fund exhaustion. The Actuary's opinion notes that under current law scheduled benefits would not be paid in full after the point of trust fund exhaustion, because they cannot, by law. Of course, that point is made repeatedly within the Social Security trustees reports, and has been for a long time. Why else would the trustees repeatedly and often display trust fund income, cost, and expenditures with distinctions between scheduled and payable benefits (e.g., Figure II.D2 on page 12 of the 2014 report)?

The question is whether the Actuary's opinion that care must be exercised in differentiating between alternative perspectives on trust funds and the general federal budget could possibly be taken as a rebuke of "questionable elements" of the 2015 trustees report that were the result of an

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[3] Presumably, the Actuary's opinion—that care must be exercised regarding the "overall federal unified budget perspective" vs. the "trust fund perspective" because "assumptions underlying the unified budget accounting are inconsistent with the assumptions of trust fund accounting"—is generally accepted within the actuarial profession. The Social Security Act (Sec. 201(c)) states that trustee reports shall include an actuarial opinion by the Chief Actuary of the Social Security Administration certifying that the techniques and methodologies used are generally accepted within the actuarial profession and that the assumptions and cost estimates used are reasonable.

[4] The opinion also emphasizes the following, with respect to budget discussions contained in the Medicare trustee report to which the Social Security trustee report refers:

> ""…unified budget accounting assumes that full scheduled benefits will continue to be paid through transfers from the General Fund of the Treasury, thus representing 'a draw on other Federal resources for which there is no earmarked source of revenue from the public.' Not only are such 'draws' not permissible under the law, no precedent exists for a change in the Social Security Act to finance unfunded trust fund obligations with such draws on other Federal resources."

Ironically, the recurring recent opinion of the Actuary has been issued for trustee reports that clearly identify draws under current law on Federal resources. For example, the 2015 report (page 7) clearly identifies trust fund income that "came from reimbursements from the General Fund of the Treasury" reflecting payroll-tax holiday legislation, that is part of current law, which, according to the trustee report, "specified general fund reimbursement for temporary reductions in revenue due to reduced payroll tax rates for employees and for self-employed workers." Payroll tax holidays did not, strictly speaking, change the Social Security Act, but did change the internal revenue code and appropriated funds to be transferred from the general fund to the Social Security trust funds, thereby setting clear instances involving unfunded trust fund obligations funded by draws from the general fund.

impact made by a single public trustee. For such an impact to have occurred, it must be noted, would have required, among other things, that the single trustee was able to hoodwink all of the other five (Democrat) trustees (Jacob J. Lew, Thomas E. Perez, Sylvia M. Burwell, Carolyn W. Colvin, and Robert D. Reischauer), causing them to agree to including "questionable elements" into a report that carries their signatures. None of those trustees have confirmed or identified that they signed off on a report with questionable elements, and the Chief Actuary of Social Security has, himself, not corroborated such a hoodwinking. Indeed, in testimony before Congress, in response to a question from Representative Sam Johnson about whether a single public trustee "somehow managed to take over the process and changed assumptions in the report to overstate Social Security's troubles" Social Security's Chief Actuary stated that "I've never seen anybody capable of overwhelming the five others."[5]

It is unfortunate and disappointing that Members of Congress would put allegations forward casting doubt on the integrity of reports from trustees of the Social Security trust funds and needlessly inject partisan politics into the work performed by Social Security public trustees. Public trustee positions were, according to the Social Security Administration, "created in the 1983 Social Security Amendments, based on a recommendation of the Greenspan Commission aimed at increasing public 'confidence in the integrity of the trust funds.'" Confidence will be severely eroded if the public believes that public trustees act in a partisan fashion. Therefore, I ask the Technical Panel to review allegations of partisan actions by a past public trustee and report findings.

Specifically, and consistent with the 2015 Technical Panel's weighing of the persuasiveness and usefulness of allegations of political bias against the Chief Actuary, please assess the persuasiveness and usefulness of allegations 1 and 2, which refer to statements of actuarial opinion in the 2014 and 2015 Social Security trustees report discussed in a), b), and c). Thank you.

Sincerely,

Chuck Grassley

Charles E. Grassley
Chairman
Senate Finance Committee

CC: Ms. Kim Hildred, Chair, Social Security Advisory Board

[5] See the recording of the House Ways and Means Subcommittee on Social Security's June 22, 2016 hearing at https://www.congress.gov/committees/video/house-ways-and-means/hswm00/V7fmBm9SHMo .