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September 3, 2014

Mr. Sam Johnson, Chairman
Subcommittee on Social Security
Committee on Ways and Means
House of Representatives
Congress of the United States
Washington, DC 20515

Dear Mr. Johnson:

Here are my responses to the questions you posed to me in your letter of August 21, 2014 as a follow-up to the July 29, 2014 hearing on "What Workers Need to Know about Social Security as They Plan for Their Retirement."

1. The complexity of the Social Security program means that many workers do not know how much they can expect to receive in benefits. How can the SSA make it easier for people to know what to expect in benefits so that they can adequately prepare for retirement?

Most people think about their income requirements in the context of their weekly or monthly budget needs. For people close to retirement, having a fairly close estimate of the level of Social Security benefits they will qualify to receive at various ages allows them to assess the gap between those benefits and their budgetary requirements to live in the fashion to which they are accustomed. For younger workers, it impossible to anticipate all the contingencies that workers will face that will have a bearing on benefits many years into the future—what might happen to Social Security policy, sectoral and cyclical changes in the economy that might affect their earnings prospects, and personal experiences that can affect their earnings capacities.

In 2009, the Social Security Advisory Board published an analysis of the Social Security Statement, and among other things, found that projections of benefits for workers close to retirement age were more precise estimates of actual benefits than those provided to younger workers. The Board suggested that for younger workers, an estimated benefit that assumed no further earnings—something akin to a disability benefit they would receive if eligible—might give workers a better sense of the benefits they would receive based on their recent earnings levels than one projected some decades into the future.

In any event, benefits should be described in terms that workers can relate to in the context of their income needs. Most workers cannot consider the standard-of-living sustaining value of nominal dollars many years into the future that are not equivalent to the dollars they currently spend buying groceries, paying the utility bills, car and house payments, etc. At the same time, projecting benefits relative to wage-indexed earnings distorts the presentation of the real purchasing power that benefits will provide for workers who will not reach retirement for a few or many years into the future. Future benefits should be stated in real (price-indexed) dollars to put them on a consistent basis with the purchasing power that workers earn at the time any estimate is provided to them so they have a sense of the relative value of the benefits they will potentially receive.

2. Research like yours provides important insights into the Social Security program. Does Social Security make needed data available to researchers to enhance their ability to further examine the impacts of the program? What should change?

The answer to the first question is yes and no. It does provide substantial data to researchers to whom it has provided research funding. For example, most of the researchers associated with the Research Consortia that is spends millions of dollars per year funding have access to covered earnings record histories matched to survey respondents participating in the Health and Retirement Study. Individuals, like me, who do not have access to that significant research funding are also denied access to the to earnings histories matched to the survey data.

Social Security is a massive administrative operation and some of the data collected by the agency is used to produce a variety of recurring statistical reports. The reports this year look just like the ones last year for the most part. Occasionally someone suggests a new way of looking at the data that gets institutionalized as an added table in the *Trustees Report* or the *Statistical Bulletin*. Rarely, someone at the agency will develop special analyses that widen the understanding of the program. For example, the actuaries recently developed an analysis of benefits relative to various measures of lifetime earnings for claimants in 2011. They developed this analysis and published it as an actuarial note in the interest of defending their own particular definition of Social Security earnings replacement rates. But this analysis does not allow any outsider to analyze the same data to see how different perspectives might alter the results.

In 2005, the Social Security Administration released a 1 percent sample file of the Master Beneficiary Record (MBR) with a link to each beneficiary's historical earnings record—the *Benefits and Earnings Public Use File*. The sample was of all beneficiaries as of the end of

December 2004. Gaobo Pang and I have used this file to analyze earnings and benefits patterns of "retired worker" claimants across the spectrum of the AIME distribution. We have found that the Social Security actuaries' "very low" hypothetical earner and the "low earner" career earnings, to a lesser extent, developed by the Social Security actuaries are not representative of claimants who end up with low average earnings at the end of their careers. Our analysis also suggests that the wage-indexed replacement rates favored by the Social Security actuaries significantly underestimate the Social Security earnings replacement capacity for long-career workers relative to the real earnings levels these workers achieved during their careers.

This sort of analysis helps to clarify some of the questions raised by the Social Security Trustees and others regarding the extent to which Social Security benefits aid retirees in maintaining their standards of living. But the data we have available are 10 years old and a great deal has happened in the intervening time that is of considerable interest. No one has documented how the Great Recession resulted in changing claiming behavior of retirement benefits and what the implications of the changing behavior will mean for the adequacy of benefit levels over recent retirees' remaining lifespans.

Social Security should be making this data and other relevant administrative data, such as earnings records of active workers not yet old enough to claim benefits available for researchers like us. There are people besides those at the agency or those sponsored by the agency who have a critical role in understanding how Social Security affects current workers and retirees and how alternative policies may change how it does so in the future.

We have not sought or received any Social Security Administration resources to develop our analyses. Our results are based on publicly available data that can be verified or challenged by anyone interested in the issues we raise. In some regards, this sort of work is as relevant as that coming out of the Research Consortia and other grant research that the Social Security Administration spends millions of dollars sponsoring each year. If such data are made available each year and a wider group of researchers become familiar with their potential use, there is considerable prospect that the public understanding and discourse about the program's operations would be widened significantly at almost no public cost.

If you have additional questions or I can be of any further assistance, please let me know.

Sincerely,

Sylvester J. Schieber

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