



AMERICAN ACADEMY *of* ACTUARIES

September 22, 2011

President Barack Obama
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Majority Leader Harry Reid
United States Senate
522 Hart Senate Office Building
Washington, DC 20510

Speaker of the House John Boehner
United States House of Representatives
1011 Longworth House Office Building
Washington, DC 20515

Re: Social Security Reform in the Context of the Nation's Long-Term Fiscal Challenges

Dear President Obama, Senate Majority Leader Reid, and Speaker Boehner:

Now that the bipartisan Joint Select Committee on Deficit Reduction has begun its challenging work, we urge you to use this opportunity to work together to adopt sound public policy solutions to restore the long-term solvency and fiscal sustainability of Social Security. Whether modifications to the Social Security program are included in the Committee's proposals, or undertaken on an alternative legislative track, improving the program's financial situation would be in the best interests of the nation by strengthening a critical element of retirement security for current and future retirees.

Acting sooner rather than later allows people in the large baby boom generation to participate in any solution because most are still working. Every year, more baby boomers become eligible for benefits and presumably as retirees, they would be largely unaffected by any reforms. The longer we wait, the larger the changes will need to be and the less time people will have to plan before the changes take effect.

The Social Security program provides millions of Americans with a safety net of retirement income that they may be unable to duplicate through private pensions or personal savings. For two decades, the Social Security Trustees annually reported to the public that the system is not in close actuarial balance. The Social Security trust funds are projected to "run out of assets" in 2036, and the disability insurance (DI) trust fund rate of depletion is even worse—it is projected to "run out of assets" by 2018.¹ Recent and anticipated future increases in life expectancy, as well as the retirement of the baby boom generation underscore the sense of urgency surrounding Social Security's long-range solvency challenges. These

¹ 2011 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (<http://www.ssa.gov/OACT/pubs.html>)

looming financial challenges are well-recognized by both houses of Congress as well as the White House. Now is the time to address the program's long-term solvency.

Whether you consider potential Social Security reforms in the context of deficit reduction or in their own right, it is important to evaluate the impact those reforms could have on the viability of the program. Social Security's sustainability is a core issue for the American Academy of Actuaries² and one of our highest public policy priorities. In 2008 the Academy issued an advocacy statement³ recommending an increase in the Social Security retirement age as part of any package to restore solvency to the program. The statement contends that retirement age should be increased to account for improved life expectancy and to accommodate future longevity improvements—a demographic solution to a demographic problem. We would welcome the opportunity to be of assistance to you and other congressional leaders as you consider reforms that would affect Social Security and address retirement security. We are committed to providing objective actuarial information and analysis related to Social Security and other retirement system-related issues. The Academy's Social Security Committee has issued several recent publications relevant to the work of the committee that we would like to bring to your attention:

- *An Actuarial Perspective on the 2011 Social Security Trustees Report* (May 2011) summarizes the financial status of the Social Security program and the actuarial implications of reform, along with the advantages of acting sooner rather than later.
http://www.actuary.org/pdf/SocialSec_Trustees_2011_IB_FINAL_060111.pdf
- *Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance* (August 2011) highlights how automatic adjustment mechanisms can make small changes on a regular basis, avoiding future corrective legislation.
http://www.actuary.org/pdf/pension/IB_Auto_Adjustments_FINAL.pdf
- *Raising the Retirement Age for Social Security* (October 2010) describes how increasing the retirement age for Social Security addresses some of the demographic problem currently facing the system.
http://www.actuary.org/pdf/socialsecurity/Social_Sec_Retirement_Age_IB_FINAL_10_7_10_2.pdf
- Presentation from a recent Capitol Hill briefing the Academy hosted that breaks down some of the trustees' key findings and outlines several options for reforming the program.
http://www.actuary.org/pdf/AcademyHillBriefing_Trustees_Report_110526.pdf

In addition to the documents listed above, we have a number of other publications on our website that address facets of retirement security, such as reforms to the tax code that would encourage employer sponsorship of defined benefit pension plans, facilitate innovative plan design, and increase opportunities to annuitize retirement benefits. More information can be found at <http://www.actuary.org/pension.asp>.

² The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States

³ http://www.actuary.org/pdf/socialsecurity/statement_board_aug08.pdf

If you have any questions or if you would like to discuss in more detail any implications that various reforms may have on Social Security, please contact Jessica Thomas, the Academy's senior pension policy analyst (202.785.7868; thomas@actuary.org).

Sincerely,

Janet M. Barr, MAAA, ASA, EA
Chairperson, Social Security Committee
American Academy of Actuaries

Eric Klieber, MAAA, FSA, EA
Vice Chairperson, Social Security Committee
American Academy of Actuaries

Cc: Jacob Lew, Director, Office of Management and Budget
Senator Mitch McConnell, Senate Minority Leader
Representative Nancy Pelosi, House Democratic Leader
Senator Patty Murray, Co-Chair, Joint Select Committee on Deficit Reduction
Representative Jeb Hensarling, Co-Chair, Joint Select Committee on Deficit Reduction
Mark Prater, Staff Director, Joint Select Committee on Deficit Reduction