Memorandum

To:  Robert Clark (robert_clark@ncsu.edu)
From: Howell Jackson
Date:  May 13, 2003

Re: Additional Information for Trustees Report

Over the weekend, I had a chance to think a little more about your question as to what additional information should be added to the Trustees Report in order to facilitate the sort of analysis proposed in my paper on accrual accounting. While the 2003 report definitely represents an improvement from past practices, additional information could profitably be presented. Some of this information currently appears in other public documents (like the SSA Financial Report or supplemental information released by the Office of the Chief Actuary). But it would be preferable if this information were fully presented in the Trustees Report.

If I were on your committee, here is what I would propose:

First, I would recommend a more complete presentation of the components of the various measures of actuarial deficit, distinguishing liabilities accrued to date, obligations projected to be incurred in the future, taxes and related revenues projected to be received in the future. In addition, I think it would be useful to break out generational cohorts more completely. Currently the RSSI in the SSA Financial Statements distinguish (somewhat) between those eligible to retire (62 and over), other current participants, and future participants. I would further distinguish each decade of participants down to the 15 year olds. (To give you a better idea of what I’m thinking, I have prepared a rough table (attached), in which I indicate which information is available currently and which is not currently available. Note that much of this information is not currently in the Trustees Report, but rather comes from the SSA’s Financial Statements or upon request from the Office of the Chief Actuary.

Second, I think it would be extremely useful if this basic set of information were supplemented in various ways. For one thing, it would be useful to have the same table with both the high and low estimates (not just the intermediate assumptions). I’m not that interested in seeing the OASI fund and DI fund broken out, but perhaps others might be.
Third – and even more importantly – I would really like to see this information projected forward for at least ten years. Both for evaluating reform proposals and also for generating political interest in addressing the problems of Social Security, I would like to be able to create a ten year projection of the financial position of the trust funds. It would be very interesting to know how much larger the deficits of the Social Security Trust funds are projected to grow in the coming decade, both absolutely and as a percentage of GDP. Ideally, one would project the attached table for at least ten years into the future. Conceivably, one might get by with just the key summary numbers (that is, with full cohort information). I’ve indicated in bold the numbers that I think are critical.

Fourth, to the extent that the Trustees Report remains focused on a 75 year horizon, I think some basic actuarial deficit figures (75-year open group, 100-year closed Group, and Maxim Transition Cost measures) should be projected out the full 75 years. The Office of the Chief Actuary currently distributes a time series from 1979 through the present, but does not provide projections looking forward. Among other things, projecting this information ahead 75 years would offer important insight into the true magnitude of the “cliff effect” – a phenomenon that is much discussed but seldom quantified.

Finally – and perhaps not appropriately for the Trustees Report – I’d be interested to know the impact of using different formulas for accrual. In my own work, I’ve been stuck with using the maximum transition cost measure, which is based on a 40 year accrual period (as opposed to the 35 year statutory period). In theory, one could imagine a variety of different measures of accrual, which would change the level of accrued liabilities. If there were some way that outside researchers could work the Office of the Chief Actuary to ascertain the effect of different accrual formulas, that would be very useful.

Thanks very much for your interest in my work. If you or your colleagues have any questions about my views, please feel free to contact me. If it would be useful, I would be happy to try to find a mutually convenient time to meet with your committee. Or I’d be happy just to chat with you over the phone or via email.