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Providing Periodic Personal Earnings
and Benefit Statements to Workers
Covered by Social Security

Statement of
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and Family Policy
Committee on Finance
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SUMMARY

A clear understanding of future retirement income is essential for planning for income security during retirement years. Yet, GAO found that a significant number of workers know very little about the most important aspects of their pension plans--their eligibility for early or normal retirement.

GAO also found that workers have errors in their earnings records at the Social Security Administration (SSA). For the period 1978-84 SSA had recorded \$58.5 billion less in worker's earnings than the Internal Revenue Service had recorded as being paid.

Given the complexities of the social security system, it is likely that workers also lack an adequate understanding of their social security benefits and, without periodic statements on their earnings, most do not know if their earnings have been accurately recorded.

Legislation requiring periodic personal earnings and benefit statements will help provide better knowledge of an individual's expected retirement income and could help remedy the effects of erroneous earnings postings. Any legislation should be drafted with an understanding of the operational problems that need to be resolved and associated costs. Also, the Committee should consider a project that SSA has underway.

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to testify on providing periodic personal earnings and benefit statements to workers covered by social security.

At the outset I would like to say that we believe that there is a need to provide individuals with better information about their social security earnings and benefits. Our position stems from two recently completed GAO studies¹ which cover different topics but are related to your interests. I will describe each briefly and show how such statements could affect the problems we raised in our reports.

A clear understanding of future retirement income is essential for planning for income security during retirement years. Yet, we have found that a significant number of workers know very little about the most important aspects of their pension plans-- their eligibility for early or normal retirement. For example, about 70 percent of the 25 million workers in defined benefit pension plans lacked knowledge of when they would be eligible for normal retirement.

Second, we have found that workers have errors in their earnings records at the Social Security Administration (SSA). For the period 1978-84 SSA had recorded \$58.5 billion less in workers

¹PENSION PLANS: Many Workers Don't Know When They Can Retire (GAO/HRD-87-94BR), August 12, 1987) and SOCIAL SECURITY: More Must Be Done To Credit Earnings Of Individuals' Accounts (GAO/HRD-87-52, September 18, 1987)

earnings than the Internal Revenue Service had recorded as being paid. We estimated that as many as 9.7 million persons could have uncredited earnings and a sample of affected beneficiaries could lose an average of nearly \$17 a month.

Workers' Knowledge of Pension Plans

Employer-sponsored pensions are one component of the retirement income security system, supplementing social security retirement benefits and private savings. Workers are likely to be better able to plan for retirement if they understand their pension plans' eligibility requirements for early and normal retirement benefits as well as their expected social security retirement benefits.

Our work with private pension plans raised questions about whether many workers are planning adequately for retirement. Few workers receive individualized benefit statements about their pension status and benefits like those the Committee is considering, although workers do receive general plan information in Summary Plan Descriptions required by ERISA. Our review indicated that millions of workers don't understand their plan's early and normal retirement eligibility requirements as described in their plan documents. Without accurate information about their pension plans, workers may change jobs or retire earlier than they would find optimal had they had better pension

information. Given the complexities of the social security system, it is likely that social security covered workers also lack an adequate understanding and could make similar mistakes.

We analyzed the data in the 1983 Survey of Consumer Finances (SCF) to determine how many workers knew about their plan's retirement provisions. The University of Michigan's Survey Research Center conducted the SCF for the Board of Governors of the Federal Reserve System. It collected comprehensive asset and liability information for a national sample consisting of 3,824 U.S. households in 1983. The center also collected detailed information on 1,012 pension plans sponsored by public and private employers of those workers surveyed.

Among workers in defined benefit plans with an early retirement option in 1983, 41 percent were either incorrect (an estimated 6 million workers) or did not know (3 million workers) about their early retirement eligibility, according to our projections from SCF data.

We also found that workers did not know when normal retirement benefits would be available. Of the workers in defined benefit pension plans in 1983, about 72 percent were not correct about when they would be eligible for normal retirement benefits. This represents about 18 million workers. Although the lack of benefit knowledge of workers covered by private pension plans is

not directly an SSA problem, we believe periodic social security statements with earnings and benefit information would heighten, worker awareness of retirement planning needs. Such statements could spur workers to explore how their private system would benefit them.

Uncredited Earnings

Workers' eligibility and entitlement to social security benefits are based on the earnings recorded in Social Security accounts. If the Social Security Administration fails to record all or part of an individual's annual earnings, the Social Security benefits it calculates for such individuals could be too low.

Employers report employees' earnings to SSA and the Internal Revenue Service (IRS) at different times and for different purposes and differences in these reported earnings sometimes occur. When differences are detected, SSA and IRS reconcile them to assure that workers receive proper credit for social security entitlement and benefit purposes or that IRS collects all social security taxes that are due. Recently, we found that the agencies have made slow progress in reconciling these earnings differences.

From 1978 through 1984, SSA recorded about \$58.5 billion less in employees' earnings than IRS. Although this represents only

about 0.8 of 1 percent of all earnings that SSA recorded during this period, the number of persons and impact on those affected by uncredited earnings can be significant. A nonprojectable sample of current beneficiaries reviewed by GAO showed that affected beneficiaries lost on average nearly \$17 a month. Although we do not know the actual number of individuals whose benefits are affected, we do estimate that the records of 9.7 million individuals could have uncredited earnings.

We recommended that SSA and IRS develop and pursue a strategy for examining unreconciled employers' earnings reports and report their plans to Congress. While IRS and SSA have made some progress in developing this strategy, it has not been as rapid as the agencies' expected.

The Usefulness of Periodic Personal Earnings
and Benefit Statements

In the studies discussed in this testimony, we highlighted first, a need for better information on retirement income eligibility and availability to facilitate retirement planning and second, the need for accurate earnings records at SSA. Legislation providing for periodic personal earnings and benefit statements will address the first issue--better information for retirement decisions. We recognize, however, that providing information doesn't necessarily mean that workers will read it, understand it and act upon it--but it is a first step in assuring that better

retirement decisions are made. In addition, it could help to remedy the effects of the main problem identified in our report on uncredited earnings. Periodic earnings statements would give workers new information to help them identify errors in their social security accounts and initiate corrective action.

Any legislation which would require SSA to send workers a statement of their posted annual earnings and an estimate of retirement, survivor and disability benefits should be drafted with an understanding of the operational problems that need to be resolved and associated costs. Also, the Committee should consider a project that SSA has underway to (1) provide this type of information to those who request it and (2) examine whether it is feasible and useful to routinely provide it to all covered workers. I would like to briefly discuss each of these aspects.

One operational consideration involves SSA's workload. Requiring that every worker be notified will impose an additional workload on an agency now experiencing major staff cuts. Although our work shows that the staff cuts have not yet affected service, providing such statements will create a new workload--setting up a competition for resources. If this occurs we believe that SSA should first focus resources on clearing up the past uncredited earnings discussed earlier. This should be a top priority of the agency.

Another operational problem that needs to be resolved is how to obtain accurate mailing addresses of workers. SSA has addresses for beneficiaries but not for workers. Obtaining about 120 million up-to-date addresses will pose a major impediment to implementation.

IRS maintains mailing address information in various taxpayer files. However, these files are considered tax data and legislation may be needed for SSA to access them. Also, because (1) people move and do not always notify IRS and (2) others do not always file tax returns every year, some addresses will not be accurate.

A third consideration involves determining how and for whom SSA will estimate future earnings when estimating future retirement benefits. Such an estimate is necessary to calculate retirement benefits. Because of the way social security benefits are determined, the benefit estimate is likely to be sensitive to the future earnings estimate SSA uses--particularly if the person has many years to work before becoming eligible. A highly inaccurate benefit estimate would defeat the objective of providing better retirement information. This matter will require further study.

With regard to cost, very little is known (other than postage) because it is uncertain how much staff time will be spent

answering questions that arise from the statement. The magnitude of this increase is unknown, but based on our estimate of 9.7 million workers who potentially could have uncredited earnings, the additional workload may be large. Also, others will likely have questions relative to their benefit estimates. The potentially large workload impact and operational problems suggest that a phased approach might be the best way to get a better idea of costs and feasibility.

Lastly, I would like to briefly summarize a current SSA initiative that should be considered in the Committee's deliberations. It is a multiphased project directly related to the Committee's interest in providing better retirement information. The first phase is scheduled to become operational in August 1988. Under phase I SSA would provide persons requesting earnings information with a year-by-year accounting of their social security earnings and taxes paid. In addition, it would provide estimates of their social security retirement, survivors and disability benefits. The estimated benefits would be based on future earnings as estimated by the inquiring individual. The benefit estimates would cover a variety of benefit situations. For example, the statement would contain estimates of retirement benefits at ages 62, 65, and 70, and estimate survivor benefits for situations involving a child, a spouse with a child, and a spouse with two children (the maximum family benefit payable).

The second phase involves exploring, through a pilot test, whether it is feasible and useful for SSA to periodically send similar statements to all workers. As currently envisioned, the pilot test will evaluate the operational and cost considerations previously mentioned along with other potential problems. If found desirable, SSA plans to mail the statements, starting in October 1991, to all 120 million workers on a 3-year cycle, thus mailing about 40 million statements annually.

We have not evaluated SSA's planning efforts for this initiative in any depth and cannot comment on the reasonableness of its timing or cost effectiveness. However, we support the plans for a phased approach.

In summary, we believe that there is a need to provide persons with better information about their social security earnings and benefits. However, we believe an initiative of this magnitude should be phased in over a period of years. This would allow SSA flexibility to identify and address operational problems and consider benefits and costs.

This concludes my testimony. I will be happy to answer any questions you may have.