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STATEMENT OF

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BEFORE THE

SENATE FINANCE COMMITTEE

ON

MINIMUM SOCIAL SECURITY BENEFITS

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We are pleased to be here today to discuss the Minimum Social Security Benefit. As you know, we issued a report in December 1979 recommending that the Congress eliminate the minimum for new beneficiaries.

In addition to that report, we have also identified and reported on other provisions of the Social Security Act which if modified or eliminated could result in significant savings to the social security trust funds. I will mention these later in my testimony and we would be happy to share with you our thoughts on each of these if time permits and the Committee is so inclined.

You have asked, however, that today we focus our attention on the minimum benefit provision. I would like to now explain briefly what our 1979 study encompassed, what the results showed, and why we believe the minimum benefit should be eliminated.

At the outset, I should point out that the President's proposal to eliminate the minimum benefit differs from our recommendation in that it applies both to people on social security as well as people who will become entitled to benefits in the future, while our recommendation applied only to future beneficiaries. Also, our study was directed at beneficiaries just coming onto the rolls --not those already on the rolls for an extended period of time.

We found that the minimum benefit provision, which was intended to help the poor, has in recent years mainly benefited retired government workers with pensions, and homemakers supported by their spouses' incomes. Ironically, most needy people receive no additional income from the minimum provision because they are already covered by the Supplemental Security Income program, which requires a dollar for dollar offset for other income received.

Since our report, the Social Security Administration has provided updated estimates showing that eliminating the minimum for new beneficiaries would save the Government $405 million during fiscal years 1982 - 1986. This figure is the net of a $650 million savings in social security and a $245 million increase in Supplemental Security Income.

THE MINIMUM BENEFIT PROVISION

Before discussing our study, I would like to comment on the purpose and nature of the minimum benefit. The Social Security Act has always had a provision for a minimum benefit. Its original purpose was to aid administration and to avoid paying benefits that would be of little value to the beneficiary. Initially, the lowest monthly benefit possible was $10.

Over a period of several years, the rate of increase for minimum benefits was more than twice that for other social security benefits. The Congress increased the minimum benefit because it believed most of the beneficiaries were poor and needed assistance.

In recent years, however, the Advisory Council on Social Security and others have pointed out that, increasingly, the minimum benefit is being paid to people who have not relied on their covered earnings as their primary source of income. Such people include government workers who receive substantial income from their government pensions. Also included are homemakers whose spouses have substantial income. The Advisory Council on Social Security labeled the minimum benefit a "windfall" when paid to these people.

The minimum benefit, by its very nature, provides an unearned bonus or windfall to people who have had very low lifetime earnings covered by social security. It establishes a minimum for all eligible beneficiaries that is used whenever the regular formula for computing benefits results in a smaller amount. For example, if the worker's benefit as computed by the formula was only $40, he or she would receive the higher minimum benefit of $122. The difference of $82 is an unearned bonus created when the Congress raised the level of the minimum benefit to assist people who had little or no other income.

The phrase "eliminate the minimum benefit" is somewhat misleading, implying that minimum beneficiaries will no longer receive social security benefits. Of course, this is not the case. When the minimum provision is repealed, these people will receive the payment resulting from applying the <u>regular benefit formula</u> to their work history. They would no longer receive a bonus if the application of this formula resulted in a lower amount.

<u>INCOME CHARACTERISTICS OF MINIMUM BENEFICIARIES</u>

In our study, we wanted to determine the income characteristics of the people who receive the minimum benefit. We analyzed selected Federal records on a random sample of beneficiaries who were awarded minimum benefits during 1977.

The selected Federal records analyzed included, for example, payment data on the Supplemental Security Income program and Federal pensions. They did not include IRS data.

The results of this analysis showed three distinct minimum beneficiary groups

1) Those who generally receive no additional income from the minimum provision--44 percent of the sample were in this group.

2) Those with other primary income--30 percent were in this group.

3) Those for which there was insufficient Federal data to determine the individual's financial status--26 percent.

As I said, about 44 percent of our sampled beneficiaries received no additional income from the minimum provision, primarily because of offsets required in other Federal benefits. For example, 18 percent of sampled beneficiaries were Supplemental Security Income recipients. Generally those who receive the social security minimum benefit and also qualify as Supplemental Security Income recipients do not receive any increase in their overall monthly income from the minimum benefit provision because of the dollar for dollar income offset required under the Supplemental Security Income program. Also, about 23 percent of our sampled minimum beneficiaries were "dually entitled." That is, they were entitled to social security on either their own or their spouse's account, and their spouse's account provided a higher payment. Under the law, the dually entitled person is paid the higher of the two entitlements.

Consequently, the minium benefit provision does not increase the benefits of the dually entitled person.

Of the 30 percent of our sample for which Federal records showed other primary sources of income, half (or 15 percent of the sampled beneficiaries) received a Federal pension averaging $900 a month, and one-third (or 10 percent of the sample) depended primarily on their working spouses who were earning an average of at least $13,700 a year.

We were unable to determine from the Federal records the extent to which the 26 percent of the sample depended on the minimum social security benefit for their support. However, a more detailed analysis of a sample of beneficiaries in the Los Angeles area showed that most of these people had some other primary means of support, such as state or local pensions.

WORK CHARACTERISTICS OF MINIMUM BENEFICIARIES

Much discussion has been focused on the minimum beneficiaries retirement income needs. But also important to the question of whether to retain minimum benefits, are the minimum beneficiaries' work characteristics. We found that most minimum beneficiaries were part-time or intermittent workers --never a permanent part of the labor force covered by social security.

Sampled minimum beneficiaries generally could not have depended primarily on their earnings from covered employment because they were too low. Their average covered earnings were only about $22 a month for the period 1953-76. Only 3 percent of the minimum beneficiaries had covered earnings of as much as $4,000 during any single year in that time period, and only one-third had covered earnings of as much as $2,000 in any one of those years.

Contrary to social security's concept of partially replacing a person's covered earnings upon retirement, sampled beneficiaries received benefits that were about four times larger than their average monthly covered earnings before receiving social security.

Many persons had not worked in covered employment for several years before receiving social security. Nearly half had not worked in covered employment for 5 years, and about one-third for 10 years. For these people, social security was a new source of income upon becoming eligible for the minimum benefit, rather than a replacement of lost covered earnings.

The Social Security Amendments of 1977 froze the entry level of minimum beneficiaries at $122 as of January 1979, but allowed cost-of-living increases for these beneficiaries after they become eligible for social security. Under these amendments, anyone becoming eligible for the minimum benefit would initially start drawing benefits based on the minimum primary insurance amount of $122, but would thereafter receive benefit increases based on the Consumer Price Index, as under the prior law.

According to the Social Security Administration, it will take more than 30 years for the freezing action to eliminate minimum benefits.

Recognizing this and considering the financial condition of the social security trust funds, we recommended that the Congress repeal the minimum social security benefit provision for new beneficiaries.

That concludes my comments on the minimum benefit provision. As I mentioned at the beginning of my statement, however, there are additional areas we have identified and reported on where additional savings in the social security program could be realized. These include the phasing out of both post-secondary student benefits and the lump sum death benefit and rounding benefit amounts to the nearest penny or nearest dime. Phasing out student benefits could save about $5 billion over a 5-year period. The Congressional Budget Office estimates that phasing out the death benefit could save about $2 billion during the 1982-1986 period. In 1978, we estimated that rounding social security benefit payments to the nearest penny rather than to the next highest dime would save about $386 million over the next 7 years. Our reports on these and other matters were summarized in our December 1980 report to the Congress "Implementing GAO's Recommendations on the Social Security Administration's Programs Could Save Billions (HRD-81-37).

Also, we expect to issue a report to the Congress in a few weeks which will discuss the need to revise the social security benefit formula to stop the advantage it provides to short-term workers who work for only short periods in employment covered by social security. Such a revision could reduce social security expenditures by an estimated $11 billion to $15 billion over the next 10 years depending on the method used and whether the minimum benefit is eliminated.

That concludes my statement Mr. Chairman, we would be happy to respond to the Committee's questions.