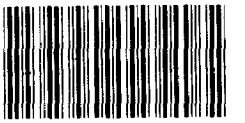
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Revising Social Security Benefit Formula Which Favors Short-Term Workers Could Save Billions



People who have worked for only a short period under social security receive proportionately more for their social security tax dollar than lifetime workers. In this report, GAO presents two alternative formulas for computing benefits which would end this favorable treatment. Adoption of either alternative could save the overburdened social security trust funds from $11 billion to $15 billion over the next decade, depending on the method used.

HRD-81-53
APRIL 14, 1981

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202579

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses an idiosyncrasy of the social security benefit formula. It shows how people who have worked for only a short period under social security receive proportionately more for their social security tax dollar than lifetime workers. The report also identifies two alternative formulas for computing benefits that would end this advantage for the short-term worker and discusses the estimated savings that would result by implementing either alternative.

We recommend that the Congress consider these alternatives for ending this advantage to the short-term worker. The Social Security Administration has estimated that such action could save the social security trust funds as much as $15 billion over the next decade.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Health and Human Services; and the Commissioner of Social Security.

Milton J. Socolar
Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

REVISING SOCIAL SECURITY BENEFIT FORMULA WHICH FAVORS SHORT-TERM WORKERS COULD SAVE BILLIONS

D I G E S T

The social security benefit formula ensures that low wage workers receive a proportionately higher return on their payroll tax contribution than workers with higher wages. This favorable rate of return is based on a "social adequacy" or welfare objective. The formula also provides this advantage to average or high wage earners who work for only short periods under social security (short-term worker advantage), although such an advantage may not be warranted for them. This advantage is created by spreading the worker's covered earnings over a lifetime (including many years with no or only noncovered employment) and applying the resulting artificially low average wage to a benefit formula that, for social adequacy purposes, is favorable for low wage earners. (See pp. 1 to 4.)

B. Short-term workers have contributed a relatively small amount of social security tax because they have had little work in covered employment. They receive, however, a higher return on their contribution than the average wage earner because of the benefit formula used to attain the program's social adequacy objective. In many instances, short-term workers have substantial income in addition to their social security. (See pp. 3, 4, and 9.)

Adverse economic conditions currently threaten the financial stability of the social security program. According to the Social Security Administration, stopping the short-term worker advantage could save as much as $15 billion over the next decade. Stopping the short-term worker advantage could also end "windfall" social security benefits to retired government (Federal, State, and local) workers who also receive a pension from their noncovered employment. (See pp. 7 and 15.)

Tear Sheet. Upon removal, the report cover date should be noted hereon.

MATTER FOR CONSIDERATION OF THE CONGRESS

Because a social adequacy benefit seems inappropriate for the average or high wage earner, and in view of the concern about the financial stability of the social security program, the Congress should consider revising the social security benefit formula to remove the advantage that it provides to the short-term worker. (See p. 19.)

GAO identified two methods of removing the short-term worker advantage:

--The continuation factor approach would allow full benefits only to people who have worked a lifetime in covered employment by adding a step to the benefit computation process which applies a factor based on the portion of a person's lifetime spent in covered employment to the computed benefit amount. (See pp. 10 to 12.)

--The bend point method would limit the amount of each year's earnings that may be applied against the highest rate of the benefit formula. (See pp. 12 to 15.)

AGENCY COMMENTS

The Department of Health and Human Services had no comment on GAO's report. (See app. I.)

Contents

ABBREVIATIONS

AIME	average indexed monthly earnings
CPI	consumer price index
GAO	General Accounting Office
PIA	primary insurance amount
SSA	Social Security Administration

CHAPTER 1

INTRODUCTION

The social security benefit formula is weighted in favor of the low wage worker. Such workers get greater social security payments relative to payroll taxes paid than do average or high wage earners. Because this formula is applied to a "lifetime" average wage in employment covered by social security, the weighting not only helps the lifetime or long-term low wage worker, but also favors the high or average wage earner who had only short-term or sporadic work covered by social security taxes. The weighting advantage is based on a social adequacy or welfare objective which may not be warranted for short-term workers.

HOW BENEFITS ARE COMPUTED

A worker's social security benefit is determined by a multi-step process. First, the worker's covered earnings are updated (indexed) to reflect increases in the average wage of people working under covered employment. These indexed earnings, expressed as a monthly rate, are called average indexed monthly earnings (AIME). The worker's AIME is applied to the benefit formula to determine the individual's primary insurance amount (PIA). The PIA is the monthly amount payable to a worker retiring at age 65 or upon disability. It is also used to determine benefits for workers retiring before age 65 and for dependents and survivors of insured workers. For workers initially qualifying for benefits in 1979, the formula 1/ for computing the PIA is:

90 percent of the first $180 of AIME, plus
32 percent of the next $905 of AIME, plus
15 percent of the AIME above $1,085.

The PIA computed under this formula, however, cannot be less than the minimum PIA of $122, or the special minimum benefit calculated by multiplying $11.50 by the number of years of covered employment 2/ in excess of 10 (and up to 30).

1/This formula was established by the Social Security Amendments of 1977. It is adjusted automatically as average wages increase. For example, the formula for a person becoming eligible in 1980 is: 90 percent of the first $194 of AIME, plus 32 percent of the next $977, plus 15 percent of the AIME above $1,171. Transitional provisions of the 1977 amendments allow workers attaining age 62 in 1979-83 to elect benefits based on the formula existing before the amendments.

2/A year of covered employment for this provision generally requires earnings in that year equal to or greater than one-fourth of the social security tax base.

THE BENEFIT FORMULA IS WEIGHTED FOR SOCIAL ADEQUACY

The social security benefit formula is a compromise between the objectives of individual equity and social adequacy. Individual equity is a reasonable relationship between taxes paid and benefits received. Social adequacy is a welfare objective which attempts to assure everyone of a basic income level. The benefit formula provides individual equity by relating benefits to the earnings on which taxes are paid. This relationship is modified to achieve social adequacy goals by weighting the formula in favor of workers with low average earnings and by a minimum benefit provision.

LOW WAGE WORKERS RECEIVE SIGNIFICANT ADVANTAGE

The weighting of the social security benefit formula and the minimum benefit significantly favor the low wage worker. For example, compare the return of benefits on payroll taxes paid for the average wage earner with that of a low wage earner and that of a beneficiary with the $122 minimum benefit.

Comparison of Return on Taxes Paid

Description	Average wage earner	Low wage earner	Minimum beneficiary
AIME (note a)	$ b/817	$ 248	$ 100
Lifetime social security taxes paid (note c)	5,186	1,578	635
January 1, 1979, PIA	366	184	122
Social security benefits for 1979 (note d)	3,716	1,867	1,239
Portion of taxes returned by 1979 benefits (percent)	72	118	195

a/Earnings indexed to 1977.

b/AIME of a career average earner, age 62 in 1979.

c/This is an estimated tax based on a method discussed on page 6. Actual tax can vary significantly.

d/Based on the January 1979 PIA reduced for retirement at age 62 and increased by the 9.9-percent cost-of-living adjustment effective for the June 1979 benefit.

The effect of the weighted benefit formula and the minimum benefit is evident when comparing the return of the three beneficiaries--the lower the covered earnings, the greater the return on taxes paid.

SHORT-TERM WORKERS ALSO RECEIVE A HIGHER RETURN

The social security computation method allows people who worked intermittently under covered employment the same favorable return on payroll taxes as those who worked under social security throughout their lives at low wages.

For example, assume that three workers retire at age 62 in 1979: a short-term worker who earned average wages while working and two career workers--a low wage earner and an average wage earner. The short-term worker has covered earnings in 7 of the 28 possible years since 1950 (one-fourth of that time) at indexed monthly earnings of $817 during the covered earnings period. The low wage earner has covered earnings in 23 years since 1950 (or the full computation period 1/) at indexed monthly earnings of $248. The average wage earner has the same indexed monthly earnings as the short-term worker ($817), but worked at that wage throughout the period used to compute social security benefits. The following table shows the return on taxes paid for the three workers under the social security computation method.

1/The computation period for social security benefits is generally defined as the number of years between 1950 (or the year the worker turns 21, if later) and the year that the worker attains age 62, becomes disabled, or dies, excluding the 5 years of lowest covered earnings.

Return on Taxes Paid by Short-Term and Career Workers

	Short-term worker	Career workers	
	Average wages	Low wages	Average wages
Monthly indexed earnings:			
While working	$ 817	$ 248	$ 817
Used in formula (AIME) (note a)	248	248	817
PIA (note b)	184	184	366
Taxes paid (note c)	1,578	1,578	5,186
1979 benefits	1,867	1,867	3,716
1979 benefit per tax dollar	1.18	1.18	.72

a/The AIME is based on the total indexed earnings of the highest 23 years since 1950 divided by 276 months (12 x 23).

b/For illustrative purposes in this report, we do not show the effect on PIA of the transitional provisions of the 1977 amendments.

c/This is an estimated tax based on a method discussed on page 6. The actual tax can vary significantly.

The short-term worker with average wages received the same favorable return as the career low wage earner--$1.18 for every dollar in taxes paid. Although the short-term worker's earnings while working were the same as the average wage earner, his or her return was greater ($1.18 for each tax dollar versus $0.72).

The short-term worker advantage may account for as much as two-thirds of a person's benefit. In the above-mentioned example, it is 39 percent--$0.46 ($1.18-$0.72) of each $1.18 of benefits. This advantage is created by spreading the worker's covered earnings over a lifetime 1/ (including many years with no or only noncovered employment) and applying the resulting artificially low average wage to a benefit formula that, for social adequacy purposes, is favorable for low wage earners.

1/A lifetime is considered as the computation period used in the social security benefit formula. See the footnote on the previous page for the general definition of the computation period.

OBJECTIVE, SCOPE, AND METHODOLOGY

During our recent review of minimum social security benefits, 1/ we became aware of the advantage that short-term workers receive from the benefit formula. We believed that this advantage was equal to or greater than the advantage of minimum social security benefits and that stopping this advantage could help the financially troubled social security trust funds. Therefore, we initiated this review of the short-term worker advantage to determine its significance and identify alternative benefit formulas.

Our minimum benefit study and the Advisory Council on Social Security's December 7, 1979, report indicated that individuals who work under social security for short periods often have substantial retirement income other than social security, and that those without additional income may be better served through such means-tested programs as Supplemental Security Income. We did not seek new information on the needs of short-term workers because we believed that the primary issue was that people should not derive an advantage from the benefit formula solely because they had not worked much of their life under social security. Therefore, we sought to identify alternatives to the present benefit computation method and the savings that could result.

We reviewed the legislative history of the benefit formula and studies by various groups, such as the Advisory Council on Social Security and held discussions with Social Security Administration (SSA) officials. Based on this research, we identified two methods of stopping the short-term worker advantage, both of which preserved social adequacy objectives for low wage workers under social security for all or most of their working life. Although there could be many alternatives for stopping the short-term worker advantage, the alternatives we chose will not require significant modification to the benefit formula and will not alter the basic structure of benefits to workers with many years of employment under social security.

We discussed the two alternatives with social security actuaries and asked them whether they had the data base on which to estimate the potential saving to the social security trust funds if either method was implemented. They responded that the data base that they used to estimate the impact of the 1977 amendments to the Social Security Act could be used for this purpose and later gave us the requested estimates. We did not verify the validity of these estimates because of the extensive effort that would be required.

1/"Minimum Social Security Benefits: A Windfall That Should Be Eliminated" (HRD-80-29, Dec. 10, 1979).

In this report, we use the "return on social security taxes" as an indicator of the relative equity between lifetime and short-term workers. While it is useful as such, it should not be used as an indicator of the value of a participant's taxes relative to the value of benefits received. This "return" does not consider the time value of money, future benefit increases, life expectancy of beneficiaries, the insurance value of social security coverage, and many other factors.

The method we use to illustrate the inequity of the short-term worker advantage has pitfalls as any method illustrating this inequity will. This is because we are dealing with an issue that has many variables because it involves both the benefit formula and a person's work history. First, there is not just one social security benefit formula, but rather a basic formula with several alternative formulas. Second, the characteristics of individual work histories are numerous and varied, including some who work in covered employment during only their early working career and others who join the system at an older age, while others have erratic earnings over their lifetime. Finally, the formula that is required in a specific case may not include all of a person's work history.

While we believe that our illustrations are useful in discussing the short-term worker advantage, the method we use to compute a person's "return on social security taxes" is not designed for the analysis of specific individuals. For example, to compute a person's "lifetime" social security taxes we used an estimated tax rate derived from the indexed earnings and social security taxes paid each year by a worker reaching age 62 in 1979 who had earnings equal to the maximum tax base for 1951-78. Then, we applied this single rate to the indexed earnings in only those years that were included in the computation of benefits. The actual lifetime tax for an individual might be quite different than what we would compute with this method because many people have covered earnings in years that are not included in the computation of benefits, and the actual tax rate has not been constant, but has increased over the years.

Our work was done principally at SSA headquarters in Baltimore, Maryland.

CHAPTER 2

CAN SOCIAL SECURITY AFFORD THE SHORT-TERM WORKER ADVANTAGE?

The Advisory Council on Social Security and the Congress have expressed concern over the short-term worker advantage, asking such questions as: (1) do beneficiaries with a few years of covered employment often have other primary means of support and (2) can the trust fund afford to favor beneficiaries who have done little to earn social security? In 1949 the House passed legislation that proposed using a "continuation factor" to remove the short-term worker advantage. The Senate rejected this proposal. However, today circumstances are different, particularly in regard to the solvency of the social security program.

SOCIAL SECURITY FUND FACES AN IMPENDING SHORTAGE

The Board of Trustees for the Federal Old-Age and Survivors Insurance and Disability Insurance trust funds projects that the old-age and survivors fund will be exhausted in late 1981 or early 1982. In its 1980 report, the Board recommended that the shortage be addressed in part by adopting legislation which would allow any of the three social security trust funds 1/ to borrow from each other. While the Board's report projected adequate combined trust fund balances through the end of the 1980s, it warned that revised short range estimates would probably be necessary because of recent adverse economic changes.

Recent SSA estimates show a precariously low combined trust fund balance by the end of 1984. According to these estimates, the balance of the combined funds will be 7.5 percent of anticipated 1985 expenditures. This is less than 1 month's outgo. If this occurred, SSA could not make full payments in January 1985.

The assumptions on which these estimates are based appear optimistic, and if so, the combined funds could run short before 1985. The assumptions include consumer price index (CPI) increases in 1981 and 1982 of 9.7 and 8.9 percent, respectively--low compared to the 1980 increase of 14.3 percent. This tends to show lower benefit increases than would be expected with higher CPI increases. On the other hand, average covered wage increases of 9.7 and 9.8 percent are assumed for the same period. These rates are higher than ever experienced before and tend to show higher revenues than might be expected.

1/Old-Age and Survivors Insurance, Disability Insurance, and Health Insurance trust funds.

The financial stability of the trust funds is more than a short range problem. The Board's 1980 report indicated that interfund borrowing would assure long range (through 2054) solvency of the combined funds only under optimistic assumptions. These assumptions include annual, long range CPI increases of only 3 percent and long range unemployment rates of only 4 percent.

CONCERN OVER THE ADVANTAGE FOR SHORT-TERM WORKERS

The Advisory Council on Social Security expressed concern about the short-term workers' advantage in the social security benefit formula. In its December 1979 report, it stated:

> "* * * people who spend only a relatively small portion of their working lives under social security will generally have been supported at least in part by other sources of income during their lives. Because most such workers will not have relied solely on their own covered earnings during their potential working lives, a benefit that replaces those lost earnings can similarly not be expected to be their sole support in retirement. Attempting to provide a poverty-level benefit to people with a history of less than full-time attachment to the labor force would seriously erode the wage relatedness of benefits and would significantly increase program costs. The job of assuring a minimally adequate income to those part-time workers who are in need is more properly the role of means-tested programs, such as supplemental security income."

Our minimum benefits study 1/ supports the Advisory Council's belief that many people who spend only a relatively small portion of their working lives under social security generally have been supported by other income. Our report showed that most minimum beneficiaries awarded benefits in 1977 had little work in covered employment. Most of those beneficiaries were supported by other income. For example, about 15 percent were retired Federal civil servants supported by Federal pensions and 35 percent were homemakers depending primarily on either their spouse's income or their spouses's social security benefits.

The short-term worker advantage has been labeled a "windfall" when paid to retired government (Federal, State, and local) employees who also receive a pension from their noncovered employment. This is because many government retirees receive a social

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1/"Minimum Social Security Benefits: A Windfall That Should Be Eliminated" (HRD-80-29, Dec. 10, 1979).

security benefit that is weighted in favor of the low wage workers and their low covered earnings are not representative of their true earnings considering covered and noncovered employment. Such an advantage to retired government employees with substantial pensions is particularly inappropriate because the weighting is based on the social adequacy or welfare objective of the social security program. Stopping the short-term worker advantage would eliminate this "windfall" to retired government employees.

Stopping the short-term worker advantage would not affect the "windfall" to retired government employees who had part-time work in employment covered by social security throughout their government career. However, there is no consensus as to what this "windfall" is or even as to whether such a part-time worker receives a "windfall."

In the past, the Congress has been concerned about benefit advantages to short-term workers. In 1939, the House Ways and Means Committee reasoned that an advantage or bonus to workers with few years of covered employment was justified in the early years of the social security program because people had had insufficient time to earn substantial benefit rights. However, the Committee believed that in the long run such bonuses were unwise and endangered the solvency of the system. The formula established in 1939 was designed to increase the adequacy of the system during its early years as well as relate benefits to length of covered employment.

In 1949, the House passed legislation to modify the social security benefit formula. The proposed computation method was similar to the 1939 method except that it used a "continuation factor" to establish a reasonable differentiation between the benefits of short-term and lifetime workers.

The Senate Finance Committee rejected the continuation factor as well as the feature of the formula that related benefits to length of covered employment--a 1-percent increment in the benefit amount for each year of covered employment. The Committee believed that basing benefits on lifetime average earnings provided "sufficient differentiation" between the short-term and lifetime worker. Short-term workers' benefits were smaller because periods without covered employment lowered their average earnings.

Circumstances which may have a bearing on the question of sufficient differentiation are different now than when the continuation factor was rejected. At that time, there was no federally guaranteed minimum income level for aged, blind, and disabled, such as provided by today's Supplemental Security Income program. Also, the Congress had not expressed a concern about social security "windfall" to retired government workers. Perhaps more important, the social security program was not in danger of insolvency.

CHAPTER 3

STOPPING THE SHORT-TERM WORKER ADVANTAGE COULD SAVE BILLIONS

Restructuring the social security benefit formula to remove the advantage provided to people with few years of covered employment could save social security trust funds as much as $15 billion over the next decade.

We identified two methods of removing the short-term worker advantage. One is the "continuation factor" adjusted for use with the current social security benefit formula. An SSA actuary suggested the other method called the "bend point" method.

CONTINUATION FACTOR

The continuation factor removes the short-term worker advantage by allowing full benefits only to people who have worked a lifetime 1/ in covered employment. It does this by adding a step to the benefit computation process, which applies a factor--based on the portion of a person's lifetime spent in covered employment--to the computed benefit amount. For example, persons who worked throughout their lifetime in covered employment would receive all of their computed benefit and those who worked only half of their lifetime would receive 50 percent of their computed benefit.

The following example illustrates how the continuation factor would be applied to a short-term worker whose indexed earnings were $817 a month during the period that he worked. Assume that a worker retires at age 62 in 1979 with indexed wages of $68,628 earned during 7 (84 months) of the 23 years used in computing benefits. Under the 1979 formula, this worker's PIA is $184. Using the continuation factor, the worker's PIA would be $111, computed as follows:

1/A lifetime is considered as the computation period used in the social security benefit formula. See the footnote on page 3 for the general definition of the computation period.

Step 1 Average indexed earnings in years worked:

$$\frac{\$68,628}{84 \text{ months}} = \$817$$

Step 2 Application of the 1979 benefit formula to average earnings:

90 percent of	$180	= $162
32 percent of	637	= 204
	$817	$366

Step 3 Continuation factor for portion of period worked:

$$\frac{28 \text{ quarters (note a) (7 years)}}{92 \text{ quarters (23 years)}} = .304$$

Step 4 PIA: $366 x .304 = b/$111

a/See the footnote on page 16 for the definition of quarters of coverage used in the continuation factor.

b/For illustration, we are showing the computed PIA. Under law, however, a worker's PIA cannot be lower than the $122 minimum benefit. Also, transitional provisions discussed in 1/ on page 1 have not been applied.

The continuation factor is designed to equalize the return on social security taxes for workers who have had equal earnings during the period that they have worked. To illustrate, compare the return under the 1979 formula to that with the continuation factor for (1) the above short-term worker, who had indexed earnings of $817 a month while working and (2) a lifetime worker with the same monthly wage.

Illustration of Continuation Factor Equalizing Return on Taxes Paid

	Under 1979 formula		With continuation factor
	Short-term worker	Lifetime worker	Short-term worker
Monthly indexed earnings	$ 817	$ 817	$ 817
Lifetime social security taxes:	1,578	5,186	1,578
PIA:	184	366	a/111
Monthly benefits (note b)	147	293	89
Total 1979 benefits (note c)	1,867	3,716	1,131
Yearly benefit for taxes paid	1.18	.72	.72

a/For illustration, we are showing the computed PIA. Under current law, however, a worker's PIA cannot be lower than the $122 minimum benefit.

b/Reduced for early retirement.

c/Benefits for January through December 1979 adjusted for the June 1979 benefit increase.

With the present formula, this short-term worker received $1.18 in 1979 social security benefits for each $1 of lifetime social security tax. The person who worked a lifetime at the same wage received 46 cents less. The continuation factor eliminates this inequity and provides the same rate of return to each.

BEND POINT METHOD

The bend point method removes the short-term worker advantage by limiting the amount of each year's earnings that may be applied against the highest rate (90 percent) of the benefit formula to 12 times the first "bend point" of that formula. The first bend point is the AIME above which the benefit formula rate changes from 90 to 32 percent. (See p. 1.) The bend point is $180 for a person retiring at age 62 in 1979. Under this method, the 1979 PIA for the person who had indexed monthly earnings of $817 for each of 7 years would be computed as follows:

Step 1	Lifetime indexed earnings 7 years at $817 a month 16 years at $0 earnings	$68,628	
Step 2	Limit for maximum rate 7 years at $180 a month (7 x 12 x $180)	$15,120	
Step 3	Computation period (23 years)		276 months
Step 4	AIME ($68,628 divided by 276)	$ 248	
Step 5	Amount of AIME at maximum rate ($15,120 divided by 276)	$ 54	
Step 6	Amount of AIME at lower rate ($248 minus $54)	$ 194	
Step 7	PIA: 90 percent of $ 54 = $ 49 32 percent of $194 = 62		
		$111	a/$111

a/Without considering the $122 minimum benefit.

The bend point method gives the same PIA as the continuation factor except when a worker's monthly indexed earnings fluctuate above and below the bend point. For example, assume that the worker used to illustrate the continuation factor on page 11 had monthly indexed earnings of $147 for 2 years and $1,085 for 5 years. The bend point PIA is computed as follows:

Step 1	Lifetime indexed earnings		
	2 years at $ 147 a month	$ 3,528	
	5 years at $1,085 a month	$65,100	$68,628
Step 2	Limit for maximum rate		
	2 years at $147 a month	$ 3,528	
	5 years at $180 a month	10,800	
		$14,328	$14,328
Step 3	Computation period (23 years)		276 months
Step 4	AIME ($68,628 divided by 276)		$ 248
Step 5	Amount of AIME at maximum rate ($14,328 divided by 276)		$ 51
Step 6	Amount at lower rate ($248 minus $51)		$ 197
Step 7	PIA: 90 percent of $ 51 = $ 46		
	32 percent of $197 = 63		
		$109	a/$109

a/Without considering the $122 minimum benefit.

Using the continuation factor, this person's PIA would be $111. The bend point method gives a smaller PIA of $109 because the monthly indexed earnings of each year subject to the 90-percent rate is limited to $180 a month; whereas under the continuation factor, the 90-percent rate is applied to the first $180 of the average indexed monthly earnings during the period worked which allows earnings from years when the monthly indexed earnings were above the $180 bend point to compensate for years when they were below. When a worker's earnings fluctuate like this, the bend point method produces a smaller PIA. Otherwise, the two methods result in about the same benefit.

Some may argue that the continuation factor or bend point method unfairly discriminates against women, because many of them were not working during their childbearing and childrearing years. The continuation factor or bend point method, however, does not unfairly discriminate against women. Either of these changes eliminates an inequity in the social security formula that pays higher benefits to anyone, female or male, who has worked sporadically. The SSA estimates on page 16 indicate that nearly half

of the benefit reduction would apply to male workers or their families.

One possible explanation for why women may be less affected than some might expect is that many retired women who were occasionally employed during their childbearing years are "dual beneficiaries." That is, they are entitled to social security benefits on either their own account or their husband's account, whichever is higher. In such cases, it is less likely that a woman's benefit would be affected by either of the revised computation methods if the benefit from her husband's account was higher than that from her account.

ESTIMATED SAVINGS

SSA estimates (see next page) show potential trust fund savings for the next decade varying from $11.4 billion to $15.6 billion, depending on which method is used. Since the short-term worker advantage cannot be totally removed without eliminating the effect of the $122 minimum benefit provision, the estimates show the potential savings both when the minimum benefit is retained and when it is eliminated in conjunction with the introduction of the new method of computing benefits.

This SSA estimate is based on the assumption that the new method would have applied to workers who attained age 62, became disabled, or died after 1980. Because of inflation, later implementation of the new formula would result in greater savings during the first 10 years. This savings, of course, would continue beyond the 10-year period; and most likely, at an increasing amount. While the total savings are significant, SSA believes that stopping the short-term worker advantage alone would not prevent depletion of the social security trust funds.

Estimated Impact of Restructuring Benefit Formula

Fiscal year (note a)	Trust fund savings			
	With continuation factor		With bend point	
	With minimum	No minimum	With minimum	No minimum
	(millions)			
1	$ 41	$ 47	$ 48	$ 55
2	146	166	171	194
3	291	328	341	382
4	490	567	574	661
5	768	911	896	1,057
6	1,094	1,312	1,270	1,515
7	1,481	1,780	1,706	2,043
8	1,905	2,294	2,181	2,622
9	2,358	2,833	2,690	3,233
10	2,839	3,397	3,233	3,874
10-year savings	$11,413	$13,635	$13,110	$15,636
Beneficiary data				
Portion of beneficiaries awarded lower benefits (percent)	24	29	28	33
Portion of benefit reduction from:				
Female workers	52	54	53	55
Male workers	48	46	47	45

a/This savings will vary depending on how quarters of coverage are defined. For this estimate, quarters of coverage were derived from the indexed earnings in the years used to compute benefits (computation years) with a quarter deemed to be equal to the earnings required for a quarter of coverage in the indexing year.

NEAR MAXIMUM SAVINGS WITHOUT ELIMINATING THE MINIMUM BENEFIT

The greater savings under both methods (see table above) include both (1) eliminating the $122 minimum benefit and (2) removing the short-term worker advantage. Savings near this amount are possible without eliminating the minimum benefit if the continuation factor is required only when the beneficiary has less than full coverage--fewer quarter years of covered employment than

there are in the worker's benefit computation period. When the continuation factor is required, the factored benefit would prevail over the minimum provision; if the factor is not required, the minimum would apply. Using this method, the minimum benefit provision would not be eliminated. It just would not apply to the short-term worker.

Requiring a person to have full coverage before receiving full benefits is not as severe as it may seem. First of all, the 5 lowest years of earnings are not included in the benefit computation. Thus, a worker can have 5 years with no covered employment and not have his or her benefits reduced. Also, a person can earn 1 year of coverage in 1 or 2 months of covered employment (since under the 1977 Social Security Amendments, coverage is based on yearly earnings--in 1978, $1,000 in covered wages earned a year of coverage). Finally, when computing benefits any covered employment after age 62 replaces periods without employment before age 62.

SUBSTANTIAL SAVINGS POSSIBLE WITH LIMITED APPLICATION

To reflect the traditional compromise between social adequacy and individual equity objectives the continuation factor's "full coverage before full benefit" requirement could be modified and still achieve substantial savings. The following schedule shows SSA's estimate of the savings possible by requiring the continuation factor at different covered employment levels.

Savings With Limited Continuation Factor (note a)

Fiscal year	Level of employment required to avoid continuation factor (more than) 3/4	2/3	1/2	1/3
	(millions)			
1	$ 36	$ 31	$ 17	$ 5
2	129	109	59	17
3	254	215	121	34
4	440	374	228	80
5	712	613	385	154
6	1,031	894	569	248
7	1,405	1,218	784	354
8	1,824	1,581	1,027	470
9	2,262	1,963	1,277	600
10	2,714	2,351	1,528	736
10-year total	$10,807	$9,349	$5,995	$2,698

a/Data presented under the assumption that if the continuation factor is required the minimum benefit provision does not apply.

The schedule shows, for example, $10.8 billion savings during the decade if the factor were applied only to people who had covered employment in no more than three-fourths of the computation years.

Limited implementation of the continuation factor has a disadvantage in that it introduces some significant differences between the benefits of people who have just enough quarters to avoid application of the continuation factor and those who fall just a little short. Such a sharp distinction between these people may not be desirable. Also, some of the savings shown on page 17 may not be achieved because of the relatively modest effort required of some people to attain the additional coverage necessary to avoid application of the continuation factor.

CHAPTER 4

CONCLUSION AND MATTER FOR CONSIDERATION OF THE CONGRESS

CONCLUSION

The social security benefit formula favors not only people who have had low earnings over a lifetime of continual employment, but also those whose average earnings are low because of many years without covered employment. While the importance of providing greater replacement of preretirement earnings to those who worked at low wages for a lifetime is well recognized, one could question whether intermittent workers should get a similar advantage. They have not relied on their earnings covered by social security before retirement and often have other primary means of support after retirement. Such an advantage for those with other income may be an unnecessary drain on the social security trust funds. Needy short-term workers could be cared for through a means-tested program, such as Supplemental Security Income.

We identified two methods of removing the short-term worker advantage. SSA estimates that removing the short-term worker advantage could save up to $15 billion during the next decade depending on which method is used and how it is implemented. SSA believes, however, that these savings alone would not prevent depletion of the social security trust funds.

MATTER FOR CONSIDERATION OF THE CONGRESS

Because a social adequacy benefit seems inappropriate for the average or high wage earner and in view of the concern about the financial stability of the social security program, the Congress should consider revising the social security benefit formula to remove the advantage that it provides to the short-term worker.

AGENCY COMMENTS

The Department of Health and Human Services, after reviewing a draft of this report, said in a March 2, 1981, letter to us, that it had no comment. (See app. I.)

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Washington, D.C. 20201

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request of January 30, for our comments on your draft report entitled, "Social Security Benefit Formula Favors Workers Who Paid Social Security Taxes Only a Short Period--Revising the Formula Could Save Billions." We have carefully reviewed your report and have no comments at this time.

Program officials did note some technical questions relating to definitions of terms and computation methodology; however, these problems have been resolved informally with your office and appropriate clarification will be reflected in the final report.

Thank you for the opportunity to comment on this draft report before its publication.

Sincerely yours,

Bryan Mitchell
Bryan B. Mitchell
Acting Inspector General

Enclosure

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