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UNCREDITED EARNINGS FOR SOCIAL SECURITY

Statement of
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and Employment
Select Committee on Aging
House of Representatives

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SUMMARY

An estimated 9.7 million individuals with earnings in the years 1978 through 1984 did not receive credit for social security purposes for some of their earnings. The Social Security Administration (SSA) recorded about $58.5 billion less in individuals' earnings than the Internal Revenue Service (IRS) for these years.

Slow progress by SSA and IRS in resolving these differences in employee earnings as recorded by the two agencies has resulted in a backlog of 3 million unreconciled reports as of October 1986. A major factor has been SSA's delay in taking action once IRS said its resources precluded reconciling all reports. SSA or IRS needs to contact about 2.5 million employers to try to determine whether SSA did not record some earnings for their employees.

Uncredited earnings can affect social security benefits. A nonprojectable sample of current beneficiaries with uncredited earnings showed that 1 in 4 had their benefits affected. When beneficiaries were affected by the uncredited earnings, they lost on average nearly $17 a month. For those with uncredited earnings but not yet receiving benefits, 3 of every 5 faced a similar possible loss.

Causes for the differences in employee earnings recorded by SSA and IRS, which continue to occur for over 500,000 employers each year, need to be determined. GAO recommended that SSA and IRS develop and pursue a strategy for reconciling existing differences and act to prevent or reduce future occurrences.

The differences in earnings recorded by the two agencies raise questions about the amount of tax revenue to which SSA is entitled. Because SSA receives tax revenues throughout the year but is entitled to retain tax revenues based only on the earnings in its records, SSA could have to return that portion of tax revenues attributable to such uncredited earnings, an amount that totaled $2.8 billion as of March 1987 for earnings from 1978 through 1982. GAO believes the Congress should indicate whether SSA should retain or return to the Treasury such amounts.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our recent report on a longstanding operating problem of the Social Security Administration and the Internal Revenue Service: reconciling the differences in employer reports of employee earnings made separately to the two agencies.

Our report (Social Security: More Must Be Done to Credit Earnings to Individuals' Accounts, GAO/HRD-87-52, Sept. 18, 1987) estimated that about 9.7 million persons had earnings during the years 1978 through 1984 that have not been credited to their Social Security earnings records. Some of these individuals were receiving less in benefits than they were entitled to. We made several recommendations to the Departments of Health and Human Services and the Treasury to identify and correct the causes of the differences in their records and to develop a strategy to resolve the more than 3 million reports that need to be resolved. I will summarize our findings for you briefly by discussing

-- why there are differences in amounts each agency has recorded for employers and the extent of the problem,

-- why SSA and IRS have been slow in resolving the differences, and

-- how workers and beneficiaries have been affected.

I will also discuss why SSA's recording less earnings than employers reported to IRS could result in SSA having to return to Treasury the taxes paid on such earnings.

EXTENT AND CAUSES OF EARNINGS RECORDING DIFFERENCES

Employers report employees' earnings to SSA and IRS at different times and for different purposes. Employers report annually to SSA the earnings for each employee and a total of all employees' earnings. Employers report quarterly to IRS only the collective total of the earnings paid to all employees. This dual reporting was intended to enable employers to report earnings quarterly for tax purposes but only annually for each employee, thereby minimizing the administrative burden on employers.

IRS compares the annual total employers reported to SSA with the total of the four quarterly earnings amounts employers reported to IRS. Then, IRS is supposed to work with SSA to ensure that both agencies have received all reported earnings amounts for their agency missions. For the years 1978 through 1984, SSA recorded $58.5 billion less than IRS in employee earnings. Although this is a large amount, it represents only 0.8 of 1 percent of the $7.4 trillion that SSA credited to employees' earnings records for those years.

IRS is usually concerned that the employers reported more earnings to SSA than to IRS because that means that taxes are due on earnings not reported. SSA is usually concerned that the employers reported more earnings to IRS than to SSA; this means that employees' earnings were not credited to their Social Security accounts. By working together, the agencies can address their respective concerns.

While the problem of earnings reporting differences dates back to 1978--with the advent of the current system of combined annual wage reporting, which caused some employer confusion in reporting --the reasons for such reporting differences are not fully understood. SSA has twice conducted studies of the reasons for the growth in differences (from 171,000 in 1977 to about 582,000 in 1978 and in excess of 500,000 each subsequent year), but it has not been able to fully determine the causes of the problem. Some of the reasons identified include employers reporting only to IRS, employers providing different identification numbers to each agency, and SSA or employers recording incorrect amounts.

SSA AND IRS HAVE BEEN SLOW TO RESOLVE DIFFERENCES

SSA and IRS have not worked well together to resolve identified differences in employers' earnings reports. By January 1986, unresolved differences in employee earnings amounts involved 3.5 million reports of 2.5 million employers for 1978-83. Although IRS had agreed to resolve such differences when the current reporting system began, by 1980 it had concluded that it was unable to do so. Each year IRS has reconciled and resolved some differences but has left unresolved at least 500,000 reports. Resolution of the unreconciled reports generally will require contacting the employers involved. SSA decided not to address the unreconciled reports because it believed IRS should do so.

Disagreement between SSA organizational components and a reluctance to commit additional resources to address the problem permitted the unresolved reports to increase. In early 1986, after maintaining since 1978 that resolving the differences was IRS's responsibility, SSA began attempting to resolve reports that IRS did not. As of October 1986, SSA had more than 3 million reports that had not been resolved. Today, this backlog remains sizable because more than 500,000 employer reports for 1984 have been added to the workload.

The need for larger than anticipated resources to deal with the earnings reporting differences was not addressed by either agency. As we see it, this backlog of unreconciled employers' earnings reports resulted because SSA was slow to act once IRS said its resources precluded the reconciling of all reports. The contributing factors were SSA's organizational structure, which diffuses responsibility; the absence of leadership and a financial management focal point and perspective; and pressures to reduce staff.

This dilemma could not be easily resolved by SSA's top management because, at the time of conflict, the two key organizational components responsible for the correcting action could not agree on how to solve the problem with existing resources. Another force working against SSA's resolution was the interagency agreement itself, which caused SSA to insist that IRS do what it had initially agreed to do. The planned reduction of 17,000 staff over 6 years that SSA announced in December 1985 also may have created additional pressures for SSA to refrain from committing resources to address the problem.

Despite a realization by SSA and IRS staff at the operational levels that the unreconciled workload continued to grow, top SSA management took no action to resolve the disagreement with IRS or initiate action on its own.

UNCREDITED EARNINGS CAUSE LOWER BENEFITS

Whether individuals who have not yet received credit for earnings will have their eligibility or benefit amounts affected depends on a number of factors. Two key factors are the number of years worked and the amount of earnings. If, for example, the amount of uncredited earnings represented all or part of the annual earnings for 1 of the 5 years of a worker's lowest earnings years, it would not matter that Social Security did not credit the worker's account in that particular year, because Social Security excludes the 5 years of lowest earnings in determining the worker's benefit entitlement. Also, workers can and do check their social security earnings record at any time and, upon providing evidence of any earnings not recorded, can have their record corrected.

Although not all persons with uncredited earnings will have their benefits affected, in reviewing the records of 137 beneficiaries with missing or discrepant wage reports in 1980 and 1981, we found that for half of the beneficiaries, uncredited earnings had not been considered in calculating benefits. Inclusion of the uncredited earnings entitled one of every two of these beneficiaries to an average of about $17 more each month. Accumulated monthly benefits should have been higher by an average of $456. We also measured the effect uncredited earnings could potentially have on 5,700 individuals who were still working and had uncredited earnings. We found that three of every five faced the possible loss of monthly Social Security benefits also averaging about $17.

SOCIAL SECURITY TRUST FUNDS RETAIN TAX MONEY FOR EARNINGS NOT CREDITED

By law, the amount of Social Security tax money SSA is entitled to is based on annual earnings recorded in accounts for individuals. SSA receives tax revenues based on the quarterly earnings amounts employers report to IRS. SSA considers these earnings amounts to be "interim estimates" of what it will eventually record. As pointed out, from 1978 through 1984, SSA has recorded $58.5 billion less in earnings than IRS. Social Security has received $7.7 billion in Social Security taxes related to this $58.5 billion.

The law requires the Secretary of Health and Human Services to certify the earnings amounts SSA recorded because Social Security is entitled to retain tax revenues based on that amount only. The law does not specify a time by which earnings for a given year must be certified. SSA has not certified any earnings since 1978. For 1978-82, years for which employers are no longer required to maintain wage data that could be needed for future reconciliation, SSA could have to return $2.8 of the $7.7 billion to the Treasury, based on SSA's records as of March 1987. An additional $4.9 billion of tax revenue is related to the unrecorded 1983-84 earnings. The Congress may want to specify whether SSA should retain or return to the Treasury such amounts.

Mr. Chairman, that concludes my statement. We would be pleased to answer any questions.