

September 1998

SSA BENEFIT ESTIMATE STATEMENT

Adding Rate of Return Information May Not Be Appropriate



**Health, Education, and
Human Services Division**

B-280622

September 2, 1998

The Honorable Jim Bunning
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel P. Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

To provide the public with information about the Social Security program, the Congress enacted a law that requires the Social Security Administration (SSA) to provide to individuals regular statements that estimate the benefits they may receive through the program.¹ In 1995, SSA began sending Personal Earnings and Benefit Estimate Statements (PEBES) automatically to workers who had reached age 60. Starting in fiscal year 2000, the PEBES will be sent annually to almost every U.S. worker aged 25 and older—an estimated 123 million people each year. These six-page statements provide workers with a list of their yearly earnings on record at SSA, information about their eligibility for benefits, and estimates of these benefits. (The 1998 PEBES is reprinted in app. I.)

Recently, in the course of the debate regarding how to restore long-term solvency for the Social Security program, legislation has been proposed that would require SSA to place on the PEBES an individualized estimate of the rates of return workers receive on their contributions to the Social Security program. The purpose of the proposal is, in part, to provide information that would enable workers to compare the current Social Security program with other investments, including alternatives being discussed in the reform debate.

In light of this proposal, you asked us to look at (1) the general implications of using a rate of return for Social Security and (2) the challenges of including this information on the PEBES. To respond to your request, we relied on our ongoing work on calculating and using rates of return, which includes an extensive review of the literature on this issue,

¹P.L. 101-239 and P.L. 101-508.

and our prior work on the usefulness of the PEBES.² In addition, we obtained relevant information from SSA officials and other experts. We conducted our work in June and July 1998 in accordance with generally accepted government auditing standards. In our ongoing work on rates of return, we will more fully address the extent to which Social Security and private market rates of return can be compared.

Results in Brief

There is substantial disagreement about whether the rate of return concept should be applied to the Social Security program. Supporters of such an application point out that a rate of return would provide individuals information about the return they receive on their contributions to the program. However, others contend that it is inappropriate to use rate of return estimates for Social Security because the program is designed to pursue social insurance goals, such as ensuring that low-wage earners have adequate income in their old age or that dependent survivors are adequately provided for. In addition, calculations for rates of return rely on a number of assumptions that affect the resulting estimates. For individuals, the actual rates of return can vary substantially from the estimates due to various uncertainties, such as a worker's actual retirement age and future earnings. To be clearly understood, the underlying assumptions and their effect on the estimates should be explained in any presentation of rate of return information. Furthermore, comparing rate of return estimates for Social Security with estimates for private investments could be difficult for various reasons. For example, the comparisons would need to indicate whether the estimates for other investments include the transaction and administrative costs and the differences in risk associated with the Social Security trust funds and private investments.

Providing rate of return information on the PEBES could further complicate and lengthen an already complex and difficult-to-understand statement. In our previous work, we concluded that the current PEBES is too long and its explanations of Social Security's complex programs are not easy for the public to understand. Adding rate of return estimates to the PEBES would require detailed explanations about how the calculations were made and what assumptions were used about the individual. In addition, SSA would need to caution PEBES recipients about comparing a rate of return for Social Security with rates for private investments.

²SSA Benefit Statements: Well Received by the Public but Difficult to Comprehend (GAO/HEHS-97-19, Dec. 5, 1996).

Background

PEBES legislation required SSA to begin sending benefit estimate statements to workers aged 60 and older in fiscal year 1995 and to those turning 60 during each fiscal year from 1996 through 1999; starting in fiscal year 2000, SSA must send the PEBES annually to almost every worker aged 25 and older.³ However, to better manage the expected workload, SSA officials are sending the PEBES to many workers ahead of schedule. As a result, most workers aged 40 and older—about 65 million—will have received their first statement by the end of 1998.

The PEBES was conceived as a means to inform the public about the benefits available under the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs, which together are commonly known as “Social Security.” These programs provide monthly cash benefits to retired and disabled workers and their dependents and survivors. The benefit amounts are based primarily on a worker’s earnings. By providing individual workers with a listing of their yearly earnings on record at SSA and estimates of the benefits they may receive, SSA hopes to better ensure that its earnings records are complete and accurate and to assist workers in planning for their financial future.

As a result of profound demographic changes—such as the aging of the baby boom generation and increasing life expectancy—Social Security’s yearly expenditures are expected to exceed its yearly tax revenue beginning in 2013. Without corrective legislation, the trust funds are expected to be depleted by 2032, leaving insufficient funds to pay the current level of benefits. As a result of the financial problems facing the program, a national debate on how to ensure Social Security’s solvency has begun and will likely intensify. Ensuring long-term solvency within the current program structure will require either increasing revenues or reducing expenditures, or some combination of both. This could be achieved through a variety of methods, such as raising the retirement age, reducing inflation adjustments, increasing payroll taxes, and investing trust fund reserves in securities with potentially higher yields than the U.S. Treasury securities currently held by the trust funds.

Some options for change, however, would fundamentally alter the program structure by setting up individual retirement savings accounts managed by the government or personal security accounts managed through the private sector. Both of these options would permit investments in potentially higher yielding securities. Proponents of adding

³SSA must send a PEBES to those who are at least 25 years old, have a Social Security number, have wages or net earnings from self-employment, are not receiving Social Security benefits, and have a current address obtainable by SSA.

rates of return to the PEBES believe these rates would provide individuals with information on the current program and enable them to compare their rate of return for Social Security with rates for other investments.

Using Rate of Return Estimates for Social Security Poses Challenges

Analysts disagree about whether it is appropriate to use rates of return to evaluate the Social Security program and the options for reform. Furthermore, using rates of return for Social Security presents a number of difficulties. Estimates would be based on a variety of assumptions, such as how long the worker is expected to live after retirement, and other decisions, such as whether to include disability benefits. These uncertainties and how they affect individual rates of return would need to be explained. Also, comparing rates of return for Social Security with rates for private market investments presents a variety of difficulties, such as how to handle transaction costs and the differences in the level of risk, which also need to be accounted for in the comparison.

Social Security contributions are mostly used to pay benefits to current beneficiaries and are not deposited in interest-bearing accounts for individual workers. In fact, benefit payments to any given individual are derived from a formula that does not use interest rates or the amount of contributions. Still, the benefits workers will eventually receive reflect a rate of return they implicitly receive on their contributions. This rate of return is equal to the average interest rate workers would have to receive on their contributions in order to pay for all the benefits they will receive from Social Security.⁴

Analysts Disagree on Using a Rate of Return for Social Security

As part of the Social Security reform debate, some analysts contend that comparing rates of return for Social Security with rates for the private market will help individuals understand that they could have potentially higher retirement incomes with a new system of individual retirement savings accounts. Moreover, they believe that the new system would produce real additions to national saving. In turn, new saving would generate economic and productivity growth that yields real returns to society and to consumers. They assert that Social Security, in contrast, only transfers income from taxpayers to beneficiaries, detracts from saving and long-term economic growth, and produces no real economic returns.

⁴A more technically precise definition of the rate of return for Social Security contributions would be the constant discount rate that equates the present discounted value of contributions with the present discounted value of benefits.

Other analysts, however, contend that the rate of return concept should not be applied to Social Security for various reasons. First, they observe that Social Security is a social insurance program that helps protect workers and retirees against a variety of risks over which they often have little control, such as the performance of the economy and inflation. For example, the Social Security program is designed to help ensure that low-wage earners have adequate income in their retirement. Second, some analysts observe that Social Security simply transfers money from taxpayers to beneficiaries and is not designed to provide returns on contributions. Third, some analysts believe that the full value of the program cannot be determined solely by comparing monetary benefits and contributions. For example, individuals benefit from Social Security in other, more general ways through reductions in poverty and being relieved of providing for their parents and other beneficiaries through some other means.

Rate of Return Estimates for Individuals Are Uncertain and Require Explanation

Rate of return estimates will vary according to what contributions and benefits they include. Moreover, actual rates of return for individuals will differ substantially from estimates due to the uncertainty of several factors, such as how long they will live, how much they will earn, and what size families they will have. To be clearly understood, rate of return estimates for Social Security need an explanation of how they are calculated and how uncertain the estimates are.

Deciding Which Contributions and Benefits to Include

Estimates of rates of return on contributions need to be clear about which benefits are included. For example, Social Security provides benefit payments to many individuals other than retired workers. In 1996, retired workers accounted for 61 percent of all Social Security beneficiaries, and they received 68 percent of the benefits. Other beneficiaries include disabled workers, survivors of deceased workers, and spouses and children of retired and disabled workers. If the calculations include the full range of benefits provided by the Social Security program, rather than retirement benefits alone, then the calculations would also need to include the full range of contributions made for those benefits. Conversely, if the calculations include only the retirement portion of the benefits, then the contributions would need to be reduced accordingly.

Social Security contributions are made by employers as well as employees. Currently, both the individual and the employer pay a 6.2 percent tax on

covered earnings for OASI and DI combined.⁵ Most rate of return estimates prepared by analysts include both the employer and employee shares; however, some analysts believe the employer contributions should not be included. Analysts using both employer and employee contributions argue that employees ultimately pay the employer share because employers pay lower wages than they would if the employer contribution did not exist. Furthermore, estimates that leave out the employer contributions reflect the full benefits but not the full costs of providing those benefits.

A number of other issues affect benefits, contributions, or both and would need to be disclosed with the rate of return estimate. For example, Social Security benefits are automatically adjusted for inflation. In addition, even if the disability benefits and corresponding contributions are not included in the return estimates, OASI benefits provided for families of workers who die before retirement should be included. Finally, how much individuals contribute and how much they receive in benefits depend on when they retire and whether they continue to work while receiving benefits; this could be addressed by assuming a standard retirement age.

Factors Contributing to Uncertainty of Estimates

Many factors that would be included in rate of return estimates for Social Security are subject to considerable uncertainty, and these uncertainties mean that the actual rates of return that individuals receive could vary substantially from their estimates. Such factors include how long individuals will live, how much they will earn in the future, whether their contributions will also entitle their spouses or children to benefits, and what changes the Congress may make to contribution and benefit levels. These uncertainties suggest that individual estimates would be very rough and might best be described as a range of rates. The literature examining rates of return almost always discusses them in the context of the reform debate and, therefore, examines average rates for large groups of people with similar characteristics, such as birth year, income level, and gender. Such average group rates can be estimated with a reasonable degree of accuracy and precision, but an individual's actual experience may be dramatically different.

Rate of return estimates depend fundamentally on individual earnings histories, which are used to project workers' future earnings, calculate their benefits, and estimate the amount of their contributions. Because rate of return estimates for Social Security rely on projected earnings, they are inherently uncertain. In addition, younger workers' rates of return

⁵Self-employed workers pay a contribution rate of 12.4 percent, half of which is tax deductible as a business expense.

would be even more uncertain since they have more years for which earnings need to be projected.

Under the current program structure, rate of return estimates would also need to reflect additional benefits provided by workers' contributions. Their contributions not only entitle workers to retirement benefits but also entitle their spouses and children to survivor and dependent benefits. However, SSA's records do not include information on whether a worker has a spouse or children unless and until such dependents apply for benefits based on the worker's record. Moreover, neither SSA nor the workers can be certain who will have spouses, children, or survivors who might collect benefits based on the workers' earnings records and how long their dependents will collect these benefits.

In addition, in many families, both the husband and wife work and one may be "dually entitled" to benefits based on both workers' records. Individuals are entitled to receive either a benefit based on their own earnings or a benefit equal to 50 percent of the benefit calculated from their spouse's record, whichever is greater. As a result of this benefit option, a dually entitled couple's rate of return on their contributions is generally different than their individual rates. However, SSA has no way to connect a working couple's two individual earnings records until one applies for benefits based on the other's records.

Factors to Consider When Comparing Rates of Return for Social Security and Private Market Investments

While some analysts have sought to compare rate of return estimates for Social Security with rates of return for private market investments—such as stocks, bonds, or savings accounts—these comparisons are not as straightforward as they first appear. Explanations would be needed to understand a number of important factors, including whether the rates of return incorporated the transaction and administrative costs for investments or annuities, the differences in risk associated with Social Security and private investments, and the questions of how to treat the costs of the benefits promised under the current system when switching to any other retirement system.

Under typical Social Security privatization proposals, individual retirement savings accounts would offer workers the potential to receive higher rates of return on private investments than their Social Security contributions implicitly receive. However, private investments would entail a variety of transaction and administrative costs of their own, and these would vary depending on the nature of the proposal. For example, stockbrokers

charge commissions for making trades, and mutual fund managers are compensated for managing the funds. Reflected in such costs are marketing and advertising expenses incurred as money managers and brokers compete for investors' business. In contrast, SSA does not maintain actual accounts for each individual but rather keeps records of earnings. Administrative costs for Social Security's OASI program are less than 1 percent of annual program revenues. Accurate rate of return comparisons would need to look at the rates after adjusting for expenses.

Accurate rate of return comparisons also need to take into account the differences in risk associated with those rates. Over long periods of time, riskier private market investments, such as stocks, on average earn higher rates of return than less risky ones, such as government bonds. The riskier the investment, the greater the variation in possible investment earnings. By the same token, the riskier the investment made with retirement savings, the greater the variation in possible retirement incomes.

Finally, if rates of return for Social Security are compared with rates for alternative reform proposals, the comparisons should indicate whether the rates for the alternatives take into account the costs of the benefits promised under the current Social Security program. Any rate of return comparisons should include these transition costs and not be limited to the return on private investments.

Presenting Rate of Return Information Would Complicate PEBES

The PEBES aims to provide information about the complex programs and benefits available through the Social Security program; however, the current statement is already lengthy and difficult to understand. Adding a rate of return, along with the corresponding narrative that would be needed to understand all of the underlying assumptions and uncertainties, would further complicate PEBES' message. In addition, placing rate of return information on the statement would add significantly to SSA's workload, according to SSA officials.

Current PEBES Does Not Communicate Clearly

Although the PEBES is intended to be a tool for communicating with the public, we raised concerns about the usefulness of the statement in a 1996 report.⁶ We reported that although the public feels the statement can be a valuable tool for retirement planning, the current PEBES provides too much

⁶GAO/HEHS-97-19, Dec. 5, 1996.

information and fails to communicate clearly the information its readers need to understand SSA's current programs and benefits.⁷

Comments from SSA's public focus groups, SSA employees, and benefit experts indicate that the statement contains too much information. For example, SSA reported in a 1994 focus group summary that younger workers aged 25 to 35 wanted a more simplified, one-page statement with their estimated benefits and contributions. In addition, SSA telephone representatives said that they believe most people calling in with questions have read only the section of the statement that provides the benefit estimates.

Since the PEBES addresses complex programs and issues, explaining these points in straightforward language can be challenging. Although SSA officials told us they attempt to use simple language geared for a seventh-grade reading level, feedback from the public and SSA staff indicates that readers are confused by several important explanations. For example, the public frequently asks about PEBES' explanation of family benefits. Family benefits are difficult to calculate and explain because the amounts are based on information from both spouses' records and SSA does not maintain information that links individuals' records with those of their spouses. In addition, many people ask for clarification on certain terms used in the statement and on how their benefit estimates are calculated.

Based on our recommendation, SSA is working on simplifying the PEBES. Agency officials are currently testing four alternative versions of the statement, and they plan to use the redesigned version of the PEBES for the fiscal year 2000 mailings.

Rate of Return Information Would Further Complicate PEBES

For rate of return information on the PEBES to be understood, SSA would need to (1) decide how much information to provide and (2) explain it in simple straightforward language—language that could be easily understood by the diverse population of workers slated to receive the statement. SSA would first need to define rate of return and explain that individuals' rates could vary substantially from the estimates. In addition, readers would need to be cautioned that changes in the Social Security program due to long-term financing problems could affect their rates of return. Furthermore, SSA would need to explain the factors included in the

⁷We reviewed the 1996 statement; however, the 1998 statement has the same format and contains identical narrative, except for the opening message from the Commissioner of Social Security.

calculation and all the underlying assumptions and uncertainties. As discussed previously, these would include

- the amounts that were used for the worker's future earnings,
- whether the estimate includes the disability contributions and potential benefits,
- whether employer's contributions were included along with the worker's,
- the worker's expected retirement age,
- the worker's life expectancy after retirement, and
- how the estimate would vary if the worker's spouse or children qualify for benefits on the worker's record.

The PEBES currently addresses how the benefit estimates treat some of these factors—future earnings, retirement ages, and family benefits. However, rate of return estimates are even more sensitive to these issues than benefit estimates; therefore, they would require further explanation. For example, the PEBES currently explains that the worker's future earnings are projected to remain the same as the latest earnings on record. A rate of return estimate based on a steady level of earnings would be different from one in which the earnings vary. In addition, since the PEBES provides benefit estimates at three retirement ages, the statement would need to explain which of the three ages was used for the individual's rate of return estimate. Finally, the statement's complicated discussion of family benefits, which explains that the amount of these benefits is dependent on the worker's benefit and the number of people in the family who would receive benefits, would need to be expanded. The explanation would need to indicate whether the individual's rate of return estimate incorporates any family benefits and what effect family benefits would have on the individual's rate of return.

Along with the explanations needed for the rate of return itself, PEBES recipients would need to be cautioned regarding the limitations of comparing a rate of return on Social Security with rates for alternative investments. Before making comparisons, recipients would need to know that the rate of return presented on their PEBES may need to be adjusted for other factors. As discussed earlier, these factors would include

- the difference in administrative costs of the alternative investments,
- the difference in the level of risk associated with the alternative investments, and
- how the costs of the benefits promised under the current program are treated.

Furthermore, according to SSA, placing rate of return information on the PEBES would add significantly to workloads across the agency. For example, officials stated that they would expect the volume of calls about the rate of return information to dramatically increase their workload. Staff would need training to be prepared to respond to inquiries regarding the individual rates of return as well as how the rates compare with those for other investments. In addition, SSA officials said significantly changing the PEBES would be difficult to do in a timely manner. If individualized rates of return were to be added, SSA would need time to prepare the calculation, develop the explanations that would be needed to accompany the rates, test the new statement, make programming changes, and renegotiate the PEBES printing and mailing contract.

Conclusion

Given the disagreement over whether it is appropriate to apply the rate of return concept to the Social Security program and the number of assumptions that must be factored into such an estimate, it would be especially important to fully explain how the rate was calculated and how uncertain the estimate could be. However, it has already been difficult to develop a PEBES that provides readily understandable information on the existing programs and benefits alone. Adding rate of return information could significantly increase the statement's length and undermine SSA's current efforts to shorten and simplify it. Given the detailed explanations that would be needed along with the estimates, adding rate of return information to the PEBES would most likely complicate an already complex statement.

Agency Comments

We obtained comments on a draft of this report from SSA. SSA agreed with our overall conclusions and said the report reflects the difficulties the agency would face in placing understandable rate of return information on the PEBES. In addition, SSA pointed out that it is working hard to make the information currently provided in the PEBES easy for readers to understand and use and agreed that adding rate of return information would increase the complexity of the statement. Finally, SSA provided technical comments, which we incorporated in this report where appropriate. SSA's general and technical comments are reprinted in appendix II.

We are sending copies of this report to the Commissioner of Social Security. Copies will also be made available to others on request. If you or

your staff have any questions concerning this report, please call me or Kay E. Brown, Assistant Director, on (202) 512-7125. Other major contributors to this report include R. Elizabeth Jones, Evaluator-in-Charge, and Kenneth C. Stockbridge, Senior Evaluator.

A handwritten signature in black ink that reads "Barbara D. Bovbjerg". The signature is written in a cursive style with a large, stylized initial "B".

Barbara D. Bovbjerg
Associate Director, Income Security Issues

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Abbreviations

DI	Disability Insurance
OASI	Old Age and Survivors Insurance
PEBES	Personal Earnings and Benefit Estimate Statement
SSA	Social Security Administration

Personal Earnings and Benefit Estimate Statement

Your Personal Earnings and Benefit Estimate Statement from the SOCIAL SECURITY ADMINISTRATION



February 1, 1998

JOHN Q PUBLIC
123 MAIN ST
WASHINGTON DC 20225

A Message from the Commissioner

We are pleased to provide you with your Personal Earnings and Benefit Estimate Statement. We hope you'll find it useful in planning your financial future. The statement shows the estimated amount of benefits, under current law, that you and your family may be eligible for now and in the future. It also lists the earnings your employers (or you, if you're self-employed) have reported to Social Security.

Social Security helps people of all ages in many ways. Whether you're young or old, male or female, single or with a family, Social Security can help you when you need it most. It can help support your family in the event of your death and pay you benefits if you become severely disabled. But it was never intended to be your only source of income when you retire or become disabled, or your family's only income when you die. Social Security supplements the income you have through pension plans, savings, and investments.

Some people are concerned that Social Security will not be there for them when they retire. The program has evolved in the past to meet the demands of the times and will need to do so again. Today, the challenge is how to resolve long-range Social Security financing problems. Although future changes could affect the overall level of benefits received, we are working to find responsible solutions so you and your family will benefit from this critical program in the future as your parents and grandparents have benefited in the past.

Kenneth S. Apfel
Commissioner of Social Security

You and Your Social Security

This statement provides information about your own Social Security record only. It does not talk about Social Security benefits you are now getting or might get in the future on anyone else's record. We used the following information to prepare your statement:

Your Name.....	John Q Public
Your Social Security Number	999-99-9999
Your Date of Birth	February 8, 1948
Estimated Future Earnings 1998 On.....	\$ 33,962
Other Social Security Numbers Also Assigned to You.....	None

I 00300

F000001

**Appendix I
Personal Earnings and Benefit Estimate
Statement**

Your Social Security Earnings

On page 4, we explain more about covered earnings and Social Security and Medicare taxes. The following chart shows your reported earnings. It may not show some or all of your earnings from last year because they are not yet recorded. This year's earnings will not be reported to us until next year.

If your own records do not agree with the earnings amounts shown, please contact us right away.

Years	Social Security			Medicare		
	Maximum Taxable Earnings	Your Reported Earnings	Estimated Taxes You Paid	Maximum Taxable Earnings	Your Reported Earnings	Estimated Taxes You Paid
1937-50	\$3,000	\$ 0	\$ 0			
1951	3,600	0	0			
1952	3,600	0	0			
1953	3,600	0	0			
1954	3,600	0	0			
1955	4,200	0	0			
1956	4,200	0	0			
1957	4,200	0	0			
1958	4,200	0	0			
1959	4,800	0	0			
1960	4,800	0	0			
1961	4,800	0	0			
1962	4,800	0	0			
1963	4,800	0	0			
1964	4,800	0	0			
1965	4,800	0	0			
1966	6,600	0	0	6,600	\$ 0	\$ 0
1967	6,600	0	0	6,600	0	0
1968	7,800	2,816	107	7,800	2,816	16
1969	7,800	4,441	186	7,800	4,441	26
1970	7,800	3,334	140	7,800	3,334	20
1971	7,800	5,513	253	7,800	5,513	33
1972	9,000	6,835	314	9,000	6,835	41
1973	10,800	7,703	373	10,800	7,703	77
1974	13,200	9,067	448	13,200	9,067	81
1975	14,100	10,796	534	14,100	10,796	97
1976	15,300	11,755	581	15,300	11,755	105
1977	16,500	12,622	624	16,500	12,622	113
1978	17,700	13,359	674	17,700	13,359	133
1979	22,900	14,745	749	22,900	14,745	154
1980	25,900	18,047	916	25,900	18,047	189
1981	29,700	19,003	1,016	29,700	19,003	247
1982	32,400	21,133	1,141	32,400	21,133	274
1983	35,700	22,657	1,223	35,700	22,657	294
1984	37,800	23,829	1,286	37,800	23,829	309
1985	39,600	24,619	1,403	39,600	24,619	332
1986	42,000	26,372	1,503	42,000	26,372	382
1987	43,800	25,587	1,458	43,800	25,587	371
1988	45,000	27,424	1,661	45,000	27,424	397
1989	48,000	26,642	1,614	48,000	26,642	386
1990	51,300	26,876	1,666	51,300	26,876	389
1991	53,400	27,752	1,720	125,000	27,752	402
1992	55,500	30,748	1,906	130,200	30,748	445
1993	57,600	29,240	1,812	135,000	29,240	423
1994	60,600	32,439	2,011	No Limit	32,439	470
1995	61,200	32,602	2,021	No Limit	32,602	472
1996	62,700	33,962	2,105	No Limit	33,962	492
1997	65,400	Not Yet Recorded		No Limit	Not Yet Recorded	
1998	68,400			No Limit		
Total estimated Social Security taxes paid			\$ 31,445	Total estimated Medicare taxes paid \$ 7,170		

**Appendix I
Personal Earnings and Benefit Estimate
Statement**

**Your Estimated
Social Security
Benefits**

Your work under Social Security helps you and your family qualify for the kinds of benefits described below. For each benefit, you need a certain number of work credits. Once you have enough credits, your benefit amount depends on your average earnings over your lifetime. We used the earnings in the chart on page 2 to estimate your credits and benefits. We assumed you will continue to work and make about the same as the latest earnings shown on your record for 1996 or 1997. If you do not continue to work and earn at least this amount, the credits and benefit estimates could be wrong. (Page 5 tells more about credits and benefit estimates.)

**Retirement
Benefits**

To get Social Security retirement benefits, you need 40 credits. That is also how many you need for Medicare at age 65. Your record shows that you have enough credits.

On page 5, we explain about different ages when you can retire. If you worked at your present rate up to each retirement age, your monthly amount would be about:

At age 62 (reduced benefit)	\$ 900
At full-retirement age (66 years of age)	\$ 1,200
At age 70	\$ 1,585

**Disability
Benefits**

On page 6, we tell you about disability benefits. If you become disabled right now, you need 28 credits to qualify for disability benefits. Of these credits, 20 had to be earned in the last 10 years. Your record shows that you have earned enough credits within the right time.

Right now, your monthly disability benefit amount would be about \$ 1,200

**Family
Benefits**

If you get retirement or disability benefits, your spouse and young children may also qualify for benefits. See page 6 for more information about family benefits.

**Survivor
Benefits**

If you die, certain members of your family may qualify for survivor benefits on your record. See page 6 for an explanation of who may qualify.

If you die this year, you need 28 credits for your survivors to get benefits. Your record shows you have enough. If they met all other requirements, monthly benefit amounts would be about:

For your child	\$ 900
For your spouse who is caring for your child	\$ 900
When your spouse reaches full-retirement age	\$ 1,205
For all your family members, if others also qualify (more children for example)	\$ 2,110

We may also be able to pay your spouse or eligible children a one-time death benefit of \$255.

Medicare

Medicare hospital and medical insurance is a two-part benefit program that helps protect you from the high costs of medical care. Hospital insurance benefits (Part A) help pay the cost when you are in the hospital and for certain kinds of follow-up care. Medical insurance benefits (Part B) help pay the cost of doctors' services.

If you have enough work credits, you may qualify for Medicare hospital insurance at age 65, even if you are still working. You may qualify before age 65 if you are disabled or have permanent kidney failure. Your spouse may also qualify for hospital insurance at 65 on your record.

Almost anyone who is 65 or older or who qualifies for Medicare hospital insurance can enroll for medical insurance. You must pay a monthly premium for it.

For More Information or To Correct Your Record

After you read this Statement, please call 1-800-537-7005* if you have any questions, if you need to report any missing or wrong earnings on your record, if you want to apply for benefits, or if you want this statement in Spanish. This statement is not a decision on a claim for Social Security or Medicare benefits. You do not qualify for any of these benefits unless you apply for them and meet all the requirements. This statement is just an estimate of what you may get. In the meantime, your record is updated every year. You can request a new statement to make sure it stays correct.

*Social Security treats all calls confidentially--whether they are made to our toll-free number or to one of our local offices. But we also want to be sure that you receive accurate and courteous service. That is why we have a second Social Security representative listen to some incoming and outgoing telephone calls.

**Appendix I
Personal Earnings and Benefit Estimate
Statement**

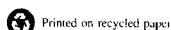
Your Earnings Record

- Why does Social Security keep a record of my earnings?** We keep a record of the amount of earnings reported each year under your name and Social Security number. When you apply for benefits, we check your record to see if you worked enough over the past years to qualify. Then we base the amount of your payments on your average earnings over your working lifetime.
- What kinds of earnings may be on my record?** Almost all kinds of employment and self-employment earnings are covered for Social Security and Medicare:
- Most wages have been covered by Social Security taxes since 1937 and most kinds of self-employment since 1951.
 - Medicare taxes on both kinds of earnings started in 1966.
 - Some Federal, State and local government workers do not pay Social Security taxes, but most of them do pay Medicare taxes on their "Medicare qualified government earnings."
- If you work for wages, your employer reports the amount of your earnings to Social Security after the end of each year. If you are self-employed, you report your net earnings on your yearly income tax return. The chart on page 2 shows the amounts of earnings reported to us. If you had more than one employer during the year, your earnings from all of them have been combined.
- If my work is covered for Social Security and Medicare, do all my earnings go on the record?** Not necessarily. There are limits each year on how much earnings are taxable for Social Security and for Medicare. If you earn more than the maximum amount, the extra earnings will not be shown.
- The chart on page 2 shows the maximum amount that was taxable for each year so far. The amount was the same for both Social Security and Medicare from 1966 through 1990. The Medicare maximum amount was higher from 1991 through 1993. Beginning in 1994, there is no maximum for Medicare. You now pay the Medicare tax on *all* your wages and self-employment earnings. There is still a limit on taxable Social Security earnings, however.
- Are my military service earnings on record?** Your statement shows basic military pay you earned from active duty or active duty for training since 1957 and from inactive duty for training since 1988.
- In some cases, you may also qualify for free earnings credits for military service since September 1940. We do not show these free credits on this statement. We decide if you qualify for them when you apply for benefits.
- What about railroad work?** If you worked in the railroad industry for less than 10 years, your railroad earnings are included on the chart. We considered these earnings when we counted your credits and estimated your benefits. (If you have 10 or more years of railroad work, you should contact a Railroad Retirement Board office for information about railroad pension benefits.)

Your Social Security Taxes

- Why does the chart on page 2 say "Estimated Taxes You Paid"?** The Internal Revenue Service collects your Social Security and Medicare taxes. We do not keep that record. To estimate the Social Security and Medicare taxes you paid, we multiplied your reported earnings by the tax rate for each year. The amounts are shown in separate columns on the chart. If you had both wages and self-employment earnings in the same year, we estimate the taxes as if the total amount was wages. If you had both Social Security earnings and government earnings that qualified for Medicare in the same year, we estimate the combined Medicare taxes you paid.
- What are the tax rates this year?** You and your employer each pay Social Security taxes of 6.2 percent on the first \$68,400 of covered wages. You each also pay Medicare taxes of 1.45 percent on *all* your covered wages. If you are self-employed, your Social Security tax is 12.4 percent and your Medicare tax is 2.9 percent on the same amounts of earnings.

Form SSA-7005-SM-SI (1-98)



**Appendix I
Personal Earnings and Benefit Estimate
Statement**

Earning Social Security and Medicare Credits

What are "credits" and how do I earn them?

As you work and pay Social Security taxes, you earn Social Security credits:

- Before 1978, when your employer reported your earnings every 3 months, they were called "quarters of coverage." Back then, you earned a quarter or credit if you earned at least \$50 in a 3-month quarter.
- Starting with 1978 your employer reports your earnings just once a year and credits are based on how much you earn during the year. The amount it takes to earn a credit changes each year.
- In 1998, you get one credit for each \$700 of your covered annual earnings, up to a maximum of 4 credits for the year, no matter when you work during the year.

How many credits do I need for benefits?

On page 3, we tell you how many credits you need for each kind of benefit and whether you have enough. Most people need 40 credits (10 years of work) to qualify for benefits. Younger people need fewer credits for disability or for their family members to get survivors benefits if they should die.

What if I do not have enough credits yet?

The credits you already earned remain on your record, and you add to them as you continue to work and pay Social Security taxes. Under certain conditions, we may also use credits you earned under a foreign social security system to help you qualify for benefits.

What about credits for Medicare benefits?

When you earn credits for Social Security benefits, they also count for Medicare. However, if you have government earnings on which you pay Medicare taxes but not Social Security taxes, those are considered "Medicare-qualified government earnings." Those earnings give you credits for Medicare but do not count for Social Security benefits.

Estimating Your Benefits

How do you figure out the amount of my Social Security benefits?

It is the earnings on your records, not the amount of taxes you paid or the number of credits you have, that we use to figure how much you will get each month. The Social Security law has a special formula for figuring benefits. The formula uses your average earnings over your entire working life. For most retirement benefit estimates, we will be averaging your 35 best years of earnings. If you become disabled or die before retirement, we may use fewer years to figure those benefits.

For retirement estimates, we assumed that you will continue working up to retirement age. We also assumed you would keep on earning the amount shown as "Estimated Annual Earnings 1995 On." If that still does not give you 35 years, we will use some zero years to figure your average earnings.

When I requested a statement like this several years ago, my retirement benefit was higher. What happened?

We now show benefit estimates in current dollars. If you requested a statement like this before September 1993, we had increased your retirement estimate amount on that statement by 1 percent for each remaining year up to age 62. This reflected expected economic growth. We stopped doing this to make your estimate more consistent with estimates prepared in other pension planning programs.

If my spouse or I get another pension, will that affect our Social Security benefits?

If your pension is based on work not covered by Social Security, the amount of your Social Security benefits may be lower than shown on this statement. This could include pensions from Federal, State, or local governments, non-profit organizations, or foreign entities. Your spouse's benefits on your record may also be affected by his or her pension. If this applies to you, be sure to ask us for the free fact sheets "A Pension From Work Not Covered By Social Security" and "Government Pension Offset."

Retirement Benefits

When can I get retirement benefits?

You can get reduced benefits as early as age 62 or get full-retirement benefits at age 65. (Starting in the year 2000 for people born in 1938 or later, this age will increase gradually. By 2027, full-retirement age will be 67 for people born after 1959.) Your benefits may be higher if you delay retiring until after full-retirement age.

**Appendix I
Personal Earnings and Benefit Estimate
Statement**

Disability Benefits

Tell me about disability benefits.

These benefits are paid if you become totally disabled before you reach full-retirement age. To get disability benefits, three things are necessary:

- You need a certain number of work credits, and they had to be earned during a specific period of time;
- You must have a physical or mental condition that has lasted, or is expected to last, at least 12 months or to end in your death; and
- Your disability must be severe enough to keep you from doing any substantial work, not just your last job.

Benefits for Your Family

If I retire or become disabled, can my family get benefits with me?

As you work you also build up protection for your family. Benefits may be payable to:

- Your unmarried children under age 18 (under age 19 if in high school) or 18 and older if disabled before age 22;
- Your spouse who is age 62 or older or who is any age and caring for your qualified child who is under age 16 or disabled; and
- Your divorced spouse who was married to you for at least 10 years and who is age 62 or older and unmarried.

Usually each family member qualifies for a monthly benefit that is up to 50 percent of your retirement or disability benefit, subject to the limit explained below.

What about my survivors if I die?

Your unmarried young or disabled children may qualify for monthly payments. Your widow or widower, even if divorced, may also qualify for payments starting:

- At age 60 or at age 50 if disabled (if divorced, your marriage must have lasted 10 years); or
- At any age if caring for your qualified child who is under age 16 or disabled.

Is there a limit on the benefits we can get each month?

Yes. There is a limit on the amount we can pay to you and your family altogether. This total depends on the amount of your benefit and the number of family members who also qualify. The total varies, but is generally equal to about 150 to 180 percent of your retirement benefit. (It may be less for disability benefits.) The family limit also applies to benefits for your survivors.

What if my spouse also worked long enough under Social Security to get benefits?

Your spouse cannot get both his or her own benefit plus a full benefit on your record. We can only pay an amount equal to the larger of the two benefits. Your spouse should call us and ask how to get a Personal Earnings and Benefit Estimate Statement like this. When you both have statements, we can help estimate your spouse's future benefits on the two records.

If You Continue to Work

What if I take my benefits and then want to work some more?

Even if you are still working, you may qualify for benefits. Until you reach age 70, there are limits on how much you can earn without losing some or all of your Social Security retirement benefits. These limits change every year. When you apply for benefits, we will tell you what the limits are at that time and if work would affect your monthly checks and those of your qualified family members.

What if my family members work?

Earnings limits also apply to family members who get any kind of benefits on your record. Their earnings only affect their own benefit payments, however, not yours.

Do these limits also apply if I get disability benefits?

No. Different rules apply to people who get disability benefits. The disability program has incentives to help beneficiaries return to productive work.

Comments From the Social Security Administration



SOCIAL SECURITY

Office of the Commissioner

August 6, 1998

Ms. Cynthia M. Fagnoni
Director, Income Security
Issues
U. S. General Accounting Office
Washington, DC 20548

Dear Ms. Fagnoni:

Thank you for the opportunity to comment on the General Accounting Office report, SSA Benefit Estimate Statements: Adding Rate of Return Information May Not Be Appropriate (GAO/HEHS-98-228). We believe that the report reflects the difficulties that would be faced in trying to provide universally understandable explanations of the complex concepts of individual rates of return for all recipients of the Personal Earnings and Benefit Estimate Statement. We agree with your findings. We are working hard to make the information currently provided easy for recipients to understand and use; adding rate of return information would increase the complexity rather than enhance the statement.

We have enclosed some technical comments for your consideration. If you have any questions, your staff may contact Marlene Pegg, Office of Communications Planning and Technology, at (410) 965-4248.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth S. Apfel".

Kenneth S. Apfel
Commissioner
of Social Security

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Appendix II
Comments From the Social Security
Administration

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT "SSA BENEFIT
ESTIMATE STATEMENTS: ADDING RATE OF RETURN INFORMATION MAY
NOT BE APPROPRIATE" (GAO/HEHS-98-228)

Using Rate of Return Estimates for Social Security Poses
Challenges

On page 6 and in several other places throughout the report, there is reference to disability taxes and benefits and whether they should be included in calculating rate of return. Survivor taxes and benefits should be taken into account because the OASI tax rate is defined as a single entity. In addition, we believe the disability and survivor protections are key elements of the total "insurance" that Social Security provides, so rate of return considerations should not focus solely on retirement.

In the last paragraph on page 6, it would be more accurate to say that "Social Security contributions are mostly used to pay benefits to current **beneficiaries**..." rather than "retirees" since payments also go to disabled persons, dependents and survivors of all ages.

Rate of Return Information Would Further Complicate PEBES

On page 17, in the list of factors and assumptions that would have to be explained, we suggest adding:

- How the level of the worker's earnings, both past and future, affects the rate of return

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