



United States General Accounting Office

Testimony

Before the Subcommittee on Social Security, Committee
on Ways and Means, House of Representatives

For Release on Delivery
Expected at 10:30 a.m.,
Thursday, September 12, 1996

SSA BENEFIT STATEMENTS

Statements Are Well Received by the Public but Difficult to Comprehend

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SSA Benefit Statements: Statements Are Well Received by the Public but Difficult to Comprehend

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Social Security Administration's (SSA) Personal Earnings and Benefit Estimate Statement (PEBES). This six-page statement supplies information about a worker's yearly earnings on record at SSA; eligibility for Social Security retirement, survivor, and disability benefits; and estimates of these benefits. The PEBES also explains Social Security programs and benefits.¹

SSA has provided a PEBES to individuals upon request since 1988. As required by the Congress, in 1995 SSA began sending the statements automatically to workers who have reached age 60. Starting in fiscal year 2000, statements will reach an estimated 123 million people each year—almost every U.S. worker age 25 and older. SSA projects that this effort will cost more than \$80 million in fiscal year 2000 alone.

Personal experience with a federal agency and its programs can greatly influence public opinion about that agency. Receiving a PEBES is likely to be most workers' only experience with SSA until they retire or possibly become disabled. Both the sponsor of the legislation requiring these statements and SSA officials hope that the statements will help build confidence in Social Security programs by informing the public about Social Security benefits and will serve as a useful financial planning tool.

In recent testimony before this Subcommittee,² we noted that legislative requirements for the PEBES present a significant workload challenge for SSA. Today I would like to discuss our ongoing work for the Subcommittee on how effectively the PEBES conveys information to the public. Specifically, I will focus on what SSA has done to improve the statement, the extent to which the PEBES communicates its goals and information clearly, SSA's plans to revise the statement, and actions we believe will improve it. To develop this information, we reviewed SSA's documentation on the PEBES and met with SSA officials and field office staff. We also reviewed selected public- and private-sector pension benefit statements and discussed them with recognized experts in the field. Finally, we consulted an expert in document design and communication to review and provide comments on the PEBES.

¹The appendix contains a copy of a 1996 PEBES, which has been slightly reduced for photocopying purposes.

²Social Security Administration: Effective Leadership Needed to Meet Daunting Challenges (GAO/T-OCG-96-7, July 25, 1996).

In summary, we found that SSA has taken steps to improve the PEBES, and feedback indicates that, overall, the public feels that the statement can be a valuable tool for retirement planning. The statement fails to communicate clearly, however, the complex information readers need to understand SSA's programs and benefits. The statement, for example, does not explicitly state its purpose. In addition, the design and organization of the statement make it difficult for the reader to locate and understand important information. For example, the information needed to fully understand the benefit estimates is spread over five pages. Public feedback on the statement also indicates that readers are confused by several important explanations, such as who in their family is also eligible for benefits and how much these family members might receive.

SSA is considering redesigning the PEBES but only if the redesign results in reduced printing costs. This approach overlooks hidden costs, such as (1) the workload generated by public inquiries when people do not understand the statement and (2) the possibility that a poorly designed statement can undermine, rather than boost, public confidence. Issuing these statements is a significant initiative for SSA, and the agency should take steps now to redesign the statement to more effectively present PEBES information. Active leadership from SSA's senior managers is needed to ensure the success of this important initiative.

Overview of the PEBES

Since the Social Security Act became law in 1935, workers have had the right to review their earnings records on file at SSA to ensure that they are correct.³ In 1988, SSA introduced the PEBES to better enable workers who requested such information to review their earnings records and obtain benefit estimates. According to SSA, less than 2 percent of workers who pay Social Security taxes request these statements each year.

The PEBES legislation⁴ requires SSA to begin sending statements to eligible workers⁵ according to the schedule that appears in table 1. SSA plans to mail some statements even sooner than required. By fiscal year 2000, SSA

³Overall, the chance of SSA incorrectly recording a wage is small. According to SSA's Accountability Report for Fiscal Year 1995, 98.7 percent of reported earnings are posted accurately to an individual's record. Even this accuracy rate of almost 99 percent, however, results in over 2 million earnings each year that cannot be linked to specific individuals' records.

⁴P.L. 101-239 and P.L. 101-508.

⁵SSA 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 title II benefits, and have a current address obtainable by SSA.

plans to have mailed statements automatically to more than 70 million workers.

Table 1: Schedule for Distributing Benefit Statements

Fiscal year	Eligible individuals	Volume estimated by SSA
1995	Age 60 and over	6.7 million ^a
1996-1999	Turning age 60 during the year	1.6 to 1.8 million annually
2000+	Age 25 and older	123 million annually

^aThis is SSA's total of mandated statements actually mailed in 1995.

By providing these statements, SSA's goals are to (1) better inform the public of benefits available under SSA's programs, (2) assist workers in planning for their financial future, and (3) better ensure that Social Security earnings records are complete and accurate. Correcting earnings records benefits both SSA and the public because early identification and correction of errors in earnings records can reduce the time and cost required to correct them years later when an individual files for retirement benefits.

Issuing the PEBES is a significant initiative for SSA. The projected cost of more than \$80 million in fiscal year 2000 includes \$56 million for production costs, such as printing and mailing the statement, and \$24 million for personnel costs. SSA estimates that 608 staff-years will be required to handle the PEBES workload in fiscal year 2000: SSA staff are needed to prepare the statements, investigate discrepancies in workers' earnings records, and respond to public inquiries.

SSA Has Taken Steps to Enhance the PEBES; Public Reaction Has Been Positive

Since the PEBES was first developed, SSA has conducted several small-scale and national surveys to assess the general public's reaction to receiving an unsolicited PEBES. In addition, SSA has conducted a series of focus groups to elicit the public's and SSA employees' opinion of the statement and what parts of it they did and did not understand.

In response to this feedback and suggestions from SSA staff, SSA revised the statement. For example, early statements routinely provided retirement benefit estimates for age 65, the earliest age at which workers could retire and receive their full Social Security retirement benefit,⁶ and for delayed

⁶Individuals born in 1937 or earlier can retire at age 65 and receive their full benefit. For individuals born after 1937, the age at which they can retire and receive their full benefit gradually increases, up to 67 for those born in 1960 and later.

retirement at age 70. When SSA learned that many people were interested in the effect of early retirement on their benefits, SSA added an estimate for retirement at age 62.

Overall public reaction to receiving an unsolicited PEBES has been consistently favorable. In a nationally representative survey conducted during a 1994 pilot test, the majority of respondents indicated they were glad to receive their statements.⁷ In addition, 95 percent of the respondents said the information provided was helpful to their families. Overall, older individuals reacted more favorably to receiving a PEBES than did younger individuals. In addition, SSA representatives who answer the toll-free telephone calls from the public have stated that most callers are pleased that they received a PEBES and say that the information is useful for financial planning.

Clearly Communicating SSA Program and Benefit Information Could Further Enhance the PEBES' Value

Although SSA has taken steps to improve the PEBES, we found that the current statement still provides too much information, which may overwhelm the reader, and presents the information in a way that undermines its usefulness. These weaknesses are attributable, in part, to the process SSA used to develop the PEBES. Additional information and expanded explanations have made the statement longer, but some explanations still confuse readers. Moreover, SSA has not tested for reader comprehension and has not collected detailed information from its front-line workers on the public's response to the PEBES.

Research suggests that, in general, people find forms, notices, and statements difficult to use and understand. For this reason, many people may approach a PEBES-like statement with fear, frustration, insecurity, and hesitation.⁸ To overcome this challenge, the design expert we consulted suggested that such statements have the following:

- An obvious purpose: Readers need to know immediately why they got the statement, what information it contains, and what they are expected to do with the information.
- An attractive and functional design and organization: The statement should look easy to read, the sections should be clearly labeled, and the organization should be evident at a glance. When readers need

⁷As of September 6, 1996, the results of SSA's most recent public opinion survey, conducted in 1995, had not yet been released.

⁸Carolyn Boccella Bagin, *A Review of Your Personal Earnings and Benefit Estimate Statement* (Rockville, Md.: July 1996), p. 6.

explanations to understand complex information, the explanations should appear with the information.

- Easy-to-understand explanations: Readers need explanations of complex programs and benefits in the simplest and most straightforward language possible.

Commissioner's Message Does Not Effectively Convey Purpose

In the 1996 PEBES, the message from the Commissioner of Social Security does not clearly explain why SSA is providing the statement. Although the message does include information on the statement's contents and the need for individuals to review the earnings recorded by SSA, its presentation is uninviting, according to the design expert we consulted. More specifically, the type is too dense; the lines are too long; white space is lacking; and the key points are not highlighted. If the PEBES' recipients do not read the Commissioner's message, they may not understand why reviewing the statement is important.

The message also attempts to reassure people that the Social Security program will be there when they need it with the following reference (from the 1996 PEBES) to the system's solvency:

The Social Security Board of Trustees projects that the system will continue to have adequate resources to pay benefits in full for more than 30 years. This means that there is time for the Congress to make changes needed to safeguard the program's financial future. I am confident these actions will result in the continuation of the American public's widespread support for Social Security.

Some participants in SSA focus groups, however, thought the message suggested that the resources would not necessarily be there after 30 years. For example, one participant in a 1994 focus group reviewing a similar Commissioner's message said, "... [the] first thing I think about when I read the message is, [Social Security] is not going to be there for me."

Design and Organization Are Not User Friendly

Comments from SSA's public focus groups, SSA employees, and benefit experts indicate that the statement contains too much information and is too complex. In a 1994 focus group summary, for example, SSA reported that younger workers aged 25 to 35 wanted "a much simplified form—a single page—with estimated benefits and how much in taxes they paid into the system with the remainder of the information put in a pamphlet for future reference." Moreover, given the length and complexity of the

current statement, some focus group participants and benefit experts suggested that SSA add an index or a table of contents to help readers navigate the statement.

SSA has not used the best layout and design to help the reader identify the most important points and move easily from one section to the next. The organization of the statement is not clear at a glance. Readers cannot immediately grasp what the sections of the statement are, and in which order they should read them, according to the design expert with whom we consulted. The statement lacks effective use of features such as bulleting and highlighting that would make it more user friendly.

In addition, the PEBES is disorganized: information does not appear where needed. The statement has a patchwork of explanations scattered throughout, causing readers to flip repeatedly from one page to another to find needed information. For example, page two begins by referring the reader to page four, and page three contains six references to information on other pages. Furthermore, to understand how the benefit estimates were developed and any limitations to these estimates, a PEBES recipient must read explanations spread over five pages.

The statement's spreading of benefit estimate explanations over several pages may result in individuals missing important information. This is especially true for people whose benefits are affected by special circumstances, which SSA does not take into consideration in developing PEBES benefit estimates. For example, the PEBES estimate is overstated for federal workers who are eligible for both the Civil Service Retirement System and Social Security benefits. For these workers, the law requires a reduction in their Social Security retirement or disability benefits according to a specific formula.⁹ In 1996, this reduction may be as much as \$219 per month; however, PEBES' benefit estimates do not reflect this reduction. The benefit estimate appears on page three; the explanation of the possible reduction does not appear until the bottom of page five. Without fully reviewing this additional information, a reader may not realize that the PEBES benefit estimate could be overstated.

⁹This reduction, commonly known as the Windfall Elimination Provision, was enacted 1983. Its purpose is to remove an unintended advantage in the way benefits are calculated for workers who qualify for Social Security benefits but have spent most of their careers working in jobs that are not covered by Social Security.

Explanations Are Not Always Easy to Understand

Because PEBES addresses complex programs and issues, explaining these points in simple, straightforward language is challenging. Although SSA made changes to improve the explanation of work credits,¹⁰ for example, many people still do not understand what these credits are, the relevance of the credits to their benefits, and how they are accumulated.

The public also frequently asks questions about the PEBES' explanation of family benefits.¹¹ Family benefits are difficult to calculate and explain because the amount depends on several different factors, such as the age of the spouse and the spouse's eligibility for benefits on his or her own work record. Informing the public about family benefits, however, is especially important: a 1995 SSA survey revealed that as much as 40 percent of the public is not aware of these benefits.

Weaknesses of the PEBES Are Linked to SSA's Approach

A team of representatives from a cross section of SSA offices governed SSA's decisions on the PEBES' development, testing, and implementation. The team revised and expanded the statement in response to feedback on individual problems. The design expert we consulted observed that the current statement "appears to have been the result of too many authors, without a designated person to review the entire piece from the eyes of the readers. It seems to have developed over time, piecemeal . . ."¹²

Although SSA officials got the public's feedback, they missed some key opportunities along the way to improve the statement. While SSA conducted tests to ensure that the PEBES could be read at a seventh grade level, it has not conducted formal comprehension tests.¹³ For example, SSA could have administered either verbal or written tests to a sample of readers to determine whether they actually understood SSA's explanations of certain complex issues. These tests would have provided SSA with quantifiable, objective information to use in revising the statement. SSA has also failed to take advantage of information from its front-line workers who answer the public's questions about the PEBES every day. SSA currently has front-line workers record the reason why people call; however, the

¹⁰These credits are earned by working for employers that pay taxes to the Social Security system. The minimum number of credits needed varies, depending on the type of benefit and the age of the worker.

¹¹SSA uses the term "family benefits" to discuss benefits paid to a worker's spouse or young children when the worker is retired or disabled.

¹²Bagin, p. 18.

¹³In a 1988 telephone survey during the PEBES early development, SSA asked a few questions to check for reader comprehension. The statement has changed significantly since that time, however.

information collected does not provide sufficient detail for SSA to understand the problems people are having with the PEBES.

No Consensus on the Best Model for the Statement

Although the public and benefit experts agree that the current statement contains too much information, neither a standard benefit statement model exists in the public or private sector nor does a clear consensus on how best to present benefit information. The Canadian government chose to use a two-part document when it began sending out unsolicited benefit statements in 1985. The Canada Pension Plan's one-page statement provides specific individual information, including the earnings record and benefit estimates. A separate brochure details the program explanations. The first time the Plan mails the statement, it sends both the one-page individual information and the detailed brochure; subsequent mailings contain only the single page with the individual information.

Although some focus group participants and benefit experts prefer a two-part format, others believe that all information should remain in a single document, fearing that statement recipients will lose or might not read the separate explanations. SSA has twice tested the public's reaction to receiving two separate documents. On the basis of a 1987 focus group test, SSA concluded that it needed to either redesign the explanatory brochure or incorporate the information into one document. SSA chose the latter approach. In a 1994 test, people indicated that they preferred receiving one document; however, the single document SSA used in the test had less information and a more readable format than the current PEBES.

Redesign Plans Do Not Fully Consider Costs

SSA, through the Government Printing Office, has awarded a 2-year contract for printing the fiscal years 1997 and 1998 statements. These statements will have the same format as the current PEBES with only a few wording changes. SSA is planning a more extensive redesign of the PEBES for the fiscal year 1999 mailings but only if it will save money on printing costs.

By focusing on reduced printing costs as the main reason for redesigning the PEBES, SSA is overlooking the hidden costs of the statement's existing weaknesses. For example, if people do not understand why they got the statement or have questions about information provided in the statement, they may call or visit SSA, creating more work for SSA staff. Furthermore, if the PEBES frustrates or confuses people, it could undermine public confidence in SSA and its programs.

Our work suggests, and experts agree, that the PEBES' value could be enhanced by several changes. Yet SSA's redesign team is focusing on reducing printing costs without considering all of the factors that would ensure that PEBES is a cost-effective document.

Observations on Needed PEBES Improvements

The PEBES initiative is an important step in better informing the public about SSA's programs and benefits. To improve the statement, SSA can quickly make some basic changes. For example, SSA officials told us that, on the basis of our findings, they have revised the Commissioner's message for the 1997 PEBES to make it shorter and less complex. More extensive revisions are needed, however, to ensure that the statement communicates effectively. SSA will need to start now to complete these changes before its 1999 redesign target date. The changes include improving the layout and design and simplifying certain explanations. These revisions will require time to collect data and to develop and test alternatives. SSA can help ensure that the changes target the most significant weaknesses by systematically obtaining more detailed feedback from front-line workers. SSA could also ensure that the changes clarify the statement by conducting formal comprehension tests with a sample of future PEBES recipients.

In addition, we believe SSA should evaluate alternative formats for communicating the information presented in PEBES. For example, SSA could present the Commissioner's message in a separate cover letter accompanying the statement, or SSA could consider a two-part option, similar to the approach of the Canada Pension Plan. To select the most cost-effective option, SSA needs to collect and assess additional cost information on options available and test different PEBES formats.

Our work suggests that improving PEBES will demand attention from SSA's senior leadership. For example, how best to balance the public's need for information with the problems resulting from providing too much information are too difficult and complex to resolve without senior-level SSA involvement.

Mr. Chairman, this concludes my formal remarks. I would be happy to answer any questions from you and other members of the Subcommittee. Thank you.

Contributors

For more information on this testimony, please call Diana S. Eisenstat, Associate Director, Income Security Issues, at (202) 512-5562 or Cynthia M. Fagnoni, Assistant Director, at (202) 512-7202. Other major contributors include Evaluators Kay Brown, Nora Perry, and Elizabeth Jones.

Your Personal Earnings and Benefit Estimate Statement

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



February 21, 1996

JANE Q PUBLIC
123 MAIN STREET
WASHINGTON, DC 20225-0000

A Message from the Commissioner of Social Security

Last year, the Social Security Administration sent a Personal Earnings and Benefit Estimate Statement to every American 60 years of age or older who was not receiving Social Security benefits. The purpose of the mailing was to help those individuals understand the value of Social Security in their lives as they plan their financial future. This year, we are sending the statement to people like yourself who are (or soon will be) age 60.

This statement shows the estimated amount of Social Security benefits you and your family may be eligible for now and in the future. The statement also lists the earnings your employers (or you, if you're self-employed) have reported to Social Security over the years. If your records don't agree, please let us know right away. That's important because your benefits will be based on our records of your earnings.

Keep in mind, Social Security benefits are not intended to meet all your financial needs. For example, when you retire, you'll probably need other income, such as savings or a pension.

It's also important to remember that Social Security protection offers more than retirement benefits. Most workers have Social Security disability coverage to protect them from loss of income if they become severely disabled. In addition, financial protection is available to your family through Social Security survivors benefits if you should die.

To help you better understand the basic facts about Social Security, we have included some frequently asked questions on the back of this statement. If you have other questions, we'll be glad to answer them.

For over 60 years, Social Security has worked for all of us and for our families. The Social Security Board of Trustees projects that the system will continue to have adequate resources to pay benefits in full for more than 30 years. This means there is time for the Congress to make changes needed to safeguard the program's financial future. I am confident these actions will result in the continuation of the American public's widespread support for Social Security.

We look forward to serving you today and in the future.

Shirley S. Chater
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	Jane Q. Public
Your Social Security Number	XXX-XX-XXXX
Your Date of Birth	April 26, 1937
Estimated Future Earnings 1995 On	\$33,375
Other Social Security Numbers Also Assigned to You	None

Appendix
Your 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.

Social Security				Medicare		
Years	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	155	2			
1953	3,600	945	14			
1954	3,600	0	0			
1955	4,200	0	0			
1956	4,200	0	0			
1957	4,200	1,180	26			
1958	4,200	35	0			
1959	4,800	430	10			
1960	4,800	94	2			
1961	4,800	2,133	64			
1962	4,800	4,696	146			
1963	4,800	4,336	157			
1964	4,800	4,066	147			
1965	4,800	4,292	155			
1966	6,600	4,841	186	\$6,600	\$ 4,841	\$ 16
1967	6,600	5,040	196	6,600	5,040	25
1968	7,800	5,240	199	7,800	5,240	31
1969	7,800	5,560	233	7,800	5,560	33
1970	7,800	6,259	262	7,800	6,259	37
1971	7,800	6,160	283	7,800	6,160	36
1972	9,000	7,216	331	9,000	7,216	43
1973	10,800	8,405	407	10,800	8,405	84
1974	13,200	10,490	519	13,200	10,490	94
1975	14,100	10,652	527	14,100	10,652	95
1976	15,300	12,050	596	15,300	12,050	108
1977	16,500	13,578	672	16,500	13,578	122
1978	17,700	16,224	819	17,700	16,224	162
1979	22,900	16,912	859	22,900	16,912	177
1980	25,900	17,403	884	25,900	17,403	182
1981	29,700	19,732	1,055	29,700	19,732	256
1982	32,400	22,280	1,203	32,400	22,280	289
1983	35,700	22,717	1,226	35,700	22,717	295
1984	37,800	23,694	1,279	37,800	23,694	308
1985	39,600	25,411	1,448	39,600	25,411	343
1986	42,000	26,749	1,524	42,000	26,749	387
1987	43,800	27,970	1,594	43,800	27,970	405
1988	45,000	29,146	1,766	45,000	29,146	422
1989	48,000	30,139	1,826	48,000	30,139	437
1990	51,300	30,472	1,889	51,300	30,472	441
1991	53,400	30,718	1,904	125,000	30,718	445
1992	55,500	30,726	1,905	130,200	30,726	445
1993	57,600	31,307	1,941	135,000	31,307	453
1994	60,600	33,375	2,069	No Limit	33,375	483
1995	61,200	Not Yet Recorded		No Limit	Not Yet Recorded	
1996	62,700			No Limit		
Total estimated Social Security taxes paid			\$ 30,325	Total estimated Medicare taxes paid \$ 6,654		

Appendix
Your Personal Earnings and Benefit
Estimate Statement

**Your Estimated
Social Security
Benefits**

Your work under Social Security helps you and your family to qualify for benefit payments. The kinds of benefits you might get are described below. For each benefit, you need a certain number of work credits (see page 5). Once you have enough credits, your benefit amounts depend on your average earnings over your working lifetime. We used the earnings in the chart on page 2 to figure your credits and estimate your benefits. We assumed that you will continue to work and make about the same as the latest earnings shown on your records for 1994 or 1995.

**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)	\$ 870
At full-retirement age (age 65)	\$ 1,100
At age 70	\$ 1,480

**Disability
Benefits**

On page 6, we tell you about disability benefits. If you become disabled right now, you need 37 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 \$ 1,070

**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 37 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	\$ 810
For your spouse who is caring for your child	\$ 810
When your spouse reaches full-retirement age	\$ 1,080
For all your family members, if others also qualify (more children for example)	\$ 1,895

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
Your 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 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 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 from September 1940 through December 1956. 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 \$62,700 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 (2-96)



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**Appendix
Your 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 dollars 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 1996, you get one credit for each \$640 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 the 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.

I worked for the government and so did my spouse. Will our government pensions affect our Social Security?

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, nonprofit organizations, or foreign entities. Your spouse's benefits on your record may also be affected by his or her pension. For more information, 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
Your 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 19 if in high school) or any age if disabled before age 22; and
- Your spouse or divorced spouse at age 62 (reduced), at full-retirement age, or at any age if caring for your qualified child who is under 16 or disabled.

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?

Here again, your unmarried young or disabled children may qualify for monthly payments. We also pay benefits to widows and widowers, starting:

- At age 50 if disabled;
- At age 60 (reduced);
- At full-retirement age; or
- At any age if your widow or widower is 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.

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