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UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Thursday, September 10, 1981

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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY,

HOUSE COMMITTEE ON WAYS AND MEANS

ON

MINIMUM SOCIAL SECURITY BENEFITS

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

I would like to now explain briefly what our 1979 study encompassed, what the results showed, and why we believe the minimum benefit should be eliminated, at least prospectively.

At the outset, I should point out that our study was directed at beneficiaries just coming onto the rolls--not those already on the rolls for an extended period of time--and that our recommendation applied only to future beneficiaries.

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

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

THE MINIMUM BENEFIT PROVISION

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

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

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

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

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

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

In our study, we wanted to determine the income characteristics of the people who receive the minimum benefit. We analyzed selected Federal records on a random sample of beneficiaries who were awarded minimum benefits during 1977. The selected Federal records analyzed included, for example, payment data on the Supplemental Security Income program and Federal pensions. They did not include individuals' tax returns.

The results of this analysis showed three distinct minimum beneficiary groups

1) Those who generally receive no additional income from the minimum provision--44 percent of the sample were in this group.
2) Those with other primary income--30 percent were in this group.

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

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

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

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

WORK CHARACTERISTICS OF MINIMUM BENEFICIARIES

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

Sampled minimum beneficiaries generally could not have depended primarily on their earnings from covered employment because they were too low. Their average covered earnings were only about $22 a month for the period 1953-76. Only 6 percent of the minimum beneficiaries had covered earnings of as much as $4,000 during any single year in that time period, and only one-third had covered earnings of as much as $2,000 in any one of those years.

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

Many persons had not worked in covered employment for several years before receiving social security. Nearly half had not worked in covered employment for 5 years, and about one-third for

10 years. For these people, social security was a new source of income upon becoming eligible for the minimum benefit, rather than a replacement of lost covered earnings.

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

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

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

Last month, Congress passed the Omnibus Reconciliation Act of 1981, which included a provision which would eliminate the minimum benefit not only for new beneficiaries, as we had recommended, but for all minimum beneficiaries. Your committee noted that varying estimates have been provided by various sources on who would be affected and how they would be affected. We would like to make clear, therefore, that our data were based solely on a sample of new beneficiaries coming on the rolls in 1977.

While we believe our data give a good indication of the characteristics of people coming on the rolls in the future, we do not know whether our data are representative of the entire universe of minimum beneficiaries. Statistically, our figures cannot be projected to the entire universe as our data reflect only those coming on the rolls.

The characteristics of minimum beneficiaries coming on the rolls could be different from those of all minimum beneficiaries. For example, the percentage of minimum beneficiaries who had spouses working would most likely be higher for beneficiaries coming on the rolls than for all minimum beneficiaries, because as people get older they are less likely to continue working. For the same reason, the percentage of dual beneficiaries most likely would be lower for minimum beneficiaries just coming on the rolls as compared to all minimum beneficiaries. The percentage of people receiving SSI would probably be lower for persons coming on the rolls than for all minimum beneficiaries because many people retire before age 65 and one must be age 65, blind, or disabled to qualify for SSI.

Our sample did not include one significant group of persons who receive benefits based on the minimum--auxiliary beneficiaries, that is, primarily children and spouses. We did not include them in our sample because we were comparing the work history of those who earned the minimum benefit with the social security payments they received. Consequently, we did not want to duplicate our data on who earned the benefit.

While our data are not statistically projectable to the universe of all minimun beneficiaries, we believe the data do reflect the major income characteristics of minimum beneficiaries. These are (1) people already on SSI, (2) dually entitled beneficiaries, (3) Federal retirees, (4) state and local government retirees, and (5) people with working spouses.

While there have been estimates made by others, we have not seen any data, based on scientific analysis, showing the income characteristics of all minimum beneficiaries. However, SSA has data showing that a little more than half of all minimum beneficiaries would not be affected by eliminating the benefit. These are about 1 million dually entitled beneficiaries, about 1/2 million SSI recipients, and about 200,000 whose benefit under the regular formula would be almost equal to the current minimum.

Regarding others who would be affected--Federal, State, and local government retirees, and minimum beneficiaries supported by working spouses, we have not seen any income data based on recent studies. For example, the most recent data on Federal pensioners was a Social Security study of 1975 minimum beneficiaries which showed that 5.4 percent of all minimum beneficiaries also received a civil service pension. Since the study, the number of retired Federal workers receiving a civil service pension has increased by over 25 percent while the number of minimum beneficiaries has remained about the same. Our study of 1977 entrants to the social security rolls showed that 15 percent of those minimum beneficiaries received either a civil service, veterans, or Department of Defense pension, the majority of which was civil service.

There are also about 180,000 children and students receiving benefits based on the minimum, according to SSA, for which we have not seen any income data.

Regardless of the income characteristics of these groups, with the special SSI provision included in the Omnibus Reconciliation Act of 1981 for those under age 65, and the regular SSI and AFDC programs, it appears to us that even if persons should realize a reduction in income, such beneficiaries (except for students whose benefits are being phased out) would not fall below the levels of protection offered by the SSI and AFDC programs.

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