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STATEMENT OF

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HUMAN RESOURCES DIVISION

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

COMMITTEE ON WAYS AND MEANS

UNITED STATES HOUSE OF REPRESENTATIVES

ON

THE PENDING SOCIAL SECURITY

TOTALIZATION AGREEMENT WITH ITALY

Mr. Chairman and Members of the Subcommittee, we are pleased to appear today to discuss the pending social security totalization agreement with Italy and potential future totalization agreements with other countries.

Social Security programs of most countries are usually national in scope. They are designed to provide social security protection for resident workers or nationals of the country. Therefore, workers who migrate between countries to find work risk the loss of social security protection.

Some countries with large contingents of migratory workers have recognized this problem and have entered into bilateral and/or multilateral international social security agreements to reduce the potential loss of benefits. These agreements are prevalent in Western European countries which share a common labor market.

Under a totalization agreement, social security insurance credits earned by a worker in two or more countries are combined for consideration in each country to determine if the worker meets that country's requirements to be insured for benefits. Social Security benefits under totalization are generally computed on a prorata basis using the period of coverage in each country. Each country computes a theoretical benefit amount based on the total work in both countries. The amount of the actual benefit paid is in relation to the percentage of work in each country. For example, a worker who worked a total of 23 years (9 years in the United States and 14 years in Italy) would receive nine-twenty-thirds (39 percent) of his United States pension and fourteen-twenty-thirds (61 percent of his Italian pension).

Totalization permits foreign workers and certain United States workers to qualify for United States social security coverage with less than the required period of work under our system.

The pending United States/Italian agreement stems from a supplement to the Treaty of Friendship, Commerce, and Navigation between the two countries. The supplement was signed in 1951. The agreement requires the approval of the legislatures of both countries. The Italian legislature passed a law approving this agreement effective April 7, 1975.

The Social Security Amendments of 1977 authorize the President to enter into totalization agreements with other countries to coordinate the social security coverage of persons who work under the United States Social Security system and also work under the system of another country.

The 1977 amendments subject any totalization agreement to congressional review. Agreements become effective automatically if neither House of Congress adopts a resolution of disapproval of the agreement within a period during which each House has been in session on each of 90 days after the date an agreement is submitted to Congress.

On February 28, 1978, President Carter submitted to Congress, for its review, the totalization agreement between the United States and Italy. The agreement will become effective in late August or early September if Congress does not object to it.

In addition to the pending Italian agreement, the Department of Health, Education, and Welfare (HEW) is finalizing a totalization agreement with the Federal Republic of Germany.

HEW has also received inquiries from Switzerland, Canada, Iran, France, Japan, and the United Kingdom regarding totalization agreements as well as inquiries on behalf of private businesses and individuals in regard to possible agreements with Belgium, the Netherlands, and Spain.

GAO OBSERVATIONS CONCERNING THE ITALIAN AGREEMENT

Very limited cost and benefit data was submitted to the Congress supporting the Italian totalization agreement.

Accordingly, at the request of your staff, we assisted them in developing a series of questions on the agreement which you sent to the Secretary of HEW. The Secretary answered your questions on July 7, 1978. We have not had the opportunity to fully evaluate the Secretary's answers, however, we do have two observations to make concerning the Italian agreement:

1. The agreement will provide limited additional benefits for most persons affected.
2. HEW's benefit estimates of the balance of payments gain has increased substantially and appears to be overstated.

HEW estimates that 35,000 persons will be eligible for some amount of totalized benefits under the agreement at the time it becomes effective. For 34,800 of these persons, it will represent an average increase of less than $40 a month in addition to the benefit they are already receiving from either Italy or the United States. According to HEW, only 200 persons who are not presently receiving benefits from either country will receive social security benefits under this agreement.

Most of the persons receiving totalized benefits are expected to reside in the United States. Such persons, if needy, would probably be eligible for cash assistance under the Supplemental Security Income program. The benefits these persons become eligible for under totalization may not be fully realized because they could result in a dollar-for-dollar reduction in Supplemental Security Income benefits.

HEW testified in hearings before this Subcommittee in August 1976 and presented data as to the benefits of entering into totalization agreements with Italy and Germany. At that time, HEW estimated a net annual gain in the United States balance of payments of between $15 to $20 million annually as a result of implementing the Italian and German agreements.

The Secretary, in his recent letter to you, increased this estimate to $73 million. Part of this $73 million includes HEW's calculation of $12 million in annual benefit payments that Italy will make to persons residing in the United States. This $12 million estimate appears to be overstated because HEW used current wage data instead of substantially lower wage data covering the period of time these people worked.

HEW also used a low cost of living factor which did not adequately reflect the actual inflation experienced in Italy. This would also cause the estimated pension payments to be overstated.

The proposed Italian agreement appears to be consistent with the provisions of the Social Security Amendments of 1977.

HEW SHOULD BETTER ASSESS THE NEED FOR EACH FUTURE AGREEMENT

As I previously mentioned, we have not had much opportunity to evaluate HEW's responses to the questions, since they were submitted to you by the Secretary just last Friday. We believe, however, that the information asked for is the type of information which should be available to the Congress for its use in considering this agreement and in considering such agreements as may be submitted to it for consideration in the future.

These questions were directed mainly to either the financial implications of the agreement or inconsistencies between the provisions of this agreement and the pending agreement with West Germany. Other questions dealt with the status of planning for implementation of the agreement and the development of guidance for the negotiations of future agreements of this type. We believe you may wish to arrange with HEW for it to provide similar information at the time any future agreement is submitted so that it is available for consideration along with the agreement for the full period it is required to be before the Congress.

While some of the questions we raised may not be important for the Italian agreement, they may be more pertinent to future agreements involving other countries with larger numbers of workers who have migrated between the countries.

We realize that estimates of benefits and costs of potential future agreements may be hard to obtain. Experience with the Italian agreement would be useful in assessing future agreements. Therefore, if the Italian agreement is implemented, HEW should set up specific procedures for measuring its impact.

Mr. Chairman, that concludes our statement. We will be happy to answer your questions.