The Congress can save the Government about $455 million in fiscal years 1981 through 1985 by approving the President's proposal to eliminate the minimum benefit provision of the Social Security Act.

The minimum benefit has increased more rapidly than other benefits in the past because most beneficiaries were poor and needed assistance. In 1974, however, the Supplemental Security Income program reduced the need for the minimum benefit. Most people who receive additional income from the minimum have incomes from Federal, State, or local pensions, or receive support from spouses.

To minimize the hardship of the relatively few needy beneficiaries who would not be eligible for Supplemental Security Income, the Congress could authorize a limited Supplemental Security Income payment which would replace the portion of the social security benefit lost when the minimum provision is eliminated.
To the President of the Senate and the Speaker of the House of Representatives

This report summarizes our review of the social security minimum benefit provision. The review was part of our continuing evaluation of the Old Age, Survivors, and Disability Insurance program administered by the Social Security Administration. The report discusses the fact that most people who receive additional income from the minimum benefit provision have substantial income from Federal, State, or local pensions, or rely on spouses with substantial earnings.

We are recommending that the Congress approve the President's proposal to eliminate the minimum benefit provision for new beneficiaries, which would save the Government about $455 million in fiscal years 1981-85. To minimize the hardship of the few needy beneficiaries who would not be eligible for Supplemental Security Income, the Congress could authorize a limited Supplemental Security Income payment which would replace the portion of the social security benefit lost when the minimum provision is eliminated.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Health, Education, and Welfare; the Secretary of the Treasury; and the Commissioner of the Social Security Administration.

[Signature]
Comptroller General
of the United States
The minimum benefit provision of the Social Security Act, intended to help the poor, has in recent years mainly benefited retired government workers with pensions and homemakers supported by their spouses' incomes.

The provision grants a much higher benefit than individuals have earned and would otherwise receive. For example, if a worker's earned benefit is only $40 a month, he or she can receive a minimum benefit of $122 a month. The President has proposed eliminating this $82 difference to reduce the welfare aspect of payments to new minimum social security beneficiaries, and his proposal should be adopted.

The need for the minimum benefit was greatly reduced in 1974 with the implementation of the Supplemental Security Income program. This program established a Federal minimum income level for needy people who are at least age 65, blind, or disabled. Before the program, the minimum social security benefit may have been the only source of income for many people, but now most needy elderly are eligible for Supplemental Security Income. (See pp. 3, 4, 22, and 23.)

In July 1978 about 3.1 million beneficiaries were receiving minimum social security benefits costing $3.8 billion annually. During 1977, the Social Security Administration awarded minimum benefits to about 190,000 people.

The Social Security Act has always had a minimum benefit provision. Initially its purpose was to aid administration and avoid paying benefits that would be of little value to the beneficiary. The minimum monthly benefit
GAO was unable to determine from selected Federal records the extent to which 26 percent of the sample depended on minimum social security benefits for their support. However, a more detailed analysis of a sample in the Los Angeles area indicated that many people had a primary means of support other than social security. Several received substantial State or local pensions. (See pp. 15 and 16.)

Further, GAO's study showed that, before receiving social security, most sampled minimum beneficiaries were part-time or intermittent workers--never a permanent part of the labor force covered by social security. On the average, the minimum beneficiaries had some work in covered employment in only about 1 of every 4 years. Nearly half had gaps in employment of 20 or more years. (See pp. 9 and 10.)

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 1953-75. Only 3 percent had earned as much as $4,000 during any single year in that time period, and only one-third had earned as much as $2,000 in any one of those years. (See p. 10.)

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. (See pp. 8 and 9.)

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.
started at $10 in 1935 and has increased to $122. This benefit has increased much more rapidly than other social security benefits because it has been assumed that most beneficiaries were poor and needed assistance.

In the Social Security Amendments of 1977, the Congress froze the minimum benefit as of January 1979, because of a growing concern that the benefit is a windfall to people who have not worked regularly under social security. The minimum was not eliminated for fear a sharp drop in the benefit level might cause hardships for needy people. According to the Social Security Administration, it will take more than 30 years for the freezing action to eliminate minimum benefits under the current law.

MINIMUM BENEFIT BENEFICIARIES: WHAT GAO FOUND

GAO's study of beneficiaries who were awarded minimum benefits during 1977 showed that homemakers and government pensioners received additional income from the minimum benefit provision more often than the needy. About 44 percent of sampled beneficiaries received no additional income from the minimum provision because of offsets required in other Federal benefits.

More than half the remaining 56 percent had income or support from other sources. For example, Federal records showed that

--15 percent received Federal pensions averaging $900 a month (see p. 15),

--10 percent depended on working spouses earning an average of at least $13,700 during the first year after the beneficiary began receiving social security (see p. 17), and

--2 percent relied on retired spouses with Federal pensions averaging $12,500 a year (see p. 18).
upon becoming eligible for the minimum benefit, rather than a replacement of lost covered earnings. (See p. 8.)

Because of marginal work in employment covered by social security, sampled minimum beneficiaries had paid little in social security taxes. GAO's analysis showed that, because of the minimum benefit provision, these people will recover their total contribution of social security tax, on the average, 6 times faster than people who have contributed the most to the trust fund, and in some cases, as much as 30 times faster. (See pp. 10 to 12.)

THE PRESIDENT'S PROPOSAL

In his fiscal year 1980 budget, the President proposed eliminating the minimum benefit for new beneficiaries to prevent the windfall effect and to reduce the welfare aspect of social security. The Social Security Administration estimates that implementing the President's proposal in October of 1980 would save the Government $455 million for fiscal years 1981-85. This figure is the net of a $695 million savings in social security and a $240 million increase in Supplemental Security Income to needy beneficiaries. (See pp. 19 and 20.)

A few minimum beneficiaries are not eligible for the Supplemental Security Income program even though they may be needy. This group includes individuals who selected early retirement and widows/widowers aged 60 through 64. They are not eligible for the Supplemental Security Income program because they are not aged, blind, or disabled. (See p. 20.) The President's proposal might be amended to extend a special Supplemental Security Income program eligibility to these people if they are needy and otherwise meet the program's eligibility requirements except for age.
RECOMMENDATION TO THE CONGRESS

The Congress should approve the President's proposal to eliminate the minimum benefit provision for new beneficiaries. To minimize the hardship of the few needy beneficiaries who would not be eligible for Supplemental Security Income, the Congress might consider authorizing a limited Supplemental Security Income payment which would replace the portion of the social security benefit lost when the minimum provision is eliminated.

GAO discussed the results of this review with Department of Health, Education, and Welfare officials. They concurred in GAO's recommendation.
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CHAPTER

Some needy minimum beneficiaries are not quite old enough for SSI

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ABBREVIATIONS

GAO General Accounting Office
HEW Department of Health, Education, and Welfare
SSA Social Security Administration
SSI Supplemental Security Income
CHAPTER 1

INTRODUCTION

The Social Security Act has a provision which assures individuals covered by the program a minimum benefit. Over the years, the minimum benefit has increased much more than other benefits of the program on the assumption that this benefit is needed for beneficiaries who are very poor. However, growing criticism that this benefit is being paid to other than needy individuals has resulted in (1) action by the Congress to freeze the minimum benefit and (2) a proposal by the President to eliminate it.

This report discusses the characteristics of people recently awarded the minimum benefit, such as their work history and retirement income.

WHAT IS THE MINIMUM SOCIAL SECURITY BENEFIT?

Minimum social security benefits are payments based on the minimum primary insurance amount of $122. This is the minimum social security benefit payable to a worker retiring at age 65 or upon disability. It is the lowest possible amount on which other monthly benefits, such as wives' and children's benefits, are based. Some beneficiaries, however, receive a benefit that is lower than the minimum because the Social Security Act provides for reduced benefits in certain circumstances. For example, a minimum beneficiary who retires at age 62 in 1979 will have his or her primary insurance amount reduced for early retirement to a monthly payment of $97.60.

WHY IS THERE A 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 the years, the rate of increase for minimum benefits has been more than twice that for other social security benefits. The Congress increased the minimum benefit because most of the beneficiaries were poor and needed assistance.
WHO RECEIVES THE MINIMUM BENEFIT?

People who receive minimum benefits are those with very low lifetime earnings covered by social security. Generally, an eligible worker's 1/ benefit is derived by applying specified percentages to a worker's average monthly earnings. However, when the worker's average monthly indexed earnings are $135 or less, 2/ the worker receives the minimum.

In July 1978 about 3.1 million beneficiaries were receiving minimum benefits at a total annual cost to the trust fund of about $3.8 billion. We estimate that, for the calendar year 1977, about 155,000 (7 percent) of the new awards to aged or disabled workers, or to surviving widows or widowers, were made at the minimum benefit level. In addition, these beneficiaries had about 35,000 eligible dependents, including spouses and children.

Recently the Advisory Council on Social Security and others have pointed out that, increasingly, the minimum benefit is being paid to people who did not, during their working

1/An eligible worker must have one quarter of covered employment for each year after 1950 that he or she was between ages 21 and 62. Thus, a worker retiring in 1979 at age 62 would need 28 quarters of covered employment to be eligible. Workers reaching age 62 in 1991 or later will need only 40 quarters of coverage.

2/Social security benefits are generally based on a worker's earnings averaged over the number of years between 1950 and the year the worker reaches age 62, becomes disabled, or dies. The lowest 5 years of earnings are excluded from the computation. Before 1979, actual earnings were used in the formula for computing benefits, and workers with average monthly earnings of $76 or less received the minimum. For the worker who reaches age 62, becomes disabled, or dies in 1979 or later, average monthly earnings that have been indexed for inflation are used in a new benefit formula. Under the new formula a worker receives the minimum if his or her average indexed monthly earnings are $135 or less. The new law provides for a transitional guarantee, but only to those becoming eligible for retirement benefits between 1979 and 1983. This guarantee assures eligible retirees of benefits at least equal to what they would have received under the old formula.
years, rely 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.

WHAT IS THE WINDFALL?

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 CONGRESS FROZE THE MINIMUM BENEFIT IN 1979

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. Thus, in future years, 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.

In freezing the minimum benefit, the Congress noted that, in general, low-paid workers who worked regularly under the social security program would not be disadvantaged, because a regular worker retiring with lifetime earnings equal to the Federal minimum wage would get benefits substantially higher than the minimum. Furthermore, the Congress believed that the Supplemental Security Income (SSI) program (42 U.S.C. 1381) was an appropriate source of income for the needy who qualify for the relatively lower minimum in the future. SSI is paid from general revenues, whereas social security comes from trust funds supported by social security tax.

SSI, effective in 1974, provides a minimum income level to aged (65 and over), blind, or disabled people having
little or no means of self-support. Individuals are entitled to a minimum income level of $208.20 a month, and couples are entitled to $312.30. Monthly SSI payments are adjusted to maintain these income levels, with some exclusions and exceptions. For example, the first $20 a month of unearned income (retirement income, such as social security and VA benefits) is excluded; thereafter, this income results in a dollar for dollar reduction in SSI.

The Congress chose to freeze the minimum benefit, rather than to eliminate it, because of concern about the hardships to needy people who would not be eligible for SSI because they were not age 65, blind, or disabled. The Congress believed that freezing the minimum would avoid the sharp and immediate drop in benefit amounts and, with inflation, result in a gradual elimination of the minimum.

THE PRESIDENT'S PROPOSAL:
FURTHER ACTION TO ELIMINATE WINDFALL

According to the Social Security Administration (SSA), it will take more than 30 years for the freezing action to eliminate minimum benefits under the current law. Recognizing this, the President, in his fiscal year 1980 budget submission, proposed eliminating the minimum benefit for new beneficiaries to respond to two criticisms:

-- The minimum benefit is a windfall to persons for whom social security covered employment was not the principal source of preretirement earnings.

-- The minimum benefit is an undesirable welfare aspect of the social security program.

SSA estimates that implementing the President's proposal in fiscal year 1981 would reduce SSA program expenditures by $45 million in fiscal year 1981 and by a total of $455 million through fiscal year 1985. In his State of the Union Address, the President asked the National Commission on Social Security to look at his proposed legislative changes to the Social Security Act. The Commission has not yet completed its review.

SCOPE AND APPROACH

We made various comparisons of income and work characteristics between minimum and other social security beneficiaries to assess the need for further action to limit
minimum benefits. Our analysis was performed on a random sample of 2,508 new awards made by SSA during 1977 to retired and disabled workers, widows/widowers, and mothers/fathers (wives/husbands of deceased workers with dependent children). The sample consisted of the following beneficiaries.

<table>
<thead>
<tr>
<th>Benefit level</th>
<th>Retired workers</th>
<th>Disabled workers</th>
<th>Widows/widowers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>151</td>
<td>22</td>
<td>15</td>
<td>188</td>
</tr>
<tr>
<td>More than minimum</td>
<td>1,493</td>
<td>567</td>
<td>260</td>
<td>2,320</td>
</tr>
<tr>
<td>Total</td>
<td>1,644</td>
<td>589</td>
<td>275</td>
<td>2,508</td>
</tr>
</tbody>
</table>

For each of the records sampled, we analyzed the earnings records maintained by SSA on the workers and, in some cases, on their spouses. We also used their social security numbers to identify those receiving SSI payments or Federal pensions from the Office of Personnel Management, Veterans Administration, Department of Defense, or Railroad Retirement Board.

Some of our analyses were limited to sampled retired workers. These include any analyses dealing with earnings in employment covered by social security, years or quarters of covered employment, social security taxes paid, and return on social security contribution. Other sampled beneficiaries were excluded from the analyses because their careers ended prematurely with death or disability.

1/ Estimates based on this sample are subject to a maximum sampling error of plus or minus 2 percent at the 95-percent confidence level.

2/ Social security awards include new entrants to the benefit rolls and those already on the rolls whose benefits are terminated because of certain events and who are then awarded a different type of benefit. The latter awards are, in effect, conversions from one type of benefit to another. For example, an aged wife would be awarded a widow's benefit upon the death of her husband.

3/ Formerly the Civil Service Commission.
In addition to the 2,508 sampled cases, we took a random sample of 89 new awards made to minimum beneficiaries in Los Angeles, California. For each of these 89 cases, we made the same analyses as those made on the sample of 2,508. Also, we obtained additional information regarding income and resources by reviewing SSA case files and by contacting the beneficiaries through a questionnaire and/or by telephone.

1/Estimates based on this sample are subject to a maximum sampling error of plus or minus 10 percent at the 95-percent confidence level.
CHAPTER 2

MINIMUM BENEFICIARIES DID NOT RELY
ON THEIR EARNINGS COVERED BY
SOCIAL SECURITY BEFORE RETIREMENT

Minimum benefits generally are paid to people who did not, during their working years, rely on their earnings covered by social security as a primary source of support. Minimum beneficiaries had little or no covered earnings just before receiving social security and only minimal covered earnings throughout their working years. For most of these people, the monthly social security benefit is several times larger than their monthly earnings before receiving these benefits. Because minimum beneficiaries have had very limited earnings subject to social security taxes, they have contributed very little to the social security trust fund. But with the minimum benefit, they will recover their contribution 6 times faster than the people who contributed the most to the trust fund, and in some cases, as much as 30 times faster.

SOCIAL SECURITY INTENDED TO PARTIALLY
REPLACE EARNINGS LOST UPON RETIREMENT

A basic concept of the social security system is that a person must earn entitlement through work in employment covered by social security. This concept is reflected in the formula used to compute benefits in that it is directly related to a person's covered earnings.

One measure of the formula's rationality is the "replacement ratio." This is the ratio of benefits awarded at retirement to a worker's earnings covered by social security before retirement.

Social security is intended to partially replace earnings lost by the retiring worker. It is weighted in favor of people with low average earnings, providing them with a higher replacement ratio. The greatest advantage is provided.

1/ The term "minimum beneficiary" as used in this report refers to all beneficiaries awarded minimum benefits. Some of these beneficiaries may receive a higher benefit because they are also entitled to benefits on someone else's account. See page 18 for further details.
to minimum beneficiaries on the assumption that they are
needy and can least afford a reduction in income upon retire-
ment. The House Ways and Means Committee in its report on
the 1977 Amendments to the Social Security Act characterized
the minimum benefit as being a windfall to people who have
not worked regularly under social security.

SOCIAL SECURITY BENEFITS LARGER
 THAN PRERETIREMENT EARNINGS

To determine the amount of work covered by social secur-
ity, we analyzed SSA's earnings records on the random sample
of individuals awarded retirement benefits during 1977.
These records showed the earnings and quarters of coverage
for each year of employment.

Sampled minimum beneficiaries generally had little or
no work in employment covered by social security for the
years immediately preceding their initial social security
payment. Their earnings records showed that on the average
they had no covered employment in 7 out of the last 10 years
before receiving social security. About 48 percent had ab-
solutely no work in covered employment for the last 5 years,
and 33 percent had not worked in covered employment for 10
years.

The average monthly income of those who had worked
indicated that they worked only part time, or had only inter-
mittent employment. Their average monthly earnings for the
5 years preceding their initial social security payment were
only about $61. This is about one-sixth the amount that a
person would make working full time at the minimum wage.
Their average monthly earnings for our sample were about
$40 for the last 10 years.

The minimum social security benefit compared to these
low earnings is very high. This comparison can be expressed
as a replacement ratio—the primary insurance amount at
retirement divided by average monthly earnings for a given
time period before retirement. The minimum beneficiaries
in our sample had a replacement ratio of 356 percent, con-
sidering their average monthly earnings for 5 years before
retirement. This ratio includes those who had earnings and
those who had none. But, even when including only those
minimum beneficiaries who had earnings during this 5-year
period, the ratio was about 184 percent. This ratio is
high considering that the group that contributed the most
to the trust fund (the main contributors discussed on pp. 10 and 11) had a replacement ratio of only about 46 percent.

The average monthly earnings of sampled minimum beneficiaries and main contributors for periods just before receiving social security were as follows:

<table>
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<tr>
<th>Minimum beneficiaries</th>
<th>Those with earnings</th>
<th>All minimums</th>
<th>Main contributor</th>
</tr>
</thead>
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<tr>
<td>Average monthly earnings during:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 year before receiving benefits</td>
<td>$106</td>
<td>$34</td>
<td>$902</td>
</tr>
<tr>
<td>5 years before receiving benefits</td>
<td>61</td>
<td>31</td>
<td>823</td>
</tr>
<tr>
<td>10 years before receiving benefits</td>
<td>40</td>
<td>27</td>
<td>703</td>
</tr>
<tr>
<td>Average replacement ratio based on average monthly earnings during:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 year before receiving benefits</td>
<td>106%</td>
<td>332%</td>
<td>428</td>
</tr>
<tr>
<td>5 years before receiving benefits</td>
<td>184%</td>
<td>356%</td>
<td>46</td>
</tr>
<tr>
<td>10 years before receiving benefits</td>
<td>278%</td>
<td>409%</td>
<td>54</td>
</tr>
</tbody>
</table>

Contrary to social security's overall objective of partially replacing a person's income upon retirement, the preceding table shows that minimum beneficiaries receive more money from social security than they had from their employment just before receiving social security.

LITTLE WORK IN COVERED EMPLOYMENT THROUGHOUT WORKING YEARS

Most minimum beneficiaries had little work in covered employment throughout their working years and were never a permanent part of the labor force covered by social security.
On the average, the minimum beneficiary had some work in covered employment in only 1 of 4 years. Nearly half had gaps in covered employment of 20 or more years. Only 16 percent had as many as 10 consecutive years during which they had any work in covered employment. Nearly half had worked in covered employment in less than 20 percent of the quarters since 1936.

Minimum beneficiaries generally could not have been primarily dependent on their earnings from covered employment, because they were too low. Sampled minimum beneficiaries averaged only $22 a month from 1953 through 1970. Only 3 percent had earned as much as $4,000 during any single year in that time period, and only one-third had earned as much as $2,000 in any one of those years. Such low earnings from covered employment indicate that most minimum beneficiaries depended on other earnings or someone else for their support.

LITTLE TAX PAID BUT HIGH RETURN ON CONTRIBUTION

Because of their low covered earnings, minimum beneficiaries have paid very little in social security taxes. Once eligible for social security, people receive at least the minimum benefit regardless of the limited nature of their covered earnings and the amount of their contribution to the social security trust fund. Consequently, minimum beneficiaries receive a much greater return on their tax contributions than people who contributed the most to the trust fund.

To compare the return on contribution of minimum beneficiaries with that of other beneficiaries, we identified a main contributor group. The following graph shows how this group clearly represents those who have contributed most to the trust fund. It is based on an analysis of the contributions made by a sample of beneficiaries awarded retirement benefits during 1977. It shows the percentage of total contributions made by people receiving social security in the various benefit ranges.
As shown, minimum beneficiaries accounted for less than 1 percent of the total social security taxes paid by sampled beneficiaries, while the main contributors (those who had benefits of $301 to $450) had contributed over 70 percent of the taxes.

Our analysis of the sample of 1977 awards shows that, on the average, a retired minimum beneficiary will recover his or her total social security tax contribution six times faster than the people who are the "backbone" of the trust fund—the main contributors. For minimum beneficiaries, each monthly social security payment returned about 39 percent of their total tax contribution, while for the main contributors each monthly payment returned only 6 percent of their contribution.

Minimum beneficiaries have greater rates of return because they receive at least the minimum, regardless of how little they have paid into the trust fund. Minimum beneficiaries in our sample on the average had contributed $290, ranging from $34 to $923, whereas the main contributors had contributed an average of $6,000, ranging from $3,325 to $7,791.
The disparity between the rates of return for minimum beneficiaries and main contributors increased as the contribution of the minimum beneficiary decreased. For people who had paid a lifetime total of $200 in social security tax, each monthly social security payment returned 55 percent of their total contribution. For people who had paid a total of $50, each monthly payment returned 223 percent of this contribution. This rate of return is more than 30 times that of the main contributor. About 40 percent of sampled minimum beneficiaries had contributed $200 or less.

The social security program is a compromise between individual equity and social adequacy; the very high rate of return comes from the social adequacy objectives of this program. Unlike equity objectives, where an individual's benefit is related to his or her contribution, social adequacy is a welfare objective in which benefits are determined not by contribution, but by a minimum standard of living below which society decides that no individual should fall.

Providing for social adequacy through social security may result in assisting the affluent as well as the needy. As discussed in the next chapter, this is the case with minimum benefits.
CHAPTER 3

MOST WHO RECEIVED ADDITIONAL INCOME FROM THE MINIMUM BENEFIT WERE NOT NEEDY

More than half of the sampled beneficiaries who received additional income from the minimum benefit had substantial income or support from other sources. These beneficiaries depended primarily on a Federal, State, or local pension, or relied on the income of their spouses. Only a relatively few needy people were helped by the minimum benefit. About 44 percent of the sampled beneficiaries received no additional income from the minimum benefit because of offsets required in other Federal benefits. No income data were available for 26 percent of the sampled beneficiaries. However, we believe many of these had other income, such as a State or local pension.

The President's proposal to eliminate the minimum benefit provision would reduce Federal expenditures by an estimated $455 million for fiscal years 1981-85 without hurting the needy who are receiving SSI. At the same time, this proposal might bring undue hardship to a few needy beneficiaries who are not quite old enough for SSI. However, most of the potential savings from the President's proposal would still be possible if this group were excluded from the effect of eliminating the minimum benefit.

MOST WERE NOT LARGELY DEPENDENT ON THE MINIMUM BENEFIT

To determine how dependent minimum beneficiaries were on their social security, we identified certain other Federal payments that they or their spouses were receiving. We also obtained earnings and other income information that was available within SSA on some beneficiaries and their spouses (primarily those working in employment covered by social security). We concluded that beneficiaries did not depend primarily on the minimum benefit if they had sufficient other income to be ineligible for SSI, or if their net income would not change if the minimum benefit were eliminated. Only those with sufficient other income to be ineligible for SSI were considered to have substantial income. 1/

1/ See minimum beneficiaries dependent on spouses' social security, p. 18, and SSI recipients not helped by minimum benefit; pp. 18 and 19.
This analysis showed that at least 74 percent of the sampled minimum beneficiaries did not depend primarily on the minimum benefit. As shown in the following chart and as discussed on pages 18 and 19, about 44 percent received no additional net income from the minimum benefit provision. At least 30 percent had substantial income. In most cases, either the beneficiary was receiving a Federal pension or the spouse was still working. No income data were available in the Federal records for the other 26 percent.

NATIONAL SAMPLE

- Substantial income: 30%
- No additional benefit: 44%
- Insufficient Federal data: 26%

\( \) Beneficiaries receiving additional income from work in nonprofit organizations.
Most of the 26 percent for whom no income data were available probably had either a State or local pension or some other income as their primary means of support. While we did not analyze these cases beyond the Federal records, we obtained some insight on their economic characteristics by analyzing 89 minimum beneficiaries residing in the Los Angeles area.

For the Los Angeles sample, we searched the Federal records used in the national sample and performed case-by-case review, including personal contact with the beneficiary through a questionnaire and/or the telephone. In the Los Angeles sample, like the national sample, no income data were available in the selected Federal records for many beneficiaries. However, in the Los Angeles analysis, most of these beneficiaries responded to our inquiries that they had some primary means of support other than social security. The Los Angeles analysis showed that only 5 percent of sampled minimum beneficiaries depended primarily on their social security. As explained on pages 16 and 17, the Los Angeles sample may not be representative of the Nation because Los Angeles may have a higher percentage of minimum beneficiaries with State or local pensions than other parts of the country. However, we believe that a significant portion of the 26 percent for which no Federal income data were available had substantial other income because the overwhelming majority of sampled Los Angeles beneficiaries had such income.

GOVERNMENT WORKERS RECEIVE WINDFALL PAYMENTS

Because of the minimum benefit provision, many Federal, State, and local government workers receive generous social security payments even though they are not needy. To these people the windfall minimum benefit supplements their government pensions.

Federal records showed that about 15 percent of the sampled minimum beneficiaries were also receiving a Federal pension. On the average, they received a monthly pension of about $900, and about 80 percent received pensions of more than $500. See appendix I for more details on the size of Federal pensions received by sampled beneficiaries.

Sampled minimum beneficiaries receiving Government pensions had only marginal work in employment covered by social security; in fact, many had just barely qualified for benefits. Usually the sampled Federal workers needed only $50 or more of covered earnings in about 26 different quarters since
1936. The average Government employee had earned only 32 quarters. About 40 percent had fulfilled their minimum requirement by no more than two quarters. (See p. 2.) For example, one individual worked just enough to qualify entirely after retiring from Federal service. Working part time at about $70 a month he earned 23 quarters of coverage—the exact number needed for eligibility. This individual was receiving a Federal pension of about $900 a month.

Many Government employees complete their quarters of coverage requirement through limited self-employment after their Federal retirement. For example, one retired Government worker with a pension of $875 a month completed social security eligibility as a self-employed traveling barber making just over $400 a year. Self-employed individuals need at least $400 of net earnings during a year to receive credit for social security. Apparently, the traveling barber became self-employed for the purpose of obtaining social security coverage. Some retired Federal employees admit this when applying for social security. For example, one individual with a pension of about $2,000 a month said he became self-employed, performing odd jobs (such as yard work and home repairs) just to earn enough credits for social security.

As these cases illustrate, the lenient eligibility requirements make it easy for Government pensioners to receive windfall minimum benefits. Although their work in the private sector was minimal, it met social security eligibility requirements. Once eligible, they are entitled to at least the minimum benefit, but this is much greater than that warranted by their limited lifetime earnings in the private sector. An SSA study showed that, as of December 1975, over 120,000 civil service beneficiaries were also receiving minimum social security benefits.

Like retired Federal workers, many State and local government retirees receive the windfall minimum benefit. Although no Federal data were available for determining the number of sampled minimum beneficiaries with State or local pensions, our analysis of the Los Angeles sample indicated that about 13 percent had such pensions.

The Los Angeles data, however, may be higher than the percentage that might be expected at the national level, because a higher percentage of State and local government jobs are covered under social security outside of California. For example, in 1977, 42 percent of California State or local government jobs were covered under social security.
compared to a 72-percent national average. Since more government jobs were covered by social security at the national level than in California, it is very likely that a higher percentage of government workers in California obtained minimum social security coverage through incidental employment outside of their career in government. Consequently, it is very likely that there are more minimum beneficiaries in California with State or local pensions. An SSA national survey of new beneficiaries in 1969 showed that about 3 percent of the minimum beneficiaries had State or local government pensions. However, SSA does not have an up-to-date study on the number of minimum beneficiaries receiving State or local government pensions.

UNNECESSARY WINDFALL FOR THOSE DEPENDENT ON THEIR SPOUSES' INCOME

Like government workers, many homemakers have had only part-time or intermittent employment in work covered by social security, and receive the windfall minimum social security benefit. They too did not depend on their covered earnings before receiving social security benefits and likewise do not depend on their social security afterwards. This was the situation for at least 12 percent of sampled minimum beneficiaries. In these cases the homemaker was collecting social security, while the spouse either continued working or received a Federal pension. In each case, the homemaker depended primarily on the spouse both before and after receiving social security. The homemakers had little work in covered employment and were not consistent breadwinners for the family. In fact, most homemakers had not worked for several years before collecting social security; consequently, the minimum benefit represented an increase over what the couple previously had to live on.

About 10 percent of the sampled minimum beneficiaries were homemakers primarily dependent on their working spouses. SSA's earnings records showed that the working spouses had made an average of at least $13,700 during the first year that the homemakers received social security (1977). This figure is probably understated because SSA maintains earnings information only on wages subject to social security tax, and only up to the maximum taxable amount. In 1977 this maximum was $16,500, and 50 percent of the sampled working spouses had earned at least the maximum. See appendix II for more details on the earnings of spouses of minimum beneficiaries.
Another 2 percent of sampled minimum beneficiaries were dependent on their spouses who were retired Government employees. The average annual Government pension for these people was $12,500.

Homemakers also depended on their spouses' earnings before they received social security. According to SSA's records, their spouses had average earnings over $11,500 for each of the 3 years preceding the homemakers' initial social security payment. On the other hand, 83 percent of the homemakers had no covered earnings during any of those 3 years.

These homemakers had little work in covered employment throughout their lives. Most had gaps in employment of 10 to 30 years, with many gaps starting at about the time they were married. Some never returned to work, while others obtained what would appear to be part-time employment after not working for several years. This minimal employment in work covered by social security is reflected in their individual lifetime covered earnings of about $11,000 ($23 a month).

NO ADVANTAGE IN MINIMUM BENEFIT FOR THOSE DEPENDENT ON THEIR SPOUSES' SOCIAL SECURITY

Many minimum beneficiaries were also entitled to social security on their spouses' account and, as such, received no advantage from the minimum benefit provision. About one-fourth of sampled minimum beneficiaries were "dually entitled." That is, they were entitled to social security on either their own or their spouses' account, and their spouses' 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 provides no advantage to the dually entitled person. At the same time, neither reducing nor eliminating the minimum benefit for this group would save the Government money.

SSI RECIPIENTS ARE NOT HELPED BY MINIMUM BENEFITS

Generally minimum beneficiaries eligible for SSI receive no more assistance from the minimum benefit provision than they are already entitled to under the SSI program. Most of the minimum beneficiaries in our sample who were receiving SSI did not receive any increase in their monthly income from the unearned bonus of the minimum benefit, because of the dollar for dollar income offset required under the SSI
program. 1/ For example, in 1977 one minimum beneficiary's monthly income was $197.80, consisting of $83.50 in SSI and $114.30 in social security. With or without the minimum benefit provision, this person's monthly income would have remained at $197.80 computed as follows:

<table>
<thead>
<tr>
<th>Computation of monthly income</th>
<th>With minimum benefit</th>
<th>Without minimum benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>($47.80 earned and $66.50 unearned bonus)</td>
<td>$114.30</td>
<td>$47.80</td>
</tr>
<tr>
<td>Computation of SSI payment standard</td>
<td>a/$177.80</td>
<td>$177.80</td>
</tr>
<tr>
<td>Less: social security over $20 exclusion</td>
<td>94.30</td>
<td>27.80</td>
</tr>
<tr>
<td>SSI payment</td>
<td>83.50</td>
<td>150.00</td>
</tr>
<tr>
<td></td>
<td>$197.80</td>
<td>$197.80</td>
</tr>
</tbody>
</table>

1/SSI effective in July 1977.

As illustrated, the minimum beneficiary who is receiving SSI is generally no better off with the minimum benefit provision. Conversely, he or she generally would be no worse off if the provision were eliminated.

ELIMINATING THE MINIMUM BENEFIT WOULD SAVE MONEY WITHOUT HURTING THE NEEDY ON SSI

The President's proposal to eliminate minimum benefits would save the social security trust fund about $695 million during fiscal years 1981-85 without hurting those needy minimum beneficiaries who are receiving SSI. This is

1/Less than 10 percent of sampled minimum social security beneficiaries who were receiving SSI would have received less money if the minimum benefit provision were eliminated, and the average monthly loss would have been only $5. This loss would have applied to those individuals whose social security benefit without the minimum provision was less than the $20 monthly unearned income exclusion allowed under the SSI program.
because the income offset provision of SSI works both ways, and any decrease in social security generally results in a dollar for dollar increase in SSI. If the minimum benefit were eliminated, this offsetting effect would increase SSI payments by about $240 million for fiscal years 1981-85.

Under the President's proposal, the minimum benefit provision would have been repealed for workers who became disabled or reached age 62 after May 1979, and for survivors of workers who died after May 1979. Instead of the minimum, these people would receive the payment resulting from applying the regular benefit formula to their work history or, in these cases, 90 percent of the worker's average monthly pre-retirement earnings indexed for inflation.

According to SSA, the President's proposal would have the following effect on social security and SSI expenditures if implemented in October 1980.

**Effect of President's Proposal**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings to social security</td>
<td>$55</td>
<td>$100</td>
<td>$145</td>
<td>$175</td>
<td>$220</td>
<td>$695</td>
</tr>
<tr>
<td>Increase in SSI</td>
<td>10</td>
<td>25</td>
<td>40</td>
<td>65</td>
<td>100</td>
<td>240</td>
</tr>
<tr>
<td>Net savings</td>
<td>$45</td>
<td>$75</td>
<td>$105</td>
<td>$110</td>
<td>$120</td>
<td>$455</td>
</tr>
</tbody>
</table>

SOME NEEDY MINIMUM BENEFICIARIES ARE NOT QUITE OLD ENOUGH FOR SSI

A few minimum beneficiaries are not eligible for SSI, even though they are needy, because they are not age 65, disabled, or blind. They include individuals who retire early (age 62-64), widows/widowers (age 60-64), young widowed mothers/fathers with dependent children, and family members, such as spouses (age 62-64) and children. Of course, needy young parents and their children are eligible for Aid to Families with Dependent Children. Because of limited data, we were not able to determine the actual number of sampled new beneficiaries who were needy but not eligible for SSI or Aid to Families with Dependent Children. However, as discussed on page 15, our analysis of minimum beneficiaries living in Los Angeles indicated that this number is low.
Concern over these few people may have affected past efforts to limit the windfall minimum benefits. The Advisory Council on Social Security in 1975 considered recommending the elimination of minimum benefits. However, the Council was concerned about people who would not be eligible for SSI and believed that, if the minimum benefit were eliminated, the Council should consider recommending a lowering of the SSI age requirement. The Council recommended freezing minimum benefits rather than eliminating them, and in 1977 the Congress implemented that recommendation.

The cost of lowering the SSI age requirement is greater than the savings possible through eliminating minimum benefits, because many people other than minimum beneficiaries would become eligible for SSI. SSA estimates increased annual SSI cost of about $200 million for lowering the SSI age from 65 to 62.

The cost of maintaining the full minimum just for the needy minimum beneficiaries who are not eligible for SSI is relatively small, because most needy beneficiaries are already eligible for SSI. As shown on page 14, about 18 percent of the minimum beneficiaries were receiving SSI, and as discussed on page 15, the Los Angeles sample indicates that the number of needy minimum beneficiaries who are not eligible for SSI is low.

Maintaining a minimum income level just for those who qualify on the basis of need is not compatible with the earned entitlement concept of social security. Such income maintenance is the SSI objective. However, the Congress could change eligibility requirements to cover minimum beneficiaries age 60 to 64.
CHAPTER 4
CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

Minimum beneficiaries have a considerable advantage over others receiving social security. They have paid very little social security tax, but receive a much higher return on this tax than the people who have contributed the most to the social security trust fund. Their monthly social security benefit is often several times greater than their monthly earnings from covered employment just before receiving social security, while the main contributors' monthly benefit is much smaller. Justification for the favorable treatment extended to minimum beneficiaries has been that they were poor and removal of this advantage would cause undue hardship.

Our study shows that most people who receive additional income from the minimum benefit provision are not poor. The reason for this is basically that social security is an earned right and not a welfare program subject to a needs test. Through the needs test, welfare payments are adjusted on the basis of other income available to welfare recipients. Without a needs test, persons with adequate income apart from their social security still receive the minimum benefit. More than 30 percent of sampled newly awarded minimum beneficiaries were receiving government pensions or were largely dependent on their spouses' income. Most of the remaining minimum beneficiaries received no net increase in income from the minimum benefit provision. Only a relatively few needy people are helped by the minimum benefit provision.

This low number of people is partly attributed to the fact that most needy minimum beneficiaries are already covered by the Federal SSI program. Generally, these people receive no increase in their net income from the unearned bonus provided by minimum benefits, because SSI law requires an offset for other income received. Consequently, the unearned bonus of minimum benefits results in a dollar for dollar reduction in SSI payments. In this sense, social security trust fund money is being used to finance welfare which, if it were not for the minimum benefit provision, would have been financed from general revenues.

The need for using social security trust fund money for welfare objectives was greatly reduced in 1974 with the implementation of the SSI program. In the past, unusually high increases in the minimum benefit have been justified on
the basis of providing a minimum income level for needy social security beneficiaries. But now needy minimum and other social security beneficiaries who are aged (age 65), blind, or disabled can rely on SSI.

The President's proposal for eliminating the minimum benefit provision is designed to stop the windfall of minimum benefits and reduce the welfare aspect of social security for future beneficiaries. It also recognizes that any future beneficiary who is over age 64 or disabled and would actually have been dependent primarily on the minimum social security benefit for support could look to SSI for assistance. SSA estimates that this proposal would save the Government $455 million during fiscal years 1981-85. This figure is the net of a $695 million savings in social security and a $240 million increase in SSI.

Some concern has been expressed about the President's proposal, because some needy beneficiaries are not eligible for SSI. For these people the proposal could be amended to extend SSI eligibility to minimum beneficiaries who would be eligible for SSI if they met the age requirement.

In this alternative, needy minimum beneficiaries ages 60 through 64 would be provided special SSI payments. These payments, combined with recomputed social security benefits (benefit after eliminating the minimum), would be limited to the amount that these people would have received before the minimum benefit provision was eliminated. Unlike the President's proposal, this alternative provides aid for needy minimum beneficiaries ages 60 through 64, and retains most of the savings. It does not provide for young widows/widowers with dependent children, because if they are needy they can qualify for Aid to Families with Dependent Children.

We discussed the results of our review with HEW officials, and their comments were considered in preparing the final report. HEW officials agreed with our recommendation.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress approve the President's proposal to eliminate the minimum benefit provision for new beneficiaries. To minimize the hardship to the few needy beneficiaries who are not eligible for SSI, the Congress could authorize a limited SSI eligibility which would replace the portion of the social security benefit lost, through eliminating the minimum provision, with an SSI payment.
SAMPLED MINIMUM BENEFICIARIES RECEIVING FEDERAL PENSIONS

<table>
<thead>
<tr>
<th>Monthly pension amount</th>
<th>Percent of sampled minimum beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 250 to $ 499</td>
<td>3.2</td>
</tr>
<tr>
<td>500 to 749</td>
<td>4.3</td>
</tr>
<tr>
<td>750 to 999</td>
<td>3.2</td>
</tr>
<tr>
<td>1,000 to 1,249</td>
<td>1.6</td>
</tr>
<tr>
<td>1,250 to 1,499</td>
<td>.5</td>
</tr>
<tr>
<td>1,500 to 1,749</td>
<td>.5</td>
</tr>
<tr>
<td>1,750 to 1,999</td>
<td>1.6</td>
</tr>
<tr>
<td>Total</td>
<td>14.9</td>
</tr>
</tbody>
</table>
### Sampled Minimum Beneficiaries Whose Spouses Were Still Working (note a)

<table>
<thead>
<tr>
<th>Spouses' Annual Earnings (note b)</th>
<th>Percent of Sampled Minimum Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,000 to $8,999</td>
<td>1.6</td>
</tr>
<tr>
<td>9,000 to 11,999</td>
<td>2.7</td>
</tr>
<tr>
<td>12,000 to 14,999</td>
<td>1.1</td>
</tr>
<tr>
<td>c/15,000 to 16,500</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11.8</strong></td>
</tr>
</tbody>
</table>

*Note a*: The earnings data are limited to earnings in work covered by social security. We did not determine what other income these beneficiaries might have.

*Note b*: Reflects earnings posted on the social security earnings record for 1977.

*Note c*: The actual earnings may be higher as SSA maintains information only on wages subject to social security tax. In 1977 the maximum taxable amount was $16,500.
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