United States Government Accountability Office

Report to the Special Committee on Aging, U.S. Senate

September 2016

SOCIAL SECURITY

Improvements to Claims Process Could Help People Make Better Informed Decisions about Retirement Benefits

Accessible Version

GAO-16-786

GAO Highlights

Highlights of GAO-16-786, a report to the Special Committee on Aging, U.S. Senate

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Improvements to Claims Process Could Help People Make Better Informed Decisions about Retirement Benefits

Why GAO Did This Study

Many eligible individuals claim Social Security retirement benefits at the earliest eligibility age, even though they would receive higher benefits if they waited until older ages. In order to make an informed decision about when to claim, people need to understand how various Social Security rules and other factors affect benefit amounts. GAO was asked to examine these issues.

This report examines (1) the extent to which people understand Social Security rules affecting their retirement benefits; and (2) what information SSA provides to individuals to enable them to make informed claiming decisions. GAO observed a demonstration of the online claims process and a nongeneralizable sample of 30 in-person claims applications and inquiries in 7 field offices; reviewed applicable federal laws, regulations, and agency documentation; reviewed surveys and academic studies, selected in part based on expert referrals and a comprehensive review of the research literature; and interviewed Social Security experts and agency officials.

What GAO Recommends

GAO is making six recommendations to SSA, including that SSA take steps to ensure that claims specialists provide information on delayed benefits that is consistent with POMS, and that the claims process provides claimants better information on the retirement earnings test. SSA generally agreed with our recommendations.

View GAO-16-786. For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

GAO's review of nine surveys and academic studies, and interviews with retirement experts, suggest that many individuals do not fully understand key details of Social Security rules that can potentially affect their retirement benefits. For example, while some people understand that delaying claiming leads to higher monthly benefits, many are unclear about the actual amount that benefits increase with claiming age. The studies and surveys also found widespread misunderstanding about whether spousal benefits are available, how monthly benefits are determined, and how the retirement earnings test works. Understanding these rules and other information, such as life expectancy and longevity risk, could be central to people making well-informed decisions about when to claim benefits. By having this understanding of retirement benefits, people would also be in a better position to balance other factors that influence when they should claim benefits, including financial need, poor health, and psychological factors.

The Social Security Administration (SSA) makes comprehensive information on key rules and other considerations related to claiming retirement benefits available through its publications, website, personalized benefits statements, and online calculators. However, GAO observed 30 in-person claims at SSA field offices and found that claimants were not consistently provided key information that people may need to make well-informed decisions. For example, in 8 of 26 claims interviews in which the claimant could have received higher monthly benefits by waiting until a later age, the claims specialist did not discuss the advantages and disadvantages of delaying claiming. Further, only 7 of the 18 claimants for whom the retirement earnings test could potentially apply were given complete information about how the test worked. SSA's Program Operations Manual System (POMS) states that claims specialists should explain the advantages and disadvantages of filing an application so that the individual can make an informed filing decision. The problems we observed during the claims interviews occurred in part because the questions included in the claims process did not specifically cover some key information.

Online applicants have more access to key information on the screen or through tabs and pop-up boxes as they complete an application. However, similar to in-person interviews, the online application process does not inform claimants that benefits are based on the highest 35 years of earnings or that life expectancy is an important consideration in deciding when to claim.

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Abbreviations

AIME	average indexed monthly earnings
DI	Disability Insurance
FRA	full retirement age
GPO	Government Pension Offset
OASI	Old Age and Survivors Insurance
PIA	primary insurance amount
POMS	Program Operations Manual System
SSA	Social Security Administration
WEP	Windfall Elimination Provision

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September 14, 2016

The Honorable Susan Collins
Chairman
The Honorable Claire McCaskill
Ranking Member
Special Committee on Aging
United States Senate

The decision of when to claim Social Security retirement benefits is one of the most important financial decisions most people and households will ever make. As of 2013, Social Security benefits make up the largest component of household income in retirement, accounting for an average 52 percent of household income for those age 65 and older.[1] Social Security accounts for at least half of household income for 62 percent of retirees age 75 and over, and at least 90 percent of household income for almost a quarter of these retirees. Social Security benefits offer certain advantages: monthly income until death, annual inflation adjustment, some tax benefits, and survivor and spousal benefits. These benefits have become increasingly important for retirees as employment-based retirement plan coverage has shifted from traditional defined benefit pension plans, which typically pay lifetime annuity benefits in retirement, to defined contribution plans, in which workers accumulate savings over their careers and manage withdrawals in retirement. In addition, despite the shift in pension coverage, as of 2013 about half of households with someone age 55 and older have no retirement savings in account-based defined contribution plans, such as 401(k)s or Individual Retirement Accounts, and 29 percent have no retirement savings or a defined benefit plan.

Those eligible for Social Security benefits can generally elect to receive them starting at age 62, but the monthly benefit amount increases permanently the longer someone delays claiming, until age 70.[2]

1 Throughout this report, when we use the phrase “Social Security benefits” or “retirement benefits,” we are referring to Social Security Old Age and Survivors Insurance benefits.

2 A surviving spouse can generally claim survivors benefits as early as age 60. A surviving disabled spouse can generally collect benefits as early as age 50.

Depending on how long a person, and possibly a spouse, lives, the age at claiming could make a difference of tens of thousands of dollars in retirement income for the individual or his or her spouse.

Despite delayed claiming offering the promise of higher monthly benefits, 62 is the most common age to claim Social Security benefits, and few people wait until age 70. According to the Social Security Administration (SSA) data, 42 percent of eligible men and 48 percent of women born in 1945 claimed retirement benefits at age 62. Only 28 percent of that cohort's men and 23 percent of its women waited until age 66, the age at which SSA pays full benefits for people in this birth cohort, also known as the full retirement age (FRA). Only 2 percent of eligible men and 4 percent of eligible women from the 1945 birth cohort waited until age 70 to claim. However, the percentage of eligible individuals claiming benefits at age 62 declined significantly from 1996 to 2013, according to the Center for Retirement Research at Boston College.

While there are sound reasons for taking benefits early, such as financial need or short life expectancy, many people might benefit from claiming at a later age. Making an optimal claiming decision requires individuals and households to understand how multiple factors—such as claiming age, earnings, life expectancy, and longevity risk—affect benefits.[3] SSA, as the program administrator, is in a unique position to help ensure prospective claimants make informed choices. With the challenges this complex decision may pose to many claimants, you asked us to analyze this issue.

In this report, we examine: (1) the extent to which people understand Social Security rules affecting their retirement benefits and other factors that may influence when they claim them; and (2) the information that SSA provides to individuals that enables them to make informed claiming

[3] "Longevity" can be viewed as a broad concept that encompasses the various possibilities of how long one or more people may live. "Life expectancy" is a particular longevity statistic that measures how long a particular population of people might expect to live on average; individuals within the population may live longer or shorter lives than this average life expectancy. Other longevity statistics can measure things such as the probability of a person living to an advanced age, such as 95. "Longevity risk" is often referred to by retirement policy experts as the risk of living beyond life expectancy, perhaps well beyond life expectancy, and exhausting one's retirement assets. In this report, we use the terms "life expectancy" and "longevity risk" as having these two distinct meanings.

decisions. To address these objectives, using the Internet and expert referrals we found and reviewed surveys and academic studies that assessed understanding of Social Security benefits and identified the factors that influence claiming. Of the studies we found, nine were most relevant to our work.[4] We also interviewed Social Security experts from academia, public policy organizations, and financial firms to obtain their views on how SSA provides information about claiming benefits. To analyze the information SSA provides to individuals about claiming, we reviewed published SSA materials related to understanding how benefits are calculated. We also reviewed applicable federal laws and regulations, and SSA's Program Operations Manual System (POMS), a primary source of information used by SSA employees to process claims for Social Security benefits. We interviewed SSA headquarters officials to learn how Social Security benefit claims are processed. To learn about the information SSA provides during the claims process, we observed a non-generalizable sample of 30 face-to-face claims interviews at 7 SSA local offices in 3 different regions of the country. We identified the local SSA offices where we would observe the retirement claims process, taking into consideration regional geographic diversity, income level, urban and rural composition, and the number of new claims each office processes. We noted the information SSA claims specialists provided to claimants during this process and evaluated what we observed against POMS guidance, and to determine how fully specialists were addressing key information categories we identified from our literature review and expert interviews. SSA also demonstrated the online claims process for us, showing the information on each screen that a claimant might see when filing a claim. We also interviewed managers and claims specialists at these local SSA offices about training, workload management, and the process for completing retirement benefit claims.

We conducted this performance audit from July 2015 to September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[4] These studies are described in appendix II.

Background

According to SSA, 84 percent of households with someone 65 or older received Social Security benefits in 2014.[5] To qualify for benefits, an individual must typically earn at least 40 credits, based on earnings on which they and their employer pay Social Security payroll taxes.[6] According to SSA, as of 2015, 69 percent of the population age 20 and over had earned 40 credits.[7] The amount of initial monthly retirement benefits depends on the beneficiary's earnings history and the age at which he or she chooses to begin receiving benefits. SSA figures monthly retirement benefits by calculating the individuals' average indexed monthly earnings (AIME) during his or her highest 35 years of earnings, with earnings from past years adjusted to reflect the growth in average wage levels over time.[8] (If the individual has earnings in less than 35 years, non-earning years count as zeroes in the AIME calculation.) Retirement benefits are then determined by a formula that converts an individual's AIME into a Primary Insurance Amount (PIA). The PIA is the monthly benefit a claimant receives if he or she chooses to begin benefits at the FRA (see fig. 1). Benefits are generally adjusted based on inflation each year. Up to 85 percent of retirement benefits are also potentially subject to income tax, depending on total income.[9]

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[5] SSA, *Fast Facts & Figures about Social Security, 2016*, SSA Publication No. 13-11785 (Washington, D.C.: August 2016). SSA refers to these households as "aged units," a married couple living together or a nonmarried person.

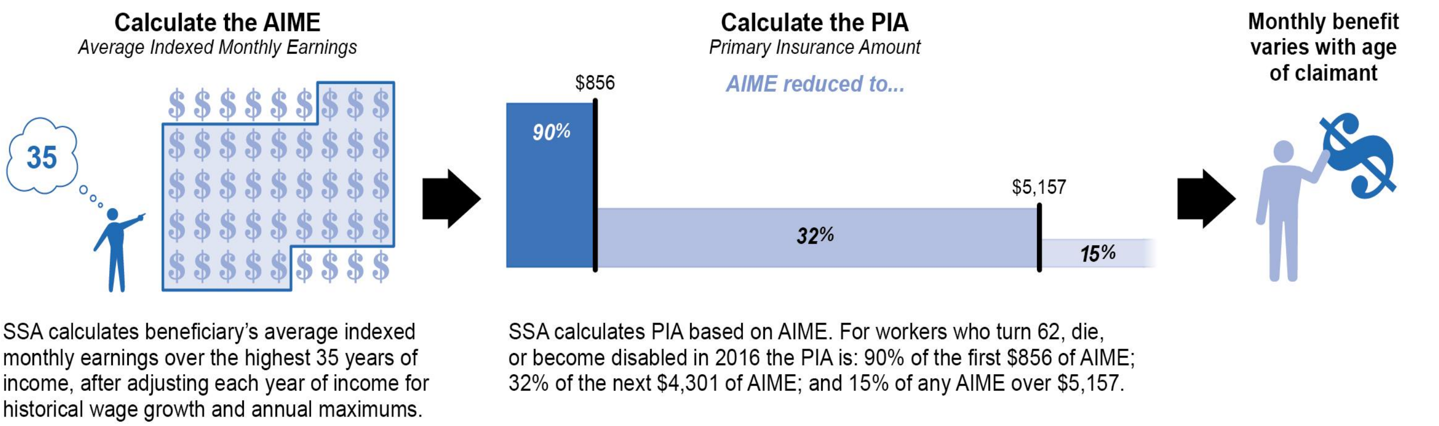
[6] Workers can earn up to four credits each year through earnings in covered employment during that year. In 2016, annual earnings of $1,260 qualify a worker for one credit, and $5,040 provides the maximum four annual credits.

[7] SSA, Publication No. 13-11785.

[8] The 35 years used in the calculation need not be consecutive. Earnings after age 59 are not adjusted.

[9] In 2016, an individual with "combined income" (modified adjusted gross income plus one-half of Social Security benefits) between $25,000 and $34,000 ($32,000 to $44,000 for couples filing jointly) could owe regular income tax rates on up to 50 percent of Social Security benefits; if combined income is above $34,000 ($44,000 for joint filers) up to 85 percent of Social Security benefits could be taxable.

Figure 1: Calculation of Monthly Social Security Retirement Benefits



Source: GAO analysis of Social Security Administration (SSA) documentation. | GAO-16-786

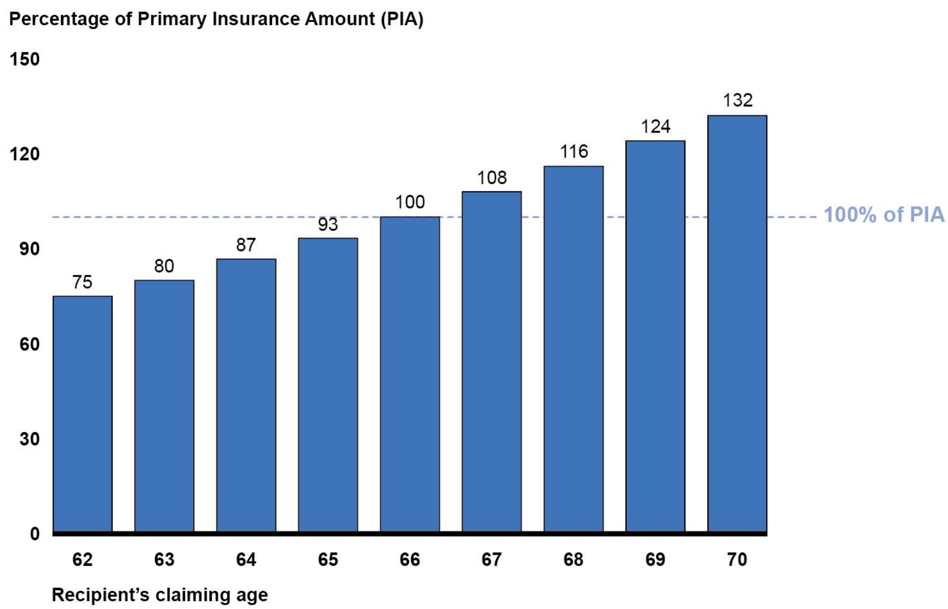
The FRA has risen from 65 originally to 66 for individuals born from 1943 to 1954, and it will be 67 for individuals born in 1960 or later. Beneficiaries may generally elect to begin receiving Social Security benefits as early as age 62;[10] however, an age-62 claimer will receive less each month than if he or she waited to claim until reaching FRA. As the FRA has risen, so has the reduction in benefits for pre-FRA claiming, relative to PIA. An eligible individual with an FRA of 66 who claims at 62 would receive a monthly benefit equal to 75 percent of PIA (see fig. 2). Future retirees with an FRA of 67 who claim at 62 will receive 70 percent of PIA.[11] Although SSA uses the term "full retirement age" to refer to the age at which workers receive unreduced benefits (sometimes called "full benefits"), those who wait to claim benefits beyond their FRA receive "delayed retirement credits" that boost monthly benefits to more than 100 percent of PIA. An eligible claimant born in 1943 or later can receive

[10] According to SSA, an individual must be at least age 62 "throughout the month" in order to receive a benefit. We previously reported that, coupled with the rule that for benefit entitlement purposes, a person attains a specific age the day before their birthday, that means only individuals born on the 1st or 2nd of the month could claim benefits in the first month they turn age 62, and others born on the 3rd of the month or later could not claim benefits until age 62 and 1 month.

[11] Under the current formula, the benefit reduction is 5/9 of 1 percent for each month up to 36 months before FRA and then 5/12 of 1 percent for each additional month before FRA.

delayed retirement credits equal to 8 percent of PIA per year past FRA until age 70. For example, a claimant with an FRA of 66 who claims at age 70 receives 32 percent higher monthly benefits than PIA. Thus, a retiree with an age 66 FRA and a PIA of $1,000 per month would receive $750 per month if claiming at age 62, $1,000 per month if claiming at age 66, or $1,320 if claiming at age 70. Individuals who claim benefits at ages in between would receive a monthly benefit between $750 and $1,320.

Figure 2: Adjustments to Monthly Social Security Benefit Based on Claiming Age When Full Retirement Age Is 66



Source: GAO analysis of Social Security Administration documentation. | GAO-16-786

According to SSA, someone who lives to an average life expectancy should receive about the same amount in lifetime benefits irrespective of when they claim benefits because the lower monthly benefit amount and earlier start date would offset each other.[12] However, several factors affect the tradeoffs of claiming at different ages. For example, how long a person expects to live, based on family history or current health status, can affect when he or she claims. For married couples, the longevity of both spouses could affect the lifetime household benefits received because Social Security pays survivors benefits to widowed spouses. Increasing life expectancy and years spent in retirement raise the potential cost to retirees of receiving lower monthly benefit amounts from claiming earlier. According to the 2016 Social Security Trustees report, average life expectancy at age 65 has increased from 12.7 years in 1940 for men to 19.1 in 2015, and from 14.7 to 21.5 years for 65-year-old women. However, lower-income individuals have shorter-than-average life expectancy, which means that, on average, they can expect to receive Social Security benefits for substantially fewer years than higher-income individuals who have longer-than-average life expectancy. Moreover, disparities in life expectancy by income have grown, according to studies that examined trends over time.[13] Interest rates also affect the tradeoffs of claiming early versus later. When market interest rates exceed price inflation by less than usual, delaying claiming may become more financially attractive for those with the ability to continue working or to live off of other financial resources. Several studies that have examined the Social Security benefit formula and claiming decision process show that

[12] SSA, *When to Start Receiving Retirement Benefits*, SSA Publication No. 05-10147 (Washington, D.C.: August 2015). The reduction for early retirement takes account of the longer period of time over which benefits will be paid as well as the time value of money. Similarly, delayed retirement credits take account of the shorter period of time over which benefits will be paid as well as the time value of money. Early retirement reductions and delayed retirement credits can have the effect that, on average, beneficiaries receive benefits over their lifetime whose actuarial present value is about the same regardless of the age at which they claim benefits. Such “actuarial equivalencies” can be approximate and depend on the interest rate and longevity assumptions underlying the early retirement reduction or delayed retirement credit factors. The actuarial equivalencies can be further complicated by “adverse selection,” meaning the possibility that individuals in good health may tend to commence benefits at a later age than individuals in poor health.

[13] GAO, *Retirement Security: Shorter Life Expectancy Reduces Projected Lifetime Benefits for Lower Earners,* GAO-16-354 (Washington D.C.: Mar. 25, 2016).

many people would receive higher lifetime benefits by delaying claiming benefits.[14]

A spouse, ex-spouse, or surviving spouse of an eligible worker can receive benefits based on the primary worker's earnings, if this benefit exceeds the benefit he or she would receive based on their own earnings history.[15] Spousal benefits generally amount to 50 percent of the primary worker's PIA, if the spouse is at FRA when claiming them. For survivors, the age at which the primary worker claims benefits can potentially affect the monthly benefit of the surviving spouse. A spouse can generally claim as early as age 62, and survivors may begin receiving benefits as early as age 60 (50 for disabled survivors); to qualify for benefits at age 50, a surviving spouse must be disabled under the Disability Insurance program rules. As with regular benefits, both spousal and survivors benefits are reduced if the spouse or survivor begins receiving them prior to their FRA.[16] Unlike with regular benefits, spouses and survivors do not receive delayed retirement credits if the spouses or survivors delay claiming beyond their FRA.

Individuals who claim benefits before their FRA but continue to work for pay face a retirement earnings test, with earnings above a certain limit resulting in a temporary reduction of monthly benefits. In 2016, SSA

[14] See, for example, John B. Shoven and Sita Nataraj Slavov, *The Decision to Delay Social Security Benefits: Theory and Evidence*, NBER Working Paper 17866 (February 2012); and Owen Haaga and Richard W. Johnson, *Social Security Claiming: Trends and Business Cycle Effects* (Center for Retirement Research at Boston College, working paper 2012-5, 2012). In addition, experts have highlighted the gains from delay based on the impact on survivors benefits. See, for example, William Meyer and William Reichenstein, "Social Security: When to Start Benefits and How to Minimize Longevity Risk," *Journal of Financial Planning,* vol. 23(3) (March 2010).

[15] Technically a claimant electing spousal benefits would receive both his own benefit, based on his own earnings history, and the spousal benefit, with the spousal benefit being reduced by the amount of his own benefit. In order to qualify for divorced spousal benefits, the couple must have been married for at least 10 years and the partner applying for spousal benefits must not be married. SSA also pays benefits in some circumstances to children of a claimant or deceased worker and dependent parents of a deceased claimant or worker.

[16] Spousal benefits are reduced 25/36 of 1 percent for each month before FRA, up to 36 months, and, by 5/12 of 1 percent per additional month more than 36 months before FRA. If the spouse is caring for a child entitled to child's insurance benefits, the spousal benefit is not reduced.

withholds $1.00 of benefits for every $2.00 of earnings above $15,720 for someone younger than FRA for the full year. In the year the claimant reaches FRA, the earnings limit rises to $41,880 (for 2016), and $1.00 of benefits is withheld for every $3.00 in earnings in the months prior to the claimant reaching FRA.[17] Benefits withheld under the earnings test are not forfeited, but are really deferred, and are, on average, paid back later with interest.[18] In addition, every year after the initial claim for benefits, any new earnings the worker has are reflected in a recomputation of the AIME and a potential increase in the PIA.

Many other rules can potentially complicate claiming decisions, creating challenges in understanding key information for claimants and their spouses. For example, there are rules covering eligibility for dependent children (or grandchildren) and for maximum family benefits, to name a few. Over time, changes have been made to eligibility ages, the retirement earnings test, the FRA, and other important factors affecting claiming. The Bipartisan Budget Act of 2015 recently eliminated two complex strategies utilized by some married couples.[19] One allowed a person at or older than FRA to file for benefits, but then immediately suspend this claim so that no benefit would be paid. This “file-and-suspend” strategy allowed that person’s spouse to claim spousal benefits on the suspender’s record, while the primary worker’s benefit accrued delayed retirement credits in suspension. Another strategy allowed a person at FRA or older to file a claim only for spousal benefits based on the earnings record of a primary worker who had claimed benefits. This allowed the spouse to receive a benefit while allowing the spouse’s own benefit to grow, then later switch to their own benefit as late as age 70. The 2015 act eliminated the file-and-suspend strategy, effective April 30, 2016, by no longer allowing anyone to claim benefits on another person’s

[17] In addition to the annual earnings limit, for 1 year after claiming SSA also applies a monthly earnings limit. Regardless of annual earnings, if a claimant has monthly income of $1,310 or less (for 2016) and did not perform “substantial services in self-employment,” the claimant will not have any benefits withheld. For a claimant reaching FRA in 2016, the monthly limit is $3,490.

[18] When the beneficiary reaches FRA, SSA recomputes the benefit level for future months, permanently removing such portion of the original early-retirement reduction as corresponds to the number of months in which any part of the benefit was withheld due to the earnings test.

[19] See Pub. L. No. 114-74, § 831, 129 Stat. 584, 611.

record while the primary claimant's benefits are suspended.[20] It also eliminated spousal-only claims for anyone born after January 1, 1954.

SSA pays retirement benefits from the Old Age and Survivors Insurance (OASI) Trust Fund. The fund receives revenue from, among other sources, Social Security payroll taxes paid by current workers, and pays current beneficiaries.[21] Workers and employers currently each pay a payroll tax of 6.2 percent of an employee's covered earnings, for a combined total tax rate of 12.4 percent, into the Social Security Trust Funds.[22] This payroll tax applies only to workers' earnings up to an annual limit ($118,500 for 2016); this limit changes each year with changes in average wages and has generally increased each year. According to the 2016 report of the Social Security Trustees, the OASI Trust Fund is projected to become depleted in 2035, at which point payroll taxes of current workers are estimated to be enough to pay only 77 percent of promised benefits.[23]

[20] According to SSA, divorced spouses who were receiving benefits on a suspended claimant's record will still be able to continue receiving benefits.

[21] Social Security revenues also come from interest on the Trust Fund and income taxes attributable to Social Security benefits.

[22] A portion of the payroll tax also funds the Disability Insurance (DI) Trust Fund, which pays disability benefits to qualified beneficiaries. The Bipartisan Budget Act of 2015 provided for a temporary reallocation of the payroll tax from 2016 to 2018, with 2.37 percent of the 12.4 percent payroll tax going to the DI Trust Fund, up from 1.80 percent. The DI Trust Fund is projected to be depleted in 2023, at which point expected revenue is projected to be sufficient to pay 89 percent of scheduled disability benefits.

[23] For more on Social Security's funding and options for reform, see GAO, *Social Security's Future: Answers to Key Questions*, GAO-16-75SP (Washington, D.C.: October 2015).

Lack of Understanding of Key Social Security Information, Along with Financial Need and Other Factors, May Contribute to Individuals Claiming Benefits Early

Individuals Have Some Knowledge of Social Security Benefits, but Most Do Not Understand Key Program Rules and Details

Our review of survey reports and academic studies, and interviews with people with Social Security expertise, suggest that most individuals do not understand important rules and details that could affect their retirement benefits or the benefits of their spouses and survivors.[24] Specifically, many people approaching retirement age are unclear on how claiming age affects the amount of monthly benefits, how earnings (both before and after claiming) affect benefits, the availability of spousal benefits, and other factors that may influence their claiming decision. Understanding this key information is central to making informed decisions about when to claim Social Security benefits because they concern the tradeoffs of claiming benefits (and perhaps retiring) earlier versus later—generally permanent decisions—and ultimately affect the amount of lifetime benefits and people's retirement security.[25] GAO recognizes that financial literacy is critical to empowering and helping individuals and families to stay financially healthy and stable and the role the federal government plays in promoting financial literacy. It also has highlighted financial security for older Americans as a key issue, including the importance of ensuring financial literacy in understanding the key factors that can affect their retirement income.

[24] See appendix II for more details on these surveys and studies.

[25] According to SSA, individuals receiving Social Security benefits can withdraw their claim one time within 12 months of claiming if they pay back all benefits received by the individual and any family members based on the individual's application.

How Claiming Age Affects Monthly Benefits

Seven of the surveys we reviewed found that some of the respondents are aware that their benefits would increase if they wait until FRA to claim; however, many do not have a good sense of how much and thus may not understand the tradeoffs of claiming earlier versus later. Claiming at younger ages means an earlier start to benefits, but at the expense of the permanently higher monthly benefit amounts that come with claiming at an older age. For example, in a phone survey of 2,000 individuals ages 25-65, the Financial Literacy Center found that when asked to estimate their monthly benefit at their planned claiming age and what they might expect if they waited two years, 62 percent of respondents seemed to understand their monthly benefit would increase if they delayed claiming.[26] However, 36 percent of respondents indicated they did not understand how their benefits would be adjusted depending on claiming age or incorrectly believed that their monthly benefit would be the same no matter when they claimed. Greenwald & Associates conducted for Financial Engines an on-line survey with over 1,000 near claimants and current beneficiaries between the ages of 55 and 70 and found that many respondents did not understand the extent to which benefits can increase between ages 62 and 70.[27] For example, only 40 percent gave estimates that approximated the real monthly increase that would result from a 2-year delay. In an AARP study that surveyed over 2,000 individuals ages 52-70, when participants were asked what would be the earliest age at which they should claim benefits to maximize the monthly amount, only 29 percent responded with the correct age of 70.[28]

How Lifetime Earnings Determine Benefit Amount

The three surveys that asked the respondents about the number of years in the benefit calculation found that most do not know that benefits are

[26] Matthew Greenwald, Arie Kapteyn, Olivia S. Mitchell, and Lisa Schneider, *What Do People Know About Social Security?* (Financial Literacy Center working paper series, October 2010). The Financial Literacy Center project undertook two surveys to gain benchmark information on how much people know about Social Security. The report summarizes results from the two surveys. The first surveyed 2,000 individuals ages 25-65 by phone, and the second surveyed approximately 3,000 individuals ages 18 and older on-line.

[27] Financial Engines, *Claiming Social Security: A Critical & Complex Decision for Retirement Security, Survey Results*, survey by Greenwald & Associates, March 2014. The participants in this survey all had incomes of at least $50,000.

[28] AARP, *The Impact of Claiming Age on Monthly Social Security Retirement Benefits: How Knowledgeable Are Future Beneficiaries?* Prepared by S. Kathi Brown, February 2012.

based on their highest 35 years of earnings. If the individual has earnings in fewer than 35 years, non-earning years count as zeroes in the AIME calculation. Thus, some individuals could permanently raise their monthly benefits not only by delaying when they take benefits, but also by replacing zero or lower earning years with higher earning years in the “high-35” calculation. Three of the surveys we reviewed asked respondents how benefits are determined. The median respondent in an academic study that surveyed over 2,300 Social Security eligible individuals between ages 50 and 70 believed only the 10 highest years of earnings were counted.[29] A study conducted by Greenwald & Associates for the Financial Literacy Center reported that only 23 percent of the 2,000 age 25-65 phone-survey respondents could correctly identify that benefits are calculated based on 35 years of earnings, and 27 percent of the respondents believed, incorrectly, that benefits are based on the last 5 years of earnings and the number of years worked.[30] Another 23 percent thought benefits were based on the Social Security payroll taxes they paid and the interest earned on those taxes. An AARP survey of over 2,000 individuals age 52 through 70 who were eligible for Social Security benefits based on their own work asked respondents to select from a range of options the number of years of highest earnings used to calculate benefits.[31] Only 7 percent selected the correct number of years.

Knowledge of Spousal and Survivors Benefits

Results from five of the surveys and studies we reviewed that asked about spousal benefits indicate that many people may not know about spousal benefits based on a husband’s or wife’s earnings history. Only 48 percent of the more than 2,000 age 52-70 respondents to an AARP survey who were or ever had been married knew they could collect benefits based on their living spouse’s record.[32] Similarly, an academic study found about 50 percent of the more than 2,300 survey respondents between ages 50 and 70 who were eligible for Social Security benefits incorrectly believed their spouse would not be eligible for benefits if the

[29] Jeffrey B. Liebman and Erzo F. P. Luttmer, *The Perception of Social Security Incentives for Labor Supply and Retirement: The Median Voter Knows More Than You’d Think,* NBER Working Paper No. 20562 (October 2014).

[30] Greenwald et al., *What Do People Know*, 2010.

[31] AARP, *The Impact of Claiming Age,* 2012.

[32] AARP, *The Impact of Claiming Age,* 2012.

spouse had never been in the paid workforce.[33] Given the lack of awareness about how claiming age affects benefits for the claiming worker, it is likely the case that claimants do not know how early claiming may reduce spousal benefits. Six of the studies we reviewed found their respondents had a general understanding of survivors benefits. However, two of the surveys show that some married respondents are not aware of the effect their claiming age potentially could have on their widowed spouses' benefits, and one of the two studies also showed that just under half (48 percent) of married or ever married respondents were not aware of the additional effect the widowed spouse's own claiming age has on that benefit. A collaborative study by AARP and the Financial Planning Association that surveyed more than 1,200 future Social Security beneficiaries ages 45-64 showed that, among ever-married respondents who knew they could receive survivors benefits, many did not know that the age the deceased spouse or the age the surviving spouse claimed could affect the monthly benefit amount of the surviving spouse.[34]

Effect of Retirement Earnings Test on Benefits

Each of the four surveys that asked about the retirement earnings test found that individuals, if they know of the retirement earnings test at all, do not understand fully how working and receiving benefits before FRA can affect their benefit amounts over time. An AARP survey of over 2,000 individuals age 52 through 70 who were eligible for Social Security benefits based on their own work found that while 76 percent of survey respondents understood benefits could be reduced by earnings depending on the amount of earnings, 71 percent incorrectly believed that the reduction would be permanent.[35] In a 10-question survey of more than 1,500 individuals between ages 25 and 65, conducted on behalf of Massachusetts Mutual Life Insurance Company, more than half of respondents incorrectly believed that they could continue working while collecting all of their benefits regardless of their age.[36] A minority of the

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[33] Liebman et al., *The Perception of Social Security*, October 2014.

[34] AARP and the Financial Planning Association, *Social Security Planning in 2015 & Beyond: Perspectives of Future Beneficiaries and Financial Planners*, prepared by Rebecca Perron, 2015.

[35] AARP, *The Impact of Claiming Age,* 2012. These individuals had not yet claimed their benefits, but expected to do so in the next 15 years.

[36] MassMutual Research, *Survey Shows Concerning Knowledge Deficiency about Social Security Retirement Benefits,* survey conducted by KRC Research, 2015.

over 2,300 respondents (40 percent) between age 50 and 70 in an academic study who were aware of the earnings test threshold understood correctly that any reduction for earnings up to FRA is offset by an increase of benefits after FRA.[37] Understanding the retirement earnings test could prevent individuals erroneously thinking the earnings limit will result in a permanent loss of benefits.[38] It might also prevent a claimant from seeing the earnings test as an incentive to retire and claim benefits at age 62 or reduce earnings to stay below the earnings threshold. Studies have pointed out that many claimants have earnings that cluster around the retirement earnings limit, suggesting they believe benefits withheld because of excess earnings are lost. Conversely, misunderstanding the earnings test could cause some individuals to delay claiming until FRA to avoid a perceived penalty.

Benefits May Be Taxed as Income

Understanding benefit taxation can affect retirement income planning and could, for some individuals, influence when they claim benefits. One study we reviewed that included a question on taxation of Social Security benefits in the phone-survey portion found that 42 percent of the 2,000 respondents ages 25-65 did not understand that benefits could be taxed.[39] Several financial firms include information on taxation on their web pages that cover Social Security.

Life Expectancy and Longevity Risk

Information on life expectancy and longevity risk is fundamental to the decision to claim benefits because a retiree receives benefits until death (and a surviving spouse might then continue to receive benefits until that spouse's death). Increasing life expectancy, along with increased likelihood of living to advanced ages, and resulting increased time spent in retirement raise the potential cost to retirees of claiming early, and receiving reduced benefits for life, especially if in these later years they have spent down other sources of retirement income. According to SSA's website, about one of every four 65-year-olds today will live past age 90,

[37] Liebman et al., *The Perception of Social Security*, October 2014.

[38] In 2016, SSA withholds $1.00 of benefits for every $2.00 of earnings above $15,720 for someone younger than FRA for the full year. In the year the claimant reaches FRA, the earnings limit rises to $41,880 (for 2016), and $1.00 of benefits is withheld for every $3.00 in earnings in the months prior to the claimant reaching FRA. SSA also applies a separate monthly earnings limit for 1 year after claiming.

[39] Greenwald et al., *What Do People Know*, 2010.

and one of 10 will live past age 95.[40] At the same time, longevity depends on a claimant's health and family history; shorter longevity expectations may cause someone to claim benefits earlier.[41]

Three of the surveys we reviewed asked about longevity, and each of those surveys indicated that individuals might not understand the probability of living to old age and why that is important in their decision to claim benefits. The Financial Literacy Center found that roughly 30 percent of those surveyed indicated they had little or no idea about how long they anticipated living in retirement.[42] A Society of Actuaries survey of 1,600 individuals found that 4 in 10 respondents ages 45 and older underestimated average life-expectancy by 5 years or more.[43] Our interviews with academics who have expertise in Social Security underscored the importance of understanding life expectancy and longevity risk, and in particular the likelihood of living to very old age.[44] One Social Security expert we interviewed said that presenting people with average life expectancy figures may get them to focus on that number but not on the possibility of living well beyond that age. A second expert we spoke with emphasized that using "breakeven analysis"—calculating the age at which the cumulative higher monthly benefits starting later would equal the cumulative lower benefits from an earlier

[40] SSA, "Calculators: Life Expectancy," accessed August 30, 2016, https://www.ssa.gov/planners/lifeexpectancy.html.

[41] A study examining the relationship between mortality and Social Security progressivity found that the growing mortality inequality has the effect of reducing the progressivity of Social Security. Gopi Shah Goda, John B. Shoven, and Sita Nataraj Slavov, "Differential Mortality by Income and Social Security Progressivity," in *Explorations in the Economics of Aging* (Chicago: University of Chicago Press, March 2011).

[42] Greenwald et al., *What Do People Know*, 2010.

[43] Society of Actuaries, *Key Findings and Issues: Longevity 2011 Risks and Process of Retirement Survey Report,* survey conducted by Greenwald & Associates, Inc. and the Employment Benefit Research Institute (EBRI), June 2012. Of the 1,600 surveyed, 800 were retirees and 800 were pre-retirees.

[44] The American Academy of Actuaries and the Society of Actuaries jointly published an online Actuaries Longevity Illustrator specifically designed to provide individuals with perspective on longevity risk rather than on life expectancy. See http://www.longevityillustrator.org/.

claiming date—is an unsound way to decide when to start benefits.[45] Research shows that breakeven analysis can influence people to claim benefits earlier than they might otherwise, in part because people fear the potential loss of benefits if they die early more than they fear outliving their retirement savings.[46] Breakeven analysis also ignores the insurance value of higher monthly Social Security benefits protecting against outliving one's other retirement assets, and the potential benefit to a surviving spouse. The second expert said that Social Security is longevity insurance against outliving one's assets, and therefore, like other insurance, one should base the decision to "purchase" (in this case, by forgoing benefits at a younger age in order to lock in permanently higher monthly benefits) on preventing a bad financial outcome and not necessarily on the likelihood of breaking even.[47]

Financial and Psychological Factors Also May Influence When People Claim Social Security Benefits

Even if people have accurate and complete information, when to claim retirement benefits is a complex and personal decision. Personal circumstances such as health, perceived life expectancy, savings, employment, and other factors can influence when someone claims benefits. In addition, psychological factors can affect how people with similar knowledge and circumstances may make different decisions.

For many people, financial need may make claiming benefits at 62 a necessity. Individuals who are laid off, particularly during periods of high unemployment, those who work in physically demanding jobs they can no longer perform, or those who suffer from poor health may retire earlier

[45] An illustrative example takes a claimant with a FRA benefit of $1,000 a month at age 66 who wants to compare claiming at age 62 versus age 66. At 62, he would receive a permanently reduced benefit of $750 per month, but receive 48 more monthly payments than if he survives to age 66 and waits until then to begin receiving his benefit of $1,000 per month. If this person claimed at age 66, it would take 12 years for the total benefits collected to equal the total benefits collected by claiming at age 62— so his breakeven age is 78, 66 plus 12. This example assumes no cost-of-living-adjustments; cost-of-living adjustments reduce the breakeven number of years.

[46] Jeffrey B. Liebman and Erzo F.P. Luttmer, *The Perception of Social Security Incentives for Labor Supply and Retirement: The Median Voter Knows More Than You'd Think*, NBER Working Paper (October 2014), and Brown et al. (2011).

[47] Other experts have noted that choosing a later claiming age is equivalent to buying additional annuity protection against longevity risk, at a cost much lower than what it would cost to purchase an equivalent annuity in the retail market.

than other individuals.[48] Many unemployed older workers may struggle to find new jobs and may face unique reemployment challenges, such as employer reluctance to hire older workers or out-of-date skills.[49] If these older workers cannot find other or more suitable employment and are 62 or older, Social Security may provide their only option for regular income. As a result, they may claim benefits earlier than they had planned, especially if they have little saved for retirement and no pension benefits.[50] On the other hand, among those that have savings, a decrease in their savings might induce them to delay their original claiming date; a 2010 study found that individuals more likely to have retirement savings retire later in response to weak financial markets.[51]

Beyond knowledge of benefit rules and financial need, psychological factors can influence when people claim benefits. Studies have shown that framing—how information is presented—may influence how people perceive Social Security choices, and ultimately have an impact on when they claim benefits. One 2010 study showed that when delaying claiming is framed as a gain (e.g., delaying claiming increases your benefits by $X) rather than claiming early framed as a loss (e.g., claiming earlier reduces your benefit by $X), individuals are more likely to report that they will delay claiming.[52]

[48] GAO reported in 2014 that compared to all other occupations, those who held a blue-collar job at age 60 through 62 were 55 percent more likely to claim early, after controlling for other factors. These occupations also tend to be more physically demanding. See GAO, *Retirement Security: Challenges for Those Claiming Social Security Benefits Early and New Health Coverage Options*, GAO-14-311 (Washington, D.C.: Apr. 23, 2014).

[49] GAO, *Unemployed Older Workers: Many Experience Challenges Regaining Employment and Face Reduced Retirement Security*, GAO-12-445 (Washington, D.C.: Apr. 25, 2012).

[50] GAO reported in 2015 that approximately half of households with someone age 55 and older have no retirement savings, such as a defined contribution plan or an individual retirement account, and almost 30 percent have neither retirement savings nor defined benefit pension benefits. GAO, *Retirement Security: Most Households Approaching Retirement Have Low Savings*, GAO-15-419 (Washington, D.C.: May 12, 2015).

[51] Courtney C. Coile and Phillip B. Levine, *Reconsidering Retirement: How Losses and Layoffs Affect Older Workers*, NBER Working Paper (September 2010).

[52] Jeffrey B. Brown, Arie Kapteyn, and Olivia S. Mitchell, *Framing Effects and Expected Social Security Claiming Behavior*, NBER Working Paper (May 2011).

Another factor that could lead individuals to claim early is loss aversion—people's tendency to prefer avoiding losses to acquiring gains of a similar magnitude. If individuals think of Social Security benefits as money they are entitled to once they reach age 62, the loss from delaying claiming—foregone benefits—could carry more weight than a higher monthly benefit in the future if they were to delay.[53] Under loss aversion, dying early without having claimed benefits, as opposed to living longer than expected with reduced benefits, could be seen as a risk to be avoided.[54]

Federal policy may also provide reference points or signals to individuals about the timing of claiming and retirement. The availability of Social Security benefits at age 62 and adjustments to benefits thereafter may give individuals mixed signals about when to claim benefits.[55] A 2012 study found that spikes in retirement claims at the FRA move along with changes in the FRA itself, suggesting that people may see "full retirement age" as a reference point for when they should claim.[56] Finally, uncertainty about future benefits may also influence when people claim. A 2011 study conducted an online survey and found that uncertainty may cause people to claim earlier than they might otherwise in order to lock in benefits.[57]

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[53] This endowment effect was observed in the seminal paper by Kahneman et al. (1990). Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, "Experimental Tests of the Endowment Effect and the Coase Theorem," *The Journal of Political Economy*, 98(6) (December 1990).

[54] Loss aversion could also help explain people's preference for lump sums over lifetime annuities—even though the annuity pays an actuarially higher amount of money and provides insurance against outliving one's assets, many people might primarily focus on the potential for giving up a sure lump sum and dying early.

[55] GAO, *Retirement Decisions: Federal Policies Offer Mixed Signals about When to Retire*, GAO-07-753 (Washington, D.C.: Jul. 11, 2007).

[56] Luc Behaghel and David M. Blau, "Framing Social Security Reform: Behavioral Responses to Changes in the Full Retirement Age," *AEJ: Economic Policy,* 4(4) (November 2012).

[57] Erzo F.P. Luttmer and Andrew A. Samwick, *The Costs and Consequences of Perceived Political Uncertainty in Social Security,* NBER Working Paper (September 2011).

SSA Provides Key Claiming Information on Its Website and in Publications, but Not Consistently during the Claiming Process

SSA Provides Multi-Faceted Information and Tools to Help People Decide When to Claim Retirement Benefits

SSA provides, through various sources, comprehensive written information to help people decide when to claim retirement benefits. This information includes many of the items identified from our literature review and expert interviews including how claiming age affects monthly benefit amounts, how benefits are determined, details on spousal and survivors benefits, the retirement earnings test, information about life expectancy and longevity risk, and the taxation of benefits. The agency makes this information available through SSA's website, publications on various topics (available in electronic and paper forms), interactive tools such as online calculators, and a personalized benefit statement mailed to individuals and made available online. The different formats allow this information to be presented in varying degrees of complexity, specificity, and personalization.

SSA Web Pages and Publications

SSA's web pages and publications cover virtually all information that could inform a person's decision to claim retirement benefits. For example, the publication *When to Start Receiving Retirement Benefits* provides an overview of information needed to make the claiming decision, including a discussion of the tradeoffs of claiming benefits earlier versus later, information on life expectancy and longevity risk, how claiming could affect spousal and survivors benefits, and the retirement earnings test. The SSA website also includes pages that cover these topics individually. In addition, the web pages have links to related topics, interactive calculators, and printed publications, making it possible for someone with access to the Internet and comfort with using it to get information on what they need to consider before deciding to claim benefits.

Depending on the source, there are differences in how key information is presented. In the publication *Your Retirement Benefit: How It's Figured,* SSA explains that benefits are based on the highest 35 years of indexed earnings, and includes a worksheet for estimating benefits. In *Retirement*

Benefits, however, SSA says only that benefits are based on "lifetime earnings." While it is reasonable that publications may present similar information in differing degrees of detail, such detail could be important for someone with less than 35 years of earnings. SSA covers longevity risk similarly. In some publications and web pages, SSA covers the personal nature of the claiming decision and notes that as many as one in three 65-year-olds today will live to age 90. At the same time, SSA says that lifetime benefits for anyone who lives to the average life expectancy will be the same regardless of what age they claim; this may run the risk of unintentionally conveying to claimants that the decision on when to claim does not matter. In contrast, when describing the retirement earnings test, a complicated and potentially critical piece of information for someone considering claiming prior to FRA, SSA explains consistently that monthly benefits will increase at FRA if any benefits were withheld due to the test.

Interactive Calculators

To further assist potential claimants, SSA provides 11 interactive calculators on its web site for users to estimate future benefits under varying scenarios, such as at different claiming ages and different earnings levels.[58] These calculators also generally vary in the precision of their benefit estimates. One calculator—the Earnings Test Calculator—estimates the reduction in benefits for individuals who continue to work after claiming, and another—the Benefits for Spouses Calculator—estimates spousal benefits. Others provide FRA or likely life expectancy based on one's date of birth.

The Retirement Estimator, for example, asks users to enter some identifying information in order to use a secure interface that accesses their earnings history in SSA's database. In contrast, the SSA online Calculator requires the user to enter earnings from each of their working years in order to determine their estimated monthly benefit. The instructions note the user should have his or her Social Security statement with earnings history available in order to complete the entries. Manually entering several decades of annual earnings can require considerable time, and carries more risk of inaccurate earnings information producing an inaccurate benefits estimate. Unlike the Retirement Estimator, though, the online Calculator gives users the option

[58] See appendix III for descriptions of each calculator.

of having the estimated benefit amount given in either current or future dollars. Both calculators also can be used to estimate benefits at different retirement ages.

Other calculators focus on more specific factors that can affect benefits. An Early or Late Retirement Calculator provides an estimate of how much less a user's benefit would be if the user claimed earlier than FRA. Others focus on the effect of the retirement earnings test or the Government Pension Offset (GPO) or Windfall Elimination Provision (WEP), which affect benefits for an individual receiving a pension from a job that was not covered by Social Security.[59]

Social Security Statement

The Social Security statement is the most widespread piece of communication that SSA provides to individuals about their future benefits. It is a 4- to 6-page summary of personalized information that includes an estimate of the individual's future benefit payable at age 62, FRA, and age 70, as well as estimates for the individual's current disability and survivor benefit amounts.[60] In 1995, SSA began mailing annual statements to individuals in selected age groups, beginning with those 60 and over.[61] By 2000, statements were generally mailed to all

[59] The GPO generally affects individuals who receive a pension based on non-Social Security covered work for a federal, state, or local government and who are eligible to receive Social Security benefits based on their spouse's covered work. SSA may generally reduce their spousal or survivors benefit. The WEP can affect how SSA calculates individuals' retirement or disability benefits if they have non-covered work. Any pension received from that work can reduce Social Security benefits.

[60] The Social Security Act generally requires SSA to provide annual statements with benefits and earnings information to individuals age 25 and older who have a Social Security number and wages, net earnings from self-employment, or whose pattern of earnings indicate a likelihood of non-covered employment. 42 U.S.C. § 1320b-13(c)(2).The law generally requires each statement to contain an estimate of the potential monthly Social Security retirement, disability, survivor, and auxiliary benefits, and a description of the benefits under Medicare; the amount of wages paid to the employee and income from self-employment; an estimate of the individual's aggregate contributions paid to Social Security, including employer contributions; an estimate of the individual's aggregate contributions paid to Medicare, including employer contributions; and for individuals with non-covered employment, an explanation of the potential effects of the WEP and the GPO on their monthly Social Security benefits.

[61] See 42 U.S.C. § 1320b-13(c)(1).

eligible individuals 25 and older.[62] In May 2012, SSA made the statement available electronically for those establishing an online account.[63] Since September 2014, SSA has mailed printed statements to eligible individuals age 25, 30, 35, 40, 45, 50, 55, and 60 or older who have not created a personal online Social Security account. At age 60, SSA sends the statement annually. The statement has three versions, one each for those ages 25 to 34, 35 to 54, and 55 and older, with certain information tailored for each group. For example, the statement for the age 25-to-34 cohorts has a section titled “Why should I think about retirement now?” For those 55 and older, there is additional information on monthly benefit amounts at different claiming ages and working while receiving benefits.

In addition to benefit estimates, the statement shows the individual’s history of earnings on which he or she paid Social Security (and Medicare) taxes, and total taxes paid. It also explains how people qualify for benefits, assumptions SSA uses in their benefit estimates, and information on the GPO and WEP provisions that generally apply to people who receive pensions from non-covered employment. For those 55 and older, a section on the retirement earnings test explains that some benefits can be withheld from workers under FRA who earn over a certain amount, but goes on to explain that at FRA the worker’s benefit amount will be increased to account for the benefits that were withheld. The statement does not, however, include some basic information that may help people understand some critical details about their benefits. Specifically, while the statement includes an example of how a claimant’s monthly benefits would differ based on age when claiming, it does not make clear that the monthly benefit amount at claiming is permanent,

[62] Eligible individuals are those having a Social Security number, age 25 or older, and having wages or net earnings from self-employment or whose pattern of wages or self-employment income indicate a likelihood of non-covered employment. 42 U.S.C. § 1320b-13(a)(3). In recent years, SSA has suspended mailings on various occasions, citing budgetary concerns. In March 2011, SSA suspended statement mailings. In 2012, SSA resumed statement mailings to workers age 60 or older and to workers age 25 before once again suspending all statement mailings in October of that year. In 2012, SSA resumed statement mailings to workers age 60 or older and to workers age 25 before once again suspending all statement mailings in October of that year.

[63] GAO, in testimony before the Subcommittee on Social Security, Committee on Ways and Means, House of Representatives, recommended that SSA take steps to ensure access to the statement for all eligible workers, including those without Internet access or English proficiency. GAO, *Social Security Statements: Observations on SSA’s Plans for the Social Security Statement*, GAO-11-787 T (Washington, D.C.: Jul. 8, 2011)

except for cost-of-living adjustments. An SSA official said that a common misunderstanding by statement recipients is that a claimant will receive higher amounts as they get older even if they claim benefits at 62. Further, even though a section of the statement is titled “How Your Benefits are Estimated,” it does not explain that benefits are calculated based on the individual’s highest 35 years of earnings. It also does not say that an individual’s claiming age affects not only his or her own benefit but potentially a spouse’s survivor benefit. Finally, the statement does not mention that benefits, once they are received, may be subject to income tax.

According to various studies and surveys that looked at the statement, individuals who received the Social Security benefits statement were, in general, more knowledgeable about Social Security. According to SSA in 2012, surveys SSA has conducted found that 70 percent of respondents age 60 and older said they had enough information about Social Security from the benefits statement to plan for their financial future.[64] However, SSA’s studies did not assess whether receipt of the statement changed behavior. A 2015 academic brief that reviewed additional studies reported they did not find that the Social Security statement affects claiming behavior.[65]

Claims Process Sometimes Does Not Provide Key Information That Could Help People Decide When to Claim Benefits

While SSA provides important information through its website and publications to help people make informed decisions about when to claim benefits, our observation of the online and in-person claims process found that some key information may not be consistently provided to potential claimants when they file, particularly during in-person interviews.[66] SSA’s Program Operations Manual System (POMS) states that claims specialists are to provide information, and avoid giving advice, to claimants. The POMS also specifies that when taking an application for Social Security benefits, the claims specialist is responsible for explaining the advantages and disadvantages of filing an application so that the

[64] SSA, *Social Security Statement Review: A Report to Congress* (June 4, 2012).

[65] Steven A. Sass, *Does the Social Security Statement Add Value?* (Center for Retirement at Boston College, July 2015).

[66] Claimants may also claim by phone or mail, but we did not observe these modes of claiming.

individual can make an informed filing decision.[67] However, our observation of a nongeneralizable sample of 30 face-to-face claims interview at 7 SSA field offices found that claims specialists did not consistently provide key information to potential claimants, or ensure individuals were aware of such information when they applied for benefits. The SSA claims protocol follows a screen-by-screen process of questions and prompts to collect basic information from claimants, but does not prompt questions or discussion of some key information. Compared to the in-person process, online applicants have more consistent access to key information on the screen or through tabs and pop-up boxes as they complete the application. Even so, the online process also left out potentially important information that could inform an individual's decision to claim benefits. Furthermore, for both face-to-face and online application methods, we found claimants were sometimes provided information that could inadvertently influence them to claim earlier than they might have otherwise.

In-Person Claims

Over 36 percent of people claiming retirement benefits in 2015 did so in person at an SSA office.[68] During the in-office claims we observed, claims specialists followed an automated step-by-step process for collecting and confirming basic information from potential claimants to ensure they qualify for Social Security benefits and to determine the benefit amount.[69] Such information included confirmation of a claimant's birth date, marital status, earnings history, and any receipt of pension benefits from an entity that did not participate in Social Security, among other information. This process also included prompts to provide information or ask questions about certain types of benefits, such as qualification for spousal benefits, and key program rules, such as the retirement earnings limit for claimants who are younger than FRA. However, in the in-office claims interviews we observed, the discussion did not include questions or prompts about other key program rules and information that could help inform the decision to

[67] POMS GN 00201.005.

[68] According to SSA officials, 40.7 percent of people file for Social Security benefits via the Internet, 36.8 percent file by visiting an SSA office, and 21.6 percent file by phone. About 10 percent represents the use of applications through the mail and other methods, such as foreign service units.

[69] We observed a nongeneralizable sample of 30 face-to-face retirement claims applications and inquiries at 7 SSA field offices.

claim benefits. For example, claimants were not consistently informed that monthly benefit amounts would be higher if the claimant waited, as specified in POMS. Similarly, the protocols did not prompt claims specialists to provide information on how working longer prior to claiming might raise monthly benefits, or how personal circumstances such as health, life expectancy, and longevity risk can factor into the decision on when to start benefits. Claims specialists generally provided accurate information about program rules and benefits and answered claimants' questions. In some instances, however, they presented or omitted key information in a way that could confuse or even bias people's claiming decisions. We discuss areas of key information, and how we observed they were covered in in-person claims, below:

How claiming age affects monthly benefits: POMS states that claimants filing for benefits should be advised that higher benefits may be payable if filing is delayed. It also states that claimants should, if applicable, be provided with at least three monthly benefit amounts at three different claiming ages—at the earliest possible month for claiming, at FRA, and age 70. Claims specialists should provide amounts for other months as well if requested by the claimant. In 18 of 26 interviews we observed in which delaying claiming was a potential choice, the claims specialist mentioned that the claimant's benefit amount would be higher if he or she delayed claiming. However, the remaining 8 did not discuss this option. Of the 18 interviews that mentioned delayed claiming, 13 claims specialists presented at least the three benefit amounts per POMS, while 5 did not.[70] Surveys have shown that most individuals do not know how much monthly benefits can increase by waiting to claim, so offering benefit estimates at different ages is likely to provide information many claimants do not have. This information can influence the age at which they claim, and expert opinion and past GAO reports found that delayed claiming can be an important strategy to consider for most retirees.

In 10 of the 30 observed interviews, claims specialists offered the opportunity to claim up to 6 months of retroactive benefits as a lump sum. SSA allows for up to 6 months of retroactive benefits when a claimant is at least FRA or has a "protective filing date"—a documented date within

[70] In 4 of the 30 interviews, a discussion of delayed claiming was not relevant because the claimant filed and suspended benefits, was age 70 or older, or was not eligible for benefits.

the 6 months prior to a claims appointment when a claimant first contacted SSA about filing a retirement claim.[71] While retroactive benefits offer an attractive lump sum, taking it essentially means applying for benefits up to 6 months earlier, and results in a permanent reduction in the monthly benefit amount. POMS provides eligibility criteria for retroactive benefits. However, POMS does not instruct claims specialists to inform claimants that taking lump-sum retroactive benefits will result in permanently lower monthly benefits, compared to not taking retroactive benefits, a tradeoff claimants may not be aware of. The claims specialist explained this tradeoff in only 1 of the interviews we observed. In another interview, a claimant who initially said he wanted benefits to start later in the year changed his mind to start 6 months earlier after being offered a lump sum.

During our observations, we also saw 6 instances in which a claims specialist presented a breakeven age—the age at which the cumulative higher monthly benefits starting later would equal the cumulative lower benefits from an earlier claiming date—to help a claimant compare claiming benefits now or waiting to claim. According to POMS, claims specialists "should no longer discuss [breakeven points] with claimants,"[72] and research shows that breakeven analysis can influence people to claim benefits earlier than they might otherwise. In some interviews, however, claims specialists not only offered a breakeven year, they added their conclusion that the analysis showed that claiming earlier was preferable. One claims specialist showed the claimant that it would take 11 and 1/2 years to make up the difference for waiting to claim, and added that "according to the actuaries, that [early claim] is a reasonable choice." Another claims specialist said the breakeven analysis showed "it pays to file early." In a seventh interview, breakeven had been discussed before the claimant came into the local office. The claimant said he had

[71] Individuals claiming benefits after FRA can claim retroactive benefits covering up to 6 months. For those who file less than 6 months after FRA, retroactive benefits are paid back to the month of FRA attainment. Protective filing is a statement of intent to file for Title II benefits. It protects the claimant's date of acceptance as the claimant's application date. If at any time in the following 6 months the claimant decides to apply for benefits, the protective filing date will be considered the application date and the claimant will be able to receive retroactive benefits back to that date. After 6 months, the protective filing is closed out. See POMS GN 00204.010 and GN 00204.030.

[72] POMS GN 00204.039A.

been planning to wait until age 70 to claim, but had been told by an SSA representative over the phone that his breakeven age analysis suggested he should claim earlier. While our observations are not generalizable, they suggest that SSA may be inadvertently influencing people's decisions on when to claim and lowering claimants' monthly benefit amounts. The 2011 SSA Office of the Inspector General report concluded that SSA needed to better explain to its claims specialists why the agency believes breakeven points are not relevant to a claimant's decision.[73]

How lifetime earnings affect benefits: We observed only 8 interviews in which a claims specialist mentioned that benefits are based on 35 years of earnings and that working longer could potentially raise benefits by boosting average lifetime earnings. While POMS does not require claims specialists to explain how earnings affect benefit amounts, the claims process could be modified to include prompts for claims specialists to inform claimants that benefits are based on 35 years of earnings—information that SSA already makes available on its website. By discussing how years of earnings are calculated to determine one's benefit amounts, claims specialists might better inform claimants who are deciding when to claim, especially for those who have less than 35 years of earnings.

Spousal benefits: The majority of claims specialists we observed compared the amount the claimant would receive as a spouse versus the amount based on his or her own earnings history, when applicable. However, in 8 of 15 interviews in which the claimant was potentially eligible to claim restricted spousal benefits or to file-and-suspend, the claims specialist did not mention these options.[74] To their credit, 4 claims specialists we observed explained that while spousal benefits were currently lower than the claimant's own benefit, taking the lower spouse benefit now and waiting to claim their own would increase the claimant's own benefit by 8 percent per year after FRA and up to age 70. As a result

[73] Social Security Administration, Office of Inspector General, *The Social Security Administration's Month of Election Policy for Retirement Benefits,* A-08-10-20183 (February 2011).

[74] The Bipartisan Budget Act of 2015 has ended these options for most claimants, but at the time of our observations they remained permissible.

of the explanation, 2 claimants decided to take their spousal benefits at or older than FRA and wait to take their own benefits at age 70.

Retirement earnings test: In our observations, the step-by-step SSA claims process for a claimant younger than FRA included questions about plans to continue working. In the 18 interviews we observed in which a potential claimant was younger than FRA, 17 claims specialist explained, accurately, that the claimant would have benefits withheld if he or she earned more than the retirement earnings limit. However, in only 7 of these 17 interviews did the claims specialists explain that any benefits withheld due to earnings would be recalculated and result in higher benefit amounts after FRA. For the remaining interviews, the claims specialists mentioned only that earnings may result in lower benefits, or that the claimant cannot earn above the limit, perhaps inaccurately suggesting the earnings test would result in a permanent loss of benefits. In one interview, a claims specialist told the claimant she would be "penalized" if she earned over the limit. POMS states that, when applicable, the claims specialist should explain to claimants that earnings could be withheld based on the annual earnings test, but does not instruct claims specialists to explain that the earnings test is not a penalty or tax, or that withheld benefits are repaid. However, if claimants do not understand the full implications of the earnings test, they could erroneously think it will result in a permanent loss in benefits and, as a result, unnecessarily stop working or reduce their working income. This was made clear in one interview in which a claimant with earnings likely to be above the limit said she might have to quit one of her two jobs unless she waited until FRA to claim. Ultimately, the claimant decided to wait until she reached FRA and then start her benefits. This case illustrates the potential risks of SSA not making clear to claimants that the earnings test does not represent a permanent loss in benefits.

Taxation of benefits: That Social Security benefits are potentially subject to income tax did not routinely come up in the interviews we observed. While some claimants asked about withholding taxes from their Social Security benefit checks, in only two instances did a claimant ask if benefits themselves are taxable. In these instances, the claims specialist told the claimant the benefits could be taxable. One claims specialist also suggested that the claimant discuss this issue with their tax professional. Furthermore, in both instances, the claimants did not realize that their benefits can be taxed. POMS states that claims specialists "will not answer questions about taxation," and says they should refer individuals inquiring about taxation of benefits to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, for additional information.

However, a general explanation of taxation can be provided as it relates to month of election and suspension or withholding of benefits to recover overpayment.[75] A lack of information about the taxability of benefits could potentially affect the retirement planning of claimants.

Life expectancy and longevity risk: Claims specialists are not prompted to ask for or provide any information to claimants about life expectancy or longevity risk. Only twice in our 30 observations did family health and longevity arise and how it might factor into when to claim benefits, both times because the claimant raised the subject. While claims specialists are not specifically required to discuss life expectancy and longevity risk, the POMS does state that information should be provided to help claimants make informed filing decisions. SSA also emphasizes the importance of considering life expectancy and longevity risk in information made available on its website. According to the American Academy of Actuaries and the Society of Actuaries, understanding how longevity, and in particular longevity risk, can impact retirement planning is an important aspect of preparing for a well-funded retirement.

While time constraints may increase the pressure on claims specialists to manage their claims case load, we detected no systematic way that these constraints would push specialists to withhold key information from claimants. In general, the claims specialists we interviewed told us that they did not feel pressured by management to process a specific number of claims in a day, nor to limit the time they spent with claimants providing information and answering claimants' questions. Field office managers told us that their offices faced monthly performance goals for processing claims efficiently and accurately; and both managers and claims specialists acknowledged that some days present time constraints in serving all potential claimants. However, managers and claims specialists said they did not feel pressure to convince any people to claim benefits when they came in for a claims interviews or inquiry.

While we did not examine training in depth, SSA officials said claims specialists receive about four months of classroom training on processing claims and have a regular review of claims they handle during their first year. In addition, claims specialists have additional resources to help

[75] SSA POMS GN 05001.020.

them if questions arise during claims interview or inquires, including ready access to POMS and the ability to ask questions of onsite SSA technical experts. Our observations confirmed that claims specialists were able to spend as much time as claimants required for answering questions.

Online Claims Process

According to SSA, over 40 percent of people claiming retirement benefits in 2015 did so online through its website. SSA provided us a screen-by-screen demonstration of the online claiming process. In addition to collecting information from the claimant, the online process offers opportunities for the claimant to receive certain key information on the screen via links to SSA web pages and in pop-up boxes. In contrast to the in-person claims process, the online process includes screens that provide information on how claiming at different ages raises or lowers monthly benefits, and that any benefits withheld because of the retirement earnings test will raise monthly benefits after FRA. For example, one online screen asks the claimant to indicate when he or she would like to start taking benefits, and explains that if the claimant chooses to start receiving benefits early, before FRA, monthly benefits will be reduced. In another online screen, SSA explains that any benefits withheld because of the annual earnings test will raise monthly benefits after FRA. Similar to in-person interviews, however, the online application process does not inform claimants that benefits are based on the highest 35 years of earnings; that life expectancy and longevity risk are important considerations in deciding when to claim; and that benefits may be taxed. And, as with in-person claims, the online claims process may inadvertently influence people's claiming age through the information it presents. For example, if a claimant has the option of starting benefits retroactively (i.e., taking a lump sum), and chooses not to, the online process asks the claimant to provide a reason. This step runs the risk of making the claimant believe he is making an unusual decision, or a mistake, by choosing a later claiming date.

Conclusions

Many American retirees rely greatly on Social Security, making it imperative that they have the information they need to make wise claiming decisions. Therefore, it is important that claimants understand key SSA rules and consider other factors that can assist them in making informed decisions about when to claim. For many people, SSA may be their only source of information when making the important decision of when to claim retirement benefits. Though we found SSA's claims process largely provides accurate information and avoids overt financial advice, certain key information is not provided or explained clearly during the claims process. POMS specifies that claims specialists should explain the advantages and disadvantages of filing for Social Security benefits to help individuals make informed filing decisions. However, because SSA is not fully operationalizing this guidance in the claims interviews, some claimants do not receive all the information that is critical to making informed claiming decisions. While SSA offers key retirement planning information on its website and in written publications, it cannot be assumed that potential claimants have obtained, read, or understood it when they actually claim benefits, especially given documented gaps in people's knowledge about Social Security.

Claims specialists we observed performed their jobs with professionalism and seemed very willing to help people navigate a complicated decision by providing accurate information and answering questions. However, in some areas, such as benefits of delayed filing and the inappropriate use of breakeven analysis, information was sometimes not provided consistent with POMS. Additionally, the claims interview could better inform claimants that benefits are based on 35 years of earnings, that benefits withheld due to the retirement earnings test are accounted for after FRA, that taking lump-sum retroactive benefits reduces future monthly benefits permanently, and that life expectancy and longevity risk should be a consideration in a person's decision to claim. The claims process, either in person with a claims specialist or online, allows for SSA to add additional questions or prompts—potentially using language SSA already provides on its website and in publications. This information would help each individual receive the information they need to make an optimal decision. While we recognize that SSA claims specialists face time constraints in processing claims, providing such information would not necessarily add much time to a typical claim or inquiry. In some cases, such as with breakeven ages, claims specialists could actually save time by providing less information than they do. Given the near-universality and broad dependence on Social Security for retirement income, improving the claims process could have a significant impact on people's retirement security.

Recommendations for Executive Action

To ensure that key information provided by claims specialists to potential claimants of Social Security retirement benefits is clear and consistent with POMS, the Commissioner of the SSA should take steps to ensure:

- when applicable, claims specialists inform that delaying claiming will result in permanently higher monthly benefit amounts, and at least offer to provide claimants their estimated benefits at their current age, at FRA (unless the claimant is already older than FRA), and age 70; and

- claims specialists understand that they should avoid the use of breakeven analysis to compare benefits at different claiming ages.

In addition, to ensure potential claimants are consistently provided with key information during the claiming process to help them make informed decisions about when to claim benefits, SSA should take steps to ensure that:

- when applicable, claims specialists inform claimants that monthly benefit amounts are determined by the highest (indexed) 35 years of earnings, and that in some cases, additional work could increase benefits;
- when appropriate, claims specialists clearly explain the retirement earnings test and inform claimants that any benefits withheld because of earnings above the earnings limit will result in higher monthly benefits starting at FRA;
- claims specialists explain that lump sum retroactive benefits will result in a permanent reduction of monthly benefits. For the online claiming process, SSA should evaluate removing or revising the online question that asks claimants to provide a reason for not choosing retroactive benefits; and
- the claims process include basic information on how life expectancy and longevity risk may affect the decision to claim benefits.

Agency Comments and Our Evaluation

We provided a draft of this report to SSA for review and comment. SSA generally agreed with our recommendations. SSA's comments are reproduced in appendix IV. They correctly noted that some of our recommendations apply only to certain claimants; for example, additional information on the retirement earnings test would be important to provide only to a claimant who is younger than FRA and who intends to work after claiming. SSA emphasized that their claims specialists are not equipped to serve as financial advisors, and that claimants must select the age that is best for them based on their individual circumstances. We agree, and believe that our recommendations are consistent with the principle of providing important information—not financial advice—to claimants. To the extent that SSA can incorporate the information we recommend into the claims process, we believe that this will improve the likelihood that claimants consistently receive the information they need to decide their own optimal claiming decisions. SSA also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Commissioner of the Social Security Administration, appropriate congressional committees, and other interested parties. In addition, this report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or jeszeckc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix V.

Charles Jeszeck
Director
Education, Workforce, and Income Security Issues

Appendix I: Objectives, Scope, and Methodology

In this report, we examined: (1) the extent to which people understand Social Security rules affecting their benefits, and other factors that may influence when they claim retirement benefits; and (2) the information that the Social Security Administration (SSA) provides to individuals inquiring about claiming that enables them to make informed claiming decisions. We conducted this research from July 2015 to September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To address our objectives, we applied several methods for collecting and analyzing relevant information, as described below.

Identification and Review of Applicable Law and Regulations

We reviewed relevant federal laws and regulations for requirements relating to SSA providing the public with information about retirement benefits. Additionally, we reviewed relevant sections of the SSA Program Operations Manual System (POMS), a primary source of information used by SSA employees to process claims for Social Security benefits. We also interviewed SSA headquarters officials and District managers in seven field offices to learn how Social Security retirement benefit claims are processed.

Literature Search and Expert Interviews

Using the Internet and expert referrals, we found and reviewed surveys and academic studies that assessed understanding of Social Security benefits and identified the factors that influence claiming. The search comprised publications from GAO reports, other government agencies, research organizations, scholarly journals, and the financial industry from 2010 to 2015. Of the studies we found, nine were most relevant to our work. These studies are described in appendix II. We also interviewed a judgmental selection of Social Security experts from academia, public policy organizations, and financial firms to obtain their views on how SSA could provide information to better inform people about claiming benefits. Based on our review of studies and on expert interviews, we identified key information categories that are central to making an informed decision about when to claim retirement benefits.

Review of SSA Publications, Web Pages, and Calculators

We identified materials to review from our own examination and search of SSA's website. We reviewed SSA's publications, web pages, and calculators that provided information related to understanding and filing for retirement benefits, including how benefits are calculated. We reviewed each of the publications and web pages and assessed how they addressed each of the key information components we found from our literature review and expert interviews that were not well understood by prospective claimants. A second reviewer verified any initial assessments that were used in this report. We reviewed the calculators to see if, collectively, they addressed each of the key information categories.

Observations of Claims Process at Field Offices and Online

We observed a demonstration of SSA's online retirement claims process and a nongeneralizable sample of 30 face-to-face claims applications and inquiries at 7 SSA field offices. We identified the local SSA offices where we would observe the retirement claims process, taking into consideration regional geographic diversity, income level, urban and rural composition, and the number of new claims each office processes. SSA headquarters provided local office data from each of the 10 SSA regions. After reviewing those data and considering logistical issues, we selected 7 offices in the Philadelphia, Chicago, and San Francisco regions. We used SSA data to identify local offices with high volumes of inquiries and visits. We then looked at the number of retirement claims those offices were processing and considered thoughts of SSA regional and field office officials about pros and cons of each local office we had preliminarily chosen, such as foot traffic or appointment schedules. Based on our discussions with SSA headquarters and regional officials, and our analysis of data on the field offices, we selected SSA field offices in Alexandria, VA; Winchester, VA; and Arlington, VA (Philadelphia region); San Francisco, CA and Santa Rosa, CA (San Francisco region); and Mount Prospect, IL and Hillside, IL (Chicago region). We conducted these site visits from March to May 2016.

At our site visits, we observed SSA claims specialists handle claims intakes or inquiries from claimants for retirement benefits (including for survivors and spousal benefits). We noted the elements of the claims process and information the specialists provided to claimants during this process and evaluated what we observed against POMS guidance and to determine how specialists were addressing the six key information categories we identified from our literature review and expert interviews. We also interviewed managers and claims specialists at these offices about the process for completing retirement benefit claims, training on completing claims applications, and how claims specialists' performance is evaluated.

To learn about the online claims process for retirement benefits, we observed a screen-by-screen demonstration by an SSA official covering the steps of a retirement claim, and asked the official questions about the process and the information provided. We did not observe an actual online claim, but saw all the screens that potential claimants see and the steps that they follow when a retirement claim is filed online through SSA's website.

Appendix II: Selected Surveys and Studies, 2010-2015

Table 1: Selected Surveys and Studies, 2010-2015, Identifying What People Understand about Social Security Retirement

Author/Organization	Survey: Population and Sample size	Findings
AARP and Financial Planning Association (2015)	(1) 1,215 future beneficiaries ages 45-64, not collecting yet; and (2) 1,279 Certified Financial Planning professionals with client base ages 45-64	The survey found future beneficiaries have a knowledge gap that may undermine their retirement expectations. • Majority knew that waiting increases benefits (67 percent underestimate the benefits of waiting from 62 to full retirement age (FRA) to claim). • 27 percent knew benefits withheld due to the retirement earnings test will be returned over time after FRA. • Half of ever married respondents knew they can receive benefits based on their living spouse's work record. • 97 percent knew surviving spouse can get benefits if surviving spouse had never worked. • 20 percent of ever-married respondents who knew they can receive survivors benefits do not know the age at which the deceased spouse started claiming benefits will affect the amount of the survivors benefit. • Just over half of those who knew about survivors benefits knew the age the surviving spouse claimed made a difference also.
AARP/Knowledge Networks (2012)	National panel, 2,053 people ages 52-70 eligible on own work, not yet claimed, expected to do so in next 15 years	The survey revealed widespread knowledge of certain issues that affect how retirement benefits are determined but show a considerable lack of knowledge of some critical nuances. • 76 percent understood there would be a benefit reduction from work before Full Retirement Age, but • 71 percent of those that understood there would be a reduction (prior bullet) did not know the reduction was temporary. • 7 percent knew that 35 highest earning years are used to calculate benefits. • 95 percent of married or ever married respondents were aware of widow benefits, but only 48 percent of this group was aware of benefits from a living spouse. • 78 percent of those aware of availability of survivors benefits were also aware of how the age a worker claims affects survivor benefit. • 52 percent of married or ever married respondents indicated claiming age of widow affects widow's benefits. • 29 percent knew the earliest age to claim for maximizing benefits was 70. • 89 percent of respondents knew monthly benefit would be higher if benefits were claimed at FRA rather than 62, but few of those had an accurate sense of the amount. .

Center for Retirement Research at Boston College/ Steven A. Sass (2015)	Summary of findings of studies and surveys from the Social Security Administration's Retirement and Financial Literacy Research Consortiums	The surveys showed that the Social Security Statement delivered significant value by improving benefit knowledge for those that do not otherwise contact the Social Security Administration. • Most workers could provide an estimate of their potential monthly benefit and how it would increase by delaying claiming. • However, the surveys and studies that reviewed the value of the Statement did not find that the Statement affected claiming behavior.
Financial Engines/fielded by Greenwald & Associates (2014)	Step 1: 2 preliminary focus groups with consumers between the ages of 58 and 64, who had not yet claimed Social Security benefits, and had no plans for what they wanted to do; Step 2: 15 minute online survey. 1,008 "near-claimants" and current beneficiaries between the ages of 55 and 70 with at least $50,000 annual household income	This study found that claiming Social Security benefits is a complicated decision that requires understanding and weighing of difficult financial concepts. Of those surveyed: • 40 percent of all respondents could reasonably approximate the increase in benefits from a 2-year delay. • 14 percent of respondents between age 62 and 70 said there would be no difference in their monthly benefits if they delayed claiming; 2 of 10 said they did not know the impact of delayed claiming. • 55 percent of respondents knew a divorced person could claim benefits based on his or her ex-spouse's work history and earnings, if they were married for 10 years. • Among those yet to claim, 24 percent of survey respondents viewed claiming and retiring as essentially the same decision, and 51 percent of respondents saw them as separate, but related. • 52 percent of those yet to claim found reading a simple explanation encouraged them to consider claiming later than planned. • 75 percent of respondents indicate a working knowledge of survivors benefits. • 52 percent of those of those yet to claim expressed concern about receiving less from Social Security overall if they delay claiming and then do not live as long as expected. • 34 percent of all respondents estimate they would die before the average life expectancy of their cohort.

Financial Literacy Center/Greenwald, Kapteyn, Mitchell, Schneider (2010)	(1) 2,000 persons ages 25-65 using random-digit-dial phone survey; (2) 3,000 household Internet survey using the RAND-sponsored American Life Panel sample. Respondents were age 18 and older	Both surveys showed low level of Social Security literacy. • Half of respondents to survey 1 scored 'D' or 'F' overall on Social Security knowledge, with higher-income people faring better. • Only 23 percent of respondents to survey 1 correctly identified benefits calculated based on 35 highest earning years. • 42 percent of respondents to survey did not know benefits can be taxed; 43 percent did not know benefits are adjusted for inflation. • 76 percent of respondents were aware of survivors benefits. • Only 24 percent of married respondents suggested they had a very strong understanding of how much their spouses will receive. • 62 percent understood that monthly retirement benefits would increase if they delayed claiming. • 36 percent did not understand benefits are based on claiming age; only 29 percent felt very knowledgeable about how benefits can change based on when then claim. • 19 percent believed they had to claim when they stopped working. • 23 percent believed benefits are based on FICA (payroll) taxes paid in. • 27 percent believed benefits are based on number of years worked and the last 5 years of earnings. • 30 percent indicated they had little or no idea how long they anticipated living in retirement. • 25 percent of respondents to survey 2 knew how the benefits were calculated (35 years).
Massachusetts Mutual Life Insurance Company (2015)	1,513 Americans (1,000 non-Hispanic ages 25-65; 513 Hispanic age 18+)	The survey, which included a true/false quiz, showed the following results: • 72 percent of respondents failed the 10-question quiz on Social Security knowledge. • 71 percent did not know Full Retirement Age is no longer 65 for anyone born in 1938 or later. • 55 percent incorrectly believed they could continue working while collecting full Social Security benefits regardless of age.

National Bureau of Economic Research/Liebman & Luttmer (2014)	2,331 people between ages 50 and 70, out of a nationally representative sample who were eligible and completed the survey; 77 questions in the survey instrument —one section asked about knowledge of 5 Social Security components	The survey showed some understanding: • Participants were aware of survivors benefits—52 percent thought they would receive the same benefits as survivors and 42 percent believed benefits would rise. • 85 percent knew a delay in claiming between age 62 and 66 would increase benefits. Other points were less well understood: • Median respondent believed only the10 highest years of earnings count in the benefit calculation. • About 30 percent understood that the highest earnings years counted in the benefit calculation. • About 50 percent believed non-labor force spouse would not be eligible for benefits. • Of those who believed there was a retirement earning test (threshold), 40 percent believed future benefits would increase if current benefits were reduced.
Society of Actuaries (2011)	Telephone interviews with 1,600 adults ages 45-80 (800 retirees and 800 pre-retirees) from a nationwide targeted list	• Of respondents willing to guess, approximately 4 in 10 underestimate average life expectancy by 5 or more years.
Social Security Timing (2011)	Survey delivered via e-mail and completed on line. 532 respondents qualified and completed the survey; the respondents were married couples ages 60-66	Survey found: • 87.2 percent of respondents were aware of how “timing” affects Social Security benefits. • 75.6 percent were aware of spousal and survivors benefits. • Only 27 percent were aware of file and suspend and restricted application options.

Source: GAO analysis of selected surveys and academic studies that assessed understanding of Social Security benefits. | GAO-16-786

Appendix III: Social Security Administration Online Calculators to Assist in Filing

Table 2: Social Security online calculators available to assist in filing retirement claims

Name	Description	Web Link (as of August 2016)
Retirement Estimator	Provides estimates of monthly benefits based on an individual's actual Social Security earnings record.	https://www.ssa.gov/retire/estimator.html
Online Calculator	Provides estimates of the individual's retirement, disability, and survivors benefits using date of birth and complete earnings history. Projects future earnings until retirement date.	https://www.ssa.gov/planners/retire/AnypiaApplet.html
Quick Calculator	Provides a rough estimate of an individual's benefits in today's dollars or future dollars with the input of date of birth and this year's earnings amount. Does not use actual earnings record.	https://www.socialsecurity.gov/OACT/quickcalc/
Detailed Calculator	Provides the most precise estimate of an individual's retirement, disability, and survivors benefits. Produces a Primary Insurance Amount and reductions or increases for early or delayed retirement. Must be downloaded and installed on the individual's computer.	https://www.ssa.gov/OACT/anypia/anypia.html
Benefits for Spouses Calculator	Computes the effect on an individual's spousal benefits of the age the individual starts the spousal benefit.	https://www.ssa.gov/OACT/quickcalc/spouse.html
Retirement Age Calculator	Individual can find his/her full retirement age and see how monthly benefits may be reduced by retiring before full retirement age.	https://www.ssa.gov/planners/retire/ageincrease.html
Early or Late Retirement Calculator	Computes the effect on the individual's benefit amount for filing for early or delayed retirement benefits.	https://www.socialsecurity.gov/OACT/quickcalc/early_late.html
Earnings Test Calculator	Shows how an individual's earnings may affect benefit payments if the individual is currently working and eligible for retirement or survivors benefits this year.	https://www.ssa.gov/OACT/COLA/RTeffect.html
Life Expectancy Calculator	Provides rough estimates of how long an individual (or their spouse) might expect to live, on average.	http://www.socialsecurity.gov/OACT/population/longevity.html
Government Pension Offset Calculator	Provides estimates of spousal, widow, or widower benefits for an individual who receives a pension from a government job not covered by Social Security.	https://www.socialsecurity.gov/planners/retire/gpo-calc.html
Windfall Elimination Provision Calculator	Provides estimates for an individual who is eligible for a pension based on work that was not covered by Social Security.	https://www.ssa.gov/planners/retire/anyPiaWepjs04.html

Source: GAO analysis of Social Security Administration's interactive calculators. | GAO-16-786

Appendix IV: Comments from the Social Security Administration

SOCIAL SECURITY

Office of the Commissioner

August 26, 2016

Mr. Charles Jeszeck
Director, Education, Workforce, and Income Security Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Jeszeck:

Thank you for the opportunity to review the draft report, "SOCIAL SECURITY: Improvements to Claims Process Could Help People Make Better Informed Decisions About Retirement Benefits" (GAO-16-786). Please see our enclosed comments. We look forward to having additional dialogue on this important issue at the September 14, 2016 hearing.

If you have any questions, please contact me at (410) 965-4991. Your staff may contact Gary S. Hatcher, Senior Advisor for the Audit Liaison Staff, at (410) 965-0680.

Sincerely,

Frank Cristaudo
Executive Counselor to the Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

COMMENTS ON THE GOVERNMENT ACCOUNTABILITY OFFICE (GAO) DRAFT REPORT, "SOCIAL SECURITY: IMPROVEMENTS TO CLAIMS PROCESS COULD HELP PEOPLE MAKE BETTER INFORMED DECISIONS ABOUT RETIREMENT BENEFITS" (GAO-16-786)

Selecting the age at which to start receiving Social Security retirement benefits is an important decision that permanently affects the benefits a retiree and his or her family receive. There is no one age that is best for everyone; claimants must select the age that is best for them based on their individual circumstances, including other income, assets and obligations, health and family longevity, and the Social Security benefits available to dependents.

We appreciate that GAO acknowledged the comprehensive information that we provide on our website, in our publications, in our outreach initiatives, and in the Social Security Statement, to help people make informed retirement decisions. The Social Security Statement enables us to reach out to workers and provide them with benefit information beginning at the age of 25 (age 18 for those with access to the online Statement) so that they have time to consider the best claiming age. This information on our retirement benefits and rules complements the information provided by our claims specialists during the claims intake process in our field offices.

We also appreciate that GAO recognized the professionalism of our employees, who go to great lengths to serve the public with respect, skill, and dignity. In their observations of a very small sample of retirement claims, GAO noted some ways we could improve. Although the small sample is not reflective of the millions of retirement claims and related discussions we have with the public every year, we nevertheless appreciate GAO's insights.

Please find below our responses to the report recommendations. We are also providing a number of technical comments separately.

Recommendation 1

Ensure, when applicable, claims specialists ask claimants if they know that delaying claiming will result in permanently higher monthly benefit amounts, and at least offer to provide claimants their estimated benefits at their current age, at full retirement age (FRA) (unless the claimant is already older than FRA), and age 70.

Response

We agree, but recommend changing this recommendation to state:

> "Ensure when applicable, claims specialists *inform claimants that* delaying claiming will result in permanently higher monthly benefit amounts, and at least offer to provide claimants their estimated benefits at their current age, at FRA (unless the claimant is already older then FRA, and age 70."

As GAO noted, our current policy instructs claims specialists to provide this information. We will provide reminders to technicians to reinforce the instructions.

Recommendation 2

Ensure claims specialists understand that they should avoid the use of breakeven analysis to compare benefits at different claiming ages.

Response

We agree. As GAO noted, our current policy is that claims specialists "should no longer discuss [breakeven points] with claimants." We will provide reminders to technicians to reinforce the instructions.

Recommendation 3

Ensure claims specialists inform claimants that monthly benefit amounts are determined by the highest (indexed) 35 years of earnings, and that in some cases, additional work could increase benefits.

Response

We agree, but recommend changing this recommendation to state:

> "*When applicable*, ensure claims specialists inform claimants that monthly benefit amounts are determined by the highest (indexed) 35 years of earnings, and that in some cases, additional work could increase benefits."

We agree that information regarding the 35 base-years of earnings in the primary insurance amount formula is useful to some individuals – namely, those who have gaps in their earnings history, who are not retired from work, and/or who plan on returning to work. At the same time, we believe that this information could be confusing or misleading to other claimants. Additionally, continued work does not always significantly increase the benefit in many cases, so this explanation could be misleading for some claimants. Therefore, we recommend that GAO modify the recommendation to call for providing this information "when applicable." As appropriate, we will issue a reminder to technicians or include instructions in our Program and Operations Manual System (POMS) to reinforce the instructions.

Recommendation 4

Ensure claims specialists clearly explain the retirement earnings test and inform claimants that any benefits withheld because of earnings above the earnings limit will result in higher monthly benefits starting at FRA.

2

Response

We agree, but recommend changing this recommendation to state:

> "*When appropriate*, ensure claims specialists clearly explain the retirement earnings test and inform claimants that any benefits withheld because of earnings above the earnings limit will result in higher monthly benefits starting at FRA."

As with recommendation 3, this information is relevant only to some claimants – in this case, those who intend to work after claiming benefits – and may be unhelpful or confusing to others. Therefore, we recommend that GAO modify the recommendation to call for providing this information "when appropriate (or applicable)." We agree that whenever we discuss the retirement earnings test, claims specialists should clearly explain that benefits would be increased at FRA to account for the amounts withheld due to earlier earnings. As appropriate, we will issue a reminder to technicians or include instructions in our POMS to reinforce the instructions.

Recommendation 5

Ensure that claims specialists explain that lump sum retroactive benefits will result in a permanent reduction of monthly benefits. For the online claiming process, SSA should remove the online question that asks claimants to provide a reason for not choosing retroactive benefits.

Response

We agree in part.

For the first sentence of the recommendation, we agree. Whenever we discuss lump sum retroactive benefit with claimants, claims specialists should explain that it would result in a permanent reduction in monthly benefits. We will issue a reminder to technicians or include instructions in our POMS.

For the second sentence, we recommend a modification as follows:

> "For the online claiming process, SSA should *evaluate removing or revising* the online question that asks claimants to provide a reason for not choosing retroactive benefits."

We note that this online claims question asks the claimant to provide a reason for choosing to start benefits *at any point other than the month of application*; this pertains to the choice to claim either earlier or later than that month, including both retroactive and delayed benefits. The answer may be an indication that we should contact the claimant to discuss the selection. We will explore the underlying rationale for this question and consider modifying the question.

3

Recommendation 6

Ensure the claims process includes basic information on how life expectancy and longevity risk may affect the decision to claim benefits.

Response

We agree. We already provide basic information on these topics in our publications and webpages, but we recognize that there is ongoing research in these areas that we may be able to use to improve the information we provide. We are looking at what we can do to better explain the effect of delaying benefits and to explain longevity risk – and the related risk of outliving one's financial resources in old age. Our in-house researchers and extramural scholars are contributing insights from psychology and behavioral economics, and we are engaging the White House Social and Behavioral Sciences Team to inform our work. We are also drawing on insights from work of other organizations, including the Society of Actuaries, AARP, the National Academy of Social Insurance, and others who are messaging on claiming decisions and longevity risk. As a first step, we will use our research findings from our own scholars and those of other organizations to explore improving the *When to Start Receiving Retirement Benefits* publication, which could also become a tool for use by our claims specialists in field offices.

We also note that although our claims specialists are not equipped to serve as financial advisors, nor are they experts in life expectancy or related concerns they do however, perform their job extremely well, and are well-versed in providing objective information to explain the law and how it applies to the claimant.

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Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Charles Jeszeck, (202) 512-7215 or jeszeckc@gao.gov

Staff Acknowledgments

Michael Collins (Assistant Director), Mark Glickman (Assistant Director), Laurel Beedon, Lilia Chaidez, Susan Chin, and Joel Marus made significant contributions to this report. In addition, support was provided by Susan Aschoff, James Bennett, Deborah Bland, Scott Clayton, Alexander Galuten, Teresa Heger, Tom Moscovitch, Ardith Spence, Frank Todisco (Chief Actuary), and Walter Vance.

Appendix VI: Accessible Data

Agency Comment Letter

Text of Appendix IV: Comments from the Social Security Administration

Page 1

SOCIAL SECURITY

Office of the Commissioner

August 26, 2016

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Director, Education, Workforce, and Income Security Issues

United States Government Accountability Office

441 G Street, NW

Washington, DC 20548

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Sincerely,

Frank Cristaudo

Executive Counselor to the Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION

BALTIMORE, MD 21235-0001

Page 2

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Recommendation 1

Ensure, when applicable, claims specialists ask claimants if they know that delaying claiming will result in permanently higher monthly benefit amounts, and at least offer to provide claimants their estimated benefits at their current age, at full retirement age (FRA) (unless the claimant is already older than FRA), and age 70.

Response

We agree, but recommend changing this recommendation to state:

"Ensure when applicable, claims specialists inform claimants that delaying claiming will result in permanently higher monthly benefit amounts, and at least offer to provide claimants their estimated benefits at their current age, at FRA (unless the claimant is already older then FRA, and age 70."

Page 3

As GAO noted, our current policy instructs claims specialists to provide this information. We will provide reminders to technicians to reinforce the instructions.

Recommendation 2

Ensure claims specialists understand that they should avoid the use of breakeven analysis to compare benefits at different claiming ages.

Response

We agree. As GAO noted, our current policy is that claims specialists "should no longer discuss [breakeven points] with claimants." We will provide reminders to technicians to reinforce the instructions.

Recommendation 3

Ensure claims specialists inform claimants that monthly benefit amounts are determined by the highest (indexed) 35 years of earnings, and that in some cases, additional work could increase benefits.

Response

We agree, but recommend changing this recommendation to state:

"When applicable, ensure claims specialists inform claimants that monthly benefit amounts are determined by the highest (indexed) 35 years of earnings, and that in some cases, additional work could increase benefits."

We agree that information regarding the 35 base-years of earnings in the primary insurance amount formula is useful to some individuals -namely, those who have gaps in their earnings history, who are not retired from work, and/or who plan on returning to work. At the same time, we believe that this information could be confusing or misleading to other claimants. Additionally, continued work does not always significantly increase the benefit in many cases, so this explanation could be misleading for some claimants. Therefore, we recommend that GAO modify the recommendation to call for providing this information "when applicable." As appropriate, we will issue a reminder to technicians or include instructions in our Program and Operations Manual System (POMS) to reinforce the instructions.

Recommendation 4

Ensure claims specialists clearly explain the retirement earnings test and inform claimants that any benefits withheld because of earnings above the earnings limit will result in higher monthly benefits starting at FRA.

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Response

We agree, but recommend changing this recommendation to state:

"When appropriate, ensure claims specialists clearly explain the retirement earnings test and inform claimants that any benefits withheld because of earnings above the earnings limit will result in higher monthly benefits starting at FRA."

As with recommendation 3, this information is relevant only to some claimants - in this case, those who intend to work after claiming benefits - and may be unhelpful or confusing to others. Therefore, we recommend that GAO modify the recommendation to call for providing this information "when appropriate (or applicable)." We agree that whenever we discuss the retirement earnings test, claims specialists should clearly explain that benefits would be increased at FRA to account for the amounts withheld due to earlier earnings. As appropriate, we will issue a reminder to technicians or include instructions in our POMS to reinforce the instructions.

Recommendation 5

Ensure that claims specialists explain that lump sum retroactive benefits will result in a permanent reduction of monthly benefits. For the online claiming process, SSA should remove the online question that asks claimants to provide a reason for not choosing retroactive benefits.

Response

We agree in part.

For the first sentence of the recommendation, we agree. Whenever we discuss lump sum retroactive benefit with claimants, claims specialists should explain that it would result in a permanent reduction in monthly benefits. We will issue a reminder to technicians or include instructions in our POMS.

For the second sentence, we recommend a modification as follows:

"For the online claiming process, SSA should evaluate removing or revising the online question that asks claimants to provide a reason for not choosing retroactive benefits."

We note that this online claims question asks the claimant to provide a reason for choosing to start benefits at any point other than the month of application; this pertains to the choice to claim either earlier or later than that month, including both retroactive and delayed benefits. The answer may be an indication that we should contact the claimant to discuss the selection. We will explore the underlying rationale for this question and consider modifying the question.

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Recommendation 6

Ensure the claims process includes basic information on how life expectancy and longevity risk may affect the decision to claim benefits.

Response

We agree. We already provide basic information on these topics in our publications and webpages, but we recognize that there is ongoing research in these areas that we may be able to use to improve the information we provide. We are looking at what we can do to better explain the effect of delaying benefits and to explain longevity risk - and the related risk of outliving one's financial resources in old age. Our in-house researchers and extramural scholars are contributing insights from psychology and behavioral economics, and we are engaging the White House Social and Behavioral Sciences Team to inform our work. We are also drawing on insights from work of other organizations, including the Society of Actuaries, AARP, the National Academy of Social Insurance, and others who are messaging on claiming decisions and longevity risk. As a first step, we will use our research findings from our own scholars and those of other organizations to explore improving the When to Start Receiving Retirement Bene fits publication, which could also become a tool for use by our claims specialists in field offices.

We also note that although our claims specialists are not equipped to serve as financial advisors, nor are they experts in life expectancy or related concerns they do however, perform their job extremely well, and are well-versed in providing objective information to explain the law and how it applies to the claimant.

Accessible Text/ Data Tables

Accessible Text for Figure 1: Calculation of Monthly Social Security Retirement Benefits

1. **Calculate the AIME (Average Indexed Monthly Earnings):** SSA calculates beneficiary's average indexed monthly earnings over the highest 35 years of income, after adjusting each year of income for historical wage growth and annual maximums.
2. **Calculate the PIA (Primary Insurance Amount):** SSA calculates PIA based on AIME. For workers who turn 62, die, or become disabled in 2016 the PIA is: 90% of the first $856 of AIME; 32% of the next $4,301 of AIME; and 15% of any AIME over $5,157.
3. **Monthly benefit varies with age of claimant**

Source: GAO analysis of Social Security Administration (SSA) documentation. | GAO-16-786

Data Table for Figure 2: Adjustments to Monthly Social Security Benefit Based on Claiming Age When Full Retirement Age Is 66

Recipient's claiming age	Percentage of Primary Insurance Amount (PIA)
"62"	75
"63"	80
"64"	86.7
"65"	93.3
"66"	100
"67"	108

Recipient’s claiming age	Percentage of Primary Insurance Amount (PIA)
"68"	116
"69"	124
"70"	132

Related GAO Products

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Retirement Security: Shorter Life Expectancy Reduces Projected Lifetime Benefits for Lower Earners. GAO-16-354. Washington, D.C.: March 25, 2016.

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