



Testimony
Before the Special Committee on Aging,
U.S. Senate

For Release on Delivery
Expected at 2:30 p.m. ET
Wednesday, September 14, 2016

SOCIAL SECURITY

Providing More Information During Claims Process Would Help Individuals Making Decisions About Retirement Benefits

Statement of Charles Jeszeck, Director, Education,
Workforce, & Income Security Division

Chairman Collins, Ranking Member McCaskill, and Members of the Committee:

I am pleased to be here today to discuss our work on the information the Social Security Administration (SSA) provides individuals to help them decide when to claim retirement benefits. The decision of when to claim benefits is one of the most important financial decisions most people and households make. As of 2013, Social Security benefits account 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, an 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.

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 70.¹ Waiting to claim offers the promise of higher monthly benefits—76 percent higher for someone claiming at age 70 versus age 62, for current claimants.² However, 62 is the most common age to claim Social Security benefits, and few people wait until 70. While there are sound reasons for taking retirement 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

¹ A surviving spouse can generally claim survivor benefits as early as age 60. A surviving disabled spouse can generally collect benefits as early as age 50.

² This is true for individuals with a full retirement age of 66, which applies to individuals born from 1943 to 1954.

expectancy, and longevity risk—affect benefits.³ SSA, as the program administrator, holds a unique position to provide information that can help ensure prospective claimants make informed choices.

My statement summarizes our report, which addresses (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 decisions. That report is being released today.⁴

For our issued report, we reviewed nine surveys and academic studies that assessed the public's understanding of Social Security benefits and identified the factors that influence claiming. 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. We 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 also interviewed SSA headquarters officials to learn how Social Security benefit claims are to be processed. We observed a nongeneralizable sample of 30 face-to-face claims interviews at 7 SSA local offices in 3 different regions of the country. We selected these offices, taking into consideration regional geographic diversity, income level, urban and rural composition, and the number of new claims each office processes. In our observations, 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. We interviewed managers and

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. "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 statement and in our full report, we use the terms "life expectancy" and "longevity risk" as having these two distinct meanings.

⁴ GAO, *Social Security: Improvements to Claims Process Could Help People Make Better Informed Decisions about Retirement Benefits*, [GAO-16-786](#) (Washington, D.C.: Sep. 14, 2016).

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. SSA also demonstrated the online claims process for us, showing the information on each screen that a claimant might see when filing a claim. A more detailed explanation of our methodology is available in our full report. Our work was performed in accordance with generally accepted government auditing standards.

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

Our review of surveys and academic studies, and interviews with people with Social Security expertise, suggest that most individuals do not understand key details of Social Security rules that could potentially affect their retirement benefits or the benefits of their spouses and survivors. 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. 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 surveys also showed that many people do not understand the implications of the retirement earnings test, under which SSA withholds benefits for some claimants earning above an annual income limit but which are, on average, paid back later with interest. Understanding these rules and other information, such as life expectancy and longevity risk, could be central to people making informed decisions about when to claim benefits. With an understanding of Social Security benefits, people would also be in a better position to balance other factors that influence when they claim benefits, including financial need, poor health, and psychological factors.

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

SSA makes comprehensive information on key rules and other considerations related to claiming retirement benefits available through its website, publications, personalized benefits statements, and online calculators. The information provided 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 survivor benefits, the retirement earnings test, information about life expectancy and longevity risk, and the taxation of benefits. In particular, SSA's website provides access to information on available benefits, key program rules, and interactive calculators that can be used to get estimates on what future benefits would be. Additionally, 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, full retirement age (FRA), and age 70, as well as estimates for the individual's current disability and survivor benefit amounts. In May 2012, SSA made the statement available electronically for those establishing an online account. Since September 2014, SSA has mailed printed statements to workers 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.

While important information is provided through SSA's website and publications to help people make informed decisions about when to claim retirement benefits, our observation of 30 claims interviews in SSA field offices and of a demonstration of the online claims process found that some key information may not be consistently provided to potential claimants when they file. 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 individual can make an informed filing decision. The SSA protocol has claims specialists follow 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.

The following summarizes key information that was not consistently covered during the in-person claims process. We discuss additional areas of key information in our full report.

- **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. In 18 of 26 in-person 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.⁵ 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 have found that delayed claiming can be an important strategy to consider for most retirees. In contrast, the online claims process includes screens that provide information on how claiming at different ages raises or lowers monthly benefits.

- **How taking retroactive benefits affects monthly benefits:** 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 the 6 months prior to a claims appointment when a claimant first contacted SSA about filing a retirement claim.⁶ 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. 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, it 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. In the online

⁵ 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.

⁶ 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.

claims process, if a claimant has the option of starting benefits retroactively and chooses not to, the claimant is asked 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.

- **How lifetime earnings affect monthly 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 fewer than 35 years of earnings. Similarly, the online application process does not inform claimants that benefits are based on the highest 35 years of earnings.
- **How the retirement earnings test affects income before and after 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.⁷ In the 18 interviews we observed in which a potential claimant was younger than FRA, most of the claims specialists explained, accurately, that the claimant would have benefits withheld if he or she earned more than the retirement earnings limit. However, in fewer than half of applicable interviews (7 of 17) did the claims specialists explain that any benefits withheld due to earnings would be recalculated and result in higher benefit amounts after FRA. Some 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

⁷ 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.

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. In the online application process, screens provide information explaining that any benefits withheld because of the retirement earnings test will raise monthly benefits after FRA.

- **How life expectancy and longevity risk could factor into the claiming decision:** 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 longevity and life expectancy 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 affect retirement planning is an important aspect of preparing for a well-funded retirement. However, the subject of how family health and longevity might influence the timing of benefit claims arose only twice in our 30 observations, and both times because the claimant raised the subject. Similarly, the online application process does not inform claimants that life expectancy and longevity risk are important considerations in deciding when to claim.
- **Potentially misleading use of breakeven ages:** Additionally, in contrast to providing potential claimants with key information to help inform their claiming decisions, the POMS instructs claims specialist not to provide 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. Research shows that breakeven analysis can influence people to claim benefits earlier than they might otherwise. During our in-person observations, we saw 6 instances in which a claims specialist presented a breakeven age to help a claimant compare claiming benefits now or waiting to claim. In some interviews, 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.”

Our Recommendations and Agency Response

Many American will rely heavily on Social Security for a substantial portion of their retirement income, so it is imperative that they have the necessary information to make informed claiming decisions. 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 people 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. 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. Updating this information would help each individual receive the information they need to make an optimal decision. In our issued report, we make several recommendations that would ensure potential claimants are consistently provided with key information during the claiming process to help them make informed decisions about when to claim Social Security retirement benefits.

Specifically, we recommend that SSA take steps to ensure that:

- 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 than FRA), and age 70;
- claims specialists understand that they should avoid the use of breakeven analysis to compare benefits at different claiming ages;
- 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;

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- 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.

SSA generally agreed with our recommendations.

Chairman Collins, Ranking Member McCaskill, and Members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

For further information regarding this testimony, please contact Charles Jeszeck 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 statement. Individuals who make key contributions to this testimony include Mark Glickman (Assistant Director), Laurel Beedon, Susan Chin, Susan Aschoff, Alexander Galuten, Frank Todisco (Chief Actuary), and Walter Vance.

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