

GAO

Report to the Chairman, Subcommittee  
on Social Security, Committee on Ways  
and Means, House of Representatives

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December 1996

# SSA BENEFIT STATEMENTS

## Well Received by the Public but Difficult to Comprehend



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G A O  
**75** years  
1921 - 1996

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United States  
General Accounting Office  
Washington, D.C. 20548

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**Health, Education, and  
Human Services Division**

B-275128

December 5, 1996

The Honorable Jim Bunning  
Chairman, Subcommittee on Social Security  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

Social Security, the nation's largest federal program, provides benefits to retired and disabled workers and their dependents and survivors.<sup>1</sup> Public confidence in Social Security has been low for a number of years, in part because the public has lacked an understanding of Social Security programs. Recognizing the need to provide individuals with better information about Social Security, the Congress enacted legislation in 1989 requiring that the public be provided with regular statements about their Social Security benefits. Both the sponsor of the legislation and officials from the Social Security Administration (SSA) hoped that providing workers with this valuable information would help rebuild public confidence in Social Security and supply workers with a useful financial planning tool.

As required by the Congress, in 1995 SSA began sending the statements, called Personal Earnings and Benefit Estimate Statements (PEBES), automatically to workers who had reached age 60. Starting in fiscal year 2000, the PEBES will reach an estimated 123 million people each year—almost every U.S. worker aged 25 and older. These six-page statements supply workers with information about their yearly earnings on record at SSA; information about their eligibility for Social Security retirement, survivor, and disability benefits; and estimates of these benefits. The PEBES also explains Social Security programs and benefits.<sup>2</sup> SSA projects that this effort will cost more than \$80 million in fiscal year 2000 alone.

Concerned about the clarity and usefulness of these statements, you asked us to look at SSA's overall progress in issuing the PEBES. In testimony before the Subcommittee on September 12, 1996, we discussed how effectively the PEBES conveys information to the public.<sup>3</sup> This report, at your request,

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<sup>1</sup>The Social Security program has two parts: Old Age and Survivors Insurance and Disability Insurance.

<sup>2</sup>App. I contains a copy of a 1996 PEBES, which has been slightly reduced to fit on the page.

<sup>3</sup>SSA Benefit Statements: Statements Are Well Received by the Public but Difficult to Comprehend (GAO/T-HEHS-96-210, Sept. 12, 1996).

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expands on that testimony. Specifically, we focus on whether the PEBES benefit estimates are reasonable, what SSA has done to improve the statement, the extent to which the PEBES communicates its goals and information clearly, SSA's plans to revise the statement further, and actions we believe will improve the statement. To develop this information, we reviewed SSA's documentation on the PEBES and met with SSA officials. We also met with SSA staff who respond to public inquiries on the PEBES toll-free telephone number and observed them as they answered almost 100 telephone calls. In addition, we reviewed selected public- and private-sector pension benefit statements and discussed the PEBES with recognized experts in the field. Finally, we asked an expert in document design and communication to review and provide comments on the PEBES. We conducted our work from September 1995 to September 1996 in accordance with generally accepted government auditing standards.

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## Results in Brief

SSA officials selected the assumptions and method they use for estimating future retirement benefits to be consistent with those used by private and public pension plan sponsors, and experts agree that SSA's approach is generally reasonable. Moreover, SSA has taken steps to improve the PEBES, and feedback indicates that, overall, the public feels that the statement can be a valuable tool for retirement planning. However, our work shows that the statement fails to communicate clearly the complex information readers need to understand SSA's programs and benefits, in part, because the design and organization of the statement make it difficult for the reader to locate and understand important information. Feedback from the public on the statement also indicates that readers are confused by several important explanations, such as who in their family is also eligible for benefits and how much these family members might receive.

SSA is considering redesigning the PEBES, but only if the redesign results in reduced printing costs. This approach overlooks hidden costs, such as (1) the workload generated by public inquiries when people do not understand the statement and (2) the possibility that a poorly designed statement can undermine, rather than improve, public confidence. Issuing these statements is a significant initiative for SSA, and the agency should take steps now to redesign the statement to more effectively present the PEBES information. Active leadership from SSA's senior managers, however, will be needed to ensure the success of this important initiative.

## Background

Since the Social Security Act became law in 1935, workers have had the right to review their earnings records on file at SSA to ensure that they are correct.<sup>4</sup> In 1988, SSA introduced the PEBES to better enable workers who requested such information to review their earnings records and obtain benefit estimates. According to SSA, fewer than 2 percent of the workers who pay Social Security taxes request these statements each year.

The PEBES legislation<sup>5</sup> requires SSA to begin sending the PEBES to eligible workers<sup>6</sup> who have not requested a statement according to the schedule that appears in table 1. SSA plans to mail some statements even sooner than required and, by fiscal year 2000, will have mailed statements automatically to over 70 million workers.

**Table 1: Schedule for Distributing Benefit Statements**

| Fiscal year | Eligible individuals       | Volume estimated by SSA     |
|-------------|----------------------------|-----------------------------|
| 1995        | Aged 60 and over           | 6.7 million <sup>a</sup>    |
| 1996-1999   | Turning 60 during the year | 1.6 to 1.8 million annually |
| 2000+       | Aged 25 and older          | 123 million annually        |

<sup>a</sup>This is SSA's total of mandated statements actually mailed in 1995.

By providing these statements, SSA's goals are to (1) better inform the public of benefits available under SSA's programs, (2) assist workers in planning for their financial future, and (3) better ensure that Social Security earnings records are complete and accurate. Accurate earnings records are important because a worker's eligibility for Social Security benefits and the size of the benefit itself depend on the worker's earnings record. Early identification and correction of errors in earnings records can benefit both SSA and the public by reducing the time and cost required to correct earnings records years later when an individual files for retirement benefits.

Issuing the PEBES is a significant initiative for SSA. The projected cost of \$80 million in fiscal year 2000 includes \$56 million for production costs, such as printing and mailing the statement, and \$24 million for personnel

<sup>4</sup>Overall, the chance of SSA's incorrectly recording a wage is small. According to SSA's *Accountability Report for Fiscal Year 1995*, 98.7 percent of reported earnings are posted accurately to an individual's record. However, even this accuracy rate of almost 99 percent results in over 2 million earnings each year that cannot be linked to specific individuals' records.

<sup>5</sup>P.L. 101-239 and P.L. 101-508.

<sup>6</sup>SSA must send a PEBES to those who are at least 25 years old, have a Social Security number, have wages or net earnings from self-employment, are not receiving Social Security benefits, and have a current address obtainable by SSA.

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costs. SSA estimates that 608 staff-years will be required to handle the PEBES workload in fiscal year 2000: SSA staff are needed to prepare the statements, investigate discrepancies in workers' earnings records, and respond to public inquiries (when individuals receive a PEBES, they are instructed to call SSA if they have questions or find errors in the earnings record contained in the statement).

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## SSA's Approach to Calculating Retirement Benefit Estimates Is Reasonable

The benefit estimates provided in the PEBES are intended to help workers plan for their financial future. To estimate retirement benefits, SSA makes certain assumptions about an individual's future employment and earnings. SSA assumes, for example, that individuals will continue to work until they retire<sup>7</sup> and that individuals' future earnings will remain about the same as their most recent earnings.<sup>8</sup> SSA chose this overall approach to calculating benefit estimates because it is consistent with approaches used by private and public pension plan sponsors to prepare benefit estimates, according to SSA officials. The experts we talked with generally agreed that SSA's approach for estimating future retirement benefits is reasonable.

In estimating retirement benefits, SSA does not, however, vary its methodology to take into consideration certain special circumstances that could affect a worker's actual retirement benefit. As a result, while the PEBES estimates are reasonable for most workers, they may over- or understate benefits for certain individuals. For example, the PEBES estimate is overstated for federal workers who are eligible for both Civil Service Retirement System and Social Security benefits. For these workers, the law requires a reduction in their Social Security retirement or disability benefits according to a specific formula.<sup>9</sup> In 1996, this reduction may be as much as \$219 per month; however, the PEBES benefit estimates do not reflect this reduction.

SSA officials told us that it would be too difficult and costly to take such special circumstances into consideration when estimating benefits.

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<sup>7</sup>The PEBES provides retirement benefit estimates based on three retirement ages—62 (reduced benefits), 65 (full benefits), and 70.

<sup>8</sup>SSA uses the most recent earnings on record for either of the 2 years before the year the PEBES is issued. If there are no earnings on record for either year, SSA assumes zero earnings for current and future years. Also, individuals requesting a PEBES can provide their own estimates of their age at retirement and their future earnings.

<sup>9</sup>This reduction, known as the Windfall Elimination Provision, was enacted in 1983. Its purpose is to remove an unintended advantage in the way benefits are calculated for workers who qualify for Social Security benefits but have spent most of their careers working in jobs that are not covered by Social Security.

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Rather, SSA has included in the statements descriptions of certain circumstances that may result in workers' receiving Social Security benefits that are greater or less than the estimated amount. Our work shows that it would be very difficult for SSA to modify its PEBES benefit estimates to reflect these circumstances.

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## SSA Has Taken Steps to Enhance the PEBES; Public Reaction Has Been Positive

Since the PEBES was first developed, SSA has conducted several small-scale and national surveys to assess the general public's reaction to receiving an unsolicited PEBES. In addition, SSA has conducted a series of focus groups with the public and SSA employees to elicit their opinions of the statement and to determine what parts of it they did and did not understand.

In response to this feedback, SSA revised the statement. For example, early statements routinely provided benefit estimates for age 65, the earliest age at which workers could retire and receive their full Social Security retirement benefit,<sup>10</sup> and for delayed retirement at age 70. When SSA learned that many people were interested in the effect of early retirement on their benefits, SSA added an estimate for retirement at age 62. In addition, as it revised the statement, SSA applied a computerized readability formula<sup>11</sup> to it and concluded that the PEBES could be understood by those who read at a seventh grade level, which is consistent with SSA's standard for agency notices.

Overall public reaction to receiving an unsolicited PEBES has been consistently favorable. In a nationally representative survey conducted during a 1994 pilot test, the majority of the respondents indicated they were glad to receive their statements.<sup>12</sup> In addition, 95 percent of the respondents said the information provided was helpful to their families. Overall, older individuals reacted more favorably to receiving a PEBES than did younger individuals. In addition, SSA representatives who answer the toll-free telephone calls from the public have stated that most callers say they are pleased that they received a PEBES and that the information is useful to them for financial planning.

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<sup>10</sup>Individuals born in 1937 or earlier can retire at age 65 and receive their full benefit. The age at which individuals born after 1937 can retire and receive their full benefit gradually increases, up to 67 for those born in 1960 and later.

<sup>11</sup>Readability formulas are based on mathematical computations that count the syllables, words, and sentences in paragraphs to determine their level of reading difficulty.

<sup>12</sup>As of October 17, 1996, the results of SSA's most recent public opinion survey, conducted in 1995, had not yet been released.

## Clearly Communicating SSA Program and Benefit Information Could Further Enhance the PEBES' Value

Although SSA has taken steps to improve the PEBES, we found that the current statement still provides too much information, which may overwhelm the reader, and it presents the information in a way that undermines its usefulness. These weaknesses are attributable, in part, to the process SSA used to develop the PEBES. Additional information and expanded explanations have made the statement longer, but some explanations still confuse readers. Moreover, SSA has not collected detailed information from its front-line workers on the public's response to the PEBES.

Research suggests that, in general, people find forms, notices, and statements difficult to use and understand. For this reason, many people may approach a PEBES-like statement "with fear, frustration, insecurity, and hesitation."<sup>13</sup> To overcome this challenge, the design expert we consulted suggested that such statements include the following:

- An obvious purpose: Readers need to know immediately why they received the statement, what information it contains, and what they are expected to do with the information.
- An attractive and functional design and organization: The statement should look easy to read, the sections should be clearly labeled, and the organization should be evident at a glance. When readers need explanations to understand complex information, the explanations should appear with the information.
- Easy-to-understand explanations: Readers need explanations of complex programs and benefits in the simplest and most straightforward language possible.

## Commissioner's Message Does Not Effectively Convey Purpose

In the 1996 PEBES, the message from the Commissioner of Social Security does not clearly explain why SSA is providing the statement. Although the message does include information on the statement's contents and the need for individuals to review the earnings recorded by SSA, its presentation is uninviting, according to the design expert we consulted. More specifically, the type is too dense; the lines are too long; white space is lacking; and the key points are not highlighted. On the basis of these findings, SSA officials told us they have revised the Commissioner's message for the 1997 PEBES to make it shorter and less complex.

<sup>13</sup>Carolyn Boccella Bagin, *A Review of Your Personal Earnings and Benefit Estimate Statement* (Rockville, Md.: July 1996), p. 6.



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The 1996 message also attempts to reassure people that the Social Security program will be there when they need it with the following reference to the system's solvency:<sup>14</sup>

"The Social Security Board of Trustees projects that the system will continue to have adequate resources to pay benefits in full for more than 30 years. This means that there is time for the Congress to make changes needed to safeguard the program's financial future. I am confident these actions will result in the continuation of the American public's widespread support for Social Security."

Some participants in SSA focus groups, however, thought the message suggested that the resources would not necessarily be there after 30 years. For example, one participant in a 1994 focus group who reviewed a similar Commissioner's message said, "...[the] first thing I think about when I read the message is, [Social Security] is not going to be there for me." The focus group results suggest that the future solvency of the Social Security system may be too complex a topic to address adequately in the PEBES.

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## Design and Organization Are Not User Friendly

Comments from SSA's public focus groups, SSA employees, and benefit experts indicate that the statement contains too much information and is too complex. In a 1994 focus group summary, for example, SSA reported that younger workers aged 25 to 35 wanted "a much simplified form—a single page—with estimated benefits and how much in taxes they paid into the system with the remainder of the information put in a pamphlet for future reference." Moreover, given the length and complexity of the current statement, some focus group participants and benefit experts suggested that SSA add an index or a table of contents to help readers navigate the statement.

SSA has not used the best layout and design to help the reader identify the most important points and move easily from one section to the next. The structure of the statement is not clear at a glance. Readers cannot immediately grasp what the sections of the statement are and in which order they should read them, according to the design expert with whom we consulted. The statement lacks effective use of features such as bulleting and highlighting, which would make it more user friendly.

In addition, the PEBES is disorganized: information does not appear where needed. The statement has a patchwork of explanations scattered

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<sup>14</sup>SSA has included similar language about the program's solvency in its draft 1997 Commissioner's message.

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throughout, requiring readers to flip from one page to another to find needed information. For example, page two begins by referring the reader to page four, and page three contains six references to information on other pages. Furthermore, to understand how the benefit estimates were developed and any limitations to these estimates, a PEBES recipient must read explanations spread over five pages. SSA representatives who answer the PEBES toll-free telephone number told us that callers frequently fail to realize that the answers to their questions can be found within the document. In fact, we observed the representatives telling callers to turn to a certain page in the statement to answer their questions.

With benefit estimate explanations spread over several pages, individuals may miss important information. For example, the PEBES benefit estimate appears on page three; the explanation that the benefit estimate may be overstated for certain federal workers is not found until the bottom of page five. Without fully reviewing this additional information, a reader may not realize that the PEBES benefit estimate could be overstated.

In addition, some of the explanations needed to fully understand information in the PEBES are located within the answer to a question that the PEBES recipient may not read. For example, the statement explains that the retirement benefit is reflected in today's dollars. This explanation, however, is located in the answer to the following question: "When I requested a statement like this several years ago, my retirement benefit was higher. What happened?" Readers skipping the answer to this question would not know key information about the value of their estimate in today's economy.

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## Explanations Are Not Always Easy to Understand

Because the PEBES addresses complex programs and issues, explaining these points in simple, straightforward language is challenging. Although SSA made changes to improve the explanation of work credits, for example, many people still do not understand what these credits are, the relevance of the credits to their benefits, and how the credits are accumulated.<sup>15</sup>

The public also frequently asks questions about the PEBES' explanation of family benefits.<sup>16</sup> Family benefits are difficult to calculate and explain

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<sup>15</sup>These credits are earned by working for employers that pay taxes to the Social Security system. The minimum number of credits needed varies, depending on the type of benefit and the age of the worker.

<sup>16</sup>SSA uses the term "family benefits" to discuss benefits paid to a worker's spouse or young children when the worker is retired or disabled.

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because their amounts are dependent on a number of factors, such as the age of the spouse and the spouse's eligibility for benefits on his or her own work record. Informing the public about family benefits, however, is especially important: a 1995 survey revealed that as much as 40 percent of the public is unaware of these benefits.

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### Weaknesses of the PEBES Are Linked to SSA's Approach

A team of representatives from a cross section of SSA offices governs SSA's decisions on the PEBES' development, testing, and implementation. The team has revised and expanded the statement in response to feedback on individual problems. The design expert we consulted observed that the current statement "appears to have been the result of too many authors, without a designated person to review the entire piece from the eyes of the readers. It seems to have developed over time, piecemeal . . ." <sup>17</sup>

Although SSA officials have obtained the public's feedback, they have missed some key opportunities along the way to improve the statement. While SSA conducted tests to ensure that the PEBES could be read at a seventh grade level, it has not conducted formal comprehension tests. <sup>18</sup> For example, SSA could have administered either oral or written tests to a sample of readers to determine whether they actually understood SSA's explanations of certain complex issues. These tests would have provided SSA with quantifiable, objective information to use in revising the statement. SSA has also failed to take advantage of information from its workers who answer the public's questions about the PEBES every day. SSA currently has front-line workers record the reason people call, but the information collected does not provide sufficient detail for SSA to understand the problems people are having with the PEBES.

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### No Consensus Exists on the Best Model for the Statement

Although the public and benefit experts agree that the current statement contains too much information, a standard benefit statement model does not exist within the public or private sector, and there is no clear consensus on how best to present benefit information. The Canadian government chose to use a two-part document when it began sending out benefit statements in 1985. The Canada Pension Plan's one-page statement provides specific individual information, including the earnings record and benefit estimates. A separate brochure details the program explanations. The first time the Plan mails the statement, it sends both the one-page

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<sup>17</sup>Bagin, *A Review of Your Personal Earnings and Benefit Estimate Statement*, p. 18.

<sup>18</sup>In a 1988 telephone survey during the PEBES' early development, SSA asked a few questions to check for reader comprehension. The statement has changed significantly since that time, however.

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individual information and the detailed brochure; subsequent mailings contain only the single page with the individual information.

Although some focus group participants and benefit experts prefer a two-part format, others believe that all the information should remain in a single document, fearing that statement recipients will lose or might not read the separate explanations. SSA has twice tested the public's reaction to receiving two separate documents. On the basis of a 1987 focus group test, SSA concluded that it needed to either redesign the explanatory brochure or incorporate the information into one document. SSA chose the latter approach. In a 1994 test, people indicated that they preferred receiving one document; however, the single document SSA used in the test contained less information and had a more readable format than the current PEBES.

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## Redesign Plans Do Not Fully Consider Costs

SSA, through the Government Printing Office, has awarded a 2-year contract for printing the statements for fiscal years 1997 and 1998. These statements will have the same format as the current PEBES with only a few wording changes. SSA is considering a more extensive redesign of the PEBES for the fiscal year 1999 mailings, which it will implement only if it will save money on printing costs.

By focusing on reduced printing costs as the main reason for redesigning the PEBES, SSA is overlooking the hidden costs of the statement's existing weaknesses. For example, if people do not understand why they got the statement or have questions about information provided in the statement, they may call or visit SSA, creating more work for SSA staff. Furthermore, if the PEBES frustrates or confuses people, it could undermine public confidence in SSA and its programs.

Our work suggests, and experts agree, that the PEBES' value could be enhanced by several changes. Yet SSA's redesign team is focusing on reducing printing costs without considering all of the factors that would ensure that the PEBES is a cost-effective document.

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## Conclusions

The PEBES initiative is an important step toward better informing the public about SSA's programs and benefits. However, extensive revisions to the PEBES are needed to ensure that the statement communicates effectively. To best convey information to the public about SSA's programs and benefits, the PEBES needs an improved layout and design, as well as

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simplified explanations. SSA will need to start now to complete these changes before its 1999 redesign target date, because revising the PEBES will involve time to collect data and to develop and test alternatives. SSA can help ensure that the changes target the most significant weaknesses by systematically obtaining more detailed feedback from front-line workers. SSA can also ensure that the changes clarify the statement by conducting formal comprehension tests with a sample of future PEBES recipients.

In addition, SSA could evaluate alternative formats for communicating the information presented in PEBES. For example, SSA could present the Commissioner's message in a separate cover letter accompanying the statement; alternatively, SSA could consider a two-part option, similar to the approach of the Canada Pension Plan. To select the most cost-effective option, SSA needs to collect and assess additional cost information on available options and test different PEBES formats.

Our work suggests that improving the PEBES will require attention from SSA's senior leadership. For example, how best to balance the public's need for information with the problems resulting from providing too much information warrants senior management involvement.

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## Recommendations to the Commissioner of Social Security

In order for the PEBES to better convey information to the public about SSA's programs and benefits, we recommend that SSA revise the current statement to improve its layout and design and to simplify explanations. We also recommend that SSA evaluate and test alternative formats for communicating the information presented in the PEBES and the accompanying Commissioner's message.

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## Agency Comments

We obtained comments on a draft of this report from SSA. SSA officials agreed with our conclusions and recommendations and provided specific information on the steps they plan to take to improve the PEBES (see app. II).

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We are sending copies of this report to the Commissioner of Social Security and other interested parties. Copies will also be made available to others on request. If you or your staff have any questions concerning this report, please call me on (202) 512-7215 or Cynthia Fagnoni, Assistant Director, on (202) 512-7202. Other major contributors to this report

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include Kay Brown, Evaluator-in-Charge; Hans Bredfeldt, Senior Evaluator; and Nora Landgraf and Elizabeth Jones, Evaluators.

Sincerely yours,

A handwritten signature in black ink that reads "Diana S. Eisenstat". The signature is written in a cursive style with a large initial "D".

Diana S. Eisenstat  
Associate Director, Income Security Issues

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## Abbreviations

|       |  |
|-------|--|
| PEBES | Personal Earnings and Benefit Estimate Statement |
| SSA   | Social Security Administration                   |



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# Personal Earnings and Benefit Estimate Statement

## Your Personal Earnings and Benefit Estimate Statement from the SOCIAL SECURITY ADMINISTRATION



February 21, 1996

JANE Q PUBLIC  
123 MAIN STREET  
WASHINGTON, DC 20225-0000

### A Message from the Commissioner of Social Security

Last year, the Social Security Administration sent a Personal Earnings and Benefit Estimate Statement to every American 60 years of age or older who was not receiving Social Security benefits. The purpose of the mailing was to help those individuals understand the value of Social Security in their lives as they plan their financial future. This year, we are sending the statement to people like yourself who are (or soon will be) age 60.

This statement shows the estimated amount of Social Security benefits you and your family may be eligible for now and in the future. The statement also lists the earnings your employers (or you, if you're self-employed) have reported to Social Security over the years. If your records don't agree, please let us know right away. That's important because your benefits will be based on our records of your earnings.

Keep in mind, Social Security benefits are not intended to meet all your financial needs. For example, when you retire, you'll probably need other income, such as savings or a pension.

It's also important to remember that Social Security protection offers more than retirement benefits. Most workers have Social Security disability coverage to protect them from loss of income if they become severely disabled. In addition, financial protection is available to your family through Social Security survivors benefits if you should die.

To help you better understand the basic facts about Social Security, we have included some frequently asked questions on the back of this statement. If you have other questions, we'll be glad to answer them.

For over 60 years, Social Security has worked for all of us and for our families. The Social Security Board of Trustees projects that the system will continue to have adequate resources to pay benefits in full for more than 30 years. This means there is time for the Congress to make changes needed to safeguard the program's financial future. I am confident these actions will result in the continuation of the American public's widespread support for Social Security.

We look forward to serving you today and in the future.

Shirley S. Chater  
Commissioner of Social Security

### You and Your Social Security

This statement provides information about your own Social Security record only. It does not talk about Social Security benefits you are now getting or might get in the future on anyone else's record. We used the following information to prepare your statement:

|  |                |
|--|----------------|
| Your Name .....  | Jane Q. Public |
| Your Social Security Number .....                        | XXX-XX-XXXX    |
| Your Date of Birth .....                                 | April 26, 1937 |
| Estimated Future Earnings 1995 On .....                  | \$33,375       |
| Other Social Security Numbers Also Assigned to You ..... | None           |

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**Appendix I  
Personal Earnings and Benefit Estimate  
Statement**

**Your Social Security Earnings**

On page 4, we explain more about covered earnings and Social Security and Medicare taxes. The following chart shows your reported earnings. It may not show some or all of your earnings from last year because they are not yet recorded. This year's earnings will not be reported to us until next year.

If your own records do not agree with the earnings amounts shown, please contact us right away.

| Years   | Social Security          |                        |                          | Medicare                                   |                        |                          |
|---|--------------------------|------------------------|--------------------------|--|------------------------|--------------------------|
|   | Maximum Taxable Earnings | Your Reported Earnings | Estimated Taxes You Paid | Maximum Taxable Earnings                   | Your Reported Earnings | Estimated Taxes You Paid |
| 1937-50   | \$3,000                  | \$ 0                   | \$ 0                     |  |                        |                          |
| 1951  | 3,600                    | 0                      | 0                        |  |                        |                          |
| 1952  | 3,600                    | 155                    | 2                        |  |                        |                          |
| 1953  | 3,600                    | 945                    | 14                       |  |                        |                          |
| 1954  | 3,600                    | 0                      | 0                        |  |                        |                          |
| 1955  | 4,200                    | 0                      | 0                        |  |                        |                          |
| 1956  | 4,200                    | 0                      | 0                        |  |                        |                          |
| 1957  | 4,200                    | 1,180                  | 26                       |  |                        |                          |
| 1958  | 4,200                    | 35                     | 0                        |  |                        |                          |
| 1959  | 4,800                    | 430                    | 10                       |  |                        |                          |
| 1960  | 4,800                    | 94                     | 2                        |  |                        |                          |
| 1961  | 4,800                    | 2,133                  | 64                       |  |                        |                          |
| 1962  | 4,800                    | 4,696                  | 146                      |  |                        |                          |
| 1963  | 4,800                    | 4,336                  | 157                      |  |                        |                          |
| 1964  | 4,800                    | 4,066                  | 147                      |  |                        |                          |
| 1965  | 4,800                    | 4,292                  | 155                      |  |                        |                          |
| 1966  | 6,600                    | 4,841                  | 186                      | \$6,600                                    | \$ 4,841               | \$ 16                    |
| 1967  | 6,600                    | 5,040                  | 196                      | 6,600                                      | 5,040                  | 25                       |
| 1968  | 7,800                    | 5,240                  | 199                      | 7,800                                      | 5,240                  | 31                       |
| 1969  | 7,800                    | 5,560                  | 233                      | 7,800                                      | 5,560                  | 33                       |
| 1970  | 7,800                    | 6,259                  | 262                      | 7,800                                      | 6,259                  | 37                       |
| 1971  | 7,800                    | 6,160                  | 283                      | 7,800                                      | 6,160                  | 36                       |
| 1972  | 9,000                    | 7,216                  | 331                      | 9,000                                      | 7,216                  | 43                       |
| 1973  | 10,800                   | 8,405                  | 407                      | 10,800                                     | 8,405                  | 84                       |
| 1974  | 13,200                   | 10,490                 | 519                      | 13,200                                     | 10,490                 | 94                       |
| 1975  | 14,100                   | 10,652                 | 527                      | 14,100                                     | 10,652                 | 95                       |
| 1976  | 15,300                   | 12,050                 | 596                      | 15,300                                     | 12,050                 | 108                      |
| 1977  | 16,500                   | 13,578                 | 672                      | 16,500                                     | 13,578                 | 122                      |
| 1978  | 17,700                   | 16,224                 | 819                      | 17,700                                     | 16,224                 | 162                      |
| 1979  | 22,900                   | 16,912                 | 859                      | 22,900                                     | 16,912                 | 177                      |
| 1980  | 25,900                   | 17,403                 | 884                      | 25,900                                     | 17,403                 | 182                      |
| 1981  | 29,700                   | 19,732                 | 1,055                    | 29,700                                     | 19,732                 | 256                      |
| 1982  | 32,400                   | 22,280                 | 1,203                    | 32,400                                     | 22,280                 | 289                      |
| 1983  | 35,700                   | 22,717                 | 1,226                    | 35,700                                     | 22,717                 | 295                      |
| 1984  | 37,800                   | 23,694                 | 1,279                    | 37,800                                     | 23,694                 | 308                      |
| 1985  | 39,600                   | 25,411                 | 1,448                    | 39,600                                     | 25,411                 | 343                      |
| 1986  | 42,000                   | 26,749                 | 1,524                    | 42,000                                     | 26,749                 | 387                      |
| 1987  | 43,800                   | 27,970                 | 1,594                    | 43,800                                     | 27,970                 | 405                      |
| 1988  | 45,000                   | 29,146                 | 1,766                    | 45,000                                     | 29,146                 | 422                      |
| 1989  | 48,000                   | 30,139                 | 1,826                    | 48,000                                     | 30,139                 | 437                      |
| 1990  | 51,300                   | 30,472                 | 1,889                    | 51,300                                     | 30,472                 | 441                      |
| 1991  | 53,400                   | 30,718                 | 1,904                    | 125,000                                    | 30,718                 | 445                      |
| 1992  | 55,500                   | 30,726                 | 1,905                    | 130,200                                    | 30,726                 | 445                      |
| 1993  | 57,600                   | 31,307                 | 1,941                    | 135,000                                    | 31,307                 | 453                      |
| 1994  | 60,600                   | 33,375                 | 2,069                    | No Limit                                   | 33,375                 | 483                      |
| 1995  | 61,200                   | Not Yet Recorded       |                          | No Limit                                   | Not Yet Recorded       |                          |
| 1996  | 62,700                   |                        |                          | No Limit                                   |                        |                          |
| <b>Total estimated Social Security taxes paid</b> |                          |                        | <b>\$ 30,325</b>         | <b>Total estimated Medicare taxes paid</b> |                        | <b>\$ 6,654</b>          |

Medicare did not start until 1966.

**Appendix I  
Personal Earnings and Benefit Estimate  
Statement**

**Your Estimated  
Social Security  
Benefits**

Your work under Social Security helps you and your family to qualify for benefit payments. The kinds of benefits you might get are described below. For each benefit, you need a certain number of work credits (see page 5). Once you have enough credits, your benefit amounts depend on your average earnings over your working lifetime. We used the earnings in the chart on page 2 to figure your credits and estimate your benefits. We assumed that you will continue to work and make about the same as the latest earnings shown on your records for 1994 or 1995.

**Retirement  
Benefits**

To get Social Security retirement benefits, you need 40 credits. That is also how many you need for Medicare at age 65. Your record shows that you have enough credits.

On page 5, we explain about different ages when you can retire. If you worked at your present rate up to each retirement age, your monthly amount would be about:

|   |    |       |
|---|----|-------|
| At age 62 (reduced benefit) . . . . .     | \$ | 870   |
| At full-retirement age (age 65) . . . . . | \$ | 1,100 |
| At age 70 . . . . .                       | \$ | 1,480 |

**Disability  
Benefits**

On page 6, we tell you about disability benefits. If you become disabled right now, you need 37 credits to qualify for disability benefits. Of these credits, 20 had to be earned in the last 10 years. Your record shows that you have earned enough credits within the right time.

Right now, your monthly disability benefit amount would be about . . . . . \$ 1,070

**Family  
Benefits**

If you get retirement or disability benefits, your spouse and young children may also qualify for benefits. See page 6 for more information about family benefits.

**Survivor  
Benefits**

If you die, certain members of your family may qualify for survivor benefits on your record. See page 6 for an explanation of who may qualify.

If you die this year, you need 37 credits for your survivors to get benefits. Your record shows you have enough. If they met all other requirements, monthly benefit amounts would be about:

|  |    |       |
|--|----|-------|
| For your child . . . . .   | \$ | 810   |
| For your spouse who is caring for your child . . . . .                             | \$ | 810   |
| When your spouse reaches full-retirement age . . . . .                             | \$ | 1,080 |
| For all your family members, if others also qualify (more children for example) \$ |    | 1,895 |

We may also be able to pay your spouse or eligible children a one-time death benefit of \$255.

**Medicare**

Medicare hospital and medical insurance is a two-part benefit program that helps protect you from the high costs of medical care. Hospital insurance benefits (Part A) help pay the cost when you are in the hospital and for certain kinds of follow-up care. Medical insurance benefits (Part B) help pay the cost of doctors' services.

If you have enough work credits, you may qualify for Medicare hospital insurance at age 65, even if you are still working. You may qualify before age 65 if you are disabled or have permanent kidney failure. Your spouse may also qualify for hospital insurance at 65 on your record.

Almost anyone who is 65 or older or who qualifies for Medicare hospital insurance can enroll for medical insurance. You must pay a monthly premium for it.

**For More Information or To Correct Your Record**

After you read this statement, please call 1-800-537-7005\* if you have any questions, if you need to report any missing or wrong earnings on your record, if you want to apply for benefits, or if you want this statement in Spanish. This statement is not a decision on a claim for Social Security or Medicare Benefits. You do not qualify for any of these benefits unless you apply for them and meet all the requirements. This statement is just an estimate of what you may get. In the meantime, your record is updated every year. You can request a new statement to make sure it stays correct.

\*Social Security treats all calls confidentially--whether they are made to our toll-free number or to one of our local offices. But we also want to be sure that you receive accurate and courteous service. That is why we have a second Social Security representative listen to some incoming and outgoing telephone calls.

**Appendix I  
Personal Earnings and Benefit Estimate  
Statement**

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**Your Earnings Record**

**Why does Social Security keep a record of my earnings?** We keep a record of the amount of earnings reported each year under your name and Social Security number. When you apply for benefits, we check your record to see if you worked enough over the years to qualify. Then we base the amount of your payments on your average earnings over your working lifetime.

**What kinds of earnings may be on my record?** Almost all kinds of employment and self-employment earnings are covered for Social Security and Medicare:

- Most wages have been covered by Social Security taxes since 1937 and most kinds of self-employment since 1951.
- Medicare taxes on both kinds of earnings started in 1966.
- Some Federal, State and local government workers do not pay Social Security taxes, but most of them do pay Medicare taxes on their "Medicare qualified government earnings."

If you work for wages, your employer reports the amount of your earnings to Social Security after the end of each year. If you are self-employed, you report your net earnings on your yearly income tax return. The chart on page 2 shows the amounts of earnings reported to us. If you had more than one employer during the year, your earnings from all of them have been combined.

**If my work is covered for Social Security and Medicare, do all my earnings go on record?** Not necessarily. There are limits each year on how much earnings are taxable for Social Security and for Medicare. If you earn more than the maximum amount, the extra earnings will not be shown.

The chart on page 2 shows the maximum amount that was taxable for each year so far. The amount was the same for both Social Security and Medicare from 1966 through 1990. The Medicare maximum amount was higher from 1991 through 1993. Beginning in 1994, there is no maximum for Medicare. You now pay the Medicare tax on *all* your wages and self-employment earnings. There is still a limit on taxable Social Security earnings, however.

**Are my military service earnings on record?** Your statement shows basic military pay you earned from active duty or active duty for training since 1957 and from inactive duty for training since 1988.

In some cases, you may also qualify for free earnings credits for military service from September 1940 through December 1956. We do not show these free credits on this statement. We decide if you qualify for them when you apply for benefits.

**What about railroad work?** If you worked in the railroad industry for less than 10 years, your railroad earnings are included on the chart. We considered these earnings when we counted your credits and estimated your benefits. (If you have 10 or more years of railroad work, you should contact a Railroad Retirement Board office for information about railroad pension benefits.)

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**Your Social Security Taxes**

**Why does the chart on page 2 say "Estimated Taxes You Paid"?** The Internal Revenue Service collects your Social Security and Medicare taxes. We do not keep that record. To estimate the Social Security and Medicare taxes you paid, we multiplied your reported earnings by the tax rate for each year. The amounts are shown in separate columns on the chart. If you had both wages and self-employment earnings in the same year, we estimate the taxes as if the total amount was wages. If you had both Social Security earnings and government earnings that qualified for Medicare in the same year, we estimate the combined Medicare taxes you paid.

**What are the tax rates this year?** You and your employer each pay Social Security taxes of 6.2 percent on the first \$62,700 of covered wages. You each also pay Medicare taxes of 1.45 percent on *all* your covered wages. If you are self-employed, your Social Security tax is 12.4 percent and your Medicare tax is 2.9 percent on the same amounts of earnings.

Form SSA-7005-SM-SI (2-96)



**Appendix I  
Personal Earnings and Benefit Estimate  
Statement**

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**Earning Social Security and Medicare Credits**

|   |  |
|---|--|
| <b>What are “credits” and how do I earn them?</b> | As you work and pay Social Security taxes, you earn Social Security credits: <ul style="list-style-type: none"><li>• Before 1978, when your employer reported your earnings every 3 months, they were called “quarters of coverage.” Back then, you earned a quarter or credit if you earned at least \$50 dollars in a 3-month quarter.</li><li>• Starting with 1978 your employer reports your earnings just once a year and credits are based on how much you earn during the year. The amount it takes to earn a credit changes each year.</li><li>• In 1996, you get one credit for each \$640 of your covered annual earnings, up to a maximum of 4 credits for the year, no matter when you work during the year.</li></ul> |
| <b>How many credits do I need for benefits?</b>   | On page 3, we tell you how many credits you need for each kind of benefit and whether you have enough. Most people need 40 credits (10 years of work) to qualify for benefits. Younger people need fewer credits for disability or for their family members to get survivors benefits if they should die.  |
| <b>What if I do not have enough credits yet?</b>  | The credits you already earned remain on your record, and you add to them as you continue to work and pay Social Security taxes. Under certain conditions, we may also use credits you earned under a foreign social security system to help you qualify for benefits.   |
| <b>What about credits for Medicare benefits?</b>  | When you earn credits for Social Security benefits, they also count for Medicare. However, if you have government earnings on which you pay Medicare taxes but not Social Security taxes, those are considered “Medicare-qualified government earnings.” Those earnings give you credits for Medicare but do not count for Social Security benefits.   |

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**Estimating Your Benefits**

|   |   |
|---|---|
| <b>How do you figure out the amount of my Social Security benefits?</b>   | It is the earnings on your records, not the amount of taxes you paid or the number of credits you have, that we use to figure how much you will get each month. The Social Security law has a special formula for figuring benefits. The formula uses your average earnings over your entire working life. For most retirement benefit estimates, we will be averaging your 35 best years of earnings. If you become disabled or die before retirement, we may use fewer years to figure those benefits.<br>For the retirement estimates, we assumed that you will continue working up to retirement age. We also assumed you would keep on earning the amount shown as “Estimated Annual Earnings 1995 On.” If that still does not give you 35 years, we will use some zero years to figure your average earnings. |
| <b>When I requested a statement like this several years ago, my retirement benefit was higher. What happened?</b> | We now show benefit estimates in current dollars. If you requested a statement like this before September 1993, we had increased your retirement estimate amount on that statement by 1 percent for each remaining year up to age 62. This reflected expected economic growth. We stopped doing this to make your estimate more consistent with estimates prepared in other pension planning programs.  |
| <b>I worked for the government and so did my spouse. Will our government pensions affect our Social Security?</b> | If your pension is based on work not covered by Social Security, the amount of your Social Security benefits may be lower than shown on this statement. This could include pensions from Federal, State or local governments, nonprofit organizations, or foreign entities. Your spouse's benefits on your record may also be affected by his or her pension. For more information, ask us for the free fact sheets “A Pension From Work Not Covered By Social Security” and “Government Pension Offset.”   |

---

**Retirement Benefits**

|  |   |
|--|---|
| <b>When can I get retirement benefits?</b> | You can get reduced benefits as early as age 62 or get full-retirement benefits at age 65. (Starting in the year 2000 for people born in 1938 or later, this age will increase gradually. By 2027, full-retirement age will be 67 for people born after 1959.) Your benefits may be higher if you delay retiring until after full-retirement age. |
|--|---|

**Appendix I  
Personal Earnings and Benefit Estimate  
Statement**

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**Disability Benefits**

**Tell me about disability benefits.**

These benefits are paid if you become totally disabled before you reach full-retirement age. To get disability benefits, three things are necessary:

- You need a certain number of work credits, and they had to be earned during a specific period of time;
- You must have a physical or mental condition that has lasted, or is expected to last, at least 12 months or to end in your death; and
- Your disability must be severe enough to keep you from doing any substantial work, not just your last job.

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**Benefits for Your Family**

**If I retire or become disabled, can my family get benefits with me?**

As you work, you also build up protection for your family. Benefits may be payable to:

- Your unmarried children under age 18 (under 19 if in high school) or any age if disabled before age 22; and
- Your spouse or divorced spouse at age 62 (reduced), at full-retirement age, or at any age if caring for your qualified child who is under 16 or disabled.

Usually, each family member qualifies for a monthly benefit that is up to 50 percent of your retirement or disability benefit, subject to the limit explained below.

**What about my survivors if I die?**

Here again, your unmarried young or disabled children may qualify for monthly payments. We also pay benefits to widows and widowers, starting:

- At age 50 if disabled;
- At age 60 (reduced);
- At full-retirement age; or
- At any age if your widow or widower is caring for your qualified child who is under age 16 or disabled.

**Is there a limit on the benefits we can get each month?**

Yes. There is a limit on the amount we can pay to you and your family altogether. This total depends on the amount of your benefit and the number of family members who also qualify. The total varies, but is generally equal to about 150 to 180 percent of your retirement benefit. (It may be less for disability benefits.) The family limit also applies to benefits for your survivors.

**What if my spouse also worked long enough under Social Security to get benefits?**

Your spouse cannot get both his or her own benefit plus a full benefit on your record. We can only pay an amount equal to the larger of the two benefits. Your spouse should call us and ask how to get a Personal Earnings and Benefit Estimate Statement like this. When you both have statements, we can help estimate your spouse's future benefits on the two records.

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**If You Continue to Work**

**What if I take my benefits and then want to work some more?**

Even if you are still working, you may qualify for benefits. Until you reach age 70, there are limits on how much you can earn without losing some or all of your Social Security retirement benefits. These limits change every year. When you apply for benefits, we will tell you what the limits are at that time and if work would affect your monthly checks and those of your qualified family members.

**What if my family members work?**

Earnings limits also apply to family members who get any kind of benefits on your record. Their earnings only affect their own benefit payments, however, not yours.

**Do these limits also apply if I get disability benefits?**

No. Different rules apply to people who get disability benefits. The disability program has incentives to help beneficiaries return to productive work.

# Comments From the Social Security Administration



## SOCIAL SECURITY

Office of the Commissioner  
November 14, 1996

Ms. Jane L. Ross, Director  
Income Security Issues  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Ross:

Thank you for the opportunity to comment on the draft report, "SSA Benefit Statements: Statements Are Well Received by the Public, But Difficult to Comprehend," (GAO/HEHS-97-19).

We appreciate the time and effort of the General Accounting Office (GAO) in conducting this review. We welcome the suggestions for improvements in the design and content of the benefit statements and agree that, in addition to production costs, our operational resources must be considered in our redesign efforts.

Enclosed are our specific comments on the report. If you have any questions, please call me or have your staff contact Glenna Donnelly at (410)965-4602.

Sincerely,

Shirley S. Chater  
Commissioner  
of Social Security

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001



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**Appendix II  
Comments From the Social Security  
Administration**

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE  
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT, "SSA BENEFIT  
STATEMENTS: STATEMENTS ARE WELL RECEIVED BY THE PUBLIC, BUT  
DIFFICULT TO COMPREHEND" (GAO/HEHS-97-19)

We appreciate GAO's review of the Personal Earnings and Benefit Estimate Statements (PEBES) and confirmation of our own findings that the public likes getting the form and finds it useful. We have recognized from the beginning that the PEBES cannot be a static document and that we must monitor the process continuously to assure that we are providing information that the public wants and needs.

Our comments on the specific GAO recommendation follow.

GAO Recommendation

That SSA revise the current statement to improve its layout and design and simplify explanations and that SSA evaluate and test alternative formats for communicating the information presented in the PEBES and the accompanying Commissioner's message.

SSA Comment

We agree that the current format of the statement can and should be improved to make it more understandable and user-friendly for recipients. A workgroup chaired by the Associate Commissioner for Program Benefits Policy has started examining the specific problem areas GAO identified and will recommend several alternative formats for further agency evaluation and testing. These may include variations tailored for different age groups or audiences. Simplified text will also be tested for recipient comprehension.

We also plan to expand the ongoing collection of management information data from front-line workers in our field offices and teleservice centers to provide more detail regarding the types of questions and problems callers raise about the PEBES.

Evaluation and testing activities will be conducted during 1997 and early 1998 so that approved content and design changes can be incorporated into the mid-1998 procurement of the 1999 PEBES printing and distribution contract.

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