

House Committee on Ways and Means

Statement of The Honorable James B. Lockhart, III, Deputy Commissioner of Social Security,
Social Security Administration

Testimony Before the Subcommittee on Oversight
of the House Committee on Ways and Means

February 16, 2006

Chairman McCrery, Chairman Rumsfeld, Ranking Members Levin and Lewis, and members of
the Subcommittees:

Thank you for asking me to be here today to discuss the steps the Social Security
Administration (SSA) has taken to improve and strengthen the wage reporting processes and
our efforts to reduce the size of the earnings suspense file, which I will describe in more detail
later. SSA is committed to ensuring that we maintain accurate earnings records for all
workers, and we have taken vigorous steps to improve our processes.

Purpose of the SSN

The primary purpose for which SSA assigns a number and issues a card is the same today as it
was at the program's inception in 1936: to accurately report and record the earnings of people
who work in jobs covered by Social Security. Of course, the key to tracking a worker's
earnings is the Social Security number (SSN).

SSA has assigned over 433 million SSNs since 1936. Earnings posted to an individual's SSN
are used to determine eligibility for and the amount of Social Security benefits to which that
worker and his or her family may be entitled. Ultimately, the SSN is also used to track
payment of those benefits.

The Social Security card was not designed to be a personal identification document—that is,
the card does not establish that the person presenting the card is actually the person whose
name and SSN appear on the card. Although the card itself is counterfeit resistant, it does not
contain information that would allow the card to be used as proof of identity.

Over time, SSA developed different tools to assist employers in verifying a worker's SSN. We
encourage employers to use any of these processes to improve the accuracy of wage reports
so that Social Security can properly credit employees' earnings records. In addition, the use of
verification processes minimizes the employer's processing costs and reduces the number of
forms that an employer may need to submit.

Initially, SSA used a manual process for verifications, which was highly labor-intensive. This process became increasingly cumbersome over time as the verification workloads increased.

Over the years, SSA has worked to offer employers alternative methods to verify SSNs. One of those methods is the Employee Verification System (EVS). EVS is a free, convenient way for employers to verify employee SSNs. It provides employers with several options depending on the number of SSNs to be verified. For up to five SSNs, employers can call SSA's toll-free number for employers (1-800-772-6270) weekdays from 7:00 a.m. to 7:00 p.m. Eastern Standard Time. Employers may also use this number to get answers to any questions they may have about EVS or to request assistance. In Fiscal Year 2004, SSA responded to nearly 1.4 million calls.

Employers also have the option to submit a paper listing to the local Social Security office to verify up to 50 names and SSNs. In addition, employers may use a simple registration process to verify requests of more than 50 names and SSNs or for any number of requests submitted on magnetic media. Currently, almost 17,000 employers have registered for this verification service.

To further increase the ease and convenience of verifying employee SSNs, SSA developed the Social Security Number Verification Service (SSNVS), which is an internet option that permits employer's to quickly verify the accuracy of employees' names and SSNs by matching the employee-provided information with SSA's records. SSA expanded this service to all employers in June 2005. We processed over 25.7 million verifications for over 12,000 employers in 2005.

On June 2, 2005 the Commissioner of Social Security announced the nationwide rollout of the Social Security Number Verification Service (SSNVS) at the SSA sponsored National Payroll Reporting Forum in Baltimore, Maryland. SSA has publicized SSNVS in various ways. An article on SSNVS was placed in the SSA/IRS Reporter that is sent to over 6.5 million employers. It was also featured in the SSA wage reporting email newsletter, *W2News*. We have also highlighted SSNVS in our many speaking engagements before the employer community. There is a special section on SSA's website for employers that highlights and explains the use of SSNVS.

In addition, employers may participate in the Basic Pilot program, an ongoing initiative in which SSA supports the Department of Homeland Security (DHS) in assisting employers confirming employment eligibility for newly hired employees. Participating employers register with DHS to use the DHS' automated system to verify an employee's SSN and work authorization status. The information the employer submits to DHS is sent to SSA to verify that the social security number and name submitted match information in SSA records. SSA will also confirm US citizenship, thereby confirming work authorization; DHS confirms current work authorization for all non-citizens. DHS will notify the employer of the employee's current

work authorization status. This program is also available to all employers, subject to available resources.

In 2005, through the EVS, SSNVS, and Basic Pilot programs, we estimate we provided a total of 67 million employer verifications, up from 62 million in 2004.

The Wage Reporting Process

I would now like to discuss the process for reporting and crediting wages. Our role in the wage reporting process is to ensure that all workers receive credit for the work for which they and their employers paid Social Security taxes.

Employers report wages to SSA on Forms W-2 (Wage and Tax Statement). SSA processes the Form W-2 data for tax purposes for the Internal Revenue Service (IRS). Self-employed individuals report information on self-employment income to IRS on Schedule SE. IRS then sends this self-employment information to SSA. SSA uses the SSN to record employees' earnings.

Accurate earnings information is vitally important to our Agency's administration of the Social Security program because a worker's earnings record is the basis for computing retirement, survivors and disability benefits. If a worker's earnings are not properly recorded, he or she may not qualify for Social Security benefits or the benefit amount payable may be wrong.

Each year, SSA processes approximately 235 million W-2s from 6.6 million employers that are sent to the SSA either on electronic media or on paper. Almost 150 million wage earners work in jobs covered by Social Security, which means that many workers worked in more than one job during a year. While some employers continue to send us their reports on paper, we encourage electronic filing. We work with the employer community to educate them on the advantages of this method and expect its use to expand as technology improves. In fact, in FY 2005, 66 percent of W-2s were filed electronically, up from less than 10 percent in 1999. We believe the increase in electronic filing will reduce errors over time.

SSA also offers a suite of services called Business Services Online (BSO). BSO offers Internet services for businesses and employers who exchange information with Social Security. Available services for registered users include the ability to report W-2s via the internet.

As you know, SSA mails Social Security Statements to workers over age 25 each year (approximately 143 million in 2005). The Statement is a concise, easy-to-read personal record of the earnings on which the worker has paid Social Security taxes during his or her working years and a summary of the estimated benefits the individual and his/her family may receive as a result of those earnings. We encourage workers to review the Statement to ensure that the information in SSA's records is correct and to contact SSA to make any corrections

necessary.

Later in life, when a person files for benefits, an SSA employee reviews the earnings record with the worker and assists the worker to establish any earnings that are not shown or are not correctly posted. However, since it may be difficult for the worker to accurately recall past earnings or to obtain evidence of them, SSA strives to maintain accurate records at the time the wages are reported.

The Earnings Suspense File

The Earnings Suspense File, or simply suspense file, is an electronic holding file for wage items reported on Forms W-2s that cannot be matched to the earnings records of individual workers. A mismatch occurs when SSA cannot match the name and SSN on the W-2s submitted to information in SSA's records. If SSA later resolves the mismatch, we can remove the item from the suspense file and credit the wages to that person's record.

Since the beginning of the program in 1936 and through Tax Year (TY) 2003, the most recent year for which data is available, the suspense file contained about 255 million W-2s. While the suspense file represents an accounting of unassociated wage items, the taxes on these wages have been paid into to the trust funds. In TY 2003, \$7.2 billion in payroll taxes were credited to the Trust Funds based on wage items placed in the suspense file. This represented approximately 1.3 percent of total payroll taxes credited to the Trust Funds.

In order for wages to be credited to the correct worker, the worker's name and SSN on the W-2 must match the name and SSN recorded on the master record of SSNs assigned, the "Numident" file. As I discussed earlier, we receive about 235 million W-2 reports annually, representing reports from 6.6 million employers that total about \$4 trillion in reported wages.

Ten percent of the W-2s received by SSA have invalid name and SSN combinations when they first come to us. In our initial processing, the computer system uses more than twenty automated routines to identify commonly occurring errors that, when corrected, enable the W-2 to be properly posted.

A number of these processing routines address discrepancies between the name reported on the W-2 and the name on SSA records. For example, compound surnames which are hyphenated, such as "Mary Smith - Jones", sometimes cause a "no match." Others assume that the reported name is correct but that some mistake has been made with the SSN. The reported SSN is screened for a variety of prescribed common mistakes, such as transposing digits, in an effort to obtain a match.

For TY 2003, using computer routines we were able to post more than half of all W-2s received with invalid name/SSN combinations to the correct SSN. The balance, 4.1 percent of total W-2s received for TY 2003, was initially recorded in the suspense file. As of October, 2005, approximately 8.8 million W-2s (3.7 percent of the total) representing \$57.8 billion in wages remained in the suspense file for TY 2003.

Subsequent processing reduces this amount further. SSA removes wage items from the suspense file on an ongoing basis and posts them to the correct worker's record. Reinstatements can occur when a worker provides evidence of missing wages after reviewing the Security Statement. Over time, the percentage of W-2s for a given year or period of years that remain in the suspense file declines as a result of this subsequent processing. Historically, approximately 2 percent of all wage items for a given year remain in the suspense file.

Removing W-2 Items from the Suspense File

SSA is dedicated to reducing the suspense file's rate of growth as well as to reducing its current size. We want to make sure that individuals receive full credit for their earnings and the correct benefit amount when the time comes. As part of this effort, SSA employees carry out a number of activities in addition to our SSN verification services, which we have described earlier, to assure that the correct earnings are credited to correct individuals' records.

For example, SSA sends a letter, called the "No Match" letter, to employers who submitted a significant number of Forms W-2 that could not be matched to an individual's earnings record. The intent of these "No Match" letters is to improve the accuracy of wage reporting and the accuracy of Social Security benefits payable to eligible wage earners and their families. SSA also requests the employer to submit corrected W-2s so that future reports will be accurate.

In 2005, SSA sent 127,652 of these letters to employers who submitted wage reports containing a number of Form W-2s that SSA could not process.

SSA also notifies employees when we cannot process their W-2s due to mismatches and asks them to work with us to resolve the problem. In 2005, we sent 9.6 million such letters to employees, of which 1.5 million were sent to employers because we did not have addresses for the employee.

Beginning in April 2003, SSA implemented a new process that will electronically find millions of additional matches of W-2s in the suspense file and post those W-2s to the earnings records of the correct individuals. SSA's previous processes to match the name and SSN used only the Numident. The new process also uses the worker's detailed earnings record, which includes employer information and the master beneficiary record for those who are receiving benefits, to credit the missing earnings to the correct worker. This new process also employs additional

techniques with earnings record patterns to match the earnings to the correct individual.

As a result of this new process, we have removed more than 11 million W-2s from the suspense file and posted them to the correct earnings records. It is estimated that a total of 30 million items will be removed from the suspense file and credited to the records of individual workers through these new efforts.

Despite all these efforts, over time the suspense file continues to grow. SSA's Inspector General will testify later that this growth is due to "unauthorized work by non-citizens" and that stronger worksite enforcement is needed.

This growth points to the larger issue of the increase in illegal immigration and subsequent illegal employment. To address the security risks from illegal entry into the U.S. as well as current challenges concerning legal immigration, President Bush has called for a three part comprehensive reform of our immigration system to:

1. "Secure the border by catching those who enter illegally, and hardening the border to prevent illegal crossings."
2. "Strengthen enforcement of our immigration laws within our country."
3. "Create a temporary worker program that will take pressure off the border, bring workers from out of the shadows and reject amnesty."

Partnership With Other Agencies

As I mentioned earlier, our ability to improve our employer wage reporting process depends partially on our relationships with the DHS and the IRS. I want to highlight several efforts that we have undertaken with our federal partners to strengthen the integrity of the SSN and improve the wage reporting process.

For example, we are working with DHS, pursuant to the Intelligence Reform and Terrorism Prevention Act, on an interagency task force for the purpose of improving the security of Social Security cards and numbers. The task force will establish additional security requirements, including standards for safeguarding cards from counterfeiting, tampering, alteration, and theft; verifying documents submitted for the issuance of replacement cards; and increasing enforcement against the fraudulent use or issuance of Social Security numbers and cards.

The Enumeration-at-Entry process is a joint effort with DHS and the Department of State (DOS). DHS and DOS collect enumeration data as part of the immigration process and give it to SSA for use in enumerating aliens. This effort to strengthen the integrity of the SSN and improve government efficiency began in October 2002.

Our efforts to collaterally verify documents with the issuing agencies significantly improve the integrity of the SSN. SSA works closely with DHS to verify all immigration documents submitted in support of an application for an SSN and with DOS to verify the documents of refugees. We work with the Department of Justice to verify the documents of some individuals granted asylum.

As I mentioned earlier, we also support DHS in its ongoing initiative known as the Basic Pilot. The Basic Pilot is a voluntary tool used by participating employers to confirm the employment eligibility of newly hired employees.

As of February 14, 2006, DHS and SSA have signed agreements with over 5000 employers, representing about 22,500 employer sites. This represents more than a 50 percent increase since the expansion of the Basic Pilot to employers in all States. On the date of expansion (December 20, 2004), there were 2924 participating employers. In FY 2005, SSA handled over 980,000 Basic Pilot queries. The Basic Pilot allows an employer to confirm the validity of a SSN and whether a person is authorized to work on the front end of the relationship rather than after a W-2 has been filed.

In addition to these initiatives, SSA participates with DHS in an executive level steering committee to oversee and direct cooperative activities. This committee was formed in 2003. At its last meeting, the committee addressed a number of initiatives to strengthen the processes used to assign social security numbers.

These meetings have stimulated a high level of staff-to-staff contacts that occur informally nearly every day. Also, over the past year, the two agencies have engaged in a number of informal cooperative efforts such as workgroups to address specific requirements of joint interest, such as provisions of the Intelligence Reform and Terrorism Prevention Act and the Real ID Act.

We have also established an interagency effort with IRS and are working to resolve issues and cooperate on efforts that cross agency lines. We meet as necessary to address issues as they come up. Recent discussions have focused on developing automated systems to support the employer community in the reporting of wages and related matters.

Each year, SSA hosts the National Payroll Reporting Forum. IRS routinely participates in this training endeavor, which focuses on the latest changes for the upcoming tax season, how to file electronically, SSNVS, etc. Representatives from businesses, payroll providers, and other groups attend. The 2006 forum is scheduled for late May.

I would like to discuss the Agency's role in identifying and reporting fraudulent activities related to the Social Security program. The employees in our local offices are instructed to be alert for reports of fraudulent activities. When such activities come to their attention, they

document the problem and refer the matter to the Agency's Inspector General. Staff in the local IG office investigate the matter further. They then present violations to the local U.S. Attorney, who decides whether to bring charges. To facilitate the process, the Agency has assigned staff attorneys from the Agency's Office of General Counsel to assist US Attorneys in prosecuting violations related to the Social Security Act.

Because of the interdependence of Federal governmental functions, it is critically important that Federal agencies work together to effectively combat identity theft. SSA currently cooperates with many agencies, including the Internal Revenue Service, the Departments of Justice, Homeland Security, State, Health and Human Services, Education, and Treasury, and the Federal Trade Commission. We share and verify information with these agencies, and we work together to improve the interfaces between our business processes. We are working with many agencies in an Interagency Identity Theft Working Group to broaden and strengthen the cooperation among Federal agencies. The Working Group is developing a summary of Federal agencies' activities to combat identity theft. It will facilitate sharing of best practices and expertise and will result in the development of new approaches to combat identity theft and solutions to common challenges.

Conclusion

I would like to conclude by emphasizing our commitment to strengthening our wage reporting processes to help ensure the accuracy of the earnings records that we maintain for all workers. We continue to explore ways to improve the accuracy of our earnings report records and to limit the growth of the suspense file. We believe our efforts help to ensure that we remain good stewards of the Trust Funds.

I want to thank you, Chairman McCrery, Chairman Ramstad, and members of both Subcommittees for inviting me here today. I look forward to working with you to continue to improve SSA's processes. I will be happy to answer any questions you might have.