



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Senator Chuck Grassley
Hearing before the Committee on Finance
Administrative Challenges Facing the Social Security Administration
Tuesday, March 14, 2006

The primary responsibility of the Social Security Administration is to ensure the timely and accurate payment of monthly cash benefits to more than 52 million eligible individuals. To accomplish this task the Agency has 65,000 federal employees in 1,500 offices and teleservice centers around the country. The Agency also relies on 15,000 state employees to assist with the disability determination process. By most accounts, the Agency is doing a remarkable job. It provides more than \$550 billion in annual benefits with an administrative budget of less than \$10 billion, or roughly two percent. Various measures of payment accuracy suggest the right person receives the right amount more than 95 percent of the time. Of course, in a program this large, even the tiniest error is something we should all try very hard to avoid.

Ironically, the Agency's accomplishments have led to growing demands on its resources. In recent years, Congress has imposed significant new duties and responsibilities. The Medicare Modernization Act of 2003 required the Agency to identify low-income seniors eligible to receive extra Medicare Part D assistance. Starting next year, the Agency will be required to identify high-income seniors who will pay additional Medicare Part B premiums. The Intelligence Reform and Terrorist Prevention Act of 2004 required the Agency to impose additional safeguards when issuing Social Security cards. The Deficit Reduction Act of 2005 required the Agency to conduct additional reviews before SSI disability benefits are first paid. While these provisions will improve program integrity, they will also impose additional administrative costs.

Compared to many other federal agencies, the Social Security Administration has fared reasonably well. Its administrative budget has increased between four percent and five percent in recent years. However, these budget increases have apparently not been enough to address increased workloads. This fact is no more apparent than in the area of disability benefits. Recent data suggest that the backlog of pending disability claims is rising while program integrity activities are declining. These are disturbing trends. When disabled individuals must wait months, or even years, to receive their benefits, it imposes undue hardship. When continuing disability reviews and SSI re-determinations are not preformed, it wastes limited taxpayer dollars.

Resolving these issues would be challenging enough, but a new and even more difficult task may lie ahead. The immigration reform bill that recently passed the House of Representatives, as well as the bill now pending in the Senate Judiciary Committee, would create a mandatory employment verification system. This system would rely heavily on the resources of the Social Security Administration. As outlined in various competing versions of the pending legislation, employers would be required to verify the names and Social Security numbers of their employees.

Some versions would apply only to new employees; other versions would apply to all employees.

Under current immigration law, employers are required to examine – but not independently verify – the documents presented to them by prospective employees. A number of systems have already been created to allow employers to voluntarily verify names, Social Security numbers, and employment authorization. Most employers do not use these systems, especially those who are most likely to hire illegal workers. One recent study suggests there are more than seven million illegal workers employed in the United States. This number is roughly consistent with the number of W-2s filed each year that contain names and Social Security numbers that do not match the Social Security Administration's records.

In theory, it might be possible to identify all of the employers who file mismatched names and Social Security numbers and thereby target immigration worksite enforcement efforts. But, relying on Social Security records to enforce immigration law raises a number of critical issues for this Committee, ranging from its impact on the Social Security Administration's ability to perform its primary functions and the increased potential for identity theft; the impact on taxpayer compliance and the potential for increasing the tax gap; the impact on confidential taxpayer return information and the potential for abuse.

On identity theft, illegal workers often use fake Social Security cards with bogus Social Security numbers. This would no longer be possible with mandatory verification. Thus, illegal workers would try to use fake documents to obtain a real Social Security number, or they would try to steal someone else's name and Social Security number. Without adequate safeguards, millions of law-abiding U.S. citizens would soon be getting letters from the IRS demanding to know why they did not pay income taxes on the wages earned by illegal workers using their stolen names and Social Security numbers.

On the tax gap, it is illegal to hire unauthorized workers. It is also illegal to fail to withhold taxes owed on workers' wages, regardless of their legal status. Total wages reported on mismatched W-2s in 2003 were \$58 billion. That represents nearly \$9 billion in Social Security and Medicare payroll taxes. Without adequate IRS oversight, thousands of employers who are now withholding taxes on illegal workers may decide to join the underground economy, thereby adding to the tax gap.

On taxpayer privacy, the protection of taxpayer information is a cornerstone of our voluntary tax system. These protections are found in Section 6103 of the tax code and are designed to strike the balance between taxpayer privacy and legitimate law enforcement. The Administration has proposed a very open-ended use of taxpayer information by the Department of Homeland Security to identify illegal workers. Such a proposal must be looked at very closely by the committee of jurisdiction – the Finance Committee.

Back in 2004, the Appropriations Committee tried to end-run the privacy protections contained in 6103 and you had a lot of senators – this senator included – very upset, and their proposal was voted down. So, we need to proceed with great caution in this area. The need for caution is underscored by the Taxpayer Advocate who has come out with a very forceful letter to me raising serious questions about the Administration's proposal, particularly with regard to its impact on taxpayer compliance. Immigration law does not fall within the jurisdiction of the Finance Committee. However, changes in immigration law can have a significant impact on many areas within our Committee's jurisdiction. The purpose of today's hearing is to examine a number of these areas and consider the potential consequences. I look forward to the testimony of our witnesses.

