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SOCIAL SECURITY DISABILITY

Reviews of Beneficiaries' Disability Status Require Continued Attention to Improve Service Delivery

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Highlights of GAO-03-1027T, testimony before the Chairman, Subcommittee on Social Security, Committee on Ways and Means, House of Representatives

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Why GAO Did This Study

The Social Security Administration (SSA) has had difficulty in conducting timely reviews of beneficiaries' cases to ensure they are still eligible for disability benefits. SSA has been taking steps to improve the cost-effectiveness of its review process. SSA has linked the review process to eligibility for a new benefit that provides return-to-work services.

This testimony looks at SSA's ability to stay current with future reviews, identifies potential improvements to the review process, and assesses the review process–return-to-work link.

What GAO Found

SSA will likely face a backlog of about 200,000 continuing disability review (CDR) cases by the end of fiscal year 2003. SSA officials attribute the pending backlog to its decision to reduce the number of cases reviewed as a result of the delay in obtaining fiscal year 2003 funding. In addition, the pending backlog resulted from putting more emphasis on initial applications over CDRs. To ensure CDRs receive adequate attention, SSA has requested some fiscal year 2004 funds be "earmarked" for these reviews. Given SSA's ability to eliminate its previous CDR backlog using targeted funds, this maneuver could help SSA. Over the next 5 years, SSA has estimated that 8.5 million CDRs, costing about $4 billion, are needed to stay current. If SSA generates another backlog, cost savings and program integrity may be compromised by paying benefits to disability beneficiaries who are no longer eligible to receive them.

SSA is not making the best use of available information when conducting its CDRs, leaving opportunities for improvement. First, SSA's decisions on the timing of CDRs are not based on systematic analysis of available information. Second, SSA's process for determining which CDR method to use is not always based on the best available information. For example, SSA requires an in-depth review for all beneficiaries who, upon entering the program, are expected to medically improve even if current information on certain of those beneficiaries indicates that improvement is unlikely and that the review would be better handled through a shorter, less expensive method. Third, SSA has not fully pursued medical treatment data available from the Medicare and Medicaid programs despite their potential to improve SSA's decisions regarding which review method to use. Fourth, SSA's CDRs continue to be hampered by missing or incomplete information on beneficiaries' case history.

SSA delays the provision of new return-to-work benefits to beneficiaries expected to medically improve based on the assumption that such beneficiaries are least likely to need them. However, according to SSA data, about 94 percent of such beneficiaries are not found to have medically improved upon completion of a disability review. As a result, some individuals who might benefit from return-to-work services are initially denied access to them. SSA is reviewing this policy and while doing so, will need to consider how to best balance its financial stewardship and return-to-work goals.

www.gao.gov/cgi-bin/getrpt?GAO-03-1027T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert E. Robertson at (202) 512-7215 or RobertsonR@gao.gov.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss SSA's continuing disability review (CDR) process. The Disability Insurance (DI) and Supplemental Security Income (SSI) programs are the largest federal income programs for disabled individuals, paying about $86 billion to about 10 million disabled beneficiaries in 2002. These programs have been growing in recent years and are poised to grow further as the baby boom generation ages. To help ensure that only eligible beneficiaries remain on the rolls, the Social Security Administration (SSA) is required by law to conduct CDRs for all DI beneficiaries and some SSI disability recipients to determine whether they continue to meet the disability requirements of the law. In addition, to assist beneficiaries who want to return to work and leave the disability rolls, SSA began implementing the Ticket to Work and Self-Sufficiency Program in 2002. Under this program, beneficiaries are issued a "ticket," or voucher, which they can use to obtain vocational rehabilitation, employment, or other return-to-work services from an approved provider of their choice.

Both the CDR process and the ticket program are key aspects of SSA's effort to improve its service to the public. SSA's Fiscal Year 2004 Service Delivery Budget Plan highlights the importance of CDRs in achieving the agency's program stewardship objective of improving payment accuracy in its disability programs. In particular, the plan discusses the cost-effectiveness of CDRs and the need to keep current with the CDR workload. The plan also notes SSA's efforts to fully implement the ticket to work program in order to achieve its objective of increasing the number of people with disabilities who obtain employment.

My testimony today focuses on the results of our recently completed review of SSA's CDR process and of the relationship of this process to determinations of beneficiary eligibility for assistance under the ticket program. (In a report issued today,[1] we discuss the results of our review in greater detail and provide several recommendations to the Commissioner of SSA for improving CDR cost-effectiveness.) More specifically, this testimony discusses: (1) the impact that expiration of targeted funding for CDR processing could have on SSA's ability to remain current with the

[1]U.S. General Accounting Office, *Social Security Disability: Reviews of Beneficiaries' Disability Status Require Continued Attention to Achieve Timeliness and Cost-Effectiveness*, GAO-03-662 (Washington, D.C.: July 24, 2003).

CDR caseload, and the level of funding that would be needed over the next 5 years to keep the workload current; (2) opportunities that exist for SSA to improve the cost-effectiveness of the CDR process; and (3) whether SSA's rationale for delaying return-to-work and vocational services under the ticket program for beneficiaries who are expected to medically improve is supported by program experience. To examine these issues, we reviewed SSA documents, including the agency's budget request and estimates of the cost and savings from conducting CDRs. Also, we surveyed 52 Disability Determination Services (DDS)[2] directors to assess the potential effect of the expiration of CDR-targeted funding on DDS operations. Moreover, we analyzed SSA data on CDR outcomes, reviewed SSA-contracted studies of the CDR process, examined legislation, regulations, and SSA policy guidance related to CDRs and the ticket program, and interviewed SSA officials.

In summary, with the expiration of CDR-targeted funds at the end of fiscal year 2002, SSA is at risk of generating another CDR backlog. As of March 2003, SSA was on track to complete about 200,000 less CDRs than needed to keep its workload current. The expected shortfall is attributable to several factors, including SSA's decision to reduce the number of CDRs it processed pending fiscal year 2003 funding decisions. Based on SSA's cost and workload projections, it would cost a total of about $4 billion or more over the next 5 years to complete its CDR workload. Other factors that could affect SSA's ability to keep current with its CDR workload include DDS staffing difficulties and the lower priority given to CDRs relative to initial claims. If another large CDR backlog is generated, SSA is at risk of foregoing cost savings and compromising the integrity of its disability programs.

While SSA has taken a number of actions over the past decade to significantly improve the cost-effectiveness of the CDR process, opportunities remain for SSA to better use information in deciding when beneficiaries should undergo a CDR and which method to use in conducting a CDR—a mailed-out questionnaire ("mailer") or a full medical review. For example, SSA has not fully studied and pursued the use of medical treatment data on beneficiaries available from the Medicare and Medicaid programs despite the potential of these data to improve SSA's decisions regarding whether to use a mailer or full medical review to

[2]SSA contracts with state DDS agencies to determine whether applicants are disabled.

complete a CDR. Also, SSA continues to be hampered in its CDR decisions by missing or incomplete information on beneficiaries' case history.

In addition, SSA's rationale for delaying issuance of a ticket to beneficiaries expected to medically improve, based on the premise that they will regain their capacity to return to work without SSA assistance, is not well-supported by program experience. As a result, some beneficiaries who might otherwise benefit from potentially valuable return-to-work assistance have to wait up to 3 years to access services through the ticket program. As SSA reexamines this policy, it will need to consider alternatives that better balance the agency's program stewardship and return-to-work goals.

Background

The DI and SSI programs are the two largest federal programs providing cash assistance to people with disabilities.[3] In addition to cash assistance, DI beneficiaries receive Medicare coverage after they have received cash benefits for 24 months, and in most cases, receipt of cash benefits makes SSI beneficiaries eligible for Medicaid benefits. In 2002, SSA paid about $60 billion to 5.5 million disabled workers.[4] In addition, about 5.5 million people with disabilities received about $26 billion in federal SSI cash benefits.[5]

CDR Process

At the time beneficiaries enter the DI or SSI programs, DDSs determine when beneficiaries will be due for CDRs on the basis of their potential for medical improvement. Based on SSA regulations, DDSs classify individuals into one of three medical improvement categories, called "diary categories": "medical improvement expected" (MIE), "medical

[3]The DI and SSI programs use the same statutory definition of disability. To meet the definition of disability under these programs, an individual must have a medically determinable physical or mental impairment that (1) has lasted or is expected to last at least 1 year or to result in death and (2) prevents the individual from engaging in substantial gainful activity (SGA). Individuals are considered to be engaged in SGA if they have countable earnings above a certain dollar level. For 2003, SSA considers countable earnings above $800 a month to be substantial gainful activity for persons who are not blind and above $1,330 a month for persons who are blind.

[4]Included among these 5.5 million beneficiaries are about 1.2 million beneficiaries who were dually eligible for SSI benefits because of the low level of their income and resources. In 2002, the DI program also paid about $6 billion in cash benefits to about 1.7 million spouses and children of disabled workers.

[5]About 3.9 million of these individuals were working age adults aged 18 to 64.

improvement possible" (MIP), or "medical improvement not expected" (MINE). Based on the diary categories, DDSs select a "diary date" for each beneficiary, which is the date that the beneficiary is scheduled to have a CDR. The diary date is generally within 6 to 18 months if the beneficiary is classified as MIE;[6] once every 3 years if classified as MIP; and once every 5 to 7 years if classified as MINE. Upon completion of a CDR, DDSs reassess the medical improvement potential of beneficiaries who remain eligible for benefits to determine the most appropriate medical improvement category and time frame for conducting the next CDR. Beneficiaries classified as MIE are not eligible to receive Ticket to Work services until either the completion of their first CDR, or until they have received benefits for 3 years.

While SSA uses diary categories to determine the timing of CDRs, it has developed another method, called profiling, to determine the most cost-effective method of conducting a CDR. Profiling involves the application of statistical formulas that use data on beneficiary characteristics contained in SSA's computerized records—such as age, impairment type, length of time on disability rolls, previous CDR activity, and reported earnings—to predict the likelihood of medical improvement and, therefore, of benefit cessation. Through its profiling formulas, SSA assigns a "score" to beneficiaries indicating whether there is a high, medium, or low likelihood of medical improvement. In general, beneficiaries with a high score are referred for full medical reviews—an in-depth assessment of a beneficiaries' medical and vocational status—while beneficiaries with lower scores are, at least initially, sent a questionnaire, known as a "mailer."[7] The mailer consists of a short list of questions asking beneficiaries to report information on their medical conditions, treatments, and work activities. If beneficiaries' responses to a mailer indicate possible improvement in medical condition or vocational status, SSA may refer these individuals for a full medical review. However, in most cases, SSA decides that a full medical review is not warranted and that benefits should be continued.

[6]Although SSA's policy guidance indicates that CDRs for MIE beneficiaries should generally be scheduled at intervals of 6 to 18 months, the guidance provides DDS personnel with flexibility to establish a diary date for any time period between 6 and 36 months.

[7]While SSA uses mailers primarily for beneficiaries with low profile scores, the agency has recently expanded its use of mailers to some beneficiaries with medium and high profile scores.

In contrast to mailers, full medical reviews are labor intensive and expensive. These reviews generally involve an interview of beneficiaries at SSA field offices, a review of beneficiaries' medical records by DDS personnel, and, if necessary, medical or psychological examinations with consulting physicians outside the DDS.[8]

CDR Backlog

As of fiscal year 1996, about 4.3 million CDRs were due or overdue. In response, the Congress, in the Contract with America Advancement Act of 1996 (Pub. L. No. 104-121), authorized a total of about $4.1 billion to fund a 7-year plan to eliminate the CDR backlog. In addition, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Pub. L. No. 104-193) required SSA to conduct CDRs on several beneficiary groups, such as low birth weight babies and authorized an additional $250 million for CDRs in fiscal years 1997 and 1998. The actual amount appropriated during the 7-year period, about $3.68 billion, was less than the amount authorized in 1996.

SSA reported to the Congress in its fiscal year 2000 CDR report that in that year, the agency became current with the backlog of CDRs for all DI beneficiaries. SSA officials indicated to us that although they are in the midst of preparing the final statistics for its fiscal year 2002 CDR report, it became current with the backlog of CDRs for all SSI beneficiaries by the end of fiscal year 2002.

CDR Cost-Effectiveness

Since first implementing the profiling and mailer processes in the early 1990s, SSA has continued its efforts to improve the cost-effectiveness of the CDR process. Most notably, SSA has refined the statistical formulas used in profiling to identify which method—mailer or full medical review—should be used to conduct the CDR. According to SSA officials and studies of the profiling process, these improvements have led to some beneficiaries receiving a mailer who otherwise would have received a full medical review, thereby allowing SSA to reduce the overall cost of the CDR process. Conversely, by improving SSA's ability to identify beneficiaries who are likely to medically improve, these refinements have also helped the agency better ensure that it is conducting full medical

[8] SSA field offices perform the initial processing of CDRs to determine if beneficiaries meet nonmedical requirements. They then transfer the cases to DDSs for medical determinations.

reviews—and ceasing benefits—when appropriate.[9] In addition to improvements in its profiling process, SSA has also implemented other CDR process improvements such as introducing an automated review of mailers.

End of Targeted Funding and Other Issues Could Contribute to Another Backlog, Threatening Cost Savings

In the midst of its first year following the cessation of CDR-targeted funds, SSA appears to be developing another CDR backlog. By the end of fiscal year 2003, on the basis of SSA's current projections, the agency will likely face a backlog of 200,000 CDRs. SSA attributes the mounting backlog to the management decisions it made at the beginning of the fiscal year during budget deliberations, as well as the need to process a larger than expected workload of initial disability applications. SSA has estimated that it will need a total of about $4 billion to process its projected CDR workload over the next 5 years, although an updated estimate, expected to be available later this year, will likely show a higher cost as the disability rolls continue to expand. Aside from funding issues, DDSs reported that challenges associated with processing initial disability applications and maintaining enough disability examiners could jeopardize their ability to stay current with the CDR workload over the next few years. If another large CDR backlog is generated, SSA is at risk of foregoing cost-savings, thereby compromising the integrity of its disability programs.

CDR Backlog Likely to Reemerge

At the end of March 2003—six months after the expiration of separate authorized CDR funding—SSA was on a pace to generate a CDR backlog by the end of the current fiscal year. In its fiscal year 2003 budget justification, SSA indicated that it needed to process about 1.38 million CDRs during fiscal year 2003 to stay current with its CDR workload. Yet, SSA expects to process a total of 1.18 million CDRs, if not more, by the end of the fiscal year.[10] By the end of March 2003—the midpoint of the fiscal year—SSA had processed about 539,000 CDRs. To reach the 1.18

[9]According to SSA's study of its profiling model, the agency's recent improvements in statistical profiling have resulted in hundreds of millions of dollars in annual savings from being better able to identify and cease the benefits of individuals who have a relatively high likelihood of medical improvement.

[10]On May 14, 2003, SSA released its revised final performance plan for fiscal year 2003. The plan projects that SSA will process 1,129,000 CDRs during fiscal year 2003. SSA also expects to process an additional 20,000 CDRs initiated for reasons other than maturation of the scheduled diary date (e.g., a third party reports that the individual may no longer be disabled).

million end-year revised total, SSA will need to process CDRs during the second half of the fiscal year at a pace similar to that achieved during the first 6 months of the fiscal year.[11] Nevertheless, while it appears that SSA should be able to achieve this outcome, by the end of fiscal year 2003, it will have accumulated a backlog of 200,000 CDRs. However, according to SSA officials, most of the backlogged claims will consist of SSI adult CDRs, which lead to lower long-term savings than DI CDRs and do not have the same stringent statutory requirements that apply to DI CDRs.

SSA officials attributed the delay in obtaining a fiscal year 2003 budget as the main factor in hampering their ability to conduct all of the planned CDRs for the fiscal year.[12] Because of concerns that the fiscal year 2003 appropriations would not support CDR activity at the fiscal year 2002 level, SSA reduced the number of CDRs it sent to DDS officials for processing as well as froze DDS hiring and overtime pay. SSA officials recognize that a hiring freeze can have a longer-term impact because it disrupts the normal replacement of disability examiners lost through attrition. SSA officials explained that disability examiners generally do not increase overall productivity when first hired and could, in fact, initially decrease productivity because experienced examiners may devote some of their time to training these new examiners. SSA officials noted that it generally takes 1 to 2 years before disability examiners become proficient.

SSA's management strategy to cut back on the number of CDRs it processed during the delays in the fiscal year 2003 budget process reflects the agency's higher priority for processing of initial applications for disability benefits. Specifically, while SSA cut back on the number of CDRs, no similar action was reported with DI and SSI initial eligibility decision making. SSA officials indicated that the application rate for disability benefits increased during the beginning months of fiscal year 2003, further affecting its ability to stay current with CDRs. SSA officials told us that although SSA sets a goal to process all CDRs and initial applications, initial eligibility decisions are given highest priority due to political pressure for getting disability benefits to people in a timely

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[11]SSA indicated that 710,000 CDRs had been processed nearing the end of April 2003. This year-to-date completion rate positions SSA to complete all 1.18 million CDRs.

[12]The federal government had operated under a series of continuing resolutions from the beginning of the fiscal year through February 20, 2003. A continuing resolution is legislation that may be enacted to provide budget authority for agencies to continue in operation when the Congress and the President have not completed action on appropriations by the beginning of the fiscal year.

manner. DDSs, likewise, place a greater priority on processing initial applications. Three-fourths (75 percent) of directors said processing initial disability claims were a top priority relative to CDRs, whereas far fewer directors (23 percent) said that processing initial claims and CDRs were equal priorities.

SSA has recently proposed an approach to avoid this competition between CDRs and initial claims. In SSA's fiscal year 2004 budget request, the Commissioner requested that almost $1.5 billion be earmarked for three activities that could provide a return on investment—CDRs, SSI nondisability redeterminations,[13] and overpayment workloads. While we did not review the sufficiency of the level of this request, the earmarking of funds for activities such as CDRs could help SSA keep current with these activities. For example, if the number of initial applications for disability benefits continues to increase over the next several years, holding apart the necessary funds for CDRs could be a prudent measure.

SSA has indicated in its annual CDR reports, as well as in its performance and accountability report, that its ability to complete all CDRs as they become due in the future is dependent upon adequate funding. In 2000, SSA estimated that a total of about $4 billion was needed to process the CDR workload during the 5-year period between fiscal year 2004 and 2008 (see table 1). SSA based these "rough estimates" on cost and workload projections available at that time. SSA expects to release updated workload and cost projections in the summer of 2003. The updated numbers for the fiscal year 2004 to 2008 period will likely be higher than the past estimate for this time period because of the recent growth in the disability rolls.

[13] To determine whether beneficiaries remain financially eligible for SSI benefits after the initial assessment, SSA conducts nondisability redeterminations to verify eligibility factors such as income, resources, and living arrangements. Beneficiaries are reviewed at least once every 6 years, but reviews may be more frequent if SSA determines that changes in eligibility are likely.

Table 1: Estimated CDR Activities, Fiscal Year 2004-08

Fiscal year	CDRs to be processed during year (in thousands)	CDR expenses (dollars in millions)	Cessations[a] (in thousands)
2004	1,637	$716	61
2005	1,682	$729	59
2006	1,632	$787	61
2007	1,769	$896	65
2008	1,793	$857	62

Source: SSA's Office of the Chief Actuary, May 2000 estimates.

[a]Estimated ultimate cessations after all appeals.

DDS Directors Expressed Concerns about Their Ability to Meet Future CDR Workload

Several of the issues that have contributed to the pending fiscal year 2003 CDR backlog will also appear, in the views of DDS directors, in the future. First, nearly all directors expect the number of initial disability claims to exceed those in the past. Most DDS directors have a strategy in place to deal with this rising initial claims workload, but still expect increased initial claims to negatively affect their ability to process their CDR workload (see table 2). Second, most directors expect to experience difficulties in maintaining an adequate level of staffing, caused by many examiners leaving and difficulties finding replacements. Most DDSs who anticipate facing these staffing challenges reported that they have strategies in place to manage them. Nevertheless, nearly all believe that these staffing issues will negatively impact their ability to stay current with their expected CDR workloads.

Table 2: DDS Directors' Reported Likelihood, If Any, of Experiencing an Event That Jeopardizes Meeting CDR Workload During Fiscal Year 2004 and 2005

Numbers in percent

Event	Not at all likely	Somewhat likely	Very likely
Higher number of initial disability claims than in past (n=51)	2	35	63
State budget shortfalls causing constraints (e.g., personnel restrictions) (n=49)	25	29	47
Difficulties hiring disability examiners (n=51)	28	31	41
High turnover of disability examiners due to reasons other than retirement (n=51)	35	51	14
Large number of disability examiner retirements (n=51)	39	39	22

Source: GAO survey of DDS directors, February 2003.

Cost Savings and Program Integrity Could Be Jeopardized If CDR Backlog Grows Again

To the extent that funding, staffing, and other issues limit SSA's ability to process its CDR workload, the full realization of CDR cost savings could be in jeopardy. SSA maintains that the return on investment from CDR activities is high. In fact, SSA's most recent annual CDR report to the Congress summarizes its average CDR cost-effectiveness during fiscal year 1996 to 2000 at about $11 returned for every $1 spent on CDRs.[14] SSA has noted, however, that such rates of return are unlikely to be maintained because as SSA works down the backlog and beneficiaries come up for their second and third CDRs, the agency does not expect as many cessations and, therefore, the cost-benefit ratio could decline. Nevertheless, since the Congress' provision of dedicated CDR funding starting in fiscal year 1996, SSA has reported completing millions of CDRs

[14]SSA calculated its annual cost-effectiveness ratios by dividing the estimated present value of total lifetime benefits saved with respect to CDR cessations (including Old Age, Survivors, and Disability Insurance, SSI, Medicare, and Medicaid savings) by the dollar amount spent on periodic CDRs in a given year. SSA points out that the ratios should be considered an approximation because, for example, costs do not include the costs of appeals processed after the end of a given year. However, SSA officials also noted that the administrative costs for CDRs in a given year include the costs of appeals of CDR cessations in prior years which are processed in that year.

that will lead to long-term savings ranging from about $2 billion to $5.2 billion.[15]

In addition to a favorable return on investment, SSA's CDR activities help protect DI and SSI program integrity. Keeping current with the CDR workload can help build and retain public confidence that only qualified individuals are receiving disability benefits. In addition, it helps protect the programs' fiscal integrity and allows SSA to meet its financial stewardship responsibilities. To the extent the agency falls behind in conducting CDRs, a CDR backlog undermines these positive outcomes.

Further Opportunities Exist for SSA to Improve CDR Cost-Effectiveness

While SSA has taken a number of actions over the past decade to significantly improve the cost-effectiveness of the CDR process, opportunities remain for SSA to better use program information in CDR decision making. While DDS personnel study available information on beneficiaries to decide when they should undergo a CDR, they do not conduct a systematic analysis of this information. As a result, CDRs may not be conducted at the optimal time. Also, SSA's process for determining what method to use for a CDR—mailer or full medical review—is not always based on the best information available. In addition, SSA has not fully studied and pursued the use of medical treatment data on beneficiaries available from the Medicare and Medicaid programs despite the potential of these data to improve SSA's selection of the most appropriate CDR method. Finally, SSA continues to be hampered in its CDR decisions by missing or incomplete information on beneficiaries' case history, which may prevent SSA from ceasing benefits for some individuals who no longer meet eligibility standards.

[15]Although we did not independently verify these savings estimates, we discussed how SSA made its calculations and believe its approach is reasonable. To estimate long-term savings, SSA calculated the value of the reduction in both cash and medical insurance coverage that otherwise would have been provided to individuals whose benefits were ceased following the completion of a CDR. SSA factored in the effect of appealed cases: SSA did not count savings from those beneficiaries who were initially found ineligible for continued benefits but whose cessations were later successfully appealed. Moreover, SSA officials told us that to estimate savings over 10 years, they took into account the likelihood that some individuals whose benefits were ceased through a CDR would likely have left the disability rolls through death, retirement, and other reasons pertaining to eligibility.

Decisions on Timing of CDRs Are Not Based on Systematic Analysis of Available Information

While DDS personnel review available information on beneficiaries to establish a diary date indicating when beneficiaries should undergo a CDR, they do not conduct a systematic analysis of this information. Diary decisions are inherently complex because DDS personnel must assess a beneficiary's likelihood of medical improvement and how such medical improvement will affect that person's ability to work. Based on these judgments, beneficiaries are placed in a diary category indicating either that medical improvement is "expected," "possible," or "not expected." DDS personnel then assign a diary date that corresponds with the diary category; the more likely a beneficiary is to medically improve, the earlier the diary date.

Although SSA has established guidance for DDS personnel on diary date decisions, SSA officials told us that, ultimately, such decisions are difficult to make and are based on the judgment of the DDS staff. An SSA contracted study of the diary process found that this process is often subjective and that the setting of diary categories and dates is "almost an afterthought" once the case file is developed and a disability determination has been made. SSA's study identified shortcomings in the diary date process. For example, most beneficiaries assigned to the diary category indicating they are expected to medically improve are not found to have improved when a CDR is conducted. Our analysis of SSA data indicates that between 1998 and 2002, only about 5 percent of beneficiaries in the MIE category[16] were found to have medically improved to the point of being able to work again.

SSA's diary process study indicated that diary predictions of medical improvement could be substantially improved through the use of statistical modeling techniques similar to those used in the CDR profiling process that SSA uses to determine whether a mailer or a full medical review is needed. The study noted that this systematic, quantitative approach to assigning diary categories and dates would likely enhance disability program efficiency by reducing the number of CDRs that do not result in benefit cessation.[17] Another benefit derived from a more systematic approach to diary categorization, according to SSA's study, is

[16]This figure includes all MIE beneficiaries—those who have already undergone a CDR as well as those who have not yet had a CDR.

[17]The study recommended that DDSs continue to assign diary categories because this process is useful for indicating the severity of an impairment. The statistical formula would then factor in this DDS diary category in developing an ultimate diary determination.

improved integrity of the diary process resulting from more timely CDRs and from actual medical improvement rates that more closely correlate with the diary categories that SSA assigns to beneficiaries. For example, SSA's study indicates that the actual medical improvement rate for beneficiaries assigned to the MIE diary category would increase to about 29 percent under this improved process.

SSA officials told us that, in response to the diary study recommendations, the agency has begun to revise its diary process to introduce a more systematic approach to selecting a CDR date. In particular, SSA is developing a process that will use beneficiary data collected at the time of benefit application, such as impairment type and age, in a statistical formula to help determine when a CDR should be conducted. While this change is likely to result in some improvements in the timing of CDRs, the fundamental diary categorization process used by DDSs will remain the same. Despite the study's findings and recommendations, SSA officials told us that they will not replace SSA's current process for assigning diary categories with a statistical process because of what they believe would be significant costs involved in changing this system across DDSs. However, SSA's study acknowledged the potential cost of implementing a new process in DDSs, and instead recommended that a revised diary process be centrally administered in order to avoid such high costs. The officials also said that such fundamental changes in the diary process would require a change in regulations.

SSA's Process for Determining CDR Method Not Always Based on Best Information Available

SSA's process for determining what method to use for a CDR is not always based on the best information available. In the 1990s, SSA introduced a system that develops a "profile score" for each beneficiary, which indicates the beneficiary's likelihood for medical improvement based on a statistical analysis of beneficiary data. The purpose of the profile score is to allow SSA to determine whether it is more cost-effective to send a mailer or to conduct a full medical review. SSA's own contracted studies indicate that profiling results provide the best available indication of whether a beneficiary is likely to medically improve. Nevertheless, for some beneficiaries, SSA continues to use the diary category that was judgmentally assigned by DDS personnel as the basis for their decision about whether to send a mailer or conduct a full medical review.

SSA requires a full medical review for all beneficiaries whose diary category indicates that medical improvement is expected (MIE) and who

have not yet undergone a CDR.[18] This is the case even when the profile score indicates that improvement is unlikely. In fiscal year 2002, about 14 percent of beneficiaries in the MIE diary category were assigned to the “low” profile category, which indicates that medical improvement is not likely. SSA officials acknowledged that their policy requiring full medical reviews for all beneficiaries in this diary category departs from their usual practice of using mailers for beneficiaries in the low profile category, but they believe that this policy is reasonable given that these beneficiaries are more likely to medically improve than those assigned to other diary categories. However, SSA’s data from 1998 to 2002 shows that most beneficiaries in this category—about 94 percent—do not medically improve to the point of being able to work.

For other CDR cases, SSA may require that a mailer be sent even when the profile score indicates that conducting a full medical review would be most cost-effective. Specifically, SSA’s policy is to send a mailer to all beneficiaries who were assigned a diary category that indicates medical improvement is not expected (MINE),[19] even if the profile score indicates a relatively high likelihood of medical improvement.[20] Whether or not these beneficiaries subsequently receive a full medical review will be based on the results of their mailer. SSA officials said that MINE beneficiaries with a high profile score are more likely to receive a full medical review based on their mailer responses because SSA conducts a more stringent review of their mailer responses.[21] However, it is not clear that sending mailers to beneficiaries in the high profile category is the most cost-effective

[18]SSA applies a different process for MIE beneficiaries who have undergone one or more CDRs. These beneficiaries may receive a mailer if their CDR profile score indicates that they have a low likelihood of medical improvement. However, most beneficiaries assigned to the MIE category have not yet undergone a CDR; in fiscal year 2002, about 88 percent of all beneficiaries in this diary category had not had a CDR. When referring to MIE beneficiaries in the remainder of our discussion in this section, we are describing only those beneficiaries who have not yet had a CDR.

[19]SSA officials told us that while it is their intention to do mailers for all MINE beneficiaries, they may be unable in some years to send mailers to all of these beneficiaries if their overall funding for mailers is insufficient.

[20]In addition to sending mailers to high profile beneficiaries in the MINE diary category, SSA has recently begun to send mailers to some high profile beneficiaries in the MIP diary category.

[21]SSA also sends mailers to medium profile beneficiaries in the MINE diary category. However, SSA has some evidence from its profiling studies indicating that issuing mailers to medium profile beneficiaries is likely to be cost-effective. No similar evidence exists regarding high profile beneficiaries.

approach. SSA studies of the mailer process have indicated that, while this process is effective, it does not provide the same assurance as full medical reviews that medical improvement will be identified. As a result, the use of mailers for beneficiaries whose profile scores indicate a high likelihood of improvement could result in SSA identifying fewer benefit cessations.[22]

SSA Has Not Fully Studied and Pursued the Use of Medical Treatment Data from Medicare and Medicaid

SSA has not fully studied and pursued the use of medical treatment data on beneficiaries available from the Medicare and Medicaid programs despite the potential of these data to improve SSA's decisions regarding whether to use a mailer or full medical review to complete a CDR. In 2000, an SSA contracted study found that the use of Medicare data from the Center for Medicare and Medicaid Services (CMS)—such as data on hospital admissions and medical treatments—resulted in a significant improvement in SSA's ability to assess potential medical improvement through CDR profiling. Based on these results, SSA, in fiscal year 2003, implemented a process that uses CMS Medicare data in CDR profiling to determine if DI beneficiaries who are initially identified as candidates to receive a full medical review should instead receive mailers.[23] SSA expects that this will result in administrative savings due to the reduced number of full medical reviews the agency must conduct. SSA has also initiated a study to assess whether CMS Medicaid data can be used in the same way to decide if SSI beneficiaries, scheduled to receive full medical reviews, could instead be sent mailers.

But SSA's efforts to obtain and use CMS Medicare or Medicaid data are incomplete because the data will only be used to reclassify full medical reviews to mailers but not to reclassify mailers to full medical reviews. SSA officials told us that they have no plans to pursue this additional use of the data because they believe their current profiling system is sufficient for identifying beneficiaries who have a low likelihood of medical improvement. While they agreed that the CMS data could potentially be

[22]Although a relatively small proportion of beneficiaries have their benefits ceased based on a CDR, the savings from these benefit cessations are substantial, as noted earlier in this testimony.

[23]SSA is using CMS Medicare data to reassess the prospects of medical improvement for beneficiaries who, based on their initial CDR profiling results, are considered to have a high or medium likelihood of medical improvement. Typically, SSA would conduct full medical reviews for these beneficiaries. However, SSA's reassessment may indicate that some of these beneficiaries instead have a low likelihood of medical improvement and therefore should receive mailers.

useful for reclassifying mailers to full medical reviews, they noted that they would need to first study this particular use of the data and would need to develop another interagency agreement with CMS to authorize and obtain data for this purpose. Also, they said that any action to reclassify mailers to full medical reviews would require SSA to publish a Federal Register notice describing this action.

SSA could potentially achieve substantial program savings from conducting additional full medical reviews in cases where CMS data indicate that beneficiaries originally identified as mailer candidates have a relatively high likelihood of medical improvement. Using CMS Medicare data for this purpose would be consistent with the results of an SSA study that recommended that these data be used whenever it improves the agency's ability to accurately predict medical improvement. For example, the study noted that the CMS data would be useful for enhancing SSA's profiling of beneficiaries with mental impairments, including those with a low likelihood of medical improvement for whom SSA would usually send a mailer. To the extent that CMS data improves SSA's ability to identify beneficiaries for full medical review, the program savings from reduced lifetime benefit payments to those beneficiaries whose benefits are ceased could easily exceed any increased administrative costs resulting from additional full medical reviews.

Missing or Incomplete Case Folders May Result in Fewer Benefit Cessations

SSA continues to be hampered in its CDR decisions by missing or incomplete information on beneficiaries' case history, which may prevent SSA from ceasing benefits for some individuals who no longer qualify for benefits. To cease benefits based on a CDR, SSA must determine if the beneficiary has improved by comparing information about the beneficiary's current condition to information from the agency's previous decision regarding the beneficiary's medical condition. This previous decision and the evidence supporting it are recorded by SSA and maintained in case folders that are usually stored in SSA records storage facilities. However, in conducting CDRs, DDSs sometimes have difficulty retrieving the case folders or the key medical evidence that is maintained in these folders.

Without the information contained in case folders, DDSs cannot establish a comparison and, therefore, cannot determine if medical improvement has occurred. As a result, SSA is legally required to keep the beneficiary on the disability rolls even though the beneficiary may have been judged to no longer qualify for benefits had the DDS been able to establish a comparison. SSA's inability to cease benefits in cases where folders are missing or incomplete could result in a substantial cost to the federal

government arising from continued payments of benefits—cash and medical—to people who no longer meet eligibility standards.[24]

Our discussions with SSA officials, survey of DDSs, and review of SSA studies indicate that missing or incomplete folders present an obstacle to effective processing of CDRs. However, evidence on the extent of this problem is mixed. In responding to our survey on CDRs, about 72 percent of DDSs informed us that missing or incomplete information from case folders negatively impacted the quality or timing of CDR decisions to a moderate or great extent. Recent SSA studies have also identified problems with missing or incomplete case folders. For example, a study contracted by SSA identified problems with disability case folder management, such as misrouted or missing folders, and recommended that SSA "analyze the reasons for missing folders and provide recommendations for process and systems improvements."

SSA headquarters officials we spoke with said that SSA has examined the incidence of missing or incomplete case folders and found that the problem is not as significant as claimed by DDSs. For example, in fiscal year 2000, SSA investigated allegations of substantial numbers of missing case folders in two DDSs. SSA officials told us that they were able to locate many of the folders that had been reported as missing. The officials attribute the discrepancy between their findings and the allegations of DDSs, in part, to staff shortages and workload pressures at field offices, which result in a failure of these offices to take further steps to look for folders. However, our survey of DDSs indicates that regardless of SSA's ability to locate many case folders upon further investigation, DDSs are still having difficulty obtaining the information they need to make CDR decisions.

In a 2002 memorandum to SSA's Inspector General, the SSA Commissioner acknowledged that missing or incomplete case folders are a problem in the CDR process, but noted that the problem had been overstated. The memorandum cited data indicating a lost folder rate of about 0.5 percent for DI CDRs and about 3 percent for SSI CDRs.[25] The Commissioner also said that SSA had taken a number of actions in recent years to reduce the

[24]Missing or incomplete case folders may also result in additional administrative costs to the extent that SSA and DDS personnel spend time attempting to locate or reconstruct missing information.

[25]Data are based on CDRs conducted from 1997 to 2001.

incidence of lost folders, such as issuance of additional guidance and training on this issue. In addition, the Commissioner noted that the agency was committed to building a system of electronic folders[26] that will "virtually eliminate the incidences of lost folders." While electronic folders may be a key initiative in resolving SSA's problems with missing or incomplete case folders, SSA does not plan to fully implement this system until mid-2005.[27] In addition, these electronic folders will be established only for new disability cases; cases established prior to implementation of electronic folders will remain in a paper format. Therefore, problems in handling these older case folders will likely continue.

SSA's Rationale for Postponing Return-to-Work Services to Some Beneficiaries Is Not Well-Supported by Program Experience

SSA's rationale for postponing issuance of a ticket to beneficiaries expected to medically improve—those who are assigned an MIE diary category—is not well-supported by program experience. In issuing regulations implementing the ticket act, SSA decided to postpone issuance of tickets to MIE beneficiaries who have not yet had a CDR based on the premise that these beneficiaries could be expected to regain their capacity to work without SSA assistance.[28] However, our analysis of SSA data indicates that the vast majority of MIE beneficiaries in the DI and SSI programs—about 94 percent—are not found to have medically improved upon completion of a CDR. As a result, some beneficiaries who might otherwise benefit from potentially valuable return-to-work assistance must wait up to 3 years to access services through the ticket program.[29]

[26]SSA is currently developing a Disability Electronic Folder (EF) which, when completed, will be the repository of all information used in the disability process and should eventually replace the paper folders. As a result, processing components should not have to rely on a paper folder to take adjudicative actions. The EF is planned to be linked to all existing and future systems that support the disability case process. Information will be captured electronically during the case intake process and transmitted to the EF. Documentation and forms received from external sources (e.g., claimants, medical providers, third parties, etc.) will be converted to an electronic format (e.g., scanning and imaging) and added to the EF. Electronic documents received from medical providers will be indexed and added to the EF.

[27]SSA plans to begin rollout of electronic disability folders in January 2004 and plans to achieve national implementation over an 18-month period.

[28]The Ticket to Work Act gave the SSA Commissioner authority to determine which disabled beneficiaries would be eligible to participate in the ticket program.

[29]SSA's policy on ticket eligibility states that any MIE beneficiary who has been on the disability rolls for at least 3 years will be eligible for a ticket, even if they have not yet had a CDR.

Some disability advocacy groups and SSA's own Ticket to Work and Work Incentives Advisory Panel have questioned SSA's policy of delaying the issuance of tickets to MIE beneficiaries. In particular, they have commented that delaying tickets to all MIE beneficiaries when only a small proportion of these beneficiaries return to work underscores the inherent weakness of relying upon the MIE category as a basis for granting access to ticket services. In our prior work examining DI and SSI return-to-work policies, we noted that delays in the provision of vocational rehabilitation services can diminish the effectiveness of such return-to-work efforts.[30] Delaying services to some disability beneficiaries, therefore, undermines SSA's recent efforts to increase its emphasis on helping these beneficiaries return to work.

SSA officials told us that they are examining the current policy of issuing tickets to MIE beneficiaries to identify possible alternatives but they are not sure when this assessment will be completed.[31] However, they noted that their policy of limiting ticket issuance reflects congressional interests in striking an appropriate balance between program stewardship and encouraging return to work. Moreover, they explained that reversing the current policy would be costly. SSA's actuaries have estimated that issuing tickets to all MIE beneficiaries would cost an additional $822 million over 10 years because the ticket law prohibits SSA from conducting CDRs on beneficiaries who are using a ticket. Therefore, SSA would continue to pay DI and SSI benefits to some beneficiaries who might have otherwise had their benefits terminated.

The drawbacks of SSA's current policy of postponing issuance of tickets to MIE beneficiaries and the potential costs associated with an alternative policy that would allow immediate issuance of tickets to these beneficiaries highlights the need for SSA, as part of its policy reexamination, to consider other policy alternatives that might better balance the agency's program stewardship and return-to-work objectives. While we did not conduct an in-depth assessment of potential alternatives

[30]U.S. General Accounting Office, *SSA Disability: Program Redesign Necessary to Encourage Return to Work*, GAO/HEHS-96-62 (Washington, D.C.: Apr. 24, 1996).

[31]In May 2003, SSA announced in the Federal Register (Social Security Administration: Semiannual Regulatory Agenda, 68 Fed. Reg. 31,240, May 27, 2003) that its long-term plans include a proposal to revise its rules to allow the immediate issuance of tickets to MIE beneficiaries. However, SSA's Associate Commissioner responsible for reviewing the ticket policy for MIEs told us that SSA has not made a final decision regarding any changes to the current policy and that the agency's review has not been completed.

to SSA's current policy,[32] our review of the CDR program and ticket provisions indicate that other options may exist that would achieve a better balance among SSA's program objectives. For example, SSA could develop a better means of identifying beneficiaries who are expected to medically improve. Earlier in this testimony, we noted that an SSA-contracted study of the diary process recommended implementation of an improved system that, among other things, would better identify MIE beneficiaries through statistical modeling of diary decisions. One effect of such improved identification, according to the study, would be to substantially reduce the proportion of beneficiaries with an MIE diary category. For instance, the study found that although SSA, over the past decade, has assigned the MIE diary category to about 9 percent of DI beneficiaries, a statistically-based diary process would result in about 3 percent of DI beneficiaries being assigned to the MIE category. This would potentially minimize the number of beneficiaries initially denied tickets and may also provide more assurance, within and outside SSA, that such beneficiaries can truly be expected to improve.

SSA might also consider an option that provides for the issuance of tickets to all MIE beneficiaries while allowing CDRs to be conducted as scheduled for these beneficiaries. This policy would require a legislative change because, as we noted earlier, the Ticket to Work Act currently prohibits SSA from conducting a CDR while a person is using a ticket.[33] While the ticket program's prohibition on CDRs for ticket users was intended to remove a potential disincentive for beneficiaries to return to work, MIE beneficiaries currently get neither a ticket nor protection from a CDR. A policy allowing CDRs to be conducted on these beneficiaries while they use a ticket would at least give these beneficiaries immediate access to return-to-work services offered under the ticket program. In addition, SSA will still be able to achieve the cost savings that are derived from CDRs for beneficiaries that it considers most likely to medically improve.

Conclusions

CDRs are a vital component of SSA's efforts to strengthen the integrity of its disability programs, an objective that will only increase in importance as the disability rolls continue to grow in the years ahead. As such, it is

[32]Given the recent implementation of the ticket program, insufficient data were available during the period of our review to conduct the analysis necessary to fully evaluate such options.

[33]However, the prohibition on CDRs for all other ticket users could remain in effect.

important that SSA pursue and implement initiatives to prevent the recurrence of CDR backlogs. SSA's recent proposal for targeted funding of program activities, including CDRs, that provide a return on investment as well as efforts to further improve the cost-effectiveness of the CDR process could positively contribute to SSA's efforts to improve service delivery. As SSA pursues such initiatives, it should also examine options for better balancing its need to conduct CDRs with its responsibility for providing return-to-work assistance under the ticket to work program to beneficiaries who are expected to medically improve.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you or other Members of the Subcommittee may have.

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