
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADJUSTMENT OF DISABLED
WAGE EARNERS' BENEFITS
AT FULL RETIREMENT AGE**

March 2008

A-09-07-17134

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: March 14, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Adjustment of Disabled Wage Earners' Benefits at Full Retirement Age (A-09-07-17134)

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) accurately adjusted benefits of disabled wage earners when they reached full retirement age (FRA).

BACKGROUND

SSA administers the Old-Age, Survivors and Disability Insurance programs under Title II of the *Social Security Act (Act)*.¹ These programs provide monthly benefits to retired and/or disabled workers and their families and to survivors of deceased workers. Retired workers are eligible to receive reduced retirement benefits before FRA. To calculate the monthly benefit amount, SSA applies a reduction factor based on the number of months before FRA for which reduced retirement benefits were received.² In addition, the *Act* contains two provisions that affect the calculation of monthly benefits for individuals who are entitled to both retirement and disability benefits before FRA.³

The first provision eliminates the reduction of retirement benefits for aged beneficiaries when they attain age 65 or FRA.⁴ This usually occurs because the aged beneficiary was simultaneously entitled to disability benefits before FRA but elected a reduced

¹ *The Social Security Act* § 201 *et seq.*, 42 U.S.C. § 401 *et seq.*

² *The Social Security Act* § 202 (q), 42 U.S.C. § 402 (q). See also SSA, Program Operations Manual System (POMS) RS 00615.004. FRA occurs at age 65 for those born before January 2, 1938. FRA increases incrementally from age 65 to age 67 for those born from January 2, 1938 through January 1, 1962. FRA occurs at age 67 for those born after January 1, 1962.

³ *The Social Security Act* § 202 (q) (2) and (q) (7) (F), 42 U.S.C. § 402 (q) (2) and (q) (7) (F).

⁴ *The Social Security Act* § 202 (q) (7) (F), 42 U.S.C. § 402 (q) (7) (F) and SSA, POMS DI 52001.001.E.1.c.

retirement benefit to avoid workers' compensation or public disability benefits offset.⁵ When a beneficiary makes this election, SSA employees must prepare a manual diary to increase the monthly benefit amount at FRA.⁶ SSA's automated system may also generate an alert to increase the monthly benefit amount when a disabled beneficiary attains age 65.⁷ There were approximately 26,600 beneficiaries in current pay status who were simultaneously entitled to retirement and disability benefits that elected reduced retirement benefits to avoid workers' compensation or public disability benefits offset. Of these, we identified 3,235 beneficiaries whose monthly benefit amount was not increased at FRA.

The second provision concerns beneficiaries who elect reduced retirement benefits and subsequently become entitled to disability benefits. These individuals may continue to receive reduced retirement benefits or elect to receive disability benefits. SSA reduces the disability benefit for each month the individual was entitled to reduced retirement benefits.⁸ When the beneficiary attains FRA, the disability benefits are converted to retirement benefits, and the monthly benefit amount must be reduced for the months of prior entitlement to reduced retirement benefits.⁹ There were approximately 270,000 beneficiaries in current pay status who were entitled to reduced retirement benefits that subsequently were entitled to disability benefits. Of these, we estimate there were about 23,040 disabled beneficiaries whose benefits may not have been properly reduced for the months of prior entitlement to retirement benefits.¹⁰

RESULTS OF REVIEW

Our review disclosed that SSA did not properly adjust the benefits of disabled wage earners at FRA. This occurred because SSA did not (1) establish manual diaries to ensure it increased monthly benefit amounts at FRA, (2) take appropriate action on the diaries when they matured, or (3) account for prior entitlement to reduced retirement benefits. Specifically, for disabled beneficiaries who previously elected reduced retirement benefits to avoid workers' compensation or public disability benefits offset, we estimate that

⁵ SSA, POMS RS 00615.110.B.2.

⁶ SSA, POMS RS 00615.482.C.

⁷ SSA, POMS SM 00619.096.

⁸ *The Social Security Act* § 202 (q) (2), 42 U.S.C. § 402 (q) (2) and SSA, POMS RS 00615.410.

⁹ SSA, POMS RS 00615.110 and RS 00615.010.

¹⁰ The Master Beneficiary Record (MBR) is divided into 20 segments, with each segment representing 5 percent of all records. We identified a population of 1,152 records from Segment 10 of the MBR. As a result, we estimate that 23,040 beneficiaries (1,152 x 20) had attained FRA and received reduced retirement benefits before entitlement to disability benefits.

- SSA underpaid about \$39.9 million to 2,782 beneficiaries from June 1990 to May 2007 and
- 2,685 beneficiaries may be underpaid about \$68.1 million over their remaining life expectancies.¹¹

We also estimate that SSA improperly paid about \$3.2 million to 3,220 beneficiaries from December 2003 to May 2007 because it did not apply the correct reduction factor for the months of entitlement to retirement benefits before FRA (see Appendix C).

Retirement Benefits Were Not Increased at FRA

The *Act* requires that retirement benefits be reduced when a beneficiary elects to be paid 1 or more months before attaining FRA.¹² SSA policy states that, when an automatic adjustment of the reduction factor has not been recorded, a manual diary must be prepared to alert SSA that it should adjust the reduction factor at FRA to eliminate any months of simultaneous entitlement to disability benefits.¹³

We identified 3,235 disabled beneficiaries who had elected reduced retirement benefits to avoid workers' compensation or public disability benefits offset whose monthly benefit amount was not increased at FRA. Of the 100 beneficiaries in our sample, SSA did not always increase benefits to reflect their simultaneous entitlement to disability benefits. This occurred because SSA did not prepare manual diaries for these cases or take action on the manual diaries when they matured. As a result, SSA underpaid about \$1.2 million to 86 beneficiaries.

Projecting our sample results to the population of 3,235 beneficiaries, we estimate that SSA underpaid about \$39.9 million to 2,782 beneficiaries from June 1990 to May 2007. To estimate the amount of additional benefits that may be owed to these beneficiaries in the future, we multiplied the last monthly underpayment amount by the number of months the beneficiaries were expected to live beyond May 2007. As a result, we estimate that 2,685 beneficiaries will be underpaid about \$68.1 million over their remaining life expectancies (see Appendix C).

For example, one disabled beneficiary in our sample elected reduced retirement benefits at age 62 to avoid workers' compensation offset. When the beneficiary made this election, SSA correctly applied a retirement reduction factor of 35 months to reduce the monthly benefit. However, when the beneficiary attained FRA in October 1990, SSA did not eliminate the retirement reduction factor, as required, to reflect the

¹¹ We used the life expectancy rates published by the Department of Health and Human Services, Centers for Disease Control and Prevention (National Vital Statistics Report, Vol. 54, No. 14, Table A, (April 19, 2006).

¹² *The Act* § 202 (q), 42 U.S.C. § 402 (q).

¹³ SSA, POMS RS 00615.482.C.

simultaneous entitlement to disability benefits. As a result, SSA underpaid the beneficiary by \$43,794 from October 1990 to May 2007.

The following chart illustrates how long the beneficiaries in our population were underpaid. For the 2,782 beneficiaries with underpayments, the average length of the underpayments was 7.4 years.

Length of Time	Number of Beneficiaries	Percent of Population
Under 1 Year	195	7
1 to 2 Years	501	18
3 to 6 Years	806	29
7 to 10 Years	501	18
11 to 14 Years	445	16
Over 14 Years	334	12
Total	2,782	100

Improper Payments for Beneficiaries Receiving Retirement Benefits Before FRA

The *Act* states that, when a beneficiary is entitled to disability benefits after receiving reduced retirement benefits, the disability benefits are reduced by the amount the retirement benefits would have been reduced had the beneficiary attained FRA in the first month of entitlement to disability benefits.¹⁴ SSA policy states the reduction factor shall be the number of months from the month of entitlement to retirement benefits to the month of entitlement to disability benefits.¹⁵

We estimate there were about 23,040 disabled beneficiaries who were previously entitled to retirement benefits before FRA whose benefits may not have been properly reduced for the months of prior retirement.¹⁶ However, SSA did not always adjust the retirement benefits of the 100 beneficiaries in our sample when they became entitled to disability benefits.

This occurred because SSA did not apply the proper reduction factors when the beneficiaries became entitled to disability benefits. In addition, SSA did not always apply the correct reduction factors at FRA. As a result, SSA improperly paid \$13,732 to 14 beneficiaries, including 9 overpayments totaling \$10,855 and 5 underpayments totaling \$2,877. Based on our sample results, we estimate that SSA improperly paid about \$3.2 million to 3,220 beneficiaries from December 2003 to May 2007 (see Appendix C).

¹⁴ *The Act* § 202 (q) (2), 42 U.S.C. § 402 (q) (2).

¹⁵ SSA, POMS RS 00615.410.B.2.a.

¹⁶ See footnote 10.

For example, one beneficiary in our sample was entitled to reduced retirement benefits at age 62. At the time, SSA correctly applied a retirement reduction factor of 43 months to reduce the monthly benefit. When the beneficiary became eligible for disability in November 2004, SSA should have reduced the disability benefits to account for the 21 months of prior retirement benefits received. Instead, SSA incorrectly eliminated the reduction factors altogether. As a result, SSA overpaid the beneficiary by \$3,227 from November 2004 to May 2007.

CONCLUSION AND RECOMMENDATIONS

Our review disclosed that SSA did not properly adjust the benefits of disabled wage earners at FRA. We estimate that SSA underpaid about \$39.9 million to 2,782 beneficiaries who previously elected reduced retirement benefits to avoid workers' compensation or public disability benefits offset. Unless SSA takes prompt corrective action, we estimate that 2,685 beneficiaries will be underpaid about \$68.1 million over their remaining life expectancies. We also estimate that SSA improperly paid about \$3.2 million to 3,220 beneficiaries because it did not apply the correct reduction factor for the months of entitlement to retirement benefits before FRA. These payment errors occurred because SSA did not (1) establish manual diaries to ensure it increased monthly benefit amounts at FRA, (2) take appropriate action on the diaries when they matured, or (3) account for prior entitlement to reduced retirement benefits. Therefore, we recommend that SSA:

1. Take corrective action to pay underpayments and establish overpayments for the 100 beneficiaries identified by our audit.
2. Identify and take corrective action on the population of beneficiaries who are
 - underpaid because their benefits were not increased at FRA to eliminate the benefit reduction for any months of entitlement to disability or
 - improperly paid because they received reduced retirement benefits before entitlement to disability benefits.
3. Remind employees to prepare manual diaries when processing claims for simultaneous entitlement to retirement and disability benefits and take appropriate action on the diaries when they mature.
4. Establish appropriate controls to ensure that reduction factors are properly adjusted at FRA.

AGENCY COMMENTS

SSA agreed with all of our recommendations. See Appendix D for the text of SSA's comments.

A handwritten signature in black ink, appearing to read "Pat P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Sampling Methodology and Results

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

Act	<i>Social Security Act</i>
FRA	Full Retirement Age
MBR	Master Beneficiary Record
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSN	Social Security Number
U.S.C.	United States Code

Scope and Methodology

We reviewed two provisions of the *Social Security Act* that affect the monthly benefit amount of individuals who were entitled to disability benefits and subsequently attained full retirement age (FRA).¹ In May 2007, we obtained from the Social Security Administration's (SSA) Master Beneficiary Record (MBR) a data extract of 3,235 disabled beneficiaries in current pay status who had elected reduced retirement benefits to avoid workers' compensation or public disability benefits offset whose monthly benefit amount was not increased at FRA. In December 2006, we also obtained a data extract of 1,152 disabled beneficiaries in current pay status who were previously entitled to only retirement benefits before FRA whose benefits may not have been properly reduced for the months of prior entitlement to retirement.

To accomplish our objective, we

- reviewed the applicable sections of the *Social Security Act* and SSA's Program Operations Manual System;
- interviewed SSA employees from the Offices of Quality Performance, Public Services and Operations Support, and Retirement and Survivors Insurance Systems;
- selected 2 random samples of (1) 100 beneficiaries who were simultaneously entitled to retirement and disability benefits while eligible for workers' compensation or public disability benefits and (2) 100 beneficiaries who had received reduced retirement benefits before entitlement to disability benefits; and
- reviewed queries from SSA's MBR and Payment History Update System.

We determined whether the computer-processed data from the MBR were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We evaluated SSA's controls and procedures for calculating the reduction factors of wage earners upon entitlement to retirement and disability benefits and at FRA. Specifically, we determined whether SSA accurately paid the beneficiaries after adjusting the reduction factors. The amounts reported represent the total underpayments and/or overpayments from initial entitlement to retirement or disability benefits to May 2007 or from FRA to May 2007.

¹ *The Social Security Act* § 202 (q) (2) and (q) (7) (F), 42 U.S.C. § 402 (q) (2) and (q) (7) (F).

We performed audit work in Richmond, California, between July and October 2007. The entities audited were SSA's Office of Operations and Office of Systems. We conducted our audit in accordance with generally accepted government auditing standards.

Sampling Methodology and Results

We obtained two data extracts from the Social Security Administration’s (SSA) Master Beneficiary Record (MBR) of beneficiaries who were in current pay status and received reduced retirement benefits. The first extract consisted of wage earners who were simultaneously entitled to retirement and disability benefits while eligible for workers’ compensation or public disability benefits and attained full retirement age (FRA) before March 2007. The second extract consisted of wage earners who received reduced retirement benefits before entitlement to disability benefits before December 2006.

Wage Earners Simultaneously Entitled to Retirement and Disability Benefits and Workers’ Compensation or Public Disability Benefits

Our first extract consisted of 3,235 records. We randomly selected 100 records and calculated the monthly benefit amounts and underpayments for each beneficiary. Specifically, we calculated the reduction factor and determined whether it had been properly adjusted at FRA. We found that SSA did not adjust the reduction factors for 86 beneficiaries, resulting in about \$1.2 million in underpayments. Projecting our sample results to the population of 3,235 beneficiaries, we estimate that SSA underpaid about \$39.9 million to 2,782 beneficiaries from June 1990 to May 2007.

To estimate the amount of additional benefits that may be owed to these beneficiaries in the future, we multiplied the last monthly underpayment amount by the number of months the beneficiaries were expected to live beyond May 2007. As a result, we estimate that 2,685 beneficiaries will be underpaid about \$68.1 million over their remaining life expectancies.¹ The following tables provide the details of our sample results, statistical projections, and estimates.

Table 1 – Population and Sample Size

Description	Number of Beneficiaries
Population Size	3,235
Sample Size	100

¹ We used the life expectancy rates published by the Department of Health and Human Services, Centers for Disease Control and Prevention (National Vital Statistics Report, Vol. 54, No. 14, Table A, (April 19, 2006)).

Table 2 – Unadjusted Reduction Factors at FRA

Description	Number of Beneficiaries	Underpayments
Sample Results	86	\$1,233,728
Point Estimate	2,782	\$39,911,101
Projection - Lower Limit	2,558	\$33,947,164
Projection - Upper Limit	2,953	\$45,875,038

Note: All statistical projections are at the 90-percent confidence level.

Table 3 – Estimated Underpayments Over Life Expectancy

Description	Number of Beneficiaries	Underpayments
Sample Results	83	\$2,104,759
Point Estimate	2,685	\$68,088,960
Projection - Lower Limit	2,450	\$59,186,465
Projection - Upper Limit	2,872	\$76,991,456

Note: All statistical projections are at the 90-percent confidence level.

Wage Earners Receiving Reduced Retirement Benefits Before Entitlement to Disability Benefits

Our second extract consisted of 1,152 records that were selected from 1 of 20 segments of SSA's MBR.² We randomly selected 100 records and calculated the reduction factors for each beneficiary. Specifically, we calculated the reduction factors upon entitlement to retirement or disability benefits and at FRA. We also calculated the total improper payments for each beneficiary.

We found that SSA did not properly adjust the reduction factors of 14 of the 100 beneficiaries in our sample, resulting in \$13,732 in improper payments. Projecting these results to all 20 segments, we estimate that SSA improperly paid about \$3.2 million to 3,220 beneficiaries from December 2003 to May 2007. The following tables provide the details of our sample results, statistical projections, and estimates.

Table 4 – Population and Sample Size

Description	Number of Beneficiaries
Population Size (Data extract from 1 segment)	1,152
Sample Size	100

² The MBR is divided into 20 segments for processing and updating. The segments are determined by the last two digits of the Social Security number. Each segment represents 5 percent of all records. We randomly selected a sample of 100 records from our population of 1,152 records that we extracted from Segment 10 of the MBR.

Table 5 – Improperly Adjusted Reduction Factors Before FRA

Description	Number of Beneficiaries	Improper Payments
Sample Results	14	\$13,732
Point Estimate	161	\$158,193
Projection - Lower Limit	102	\$55,156
Projection - Upper Limit	239	\$261,229
Estimate for Entire MBR ³	3,220	\$3,163,860

Note: All statistical projections are at the 90-percent confidence level.

³ Represents the point estimate multiplied by 20 segments.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: February 21, 2008

Refer To: S1J-3

To: Patrick P. O'Carroll, Jr.
Inspector General

From: David V. Foster
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Adjustment of Disabled Wage Earners Benefits at Full Retirement Age" (A-09-07-17134)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our response to the report findings and recommendations are attached.

Please let me know if we can be of further assistance. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "ADJUSTMENT OF DISABLED WAGE EARNERS BENEFITS AT FULL RETIREMENT AGE" (A-09-07-17134)

Thank you for the opportunity to review and provide comments on this draft report.

The audit identified 3,235 disabled beneficiaries in current pay who elected reduced retirement benefits to avoid worker's compensation (WC) or public disability benefit offset whose monthly benefit amount was not increased at full retirement age (FRA). It also found about 23,040 disabled beneficiaries in current pay who were previously entitled to only retirement benefits before FRA whose benefits may not have been properly reduced for the months of prior entitlement to retirement benefits. Based on these findings, recommendations were made to ensure that the Social Security Administration (SSA) accurately adjusts benefits of disabled wage earners when they attain FRA. While we agree with the recommendations, we feel that the report should explicitly state that the problem cases represent a small portion of the larger universe of cases.

We also suggest that the audit acknowledge the age at which WC offset ends, at age 65, precedes the now-current FRA. Thus, a person concurrently entitled to retirement insurance benefits (RIB) and disability insurance benefits (DIB) who elects RIB to avoid the offset, should have his or her benefit switched to DIB at age 65—prior to FRA. We feel that it is necessary for the report to mention this adjustment.

Our responses to the specific recommendations are provided below:

Recommendation 1

Take corrective action to pay underpayments and establish overpayments for the 100 beneficiaries identified by our audit.

Comment

We agree that since the report identified beneficiaries who are underpaid or overpaid, that we should take corrective action to pay the underpayments due and establish overpayments for the respective beneficiaries. Once these cases are completely identified, we will take the proper corrective actions.

Recommendation 2

Identify and take corrective action on the population of beneficiaries who are either: 1) underpaid because their benefits were not increased at FRA to eliminate the benefit reduction for any months of entitlement to disability; or 2) improperly paid because they received reduced retirement benefits before entitlement to disability benefits.

Comment

We agree. We have an obligation to make correct payments to beneficiaries, and identified errors should be promptly corrected.

In May 2007, SSA created the Regular Transcript Attainment and Selection Pass (RETAP) alerts for those disabled workers receiving reduced retirement benefits at age 65. These alerts are known as RETAP RT45 alerts (NH Age 65—Dev DIB Election). The alert requires review of the benefits and contact with the disabled worker to obtain a possible election to receive DIB benefits at age 65.

We also identified about 7,700 disabled workers who attained age 65 between January 2003 and July 2007 and continued to receive reduced retirement benefits from age 65 to FRA. These disabled workers are being mailed letters explaining that additional benefits may be due if the worker elects to again receive DIB at age 65. Electing DIB at age 65 gives the disabled worker the adjusted reduction factor at age 65 and those benefits are converted to RIB at FRA. The first two mailings were done in November 2007 and in January 2008, with subsequent mailings scheduled for March and May 2008. We plan to complete processing of this workload during fiscal year 2008. This clean up operation will pay the underpayments identified in this audit.

The overpayments found in the audit are the result of the incorrect payment of full DIB benefits after prior RIB entitlement. DIB should be reduced by the number of months of RIB entitlement prior to DIB entitlement. We will explore ways to handle these cases similar to the RT45 alerts mentioned above.

Recommendation 3

Remind employees to prepare manual diaries when processing claims for simultaneous entitlement to retirement and disability benefits and take appropriate action on the diaries when they mature.

Comment

We agree. We will issue a reminder through an Administrative Message by March 2008.

Recommendation 4

Establish appropriate controls to ensure that reduction factors are properly adjusted at FRA.

Comment

We agree. Alerts should be automatically generated prior to the DIB FRA for all benefit records with simultaneous RIB/DIB entitlement. We will explore ways to address this issue.

OIG Contacts and Staff Acknowledgments

OIG Contacts

James J. Klein, Director, San Francisco Audit Division, (510) 970-1739

Jack H. Trudel, Audit Manager, (510) 970-1733

Acknowledgments

In addition to those named above:

Daniel Hoy, Auditor

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