Value of IRS Information for Determining Eligibility for the Low Income Subsidy Program (LIS) of the Medicare Prescription Drug Program (Medicare Part D)

Department of the Treasury
Office of Tax Analysis
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

DEC 2 9 2008

Ms. Bea Disman
Chair of the SSA Medicare Implementation Task Force
and Regional Commissioner
Social Security Administration
26 Federal Plaza, Room 40-102
New York, NY 10272

Dear Ms. Disman:

I am attaching a copy of a study, *Value of IRS Information for Determining Eligibility for the Low Income Subsidy Program (LIS) of the Medicare Prescription Drug Program (Medicare Part D),* which the Treasury Department has prepared at your request and with your cooperation.

Under the Medicare Prescription Drug Program (Medicare Part D), Medicare enrollees with incomes and assets below certain levels may be eligible for extra Low Income Subsidy (LIS) benefits. The Social Security Administration (SSA) has statutory responsibility for informing potential LIS beneficiaries about eligibility for the extra benefits. If potential beneficiaries do not file applications for the LIS benefits, the SSA must continue to expend resources to contact them to ensure that they are aware that they may be eligible for LIS benefits. This study was undertaken to determine the extent to which otherwise confidential tax information from the Internal Revenue Service (IRS) could provide additional information about income and, through imputation, about assets. This would help to narrow the pool of Medicare beneficiaries who the SSA believes may be eligible for extra LIS benefits under Medicare Part D. IRS data can indicate that some individuals are *not* eligible but cannot determine if the remaining individuals are actually eligible.

Because the income measure used in determining LIS eligibility is different conceptually from income shown on income tax returns, data from individual income tax returns are not optimal for excluding beneficiaries from LIS eligibility. Rather, the payment data from third-party information returns submitted to the IRS must be used. Because confidentiality of tax information is critically important, any changes to the statutory restrictions on disclosure of that information should not be made without a careful weighing of the benefits of less costly LIS outreach, higher LIS enrollment, and fewer unnecessary contacts against the potential adverse effects on taxpayer compliance and the costs of processing that IRS data. If disclosure for this purpose is deemed to be appropriate, the amount and type of tax information that is authorized to be disclosed by new legislation should be limited to what is essential to achieve its limited purpose.

It is important to recognize that the use of IRS information could lead to the incorrect exclusion of some individuals who are actually eligible for LIS benefits. Some IRS third-party information returns might be erroneous for several different reasons. If the IRS data were used to pre-screen beneficiaries, those screened out incorrectly would not receive the personalized outreach efforts that are believed to be essential for a high rate of LIS enrollment.

While cognizant of the foregoing concerns, the results of the study show that the use of IRS data would help to reduce the group of potential LIS eligibles substantially, with the reduction dependent on the amount of IRS data actually used. If only third-party information returns (Forms 1099 and K-1) for the actual beneficiary were used and the higher income and asset thresholds applicable to married couples were used regardless of actual marital status, the number of potential LIS eligibles could be reduced by about 48 percent from 13.6 million to 7.1 million individuals. If marital status information from income tax returns were used for those who had filed income tax returns, the number of potential LIS eligibles could be reduced by 51 percent to 6.6 million individuals. The target group could be reduced further if the third-party information documents were obtained for the spouses of married beneficiaries and if income and imputed asset information for both spouses were aggregated. The exact extent of the additional targeting would need to be determined in an extension of this study.

The study indicates that a reasonable case can be made for disclosure of tax return information for screening out some potential LIS beneficiaries. However, providing tax return information for pre-screening is not permitted under current law and would require a legislative change. Also, the IRS would have to be reimbursed for its additional work, just as it is currently reimbursed for supplying tax return information after a LIS application actually has been filed. If it were deemed appropriate to use IRS data for pre-screening, consideration should be given to less detailed disclosure than is currently disclosed for those who actually apply for LIS benefits. The SSA, the IRS, and the Treasury Department should jointly develop a plan that would disclose only the minimum amount of tax return necessary for pre-screening.

If you have questions about the results of the study, please contact Allen Lerman (202-622-1325) in the Office of Tax Analysis, who had primary responsibility for preparing this study.

Sincerely,

Eric Solomon

Eric Solomon
Assistant Secretary (Tax Policy)

Attachment

Value of IRS Information for Determining Eligibility for the Low Income Subsidy Program (LIS) of the Medicare Prescription Drug Program (Medicare Part D)

Executive Summary

Under the Medicare Prescription Drug Program (Medicare Part D), social security beneficiaries with incomes and assets below certain levels may be eligible for extra Low Income Subsidy (LIS) benefits. The Social Security Administration (SSA) has statutory responsibility for informing potential LIS beneficiaries about eligibility for the extra benefits. If potential beneficiaries do not file applications for the LIS benefits, the SSA must continue to expend resources to contact them to ensure that they are aware that they may be eligible for LIS benefits. From its own records and other records available to it, the SSA is not able to identify eligible individuals with precision. The SSA is only able to identify individuals with wages plus retirement income from Federal government sources that are below the income threshold for unmarried individuals. Using that information, prior to the beginning of the Part D program, the SSA identified 18.6 million individuals, of which only 6.2 million had actually applied by March, 2007 (and of whom only 2.2 million were found to be eligible). It has been estimated that an additional 2 million individuals of the remaining 12.4 million are actually eligible for LIS benefits. Without additional income and asset information, the SSA must expend resources to contact all 12.4 million individuals. Additional income and asset information might reduce the target population, and a smaller target population would reduce outreach costs, permit more individualized outreach efforts, or both.

This study was undertaken to determine the extent to which otherwise confidential tax information from the Internal Revenue Service (IRS) could provide additional income information and, through imputation, some asset information, which would help to narrow the pool of Medicare beneficiaries who the SSA believes may be eligible for extra LIS benefits under Medicare Part D. The IRS data can indicate that some individuals are *not* eligible, but it cannot determine if the remaining individuals are actually eligible.

This study's estimates of the aggregate number of Medicare beneficiaries who – based on income and assets – are not eligible for LIS benefits narrows the pool of individuals who may be eligible for extra Part D benefits. The reduction in the number of potential eligibles that IRS data would permit may be helpful in making the policy judgment of whether the benefits from the use of IRS data justify another exception to the general rule of confidentiality of tax information.

LIS eligibility is based on both income and assets as calculated under the methodology specified by the SSA, and the relevant income measure is different conceptually from income shown on income tax returns. Hence, data from tax returns submitted to the IRS are not optimal for excluding beneficiaries from LIS eligibility. Rather, the payment data from third-party information returns submitted to the IRS must be used. These are the same data that currently are permitted, by statute, to be disclosed to the SSA to verify the income and assets of beneficiaries who actually apply for LIS benefits. These third-party information returns include the name and address of every payor to the beneficiary, together with the exact type and amount of each payment. Providing this detailed level of taxpayer data to the SSA before a LIS application is not consistent with the overall statutory provisions which generally require the confidentiality of tax information. Because confidentiality of tax information is critically important, this type and extent of disclosure should not be permitted without a careful weighing of the benefits of less costly LIS outreach, higher LIS enrollment, and fewer unnecessary contacts with those not actually eligible against the costs of processing the IRS data and the potential adverse effect on taxpayer compliance. If disclosure for this purpose is deemed to be appropriate, the amount and type of tax information that is authorized to be disclosed outside the IRS by new legislation should be limited to what is necessary to achieve its limited purpose.

In order to estimate the benefits from the use of tax information for screening out potential LIS beneficiaries, information about a statistically valid random sample of potential beneficiaries was examined. The SSA selected a sample from its records, IRS added information from third-party information returns, and the data were combined and summarized to determine, under the relevant definitions, the income and assets for each sampled individual.

The results show that the use of IRS data would help to reduce the group of potential LIS eligibles substantially, with the reduction dependent on the amount of IRS data actually used.

If only third-party information returns (Forms 1099 and K-1) were used, the number of potential LIS eligibles could be reduced by about 48 percent from 13.6 million to 7.1 million individuals, provided that the higher income and asset thresholds applicable to married couples were used. (If the lower thresholds applicable to unmarried individuals were used, the pool could be reduced by 61 percent to 5.3 million individuals. However, use of the unmarried thresholds would incorrectly screen out many individuals who are married.)

If marital status information from income tax returns were also used for those who had filed income tax returns, and if the married thresholds were applied for married filers and nonfilers and the single thresholds were used for unmarried filers, the number of potential LIS eligibles could be reduced by 51 percent to 6.6 million individuals, even if the incomes and resources of both spouses were not combined.

The target group could be reduced further if marital status information from both the IRS and the SSA were used and if the income and asset information for both spouses were combined for married individuals. The exact extent of the additional targeting would need to be determined in an extension of this study, but a simulation based on conservative assumptions about spousal income and assets suggests that an additional million or more individuals could be screened out.

Based on these results, a reasonable case can be made for disclosure of tax return information in advance of an actual LIS application. However, providing tax return information for pre-screening would require a legislative change. Also, the IRS would have to be reimbursed for its additional work, just as it is currently reimbursed for supplying information after a LIS application actually has been filed.

It is important to recognize that the use of IRS information could lead to the incorrect exclusion of some individuals who are actually eligible for LIS benefits. The IRS third-party information returns that would be used to eliminate some beneficiaries who the SSA believes may be eligible for LIS benefits may be erroneous for several different reasons. Moreover, due to changes in marital status and deaths after tax return filing, it is likely that there would be more erroneous determinations of ineligibility if spousal information were used. When a beneficiary actually applies for LIS benefits and is determined to be ineligible based on data from the IRS, the beneficiary has an opportunity to challenge that incorrect determination. However, if the IRS data were used to pre-screen beneficiaries, any beneficiary incorrectly screened out would not know that he or she had been screened out. Since these are beneficiaries who have not applied for LIS benefits, they would not receive the personalized outreach efforts that are believed to be essential for a high rate of LIS enrollment. Nevertheless, they would continue to benefit from generalized SSA outreach programs.

If it were deemed appropriate to use IRS data for pre-screening the large group of potential LIS eligibles, consideration should be given to less detailed disclosure of tax return information than is currently disclosed for those who actually apply for LIS benefits. For pre-screening, the SSA would not use the more detailed information that is necessary to verify actual LIS applications. Disclosure of detailed information could be reduced if the IRS performed some of the calculations currently performed by the SSA and then disclosed to the SSA only (a) the summary income and asset amounts, (b) an indicator of whether the individual's income and assets exceeded the relevant thresholds, (c) that the IRS had some third-party information about the individual, (d) that the individual had actually filed a Federal income tax return, and (e) marital status (for income tax return filers). If an individual subsequently filed a LIS application, the summary income and resource amounts as well as the thresholds might have to be adjusted by the SSA based on information about additional income or resources shown on the LIS application. However, detailed payor-by-payor third-party information would have to be disclosed to the SSA only if a LIS applicant disputed SSA's rejection of the LIS application.

While having the IRS rather than the SSA perform the calculations to combine information from various sources into total income and assets for each potential beneficiary would reduce the amount of disclosure of tax information, such procedures would represent a fundamental change in the role of the IRS. Traditionally, under provisions of the Internal Revenue Code, the IRS has extracted certain tax return information and provided it to other government agencies. The IRS has not devoted its resources to processing tax return information for other agencies. Performing the calculations for the LIS program might set a precedent to performing similar calculations for other programs and agencies. Such processing would increase the workload of the IRS and would divert resources from its primary mission of tax administration. Although the IRS' costs presumably would be reimbursed by the SSA (or other agencies), such work would use scarce, specialized IRS personnel and resources that could not be replaced easily or quickly.

If it is deemed that further disclosure of tax information for pre-screening is appropriate, the SSA, the IRS, and the Treasury Department should develop a plan, based on new statutory authority to release the necessary information, that they jointly believe to be most efficient in supplying the necessary information to the SSA while disclosing the minimum amount of tax return information.

Value of IRS Information for Determining Eligibility for the Low Income Subsidy Program (LIS) of the Medicare Prescription Drug Program (Medicare Part D)

Background

Since 2006, there has been a voluntary prescription drug program under Medicare (Medicare Part D). Part D enables Medicare beneficiaries to enroll in drug plans sponsored by private health insurance companies. Similar to the longstanding, 40-year old Medicare Medical Insurance program (Medicare Part B), participants generally pay about one-quarter of the program's costs, with the remainder being paid from the General Fund of the United States government. The Medicare Prescription Drug program, however, includes provisions for participants with limited incomes and assets to pay a smaller share of the costs of the program through lower monthly premiums and smaller (or no) annual deductibles and/or co-payment amounts for their prescriptions. This special program is known as the Low Income Subsidy (LIS). The Centers for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services (HHS) has estimated that about 6.1 million beneficiaries would meet the income and asset requirements if they actually applied for the LIS program.[1]

Some Medicare beneficiaries are enrolled to receive LIS benefits automatically because they are receiving Medicaid or Supplemental Security Income (SSI) benefits, or are in a Medicare Savings Program. Other Part D beneficiaries must file an application to obtain the extra benefits of the LIS program. The Social Security Administration (SSA) makes eligibility determinations for those who file an application. The SSA also has the statutory responsibility for conducting outreach to identify eligible individuals and educate them about the availability of the LIS program.

As part of the LIS application, potential beneficiaries provide information about their income and their assets.[2] The application informs applicants that their income and asset

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[1] Department of Health and Human Services, Office of Inspector General. *Identifying Beneficiaries Eligible for the Medicare Part D Low-Income Subsidy, OEI-03-06-00120.* November, 2006. Page 3.

[2] SSA-1020: Application for Help with Medicare Prescription Drug Plan Costs. Assets considered for Part D eligibility exclude the applicant's residence, vehicles, personal possessions, burial plots, and irrevocable burial contracts.

information will be verified from other sources including use of data from the IRS. The IRS data generally are from reports by third parties who have made payments to the beneficiaries. These information returns from third parties are used because they are more comprehensive and provide more information about assets than do income tax returns. Also, third-party information returns provide information about beneficiaries who may not be required to file their own Federal income tax returns.

Because tax information is confidential except for disclosures that are specifically authorized by the Internal Revenue Code (Code), the Medicare Prescription Drug Improvement and Modernization Act (MMA) – which enacted Medicare Part D in December, 2003 – amended the Code to authorize the IRS to provide the SSA with tax information for those who actually file a LIS application. Under section 6103(l)(7)(D)(ii) of the Internal Revenue Code, as amended by MMA, the IRS may provide the SSA with specified items of tax information to assist in verifying income and assets once an individual has filed an application with the SSA. The Code does not, however, authorize the IRS to share such tax information for all Medicare beneficiaries – that is, those who have not yet filed a LIS application – which would assist the SSA in targeting its outreach efforts for the LIS program.

Initially, the SSA relied on Federal sources to target the potentially eligible population. The data the SSA used were from the SSA, the Office of Personnel Management, the Department of Veterans Affairs, the Railroad Retirement Board, and the Office of Child Support Enforcement (OCSE) of the Department of Health and Human Services. The SSA realized that using these data sources would result in an overestimate of the number of individuals who might qualify for the subsidy. The data from those sources provided information on individuals' earnings and income from various government programs (mainly retirement income), but it provided only very limited information about individuals' assets or non-wage or non-retirement income. Absent that additional data, the SSA can neither accurately estimate the total number of individuals eligible for LIS benefits nor narrowly target individuals for more directed outreach. As a result, in 2005, prior to the beginning of the Part D program, the SSA mailed a LIS application to approximately 18.6 million Medicare beneficiaries whose income from sources available to the SSA indicated potential eligibility for the LIS program. It was believed that this 18.6 million included all potential LIS beneficiaries. The SSA continues to send LIS applications to "attainers" (current social security beneficiaries reaching age 65 or the 24th month of entitlement to disability benefits) and new filers for social security benefits.[3]

Of the 18.6 million LIS applications that the SSA solicited originally in 2005, only about 6.2 million had actually submitted applications through March, 2007. Of those who submitted applications, 4.0 million were found to be ineligible, and the remaining 2.2 million were enrolled in the LIS program. However, based on an estimate from the CMS, about 4 million additional beneficiaries were eligible for LIS.[4] Thus, out of the original potentially eligible group of 18.6 million individuals, 12.4 million did not file LIS applications.[5] It is not known how many did not file because they determined that their income or assets were too great to be eligible, and how many actually are eligible but did not file because of lack of knowledge about the LIS program or its benefits.

The SSA is obligated to use its outreach programs to inform potential LIS eligibles of the available benefits and to encourage and assist them in filing LIS applications. The SSA believes that better estimates of the actual number of eligibles who have not filed a LIS application would be useful in developing and implementing more efficient outreach plans that would result in higher levels of LIS enrollment.

Both the Inspector General of HHS and the United States Government Accountability Office (GAO) have issued reports highlighting that, in their opinions, the lack of availability of

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[3] Section 1860D-1(c)(1) of the Social Security Act (enacted concurrently with the amendment to IRC 6103(l)(7)(D)(ii) as part of MMA, P.L. 108-173) provides "The Secretary shall conduct activities that are designed to broadly disseminate information to part D eligible individuals (and prospective eligible individuals) regarding the coverage provided under this part. Such activities shall ensure that such information is first made available at least 30 days prior to the initial enrollment period described in subsection (b)(2)(A)." This requirement is also stated in the MMA's legislative history. Page 472 of Conference Report 108-391 (Nov. 21, 2003) states: "It is the intent of the conferees that [SSA] should engage in outreach activities to encourage eligible individuals to apply for subsidies under this section."

[4] In January, 2008, the CMS issued a revised estimate indicating that there were 2.6 million eligible individuals who had not enrolled in LIS. See "Final LIS.xls" included in "EnrollmentRelease_CurrentYear.zip" available at www.cms.hhs.gov/PrescriptionDrugCoGenIn/01_Overview.asp

[5] The 13.6 million individuals cited on page 2 and used throughout this report is higher than 12.4 million individuals who did not file applications in the original SSA solicitation because of additional individuals who became eligible subsequently.

the IRS information continues to limit the SSA's ability to reach and enroll eligible beneficiaries efficiently.[6]

This study has been undertaken to determine the usefulness of IRS tax information for (1) better estimating the number of individuals eligible for the LIS program and (2) for eliminating specific Medicare beneficiaries who the SSA (based on its limited information) currently believes may be eligible, thereby reducing the number of individuals on whom the SSA needs to expend outreach resources. The results provide information to help assess the the benefits of additional disclosure of tax return information.

Organization of the Study

The study processed data from the SSA and the IRS for a statistically valid, random sample of the 13.6 million social security beneficiaries who the SSA believes may be eligible for the LIS program based on the income known to the SSA but who had not applied for LIS benefits as of March, 2007. The sample size was 202,533 individuals, or 1.5 percent (1-in-67), of the 13.6 million of the possible eligible individuals who had not filed LIS applications. The sample was drawn in October, 2007.

For each member of the sample, the SSA sent the IRS identifying information, wages and salaries, Social Security and Railroad Retirement benefits, government benefit/pension income, and whether or not CMS records indicated that the individual had creditable Medicare Part D drug coverage.[7]

For each individual in the sample, the IRS located all of the relevant third-party information returns that had been submitted under that individual's Social Security number. The third-party information returns consisted of the Forms 1099 for various types of income and the Schedules K-1 from partnerships, estates, trusts, and S corporations.[8] These are the

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[6] Department of Health and Human Services, Office of Inspector General. *Identifying Beneficiaries Eligible for the Medicare Part D Low-Income Subsidy, OEI-03-06-00120.* November, 2006. United States Government Accountability Office. *Medicare Part D Low-Income Subsidy: Additional Efforts Would Help Social Security Improve Outreach and Measure Program Effects, GAO-07-555.* May, 2007.

[7] For various technical reasons, earnings from self-employment were not included. Given the population under consideration, this omission may not be significant. However, its inclusion would reduce the target population for outreach purposes.

[8] Forms W-2 (Wage and Salary Statements) were not included because the SSA uses wage and salary information from earnings information from OCSE of HHS. The OCSE data are derived from information submitted to state

identical information returns that would be supplied to the SSA if the beneficiary had actually filed a LIS application and that would be included in the computation of the income and asset amounts upon which approval or rejection of the LIS benefits for the applicant would be based.[9] Since the SSA did not know the marital status of the individual, for each sampled individual the IRS also included an encoded indicator of whether the individual had actually filed an individual income tax return and, if so, whether the return was filed jointly with a spouse. After the SSA and IRS data were combined for each sampled individual, the social security numbers and other identifying information were removed from the file, and the order of individuals in the files was scrambled.

The combined information from the SSA and the IRS was processed in the same manner as the information supplied after submission of an actual LIS application to determine the sampled individual's income and assets under the specific definitions used for the LIS program.[10] The information from the initial SSA record and the information returns for each individual were combined during processing into a single record for each individual, which contained the items of income information from the SSA, an indicator of income tax filing status, and the results of the income and asset calculations, as specified by LIS rules that are used for LIS eligibility determination. The summary records for each sampled individual were sent to the Treasury Department's Office of Tax Analysis for analysis. The results of the analysis were weighted to represent the entire population.

For purposes of the LIS program, income and assets are defined somewhat differently than for Federal income tax purposes. For example, in the LIS program, the first $780 of earned income is disregarded, and only one-half of the excess of earned income over $780 is

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unemployment insurance agencies. Inclusion of information from Forms W-2 (Wage and Salary Statement) would have led to double-counting of wages and salaries.

[9] The SSA may also include other income and resources information provided by the applicant on the LIS application.

[10] In order to avoid duplication of the detailed computer programs that SSA uses to compute both income and assets under the specific definitions used for the LIS program, IRS contracted with SSA to process the raw data, but the results were not in individually identifiable form and access to the data was restricted to the SSA employees required to see it during computer processing. To further eliminate the possibility of unintentional disclosure, after the IRS added tax information to the Social Security information for each sampled individual, the Social Security numbers were removed, and the order of the records were scrambled. Thus, no individually identifiable tax information was provided to the SSA.

counted. Also, many types of passive income, such as interest received and dividend income, are not counted as income for purposes of the LIS program. Rather, they are either considered to be assets or are used to impute assets. The combined information for each individual was used to compute "countable income" and "countable resources" as defined by the LIS program and that are used to determine LIS eligibility. The details of the composition and computation of each these final items are shown in the Appendix.

The study used the income and resource (asset) data for each individual and the thresholds that would have been used for LIS applications filed in 2007. That is, the IRS data were for tax year 2005.

Social security beneficiaries are eligible for the LIS program if their "countable income" and "countable resources" are both less than threshold levels, which vary by marital status and the number of their dependents. For 2007 applications, the countable income threshold was $15,315 for unmarried beneficiaries and $20,535 for married beneficiaries. The countable income threshold increased by $5,220 for each additional dependent, as defined for LIS purposes. The countable resource threshold was $11,710 for an unmarried beneficiary and $23,410 for a married couple (both including a $1,500 per person burial allowance). Since no information about dependents was available for the sampled individuals, no adjustments to the thresholds were made for dependents.[11]

Additional tax return information from the IRS may help to better define the overall size of the population actually eligible for the LIS program, but for any given individual, the use of IRS data may lead to erroneous results, either incorrectly eliminating an individual from, or incorrectly including an individual in, the LIS eligible population. The possible reasons for incorrect results from the use of IRS data are summarized in Table 1. The extent of erroneous results is not known. For the purposes for which the SSA has requested this study, incorrect exclusions from the LIS-eligible population are much more problematic than incorrect inclusions. An individual who is incorrectly excluded from the LIS eligible population will also be excluded from the SSA's targeted outreach programs, including the mailing of a LIS application form, and may be less likely to apply for LIS benefits. More

[11] These income and resource (asset) levels are the maximum levels above which there is no entitlement to LIS benefits. For LIS eligibles with lower incomes and assets, the actual LIS benefits may vary depending on the levels of each individual's income and resources.

focused and intensive outreach efforts, especially if widely known, could cause non-contacted potential eligibles to believe that they were not eligible. This type of error is one issue that must be weighed when considering the benefits of the use of IRS data, especially because under a program that uses IRS data to exclude individuals, the individuals will not be on notice that they have been screened out incorrectly and, thus, will not have an opportunity to challenge and correct the error. It should be noted, however, that even those excluded from targeting outreach efforts will benefit from general outreach efforts, including working with partners in the local communities, that the SSA also undertakes.

Table 1

Situations in Which IRS Data May Produce the Incorrect Result

Reasons IRS Data May Lead to Incorrect Exclusion from Eligibility

- Unmarried threshold is used for a married individual.
- Dependents are not reflected in income thresholds.
- Resources or income are double-counted:
  - From multiple sales of the same asset during one calendar year; or
  - From distribution an asset from an IRA or 401(k) account and subsequent
    - Sale of that during the same year, or
    - Imputation of resources from dividend payments attributable to that asset later in the same year.
- Some payments shown on Forms 1099 are gross receipts rather than income.
- Amounts are overstated on third-party information returns:
  - Payment amount is incorrect;
  - Payment is attributed to incorrect payee; or
  - Payment is attributed to nominee rather than actual owner.

Reasons IRS Data May Lead to Incorrect Failure to Exclude from Eligibility

- Married threshold is used for an unmarried individual.
- Income or resources (assets) of spouse are not included.
- Earnings or other income not reported due to intentional noncompliance.
- Certain types of income (such as interest received on seller-financed mortgages) are not required to be reported on third-party information returns.
- Cash is not included.
- Value of life insurance policies is not included.
- Value of a second home is not included.
- Income or resources are not reflected on a third-party information return because there was not a distribution, sale, dividend, interest payment, or other payment during the calendar year.
- Amounts are understated on third-party information returns:
  - Payment amount is incorrect;
  - Payment is attributed to incorrect payee; or
  - Third-party return is not filed by payor.

Study Results

The request from the SSA was to determine the additional targeting that could be achieved if IRS data were used together with the data already in the possession of the SSA. For most beneficiaries, there is a significant overlap of the data that the two agencies possess. Both the SSA and the IRS have information about earned income whether earned as an employee or as a self-employed individual. The SSA also has access to more current wage and salary information from the OCSE. The IRS has third-party information returns for social security, railroad retirement, and benefits to U.S. government retirees or survivors paid through the Office of Personnel Management (OPM). The SSA has the same government pension information, but the SSA also has access to information about various veterans' benefits that are not subject to income taxes. Since such benefits are not taxable, the IRS does not have information about them. The IRS also has third-party information reports about many other types of income paid, or gross payments made, to beneficiaries. These include interest, dividends, capital gains distributions, gross sales of certain securities and real estate, income from partnerships, estates, trusts, and S corporations, and certain other forms of compensation including non-employee compensation paid to workers. When using third-party information returns from the IRS, it is crucial not to double-count income information held by both the SSA and the IRS but to include all income known to either the IRS or the SSA alone. The SSA has developed algorithms and software to count all known income once and only once and, under SSA regulations, to include that income and categorize it as either countable income or countable resources.

The study determined that the IRS has additional information for 11.3 million, or 83 percent, of the 13.6 potential LIS beneficiaries based on the SSA information.[12] The IRS has additional income information for over 60 percent of individuals with no income known to the SSA. That percentage generally rises as income known to the SSA increases, reaching about 90 percent for individuals with \$10,000 to \$15,000 of SSA-known income. Above \$15,000 the

[12] An individual was included in the count of those for whom the IRS has additional information if the IRS has Schedules K-1 or Forms 1099 other than Forms 1099 from SSA, RRTA, or the Office of Personnel Management. Those 1099s were excluded because the SSA's file already includes such information. Forms W-2 (Wage and Tax Statements) were also excluded because the SSA already had information on wages and salaries. For technical reasons earnings from self-employment were not included. That exclusion should result in a small understatement of the individuals with incomes over the LIS thresholds and, thus, a modest overestimate of the remaining target population.

percentage declines somewhat. Table 2 shows the numbers of beneficiaries, by income level, for whom the IRS had additional income data.

These 11.3 million are the only potential LIS beneficiaries for whom cross-checking information with the IRS could show that they were not eligible for LIS benefits. Since the IRS does not have additional information about the remaining beneficiaries, their potential eligibility cannot be altered through the use of IRS data.

Table 2

Beneficiaries for Whom IRS Has Additional Information By Federal Pension and Earned Income

Income Classification and Income Level			Number of Potential Eligibles Based on SSA Information (000s)	IRS Has Additional Information		IRS Does NOT Have Additional Information	
				Number (000s)	*Percent*	Number (000s)	*Percent*
ALL INCOME LEVELS			13,570	11,271	***83.1***	2,299	***16.9***
Social Security and Railroad Retirement Benefits:							
		$0	282	179	***63.6***	103	***36.4***
Under		$5,000	994	724	***72.9***	270	***27.1***
$5,000	to	$10,000	4,899	3,731	***76.2***	1,168	***23.8***
$10,000	to	$15,000	7,280	6,538	***89.8***	742	***10.2***
$15,000	to	$20,000	83	72	***86.5***	11	***13.5***
$20,000	and over		31	26	***84.4***	5	***15.6***
Social Security and Railroad Retirement Benefits plus Wages and Salaries plus Other Federal Pensions:							
		$0	257	159	***61.8***	98	***38.2***
Under		$5,000	942	684	***72.6***	259	***27.4***
$5,000	to	$10,000	4,737	3,611	***76.2***	1,126	***23.8***
$10,000	to	$15,000	7,339	6,575	***89.6***	764	***10.4***
$15,000	to	$20,000	206	172	***83.2***	35	***16.8***
$20,000	and over		89	71	***79.5***	18	***20.5***

Department of the Treasury
Office of Tax Analsysis

Results Using Income and Resource Thresholds Applicable to Unmarried Beneficiaries

Because the SSA did not have information about marital status or dependents, the SSA asked for information about the impact on eligibility of using the additional IRS data together with the income and resources thresholds applicable for unmarried beneficiaries without any dependents.

Using IRS data and applying unmarried thresholds to all individuals would reduce the estimate of 13.6 million potential LIS eligibles who had not filed as of October, 2007 by 61 percent to 5.3 million. One third of the ineligibility is due to countable income over the threshold; almost one third is from countable resources over the threshold; and slightly over one third is due to both income and resources being over the thresholds. Generally, the percentage of individuals that would be shown to be ineligible based on tax information increases with income that is known to the SSA. There is a large increase in ineligibility when income known to the SSA reaches $10,000. Table 3-A shows the numbers and percentages of individuals who would be eligible and ineligible when tax information is considered. The table also shows whether ineligibility would be due to excess income, resources, or both.

The data in Table 3-A are classified by income level under three different measures of income that are currently available to the SSA. The first measure is total Social Security and Railroad Retirement benefits paid during the year. The second measure also includes wages and salaries.[13] The third and most comprehensive income measure also includes other Federal government pension benefits (from the OPM and the VA) in addition to Social Security and Railroad Retirement benefits and wages and salaries.

[13] As indicated in the Appendix, for technical reasons, earnings from self-employment were not included in the data used for this study. Given the population under consideration and the goal of this study, this omission is probably not significant. However, inclusion of self-employment income would result in some reduction in the target population for outreach purposes.

Table 3-A

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds for Unmarried Individuals, By Reason for Ineligibilty and By Federal Pension and Earned Income

Potential Beneficiaries With and Without Creditable Prescrption Drug Coverage

Income Classification and Income Level	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data: *Income < $15,315 and Resources <= $11,710)* Number (000s)	*Percent*	Not Eligible Based on IRS Data: Total Not Eligible: *Income or Resources or Both over Thresholds* Number (000s)	*Percent*	Reason Not Eligible: Due to Income Only (000s) *Income >= $15,315 and Resources <= $11,710*	Due to Resources Only (000s) *Income < $15,315 and Resources > $11,710*	Due to Both Income and Resources (000s) *Income >= $15,315 and Resources > $11,710*
ALL INCOME LEVELS	13,570	5,295	***39.0***	8,275	***61.0***	2,889	2,361	3,025
Social Security and Railroad Retirement Benefits:								
$0	282	150	***53.1***	133	***46.9***	33	47	52
Under $5,000	994	495	***49.8***	498	***50.2***	162	153	183
$5,000 to $10,000	4,899	2,736	***55.8***	2,163	***44.2***	596	1,049	518
$10,000 to $15,000	7,280	1,909	***26.2***	5,371	***73.8***	2,042	1,110	2,219
$15,000 to $20,000	83	4	***5.1***	79	***94.9***	42	1	35
$20,000 and over	31	0	***0.0***	31	***100.0***	13	0	17
Social Security and Railroad Retirement Benefits plus Wages and Salaries:								
$0	265	143	***54.0***	122	***46.0***	30	45	47
Under $5,000	966	487	***50.3***	480	***49.7***	153	152	175
$5,000 to $10,000	4,743	2,650	***55.9***	2,093	***44.1***	562	1,030	501
$10,000 to $15,000	7,306	1,944	***26.6***	5,362	***73.4***	2,029	1,118	2,214
$15,000 to $20,000	203	55	***27.2***	148	***72.8***	76	14	57
$20,000 and over	86	15	***17.8***	70	***82.2***	39	2	29
Social Security and Railroad Retirement Benefits plus Wages and Salaries plus Other Federal Pensions:								
$0	257	138	***54.0***	118	***46.0***	29	43	46
Under $5,000	942	474	***50.3***	468	***49.7***	149	147	171
$5,000 to $10,000	4,737	2,649	***55.9***	2,088	***44.1***	559	1,030	499
$10,000 to $15,000	7,339	1,962	***26.7***	5,377	***73.3***	2,033	1,124	2,219
$15,000 to $20,000	206	56	***27.0***	151	***73.0***	78	14	59
$20,000 and over	89	15	***17.1***	73	***82.9***	40	2	31

Department of the Treasury
Office of Tax Analysis

Zero (0) indicates fewer than 500 individuals.

Using the thresholds for unmarried individuals, 95 percent of individuals with Social Security benefits between $15,000 and $20,000 are ineligible as are virtually all those with benefits over $20,000. When income and asset information not known to the SSA is considered, it is likely that only a tiny fraction of these individuals would be eligible for LIS benefits. This information suggests that for all practical purposes individuals with Social Security benefits of at least $15,000 could be excluded from the SSA outreach programs without the need to use tax information.

The SSA has information from the CMS about each potential LIS beneficiary's Medicare Part D prescription drug coverage. The database for this study includes an indicator of whether the beneficiary is enrolled in Part D or has equivalent prescription drug coverage from another source, generally through medical coverage from an employer or former employer of the beneficiary or spouse. Tables 3-B and 3-C show the similar information as Table 3-A for beneficiaries who have creditable drug coverage (Table 3-B) or do not have creditable drug coverage (Table 3-C).

Only 10.9 million, or 80 percent, of the 13.6 million potential LIS eligible are believed to have creditable drug coverage. And, of those with creditable prescription drug coverage, 63 percent have income or resources that would exclude them from the LIS program whereas 61 percent of the overall group would be excluded. Of the 2.7 million, or 20 percent, without creditable drug coverage, only 51 percent have income or resources that would exclude them from the LIS program.

Because some of the potential LIS beneficiaries are married, eliminating potential beneficiaries from the SSA outreach efforts based on the lower income and resource thresholds applicable to unmarried individuals would incorrectly prevent the SSA from providing the benefits of direct outreach to some married beneficiaries who are actually eligible for LIS benefits. In the absence of information about marital status, such improper exclusion from outreach efforts can be prevented only by not eliminating anybody unless their income or resources exceed the thresholds that would be applicable to married couples. Even those higher thresholds would incorrectly exclude some individuals or married couples who have dependents.

Table 3-B

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds for Unmarried Individuals, By Reason for Ineligibilty and By Federal Pension and Earned Income

Only Potential Beneficiaries With Creditable Prescrption Drug Coverage

Income Classification and Income Level	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data: *Income < $15,315 and Resources <= $11,710)* Number (000s)	Eligible Based on IRS Data: *Percent*	Not Eligible Based on IRS Data: Total Not Eligible: *Income or Resources or Both over Thresholds* Number (000s)	Total Not Eligible: *Percent*	Reason Not Eligible: Due to Income Only (000s) *Income >= $15,315 and Resources <= $11,710*	Reason Not Eligible: Due to Resources Only (000s) *Income < $15,315 and Resources > $11,710*	Reason Not Eligible: Due to Both Income and Resources (000s) *Income >= $15,315 and Resources > $11,710*
ALL INCOME LEVELS	10,860	3,980	***36.6***	6,880	***63.4***	2,444	1,872	2,564
Social Security and Railroad Retirement Benefits:								
$0	157	57	***36.5***	100	***63.5***	27	33	40
Under $5,000	779	376	***48.2***	403	***51.8***	136	122	146
$5,000 to $10,000	3,816	2,096	***54.9***	1,720	***45.1***	483	832	405
$10,000 to $15,000	6,018	1,448	***24.1***	4,570	***75.9***	1,756	884	1,930
$15,000 to $20,000	67	2	***3.7***	64	***96.3***	33	1	30
$20,000 and over	23	0	***0.0***	23	***100.0***	9	0	13
Social Security and Railroad Retirement Benefits plus Earned Income:								
$0	144	53	***37.0***	91	***63.0***	24	31	36
Under $5,000	755	369	***48.9***	386	***51.1***	127	121	138
$5,000 to $10,000	3,694	2,031	***55.0***	1,663	***45.0***	454	818	391
$10,000 to $15,000	6,036	1,474	***24.4***	4,562	***75.6***	1,747	890	1,925
$15,000 to $20,000	165	41	***24.6***	124	***75.4***	63	12	50
$20,000 and over	65	11	***17.3***	54	***82.7***	28	1	24
Social Security and Railroad Retirement Benefits plus Earned Income plus Other Federal Pensions:								
$0	136	49	***36.0***	87	***64.0***	23	30	35
Under $5,000	734	358	***48.8***	376	***51.2***	124	117	135
$5,000 to $10,000	3,688	2,031	***55.1***	1,657	***44.9***	452	817	388
$10,000 to $15,000	6,066	1,490	***24.6***	4,576	***75.4***	1,751	896	1,930
$15,000 to $20,000	168	41	***24.4***	127	***75.6***	64	12	51
$20,000 and over	68	11	***16.6***	57	***83.4***	30	1	25

Department of the Treasury
Office of Tax Analysis

Zero (0) indicates fewer than 500 individuals.

Table 3-C

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds for Unmarried Individuals, By Reason for Ineligibilty and By Federal Pension and Earned Income

Only Potential Beneficiaries Without Creditable Prescrption Drug Coverage

Income Classification and Income Level	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data: Income < $15,315 and Resources <= $11,710) Number (000s)	Percent	Not Eligible Based on IRS Data: Total Not Eligible: Income or Resources or Both over Thresholds Number (000s)	Percent	Reason Not Eligible: Due to Income Only (000s) Income >= $15,315 and Resources <= $11,710	Due to Resources Only (000s) Income < $15,315 and Resources > $11,710	Due to Both Income and Resources (000s) Income >= $15,315 and Resources > $11,710
ALL INCOME LEVELS	2,710	1,315	***48.52***	1,395	***51.5***	445	489	461
Social Security and Railroad Retirement Benefits:								
$0	125	92	***73.9***	33	***26.1***	6	14	12
Under $5,000	214	119	***55.7***	95	***44.3***	27	31	37
$5,000 to $10,000	1,083	640	***59.1***	443	***40.9***	113	217	113
$10,000 to $15,000	1,263	461	***36.5***	802	***63.5***	285	226	290
$15,000 to $20,000	17	2	***10.9***	15	***89.1***	9	0	5
$20,000 and over	8	0	***0.0***	8	***100.0***	4	0	4
Social Security and Railroad Retirement Benefits plus Earned Income:								
$0	121	90	***74.3***	31	***25.7***	6	13	12
Under $5,000	211	118	***55.7***	94	***44.3***	26	31	37
$5,000 to $10,000	1,049	618	***59.0***	431	***41.0***	108	212	110
$10,000 to $15,000	1,270	470	***37.0***	800	***63.0***	282	228	290
$15,000 to $20,000	38	15	***38.6***	24	***61.4***	14	3	7
$20,000 and over	20	4	***19.3***	16	***80.7***	10	1	5
Social Security and Railroad Retirement Benefits plus Earned Income plus Other Federal Pensions:								
$0	120	89	***74.2***	31	***25.8***	6	13	12
Under $5,000	208	116	***55.6***	92	***44.4***	26	31	36
$5,000 to $10,000	1,049	619	***59.0***	430	***41.0***	107	212	110
$10,000 to $15,000	1,273	472	***37.1***	801	***62.9***	282	229	290
$15,000 to $20,000	39	15	***38.2***	24	***61.8***	14	3	8
$20,000 and over	21	4	***19.0***	17	***81.0***	11	1	5

Department of the Treasury
Office of Tax Analysis

Zero (0) indicates fewer than 500 individuals.

Results Using Income and Resource Thresholds Applicable to Married Beneficiaries

Using the higher thresholds for married, rather than unmarried, beneficiaries would result in fewer – but still a large number of – the SSA's pool of 13.6 million potential beneficiaries appearing to be ineligible for the LIS program. Using the married thresholds, only 48 percent, rather than 61 percent, of the SSA's potential eligible group would be eliminated from the need for outreach. Using the married thresholds, 7.1 million beneficiaries appear to be eligible, whereas 5.3 million appear to be eligible using the unmarried thresholds.

Tables 4-A, 4-B, and 4-C are similar to Tables 3-A, 3-B, and 3-C but contain the results of applying the married thresholds.

Table 4-A

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds for Married Individuals, By Reason for Ineligibilty and By Federal Pension and Earned Income

Potential Beneficiaries With and Without Creditable Prescrption Drug Coverage

Income Classification and Income Level	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data: *Income < $20,535 and Resources <= $23,410*		Not Eligible Based on IRS Data: Total Not Eligible: *Income or Resources or Both over Thresholds*		Reason Not Eligible: Due to Income Only (000s)	Due to Resources Only (000s)	Due to Both Income and Resources (000s)
		Number (000s)	*Percent*	Number (000s)	*Percent*	*Income >= $20,535 and Resources <= $23,410*	*Income < $20,535 and Resources > $23,410*	*Income >= $20,535 and Resources > $23,410*
ALL INCOME LEVELS	13,570	7,053	***52.0***	6,517	***48.0***	2,155	2,541	1,821
Social Security and Railroad Retirement Benefits:								
$0	282	164	***58.2***	118	***41.8***	35	42	40
Under $5,000	994	567	***57.0***	427	***43.0***	159	136	132
$5,000 to $10,000	4,899	3,240	***66.1***	1,659	***33.9***	414	939	306
$10,000 to $15,000	7,280	3,055	***42.0***	4,225	***58.0***	1,505	1,416	1,304
$15,000 to $20,000	83	26	***30.7***	58	***69.3***	27	8	23
$20,000 and over	31	1	***2.4***	30	***97.6***	14	0	15
Social Security and Railroad Retirement Benefits plus Earned Income:								
$0	265	157	***59.1***	109	***40.9***	31	41	37
Under $5,000	966	557	***57.6***	410	***42.4***	148	135	127
$5,000 to $10,000	4,743	3,132	***66.0***	1,611	***34.0***	393	921	297
$10,000 to $15,000	7,306	3,087	***42.3***	4,219	***57.7***	1,497	1,420	1,302
$15,000 to $20,000	203	98	***48.0***	106	***52.0***	49	22	34
$20,000 and over	86	23	***26.9***	63	***73.1***	35	3	25
Social Security and Railroad Retirement Benefits plus Earned Income plus Other Federal Pensions:								
$0	257	151	***58.9***	106	***41.1***	31	39	36
Under $5,000	942	542	***57.5***	401	***42.5***	146	130	124
$5,000 to $10,000	4,737	3,130	***66.1***	1,607	***33.9***	392	920	295
$10,000 to $15,000	7,339	3,108	***42.4***	4,231	***57.6***	1,500	1,426	1,305
$15,000 to $20,000	206	99	***48.0***	107	***52.0***	50	23	35
$20,000 and over	89	23	***26.1***	66	***73.9***	37	3	26

Department of the Treasury
Office of Tax Analysis

Zero (0) indicates fewer than 500 individuals.

Table 4-B

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds for Married Individuals, By Reason for Ineligibilty and By Federal Pension and Earned Income

Only Potential Beneficiaries With Creditable Prescrption Drug Coverage

Income Classification and Income Level	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data: *Income < $20,535 and Resources <= $23,410* Number (000s)	*Percent*	Not Eligible Based on IRS Data: Total Not Eligible: *Income or Resources or Both over Thresholds* Number (000s)	*Percent*	Reason Not Eligible: Due to Income Only (000s) *Income >= $20,535 and Resources <= $23,410*	Due to Resources Only (000s) *Income < $20,535 and Resources > $23,410*	Due to Both Income and Resources (000s) *Income >= $20,535 and Resources > $23,410*
ALL INCOME LEVELS	10,860	5,422	***49.9***	5,437	***50.1***	1,849	2,037	1,551
Social Security and Railroad Retirement Benefits:								
$0	157	68	***43.3***	89	***56.7***	28	30	31
Under $5,000	779	428	***55.0***	351	***45.0***	138	106	107
$5,000 to $10,000	3,816	2,500	***65.5***	1,316	***34.5***	339	739	238
$10,000 to $15,000	6,018	2,408	***40.0***	3,609	***60.0***	1,310	1,157	1,142
$15,000 to $20,000	67	17	***25.8***	50	***74.2***	24	5	21
$20,000 and over	23	0	***2.1***	22	***97.9***	10	0	12
Social Security and Railroad Retirement Benefits plus Earned Income:								
$0	144	63	***43.8***	81	***56.2***	25	28	28
Under $5,000	755	420	***55.6***	335	***44.4***	128	105	102
$5,000 to $10,000	3,694	2,418	***65.5***	1,276	***34.5***	321	725	230
$10,000 to $15,000	6,036	2,432	***40.3***	3,604	***59.7***	1,304	1,159	1,140
$15,000 to $20,000	165	72	***43.8***	93	***56.2***	44	18	31
$20,000 and over	65	16	***25.1***	49	***74.9***	27	2	20
Social Security and Railroad Retirement Benefits plus Earned Income plus Other Federal Pensions:								
$0	136	58	***42.5***	78	***57.5***	24	27	27
Under $5,000	734	407	***55.5***	327	***44.5***	126	101	100
$5,000 to $10,000	3,688	2,416	***65.5***	1,272	***34.5***	320	724	229
$10,000 to $15,000	6,066	2,451	***40.4***	3,615	***59.6***	1,307	1,165	1,143
$15,000 to $20,000	168	74	***44.0***	94	***56.0***	44	18	32
$20,000 and over	68	16	***24.2***	51	***75.8***	29	2	21

Department of the Treasury
Office of Tax Analysis

Zero (0) indicates fewer than 500 individuals.

Table 4-C

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds for Married Individuals, By Reason for Ineligibilty and By Federal Pension and Earned Income

Only Potential Beneficiaries Without Creditable Prescrption Drug Coverage

Income Classification and Income Level	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data: *Income < $20,535 and Resources <= $23,410*		Not Eligible Based on IRS Data: Total Not Eligible: *Income or Resources or Both over Thresholds*		Reason Not Eligible: Due to Income Only (000s)	Reason Not Eligible: Due to Resources Only (000s)	Reason Not Eligible: Due to Both Income and Resources (000s)
		Number (000s)	*Percent*	Number (000s)	*Percent*	*Income >= $20,535 and Resources <= $23,410*	*Income < $20,535 and Resources > $23,410*	*Income >= $20,535 and Resources > $23,410*
ALL INCOME LEVELS	2,710	1,630	***60.2***	1,080	***39.8***	306	504	270
Social Security and Railroad Retirement Benefits:								
$0	125	96	***77.0***	29	***23.0***	7	13	9
Under $5,000	214	138	***64.6***	76	***35.4***	21	30	25
$5,000 to $10,000	1,083	740	***68.3***	343	***31.7***	76	200	68
$10,000 to $15,000	1,263	647	***51.2***	616	***48.8***	195	259	162
$15,000 to $20,000	17	8	***50.6***	8	***49.4***	3	2	3
$20,000 and over	8	0	***3.3***	8	***96.7***	4	0	4
Social Security and Railroad Retirement Benefits plus Earned Income:								
$0	121	94	***77.3***	27	***22.7***	6	12	9
Under $5,000	211	136	***64.6***	75	***35.4***	20	30	24
$5,000 to $10,000	1,049	714	***68.0***	335	***32.0***	72	196	67
$10,000 to $15,000	1,270	655	***51.6***	615	***48.4***	193	260	162
$15,000 to $20,000	38	25	***65.6***	13	***34.4***	5	4	3
$20,000 and over	20	7	***32.8***	14	***67.2***	8	1	5
Social Security and Railroad Retirement Benefits plus Earned Income plus Other Federal Pensions:								
$0	120	93	***77.3***	27	***22.7***	6	12	9
Under $5,000	208	134	***64.6***	74	***35.4***	20	30	24
$5,000 to $10,000	1,049	714	***68.0***	335	***32.0***	72	196	67
$10,000 to $15,000	1,273	657	***51.6***	616	***48.4***	193	261	162
$15,000 to $20,000	39	25	***65.1***	14	***34.9***	5	5	4
$20,000 and over	21	7	***32.2***	14	***67.8***	9	1	5

Department of the Treasury
Office of Tax Analysis

Zero (0) indicates fewer than 500 individuals.

Results Using Income and Resource Thresholds Applicable to Marital Status

Although the SSA was not able to supply information about the marital status of the 13.6 million beneficiaries who it believes might be eligible for the LIS program, the IRS does have information about marital status for individuals who have actually filed income tax returns. Because third-party information returns are necessary to provide the information needed to calculate countable income and countable resources for LIS purposes, and because the SSA does receive marital status information when beneficiaries actually apply for LIS benefits, the SSA has not needed marital status information from individual income tax returns. However, for purposes of better targeting outreach efforts to beneficiaries who have not filed LIS applications, the IRS marital status information may be useful – even though it is available only for those who do file income tax returns.

IRS data indicate that 9.3 million, or 68 percent, of the 13.6 million that the SSA has identified as potential beneficiaries have actually filed income tax returns. Of those, 5.5 million filed as "married filing jointly" indicating that they were married.[14] Another 3.3 million filed tax returns using filing statuses that indicated that they were not married.[15]

If the thresholds for married individuals are applied to those who have filed joint tax returns and to those who have not filed tax returns (and, hence, whose marital status is not known) and if the thresholds for unmarried individuals are applied to those who have filed tax returns using other filing statuses, the result is that the number of potential LIS eligibles is reduced by 51 percent to 6.6 million individuals.[16] The reduction to 6.6 million potentially eligible individuals is based only on use of marital status dependent thresholds. It does not

[14] For the year in which a spouse dies, the surviving spouse is entitled to file a joint return. In such instances, the LIS eligibility determination based on the use of tax information may be incorrect, with the possible error being either an incorrect indication of eligibility or ineligibility (if spousal data were also included). Further consideration needs to be given to minimizing or eliminating this type of possible error.

[15] The current study distinguished only between taxpayers who filed tax returns using the "married filing jointly" filing status and all other filing status. A small percentage of those using filing statuses other than married filing jointly used the "married filing separately" filing status. Such individuals are married, and IRS generally has information about the social security number of the spouse just as it does for those filing joint tax returns. For purposes of this study, married filing separately returns were not distinguished from returns of single persons or heads of household, but they could be in the future. It is estimated that correction for married filing separately returns would alter the LIS eligibility of fewer than one hundred thousand returns.

[16] If the unmarried (lower) thresholds were applied to those who have not filed income tax returns, the number of LIS eligibles would be reduced to 5.9 million – a difference of 0.7 million., although some of these additional exclusions would be incorrect.

reflect the inclusion of the income or resources of the spouses of married individuals, as is required for eligibility determinations. Thus, it may still overstate the number of potential eligibles.

The details of LIS eligibility and ineligibility using the thresholds appropriate to marital status are shown in Table 5 by income tax filing status and by the broadest of the three income measures used in the previous tables, that is, the sum of Social Security, Railroad Retirement, and other Federal pensions, VA benefits, and wages and salaries. The columns in Table 5 are similar to those in Tables 3-A and 4-A, but for each tax filing status group, the thresholds appropriate to that status were applied.

Table 5

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Using Income and Resource Thresholds Appropriate for Marital Status, By Reason for Ineligibilty and By Federal Pension and Earned Income

Marital Status and Income Level (Social Security and Railroad Retirement Benefits plus Wages and Salaries plus Other Federal Pensions)	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data		Not Eligible Based on IRS Data				
				Total Not Eligible		Reason Not Eligible 1/		
		Number (000s)	*Percent*	Number (000s)	*Percent*	Due to Income Only (000s)	Due to Resources Only (000s)	Due to Both Income and Resources (000s)
All Tax Return Filers and Nonfilers Combined								
---- All Incomes ----	**13,570**	**6,616**	***48.8***	**6,954**	***51.2***	**2,263**	**2,305**	**2,386**
$0	257	146	***56.8***	111	***43.2***	30	40	41
Under $5,000	942	519	***55.1***	423	***44.9***	150	125	149
$5,000 to $10,000	4,737	3,012	***63.6***	1,725	***36.4***	428	905	393
$10,000 to $15,000	7,339	2,832	***38.6***	4,507	***61.4***	1,561	1,214	1,732
$15,000 to $20,000	206	87	***42.4***	119	***57.6***	56	19	44
$20,000 and over	89	20	***23.0***	68	***77.0***	39	2	27
No Tax Return Filed								
---- All Incomes ----	4,236	3,167	***74.8***	1,068	***25.2***	310	634	123
$0	104	92	***88.8***	12	***11.2***	2	7	3
Under $5,000	271	225	***83.3***	45	***16.7***	12	27	6
$5,000 to $10,000	1,635	1,327	***81.2***	307	***18.8***	50	231	27
$10,000 to $15,000	2,166	1,489	***68.7***	677	***31.3***	230	365	82
$15,000 to $20,000	43	29	***68.1***	14	***31.9***	7	3	3
$20,000 and over	17	5	***26.1***	13	***73.9***	9	1	4
Joint Tax Return With Spouse								
---- All Incomes ----	5,501	2,867	***52.1***	2,634	***47.9***	1,012	883	738
$0	82	35	***43.1***	47	***56.9***	14	17	15
Under $5,000	477	269	***56.3***	208	***43.7***	82	66	61
$5,000 to $10,000	2,144	1,457	***68.0***	686	***32.0***	195	378	113
$10,000 to $15,000	2,656	1,053	***39.7***	1,603	***60.3***	675	412	516
$15,000 to $20,000	96	42	***43.7***	54	***56.3***	26	10	18
$20,000 and over	47	10	***22.2***	36	***77.8***	20	1	16
Other Than Joint Tax Return								
---- All Incomes ----	3,833	582	***15.2***	3,251	***84.8***	940	787	1,524
$0	70	18	***25.3***	53	***74.7***	13	16	23
Under $5,000	195	25	***12.7***	170	***87.3***	56	31	82
$5,000 to $10,000	959	227	***23.7***	732	***76.3***	182	296	254
$10,000 to $15,000	2,517	290	***11.5***	2,227	***88.5***	656	437	1,134
$15,000 to $20,000	68	17	***24.4***	51	***75.6***	22	6	23
$20,000 and over	25	5	***22.4***	19	***77.6***	10	1	8

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1/ For married taxpayers filing joint returns and for nonfilers, the thresholds are $20,535 (income) and $23,410 (resources). For taxpayers filing other than joint returns, the thresholds are $15,515 (income) and $11,710 (resources).

Could Eligible Beneficiaries Be Targeted Further?

One further step could be taken to target married beneficiaries. In the results shown in the previous sections, the income and resources (assets) of one spouse have been measured against the LIS thresholds. However, under the LIS program, eligibility for a married individual is based on whether the combined income and resources of both spouses are less than the income and resource thresholds for married individuals. Given that the IRS can identify the social security number of the spouses of those who have filed tax returns indicating that they are married (those filing as either married filing jointly or married filing separately), it may be possible to develop a system that would: extract the third-party information returns filed under the spouse's social security number; extract information from SSA, OPM, and VA records for the spouse; combine all of the information for both spouses; recalculate countable income and countable resources for the couple; and, finally, compare the recalculated income and resources again the LIS thresholds. Similar calculations may be possible for beneficiaries who do not file income tax returns but for whom the SSA may have information about marital status.[17]

To the extent that both spouses receive benefits and have income and resources, it is likely that using combined income and resources of married couples would result in eliminating substantially more married individuals from the SSA's original group of individuals potentially eligible for LIS benefits.

The result of calculations using the combined income and resources of both spouses would yield a more accurate estimate of the total size of the LIS-eligible population, although it probably still would overstate the actual population to the extent that combined income would not be known for some of the married potential LIS eligibles who do not file Federal income tax returns and understate the actual population to the extent that thresholds would not be increased to reflect dependents.

Crude Estimate of Targeting from Use of Spousal Data

A very crude estimate of the additional targeting that could be achieved through the use of spousal income and resource information can be derived by making some assumptions about

[17] The SSA knows about spouses and can identify them only when the benefits of one person are based on the earnings record or benefits of a spouse.

the extent of spousal income and assets. To obtain one such estimate, it was assumed that the combined income of both spouses would be 125 percent of the income of the known spouse and that combined resources/assets would be 110 percent. Since there is little reason to believe that the spouse for whom we do not have information is the spouse with the lower income or resources, the 25 percent and 10 percent, respectively, gross up factors are probably conservative and result in overstating the number of individuals who are potentially eligible for LIS benefits. It was also assumed that 25 percent of the individuals who did not file Federal income tax returns were married. Again, that is a conservative assumption that tends to overstate eligibility since 59 percent of the group who actually filed tax returns were married.

Table 6 shows the estimated number of individuals shown to be eligible and ineligible based on using the above-mentioned assumptions to estimate the combined income and assets of married couples. Under these assumed levels of income and assets, the remaining number of potentially eligible individuals would be under 5.6 million, which is 1.0 million fewer than if marital status appropriate thresholds were applied but incomes and assets were not grossed-up to reflect spousal income and assets (see Table 5).

These results tend to confirm that using the combined incomes and resources of both spouses could substantially reduce the target population and thus further improve the targeting that can be achieved without any information about spousal incomes and assets.

Table 6

Percentages of Potential Low Income Subsidy Eligibles Screened Out Through IRS Data Matching Including Assumed Spousal Income and Resources, Using Income and Resource Thresholds Appropriate for Marital Status, By Reason for Ineligibilty and By Federal Pension and Earned Income

Marital Status and Income Level (Social Security and Railroad Retirement Benefits plus Wages and Salaries plus Other Federal Pensions)	Total Number of Potential Eligibles Based on SSA Information (000s)	Eligible Based on IRS Data		Not Eligible Based on IRS Data				
				Total Not Eligible		Reason Not Eligible 1/		
		Number (000s)	*Percent*	Number (000s)	*Percent*	Due to Income Only (000s)	Due to Resources Only (000s)	Due to Both Income and Resources (000s)
All Tax Return Filers and Nonfilers Combined								
---- All Incomes ----	**13,570**	**5,555**	***40.9***	**8,015**	***59.1***	**2,963**	**2,258**	**2,795**
$0	257	141	***55.1***	115	***44.9***	32	40	43
Under $5,000	942	492	***52.2***	451	***47.8***	160	133	158
$5,000 to $10,000	4,737	2,760	***58.3***	1,978	***41.7***	562	962	454
$10,000 to $15,000	7,339	2,084	***28.4***	5,255	***71.6***	2,090	1,107	2,059
$15,000 to $20,000	206	62	***30.1***	144	***69.9***	78	14	52
$20,000 and over	89	16	***18.5***	72	***81.5***	42	2	28
No Tax Return Filed and Assumed to be Married								
---- All Incomes ----	3,177	1,774	***55.8***	1,403	***44.2***	543	580	281
$0	78	68	***87.0***	10	***13.0***	2	6	2
Under $5,000	203	155	***76.5***	48	***23.5***	12	28	8
$5,000 to $10,000	1,226	853	***69.6***	373	***30.4***	84	247	43
$10,000 to $15,000	1,625	685	***42.1***	940	***57.9***	425	297	218
$15,000 to $20,000	32	10	***32.3***	22	***67.7***	14	1	6
$20,000 and over	13	2	***17.0***	11	***83.0***	7	0	3
No Tax Return Filed and Assumed to be Unmarried								
---- All Incomes ----	1,059	696	***65.7***	363	***34.3***	163	146	54
$0	26	23	***88.3***	3	***11.7***	1	2	1
Under $5,000	68	55	***81.2***	13	***18.8***	4	7	2
$5,000 to $10,000	409	317	***77.5***	92	***22.5***	24	59	9
$10,000 to $15,000	542	295	***54.5***	246	***45.5***	128	78	40
$15,000 to $20,000	11	5	***49.3***	5	***50.7***	4	1	1
$20,000 and over	4	1	***19.5***	4	***80.5***	2	0	1
Joint Tax Return With Spouse								
---- All Incomes ----	5,501	2,504	***45.5***	2,997	***54.5***	1,317	745	936
$0	82	33	***39.9***	49	***60.1***	16	17	17
Under $5,000	477	257	***53.8***	220	***46.2***	89	66	66
$5,000 to $10,000	2,144	1,363	***63.6***	781	***36.4***	272	361	148
$10,000 to $15,000	2,656	813	***30.6***	1,843	***69.4***	881	295	667
$15,000 to $20,000	96	30	***31.4***	66	***68.6***	37	6	22
$20,000 and over	47	8	***16.8***	39	***83.2***	22	0	16
Other Than Joint Tax Return								
---- All Incomes ----	3,833	582	***15.2***	3,251	***84.8***	940	787	1,524
$0	70	18	***25.3***	53	***74.7***	13	16	23
Under $5,000	195	25	***12.7***	170	***87.3***	56	31	82
$5,000 to $10,000	959	227	***23.7***	732	***76.3***	182	296	254
$10,000 to $15,000	2,517	290	***11.5***	2,227	***88.5***	656	437	1,134
$15,000 to $20,000	68	17	***24.4***	51	***75.6***	22	6	23
$20,000 and over	25	5	***22.4***	19	***77.6***	10	1	8

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1/ For married individuals, the thresholds are $20,535 (income) and $23,410 (resources).
For unmarirred individuals, the thresholds are $15,515 (income) and $11,710 (resources).

Further Observations

By screening out some Medicare beneficiaries who the SSA believes have low incomes but who, from IRS information, actually have incomes and imputed resources over the relevant threshold levels, the tax return data from the IRS could help to determine more accurately the number of current Medicare beneficiaries who may be eligible for LIS benefits and who the SSA should target for various outreach efforts. The more IRS data that are used, the more the target population could be reduced.

Under current law, the IRS discloses information from third-party information returns only after Medicare beneficiaries actually apply for LIS benefits. If the IRS provided similar information for all of the 13.6 million individuals who the SSA believes may be eligible for LIS but who had not applied as of March, 2007, 6.5 million individuals could be eliminated, leaving only 7.1 million individuals in need of further outreach by the SSA (see Table 4-A). If, in addition, the IRS supplied marital status information for individuals who have filed Federal income tax returns, an additional 0.5 million individuals could be eliminated, leaving only 6.6 million individuals who require outreach efforts by the SSA to ensure that they have an opportunity to apply for LIS benefits (see Table 5).

An additional substantial, but undetermined, reduction in the target population could be achieved by using a combination of additional information from the SSA and the IRS that is not used currently even for those who actually file LIS applications. The SSA could supply marital status information for potential eligibles (to the extent that the SSA has such information), and the IRS could extract marital status information for all other potential eligibles who have filed individual income tax returns. The IRS could extract third-party information returns for spouses, and the SSA could supply certain information about the spouses that is either not in the IRS databases or which is more readily available in the SSA databases. In particular, the SSA has information about nontaxable VA benefits, and the information about wages and salaries that the SSA receives from the OCSE is more readily available. The IRS could supply data about income from self-employment for those who file income tax returns. Finally, the income information for both spouses could be combined to determine countable income and countable resources of the couple jointly. Clearly, the use of combined income and assets would move more married couples above the LIS thresholds, thereby further reducing the target population. Of course, each of these changes in the items of tax information to be disclosed would require statutory changes to section 6103 of the Internal Revenue Code.

The benefits of using IRS data would, however, be overstated slightly unless the thresholds used were adjusted to reflect any dependents of the individual or married couple. While it is not believed that such adjustments would have a major impact on the number of targeted individuals, not making those adjustments could adversely affect the individuals who are eliminated incorrectly. More importantly, potential LIS beneficiaries incorrectly eliminated due to data errors or duplication of income or asset information that is inherent in certain IRS information would not benefit from direct SSA outreach efforts and might incorrectly believe that they are not eligible for LIS benefits.

Even though the use of IRS tax return information would reduce outreach and enrollment costs for the LIS program and increase LIS enrollment, the use of the IRS data under current procedures would result in disclosure of very detailed tax data that would otherwise be confidential. The disclosure would be for over 13 million individuals and would include the name and taxpayer identification number of every payor and the amount and type of income received from every payor that filed a third-party information return for the beneficiary or the beneficiary's spouse.

Among the reasons for the statutory system of confidentiality of tax information is the belief that confidentiality promotes higher levels of taxpayer compliance and, consequently, higher tax revenues. Thus, there is a trade-off between the benefits of confidentiality of tax information and the possible benefits of disclosure for purposes of reducing the costs of targeting individuals and encouraging them to apply for LIS benefits. In this instance, the tax information would help only to eliminate some individuals who the SSA believes may be eligible and, thereby, either reduce the total costs of outreach or, for the same total expenditure, enable more vigorous outreach to the targeted group, or both. Any statutory change to permit disclosure of tax information for this purpose would be a public policy decision based on the relative benefits of confidentiality and disclosure.

If use of taxpayer data were deemed appropriate for targeting potential LIS beneficiaries, consideration should be given to the use of procedures that would reduce the disclosure of tax information. If the same procedures were used for prescreening that are used currently only after a LIS application has been filed, detailed information from each third-party information return would be disclosed to the SSA. Different procedures could reduce the amount and detail of data that are disclosed. The following describes one possible alternative set of procedures that could be used for prescreening. This alternative set of procedures is largely, but not entirely, independent of the extent of IRS information that would be used for prescreening.

- The SSA would attempt to expand the use of information already in its possession to eliminate some potentially eligible individuals so that IRS data would not be required for those eliminated through use of the SSA's own data.
  - The SSA would use its own databases to locate information about the existence of a spouse. This is particularly important for the group of potential LIS beneficiaries who do not file income tax returns and, hence, for whom the IRS does not have any method of associating third-party information returns for both spouses.
  - The SSA might also be able to expand the use of earned income information from its own earnings records that it currently collects for social security retirement and disability benefit purposes, although such use would require a legislative change.
  - The SSA would use its own information about spouses, spousal earnings, and spousal benefits to eliminate some potential eligibles and reduce the target population even before requesting tax information from the IRS.
- The amount of tax information that is disclosed for each individual could be greatly reduced if the IRS rather than the SSA did the computation of countable income and countable resources (assets).
  - The SSA would send to the IRS the data that it possesses, including data that the IRS does not have (such as certain nontaxable VA benefits), data that are more readily available from the SSA's databases or to which it has access (such as earnings and Federal government pension benefits), and any information about spouses, dependents, and dependents of spouses.

  - The IRS would add its own information from third-party information returns including information about spouses, dependents based on Federal individual income tax information, and third-party information for spouses.
  - The IRS would use the combined information to calculate countable income and countable resources (assets) under procedures specified by the SSA.
  - The combined information also would be used to determine the thresholds (based on marital status and number of dependents) above which the individual would not be eligible for any LIS benefits.
  - The IRS would compare the computed income and resources (assets) to the relevant thresholds.
- The IRS would send to the SSA the computed countable income and countable resources and an indicator of whether the potential beneficiary met the income and resource (asset) criteria for LIS benefits. Implicitly, this would also disclose that the IRS had some information about the individual and that the individual had filed a Federal income tax return (including an indication of filing status).
- If the potential beneficiary did not file a LIS application, no further disclosure would be required.
- If a LIS application were filed, the SSA would use any additional information from the application to adjust the countable income and resource (asset) amounts and/or the relevant threshold levels, would compare the income and resources (assets) to the recomputed thresholds, and would make a determination of eligibility or ineligibility.
- Detailed tax information about payments from third parties would have to be disclosed to the SSA only if the individual appealed an SSA rejection of an actual LIS application. In that very small percentage of cases, the detailed tax information would have to be provided to the SSA so that SSA staff could work with the potential beneficiary to resolve possible errors or discrepancies and make a final determination of LIS eligibility. The tax information that would be disclosed would be what is disclosed currently for all LIS applicants but would also include information about the fact of filing an income tax return

(if a return were filed), information from the tax return about the existence of a spouse, and tax information for the spouse (if any).

- Under this possible set of procedures, for most potential beneficiaries, the tax information disclosed to the SSA would be very limited.
- There is precedent for the IRS transmitting indicators of eligibility. Since 2007, the Medicare Part B premiums of a small percentage of higher income beneficiaries are adjusted based on the income shown on their Federal income tax returns. The IRS uses the tax information to calculate income under the modified adjusted gross income concept used for premium determination. Then, the IRS transmits to the SSA an indicator of the income range of the beneficiary, but the actual income amount is not provided to the SSA. The SSA uses the indicator of the income range to adjust the Part B premium.
- The IRS' processing of the combined SSA and IRS information into countable income and countable resources (assets) and then disclosing only the countable income and resources (assets) amounts, a few items that would disclose marital status and/or the fact of filing an income tax return, and an indicator of eligibility would greatly reduce the disclosure of tax information except for the tiny fraction of beneficiaries who disputed an SSA rejection of an actual LIS application.

The IRS' processing of the combined SSA and IRS information into countable income and countable resources (assets) and then disclosing only the results of those calculations would represent a change in the mission of the IRS, which is to administer the tax system. Historically, the IRS participation in, and assistance to, low-income-based benefit programs has been to disclose applicants' return information to the administering agency to the extent authorized by the Internal Revenue Code, and the administering agency determines eligibility.

In addition, even assuming that the IRS were reimbursed for its processing costs, the processing of the extracted information would divert scarce resources that could not be replaced easily or quickly and, thereby, could result in lower levels of tax compliance and reduced tax receipts.

In closing, it should be noted that the SSA, the IRS, and its parent agency, the Department of the Treasury, have been working together since 2003 on various disclosure programs related to the transitional prescription drug program under Medicare Part D, the income-related premium adjustment program under Medicare Part B, and the low income prescription drug subsidy program under Medicare Part D. The relationship has been harmonious, productive, successful, and efficient. Each of these agencies is very sensitive to the costs and benefits of information disclosures and exchanges. They have worked together to develop systems that provide the information in the least burdensome manner and with the least amount of unnecessary disclosure. If the Congress deems that further disclosure of tax information for purposes of targeting potential LIS beneficiaries is appropriate, these agencies should be given the opportunity to develop the details of the plan that they jointly deem to be most efficient in supplying the appropriate information to the SSA while disclosing the minimum amount of tax return information.

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This study was prepared by Allen H. Lerman of the Office of Tax Analysis. Portia DeFilippes assisted in the preparation of the data.

Appendix

Income and Resources for the Medicare Part D Low-Income Subsidy

Income and resources (essentially assets) counted for purposes of the Medicare Part D Low Income Subsidy (LIS) are defined by statute and must be determined under SSA procedures. Beneficiaries with either countable income or countable resources exceeding threshold levels are not eligible for the LIS.

Earned income, unearned income, and resources (assets) must be determined separately. In addition, resources consist of the sum of those items that can be found directly and those that must be imputed from the income they generate.

This Appendix explains the computation of income and resources for purposes of the Medicare Part D Low Income Subsidy (LIS).

A. <u>Countable Income Computation</u>

The total countable income of an individual who is potentially eligible for the low income subsidy includes earned income and unearned income. Earned income consists of total wages and net earnings from self-employment. Unearned income is the total of all other items defined as income for purpose of the LIS program that are not counted as earned income.

Because there are different exclusions for earned and unearned income, countable earned income and countable unearned income must be computed separately. The amounts net of the appropriate exclusions are combined to determine the individual's total countable income.

A.1. Countable Earned Income

Earned income is the sum of total wages and salaries and net self-employment income.

For various technical reasons, earnings from self-employment were not included in the data used for this study Thus, countable earned income is understated for some individuals. As a result, the number of individuals whose income would exceed the relevant threshold is understated. Given the population under consideration, this omission may not have a major impact on the results.

Countable earned income is determined as follows:

Let: W represent total wages and salaries and net self-employment income, and
E represent Countable Earned Income.

Then: $E = 0.5 \times \max(W - \$780, 0)$ Note: The $780 exclusion is at an annual rate.

A.2. Countable Unearned Income

Unearned income is the total of Social Security (SS), Railroad Retirement (RRTA), and VA benefits plus the sum of various items from IRS information returns.

The content of the SS/RRTA benefit income information is shown in Table A-1.

Information about VA benefits is from SSA data.

Both the IRS and the SSA have information about Federal pension benefits paid through the Office of Personnel Management (OPM).

Details of the items of unearned income from IRS information returns are shown in Table A-2.

Countable unearned income is determined as follows:

Let: S represent SS/RRTA benefits,
O represent OPM benefits,
V represent VA benefits,
P represent unearned income from IRS information returns (including OPM benefits), and
U represent Countable Unearned Income

Then: $U = S + V + P - \$240$ Note: The $240 exclusion is at an annual rate.

For purposes of this study, OPM benefits were included based on data from the IRS, but VA benefits were not included. Thus, countable unearned income and total countable income are understated for a small percentage of individuals. As a result, the number of individuals whose income would exceed the relevant threshold is slightly understated.

A.3. Total Countable Income

Total countable income is the sum of countable earned income and countable unearned income.

Let: E represent Countable Earned Income (as described above),
U represent Countable Unearned Income (as described above), and
Y represent Total Countable Income.

Then: $Y = E + U$

Under the Supplemental Security Income rules that are used for the Part D calculations, any portion of the $240 unearned income exclusion not used to exclude unearned income would be applied to the individual's earned income. However, because virtually the entire sample population has gross unearned income from Social Security benefits or other pensions exceeding $240, in the calculations the unused portion of the $240 general exclusion for unearned income was not applied to earned income.

B. Countable Resource Computation

Resources (assets) consist of the sum of those items that can be found directly on IRS information returns and those that are imputed from the income they generate, as shown on IRS information returns. Thus, the appropriate resource items or indicators of resources must be totaled for each beneficiary from all of the IRS information returns for that beneficiary.

B.1 Directly Determined Resources

Some resources can be determined directly from items contained in various IRS information returns. The list of the relevant items of resources is shown in Table A-3.

For each beneficiary, the relevant items from all information returns for that beneficiary are totaled.

B.2 Indirectly Determined Resources

Some resources cannot be determined directly from IRS data, but they can be imputed from the income they generate during the year. It is assumed that resources generate returns of 5 percent per year. The indicators of resources are contained in various IRS information returns. The list of the relevant items that are used to impute resources is shown in Table A-4.

For each beneficiary, the relevant items from all information returns for that beneficiary are totaled. Indirectly determined resources are then calculated as 20 times the total of the Indicators of Resources for that beneficiary (20 = 1 / 0.05).

Let: I^* represent the Indicators of Resources
(the total amount as calculated as indicated from Table A-4), and
I represent Indirectly Determined Resources

Then: $I = I^* \times 20$

B.3. Total Countable Resources

Although certain assets are excluded from counting as resources under the Part D rules, for purposes of the study, it was assumed that the only resource exclusion was a $1,500 burial expense allowance. The burial expense allowance was not deducted in calculating Total Countable Resources. Rather, the $1,500 allowance was incorporated in the resource thresholds.

Let: D represent Directly Determined Resources
I^* represent the Indicators of Resources
I represent Indirectly Determined Resources, and
R represent Total Countable Resources.

Then: $R = D + I$ or $R = D + (I^* \times 20)$

Table A-1

Unearned Income from SSA Sources

DIFSLA Document Code	Income Indicator	IRS Form	Form Line / Box	Type of Income
82	04	SSA-1099 RRB-1099		SSA and RRTA benefits
				Total Unearned Income From SSA (Total of the money amounts from the indicated lines or boxes from all documents for the beneficiary.)

Table A-2

Unearned Income from IRS Information Returns

DIFSLA Document Code	Income Indicator	IRS Form	Form Line / Box	Type of Income
65	74	1065-K1	2	Partnership Income: Real Estate
65	75	1065-K1	3	Partnership Income: Other Rental Income
66	32	1041-K1	6	Estate/Trust: Business income and passive income
66	90	1041-K1	7 & 8	Estate/Trust: Passive Income
67	73	1120S-K1	1	S Corp: Ordinary Income
67	74	1120S-K1	2	S Corp: Rental Real Estate
67	75	1120S-K1	3	S Corp: Other Rental
93	If:	1099-LTC	2	Long Term Care Insurance Contracts: Accelerated Death Benefits Paid
95	18	1099-MISC	1	Misc Income: Income received as rent
95	20	1099-MISC	3	Misc Income: Other income
98	39	1099-R	8	Pensions, Annuities: Other income
98	80	1099-R	1	Pensions, Annuities: Gross distribution
				Total Unearned Income from IRS (Total of the money amounts from the indicated lines or boxes from all documents for the beneficiary.)

Table A-3

Resources Directly Determined from IRS Information Returns

DIFSLA Document Code	**Income Indicator**	**IRS Form**	**Form Line / Box**	**Type of Income**
65	01	1065-K1	6a	Partnership Income: Dividends
65	19	1065-K1	7	Partnership Income: Royalties
65	97	1065-K1	8	Partnership Income: Short term capital gain
65	98	1065-K1	9a	Partnership Income: Long term capital gain
66	01	1041-K1	2a	Estate/Trust Income: Dividends
66	97	1041-K1	3	Estate/Trust Income: Short term capital gain
66	98	1041-K1	4a	Estate/Trust Income: Long term capital gain
67	19	1120S-K1	6	S Corp Income: Royalties
67	97	1120S-K1	7	S Corp Income: Short term capital gain
67	98	1120S-K1	8a	S Corp Income: Long term capital gain
75	50	1099-S	2	Real estate sales
79	61	1099-B	2	Stocks and bonds Proceeds
79	63	1099-B	11	Aggregate profit/ loss Futures Contracts
91	23	1099-DIV	2a	Dividends & Distributions: Long Term Capital gains
92	22	1099-INT	3	Interest Income: on U.S. savings bonds
94	2B	1099-SA	1	MSA Distributions: Gross benefits
95	19	1099-MISC	2	Misc Income: Royalties
98	38	1099-R	6	Pensions, Annuities: Unrealized appreciation
				Total Directly Determined Resources from IRS (Total of the money amounts from the indicated lines or boxes from all documents for the beneficiary.)

Table A-4

Resources Indirectly Determined from IRS Information Returns

DIFSLA Document Code	**Income Indicator**	**IRS Form**	**Form Line / Box**	**Type of Income**
65	02	1065-K1	5	Partnership Income: Interest
66	02	1041-K1	1	Estate/Trust: Interest
67	01	1120S-K1	5a	S Corp Income: Dividends
67	02	1120S-K1	4	S Corp Income: Interest
91	41	1099-DIV	1a	Dividends & Distributions: Ordinary Dividends
92	02	1099-INT	1	Interest paid by banks, credit unions etc.
95	30	1099-MISC	8	Misc Income: Substitute payments for dividends
96	02	1099-OID	2	OID: Interest
n/a		1099-Q	1	Qualified tuition program payments
				Total Indirectly Determined Resource Indicators from IRS (Total of the money amounts from the indicated lines or boxes from all documents for the beneficiary.)