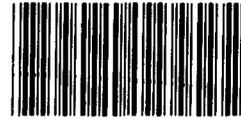


June 1992

SOCIAL SECURITY

Beneficiary Payment for Representative Payee Services



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Human Resources Division**B-249005**

June 29, 1992

**The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate****The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives**

The Omnibus Budget Reconciliation Act of 1990 (OBRA) included several provisions intended to strengthen the Social Security Administration's (SSA's) representative payee program. One provision created a 3-year program allowing certain nonprofit organizations approved by SSA to collect a fee from Social Security beneficiaries for providing representative payee services. As required by OBRA, we are reporting on the advantages and disadvantages of allowing the fee.

The amount of the fee cannot exceed the lesser of 10 percent of a beneficiary's total monthly SSA benefits or \$25 per month. The general rationale for allowing a fee is to reimburse organizations for a portion of their costs, including overhead. The fee in turn would help ensure that organizations would have sufficient resources to meet SSA's need for qualified payees.

SSA appoints representative payees for its beneficiaries who cannot manage their own finances because of their youth or mental or physical impairment. Payees receive the benefits directly from SSA and must use them only for the beneficiaries' needs. There are about 5 million beneficiaries with payees, most of whom are relatives of the beneficiaries. However, many payees are unrelated individuals, public or private institutions, court-appointed guardians, and public or private social service agencies.

We based our study primarily on telephone interviews of officials in 23 advocacy groups, 43 organizations approved to collect a fee for serving as representative payees, and 100 of SSA's 1,300 field offices. Of the 100 field offices, 64 were selected at random, and the other 36 had approved one or more of the 43 participating organizations. We sought the officials' opinions on the advantages and disadvantages of allowing the fee and on other matters related to the fee program. We also spoke with SSA headquarters officials and analyzed available representative payee data in

the agency's computerized files. Appendix I includes additional details on our scope and methodology.

Results in Brief

Among the groups we interviewed, the most frequently perceived advantages of the fee program were that it would attract additional nonprofit organizations to become representative payees, act as an incentive for nonprofit organizations already serving as payees to increase their Social Security client caseloads, and offset some of the costs of payee services incurred by participating organizations.

Although the fee program has been in operation for a relatively short time, several indicators suggest that it has made relatively little progress in achieving the expectations of the groups we interviewed. For example, as of January 15, 1992, the 43 organizations approved to collect the fee operated in areas served by only 36 of SSA's 1,300 field offices. Only one of the organizations was providing representative payee services for the first time, and almost one-fourth of them said that they did not expect to increase their Social Security client caseloads in the next 2 years. Finally, about one-fourth of the approved organizations did not serve one or more of the types of beneficiaries for which their approving SSA field offices cited critical needs, such as those with mental health problems or alcohol or drug addictions.

The most frequently cited disadvantage was that Social Security beneficiaries cannot afford a fee. To a much lesser extent, the next most frequently cited disadvantage was that the fee program may attract profiteering organizations.

Concern over the ability of Social Security beneficiaries to afford a fee may hinder the fee program's effectiveness in offsetting some of the costs of providing payee services. Some approved organizations were not charging a fee, while nearly a third were charging less than the maximum allowed. The primary reason given for these actions was the beneficiaries' inability to pay. Other organizations may not be participating in the fee program because they are philosophically opposed to collecting fees from Social Security beneficiaries.

Although we did not audit any of the approved organizations, we found that, as a group, they did not appear to have or display "profiteering" characteristics. For example, when the fee program began, the vast majority of the organizations had been in existence for 6 years or longer.

Also, the maximum possible revenues from fees represented less than 5 percent of current total revenues for about two-thirds of the organizations. Finally, as noted above, many approved organizations are not collecting the maximum allowed fee for all beneficiaries that they serve.

Because the fee program has been in operation for only a year, we believe it is too early to make conclusive judgments on its value. The Secretary of Health and Human Services (HHS) should report to your committees on the program's effectiveness upon its completion in 1994.

Background

SSA administers benefits for about 44 million people, including about 39 million under the Retirement, Survivors, and Disability Insurance programs (Social Security) and about 5 million under the Supplemental Security Income (SSI) program. Among the 5 million beneficiaries with representative payees, about 3.8 million are Social Security beneficiaries, and about 1.2 million are SSI recipients.

The Social Security Act requires representative payees for SSI recipients whose disabilities are due primarily to drug or alcohol addiction. Otherwise, SSA has broad authority to determine the need for payees and to appoint them. Under that authority, SSA field offices appoint payees for beneficiaries who are (1) under age 18, (2) legally incompetent, or (3) mentally or physically incapable of managing their benefits.

SSA field offices also have the general authority to withhold or suspend benefits for up to 30 days when no payee is available. However, the offices are to suspend benefits indefinitely when no payee is available for beneficiaries who are (1) legally incompetent, (2) under age 15, or (3) SSI recipients whose disabilities are due primarily to drug or alcohol addiction.

SSA policy generally has precluded compensation for payee services, while it has allowed reimbursement for actual out-of-pocket expenses (for example, travel, food, clothing, and personal items) incurred on behalf of beneficiaries served. From 1985 to 1988, SSA allowed payee reimbursement for out-of-pocket expenses on a flat-rate basis.¹ SSA found, however, that some payee organizations were taking compensation for their services by

¹Representative payees had to have specific approval from SSA to use the flat-rate method of reimbursement. Under that method, payees determined their average out-of-pocket expenses for all beneficiaries over a period of time and charged each beneficiary that average amount rather than their actual expenses.

including administrative expenses in their flat-rate charges. Also, it realized that the flat-rate method overcharged some beneficiaries and undercharged others. Therefore, in 1988 SSA directed its field offices to terminate all flat-rate approvals, revised its operating procedures accordingly, and clarified its policy on payee compensation.

In 1989, congressional committees held hearings on fraud and abuse in the representative payee program.² Witnesses testified that these problems occur mostly among adult Social Security and SSI beneficiaries with no family or friends to serve as their payees. Testimony further identified the mentally ill, the homeless, and substance abusers as the most vulnerable beneficiaries in this group. However, although most witnesses believed that payee fraud and abuse against beneficiaries were widespread, none could say with certainty how many beneficiaries were at risk. According to SSA's testimony at the 1989 hearings, payee fraud and abuse were most likely to occur among some portion of about 250,000 adult beneficiaries whose payees were not relatives or government institutions.

In recent years, SSA has had problems finding qualified individuals and organizations to serve as representative payees. In 1991, for example, the benefit payments to about 8,500 adult beneficiaries were suspended because SSA could not locate suitable payees.³ Of these, about 2,200 were mentally ill or substance abusers.

Since 1989, SSA has had several initiatives designed to increase the availability of representative payees. For example, SSA was the lead agency on a payee outreach project as part of an interagency agreement with the Administration on Aging and the Health Care Financing Administration to improve service to the elderly. The project resulted in identifying about 870 new sources of volunteer payees, including individuals and organizations.

The fee program authorized by OBRA began on July 1, 1991, and is scheduled to end on July 1, 1994. An approved organization can collect a fee from the monthly benefits of any Social Security beneficiary or SSI recipient that it serves as payee, unless it already receives a fee for similar services under another program.

²Senate Special Committee on Aging, "SSA's Representative Payee Program: Safeguarding Beneficiaries from Abuse," June 6, 1989; and Subcommittees on Social Security and Human Resources, House Committee on Ways and Means, "Use of Representative Payees in the Social Security and Supplemental Security Income Programs," March 22, 1989.

³This estimate is based on information contained in SSA's computerized files for given time periods—September 1991 for Social Security beneficiaries and October 1991 for SSI recipients.

To obtain SSA approval to collect the fee, an organization must meet the following criteria, which are stated in the authorizing legislation. An organization must (1) be community based, (2) be a nonprofit social service agency, (3) be bonded or licensed in each state where it serves as representative payee, (4) regularly and concurrently serve as payee for five or more beneficiaries, (5) not be a creditor of the beneficiary (although there are exceptions), and (6) have been in existence on or before October 1, 1988.

OBRA requires HHS to report information to your committees showing the number and types of organizations participating in the fee program. The report is due by January 1, 1993.

Advantages of Allowing a Fee for Representative Payee Services

Among advocacy groups and SSA field office officials, the most frequently perceived advantages of allowing a fee were that it would (1) attract organizations to become payees for the first time, (2) encourage organizations already acting as payees to take more Social Security and ssi beneficiaries as clients, and (3) reimburse participating organizations for some of their costs of providing representative payee services. The participating organizations that we interviewed said most frequently that they saw cost reimbursement as an advantage of the fee program. Although the extent to which these advantages will materialize over the life of the program is not known, we found little progress thus far.

Low Participation Rate

As of January 15, 1992, 43 organizations were approved to participate in the fee program. The organizations were operating within the service areas of only 36 of SSA's 1,300 field offices. The 43 organizations served a total of about 4,000 Social Security and ssi beneficiaries.

To determine what potential there might be for more organizations to participate in the fee program, we asked field office managers if they knew of eligible organizations in their service areas that were not participating. Forty-four percent of the managers said they had such organizations in their service areas and cited the following as some of the reasons why the organizations had not applied: (1) the organizations were not aware of the program requirements, (2) the need was not great in their service areas, (3) the fee is too small, and (4) the organizations do not want to charge the beneficiaries a fee.

We found that 78 percent of the SSA offices with approved organizations had publicized the fee program in their service areas, as did 63 percent of the remaining offices. Although SSA conceivably could increase participation in the fee program by increasing awareness of its requirements, the other reasons cited by managers for nonparticipation would be difficult for SSA to address.

Will a Fee Attract Additional Payee Organizations?

Of the 43 organizations approved to collect the fee as of January 15, 1992, only 1 was providing representative payee services for the first time.

Although most field office managers believed that an advantage of the fee program is that it would attract organizations to become payees for the first time, views were mixed about the extent to which this would occur. Twenty-nine percent believed there would be little or no incentive, and 40 percent believed there would be some incentive. The others believed that the incentive would be moderate (17 percent), great (11 percent), or very great (3 percent).

Will a Fee Encourage Existing Payees to Take More Social Security and SSI Cases?

The approved organizations, as a group, told us that in the next 2 years, they believed they might serve as many as 6,500 beneficiaries, an increase of about 61 percent over current levels. Among the 43 approved organizations we contacted, 32 expected increased caseloads, 1 expected a decreased caseload, and 10 expected their caseloads to remain about the same.

Nearly half of the organizations said that the need for their services would be the determining factor for them to take more Social Security and SSI clients. About 12 percent cited a larger fee as a necessary condition, and almost a third said they would need a general increase in funding beyond the additional funding that the fee would provide.

Will Approved Organizations Meet the Needs of SSA Field Offices?

We asked SSA managers if the fee program was needed in their service areas to attract enough qualified payees. Three out of four of the field offices with approved organizations said the fee program is needed. In comparison, only one of three managers of the remaining offices believed the program is needed. We also asked the managers how difficult it was to find payees during the last 2 years. For the 36 that had approved organizations to collect a fee, 58 percent said that finding payees was

difficult or very difficult. In contrast, 22 percent of the remaining offices found it to be difficult or very difficult.

Overall, 81 percent of the field offices contacted had difficulty finding payees for certain types of beneficiaries. By far, the types of beneficiaries mentioned most frequently were the mentally ill, alcoholics, drug addicts, and the homeless. Concerning these primary needs cited by SSA field offices, many approved organizations said they did not serve or would not be willing to serve as payees for the mentally ill (21 percent), alcoholics (37 percent), drug addicts (37 percent), or the homeless (35 percent). Further analysis of these responses showed that 12 organizations approved by 11 SSA field offices will not meet all of the field office payee needs for these types of beneficiaries.

We also sought the views of SSA managers on whether the increased availability of nonprofit organizations that provide payee services for a fee could supplant or diminish the role of SSA's volunteer payees who serve without compensation. Specifically, we asked them to what extent SSA's volunteer payees would be less willing to act as payees if nonprofit organizations that collect fees were available to provide payee services. Forty-four percent of the managers believed that the availability of nonprofit organizations would have little or no effect on the willingness of volunteer payees to serve. Twenty-five percent believed there would be some effect; 17 percent believed there would be a moderate effect; and 14 percent believed there would be a great effect.

To What Extent Will a Fee Reimburse Organizations for Their Costs?

Most approved organizations (63 percent) viewed cost reimbursement as an advantage of the fee program. This is more than double the proportion of advocacy groups (26 percent) and SSA field offices (17 percent) citing reimbursement as an advantage. However, 13 organizations (30 percent) said that they were collecting less than the maximum fee allowed, and most cited the beneficiaries' inability to afford a fee as the reason. Further, seven organizations (16 percent) said that they were not collecting a fee from any beneficiaries, including three that said their state funding agencies told them not to collect a fee or had not approved the fee collection.

While 23 organizations (53 percent) told us that they charged all beneficiaries the maximum fee allowed, 10 of them said that the fee covered less than 60 percent of their cost of providing payee services.

Among the 13 organizations collecting less than the maximum fee, 8 said that it covered less than 60 percent of their costs.

Disadvantages of Allowing a Fee for Representative Payee Services

The advocacy groups, approved organizations, and SSA field offices had similar views on the potential disadvantages of allowing a fee for representative payee services. The disadvantage cited most frequently was that Social Security and SSI beneficiaries cannot afford the fee. To a much lesser extent, the next most frequently cited disadvantage was the concern that the fee might attract profiteering organizations.

Can Beneficiaries Afford a Fee?

The vast majority of advocacy groups (91 percent) believed that the beneficiaries cannot afford a fee, compared to 45 percent of the SSA field offices and about 30 percent of the approved organizations. In November 1991, the average monthly benefits for Social Security and SSI beneficiaries with payees were \$304 and \$333, respectively.

We asked officials of the SSA field offices and approved organizations how many complaints they had received from beneficiaries about the fee. Officials of most approved organizations (56 percent) said that they had received no complaints, and half as many (28 percent) said they had received some or only a few complaints from beneficiaries. Among the 36 SSA field offices that had approved organizations to collect fees, only 4 (11 percent) said that beneficiaries had complained about the fee.

Will a Fee Attract Profiteering Organizations?

Six approved organizations and about one-fourth of the advocacy groups and SSA field offices viewed profiteering as a potential problem. We do not believe that, as a group, the 43 organizations approved to collect the fee have displayed profiteering characteristics. The profile of participating organizations could change, however, for a number of reasons, including a reduction in the organizations' traditional funding sources and a change in the fee program participation criteria.

As stated earlier, one of the eligibility criteria requires that organizations had to be in existence on or before October 1, 1988, or 2-3/4 years before the start of the fee program. The intent of this provision was to preclude approval of organizations that might be created to take advantage of revenues from the fee program. The vast majority (95 percent) of the organizations contacted had been in existence for 6 years or longer before the start of the fee program. Further, a similar majority (86 percent) told

us they had been serving as representative payees at least 3 years before the fee program began.

Also, as discussed earlier, although most participating organizations said that the fee reimbursed only part of their costs, many of them were charging no fee, or less than the maximum allowed under the law. Those organizations served more than half of the 4,000 beneficiaries served by all of the approved organizations. Further, in response to an interview question on what legislative or other changes they would recommend for the fee program, only two organizations believed that the fee should be increased. Finally, the maximum possible fee⁴ that could be charged represented less than 5 percent of total current revenues for about two-thirds of the approved organizations.

Respondents' Proposed Changes for the Fee Program

We asked the groups interviewed if they had any suggestions for legislative or other changes to the fee program. Almost all of the advocacy groups, about half of the approved organizations, and about a third of the SSA field offices offered suggestions. The change most frequently suggested was to eliminate the requirement that beneficiaries pay a fee. The suggested option was to have the fee paid by SSA or some other source.

The second most frequent suggestion was that the law be changed to allow participation by organizations created after October 1, 1988. Other suggestions included increasing the fee, allowing individuals to charge a fee, allowing a fee for only difficult cases, and making the fee program permanent.

Conclusions

The representative payee fee program has been operating for only a short time, and how effective it will be remains to be seen. OBRA requires that HHS report to your committees by January 1, 1993, on the number and types of organizations participating in the program. When the fee program ends in July 1994, HHS should also report to your committees on the program's effectiveness, including whether the program should be made permanent. Measures that should be reported include the extent of participation by first-time payees, the extent to which approved organizations increase their Social Security and SSI client caseloads, and the extent to which approved organizations meet specific payee needs in the SSA field office service areas where they operate.

⁴The maximum possible fee is \$300 per year for each eligible Social Security and SSI beneficiary.

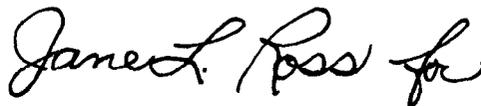
**Recommendation to
the Secretary of
Health and Human
Services**

We recommend that upon conclusion of the fee program in 1994, the Secretary direct the Commissioner of Social Security to prepare a report for your committees on the program's effectiveness.

We did not obtain written comments on this report from SSA; however, we did discuss the report with SSA officials. They told us that a separate report to your committees on the fee program's effectiveness may not be necessary and that an expanded version of the mandated January 1, 1993, report may be sufficient. They explained that the regulations for the fee program were published for comment in the Federal Register on June 1, 1992, and that public comments on the regulations may provide considerable insight into the long-term value of the fee program. Although we believe that such comments would likely provide useful input to an assessment of the program's effectiveness, we believe a report at the program's mid-point would be premature, and a report at the program's conclusion would be more meaningful.

We are providing copies of this report to HHS and SSA officials and to other congressional committees with an interest in this matter. We will also make copies available to others upon request.

Please contact me on (202) 512-7215 if you have any questions about this report. Other major contributions are listed in appendix II.



Joseph F. Delfico
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Objective, Scope, and Methodology

Our objective was to determine the advantages and disadvantages of allowing qualified nonprofit social service organizations to collect fees from Social Security and ssi beneficiaries for representative payee services. We conducted telephone interviews with officials from 23 advocacy groups, 100 SSA field offices, and 43 nonprofit organizations approved by SSA to collect the fee. We also spoke with SSA headquarters officials and analyzed representative payee data contained in SSA's computerized files.

We selected advocacy groups from among those that participated in (1) 1989 congressional hearings on abuses in the representative payee program or (2) meetings on SSA's ssi Modernization Project, which included coverage of representative payee matters. The approved organizations that we contacted included all of those known to SSA headquarters as of January 15, 1992. Among SSA's 1,300 field offices, we contacted 36 that had approved organizations to collect the fee and 64 selected at random from the remaining 1,264 offices.

We interviewed these groups to obtain various types of information, including their views on the advantages and disadvantages of allowing a fee for representative payee services; the need for the fee program; needed changes in the program; and, in the case of the approved organizations, information regarding clients served, caseloads, and funding. The SSA headquarters officials we contacted included those primarily responsible for implementing the fee program and tracking its progress.

Statistical estimates of the SSA field office responses are stated in this report for the group of 1,264 field offices that we sampled and for all 1,300 field offices. The sampling errors are reported at the 95-percent confidence level and range from about 7 to about 13 percentage points.

We analyzed selected data from SSA's computerized master files for Social Security beneficiaries and ssi recipients with representative payees. The analyses identified various types of information, including the number of beneficiaries by type of payee, the number of beneficiaries with benefits suspended awaiting appointment of payees, and the number of beneficiaries with disabilities based on mental disorders and substance abuse.

Our work was performed between June 15, 1991, and March 31, 1992, in accordance with generally accepted government auditing standards. However, we did not independently verify information obtained through

Appendix I
Objective, Scope, and Methodology

the telephone interviews or audit the records of any approved organizations.

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