

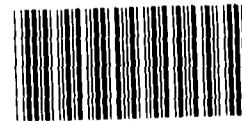
REPORT BY THE U.S.

General Accounting Office

Delays In Recomputing Social Security Benefits Cause Underpayments For Extended Periods

Social Security benefits are based on a worker's prior earnings. The Social Security Administration's (SSA's) policy is to review beneficiary earnings records annually because recent earnings not included in previous benefit computations may increase benefits. This review and subsequent payment of corrected benefits is called the Automatic Earnings Reappraisal Operation (AERO). The time required for AERO has increased dramatically--from the 16 months it generally took before 1978 to a high of 42 months in 1979 and 1980. GAO estimates, based on available 1979 and 1980 reported earnings, that SSA underpaid at least 2.5 million beneficiary cases by at least \$1.98 billion. For the cases GAO reviewed, an average of 34 months elapsed until the underpayments were rectified. Difficulties in implementing a newly legislated annual wage reporting system for 1978 earnings, competition from other programs, and the need to implement several new legislative mandates have caused the delays.

SSA expects AERO for 1981 and 1982 earnings to be completed within 32 months. While further improvement is expected, resolution of AERO delays is tied closely to SSA's efforts to comprehensively modernize its data processing systems. This is a complex task, and it is too early for GAO to predict when, and to what extent, systems modernization will influence processing time.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-215803

The Honorable George Miller
House of Representatives

Dear Mr. Miller:

This report discusses the Social Security Administration's review of beneficiary earnings records and how these reviews affect the timeliness and amount of benefit payments. The report responds to a request from you and other members of Congress.

Because your office was the focal point for the other requestors, the report is addressed to you. As we agreed, we are providing copies to your office for distribution to the other representatives who joined you in requesting this work. A copy is also being sent to Congressman Leon Panetta. Unless the contents are publicly announced earlier, no further distribution will be made until 7 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script, reading "Richard L. Fogel".

Richard L. Fogel
Director



D I G E S T

How much individuals receive in social security benefits depends on how long they worked and how much they earned. To include recent earnings in benefit calculations, the Social Security Administration's (SSA's) policy is to annually review earnings records for beneficiaries who (1) have continued earnings after entitlement to retirement or disability benefits and/or (2) have not had recent earnings posted to their SSA records at the time of benefit award. This review is called the Automatic Earnings Reappraisal Operation (AERO).

Since 1978, when legislation changed employers' reporting of workers' earnings from quarterly to yearly, the time required for completing AERO has increased dramatically. Consequently, many workers and their dependents have been underpaid for extended periods. Congressman George Miller and 37 additional representatives asked GAO to determine how many people were affected, to what extent, why the problem was occurring, and what SSA was doing about it.

In April 1983, GAO provided preliminary sample results on the extent of AERO delays. This report contains final sample results and responds to the requestors' other questions.

GAO estimates that during the 3.5 years SSA took to complete AERO based on 1979 and 1980 earnings, at least 2.5 million beneficiary cases were underpaid by at least \$1.98 billion. The beneficiaries GAO reviewed were underpaid an average of \$724 over a 34-month period or about \$23 per month until the underpayments were rectified (see p. 7). GAO's 1979/1980 underpayment estimates are based on 61 percent of sample cases. About 10 percent of the sample cases did not involve an underpayment. Data were not available for the other 29 percent of sample cases (see p. 7).

Recently, SSA completed recomputations based primarily on 1981 earnings. As of January 1984, the agency had completed 59 percent of 1981 recomputations and payment adjustments; the remainder were completed in August 1984. SSA estimates that the 1982 AERO will be completed by July or August 1985--about 31 to 32 months after the year earnings were realized. SSA officials estimate that before the annual wage reporting system was implemented, for the 1978 earnings year, benefit recomputations generally were completed within about 16 months (see p. 10). SSA criteria state that AERO should be completed in 18 months (see p. 3).

CAUSES OF RECOMPUTATION DELAYS

Delays in benefit recomputations resulted from:

- Annual wage reporting changes in 1978 requiring (1) redesigning earnings processing systems and rewriting computer programs and (2) processing more information than had been required under quarterly reporting (see p. 13).
- SSA not being fully prepared to process the increased volume of 1978 and 1979 earnings reports sent by employers on magnetic tape (see p. 13).
- Legislative mandates as well as other ongoing program operations competing with AERO for computer time and programmer and analyst time (see p. 14).

SSA RECOMPUTATION GOALS

Resolution of the AERO backlog lies within SSA's Systems Modernization Program, according to SSA. SSA officials expect that this program will result in AERO completion within 22 to 23 months after the 1983 earnings year. They believe that further improvement will occur once the Systems Modernization Program is fully implemented (see p. 17).

In early 1982, GAO did a limited review of the Systems Modernization Program's scope and milestones and concluded that (1) by the end of the program's projected 5-year implementation period (estimated at that time to be March 1987), SSA

could make major improvements in its automated systems (including those affecting AERO); and (2) the program plan presents a logical approach for modernizing SSA's automatic data processing systems. GAO believes, however, that the modernization effort probably will take longer than SSA has projected. GAO will continue to monitor Systems Modernization Program progress.

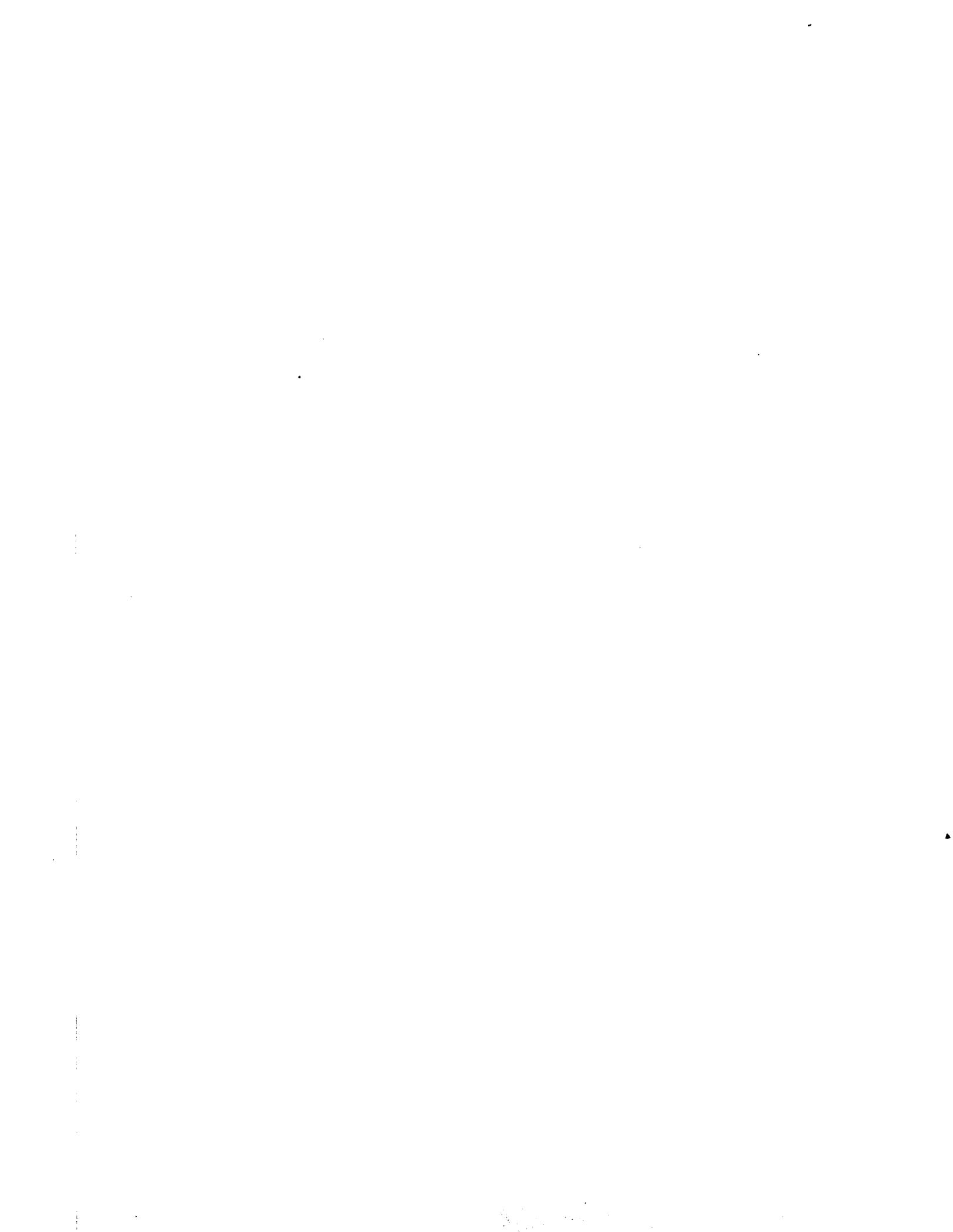
AGENCY COMMENTS

The Department of Health and Human Services responded to a draft of this report. The Department believes GAO did not clearly explain the temporary nature of underpayments and did not adequately reflect SSA efforts to resolve AERO problems. The Department also questioned GAO's statistical averages for underpayment amounts and time frames because information was not available for 29 percent of the sample cases.

GAO believes the temporary nature of underpayments is clearly communicated in the report title, report digest, and report body. The digest and body describe how long underpayments lasted--an average of 34 months. In addition, SSA efforts to resolve AERO problems are discussed throughout the report. For example (1) SSA had to completely redesign all earnings processing systems and rewrite computer programs for annual wage reporting (see p. 13); (2) SSA hired temporary staff and invested considerable effort to train them to meet increased wage and tax information requirements (see p. 13); and (3) to reduce recomputation backlogs, SSA combined 1979 and 1980 earnings (see pp. 6 and 16).

GAO's statistical projections are precise--within 95-percent confidence levels. Although data were not available for 29 percent of sample cases, this does not affect the statistical validity of estimates for the remainder of GAO's sample universe.

Other Department comments were considered and incorporated where appropriate in the report. The Department's comments and GAO's response are in appendix II.



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ABBREVIATIONS

AERO	Automatic Earnings Reappraisal Operation
HHS	Department of Health and Human Services
GAO	General Accounting Office
IRS	Internal Revenue Service
SSA	Social Security Administration

CHAPTER 1

INTRODUCTION

The Social Security Administration's (SSA's) policy is to annually review beneficiary earnings records to insure that benefit amounts reflect recent earnings. In refiguring benefit amounts, continued earnings after entitlement to retirement or disability benefits and/or recent earnings not posted to SSA records at the time of benefit award may replace lower earnings years because of the way social security benefits are computed.¹ After crediting beneficiaries for recent earnings, SSA uses a partially automated process, referred to as the Automatic Earnings Reappraisal Operation (AERO), to recompute benefit amounts based on these earnings. If these new earnings replace lower earnings of previous years, a higher benefit is paid. The time between the end of the earnings year and the payment of the new benefit results in underpayments to beneficiaries during that period. This has led to concern by some members of Congress as to how long and to what extent beneficiaries are underpaid.

REQUIREMENTS FOR SSA BENEFIT RECOMPUTATIONS

Section 215(f) of the Social Security Act, as amended, requires SSA to recompute benefits for persons entitled to old age or disability benefits, if they have wages or self-employment income, to determine if benefits should be increased.

SSA's policy is to annually review benefit computations for beneficiaries with recent earnings to determine if these beneficiaries are entitled to higher benefits. Higher benefits reflected in a recomputation generally are payable in January following the year of earnings. For example, increased benefits from a recomputation based on 1979 earnings would be due beneficiaries beginning in January 1980.

¹The social security benefit is computed by determining a primary insurance amount from which the individual's cash benefits are derived. It is based on an individual's earnings averaged over his or her working lifetime. In computing this average, the 5 lowest years of earnings are usually dropped from the computation. If the new earnings are higher than those previously used in the computation, the recomputation will yield a higher benefit after the new earnings are included.

Recomputed benefit amounts are paid retroactively to the date of entitlement regardless of when the recomputation is performed; however, interest is not included in recomputed payments.

Beneficiaries can personally request benefit recomputations. This results in faster recomputations than under normal AERO processes because these requests are reviewed and processed as they come in, rather than when the AERO is begun. These requests also require additional resources--they must be manually reviewed and processed. Beneficiaries are not routinely advised of this option.² SSA officials point out that while such personal requests are accommodated, this should not be considered a solution because if all affected beneficiaries requested individual recomputations, it would adversely affect other SSA workloads or systems.

DESCRIPTION OF THE AERO PROCESS

AERO identifies beneficiaries with continued earnings and recomputes benefit amounts using these new earnings. An SSA official describes the process as having four major phases: selection, pre-primary insurance amount determination, primary insurance amount determination, and payment.

During the selection and pre-primary insurance amount determination phases, the entire Master Beneficiary Record³ file is reviewed to identify all current beneficiaries and matched against the Earnings Reference File (detailed earnings records for persons with social security numbers) and other earnings files to select all cases with recent earnings posted to their accounts. In the primary insurance amount determination phase, AERO takes the cases identified during selection and determines whether benefit increases are due. From the 28 million beneficiary cases with earnings primarily in 1979 and/or 1980, AERO identified about

²According to SSA officials, a small percentage of persons considered for AERO recomputations are making their initial application for benefits. Some of these individuals are advised that they can request a recomputation.

³The Master Beneficiary Record contains the basic account, benefit, and payment data needed to issue benefit checks. The total Master Beneficiary Record file consists of over 80 million records. As of September 1983, there were 36 million active beneficiaries in this file.

4.1 million cases⁴ which resulted in a primary insurance amount change. After new primary insurance amounts and effective dates for new amounts are determined, beneficiaries are paid.

Usually 70 to 80 percent of AERO cases are processed automatically (see p. 16). Other cases require some level of manual review by SSA's processing centers.⁵ The AERO process includes an Earmarking and Control Program, which tracks cases through the operation to make sure they are completed.

Relationship of AERO processing to earnings posting

Although certain AERO tests are conducted before postings are completed, the AERO process usually begins after most beneficiary earnings are posted to earnings records maintained by SSA. Because the AERO process bases benefit recomputations on newly posted earnings, delays in posting earnings contribute directly to delays in AERO recomputations.

SSA officials stated that prior to 1978, AERO usually began before the earnings posting operation was substantially complete. One official estimated that AERO selection usually started after completing 55 to 60 percent of postings. After 1978, because of problems in implementing annual wage reporting, systems and personnel limitations, and other priorities, such as implementing new legislation, SSA decided to wait until postings were virtually completed before beginning AERO. For example, the 1979/1980 AERO selection began when earnings postings for each year were at least 98 percent complete. SSA officials estimated that earnings postings before 1978 were completed by September following the earnings year and that AERO was completed by the following April. Since then, earnings posting and AERO recomputations have taken substantially longer (see ch. 3). SSA's program operations manual states that AERO should be completed within 18 months following the earnings year.

⁴Included in this figure were about 700,000 cases which were deferred to the next AERO due to special earnings problems.

⁵Processing centers review cases which the computer cannot process. These may involve cases which are too complex for the automated system or where computer validity checks indicate that a manual review is necessary.

OBJECTIVES, SCOPE, AND METHODOLOGY

Representative George Miller, with other members of Congress, asked us to determine the extent of recomputation backlogs. In response to this request, we reviewed affected beneficiary records to determine: (1) the total and average amount of SSA underpayments or overpayments due to late postings and subsequent recomputations, (2) the size of the affected population, including the number of Californians, (3) the length of and reasons for the backlog, (4) what action SSA is taking to reduce the backlog, (5) whether SSA actuaries consider the backlog in estimating the financial status of the social security trust funds (see app. I), and (6) the number of sample cases which received federal Supplemental Security Income benefits.

In April 1983, we provided the requestors with preliminary sample results on the number of beneficiaries and to what extent they were affected by AERO delays. This report contains final sample results and responds to the requestors' other questions.

We selected and reviewed the records of a random sample of social security beneficiaries. These records represent the universe of potential cases in need of benefit recomputations covering earnings in calendar years 1979 and 1980--the last completed AERO at the time we conducted our review, which began in October 1982. In making our projections, we used the underpayment and overpayment amounts calculated by SSA for the cases included in our sample. In some cases, we calculated the underpayment or overpayment amount based on the beneficiaries' old and new payment amounts.

We were not able to obtain AERO information for 29 percent of the sample cases because either (1) SSA had not completed recomputations for certain problem cases or (2) subsequent entries to Master Beneficiary Records had erased previous entries, thereby eliminating information necessary to obtain sample results. Therefore, our results are projectable to about 71 percent of the 1979/1980 AERO universe.

We discussed the reasons for the AERO backlog and SSA's efforts to reduce it with SSA and Office of Inspector General, Department of Health and Human Services (HHS) officials. We also reviewed SSA records and past GAO and HHS reports concerning the earnings posting problem.

Our review, performed at the SSA headquarters in Baltimore, was in accordance with generally accepted government auditing standards.

CHAPTER 2

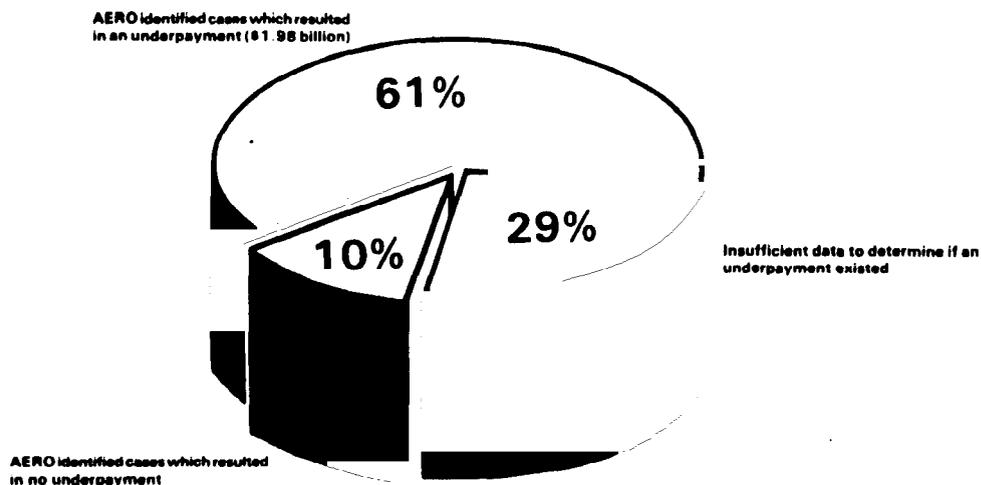
EFFECT OF AERO UNDERPAYMENTS

During 1979 and 1980, 35 to 36 million beneficiaries were on social security's rolls. The 1979/1980 AERO identified about 4.1 million beneficiary cases needing benefit recomputations. We sampled these cases to determine the extent of the underpayment problem. A beneficiary who continued to work during 1979 or 1980 would be entitled to have these earnings considered by SSA in a recomputation to determine if his/her benefit amount should be increased.

We found that recomputations based primarily on 1979 and 1980 earnings were generally not completed until late 1982 or early 1983. Any increase in benefits resulting from the recomputations are paid retroactively to January following the earnings year. Based on results for 2.9 million cases (71 percent of our sample), we estimate that during the time it took SSA to recompute benefits based on 1979 and 1980 earnings, at least 2.5 million beneficiary cases were underpaid by at least \$1.98 billion.¹ The average total underpayment for the cases we reviewed was \$724 stretched over a 34-month period, or about \$23 per month. About 400,000 cases did not result in an underpayment.

¹At a 95-percent confidence level there is a sampling error of + \$273 million.

**GAO Sample Results
for 1979/1980 AERO Identified Cases
Needing Benefit Recomputation**



GAO SAMPLE SELECTION AND RESTRICTIONS

To determine the extent of underpayments to beneficiaries identified by the 1979/1980 AERO,² we selected, from a larger random sample used by SSA for systems validation purposes, a random sample of 600 cases. Our projections of underpayment amounts are based on recomputed benefits determined by SSA.

²SSA usually reviews 1 year of earnings with each AERO. To reduce the backlog of recomputation cases and return to an annual recomputation schedule, SSA combined 1979 and 1980 earnings.

SSA deferred AERO processing on approximately 15 percent of cases identified for review in the 1979 AERO (for 1978 earnings) and 17 percent of 1979/1980 AERO cases. According to an SSA official, these cases were deferred to the following year's AERO primarily because they involved questionable earnings postings or because SSA's enforcement operation, an overpayment detection mechanism, was not completed before processing AERO. Because SSA deferred action on these cases and data were not available in others, we were able to obtain results for only 71 percent of the sample cases and, hence, we could not project results for 29 percent (1.2 million cases) of the AERO universe.

1979 and 1980 AERO underpayment projections

Of the 600 cases included in our sample, 423 were completed AERO cases that we could use as a basis for projecting the results. Of these, 364 involved underpayments. The following table illustrates our sample results for the underpayment cases.

Average Social Security Underpayments
(sample results for 364 cases with underpayments)

	<u>Primary beneficiary^a</u>	<u>Underpayment case (includes primary beneficiary, spouse, and dependents)</u>
Total underpayment	\$724	\$801
Monthly underpayment ^b	\$ 23	Not determined
Underpayment period	34 months ^c	Not determined

^aFor the purposes of this study, if a primary beneficiary was deceased, the surviving spouse was counted as the primary beneficiary.

^bBecause of the statistical technique employed, the product of the average number of underpayment months and the average monthly underpayment amount does not equal the average total underpayment.

^cThis number represents the actual number of months a beneficiary was due additional benefits while entitled to a social security benefit. It does not represent the total number of elapsed months from the first month of the underpayment. For example, a beneficiary might not be entitled to benefits during a period of high earnings. This high earnings period would not be counted in determining the actual number of months underpaid.

In 59 of our sample cases, AERO benefit recomputations did not result in an underpayment. In 22 of these cases, although the beneficiary was entitled to a higher benefit amount, there was no underpayment because the beneficiary's earnings were so high that, according to SSA's earnings test, he/she was not receiving monthly benefits. The earnings test is used to measure the degree of earnings loss which social security benefits are intended to replace, in part. Benefits are reduced \$1 for each \$2 of earnings above a certain annual exempted amount. In 1984, this amount is \$6,960 for beneficiaries who are 65 to 70 years old and \$5,160 for beneficiaries under 65. In five cases, beneficiaries were receiving higher benefits on their spouses' account than the recomputation would have qualified them for, so there was no actual underpayment. In four cases, the recomputation identified an error made in an earlier benefit computation which resulted in an overpayment. When the other 28 cases were manually reviewed, it was determined that no underpayment was involved generally because the earnings were not high enough to cause a higher benefit amount.

We projected net underpayments of \$1.97 billion for 2.9 million beneficiary cases when sample results for the 55 cases with zero underpayments and 4 cases with overpayments were included. Including these cases in our projections dropped the average underpayment to \$619 for primary beneficiaries and \$685 for beneficiary cases. The monthly underpayment amount and underpayment period also decreased to an average of \$20 per month and 30 months, respectively.

Underpayments affecting beneficiaries from California

We also sampled AERO underpayments for a select group of social security recipients, those in California. Of over 2.4 million primary beneficiaries receiving retirement, survivors, or disability benefits in that state, about 320,000 cases were due recomputations in the 1979/1980 AERO. This projection is based on 47 California cases included in our total sample of 600 cases.

Underpayments affecting Supplemental Security Income beneficiaries

The Supplemental Security Income program provides federal assistance for the needy aged, blind, and disabled. Of 600 sample cases, 18 received federal benefits from this program at some time. Only 3 of the 47 California cases in

our sample received federal Supplemental Security Income benefits. Because these numbers are so small, we are making no projection regarding the total number of AERO cases receiving Supplemental Security Income benefits.

SSA ESTIMATE OF UNDERPAYMENTS
IN THE CURRENT AERO

SSA began conducting 1981 AERO recomputations on October 1, 1983. SSA determined that about 3.6 million cases needed to be recomputed, primarily based on 1981 earnings. This AERO, as well as the 1979/1980 AERO, has a special "roundup" feature, which is intended to ensure that recomputations based on earnings for previous years that have been missed will be completed. SSA officials pointed out that there will not be a significant deferral of cases in the 1981 AERO as there were in the AEROs for 1978 and 1979/1980 earnings. They estimate that underpayments identified by the 1981 AERO will total less than \$2 billion.

CHAPTER 3

EXTENT AND CAUSES OF AERO DELAYS

Since 1978, it has taken SSA up to 3.5 years after the earnings year to complete AERO. Before this time, SSA officials estimate that AERO generally was completed about 16 months¹ after the earnings year. Major AERO delays emerged because of difficulties SSA encountered in changing from a quarterly to an annual wage reporting system. In addition to the change to annual wage reporting, other legislative changes and other on-going operations created competition for the same resources used by AERO, such as computer time and personnel, thereby contributing to AERO delays. Also, SSA's inadequate computer system had difficulty handling the combined 1979/1980 AERO workload. As a result, more cases had to be reviewed manually than when a single year's AERO was performed.

EXTENT OF AERO DELAYS

The last completed AERO operation, 1979/1980 AERO, was atypical because two primary earnings years were considered instead of one. In addition, leftover cases from previous years, primarily 1978, were considered. Based on recomputations for the two primary earnings years 1979 and 1980, some beneficiaries were underpaid as long as 42 months. Payment of the leftover 1978 cases took up to a year longer. Our sample results showed that beneficiary cases were underpaid an average of 34 months² for the 1979/1980 AERO. The graph on the following page shows the increase in AERO time frames after the implementation of annual wage reporting for 1978 earnings.

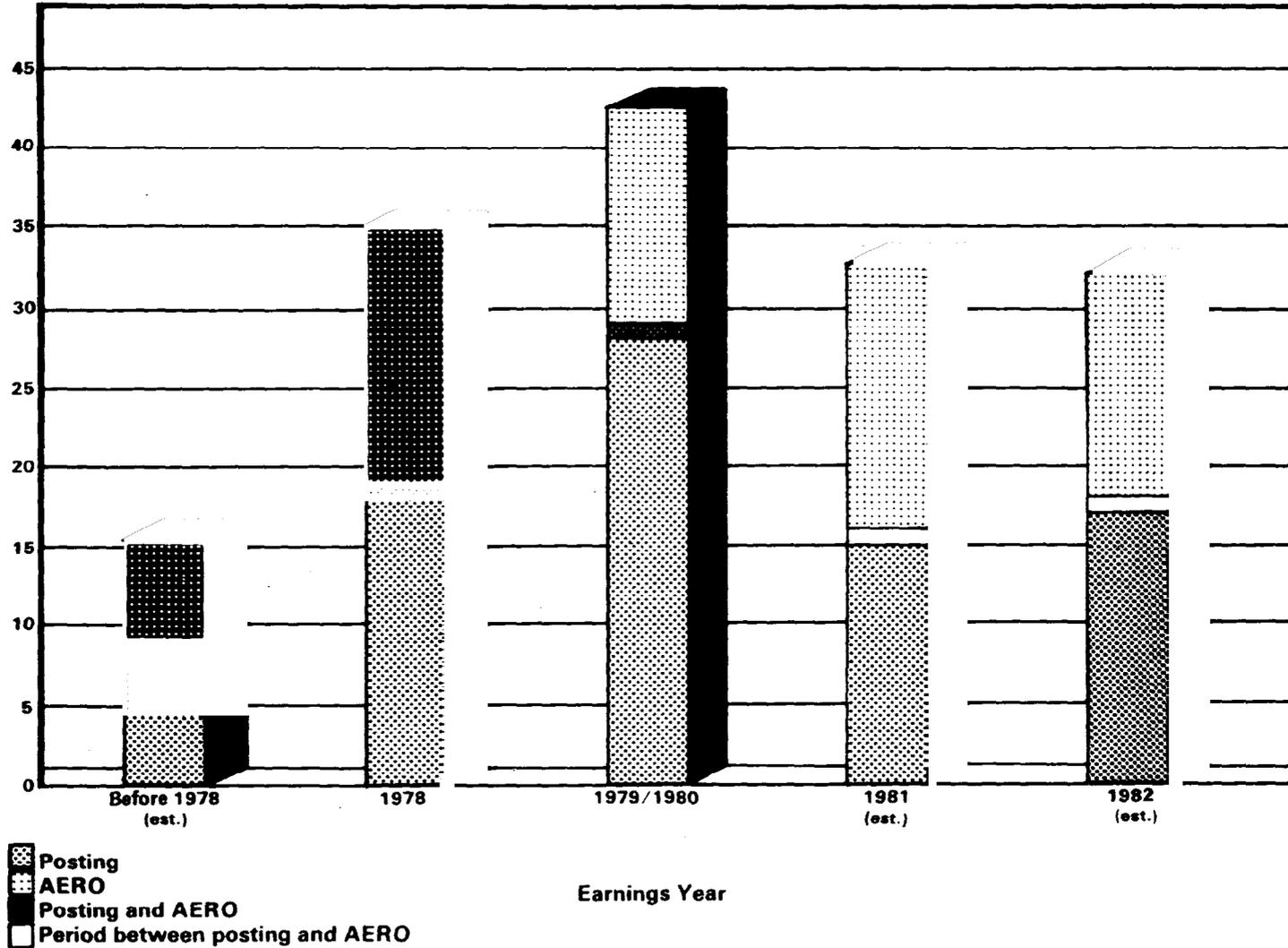
As of January 1984, SSA had completed 59 percent of 1981 AERO recomputations and payment adjustments. The AERO actions were completed in August 1984, about 32 months after the new benefit amounts were payable. This AERO was delayed 2 to 3 months because SSA officials decided to correct earnings posting problems which, if not corrected, would have required extensive manual review later in the process. SSA completed posting 1982 earnings in May 1984 and expects to complete the 1982 AERO in

¹SSA commented that the 1977 AERO was completed in 22 months. This was due to legislative and system changes in that year. This did not change its estimate concerning how long it usually took to complete pre-1978 AEROs.

²This average shows actual underpaid months. Beneficiaries who were not in payment status were not considered underpaid for that month.

EARNINGS POSTINGS AND AERO TIME FRAMES

Completion Time Beginning January
Following the Earnings Year
(Months)



about the same amount of time, by July or August 1985. An SSA official stated that 1982 earnings postings could have been completed earlier but posting problems were encountered. About 1.4 million corrections to prior years' earnings were mistakenly posted as 1982 earnings, and SSA chose to correct the erroneous postings before beginning the 1982 AERO.

CHANGE FROM QUARTERLY TO ANNUAL WAGE REPORTING

Before 1978, employers subject to social security taxes were required to file quarterly wage reports as well as an annual wage statement with the Internal Revenue Service (IRS). This information was furnished by IRS to SSA for use in AERO recomputations and other SSA programs. On January 2, 1976, the Congress authorized (Public Law 94-202) the combined reporting of social security tax information and employee wage data.

The new law required employers to report pertinent employee data once a year to SSA. For private sector and federal employees, this consolidated reporting procedure began with 1978 wage reports. State and local government entities were included in tax year 1981. To satisfy the reporting requirements of both SSA and IRS, employers were required to submit to SSA employee wage and tax data by February 28 following the earnings year.³ The reported information is processed by SSA and then sent to IRS on microfilm and magnetic tapes for tax administration purposes.

THE EFFECT OF ANNUAL WAGE REPORTING ON WAGE POSTING AND AERO

The change from quarterly to annual wage reporting contributed to dramatic increases in the time it took SSA to post wage information to employee earnings records and, consequently, contributed directly to AERO delays. The increase in earnings posting times is illustrated in the graph on page 11.

SSA officials advised us that before annual wage reporting, posting was substantially completed about 9 months after the earnings year. Since then, earnings posting has taken substantially longer, thereby delaying AERO. Posting of 1978 earnings was completed in May 1982--some 41 months after the earnings year although AERO recomputations for 1978 earnings were based on earnings posted within 18 to 19 months. Wage posting took about 29 months for 1979 earnings and about 17 months for 1980 earnings. Earnings posting for 1981 took about

³Self-employed earnings data are reported directly to IRS with tax data.

15 months, but SSA officials decided to make additional posting corrections to reduce manual processing later in AERO. Consequently, necessary earnings information was not available for AERO recomputations until about 18 months after the earnings year. Earnings posting for 1982 was completed in 17 months; posting corrections were again needed to avoid potential mistakes later in the AERO process.

Factors associated with annual wage reporting which contributed to AERO delays

Annual wage reporting necessitated several SSA system and workload changes which contributed to AERO delays. These delays were particularly evident immediately after the change for 1978 earnings reports--when SSA had to completely redesign all earnings processing systems and rewrite the computer programs for the new annual wage reporting system.

Under quarterly wage reporting, IRS received and forwarded to SSA total wages and social security tax information. Under annual wage reporting significantly more wage and tax information is required, and SSA is now responsible for receiving this information and forwarding it to IRS. According to an SSA official, the large volume of records received by SSA in a short period also required the hiring of temporary staff to handle the increased workload and investing considerable effort to train them. Another complexity facing SSA was that it had to maintain a quarterly wage posting operation for state and local entities until they too began annual wage reporting in 1981.

In commenting on a 1982 HHS Office of the Inspector General report which criticized SSA for the way it implemented annual wage reporting, SSA agreed that it was not ready to handle annual wage reporting in the spring of 1979. Among the reasons SSA cited were:

- Necessary data processing equipment was received and installed later than scheduled.
- After annual wage reporting system changes were made, some systems had to be reworked to make them reliable.
- SSA could not handle the increase in magnetic media filers.
- In the midst of the conversion to annual wage reporting, SSA underwent a major reorganization.

The magnetic tape problem was elaborated on in the 1982 report. The Inspector General stated that some wage posting problems were caused by

"SSA's increased efforts to persuade employers to report annual wage data on magnetic media without first establishing many of the ground rules under which this operation would be carried out. Reporting employers made errors in the data they reported, partially as a result of the extensive tape format modifications that were necessary."

The Inspector General's report concluded that SSA was not fully prepared to accept the huge volume of magnetic tapes that needed to be processed for 1978, the initial annual wage reporting period. The report noted the following magnetic tape problems:

- SSA lacked control over the magnetic tapes submitted and could not accurately determine which tapes had been received and whether tapes that were received entered the data processing system.
- SSA accepted 1978 and 1979 tapes which were improperly formatted or coded, and programmers spent up to 9 months on some tapes trying to resolve problems. According to SSA, over half of the tapes submitted for 1978 did not meet reporting specifications.
- SSA was not adequately prepared to balance, reconcile, and correct errors in magnetic tape wage data received for 1978.

EFFECTS OF IMPLEMENTING LEGISLATION ON AERO

Delays in performing AERO can also be attributed to competition for resources caused by other legislative mandates. SSA was responsible for implementing several significant pieces of legislation around the same time as annual wage reporting. SSA officials stated that these legislative requirements received higher priority than many ongoing operations and functions, such as AERO recomputations and wage reporting system enhancements.

In September 1982, the Commissioner of SSA testified before the Congress on the problems SSA experienced in processing 1978 and 1979 wage reports. He stated that in addition to the enormous changes necessary to implement annual wage reporting, SSA also had to prepare for implementation of the wage indexed benefit computation system which was legislated to begin operation in 1979. The Commissioner stated that this requirement stretched SSA's system resources to their limit--leaving few resources available for wage reporting system redesign.

Two pieces of legislation that required significant SSA resources were the Social Security Disability Amendments of 1980 (Public Law 96-265) and the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35). According to SSA officials, SSA's resources were already strained due to backlogs in ongoing operations when these laws were passed. These laws created additional competition for resources also used for AERO recomputations.

The Social Security Disability Amendments of 1980 caused so much disruption to AERO cases involving disability consideration that, according to SSA officials, most had to be manually reviewed--causing a significant workload strain on SSA's processing centers. According to SSA officials, the repeal of minimum benefit provisions by the Omnibus Budget Reconciliation Act of 1981 (section 2201) was largely responsible for SSA's decision to combine 1979 and 1980 earnings into a single AERO. We were advised that AERO programmers and analysts were also responsible for the changes to implement the repeal of minimum benefits provisions and that they deferred AERO work for 9 months. Although some minimum benefit provisions were later restored (Public Law 97-123, Dec. 29, 1981), this did not reduce the provisions' adverse impact on AERO.

THE EFFECT OF COMPUTER SYSTEMS CONSTRAINTS ON AERO

AERO competes with other ongoing operations, such as enforcement, benefit rate increases, and annual reports, for computer resources. Because of competition between AERO and these operations, the 1979/1980 AERO could not be processed in a timely manner. SSA officials stated that numerous short computer runs, over a 4-month period, resulted in duplication, lost tapes, and other problems associated with continual starting and stopping of the operation. They added that competition for computer time was also felt in the earnings posting operation and delayed both earnings posting and AERO.

According to an SSA official, as a result of combining 1979 and 1980 earnings into one AERO operation, extensive software⁴ changes were necessary. This official stated that the software problems associated with this change were enormous and that processing problems were demonstrated by the low 57-percent

⁴Computer software is the instructions that tell computers what to do.

automation rate.⁵ This is contrasted to previous AEROs in the following table.

<u>Earnings year</u>	<u>Number of completed AERO cases</u> (millions)	<u>Processing rates</u>	
		<u>Automated</u>	<u>Manual</u>
		(percent)	
1974	2.4	73	27
1975	2.4	73	27
1976	2.2	81	19
1977 ^a	-	-	-
1978	1.9	73	27
1979 and 1980	3.4	57	43

^aNo data available.

The end result of combining the 1979 and 1980 AEROs is difficult to ascertain. While software problems and resulting low automation rates were encountered, combining the years to reduce recomputation backlogs was intended to and may have speeded up the process over the long run.

CONCLUSION

The delays in completing AERO experienced since 1978 resulted from several factors. Because AERO recomputations depend on posted wages, delays in posting wages contributed to the AERO delays for 1978, 1979, and 1980. Wage posting delays were caused by SSA not being prepared for the change from quarterly to annual wage reporting. Other factors contributing to posting and AERO delays included problems with wage information reported on magnetic tape, increases in the amount of information reported, and general difficulties experienced by employers and SSA in using the new wage reporting system.

Other legislation, such as the Social Security Disability Amendments of 1980 and the Omnibus Budget Reconciliation Act of 1981, caused competition for computer and personnel resources, thereby adding to AERO problems. This was worsened by competition from other ongoing SSA operations.

It would be difficult to determine the exact effect of any one problem on AERO. The combination of all these factors resulted in the delays associated with AERO.

⁵Unlike manual cases, almost all automated cases are filed and paid without time-consuming SSA staff review.

CHAPTER 4

THE FUTURE OF AERO IS LINKED TO

SYSTEMS MODERNIZATION PROGRAM IMPROVEMENTS

Long-term AERO improvement may be largely dependent on the Systems Modernization Program. This program is SSA's attempt to improve its computer operations in a comprehensive manner. It is expected to improve AERO automation rates as well as provide increased computer capacity. SSA expects the primary objectives of the Systems Modernization Program will be achieved by early 1988 although our review of the initial program plan concluded that it will probably take longer.

SSA SYSTEMS MODERNIZATION PROGRAM

The Systems Modernization Program, if implemented successfully, should improve SSA's overall computer operations, including AERO operations, by providing increased computer capacity and more efficient software. SSA officials stated in 1982 that the data processing system was only marginally capable of performing critical program functions, such as implementing cost of living raises, and was falling further behind in processing routine workloads, such as recomputing benefits under AERO and recording wage reports. These problems were so severe at that time that they threatened SSA with a major systems failure.

The previous Commissioner of SSA has stated that the ultimate resolution of the AERO backlog lies with SSA's Systems Modernization Program. SSA's goal is to have all recomputations and payment adjustments for the 1983 AERO completed within 22 to 23 months after the earnings year and to show continued improvement each year after that.

Among the major Systems Modernization Program goals which SSA officials expect to benefit AERO recomputations are (1) redesigning the annual wage reporting system, (2) upgrading computer capacity, and (3) increasing the automation rates for recomputations. One of the first major projects under the Systems Modernization Program is redesigning the annual wage reporting system. This is part of the overall modernization of SSA's computer software. Annual wage redesign is intended to (1) significantly reduce the time and resources required to process the entire earnings workload, (2) increase productivity of SSA employees, and (3) provide fewer errors and better service to the public. According to the Project Director, the first phase of this three-phase redesign studied and analyzed the existing system and identified ways to improve it. Under phase two of the project, which started April 1, 1984, a new system will be

developed and tested and an implementation plan will be developed. Phase three will provide application software. SSA expects to begin implementing the new annual wage redesign in early 1986.

Another program project is the capacity upgrade initiative. The objective of this effort is to alleviate critical computer workload situations by replacing older equipment with modern, more powerful equipment that will meet present workloads, keep pace with capacity needs as systems are modernized, and ensure that the systems meet projected capacity requirements. The effort will address competition for computer resources, which has been a particularly serious AERO problem in the past. Expected benefits of capacity upgrade include increased operator productivity, a reduction in the number of overtime production shifts required, increased processing capacity, and elimination of processing backlogs.

The program is also expected to increase the automation rate for AERO benefit recomputations. This initiative is also included under SSA's 1984 Automated Data Processing Plan and should expand capacity for the computer program which handles recomputations while permitting greater selectivity in determining which cases require manual review. SSA officials stated that a long-term goal of the program is to increase AERO automation to about 80 to 85 percent. They stated that accurate projections are difficult, but that by 1986, as a result of interim program improvements, a rate of 70 percent appears attainable.

In early 1982, we conducted a limited review of SSA's March 1982 Systems Modernization Program. We reported¹ that the program plan provided a logical, systematic approach for solving SSA's pressing software, hardware, data management, data communications, and general automatic data processing management problems. The report cautioned, however, that there were a number of potential pitfalls that could prevent or delay successful plan implementation. We concluded that by 1987, when SSA expects to achieve most of the program's primary objectives, SSA could make major improvements in its automated systems by using modern technology, but that it will probably take 7 to 10 years or longer to fully implement all the improvements contained in the plan. SSA's most recent Systems Modernization Plan estimates that most primary objectives will be achieved by February 1988.

¹Examination of the Social Security Administration's Systems Modernization Plan (GAO/HRD-82-83, May 28, 1982).

CONCLUSION

SSA expects 1981 and 1982 AERO recomputation operations will be completed in 31 to 32 months--considerably longer than before annual wage reporting was implemented for 1978 earnings. Still, SSA has made some progress in reducing recomputation time frames since 1978. Major improvement in performing future recomputations is largely dependent upon successful implementation of the Systems Modernization Program, and AERO recomputations probably will not be timely until such implementation is achieved.

At this stage in the Systems Modernization Program implementation process, we cannot predict how successfully the program will improve AERO benefit recomputations. We will continue to monitor and review the continued program implementation.

CONSIDERATION OF AERO RETROACTIVE
PAYMENTS IN SSA'S ACTUARIAL ESTIMATES

The SSA actuaries consider AERO retroactive payments in their calculations of the status of the social security trust funds. The Office of the Actuary receives information on the automated AERO cases on a monthly basis and is able to calculate, using other available data, the amount of "other" retroactive payments made during the month which include, but are not limited to, AERO "manual" cases. This historical data and other information are used to forecast the timing and amount of retroactive underpayments. However, it should be noted that because the information considered by the actuaries is not readily identifiable as to which particular AERO (for example, 1978, 1979, 1979/1980) it resulted from, total payments attributable to specific AEROs are not available. Such a breakout is not necessary for actuarial projections.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

JUL 31 1984

Mr. Richard L. Fogel
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

The Secretary asked that I respond to your request for the Department's comments on your draft report "Delays in Recomputing Social Security Benefits Cause Underpayments for Extended Periods." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,


Richard P. Kusserow
Inspector General

Enclosure

**THE DEPARTMENT OF HEALTH AND HUMAN SERVICES' COMMENTS ON GAO'S
DRAFT REPORT, "DELAYS IN RECOMPUTING SOCIAL SECURITY BENEFITS
CAUSE UNDERPAYMENTS FOR EXTENDED PERIODS"**

General

While we are in agreement with the reasons for the delay of the 1979/1980 Automatic Earnings Reappraisal Operation (AERO), described in this report, we do not believe that it presents a balanced picture of AERO activity at SSA and we have questions about the statistical figures presented. We believe that the final report should reflect the tremendous efforts made by SSA to overcome this one-time problem and to become current with AERO. (See GAO notes 1 and 5.)

Causes For Delay

AERO identifies beneficiaries with continued earnings in covered employment and recomputes benefit amounts using these new earnings. The recomputation and subsequent payment of higher benefits is done on an annual basis after earnings are posted to the worker's record. Any delay in the posting operation is automatically reflected in the AERO schedule.

As the report points out, the implementation of annual wage reporting for the 1978 earnings year was the major cause for AERO delay. In addition, the Disability Amendments of 1980 and the Omnibus Budget Reconciliation Act of 1981 extended the delay further.

Agency Efforts To Overcome Delays

In order to rectify this situation, then SSA Commissioner Svahn mandated that the AERO be made "current". To accomplish this "catch up", a combined AERO (1979/1980) was implemented. In addition to combining 2 years earnings in one operation, a "round up" feature was also incorporated to locate any delinquent increases for the 2 prior years. Therefore, the combined AERO run actually encompassed 4 years. This strategy was a basic change to the entire AERO operation and required massive computer programing changes.

We consider the decision to combine the 1979/1980 AERO to have been a wise one. As of May 1984, the 1982 earnings postings have been completed and the 1982 AERO is scheduled to begin at the end of this September. Therefore, AERO is currently "timely."

(See GAO note 2.)

We agree with GAO's conclusion that the redesign of the annual wage reporting process under the Systems Modernization Plan (SMP) will improve the "timeliness" of AERO. (The sentence at the bottom of page 27 and top of page 28 should be modified. SSA expects to begin implementing the new annual wage redesign in early 1986 for tax year 1985.) (See GAO note 3.)

A recent SMP computer capacity upgrade allowed the 1981 AERO to be run completely on 2 weekends last October instead of the usual 4-month time-period required in prior operations. This enhancement together with a planned increase in the automation rate of recomputations has given SSA a positive outlook for the 1982 earnings AERO run scheduled this fall.

Statistical Presentation

We cannot comment on the accuracy of the projections without more detailed information about the raw data and methods used to arrive at GAO's statistics. We question the statement on page 10 of the report that 29 percent of the sample was unattainable, due--in part--to SSA's "deferred cases" (enforcement items). The enforcement cases are recirculated in the Automated Job Stream portion of AERO and were not part of the 4.1 million cases actually produced. Therefore, this reason cannot be used for failure of availability of sample cases. (See GAO note 4.)

Not knowing about the 29 percent of the cases, it can be said only that at least 2.5 million beneficiaries were temporarily underpaid out of a possible 4.1 million beneficiaries with continued earnings. The total estimated temporary underpayment is at least \$1.98 billion + 273 million at a 95 percent confidence level. We believe the yearly averages or monthly averages should not be included in this report because they cannot be precise without information about the 29 percent missing cases. (See GAO note 5.)

Presentation Of Underpayment Information

The Cover Summary and Digest use the word "underpaid" without a sufficient explanation. Only when the reader gets to the main body of the report does he get an explanation that the recomputed amounts are paid retroactively to the first date of entitlement. "Temporarily underpaid" should be used because the beneficiaries are paid back the underpayment. (See GAO note 1.)

Miscellaneous

Other specific comments are as follows:

1. The digest report states that "SSA believes that AERO could be completed in 12 months." Our understanding of this report is that the underpayment delay period was considered to begin with January of the year after the earnings year and to close when the processing centers have officially completed processing their manual AERO workload. If these criteria are used we do not expect to get to 12 months. It is impossible to run the earnings update cycle, AERO programs, and work the manual fallout in 12 months' time. (See GAO note 6.)
2. The report summary indicates it took SSA 16 months to complete 1977 AERO. It took SSA 22 months to complete this operation. (See GAO note 7.)
3. The report indicates that it took SSA 42 months to complete 1979 and 1980 AERO. Although 42 months is correct for 1979, it only took 30 months to complete 1980 AERO. (See GAO note 8.)
4. In the introduction to Chapter I, the reference to a "new benefit" is correctly a "higher benefit." (See GAO note 9.)
5. On page 2, there is a statement that beneficiaries are not routinely advised to request a recomputation. This section should be revised to show that when a person files for benefits and cannot provide evidence for "lag" earnings, he/she is advised to contact SSA and request a recomputation when the evidence of lag is received. (See GAO note 10.)
6. All references in the report to program service centers should be changed to processing centers. (See GAO note 11.)

GAO NOTES

1. SSA's questioning of report balance has two purported bases: (1) we do not clearly explain the temporary nature of underpayments, and (2) we do not adequately reflect the "tremendous efforts" made by SSA to resolve this problem.

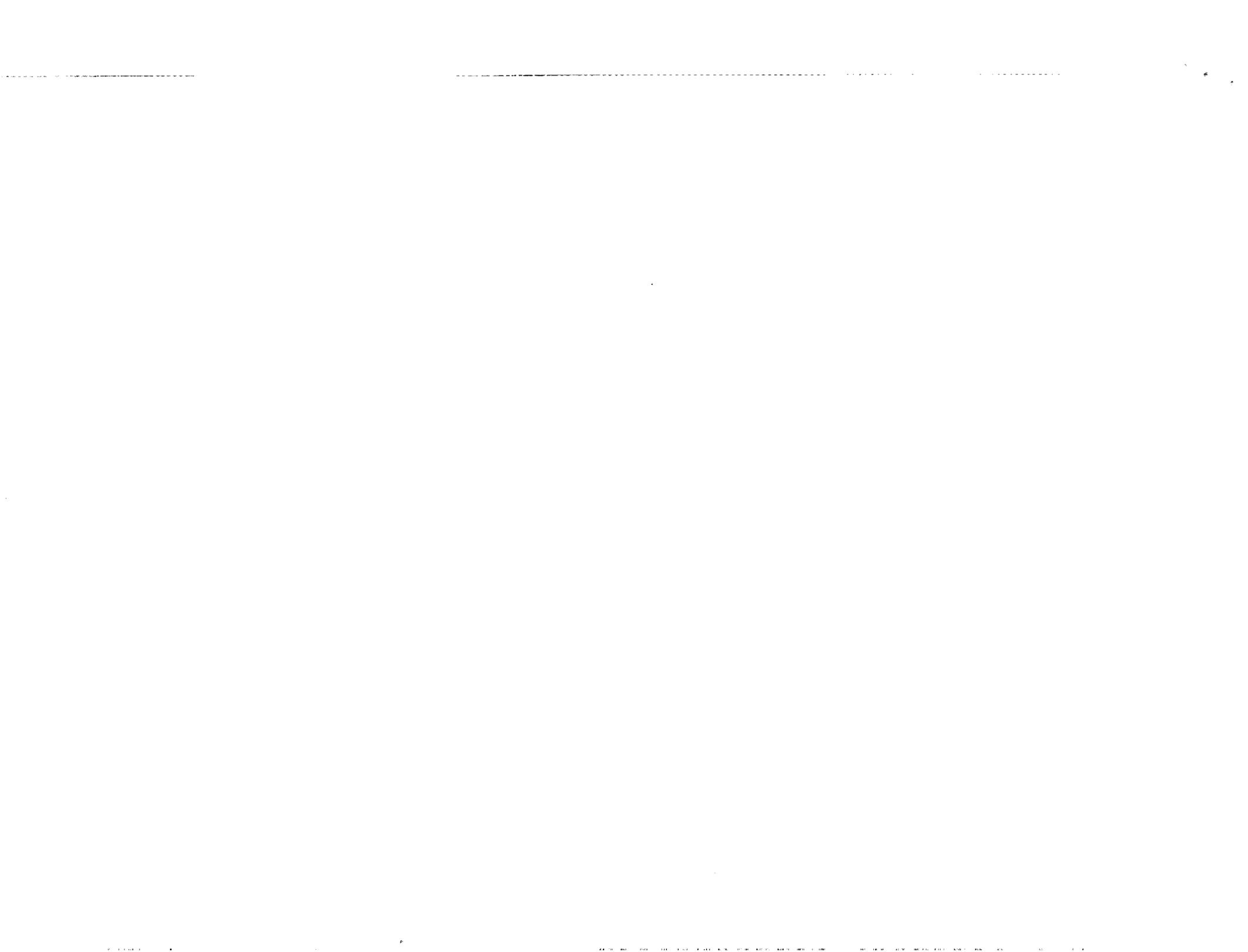
We have made some changes in the text which we believe clarify the temporary nature of the overpayments.

SSA efforts to resolve AERO problems are discussed throughout the report. The ultimate measure of the success of SSA's efforts to resolve AERO problems and hence, whether they meet the description accorded by SSA, is the current status of AERO. We report that SSA has made some progress in reducing AERO time frames since 1978 (see p. 19); however, as the former SSA Commissioner pointed out, major improvement is dependent upon the Systems Modernization Program. We also discussed the many difficulties which contributed to AERO delays and specific SSA efforts to resolve these. For example (1) SSA had to completely redesign all earnings processing systems and rewrite computer programs for annual wage reporting (see p. 13); (2) SSA hired temporary staff and invested considerable efforts to train them to meet increased wage and tax information requirements (see p. 13); and (3) to reduce recomputation backlogs, SSA combined 1979 and 1980 earnings (see pp. 6 and 16).

2. The end result of combining the 1979 and 1980 AEROs is difficult to ascertain. It was intended to and may have speeded up the process over the long run but encountered several problems (see p. 16). We disagree that starting AERO processing in September 1984 for 1982 earnings should be considered "timely," especially when SSA's criteria call for the completion of AERO within 18 months after the earnings year (see p. 3). We changed the report to reflect the May 1984 completion of 1982 earnings postings.
3. We adjusted the statement regarding start-up of annual wage redesign as SSA suggested (see p. 18).
4. Our data, as well as discussions with SSA staff involved with sample selection, indicate that enforcement cases were part of the 4.1 million case sample. Also, we point out that the lack of data on enforcement cases was only part of the reason results were obtained for 71 percent of sample cases (see p. 7). Data were not available in many cases because new entries to SSA Master Beneficiary Records erased prior entries, thereby eliminating information necessary to obtain sample results (see p. 4).

5. Our statistical projections are precise--within 95-percent confidence levels. The fact that data were not available for 29 percent of the cases does not affect the statistical validity of estimates for the remainder of our sample universe. Other suggestions referring to the total beneficiaries underpaid and total amount underpaid have been included in the text.
6. We deleted the reference to 12 months. Because SSA could not specify what time frame it hopes to reach once all Systems Modernization Program improvements are made, we noted that SSA hopes to show continuing improvement after the 1983 AERO. We also added the AERO completion goal of 18 months which is in SSA's program operations manual.
7. We added the agency's comment that 1977 AERO took 22 months. Our principal intent is to compare AERO time frames before and after annual wage reporting was implemented for 1978. Although documentation was not available for this period, agency officials estimate that, prior to 1978, AERO generally took 16 months. Consequently, we did not change the report generalization that prior to 1978, AERO took 16 months to complete.
8. As stated in the report and in agency comments, AERO for 1979 and 1980 was combined into one operation. This 1979/1980 operation was completed in 42 months.
9. We agree and made the suggested change.
10. In certain limited circumstances new beneficiaries may be informed that they can request benefit recomputations. According to SSA officials, this group constitutes a very small percentage of all recomputation cases.
11. We agree and made the suggested changes.

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