



Testimony before the Senate Committee  
on Finance

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**MEDICARE PART D  
LOW-INCOME SUBSIDY**

**Progress Made in Approving  
Applications, but Ability to  
Identify Remaining  
Individuals Is Limited**

Statement of Barbara Bovbjerg, Director  
Education, Workforce, and Income Security Issues





Highlights of [GAO-07-858T](#), a testimony before the Senate Committee on Finance

## Why GAO Did This Study

To help the elderly and disabled with prescription drug costs, the Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003, which created a voluntary outpatient prescription drug benefit (Medicare Part D). A key element of the prescription drug benefit is the low-income subsidy, or “extra help,” available to Medicare beneficiaries with limited income and resources to assist them in paying their premiums and other out-of-pocket costs.

To assess Social Security Administration’s (SSA) implementation of the Medicare Part D low-income subsidy, GAO was asked to review (1) the progress that SSA has made in identifying and soliciting applications from individuals potentially eligible for the low-income subsidy, and (2) the processes that SSA uses to track its progress in administering the subsidy.

This statement is drawn from GAO’s ongoing study for the committee on the Medicare Part D low-income subsidy, which is expected to be published at the end of May. To conduct this work, GAO reviewed the law, assessed subsidy data, and interviewed officials from SSA, the Centers for Medicare and Medicaid Services, the Internal Revenue Service, state Medicaid agencies, and advocacy groups.

[www.gao.gov/cgi-bin/getrpt?GAO-07-858T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-858T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or [bovbjergb@gao.gov](mailto:bovbjergb@gao.gov).

# MEDICARE PART D LOW-INCOME SUBSIDY

## Progress Made in Approving Applications, but Ability to Identify Remaining Individuals Is Limited

### What GAO Found

SSA approved approximately 2.2 million Medicare beneficiaries for the low-income subsidy as of March 2007, despite barriers that limited its ability to identify individuals who were eligible for the subsidy and solicit applications from them. However, the success of SSA’s outreach efforts is uncertain because there are no reliable data to identify the eligible population. SSA officials had hoped to use Internal Revenue Service (IRS) tax data to identify the eligible population, but the law prohibits the use of such data unless an individual has already applied for the subsidy. Even if SSA could use the data, IRS officials question its usefulness. Instead, SSA used income records and other government data to identify 18.6 million Medicare beneficiaries who might qualify for the subsidy, which was considered an overestimate of the eligible population. SSA mailed low-income subsidy information and applications to these Medicare beneficiaries and conducted an outreach campaign of 76,000 events nationwide. However, since the initial campaign ended, SSA has not developed a comprehensive plan to distinctly identify its continuing outreach efforts apart from other agency activities. SSA’s efforts were hindered by beneficiaries’ confusion about the distinction between applying for the subsidy and signing up for the prescription drug benefit, and the reluctance of some potential applicants to share personal financial information, among other factors.

SSA has collected data and established some goals to monitor its progress in administering the subsidy, but still lacks data and measurable goals in some key areas. While SSA tracks various subsidy application processes through its Medicare database, it has not established goals to monitor its performance for all application processes. For example, SSA tracks the time for resolving appeals and the outcomes of its initial redeterminations of subsidy eligibility, but does not measure the amount of time it takes to process individual redetermination decisions. According to SSA officials, implementing the low-income subsidy was manageable overall due to increased funding for the outreach and application processes and did not significantly affect the agency’s workload and operations.

GAO is considering recommendations for SSA to work with IRS to assess the extent to which taxpayer data could help identify individuals who might qualify for the subsidy, and help improve estimates of the eligible population; and for SSA to develop a plan to guide its continuing outreach efforts and develop key management tools to measure the results of its subsidy application processes.

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May 8, 2007

Mr. Chairman and Members of the Committee:

I am pleased to be here to discuss the Social Security Administration's (SSA) progress in approving individuals for the Medicare Part D low-income subsidy. High prescription drug costs can have a detrimental effect on low-income seniors and the disabled, who are more likely than others to suffer from chronic medical problems requiring prescription drugs. Such high costs may cause some elderly patients to forgo or restrict their use of prescription drugs. To help the elderly and disabled with these costs, the Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003.<sup>1</sup> MMA enabled Medicare beneficiaries to enroll voluntarily in drug plans sponsored by private companies. The benefit includes a low-income subsidy, or "extra help," to assist Medicare beneficiaries with limited income and resources in paying their premiums and other out-of-pocket costs.

The Department of Health and Human Services (HHS) and its Centers for Medicare and Medicaid Services (CMS) is largely responsible for implementing the new drug benefit, called Medicare Part D, and SSA is responsible for administering the low-income subsidy. Accordingly, SSA is responsible for notifying individuals of the subsidy's availability, taking applications, making subsidy eligibility determinations, resolving appeals, and ensuring continued subsidy eligibility. SSA also withholds Part D premiums from Social Security benefits for beneficiaries who select this option. To assess SSA's implementation of the Part D low-income subsidy, you asked us to review (1) the progress that SSA has made in identifying and soliciting applications from individuals potentially eligible for the low-income subsidy and (2) the processes that SSA uses to track its progress in administering the subsidy benefit.

My written statement is drawn from our ongoing work for the committee on the Part D low-income subsidy, for which we expect to provide you a report at the end of May. We have provided SSA and the Internal Revenue Service (IRS) with a draft copy of our report, and agency officials are in the process of preparing their comments. To conduct our work, we interviewed and obtained documentation from officials responsible for implementing the subsidy at SSA headquarters and at eight SSA field

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<sup>1</sup>Pub. L. 108-173.

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offices in Maryland, Virginia, Pennsylvania, and Texas. We also obtained and discussed relevant documentation on SSA's outreach efforts to target the low-income population and methods for obtaining input from state Medicaid agencies. We reviewed available data on SSA's processes for making eligibility determinations, resolving appeals, and making redeterminations, but were unable to verify the reliability of the data. We interviewed CMS officials and obtained documentation on the agency's involvement with SSA's outreach efforts. We interviewed officials at the IRS concerning legal restrictions on its ability to release tax data to SSA. We met with various advocacy groups that represent low-income and disabled beneficiaries to obtain their perspectives on SSA's implementation of the low-income subsidy. We conducted our work from May 2006 through April 2007 in accordance with generally accepted government auditing standards.

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## Summary

In summary, SSA approved approximately 2.2 million Medicare beneficiaries for the low-income subsidy as of March 2007, despite barriers that limited its ability to identify individuals who were eligible for the subsidy and solicit applications. However, the success of SSA's outreach efforts is uncertain because there are no reliable data to identify the eligible population. SSA officials had hoped to use IRS tax data to identify the eligible population, but there are legal limits on IRS's ability to release such data to SSA unless an individual has already applied for the subsidy. Even if SSA could use the data, IRS officials question their usefulness. Instead, SSA used income records and other government data to identify 18.6 million Medicare beneficiaries who might qualify for the subsidy, which was considered an overestimate of the eligible population. SSA mailed low-income subsidy information and applications to the Medicare beneficiaries it identified, and conducted an outreach campaign of 76,000 events nationwide. However, since the initial campaign ended, SSA has not developed a comprehensive plan specific to its low-income subsidy outreach activities to guide its continuing efforts. SSA's efforts were hindered by beneficiaries' confusion about the distinction between applying for subsidy and signing up for the Medicare prescription drug benefit, and the reluctance of some potential applicants to share personal financial information, among other factors.

SSA has collected data and established some goals to monitor its progress in administering the subsidy, but still lacks data and measurable goals in some key areas. While SSA tracks various subsidy application processes through its Medicare database, it has not established goals to monitor its performance in all application processes. For example, SSA tracks the

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time for resolving appeals and the outcomes of its initial redeterminations of subsidy eligibility, but does not measure the amount of time it takes to process individual redetermination decisions. According to SSA officials, implementing the low-income subsidy was manageable overall, due to increased funding for its MMA start up costs, and did not significantly affect the agency's workload and operations.

We are considering recommendations for SSA to work with IRS to assess the extent to which taxpayer data could help identify individuals who might qualify for the subsidy, and help improve estimates of the eligible population; and for SSA to develop a plan to guide its continuing outreach efforts and develop key management tools to measure the results of its subsidy application processes.

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## Background

All Medicare beneficiaries entitled to benefits under Medicare Part A or enrolled in Part B are eligible to enroll in Medicare Part D.<sup>2</sup> Medicare beneficiaries who qualify for full coverage under their state's Medicaid program,<sup>3</sup> as well as Medicare beneficiaries who qualify for more limited Medicaid coverage, Supplemental Security Income (SSI), or state Medicare Savings Programs<sup>4</sup> are automatically enrolled in a prescription drug plan by CMS,<sup>5</sup> automatically qualify for the full subsidy of their premium and deductible, and do not need to file an application. They are referred to as "deemed."

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<sup>2</sup>Individuals who are eligible for Medicare automatically receive Hospital Insurance, known as Part A, which helps pay for hospital stays, related post-hospital care, home health services, and hospice care, and typically does not require a monthly premium. Medicare also offers optional insurance under Supplementary Medical Insurance (Part B) to cover doctor's services and outpatient care, and requires a premium.

<sup>3</sup>Medicaid is a federal and state program that helps pay medical costs for certain low-income people, such as those who are 65 and older, the blind, the disabled, and members of families with dependent children or qualified pregnant women or children. Prior to the effective date of Part D, Medicaid provided coverage for outpatient prescription drug costs for persons eligible for that program.

<sup>4</sup>Medicare Savings Programs are offered by state Medicaid agencies to assist people with limited income and resources with their Medicare premiums and, in some cases, may also pay Part A and Part B deductibles and coinsurance.

<sup>5</sup>The automatic enrollment in the Part D prescription drug benefit only applies if beneficiaries do not enroll on their own.

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Other Medicare beneficiaries who do not automatically qualify for the subsidy (i.e., who are not deemed) must apply and meet the income and resource requirements. These beneficiaries generally qualify if they have incomes below 150 percent of the federal poverty level and have limited resources. Generally, in 2007, individuals qualify if they have an income of less than \$15,315 and have resources of less than \$11,710; couples qualify if they have a combined income of \$20,535 and resources of \$23,410.<sup>6</sup> The amount of the subsidy for premiums, deductibles, copayments, and catastrophic coverage varies, depending on income and resources. Subsidy benefits are provided to these individuals on a sliding scale, depending on their income and resources.

Individuals generally apply for the benefit directly through SSA, although they may also apply through their state Medicaid office. The agency that receives an application, whether SSA or a state Medicaid agency, is responsible for making initial subsidy determinations and deciding appeals and redeterminations. Those who apply through SSA may submit their subsidy application using SSA's paper application or an Internet application form. Applicants may also have their information entered electronically by visiting an SSA field office or by calling SSA's toll-free phone line. Under the MMA, beneficiaries may also apply for the subsidy through their state Medicaid office. However, according to state Medicaid officials we spoke with, they encouraged beneficiaries to apply for the subsidy through SSA whenever possible. As of March 2007, only the Colorado and Kansas state Medicaid agencies had made Part D subsidy determinations.

Under the MMA, the Congress provided SSA with a \$500 million appropriation from the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund to pay for the initiation of SSA's Part D responsibilities, and the activities for other MMA responsibilities for fiscal years 2004 and 2005, but later extended the appropriation to fiscal year 2006. Since January 2006, SSA officials told us

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<sup>6</sup>The resource limits are based on three times the resource limit of the SSI program for subsidy beneficiaries that qualify for the full subsidy in 2006, with subsequent limits updated each year based on the Consumer Price Index (CPI); for beneficiaries that qualify for less than the full subsidy, the resource limits are based on specific dollar amounts set in the MMA, which are updated each year based on the CPI. Countable resources include such things as savings, investments, and real estate (other than an individual's primary residence). Countable resources do not include such things as a car, a burial plot or limited funds set aside for burial expenses, or certain other personal possessions.

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that the agency has had to draw on its overall administrative appropriation to support its Part D activities.

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## Progress Has Been Made in Approving Subsidy Applicants, despite Barriers, but Measuring Success Is Difficult

SSA has approved 2.2 million applicants for the subsidy as of March 2007, despite some barriers, but measuring their success is difficult because no reliable data are available to identify the eligible population. SSA officials told us that their outreach goal was to inform all individuals potentially eligible for the subsidy and provide them an opportunity to apply for the benefit. Because the agency lacked access to reliable data that might help target their outreach efforts more narrowly, SSA used income records and other government data to identify a broad group of potentially eligible individuals. Outreach efforts were further limited by several barriers to soliciting applications. Since its initial outreach campaign, SSA has not developed a comprehensive plan to identify its continued outreach efforts apart from other activities.

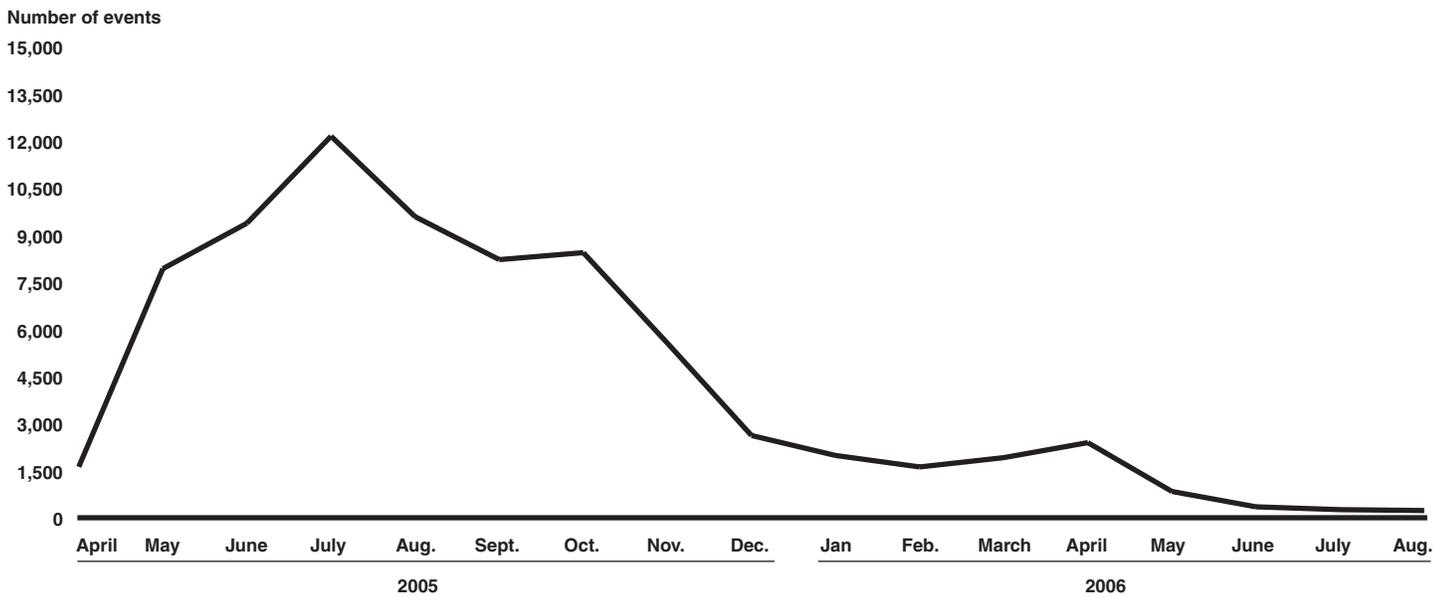
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## SSA's Initial Outreach Efforts Were Extensive, but Outreach Has since Decreased

SSA conducted its initial outreach campaign from May 2005 to August 2006, but has decreased its efforts since then. SSA sent targeted mailings, which included an application for the subsidy and instructions on how to apply, to the 18.6 million individuals it had identified as potentially eligible. After the subsidy applications were mailed, a contractor then made phone calls to 9.1 million beneficiaries who had not responded to the initial mailing. SSA also conducted other follow up efforts, including sending notices to individuals whom the contractor was unable to contact and to specific subgroups that it identified as having a high likelihood of qualifying for the subsidy, such as the disabled; individuals 79 years of age and older living in high-poverty areas; and individuals in Spanish-speaking, Asian-American, and African-American households.

The outreach efforts also included over 76,000 events conducted in collaboration with federal, state, and local partners, such as CMS, state Medicaid agencies, state health insurance programs, and advocacy groups for Medicare beneficiaries. Events were held at senior citizen centers, public housing authorities, churches, and other venues. As figure 1 shows, the number of outreach events has declined significantly, from a high of 12,150 in July 2005 to 230 at the completion of the campaign in August 2006.

Figure 1: Total Number of SSA Outreach Events from May 2005 to August 2006



Source: GAO analysis of SSA data.

Although the initial campaign has ended, SSA is continuing to solicit applications. For example, SSA has conducted various activities to inform individuals in rural and homeless communities about the subsidy, and is planning to launch a new strategy this week for Mother’s Day to inform relatives and caregivers—the sons, daughters, grandchildren and family friends—about the subsidy. SSA has incorporated its strategy for continuing outreach efforts for the subsidy into its National Communications Plan. However, it has not developed a comprehensive plan that specifically identifies those efforts separate from other agency activities. As a result, SSA has a limited basis for assessing its progress and identifying areas that require improvement.

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## Multiple Barriers Impeded SSA's Outreach Efforts

### Data Issues Limited SSA's Efforts to Identify the Eligible Population

SSA did not have access to data that might have helped to narrowly target the eligible population. Because of the lack of reliable data for identifying the entire population, SSA broadly targeted 18.6 million individuals who might be eligible for the subsidy. SSA identified the target population by using income data from various government sources to screen out Medicare beneficiaries whose income made them ineligible for the Part D subsidy.<sup>7</sup> SSA realized that using these data sources would result in an overestimate of the number of individuals who might qualify for the subsidy, because the data provided limited information on individuals' resources or nonwage income. SSA officials said they took this approach to ensure that all Medicare beneficiaries who were identified as potentially eligible for the subsidy were made aware of the benefit and had an opportunity to apply for it.

SSA officials said that they would have preferred to specifically target Medicare beneficiaries who were likely to be eligible for the subsidy by using tax data from IRS on individuals' wage, interest, and pension income. Current law permits SSA to obtain income and resource data from IRS to assist in verifying income and resource data provided on subsidy applications.<sup>8</sup> The law, however, prohibits IRS from sharing such data with SSA to assist with outreach efforts. According to SSA officials, such data would allow SSA to identify individuals to target for more direct outreach and to estimate how many individuals qualify for the subsidy. In November 2006, the HHS Office of Inspector General reported that legislation is needed to provide SSA and CMS access to income tax data to help the

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<sup>7</sup>SSA obtained income data from its earnings records, as well as data from the Office of Personnel Management, the Department of Veterans Affairs, the Railroad Retirement Board, and the Office of Child Support Enforcement of the Department of Health and Human Services.

<sup>8</sup>Under 26 U.S.C. § 6103(1)(7)(C), IRS may only provide tax return information to SSA for purposes of, and to the extent necessary in, determining the eligibility for or the correct amount of benefits provided through the subsidy program. In signing the application form, individuals acknowledge that SSA will compare the information reported by them on the form to information supplied by federal, state, and local government agencies, including the IRS.

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agencies more effectively identify beneficiaries potentially eligible for the subsidy.<sup>9</sup>

SSA officials believe IRS income tax data could provide access to information on individuals' income and resources. However, IRS officials told us that its data have many limitations. For example, IRS officials said that they have limited data on resources for individuals whose income is less than \$20,000, because these individuals do not typically have interest income, private pensions, or dividend income from stocks that could assist SSA in estimating an individual's potential resource level. Also, the officials said that many people with low incomes do not have incomes high enough to require them to file taxes, and therefore, IRS might not have information on them.<sup>10</sup> IRS also explained that its tax data would most likely identify individuals that would not qualify for the subsidy, rather than individuals that would qualify. Moreover, the IRS officials said that the data it would provide to SSA to determine eligibility could be almost 2 years old. For example, for subsidy applications filed in early 2007, the last full year of tax data the IRS could provide would be for 2005. Given these factors, IRS officials stated that summarily sharing private taxpayer data to identify individuals who could qualify for the subsidy, and the potential cost of systems changes, would have to be weighed against the added value of the data. No effort has been undertaken to determine the extent to which IRS data could help SSA or improve estimates of the eligible population. Legislation is currently pending before the Congress to permit IRS to share taxpayer data with SSA to assist the agency in better identifying individuals who might be eligible for the subsidy.

#### Other Barriers Have Limited SSA's Solicitation Efforts

SSA's efforts to solicit applications were hindered by beneficiaries' confusion about applying for subsidy and the drug benefit. According to SSA field office staff and state Medicaid and advocacy group officials, many individuals were confused about the difference between the prescription drug benefit and the subsidy, and did not understand that they involved separate application processes. Consequently, some individuals thought that once they were approved for the subsidy, they

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<sup>9</sup>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. Washington, D.C.: Nov. 17, 2006.

<sup>10</sup>Individuals' income, filing status, and age generally determine whether they must file an income tax return. For example, in 2006, single individuals 65 or older were not required to file tax returns if their income was less than \$9,700, and married couples 65 or older filing jointly were not required to file tax returns if their combined income was less than \$18,900.

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were also automatically enrolled in a prescription drug plan. Additionally, some individuals were reluctant to apply because they did not want to share their personal financial information for fear that an inadvertent error on the application could subject them to prosecution under the application's perjury clause.<sup>11</sup>

Though individuals have become more educated about the subsidy, concerns remain about eligibility requirements and the overall complexity of the application. SSA field office staff and advocacy group officials have concerns that the eligibility requirements set by the MMA may be a barrier. For example, they said that the subsidy's resource test may render some low-income individuals ineligible because of retirement savings or the value of other resources. Legislation has been proposed to increase the resource limit. Advocacy group officials have also said that the application may be too complex for many elderly and disabled beneficiaries to understand and complete without the assistance of a third party. SSA headquarters officials told us they worked with various focus groups to develop the subsidy application and that they have revised the application several times to address such concerns, but that much of the information that applicants may view as complex is required by the MMA.

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## Measuring the Success of SSA's Outreach Efforts is Difficult

The success of SSA's efforts is uncertain because no reliable data exist on the total number of individuals potentially eligible for the subsidy. Using available estimates of the potentially eligible population, SSA approved 32 to 39 percent of the eligible population who were not automatically deemed by CMS for the subsidy. According to these estimates by CMS, the Congressional Budget Office, and other entities, about 3.4 million to 4.7 million individuals are eligible for the subsidy, but have not yet enrolled (See table 1.) In developing these estimates, however, these entities faced the same data limitations as SSA in identifying potentially eligible individuals.

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<sup>11</sup>The perjury clause states that an individual could face imprisonment or other penalties for making a false or misleading statement about information provided on the subsidy application.

**Table 1: Medicare Part D Low-Income Subsidy Estimates of the Eligible Population Who Must Apply to Receive the Subsidy (Numbers in millions)**

Source of estimate	Eligible but not automatically enrolled <sup>a</sup> (Column A)	SSA subsidy approvals as of as of March 2007 (Column B)	Eligible but not yet enrolled/current participation rate (Column A minus B)
Congressional Budget Office <sup>b</sup>	6.6	2.2(33%)	4.4
Access to Benefits Coalition <sup>c</sup>	6.8	2.2(32%)	4.6
Rice and Desmond <sup>d</sup>	6.9	2.2(32%)	4.7
Centers for Medicare and Medicaid Services <sup>e</sup>	5.6	2.2(39%)	3.4

Sources:

<sup>a</sup>We derived these numbers by subtracting the 7.6 million beneficiaries that CMS estimated in January 2007 were deemed for the subsidy, or had comparable coverage from other federal programs, from the sources' original estimates of all eligible beneficiaries (except for the Rice and Desmond estimate, which included only undeemed beneficiaries).

<sup>b</sup>Congressional Budget Office (CBO), A Detailed Description of CBO's Cost Estimate for the Medicare Prescription Drug Benefit, table 8, July 2004, Washington, D.C. CBO estimated that an overall total of 14.2 million beneficiaries would be eligible for the subsidy in 2006.

<sup>c</sup>The Access to Benefits Coalition (Pathways to Success, page 1), 2005, Washington, D.C. The coalition estimated that an overall total of 14.4 million beneficiaries would be eligible for the subsidy in 2006.

<sup>d</sup>Rice, T. and Desmond, K. January 2006. "Who Will Be Denied Medicare Prescription Drug Subsidies Because of the Asset Test?" The American Journal of Managed Care, 12 (1), pp.46-54, January 2006. The authors estimated that a total of approximately 6.9 million eligible individuals would not be dual eligible beneficiaries, as of January 2006.

<sup>e</sup>Reported in CMS Press release, "Medicare Drug Plans Strong and Growing: Beneficiaries Compared Plans and Continued to Sign Up for Prescription Drug Coverage," January 30, 2007, Washington, D.C. CMS estimated that an overall total of 13.2 million beneficiaries were eligible in 2006.

SSA officials said that it is unfair to judge the success of its outreach efforts for the subsidy in relation to the estimates of the total eligible population, given the limitations in identifying it. SSA officials stated that their efforts have been successful in meeting their outreach goals. In fact, after almost 2 years of implementation efforts, SSA's participation rate compares favorably to that of the Food Stamp Program, which had a participation rate of 31 percent after its second year of implementation. The low-income subsidy participation rate compares less favorably, however, to that of the Supplemental Security Income program, which had a participation rate of approximately 50 percent among the aged a year after the program began. SSA officials noted that the SSI participation rate included individuals who were automatically transferred from state government programs to SSI, which is somewhat similar to the "deemed" population that was automatically transferred to the low-income subsidy.

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## Some of SSA's Application Processes and Operations Lack Key Tools for Monitoring Performance

SSA has collected data and established some goals to monitor its progress in implementing and administering the subsidy benefit, but still lacks data and measurable goals in some key areas. To enable agencies to identify areas in need of improvement, GAO internal control standards state that agencies should establish and monitor performance measures and indicators.<sup>12</sup> Accordingly, agencies should compare actual performance data against expected goals and analyze the differences.

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## SSA Monitors Performance on Applications Processes, but Lacks Data and Goals on Others

### Determinations

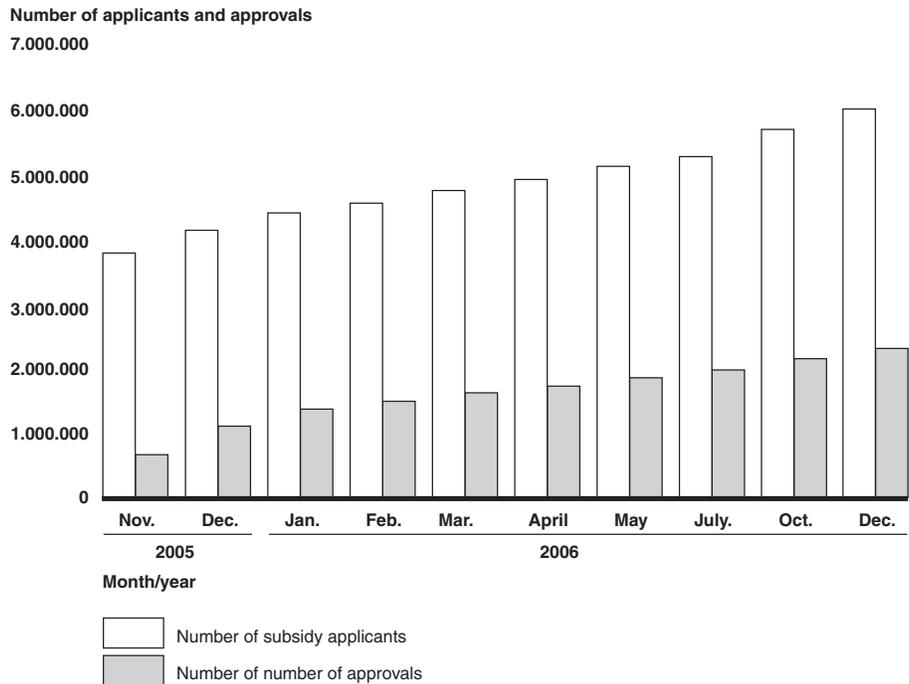
SSA monitors various aspects of its determination process, such as the number of applications received and their outcomes and length of processing, but did not establish a performance goal for processing times until March 2007. SSA largely relies on an automated process to determine individuals' eligibility for the subsidy. Income and resource data provided by the applicant are electronically compared to income data provided by IRS and other agencies to determine if the individual meets income and resource requirements. SSA field office staff follow up with individuals in cases where there are conflicting data or questions. SSA tracks the number of eligibility determinations, the outcome of those determinations, and the length of time for completing the determinations. SSA also tracks denials and periodically samples denied claims to examine the reasons for such actions.

As of March 2007, approximately 6.2 million individuals had applied for the subsidy. SSA received the heaviest volume of applications when the public outreach campaign was the most active. Figure 2 provides data on the cumulative number of subsidy applicants and approvals from November 2005, when SSA began tracking the data, to December 2006.

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<sup>12</sup>GAO, *Internal Control Standards: Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

**Figure 2: Cumulative Number of Subsidy Applicants and Approvals, November 2005 to December 2006**



Source: GAO analysis of SSA data.

Note: SSA did not have data available for the months of June, August, September, and November of 2006.

While SSA has captured data on the length of time it takes to make eligibility determinations, it did not develop the capability to report the data, and did not establish a performance goal for processing times until March 2007. SSA has now established a goal of processing 75 percent of subsidy applications in 60 days.<sup>13</sup> Of the approximately 6.2 million individuals who had applied for the subsidy as of March 2007, SSA approved 2.2 million, denied 2.6 million, and had decisions pending for 80,000 applicants. SSA officials determined that no decision was required for 1.4 million because they were duplicate applications, applications from individuals automatically qualified for the subsidy, or canceled

<sup>13</sup>The processing time includes a built-in 20-day delay as part of the predecisional process and the 10-14 days that it takes to receive verification data from IRS.

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applications.<sup>14</sup> To identify reasons for subsidy denials, SSA conducted three separate studies that sampled a total of 1,326 denied claims. These studies showed that 47 percent of applicants were denied due to resources and 44 percent because of income that exceeded allowable limits set by the MMA. SSA officials stated that they plan to conduct a longitudinal study to examine the reasons for all denied claims.

## Appeals

SSA tracks data on the total number of appeals, the reason for appeals, the time it takes to process them, the method used to resolve them, and their final disposition. Individuals may appeal denied claims, as well as the level of the subsidy, by calling SSA's national toll-free number, submitting the request in writing, or visiting any Social Security field office. Individuals may also complete an appeals form available on SSA's Web site and mail it to SSA. Individuals have the choice of having their appeal conducted through a telephone hearing or a case file review. According to SSA, about 79,000, or 3 percent of denied subsidy applications were appealed from August 2005 to February 2007. SSA completed about 76,000 appeals in that time frame. On the basis of an SSA sample of 781 appeals, SSA reversed its decision for 57 percent of the cases and upheld its decision for the remaining 43 percent.

SSA data show that the overall volume of appeals received was the highest between November 2005 and July 2006, declined between August and November 2006, and rose again between December 2006 and February 2007. During the decline, SSA closed all but one of its six Special Appeals Units by October 2006. Further, the time it took SSA to process appeals varied widely, and did not necessarily decrease when the caseloads grew smaller.

## Redeterminations

SSA tracks various results from the redeterminations process, such as the number of decisions made, and number and level of continued subsidies. However, SSA does not track processing time for redetermination decisions and has not established a performance time target for processing such actions. According to the MMA and SSA regulations, all recipients of the subsidy are required to have their eligibility redetermined within 1 year

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<sup>14</sup>Cancelled applications included applications that were withdrawn by the applicant or applications that were canceled by SSA because the applicant was not eligible for Medicare, as required to qualify for the subsidy.

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after SSA first determines their eligibility.<sup>15</sup> Future redeterminations are required to be conducted at intervals determined by the Commissioner. SSA's regulations provide that these periodic redeterminations be based on the likelihood that an individual's situation may change in a way that affects subsidy eligibility. Additionally, SSA's regulations provide that unscheduled redeterminations may take place at any time for individuals who report a change in their circumstances, such as marriage or divorce. SSA officials stated that since the redeterminations process is conducted within a certain period of time, it is unnecessary to track the processing time for individual redetermination decisions.

SSA initiated its first cycle of redeterminations in August 2006, which including all of the approximately 1.7 million individuals who were determined to be eligible for the subsidy prior to April 30, 2006. SSA excluded from the redeterminations process about 562,000 individuals who were either deceased, automatically deemed eligible for the benefit by CMS, or whose subsidy benefit had been terminated. SSA data show that as of February 2007, SSA had completed approximately 237,000 redeterminations. About 69,000 individuals remained at the same subsidy level, another 69,000 had a change in their subsidy level, and 98,000 individuals had their subsidies terminated, based on a change in their circumstances.

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### SSA Has Monitored Some Aspects of the Subsidy Program's Impact on SSA's Workload, and Increased Funding Helped SSA Manage the Increased Workload

SSA has monitored some aspects of the increased workload and found that implementing the low-income subsidy was manageable overall, due to increased funding for its MMA startup costs. Although the subsidy program affected SSA's workload and operations, SSA officials told us that implementing the subsidy did not significantly affect the agency's workload and operations. SSA hired a total of 2,200 field office staff to assist with subsidy applications, as well as an additional 500 headquarters staff to support its MMA activities. SSA officials attribute the light impact of the subsidy program to various factors, including the automation of the subsidy application process and the \$500 million appropriation it received for administrative startup costs to implement its MMA responsibilities. SSA officials pointed out that as they implemented the subsidy, the processing times for other workloads improved. Officials explained that

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<sup>15</sup>This does not include individuals who continue to be deemed or automatically eligible for the subsidy. Individuals who report changes to SSA regarding their benefit status are also excluded from the initial redetermination process since they are redetermined as a result of the change.

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they were able to manage the other workloads because the peak increases in subsidy applications and inquiries were short-lived, allowing SSA's operations to return to a more normal operating level after handling these peak work volumes. SSA officials stated that they expect small increases in its low-income subsidy workload during future prescription drug plan open seasons, which are typically held from November to December.

Although SSA can track expenditures for implementing its various MMA responsibilities overall, it cannot track expenditures related specifically to low-income subsidy activities. For example, SSA cannot calculate how much of the \$500 million appropriation it received for MMA startup costs was spent on the subsidy program versus its other MMA responsibilities. Although SSA could not provide documentation of the total amount of its subsidy-related expenditures, it estimates that its costs related to administering the subsidy are about \$175 million annually, based on workload samples. However, SSA is planning to develop a tracking mechanism to more accurately capture the data.

Recent increases in SSA's administrative resources may have also been a factor in limiting the impact of the subsidy program workload. The amount of SSA's administrative costs covered by the Medicare Trust Funds is projected to increase by about 37 percent between fiscal year 2003 and fiscal year 2008. This increase occurred despite the transfer of the Medicare appeals processing function from SSA to CMS in 2005. While this increase has helped SSA to carry out its various Medicare responsibilities (such as taking applications for Medicare benefits and withholding Medicare premiums, among others), it may have also helped to cushion the impact of the subsidy program.

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## Conclusions

Reaching the millions of people who are forgoing the government's help in paying for their prescription drug benefit remains a significant challenge. Using the \$500 million appropriation for its MMA start up costs, SSA was able to initiate the Part D subsidy and sign up 2 million people for the subsidy without adversely affecting SSA's overall operations. However, while it is not clear how to reach the remaining eligible people, the momentum of the initial outreach campaign should not be lost. The barriers to identifying eligible people and convincing them to sign up remain. For some, the subsidy application is complicated, which is due in part to the low-income subsidy eligibility requirements. Further, no one has yet studied whether or not IRS data can help identification efforts. While advocacy groups have called for a more personalized outreach approach to encourage additional enrollments, it may be unrealistic to

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expect SSA to conduct such efforts, given its resource limitations. Both a better understanding of who is eligible and a plan for continued outreach could help SSA make efficient use of limited staff resources by targeting outreach more narrowly to the eligible population.

Further, a timely and reliable process for deciding initial determinations, hearing appeals, and making redeterminations is essential to effective management of the subsidy. SSA has focused on developing and improving the processes for serving its customers in a timely manner. As SSA moves forward, it may need better information to ensure that the subsidy program serves its target population as efficiently and effectively as possible.

We are considering recommendations for SSA to work with IRS to assess the extent to which taxpayer data could help identify individuals who might qualify for the subsidy, and help improve estimates of the eligible population; and for SSA to develop a plan to guide its continuing outreach efforts and develop key management tools to measure the results of its subsidy application processes.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other members of the committee may have at this time.

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## GAO Contacts and Staff Acknowledgments

For further information regarding this testimony, please contact Barbara D. Bovbjerg, Director, Education, Workforce, and Income Security Issues, on (202) 512-7215. Blake Ainsworth, Jeff Bernstein, Mary Crenshaw, Lara L. Laufer, Sheila McCoy, Kate France Smiles, Charles Willson, and Paul Wright, also contributed to this statement.

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