



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



HUMAN RESOURCES
DIVISION

B-164031(4)

JULY 2, 1979

The Honorable Joseph A. Califano, Jr.
The Secretary of Health, Education,
and Welfare

Dear Mr. Secretary:

This report summarizes the results of our analysis of the Social Security Administration's (SSA's) procedures for adjusting the benefits of persons who earn more than the allowable amount. We determined that, over a 3-year period, SSA did not take appropriate action to identify and collect an estimated \$48 million in overpayments or pay \$5 million in underpayments. The overpayments were made to beneficiaries who had excess earnings, and these overpayments generally can be recovered.

BACKGROUND AND SCOPE

The Social Security Act, section 203(b), (f), as amended, requires that persons under age 72 1/ receiving social security benefits have their benefits reduced if they work and have earnings that exceed an annual exempt amount. Certain types of income, however, such as interest, pensions, and dividends, are excluded. 2/

The Social Security Act also requires that \$1 of benefits be withheld for every \$2 of earnings above the exempt amount. Annual exempt amounts increased from \$2,400 to \$3,000 from 1974 to 1977.

1/Lowered to age 70 beginning 1982.

2/For self-employed persons, a substantial services test, based on number of hours worked, is used.



109782

HRD-79-89
(105056)

005751 / 109782

During these years a monthly earnings test also applied. Even if earnings exceeded the annual exempt amount, full benefits were still payable in any month in which earnings did not exceed one-twelfth of the annual exempt amount. Starting in 1978, however, only an annual test is applied after the first year of retirement.

The 1977 amendments to the Social Security Act provide for two separate earnings tests. One applies to beneficiaries age 65 and over, and the other to those under age 65.

For beneficiaries age 65 and over, the 1978 exempt amount was set at \$4,000; it is to increase by \$500 each year through 1982.

The 1978 exempt amount for beneficiaries under age 65 was \$3,240. In later years this amount will be determined under an automatic cost-of-living adjustment provision of the law.

In 1975, the latest year for which data were available, 1.3 million (14 percent) of the beneficiaries under age 72 who were subject to the earnings test had their benefits reduced. These beneficiaries had \$2.7 billion withheld from benefits that could have totaled \$4.3 billion before withholding.

Social security beneficiaries who continue to work are required to estimate their current year's earnings; benefits are reduced if the estimated earnings exceed the exempt amount. Earnings estimates may be changed anytime during the year, and SSA adjusts the individual's benefits accordingly. After the close of the earnings year, beneficiaries whose earnings exceeded the exempt amount must file an annual report of earnings 1/ with SSA by April 15. 2/ The annual report form also includes a place to estimate the following year's earnings.

1/This filing is separate from filing with the Internal Revenue Service and involves its own forms and requirements.

2/A different filing time is permitted for people not on a calendar-year basis.

If the annual reported earnings differ from the estimated earnings, SSA is required to adjust the benefits to reflect the amount of reported earnings by recouping overpayments or making additional payments.

The Social Security Act also requires every employer of persons covered by social security to periodically report the amount of wages paid to each employee. SSA makes an automated comparison of earnings information from the employer's report with earnings reported by the beneficiary. An earnings enforcement case is generated when the comparison shows that

--the employer(s) reported wages paid to a beneficiary that exceed the allowable amount, but the beneficiary did not file an annual report, or

--a beneficiary reports annual earnings different from those reported by his employer(s).

SSA officials estimate that about 400,000 earnings enforcement cases are generated annually. The agency has periodically reviewed annual report enforcement cases to check the accuracy of its handling of completed enforcement cases and found that about 95 percent of the cases were free of payment-related deficiencies. A computer notation is made on the beneficiary's record when an earnings enforcement case is generated; this notation should be removed or cleared from the record when the case is completed. SSA does not check, however, to assure that all earnings enforcement cases are properly completed. Our preliminary work showed that a large number remained on the record.

At our request, SSA identified over 460,000 earnings enforcement cases for the years 1974-76 that were not cleared from the beneficiaries' records. In August 1978 we asked SSA to obtain this information; however, SSA had not completed action on its 1977 earnings enforcement cases. We selected a nationwide sample of 969 of the 1974-76 cases to determine why the computer notation had not been cleared.

FINDINGS

Our review of the sample cases shows that in

- about 18 percent (176 cases), SSA either took no action or failed to complete the action necessary to determine whether the beneficiary was overpaid or underpaid;
- about another 10 percent (93 cases), SSA took no action because the beneficiary was a student who stopped receiving benefits during the enforcement year because he/she was no longer attending school full time or had reached age 22 (terminated students); and
- the other 72 percent, SSA had properly resolved the cases but had not cleared the individuals' records.

SSA's earnings enforcement operation generates a potential overpayment or underpayment case when earnings reported by an employer or beneficiary exceed the allowable exempt amount. When this occurs, if the earnings reported by the employer exceed those reported by the beneficiary a potential overpayment occurs; if the reverse is the case, a potential underpayment occurs. In 154 of the 176 cases the employers' reported earnings exceeded the latest beneficiaries' estimate or report of earnings, indicating that the beneficiary was overpaid by SSA. In the other 22 cases, the employers' reported earnings were less than the beneficiaries, indicating that the beneficiary was underpaid. Assuming that the employers' reports of earnings were correct, the average overpayment was \$525, and the average underpayment was \$478. On this basis, we estimate that the universe of uncleared 1974-76 earnings enforcement cases contains 83,245 cases involving beneficiaries for which SSA either took no action to resolve the discrepancy or failed to completely determine whether the beneficiary was overpaid or underpaid. Such cases represent an estimated \$38.9 million in potential overpayments and about \$4.6 million in potential underpayments not identified by SSA.

SSA officials commented that beneficiaries are occasionally able to provide information showing the earnings

reported by the employer to be incorrect. They added, however, that SSA did not maintain records indicating how frequently this happened. Also, SSA does not maintain records indicating the percentage of overpayments identified by the earnings enforcement operation which are collected.

We noted, however, that, for 76 percent of the cases in our sample in which the beneficiary was apparently overpaid or underpaid, the beneficiary was still receiving benefits in August 1978, when we selected our sample. SSA officials said that overpayments to persons still receiving benefits are readily collectible by adjusting current payments.

Another 93 cases in our sample involved students whose benefits had been terminated during the year of enforcement. SSA did not follow these cases through to determine if the student had been overpaid or underpaid.

Two factors complicating the earnings enforcement operations for terminated students make it less likely that discrepancies discovered in the earnings matching process will result in overpayments being recovered.

First, the student's earnings in excess of the allowable amount may have occurred after the student quit school and stopped receiving benefits. If this is the case, then no overpayments to the students occurred.

Second, terminated students are probably the most difficult group of social security beneficiaries from which to collect overpayments. SSA officials told us that collecting overpayments from terminated students is difficult because (1) overpayments normally cannot be offset against current payments since the students are no longer receiving benefits and (2) once students leave school, they are often difficult to find. Our January 17, 1979, report to the Congress, "Social Security Administration Should Improve Its Recovery of Overpayments Made to Retirement, Survivors, and Disability Insurance Beneficiaries" (HRD-79-31), also points out the difficulty of collecting from students no longer receiving benefits.

Recognizing these problems, instructions issued by SSA headquarters require followup on earnings enforcement cases

involving terminated students only when SSA records show that the student had earnings before his or her benefits ended. As a matter of practice, however, SSA often did not follow up on such cases.

To determine how often SSA failure to follow up on cases involving terminated students resulted in overpayments being unidentified, we took additional steps for such cases in our sample. The additional steps were to (1) obtain from SSA records a quarterly breakdown of the student's earnings for the year of enforcement and (2) identify cases in which the student's earnings in quarters preceding the date of termination exceeded three times the monthly earnings limitation. 1/ In such cases, the student would have had to have been overpaid in at least one of the months in the quarter.

Our sample contained 47 cases under this category. We estimate, therefore, that 23,124 such cases are included in the universe of 1974-76 uncleared earnings enforcement cases. Assuming that the earnings reported by the employers in these cases were correct, the potential unidentified overpayments in the universe of 1974-76 uncleared cases amount to about \$8.9 million.

Our sample contained about 700 cases in which SSA had taken appropriate action to determine whether the beneficiary was overpaid or underpaid and had followed through with appropriate action to adjust the benefits. In these cases, the only problem was that the clerical/computer procedures necessary to clear the individuals' records apparently were not completed. Obviously, these cases do not represent unidentified overpayments or underpayments and do not affect program costs.

1/Changes to the Social Security Act effective in 1978 allow employers to report wages annually, rather than quarterly as previously required. Therefore, for years after 1977, quarterly earnings data as reported by employers are not available to SSA. Earnings for these sample cases were received in a quarterly breakdown. Since the earnings limitation was measured on a monthly basis, to compare the quarterly earnings amounts we increased the monthly limitation by 3 times.

INCREASED CONTROLS IN SSA'S
COMPUTER SYSTEM COULD ASSURE THE
COMPLETION OF ENFORCEMENT CASES

According to SSA officials, there was no way of determining specifically why earnings enforcement cases identified by our review were not acted upon or completed. They said, however, that possible explanations were that

- the enforcement document or the case folder was misfiled or
- the beneficiary's case file was being used when the enforcement document was received by the group responsible for following through on it, and the document was set aside.

We were unable to determine from our review of the case files why no action was taken on a specific earnings enforcement case or why actions started on a specific case were not completed.

SSA's control system provides for a computer-generated reminder for certain cases after 60 days. However, this reminder occurs only once, and no followup action on the enforcement case is required to clear it. Other cases required an SSA employee to process a document into the system instructing it to issue a reminder after a specified time. These reminders also occur only once and do not require any action on the case to clear them.

Although we were unable to determine exactly why some enforcement cases were not acted upon, or were incompletely acted upon, we believe that it would be relatively simple for SSA to develop a computerized control system for earnings enforcement cases to assure that followup will be properly made and completed. Such a system would entail periodic review of the earnings followup enforcement field to identify all uncleared cases. With such a system SSA could be assured that, if for any reason the initial enforcement output was not acted upon, or the action was incomplete, the case would be called up periodically until the action was completed.

AGENCY ACTIONS

We briefed SSA officials on the preliminary results of our review, and they worked with us to complete our sample cases. Additionally, SSA has identified all outstanding 1974-76 enforcement cases, and a concerted effort to review these cases will begin on July 1, 1979. SSA officials have also informed us that they plan to adjust the control system for earnings enforcement cases so that such cases continue to be periodically called up until they are resolved.

CONCLUSIONS AND RECOMMENDATIONS

(Weaknesses in SSA's controls over earnings enforcement cases resulted in SSA failing to follow through on an estimated 83,000 cases involving about \$39 million in overpayments and \$5 million in underpayments. About 76 percent of the cases with potential overpayments or underpayments involved beneficiaries still receiving payments in August 1978. Overpayments to such beneficiaries should be readily collectible. An additional \$8.9 million in overpayments went undetected because of SSA's practices that disregarded enforcement cases involving terminated student beneficiaries. Overall, the Social Security Trust Fund could lose about \$43 million because SSA did not take proper action on these earnings enforcement cases.)

While we are pleased with SSA's cooperation, we believe the need for quick corrective action requires your attention. Accordingly, to insure prompt completion of necessary action, we recommend that you monitor the efforts of the SSA Commissioner to:

- Resolve all uncleared 1974-77 earnings enforcement cases identified by the uncleared earnings enforcement field on the individual beneficiaries' records. Cases involving terminated students should be followed up only if information reported by the employer indicates the student had earnings in a quarter preceding the quarter in which his or her benefits were terminated.
- Improve the control system for earnings enforcement cases so that such cases continue to be periodically called up until they are resolved.


- - - -

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the four above-mentioned Committees and of other interested congressional committees and subcommittees and to the Director, Office of Management and Budget.

We appreciate the cooperation and assistance of SSA personnel during our review and would like to be advised of any actions taken and planned on the matters discussed in this letter.

Sincerely yours,


Gregory J. Abart
Director