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FRAUD AND ABUSE IN THE SUPPLEMENTAL SECURITY INCOME PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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FRAUD AND ABUSE IN THE SUPPLEMENTAL SECURITY INCOME PROGRAM

THURSDAY, JULY 25, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:33 a.m., in room B–318, Rayburn House Office Building, Hon. Wally Herger (Chairman of the Subcommittee) presiding.

[The advisory and revised advisory announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
July 18, 2002
No. HR–16

CONTACT: (202) 225–1025

Herger Announces Hearing on Fraud and Abuse in the Supplemental Security Income Program

Congressman Wally Herger (R–CA), Chairman, Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on fraud and abuse in the Supplemental Security Income (SSI) program. **The hearing will take place on Thursday, July 25, 2002, in room B–318 Rayburn House Office Building, beginning at 10:00 a.m. The hearing will end no later than 1:30 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include representatives from the Social Security Administration (SSA), the U.S. General Accounting Office (GAO), the SSA Office of the Inspector General, and the Social Security Advisory Board. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The SSI program is a means-tested federal assistance program administered by the SSA. It provides monthly cash benefits to individuals who have limited assets and income and who are blind, disabled, or aged 65 or older. In 2001, 6.4 million individuals received more than $30 billion in federal payments through the program.

The 1996 Welfare Reform Law (P.L. 104–193) and related legislation included a number of changes in SSI to address concerns about fraud and abuse. These changes included terminating disability determinations based on drug addiction or alcoholism, barring fugitive felons and parole violators from receiving benefits, establishing a bounty system to identify prisoners illegally receiving benefits, and enhancing SSA's ability to detect and collect overpayments. In addition, a series of provisions designed to reduce both deliberate fraud and unintentional overpayments in the SSI program were enacted in 1999 as part of the Foster Care Independence Act of 1999 (P.L. 106–169). Among other things, this legislation prevents applicants from transferring assets to become eligible for SSI, strengthens penalties for fraud and abuse by both beneficiaries and medical and legal professionals, and improves the reporting of financial information of SSI applicants and beneficiaries.

Despite these improvements, however, as recently as January 2001 the GAO continued to list SSI as a program at high risk of waste, fraud, abuse, and mismanagement. The Social Security Advisory Board and the SSA's Office of the Inspector General have identified areas of the SSI program that need strengthening. The SSA's May 2002 *Annual Report on the Supplemental Security Income Program* proposes a new corrective action plan to improve the management of SSI.

In announcing the hearing, Chairman Herger stated: "We have worked hard in recent years to combat fraud and abuse in SSI, saving taxpayers billions of dollars in the process. This hearing will review changes already made to improve the integrity of the SSI program and, more importantly, what remains to be done. Especially when SSI remains at high risk of fraud and abuse, our Subcommittee should explore every way to tighten the program to reassure recipients and taxpayers alike that benefits are going to intended recipients."

FOCUS OF THE HEARING:

The hearing will review past efforts to address SSI waste, fraud, and abuse and consider additional changes to improve program integrity.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to *hearingclerks.waysandmeans@mail.house.gov,* along with a fax copy to (202) 225–2610, by the close of business, Thursday, August 8, 2002. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the Subcommittee on Human Resources in room B–317 Rayburn House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the committee files for review and use by the committee.

1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the committee files for review and use by the committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All committee advisories and news releases are available on the World Wide Web at http://waysandmeans.house.gov.

The committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call (202) 225–1721 or (202) 226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of committee materials in alternative formats) may be directed to the committee as noted above.

*** NOTICE—CHANGE IN TIME ***

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
July 23, 2002
No. HR–16–Revised

CONTACT: (202) 225–1025

Change in Time for Subcommittee Hearing on Fraud and Abuse in the Supplemental Security Income Program

Congressman Wally Herger (R–CA), Chairman, Subcommittee on Human Resources, Committee on Ways and Means, today announced that the Subcommittee hearing on fraud and abuse in the Supplemental Security Income program scheduled for Thursday, July 25, 2002, at 10:00 a.m., in room B–318 Rayburn House Office Building, **will be held instead at 10:30 a.m.**

All other details for the hearing remain the same. (See Subcommittee Advisory No. HR–16, dated July 18, 2002.)

Chairman HERGER. Good morning and welcome to today's hearing on fraud and abuse in the Supplemental Security Income (SSI) program.

Let me begin. I understand we have some guests from our good friends and neighbors to the north of us, in Canada. I would like to recognize several of them. We have a commissioner—who works in this same area, Mr. G. Peter Smith. Thank you very much for being with us. I understand your Deputy Commissioner, Guy Arsenault, General Counsel, Tina Head are here, too. We welcome you today.

The Nation's Supplemental Security Income program, commonly called "SSI," provides a vital safety net for our Nation's most needy disabled and elderly individuals. Thanks to SSI, an elderly widow has the resources to stay in her home, and a parent gets help in caring for a severely disabled child.

Nearly 7 million individuals receive monthly SSI benefits, totaling more than $33 billion last year. Billions more are spent on health and other supports for SSI recipients. Unfortunately, there has been too much fraud and abuse in SSI, undermining public support for a program that is critical for so many truly needy individuals.

This Subcommittee has worked diligently on a series of bills to prevent abuse and recover misspent funds. Many hardworking individuals helped. I want to thank the Social Security Administration (SSA) and especially the Office of the Inspector General, along with the U.S. General Accounting Office (GAO), for their help.

Working together, we developed changes that are restoring SSI's integrity while protecting deserving recipients. Here is one example.

Back in 1994, GAO reported that after years of rapid growth, an estimated 250,000 Americans were getting disability checks due to drug addiction or alcoholism. Few ever got off SSI unless you counted the most common reason for ending benefits—death. We were literally paying people to drink themselves to death.

So, in 1996, we ended the drug addicts and alcoholics part of the program and used some of the savings for more drug treatment where it might help individuals overcome their addictions. We have made progress on other examples of waste, fraud, and abuse, including keeping prisoners and fugitives from collecting illegal benefits. In 1999, this Subcommittee passed a series of changes to better recover SSI overpayments and used the savings to improve programs for teens aging out of foster care. Overall, we have saved the taxpayers and deserving beneficiaries literally billions of dollars.

Despite these tremendous strides, however, GAO will testify today that SSI remains on its list of programs at high risk of waste, fraud, and abuse. More importantly, they and other witnesses, representatives of the Social Security Administration, the Social Security Advisory Board, the Social Security Office of the Inspector General, and the Consortium for Citizens with Disabilities, will provide us with insight and recommendations on steps to better protect beneficiaries and taxpayers.

I would like to extend a special welcome to the Chairman of the Advisory Board, our former Ways and Means colleague, the Honorable Hal Daub.

We look forward to all of our witnesses' testimony on this important topic and their continued help in making sure that SSI benefits are going to their intended beneficiaries.

Without objection, each Member will have the opportunity to submit a written statement and have it included in the record at this point. Mr. Cardin, would you like to make an opening statement?

[The opening statement of Chairman Herger follows:]

Opening Statement of the Hon. Wally Herger, a Representative in Congress from the State of California, and Chairman, Subcommittee on Human Resources

The nation's Supplemental Security Income program, commonly called SSI, provides a vital safety net for our nation's most needy disabled and elderly individuals. Thanks to SSI, an elderly widow has the resources to stay in her own home and a parent gets help in caring for a severely disabled child.

Nearly 7 million individuals received monthly SSI benefits totaling more than $33 billion last year. Billions more are spent on health and other supports for SSI recipients. Unfortunately, there has been too much fraud and abuse in SSI, undermining public support for a program that is critical for so many truly needy individuals.

This Subcommittee has worked diligently on a series of bills to prevent abuse and recover misspent funds. Many hardworking individuals helped. I want to thank the Social Security Administration, and especially the Office of the Inspector General, along with the U.S. General Accounting Office, for their help. Working together, we developed changes that are restoring SSI's integrity while protecting deserving recipients.

Here's one example. Back in 1994, GAO reported that, after years of rapid growth, an estimated 250,000 Americans were getting disability checks due to drug addiction or alcoholism. Few ever got off SSI, unless you counted the most common reason for ending benefits—death. We were literally paying people to drink themselves to death.

So in 1996 we ended the drug addicts and alcoholics part of the program and used some of the savings for more drug treatment, where it might help individuals overcome their addictions.

We've made progress on other examples of waste, fraud, and abuse, including keeping prisoners and fugitives from collecting benefits. And in 1999 this Subcommittee passed a series of changes to better recover SSI overpayments, and used the savings to improve programs for teens aging out of foster care.

Overall, we have saved taxpayers and deserving beneficiaries literally billions of dollars.

Despite these tremendous strides, however, GAO will testify today that SSI remains on its list of programs at high risk of waste, fraud, and abuse.

More importantly, they and our other witnesses—representatives of the Social Security Administration, the Social Security Advisory Board, the Social Security Office of the Inspector General, and the Consortium of Citizens with Disabilities—will provide us with insight and recommendations on steps to better protect beneficiaries and taxpayers.

I would like to extend a special welcome to the Chairman of the Advisory Board, our former Ways and Means colleague, the Honorable Hal Daub. We look forward to all of our witnesses' testimony on this important topic and their continued help in making sure that SSI benefits are going to their intended beneficiaries.

Mr. CARDIN. Thank you, Mr. Chairman. Let me welcome our witnesses today, and let me welcome our guests that are here, particularly our friends from Canada.

I want to thank the Chairman for holding this hearing. It is on a very important subject. Let me just point out, Mr. Chairman, as you have already pointed out, that this Subcommittee has done considerable work in the last decade to curb fraud and abuse with-

in the SSI program. I particularly want to acknowledge the work of Mrs. Johnson when she chaired this committee, the legislation that passed. That was very helpful in dealing with going after those people who have committed fraud within the SSI system.

According to the SSA, these past legislative efforts and the Agency's own hard work have begun to yield significant results. For example, SSA has increased the collection rate of SSI overpayments by 33 percent over the last 4 years. Additional improvements can be expected as the Agency further implements some of the SSI reforms enacted in the last Congress as part of the Foster Care Independence Act.

While there has been significant focus in recent years on the issue of fraud and abuse within SSI, there has been very little attention paid to other aspects of the program. This is especially true for provisions designed to reward employment.

Mr. Chairman, let me just point out that both SSI's general income exclusion, which rewards past work, and the program's earned income exclusion, which encourages current work, have not been raised in 30 years. That is before you and I even thought about running for Congress. The levels were established in 1972 and have never been increased for inflation.

Under the program, the first $20 of outside income plus the first $65 a month of earned income is excluded. Then for every $2 received, there is a $1 loss in SSI benefits.

If these income disregards had merely kept pace with inflation over the last three decades, levels would be four times as high as what they are today.

Now, Mr. Chairman, no one condones any form of fraud or intentional receiving of benefits that you are not entitled to under law. I must tell you, I can understand the frustration of someone on SSI trying to make it, trying to work, and saying, you have got to be kidding. Why can't I receive a modest amount of supplemental income, or attending a bull roast and participating in a 50–50 drawing and getting $150 and wondering whether they should run down to SSA and report the $150 of earnings in order to have the offsets?

There has got to be some reasonable rules here. We have taken action on TANF reform to increase the amount—many States have used their TANF funds to increase the wage offsets, earnings offsets, so that we reward work, which is what I think our program should do—reward work. Yet these offsets penalize an individual who tries to go out and at least earn part of his or her income.

We also increased the offsets on Social Security Disability Insurance (SSDI), but SSI remains a program that has not received the attention that it deserves.

Earlier this year, on behalf of my Democratic colleagues on the Subcommittee, I introduced legislation to remedy this problem, the SSI Modernization Act. Mr. Chairman, I urge you and I urge the leadership of this Congress that, as we look at ways to modernize the SSI system, let us not forget the wage and earnings offsets. I would hope that we would be able to move legislation in that direction this year. We won't get one additional vote in November, but we will be doing the right thing.

[The opening statement of Mr. Cardin follows:]

Opening Statement of the Hon. Benjamin Cardin, a Representative in Congress from the State of Maryland

Mr. Chairman, this subcommittee has done considerable work over the last decade to curb fraud and abuse within the SSI program. Most recently, under the leadership of Mrs. Johnson, we passed bipartisan legislation to not only increase penalties for deliberate fraud, but also to reduce the potential for inaccurate payments and to recoup more overpayments when they do occur. According to SSA, these past legislative efforts, and the agency's own hard work, have begun to yield significant results.

For example, SSA has increased the collection rate for SSI overpayments by 33 percent over the last four years. Additional improvements can be expected as the agency further implements some of the SSI reforms enacted in the last Congress as part of the Foster Care Independence Act.

While there has been a significant focus in recent years on the issue of fraud and abuse within SSI, there has been very little attention paid to other aspects of the program. This is especially true for provisions designed to reward employment.

Both SSI's General Income Exclusion, which rewards past employment, and the program's Earned Income Exclusion, which encourages current work, have not been raised in thirty years. The levels were established in 1972 and have never been increased for inflation.

Under the program, the first $20 of outside income, plus the first $65 a month in earned income is excluded. After that, for every two dollars a recipient earns, they lose one dollar in SSI benefits. If these income disregards had merely maintained pace with inflation over the last three decades, their levels would be four times as high as they are today.

It is far past time for us to update the SSI program's incentives for work. Under welfare reform, more than three-quarters of the States increased the amount of wages TANF recipients could earn and still be eligible for benefits. More recently, the amount of earnings a Social Security Disability Insurance (DI) recipient could earn before losing benefits was increased and indexed for inflation.

Both developments came from a conviction that increased earnings disregards promote, reward and encourage work. And yet, the SSI program has not kept pace, and it is still stuck with a policy from thirty years ago.

Along with my Democratic colleagues on this subcommittee, I have introduced legislation to remedy this problem—the SSI Modernization Act. To limit the potential cost, the bill would make up only half the ground lost to inflation over the last three decades for SSI's income disregards.

In addition, the bill would increase the program's resource limits, and it would delay eligibility re-determinations for young recipients attempting to complete high school. Both the Consortium of Citizens with Disabilities and the Leadership Council of Aging Organizations have strongly endorsed this legislation.

Mr. Chairman, this committee has passed a multitude of bills on SSI fraud, and perhaps we can do more. However, our first objective should be to consider long overdue reforms to promote and reward work within the SSI program.

Thank you.

Chairman HERGER. Thank you very much, Mr. Cardin.

Before we move on to testimony, I want to remind all our witnesses to limit their oral statements, please, to 5 minutes. However, without objection, all the written testimony will be made a part of the permanent record.

Our first witness today will be the Honorable James B. Lockhart, Deputy Commissioner of the Social Security Administration. Mr. Lockhart?

STATEMENT OF THE HON. JAMES B. LOCKHART III, DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Mr. LOCKHART. Thank you, Mr. Chairman and members of the Subcommittee, for this opportunity to discuss our efforts to strengthen the integrity of the Supplemental Security Income program.

The SSI is a critical safety net for 6.7 million of the most vulnerable Americans—the very poor, the disabled, the blind, and the aged. Reducing erroneous payments is a key part of the President's management agenda. Commissioner Barnhart and I are committed to implementing the President's management agenda and to providing better stewardship of the SSI program.

We appreciate greatly the support this Subcommittee has given Social Security in the past and look forward to working with you to improve the SSI program in the future. Today, I will discuss what we have done and what we plan to do to better manage SSI. A key goal is to get SSI removed from the high-risk designation that the General Accounting Office placed on the program over 5 years ago. We have already implemented a number of successful changes, including identifying and collecting debt, and since Commissioner Barnhart took office, she has reinvigorated our programs to detect, deter, investigate, and prosecute fraud.

We really have to do better. That is why we developed what we call a "corrective action plan" for which I am responsible. Three of the areas that the plan focuses on are timely processing of continuing disability reviews—CDRs—improved prevention of overpayments, and better detection of overpayments.

Since 1996, SSA has eliminated its CDR backlog with the help of special congressional funding. Although this special funding expires this year, we will continue to process CDRs at this accelerated rate. The reviews being conducted this year and next year are estimated to result in lifetime SSI and Medicaid savings of over $4 billion. Historically, our return has been about $10 for every dollar spent.

In the prevention area, a proposal in the President's 2003 budget would require reviews of 50 percent of the SSI disability allowances before benefits are actually paid. Preventing these erroneous payments will yield SSI and Medicade savings of about $1.5 billion over a 10-year period, which is a 12 to 1 payback. With your Subcommittee's support, the legislation has passed the House. Our plan also calls for a pilot touch-tone telephone reporting of income changes so that individuals can provide more timely information to us.

In the area of overpayments, redeterminations are our best tool. We have to both detect and prevent overpayments. Social Security has received funding to perform two and one quarter million redeterminations this year. This is a return of about $7 for every $1 spent. Commissioner Barnhart recently added $21 million for redeterminations of what are some of the highest error-prone cases, and we expect savings of $300 million, a much higher ratio than 7 to 1. We are planning to use financial institutions, credit bureaus, and other public databases to detect unreported income and assets.

One major deterrent to program fraud has been the creation of cooperative disability investigative units. These units combine personnel from our field offices, the Inspector General, the State disability determination services, and State and local law enforcement. These teams have accounted for more than $160 million in savings for Social Security and SSI.

We are continuing to assess potential changes in SSI policies and legislation in order to reduce errors by simplifying the program.

Two SSI integrity initiatives that have been great successes are prisoner and fugitive felon programs. We now have agreements with institutions housing 99 percent of all prisoners in the country. Last year there were more than 80,000 prisoners whose benefits were suspended because of this program. This program saves approximately half a billion dollars annually. This incentive program that you pushed so hard for, Mr. Chairman, has been a great help in that effort.

Since the fugitive felon program began in 1996, over 77,000 fugitives receiving SSI have been identified, resulting in apprehension of more than 8,000 fugitives and, again, saving $250 million.

In conclusion, let me say that we are committed to continuing to improve our management of the SSI program and to preventing fraud and abuse. I will be glad to answer any of your questions. Thank you.

[The prepared statement of Mr. Lockhart follows:]

Statement of the Hon. James B. Lockhart III, Deputy Commissioner, Social Security Administration

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before the Subcommittee to discuss the Social Security Administration's (SSA) ongoing efforts for strengthening the integrity of the Supplemental Security Income (SSI) program stewardship goal. Reducing erroneous payments is a key part of the President's Management Agenda. To meet the President's call, SSA is firmly committed to effective management of the SSI program, and we look forward to working with the Subcommittee to ensure that individuals who are eligible for SSI receive the correct amount of assistance and to reduce the possibility that individuals erroneously receive benefits erroneously.

Today, I will discuss the improvements we have made in administering the program and our action plan for strengthening SSI to meet the goals of the President's Management Agenda and get it removed from the General Accounting Office's (GAO) "high-risk" program designation. The Corrective Action Plan—which I am responsible for—has Commissioner Barnhart's full commitment to ensuring executive accountability for achieving the plan's projected outcomes. As some members may recall, I ran the Pension Benefit Guarantey Corporation, which was one of the first programs on GAO's high-risk list and one of the first programs off the list. As Commissioner Barnhart and I told Comptroller General David Walker, we are committed to fixing the SSI program and getting it off GAO's high-risk list.

My testimony will also describe the progress that we have made in administering the SSI/OASDI prisoner and SSI fugitive felon programs. Much of that progress in these and other SSI program integrity areas are directly attributable to the actions of this Subcommittee. I thank the Subcommittee for providing SSA with tools for strengthening SSI, and want to assure you that we will continue to work with the Subcommittee to further improve the program. The Administration is very concerned about issues affecting aged, blind, and disabled Americans.

Interagency Council on Homelessness and Americans with Disabilities Act

Before I begin my testimony on specific SSI program issues, I'd like to mention just two examples of the Administration's activities currently underway to improve the lives of this country's citizens with disabilities.

A week ago today, I attended the first meeting of the 21st century of the United States Interagency Council on Homelessness at the White House. SSA is one of 18 federal agencies that are members of the Council. The Council is an independent agency that was established by the McKinney-Vento Homeless Assistance Act to coordinate federal activities related to homelessness. It was quite active in the early and mid 1990's, but had not met since 1996. The President is committed to revitalizing the Council's work. SSA has had a long history of providing service to homeless individuals, and I look forward to working with other federal agencies, States, and community organizations to help homeless people access SSI and Social Security benefits.

Second, the President directed the Federal Government to take a leadership role in providing greater access for Americans with disabilities. The cornerstone of this commitment is the Americans with Disabilities Act (ADA). Because of that law, mil-

lions of Americans can now compete for jobs once denied them and have gained greater access to public places. They have more options in choosing their homes, using public transportation, traveling and staying in hotels. As the President has said, when people with disabilities find more opportunities to use their gifts and talents, we also become a stronger, more productive nation. Tomorrow, July 26th, we will celebrate the twelfth anniversary of the ADA with a ceremony at the White House. The ADA has made our country a fairer society, more considerate and welcoming to all citizens, and the President is committed to removing more barriers for individuals with disabilities through his New Freedom Initiative.

Current SSI Recipients

It may be helpful at this point to give a brief description of the scope of the SSI program.

On average during calendar year 2001, 6.7 million aged, blind, and disabled individuals received SSI benefits. For these recipients, SSI is a vital lifeline that enables them to meet their needs for basic necessities of food, clothing, and shelter. In 2001, these individuals received more than $30.5 billion in federal SSI benefits and an additional $3.5 billion in State supplementary payments.

Nearly 2 million of the individuals receiving SSI are 65 or older. Of these, roughly half are 75 or older. Nearly 70 percent of those over 65 are female and many, if not most, are widowed or never married. It is the safety net under Social Security and, in fact, about 2.4 million total SSI recipients also receive Social Security benefits.

At the other end of the age spectrum, nearly 890,000 severely disabled children under age 18 receive benefits.

The 2002 federal SSI benefit rate is $545 a month, which is about 74 percent of the poverty level. Eligible couples—both of whom are either aged, blind, or disabled receive the federal benefit rate of $817, which is about 82 percent of the poverty level. There are nearly 260,000 eligible couples receiving SSI.

By any measure, SSI recipients are among the poorest of the poor. For them, SSI is truly the program of last resort and is the safety net that protects them from complete impoverishment. We must be extremely careful that efforts to improve the program and increase administrative efficiency do not harm these most vulnerable members of our society. However, it is our obligation to the American taxpayer to ensure that payments made under the program are consistent with the program's requirements.

Pursuant to the requirements of the President's Management Agenda, we have set a goal of achieving a payment accuracy rate of 94.7 percent for fiscal year 2003. This goal is approximately a one-percent increase over the expected fiscal year 2001 actual.

Program Challenges

In 1972, when the SSI program was established, Congress moved the responsibility for administering programs for needy aged, blind, and disabled individuals from the States to the Federal Government. SSA was given the job of administering SSI because Congress wanted to provide a standard floor of income to needy aged, blind, and disabled individuals based on nationally uniform criteria. SSA was designated because of its existing infrastructure and reputation for accurate, efficient, humane and dignified Administration of the Social Security social insurance programs. Efficiencies and consistencies have been achieved because we use the same disability standards for adults in both the SSI and Social Security programs.

The SSI program has become increasingly complex over the years. Numerous changes have been enacted in response to concerns about program policies that address the multiplicity of events and situations that occur in the everyday lives of the SSI eligible population.

Much of the program's complexities stem from the way SSI payments are calculated.

Two factors used to determine an individual's monthly benefit are income and living arrangements. Income can be in cash or in kind, and is anything that a person receives that can be used to obtain food, clothing, or shelter. It includes cash income such as wages, Social Security and other pensions, and unemployment compensation. In-kind income is food, clothing, and shelter or something someone can use to obtain those items. Generally, the amount of the cash income or the value of the in-kind income is deducted from the federal benefit rate, which is currently $545 a month. Generally, after the first $65 of earnings is disregarded, $1 is deducted for each $2 of earnings, while other income—for example, Social Security—causes the benefit to be reduced dollar for dollar after the first $20 is disregarded. Thus,

as its name implies, SSI is designed to supplement the individual's other income up to a minimum monthly floor of income.

Individuals' SSI benefit amounts also may change if they move into a different living arrangement—whether a person lives alone or with others, or resides in a medical facility or other institution. For instance, when individuals move into nursing homes, their benefits may be reduced to not more than $30 per month. If they move from their own household into the household of another person, and that person provides food, clothing, or shelter, their benefits also may be reduced. If their income or resources in a month exceed the limits specified in the law, they may be ineligible. The design of the SSI program requires SSA to take into account the many changes in an individual's financial and personal life and make adjustments in benefit payments to reflect those changes.

Because it is a practical impossibility for SSA to obtain information from all recipients about every change in their income, resources, or living arrangements in a timely fashion, there will inevitably be some overpayments and underpayments that will be made each month.

Additionally, even if individuals report timely, requirements to notify individuals of how a specific change affects their benefit amounts can create a lag in adjusting the benefit, also causing overpayments and underpayments. Thus, to some extent, program features sometimes can get in the way of eliminating erroneous payments. Another example of this situation is that SSI benefits generally are paid on the first day of the month. Even if the payment is correct on the first, changes during the month can make the already paid benefit an overpayment or underpayment.

Progress in Addressing Program Integrity

SSA's Administration of the SSI program came under criticism in 1997, when the GAO designated SSI as a high-risk program. At the time, GAO said that SSA lacked an effective plan to address the level of debt created by overpayments. Further, GAO said that SSA had difficulty determining initial medical and non-medical eligibility for the program, as well as continuing eligibility of program participants. GAO also criticized SSA for what it perceived as an emphasis on production and service over program integrity.

SSA developed a comprehensive plan to improve payment accuracy and management of the SSI program titled *Management of the Supplemental Security Income Program: Today and in the Future* dated October 1998. As part of that plan, SSA sought and obtained legislation in the *Foster Care Independence Act of 1999* (Public Law 106–169) that strengthened our ability to obtain applicant income and resource information from financial institutions, access State databases for essential eligibility information, and use credit bureaus, private collection agencies, interest levies, and other tools to recover delinquent debt.

The initiatives undertaken since 1998 to improve SSA's management of the SSI program have yielded measurable successes. SSA now does a better job of identifying and collecting SSI debt. For example, SSI overpayment collections increased by almost 50 percent from fiscal year 1998 to fiscal year 2001. In fiscal year 2001 alone, SSA identified $477 million more overpaid dollars and collected $205 million more debt than we would have had the initiatives not been implemented.

The President has brought renewed attention to efforts to reduce erroneous payments government-wide. Since Commissioner Barnhart arrived, SSA has reinvigorated its program to deter, detect, investigate, and prosecute fraud. SSA's leadership has supported efforts to expand the capabilities of the Office of the Inspector General (OIG) to improve the accuracy and integrity of the agency's work. SSA has taken numerous actions to strengthen its research and policy development role. We have increased the number of redeterminations to verify nonmedical eligibility factors and the number of continuing disability reviews (CDRs) to assure continuing eligibility for disability.

Experience has shown that the most powerful tool SSA has to prevent and detect improper payments in the SSI program is to perform more redeterminations. Redeterminations look at SSI recipients' incomes, resources, living arrangements, and all other factors of SSI eligibility, except for their disability or blindness status.[1] Since fiscal year 1998, SSA has taken action to both increase the number of redeterminations processed and to improve the profiles that are used to select cases for this re-

[1] We also conduct medical "redeterminations" applicable to young adult recipients who received SSI benefits prior to age 18. These medical redeterminations are done to determine if the individual who met the child definition of disability prior to age 18 meets the adult definition of disability after he or she turns age 18.

view. These increases and improvements resulted in $900 million in overpayments collected and prevented in fiscal year 2001 compared to fiscal year 1998.

The CDR process is also a major component in SSA's effort to ensure the integrity of the SSI program. It is the primary process used to monitor the disability status of recipients. Since the CDR process applies also to OASDI disabled recipients, the funding and Administration of the CDR process is carried out jointly for both programs administered by SSA. Some recipients receive OASDI disability benefits that are less than the SSI benefit level and, therefore, may also be eligible for SSI benefits.

A major deterrent to program fraud has been the establishment of Cooperative Disability Investigative (CDI) units. CDI units combine the skills and specialized knowledge of SSA technicians, investigators from the OIG, examiners from the Disability Determination Services (DDS) and State and Local law enforcement personnel to provide investigative support in the disability decision-making process. CDI units assist the DDSs by investigating individual claims that DDS adjudicators find suspicious, as well as doctors, lawyers, interpreters and others who facilitate and promote disability fraud.

Currently, there are 13 CDI units in operation, with plans to add four more sites in 2002. The total number of confirmed cases of fraud or similar fault processed by the units since their inception was 2,768 as of June 2002. As of June 2002, the CDI project accounted for nearly $160 million in savings for OASDI and SSI since the inception of the units in 1998. Savings to non-SSA programs (e.g. Medicaid, Workers' compensation, State SSI supplements and State or local public assistance) total nearly $80 million over the same period.

Corrective Action Plan

Notwithstanding the recent progress of these various efforts, SSA recognizes that we must do more, and is committed to better managing the SSI program. SSA is focusing on four areas: commitment to timely processing of CDRs, improved prevention of overpayments, increased overpayment detection, and increased collection of debt. To this end, SSA has developed a new SSI Corrective Action Plan directed at the issues raised by GAO in its designation of SSI as a high-risk program.

This new Corrective Action Plan identifies the root causes of the SSI problems, provides solutions and provides for substantial additional near-term measures building upon the substantial progress of the last 5 years. In addition, we are expanding our already significant monitoring capabilities. The primary measure of the success of this effort will be improved program Administration and higher payment accuracy.

Commitment to Timely Processing of CDRs

Over the period 1996–2002, SSA's ability to reduce the backlog of CDRs and to conduct all reviews in a timely manner has been facilitated by special administrative expense funding that was provided by Congress. Using that special funding, SSA will become current in our processing of SSI CDRs by this September. Furthermore, even after the expiration of the special CDR funding authority, our fiscal year 2003 budget submission anticipates that we will continue to process all CDRs coming due in a timely fashion. This fiscal year 2003 budget plan provides tangible assurance of SSA's commitment to maintaining the integrity of the SSI disability rolls. The CDRs being conducted in 2002 together with those anticipated in the fiscal year 2003 budget are estimated to result in lifetime savings to the SSI program of over $4 billion.

I would also like to mention a proposal in the President's fiscal year 2003 budget that would prevent erroneous payments in the SSI program by requiring reviews of SSI disability allowances before benefits are awarded. The proposal for conducting SSI pre-effectuation reviews in 50 percent of disability allowances of adult cases in order to correct erroneous SSI disability determinations would yield SSI and Medicaid savings over 10 years of nearly $1.5 billion at an additional cost of $118 million. By the tenth year after enactment, the pre-effectuation review would have identified and prevented erroneous payments in an estimated 24,000 incorrect SSI disability determinations. This proposal would result in our doing the same percentage of reviews of disability allowances in the SSI program, as we are required to do in the Social Security disability insurance program.

We are pleased that the Subcommittee included the President's proposal in the welfare reform reauthorization legislation that passed the House.

Prevention and Detection of Overpayments

The top two reasons for SSI overpayment errors are unreported wages and unreported bank accounts with substantial assets. To prevent overpayments before they

occur, SSA will test various cost-effective wage-reporting methods for workers at higher risk for wage-related overpayments, and will implement those methods that work best. SSA also plans to electronically access the records of financial institutions to determine if an applicant or recipient has unreported income or assets, and will use credit bureaus and public databases to detect unreported income or resources.

As I mentioned earlier, redeterminations are the best way to detect and prevent overpayments. SSA has received funding to perform 2.25 million redeterminations in fiscal year 2002 with of an expected rate of return of $7 for every $1 spent. Commissioner Barnhart recently decided to provide an additional $21 million to increase the number of redeterminations of more complicated, error-prone cases conducted this year with an expected savings of $300 million. And SSA is committed to conducting 2.45 million redeterminations in fiscal year 2003. This means that approximately one of every three SSI recipients will have their eligibility reviewed this year.

To better prevent and detect overpayments, electronic access to data will be increased to improve SSA's ability to perform verification of documents and claimant allegations. Electronic access to such data will detect and prevent overpayments better than traditional methods, will reduce administrative costs associated with current paper bound processes and will improve service by decreasing processing time when verifications are required. We will continue to work to increase the number of States with which we have electronic access to human services and unemployment information. Our goal for the end of the year is to have agreements with at least two-thirds of the States. We also will test the feasibility and effectiveness of implementing large scale monthly wage reporting for working SSI recipients and parents of disabled children who are SSI recipients using touch-tone telephone technology.

We also plan to test two other methods for getting access to income and resources data electronically. Using authority granted by Section 213 of the *Foster Care Independence Act of 1999*, we will test access to the records of financial institutions. This tool will tell SSA if a SSI applicant or recipient owns unreported income or assets. We also will conduct a test using credit bureaus and other public databases to detect unreported income or resources. We will check to see if a recipient is making regular payments on a debt or is the registered owner of real property or multiple vehicles. This information may be an indicator of possible undisclosed income or property ownership.

In addition to the operational and management improvements, SSA will continue to assess potential changes in SSI policies in order to reduce error. In particular, SSA will focus on simplification of the program as a way of preventing payment errors. Legislative proposals for simplifying the SSI program are under development, and additional analysis will be done in order to assess the impact of other policy changes on program costs and on recipients.

Increased Collection of Debt

SSA also will increase its emphasis on collecting the debt created by overpayments. A new debt collection measurement tool has been developed for fiscal year 2003 and beyond. The new measure will enable SSA to characterize those portions of our debt portfolio that are subject to being collected and those that are not set up in a repayment agreement, with the goal being to obtain repayment agreements from more debtors.

Mandatory cross-program recovery of SSI debt from Social Security benefits was implemented in February along with administrative offset via the Treasury offset program and credit bureau reporting for delinquent SSI debt. SSA is currently developing regulations to institute administrative wage garnishment to collect SSI debt from the wages of former SSI beneficiaries.

SSA anticipates that successful implementation of the Corrective Action Plan will put into place policies, tools, and incentives to improve the Administration of this complex program, detect and recover overpayments, and greatly reduce fraud, waste and abuse. SSA is continuing to make improvements by looking at new, innovative ways to make its Administration accurate, efficient, humane, and dignified. By its nature, this effort is an ongoing challenge.

I would like to turn now to two SSI integrity programs in which we have had a great deal of success. These are the prisoner and fugitive felon programs.

The Prisoner Program

Since its inception, the SSI program has prohibited the payment of benefits to individuals who reside in public institutions—including prisons, jails, detention centers, and other types of correctional institutions. Social Security recipients in correc-

tional institutions also generally are not eligible for benefits. In order to identify SSI and Social Security recipients, who were confined, SSA conducted matching programs with correctional institutions to prevent the payment of benefits to inmates of correctional institutions.

Under Chairman Herger's guidance and leadership, legislation was developed to encourage correctional institutions to report inmate confinements to SSA. The *Personal Responsibility and Work Opportunity Reconciliation Act* (Public Law 104–193) enacted in 1996, provided for the incentive payments to state and local correctional institutions that furnish information resulting in the suspension of SSI payments. Under the provision, SSA pays up to $400 to state and local correctional institutions for each report that results in the suspension of an individual's benefits.

SSA currently has agreements to provide the Agency with lists of inmates to match against our recipient records with institutions that house 99% of all prisoners in the country. Since the incentive payment program began in 1997, SSA has paid 5,556 penal institutions over $50 million in incentive payments. Suspension of benefits to prisoners is saving the Social Security Administration approximately $500 million annually. For fiscal year 2001, there were over 80,000 prisoner suspensions.

These provisions not only increased the integrity of the SSI and Social Security programs, but they also help identify prisoners for other federal and federally assisted programs. SSA shares prisoner information with other agencies administering federal or federally assisted cash, food or medical assistance programs for purposes of determining eligibility. Those agencies include the Department of Veterans Affairs, the Department of Education, and the 50 State agencies administering the Food Stamp program.

In addition to the prohibition on SSI eligibility to prisoners, another provision in SSI law addresses the issue of what happens to individuals when they are released from prisons. SSA may enter into agreements with prisons and other public institutions under which SSI applications are taken for individuals shortly before their release. This allows us to process the application and, if the individual is eligible, have benefits paid to him or her soon after they get out of the institution. The benefits help the individual avoid homelessness and provide access to needed medications in most States through the Medicaid program.

Fugitive Felon Program

Another very important SSI program integrity provision prohibits fugitive felons from receiving benefits. A provision in the *Personal Responsibility and Work Opportunity Reconciliation Act of 1996* prohibits SSI payments for any months in which the individual is fleeing to avoid prosecution for a felony, fleeing to avoid custody after conviction of a felony, or violating a condition of probation or parole imposed under federal or State law.

The current fugitive felon process is partially automated, but there is still a substantial part that requires manual processing. We are actively pursuing matching agreements to facilitate electronic matching of warrant information with federal, state and local law enforcement agencies to obtain warrant information.

SSA and OIG have matching agreements for obtaining fugitive warrants in place with the FBI; the FBI's National Crime Information Center, the U.S. Marshal's Service, State agencies, and metropolitan police departments, thereby providing us with warrant records from 44 States. When we obtain warrant information from any of these sources, we first verify the social security numbers in the records by matching them against our Enumeration and Verification System. A second match is then conducted against our SSI recipient files to determine if any of the fugitives are receiving SSI payments. Results of the second match are forwarded to the Inspector General for action.

OIG works with both the FBI Information Technology Center the (ITC) and with the US Marshals Service to verify that the felony probation or parole violation warrant is active.

The ITC and US Marshals Service provide the address information about each SSI recipient to the appropriate law enforcement personnel so that they can apprehend the individual.

OIG estimates that the projected savings from the Fugitive Felon Program have been significant—more than $250 million since the program began in 1996.

Conclusion

We are committed to administering the SSI program as efficiently and accurately as possible. The President has demanded it, and this responsibility was reiterated in Commissioner Barnhart's May 30th statement to the President and congressional leadership transmitting the 2002 SSI Annual Report—"In my commitment to SSA's mission of managing America's social security programs, two of my top goals are:

(1) delivering quality citizen-centered service in a timely and efficient manner, and (2) providing accountable stewardship to taxpayers by ensuring superior financial, performance, and budget management in all payments records and processes. Emphasizing these two goals is particularly important for the SSI program."

We thank the Subcommittee for its thorough and thoughtful work on the SSI program over the years. We look forward to working with the Subcommittee to further improve the program. It is important to the individuals that the program serves that the nation's public confidence in the program remains strong.

I will be glad to answer any questions that the Subcommittee members may have. Thank you.

Chairman HERGER. Thank you, Mr. Lockhart. Now for questioning, the gentlelady from Connecticut, Mrs. Johnson, to inquire.

Mrs. JOHNSON. Thank you, Mr. Lockhart, for being with us today, and I was delighted to learn of the appointment of Jo Anne Barnhart as the Commissioner because she is a very seasoned, experienced, fair-minded, and able woman. We welcome you all before us.

Mr. LOCKHART. She certainly is.

Mrs. JOHNSON. You mentioned in your testimony that there are excessively complex program rules for determining things like recipient living arrangements. Would you talk a little bit more about the two or three most complex aspects of the law, how you intend to simplify them, and whether or not you need our help in doing so?

Mr. LOCKHART. The law is very complex, as you all know. You have worked with it longer than I have. Part of it is really designed to protect the really neediest Americans. That is good, and those complexities are built in for that reason. Things like living arrangements, as you said, are very complex because a person who is living in the household may not even be related to you. That can change the benefit level if they move in or move out. In-kind income of all sorts can change your benefit level.

It is an extremely complex program. As a result, there are more errors than we would like in the program.

We are looking at legislative changes. We have our policy and program group and legislative group looking at legislative changes. We have some proposals that we have put forward that are being reviewed at the moment to help simplify the program, but we would certainly welcome your help.

There are significant tradeoffs that have to be made in this program between helping the very neediest and not hurting their benefit levels. At the same time, some simplification proposals have significant costs in the many billions of dollars, and this is a very tough tradeoff.

Mrs. JOHNSON. As medicine advances and finds more ways to enable people with serious disabilities to function and sometimes to work part-time, it is really important to help their families plan for their long-term care. Are you doing any new thinking about how we could pair the disability support program with incentives for families to be able to contribute also to a plan that will provide long-term security?

Mr. LOCKHART. Well, one thing we are doing in both the Social Security disability program and the SSI disability program is looking into helping people to get back to work. There is the ticket-to-work program that was passed several years ago, and we are work-

ing within the Administration with a whole series of different departments that have a piece of that, such as the U.S. Department of Education and the U.S. Department of Labor—they are one-stop shops. We are trying to encourage workers through the ticket-to-work program to get back to work in one form or another, part-time, what they can do, and——

Mrs. JOHNSON. Ticket-to-work is just a demo right now, isn't it?

Mr. LOCKHART. We are rolling it out in various States, and so it is really starting to work.

Mrs. JOHNSON. We need to know as soon as possible whether that incentive to—whether that structure that enables people to keep access to their health benefits, which is such an important aspect, is actually working and allowing people to earn more. So as soon as you have some information from that, I know my colleagues would share the interest in receiving it.

In my State, I don't have the feeling it is up and running well enough. In fact, I guess we are not a demo State. That is why.

Mr. LOCKHART. No, you are not in the first wave, as I remember. It is my State, too.

Mrs. JOHNSON. We do need to know how that is going because that is one of the guideposts. Thank you for being here.

Mr. LOCKHART. We will certainly let you know. As I said, it is just starting in, I think, the first 13 States, and so we don't really have a lot of information. I think it will certainly help.

Chairman HERGER. Thank you very much. Now the Ranking Member, the gentleman from Maryland, Mr. Cardin, to inquire.

Mr. CARDIN. Thank you, Mr. Chairman.

Mr. Lockhart, I also want to compliment you on the game plan that you have and the way that you are implementing it. I agree with your testimony, and I am glad to see the additional support for these measures on redeterminations and on dealing with the increased numbers of continuing disability reviews. I think that is very important.

I have always felt that the way Congress reviews the budget of SSA works to the disadvantage of SSA and have tried to change the way that we consider that budget so that your funding is treated as Social Security funding should be treated.

You make a very compelling point that if we put the resources out, we will recover or we won't be paying benefits to people who are not entitled to benefits. We get more dollars back than we spend on the administrative side.

I have visited people who actually do this work. I can tell you they are hard-working people, and for many years I think Congress neglected adequate budget support for the work that they were doing. So, you were very kind today in your testimony about that, and I appreciate it. I think it is important that that message be made loud and clear, that it is important that we have the appropriate administrative support to SSA if we expect them to be able to do the work and services to our constituents.

I want to raise the issue that I talked to you before the hearing started and that I raised in my opening statement. Two years ago, SSA released a report which said the following about the earned income exclusion to the SSI program: "The exclusion of $65"—this

is from your report—"as implemented in 1974, is now worth $16 in real inflation-adjusted terms. As a result, the exclusion no longer effectively rewards work"—that is what you said in your report 2 years ago—"and the value of SSI benefits has declined for those beneficiaries who do work. The reduced value of the earned income exclusion has added administrative costs and complexity to the program."

Let me just point out that a person on SSI who works three or four afternoons a week at minimum wage reaches the exclusion, has already exhausted the full amount. That hardly rewards work. If you are aggressively enforcing these provisions of the law—there is not voluntary compliance. It is a rather expensive, complicated way to recover relatively small sums of money from people who are trying to become more self-sufficient.

So, can you tell us whether these statements are still true, whether you think it would be wise for Congress to take a look at this, make your job a little bit easier, reward work, and perhaps give some very low-income people a little bit more hope that they could have a few dollars more in order to deal with the realities of life?

Mr. LOCKHART. First of all, I would like to agree with your statement about the hardworking people at Social Security.

Mr. CARDIN. That was the easy part of my comments.

Mr. LOCKHART. Yes, sir. One of the things we are trying to do with our corrective action plan here is to give them some of the tools that can help do their job better, and that is some systems, better data matching, and all that kind of stuff.

As for the modernization and simplification, and particularly the earnings limits, that is an issue that should be looked at. I agree wholeheartedly with you that they have been there since the beginning. I think at the beginning the initial benefit was $130, and now it is $545. So, that is, as you said earlier, a fourfold increase in the benefit but not in those exclusions. They do complicate the process, and we are looking at simplifications.

As I said earlier, there are obviously tradeoffs that have to be made here. One of them is how we find the resources to pay for the kinds of changes that you are potentially looking at.

Mr. CARDIN. As I said in an earlier part of my statement about tradeoffs, giving you more administrative support pays off benefits for this country. Getting people working pays off dividends to this country. The SSA should be about trying to make sure people have adequate safety nets, but also that we get people who should or could or will try to work have the courage to go forward and go into the labor market. It seems to me that you should be coming forward with policies, with changes in our laws that encourage the goals that all of us agree are the right goals.

Mr. LOCKHART. I certainly agree with you that one of the key things we have to do better at Social Security is getting people back to work. In our combined disability programs, I think it is like a half-percent rate, and that is just not acceptable. Ticket-to-work will help, but, yes, we need to build better incentives in our basic programs. Sometimes our programs actually seem to lock people into not working, which is not good.

Mr. CARDIN. Thank you, Mr. Chairman.

Chairman HERGER. Thank you, Mr. Cardin. Now the gentleman from Michigan, Mr. Levin, to inquire.

Mr. LEVIN. Tell us a bit about the budget request of the Agency and what the Administration recommended.

Mr. LOCKHART. Well, for the budget for 2003, we worked with the Administration, and we came to a request that increased the Agency's overall expenditures I think by over 4 percent, about an $8 billion budget. That budget will keep us processing the work that we are processing, keep us at a steady state at this point.

Mr. LEVIN. How is that compared to what was originally requested?

Mr. LOCKHART. Well, the original request was done I think by the previous Administration. So, I am not sure that is a very valid—and I am not even sure I know the number. This was pretty close to what we thought—Commissioner Barnhart arrived in November. It took a little while to get through the Senate. I didn't arrive until early February. So, most of the budget process was done before we got there.

Mr. LEVIN. What was the request of the previous Administrator?

Mr. LOCKHART. I don't remember, but it was certainly higher than what is in the 2003 budget.

Mr. LEVIN. You arrived when?

Mr. LOCKHART. Early February this year.

Mr. LEVIN. So, you are an appointee of the Administration? You are not a career——

Mr. LOCKHART. Yes, sir. It is a Presidential appointee, Senate-approved position.

Mr. LEVIN. You don't remember how much less was in the budget than was requested?

Mr. LOCKHART. When Commissioner Barnhart arrived in November, SSA was negotiating its fiscal year 2003 request with the Office of Management and Budget (OMB). The Commissioner requested $7.974 billion for fiscal year 2003. This would have allowed SSA to maintain the same level of work years included in the fiscal year 2002 President's Budget. The OMB approved a funding level of $7.937 billion, a reduction of $37 million. This reduction results in about 350 work years of overtime available to SSA.

Given the priorities the Administration faces for fiscal year 2003, with the war on terrorism and the homeland security, the Commissioner and I fully support the President's request for SSA.

Mr. LEVIN. I am trying to find out what the gist of the hearing is. Do you think you are doing a good job?

Mr. LOCKHART. I think we are making progress. The SSI is still on GAO's high-risk list. We have been working very hard to make progress, but, frankly, one of the reasons that one of the first things I did was to gather a group to look at SSI and put together a corrective action plan is because we have a long way to go. It is a very complex program. We need to do better at detecting overpayments, preventing overpayments. We need to do better at collecting debts. There is a whole series of actions on that corrective action plan that we need to do better.

Mr. LEVIN. You are persuaded there is enough personnel to carry out that program?

Mr. LOCKHART. I am persuaded that—well, let me put it this way: SSI accounts for about 6 percent of the benefits of Social Security that we pay, and it already has almost a third of the resources of the Agency. So, we have close to 20,000 people working on SSI, and we have another maybe 7,500 in the States. So, there are a lot of resources being devoted to this program at the moment.

I want to understand if there are ways to streamline, use systems better, create systems rather than adding a lot of people. So, coming from my management-type background, I would like to understand if there are things we can do better before we ask for a significant number of new people.

Mr. LEVIN. So, you are not sure there is enough personnel. You first want to analyze what the structure is?

Mr. LOCKHART. We are right in the middle of our 2004 budget process, and we are in the process of looking at that, yes, sir.

Mr. LEVIN. Okay. Thank you.

Chairman HERGER. Thank you, Mr. Levin.

Mr. Lockhart, the GAO tells us that in 2001 there was outstanding SSI debt and newly detected overpayments totaling $4.7 billion. If you could tell me, Mr. Lockhart, what steps SSI is taking to try to alleviate this debt and overpayment situation?

Mr. LOCKHART. Well, first of all, I guess you could say—These overpayments, which then we turn into debt collection, yes, sir. First of all, I can say we have taken more steps to determine just what the number of overpayments actually is, and that is why it is such a big number. We have done a better job of just detecting overpayments. So, that is part of the good news, if you will.

We have a whole series of steps being taken to try to collect debt more effectively, and we have had about a 45-percent increase in our debt collections since 1998. Last year it was almost $800 million in debt collections. But the numbers continue to grow, and so we are looking at various ways to do that more efficiently.

With the help of this committee, we have gotten some new tools. We are looking at tax refund offsets, offsets with the U.S. Department of the Treasury. We are checking with credit bureaus. We are doing cross-program recoveries from Social Security to SSI. If someone is getting a disability benefit and Social Security, we can use it to offset an SSI payment.

We have a whole series of other things that we are studying. We are developing regulations for them, and we have done some pilots and things like wage garnishment, looking at collection agencies, and salary offsets. So, we have, as you can see in our corrective action plan a whole series of things we are looking to do. I think we are making progress, but, again, we need to do better. We need to develop systems for part of this, regulations for part of this. It is all on a very fast track.

Chairman HERGER. Thank you. One final question. We have a later witness, Mr. Tony Young, who in his testimony questions whether the SSA correctly records recipients' notices about earnings and adjusts benefits promptly, saying, "This is where large overpayments come from." Would you care to comment on this?

Mr. LOCKHART. Earnings reporting is, again, a very complicated thing in this Agency and the SSI program because you

have to look at living arrangement and in-kind income. So, it becomes relatively complicated.

We do about 16 million changes a year on a program that only has 6.7 million people in it, so there is a lot of activity here.

I am aware there is an issue here of late reporting, and we are taking steps. Our dedicated work force is really working hard at this issue, but we are trying to give them more tools. One of the things we have done is on the systems side. We have now created a master file for these earnings records for both Social Security disability and for SSI. So, it is all pulled together.

We also are now allowing—because a lot of these reports are coming in by 800 numbers—allowing the teleservice reps to put them directly into this file when they get the information. The more complicated changes still have to be referred to the field offices, but we are starting to move on this. I think we are making good progress.

Chairman HERGER. Thank you very much, Mr. Lockhart.

Mr. LOCKHART. Thank you, Mr. Chairman.

Chairman HERGER. We will now move to our next panel. We are trying to move quickly here, as we are going to be having votes along the way. We do have a Committee on Ways and Means meeting after this. Again, thank you very much.

Mr. LOCKHART. Thank you.

[Questions submitted by Chairman Herger to Mr. Lockhart, and his responses follow:]

Social Security Administration
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1. Please provide information about the annual goal SSA has had for improving payment accuracy in the SSI program. Please include an explanation of why the annual goal has been so difficult to achieve.

Response: The published fiscal year 2002 goal for SSI program outlays free of overpayment error is 94.7 percent, and the fiscal year 2003 goal is 95.4 percent. The actual rates for fiscal year 2001 and fiscal year 2000 were 93.3 percent and 94.7 percent, respectively.[1]

SSA's Corrective Action Plan, which was sent to the General Accounting Office on June 18, 2002, includes a goal of 96 percent of program outlays free of overpayments for fiscal year 2005. We believe, despite the initiatives we have underway and planned and executive accountability for their successes, the fiscal year 2005 goal may be overly ambitious. We also anticipate that the Subcommittee will help us obtain appropriate resources and tools for reaching the goal.

The overriding factor that has made the annual SSI payment accuracy goal difficult to achieve in the past is the design of the SSI program itself, and much of the program's complexities stem from the factors required to determine an individual's SSI benefits. The design of the SSI program requires SSA to take into account the many changes in an individual's financial and personal life and make adjustments in benefit payments to reflect these changes.

As I mentioned in my testimony before the Subcommittee, even small changes in an individual's income can change his or her benefit and cause an overpayment. In addition to changes in income, an individual's monthly payment may change if he or she moves into a different living arrangement—whether a person lives alone or with others, or resides in a medical facility or other institution. For example, if they move from their own household into a household of another person, and that person provides food, clothing or shelter, the statute requires that their benefits be reduced.

[1] This payment accuracy measure—both goals and actuals—excludes unpreventable errors., That is, it excludes cases 1) where a reduction or suspension of SSI payments is precluded because of Goldberg-Kelly due process requirements and 2) generally, when the recipient has changes in income and resources after receipt of the SSI payment that would make a beneficiary ineligible or have his or her benefit reduced for that month.

Because it is extremely difficult, if not impossible, for SSA to obtain information from all beneficiaries about every change in their income, resources or living arrangements in a timely fashion, there will inevitably be some overpayments that will be made each month. Furthermore, even if individuals report timely, legal requirements to notify individuals of how a specific change affects their benefit amounts can create a lag in adjusting the benefit, also causing overpayments and underpayments. And, since SSI benefits are normally paid on the first of the month, even if the benefit is correct on the first of the month, changes during the month can make the already-paid benefit an overpayment. Therefore, to some extent, certain features inherent in the program affect SSA's ability to achieve the established payment accuracy goals.

The Agency's quality assurance data indicate that the combination of the volatility of factors affecting eligibility or benefit amount, plus the Agency's delay in knowing of or processing payment changes, is a major contributor to inaccurate payments. Recent data indicate that over 70 percent of the payment errors are due to SSI recipients either failing to notify us of payment-affecting changes or providing incorrect or inaccurate information about those changes.

In summary, the Agency's inability to obtain timely information, the volatility of eligibility factors such as fluctuating wages, the difficulty of eliminating all error from error-prone cases, and the failure of recipients to report are factors that combine to make the Agency's annual payment accuracy goal difficult to achieve.

2. In the May 2002 SSI Annual Report, the Social Security Advisory Board mentions three collection tools that SSA hasn't implemented yet. One of these unused tools is collecting SSI debt by withholding from a federal employee's salary. It seems we aren't setting a very good example if we don't make every effort to collect prior overpayments from employees on our own payroll. Why hasn't this tool, and others authorized as long ago as 1996, been implemented? What plans do you have for improving SSI debt collection and what is your timeline for implementation?

Response: In 1994, SSA initiated a debt collection plan to prioritize implementation of the enacted authorities. As additional legislation has passed, the plan has been updated accordingly. Implementation of new debt collection tools is prioritized based on the expected payoff of the tool. Since the initial creation of the plan, SSA has implemented the following debt collection tools: (1) credit bureau reporting and administrative offset for both OASDI and SSI debtors; (2) tax refund offset (TRO) for SSI (TRO for OASDI had been implemented in 1992); (3) referral to the Treasury Department for cross-servicing for administrative debts (a program under which the Treasury Department takes over collection of delinquent administrative debt, such as that owed by vendors); and (4) cross-program recovery (offsetting OASDI payments to recover outstanding SSI overpayments). Additionally, SSA worked with Treasury to implement Benefit Payment Offset and Tax Levy, both of which allow OASDI payments to be offset to recover delinquent debts owed to other federal agencies.

SSA was given the authority to use Federal Salary Offset (FSO) as a debt collection tool for former SSI recipients in December 1999, with the passage of the *Foster Care Independence Act 1999*.

The remaining debt collection tools are being actively pursued as resources permit. The first tool is Administrative Wage Garnishment (AWG), which is scheduled to have resources allocated in fiscal year 2003 and SSA is about to release a Notice of Proposed Rule Making for AWG shortly. With respect to FSO, we agree that we need to do all that we can to recover debts owed by federal employees. The next subsequent tool planned for implementation is FSO. Currently, SSA has draft regulations written for FSO. FSO, the use of private collection agencies, Treasury's cross-servicing of program debt (a program under which Treasury takes over collection of delinquent SSI and OASDI debt for individuals not currently on the benefit rolls), and interest charging will be implemented as soon as resources become available.

Concerning your question about improving SSI debt collection, we have recently put into use a new debt collection performance measure. This analytical tool will enable SSA to better manage its debt portfolio. SSA's debt collection performance measure allows SSA to measure on a monthly basis the percentage of programmatic debt in each of four categories: new debt; debt in due process; debt in a repayment agreement; and debt not in a repayment agreement. The goal of this performance measure is to decrease the percentage of debt not in a repayment agreement and increase the percentage of debt in a repayment agreement. The performance measure will enable SSA to identify specific groups of overpayment cases not in a repay-

ment agreement, and then undertake special efforts to resolve those cases by either converting them to collection or writing them off if they are too costly to pursue.

We also have undertaken activities to reduce the occurrence of overpayments. For example, we have recently reminded field office staff about the importance of using the statutory penalty provision when warranted in cases in which an individual fails to report a change that causes an overpayment. In such cases, SSA may impose a penalty of $25 for the first failure to report, $50 for the second failure, and $100 for the third and subsequent failures. The provision was part of the original 1972 SSI legislation, and there are indications that the use of penalties has increased over recent years. In fiscal year 2001, SSA imposed almost 3,500 penalties. For the first 10 months of fiscal year 2002, SSA imposed over 3,600 penalties in the SSI program.

A more recent provision has given SSA the authority to impose administrative sanctions in the form of withheld benefits in cases in which individuals make false or misleading material statements that result in overpayments. This provision was enacted in the *Foster Care Independence Amendments of 1999* and implemented by regulations in October 2000. As of October 15, 2002, SSA has already imposed administrative sanctions in 178 cases.

We will continue to evaluate our policies on penalties and administrative sanctions to maximize their effectiveness.

3. GAO testifies that SSA is waiving an increasing share of SSI overpayments. Why? For overpayments of less than $500, SSA automatically waives the debt and does not even attempt recovery. Please break down the costs of SSA's attempts to recover overpayments. Are you considering any changes to the $500 threshold, either up or down?

Response: Waiver is not a discretionary action on SSA's part. If an individual requests and meets the statutory criteria for waiver, SSA must grant the request. In such cases, the statute provides that recovery of an overpayment is to be waived when the liable individual is both without fault in causing the overpayment, and recovery or adjustment would:

(1) defeat the purpose of title XVI of the Act; (2) be against equity and good conscience; or 3) impede effective or efficient Administration of title XVI of the Act because of the amount involved.

We believe the increase in waivers is the result of SSA's increasing the volume of SSI continuing disability reviews (CDRs), rather than the result of the waiver tolerance. From fiscal year 1991 through fiscal year 1998, SSI waivers as a percentage of available debt were fairly stable at 2–3 percent. In fiscal year 1999, SSI waivers began to grow and continued at higher levels into fiscal year 2001. In fiscal year 1999–2001, waivers as a percentage of total available debt increased to the 3–4 percent range. The increase in waivers in fiscal year 1999 correlates with the increase in SSI-only CDRs. (The volume of SSI-only CDRs greatly increased from 389,000 conducted in fiscal year 1998 to 792,000 in fiscal year 1999.) When a CDR results in a cessation decision, a recipient is entitled to request benefit continuation until after an administrative hearing. Because it can take a protracted amount of time before the hearing is held and a decision is rendered, large overpayments can accrue in these cases. If a cessation decision is upheld at a hearing, most recipients request waiver of the overpayment, and most meet the requirements for approval of the waiver.

However, it is important to note that the CDRs, while giving rise to waivers, have the beneficial effect of eliminating future payments to those individuals resulting in huge lifetime program savings for the Agency. From 1998 through 2001, CDRs yielded

$7 billion dollars in lifetime program savings—i.e., future program outlays that would otherwise be made if the CDRs had not been done.

At this time, we cannot provide a breakdown of the costs of attempts to recover overpayments. The Agency only maintains information about the cost of the overpayment process in total without the costs of the individual pieces of the process. That is, SSA's work measurement and cost analysis system does not identify costs for specific actions in the overpayment process such as calculating the overpayment, notifying the overpaid individuals or recovery attempts.[2]

The $500 waiver tolerance, established in December 1993, and which resulted from information gained through a special study, is the breakeven point at which the dollar amount of overpayments recovered from waiver requests (including both

[2] It is estimated that the entire workload relating to SSI overpayments will have an administrative cost of nearly $875 million over the next 5 years.

allowed and denied waivers) equals the resource cost of adjudicating those waivers. SSA will be reviewing this $500 limit.

As a clarification, SSA does not automatically waive all overpayments of less than $500; rather SSA uses the waiver tolerance only when the overpaid person or his/her representative requests waiver and meets the statutory requirement for waiver. The $500 tolerance is not applied if there is an indication of fault on the part of the overpaid person; e.g., when a recipient alleges nonreceipt of a check, gets a replacement check, and then cashes both the original and replacement. SSA does not use the tolerance without looking at the circumstances of the overpayment and how it arose. We will analyze the extent to which staff correctly apply waiver policies.

4. You mentioned in your testimony that you are currently working on draft legislation to strengthen the integrity of the SSI program. When do you expect that such legislation will be available for our review?

Response: Let me assure you that SSA is constantly developing legislative proposals to strengthen the integrity of the SSI and OASDI programs. These efforts can be seen in the provisions in H.R. 4070, the *Social Security Program Improvement Amendments of 2002,* many of which were developed by SSA for the draft *Social Security Amendments of 2000,* which was sent to Congress in October 2000. Another example is the inclusion of the provisions from SSA's draft bill, the *Supplemental Security Income Program Improvement Act,* in the *Foster Care Independence Act 1999*. The most recent example is the provision in H.R. 4737, the TANF reauthorization legislation, requiring review of SSI disability allowances, which was developed by SSA for the President's fiscal year 2003 Budget.

We have recently sent to Congress a draft bill, the *Supplemental Security Income Program Amendments of 2002*, which includes nine proposals that would simplify the SSI program and eliminate current disincentives for work, marriage, higher education, and military service. I have attached a copy of the draft bill and urge the Subcommittee to take it under consideration.

The proposals in the draft bill, while making important revisions in the SSI program and helping to reduce overpayments, would not fully address the problematic areas of verifying income and living arrangements. As part of the SSI Corrective Action Plan and SSA's ongoing legislative development process, we are continuing to look at these areas, particularly at options relating to the counting of wages and in-kind income. Please be assured that if our analysis of these issues lead us to conclude that legislative solutions are required, we will develop proposals that both maintain the integrity of the SSI program and protect the aged, blind, and disabled individuals that the program was designed to serve.

Sincerely,

Hon. James B. Lockhart III
Deputy Commissioner

Attachments.

Social Security Administration
Baltimore, Maryland 21235–0001
September 26, 2002

The Honorable J. Dennis Hastert
Speaker of the House
United States House of Representatives
H–232, U.S. Capitol Building
Washington, D.C. 20515

Dear Mr. Speaker,

Enclosed for consideration of the Congress is the Administration's draft bill to make amendments to the Supplemental Security Income (SSI) program. A section-by-section description of all nine SSI proposals is enclosed with this letter. However, I would like to point out several proposals that would simplify the SSI program, and eliminate current disincentives for work, marriage, higher education, and military service.

With regard to program simplification, section 4 of the draft bill would repeal the requirement that retroactive SSI benefits above specified amounts due disabled or blind children be placed in special bank accounts. The current-law dedicated account provision requires that all funds in the account be used only for specific purposes such as education, job training, and medical expenses. Funds in the account cannot be used for the basic everyday needs of food, clothing, and shelter. The dedicated account provision is viewed negatively by parents, advocates of disabled children, and SSA field office employees because of the conflict between the rigid nature of the uses permitted under the law and the unpredictable nature of the needs of dis-

abled children. Parents cannot understand why they are not allowed to use their judgment to spend the funds as they believe to be in the best interest of their children. SSA field office employees spend an inordinate amount of time explaining the dedicated account requirement, discussing allowable expenses, monitoring how the funds are spent, determining whether the funds were misapplied, and trying to recoup misapplied funds. Repealing the dedicated account would simplify both the public's understanding and SSA's Administration of the SSI program.

Sections 5 and 9 of the draft bill would encourage work and education. Section 5 would eliminate certain restrictions on the student earned income exclusion, allowing more students to qualify for the exclusion. Currently, students who are married or heads of households may not qualify for the exclusion. The proposal would eliminate these requirements so that members of young married couples and single parents may have the advantage of the intended educational incentive. Section 9 of the bill would exclude money earmarked for education. Currently, grants, scholarships, and fellowships used for educational expenses are excluded from income and resources for SSI purposes. However, for example, if a relative gives money to a disabled child for college expenses, that money is counted as income for SSI purposes. The proposal would result in money used for educational expenses being treated the same whether it is from a grant, scholarship, fellowship, or cash gift.

Sections 8 and 10 of the draft bill would address SSI program issues relating to military personnel. Section 8 would expand SSI eligibility to include blind and disabled children who are born to or who first apply for benefits while residing with parents who are military personnel stationed outside the United States. Currently, children of military personnel stationed overseas may be eligible for SSI if they received SSI while they were in the United States. Such an extension would eliminate the disparate treatment of children of military personnel who were born or became blind or disabled outside of the United States. Section 10 would result in all cash military compensation being counted as earned income (instead of the current treatment of some as unearned income), thus providing for higher amounts of income disregards. The proposal would slightly increase the SSI benefits of many disabled children whose parents are in the military. The proposal would also simplify the program in that SSA claims representatives would no longer have to sort through military pay records to determine whether the income received should be categorized for SSI purposes as earned or unearned.

Proposals in the draft bill support SSA's Corrective Action Plan for the SSI program, which addresses SSA's actions in response to the General Accounting Office's designation of SSI as a "high-risk" program. We are continuing to look at ways to improve SSI.

The Office of Management and Budget has advised that there is no objection to the transmittal of this draft bill to the Congress. We urge the Congress to give the draft bill prompt and favorable consideration.

I am sending an identical letter to the Honorable Richard B. Cheney, President of the Senate.

Sincerely,

Jo Anne B. Barnhart
Commissioner

Social Security Administration
Baltimore, Maryland 21235–0001
September 26, 2002

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20515

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account provision is viewed negatively by parents, advocates of disabled children, and SSA field office employees because of the conflict between the rigid nature of the uses permitted under the law and the unpredictable nature of the needs of disabled children. Parents cannot understand why they are not allowed to use their judgment to spend the funds as they believe to be in the best interest of their children. SSA field office employees spend an inordinate amount of time explaining the dedicated account requirement, discussing allowable expenses, monitoring how the funds are spent, determining whether the funds were misapplied, and trying to recoup misapplied funds. Repealing the dedicated account would simplify both the public's understanding and SSA's Administration of the SSI program.

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Proposals in the draft bill support SSA's Corrective Action Plan for the SSI program, which addresses SSA's actions in response to the General Accounting Office's designation of SSI as a "high-risk" program. We are continuing to look at ways to improve SSI.

The Office of Management and Budget has advised that there is no objection to the transmittal of this draft bill to the Congress. We urge the Congress to give the draft bill prompt and favorable consideration.

I am sending an identical letter to the Honorable J. Dennis Hastert, Speaker of the House.

Sincerely,

Jo Anne B. Barnhart
Commissioner

Section-By-Section Descriptions

Short Title; References to Act; Table of Contents

Section 1 provides that upon enactment the bill may be cited as the "Supplemental Security Income Program Amendments of 2002." References in the bill refer to the Social Security Act unless otherwise specified. This section also includes the table of contents.

Increase In the Interval Used in Calculating Certain Infrequent or Irregular Income Excluded from Income

Section 2 would amend the infrequent and irregular income exclusion to exclude $60 per quarter of unearned income which is received irregularly and infrequently, rather than the current $20 per month, and $30 per quarter of earned income rather than the current $10 per month. The proposed change would permit an individual to receive small gifts, or payment for infrequent jobs such as babysitting, without worrying that fairly insignificant amounts of income would adversely affect his or

her benefits. For example, under current law, a $25 cash birthday gift would be counted as income to the individual. Under this proposal, such relatively insignificant gifts would not be counted as income if the income did not exceed the quarterly limit.

The provision would be effective with respect to benefits paid for the month after the month of enactment.

Uniform 9-Month Resource Exclusion Periods

Section 3 would increase and make uniform the time period of 9 months for excluding from resources amounts attributable to underpayments of Social Security and SSI benefits and earned income tax credits. Currently, the resource exclusion time periods vary from 1 to 6 to 9 months depending on the type of income involved. The resource exclusion periods are intended to allow beneficiaries who receive significant sums of money sufficient time to meet outstanding obligations or needs before the sums become countable and might cause SSI ineligibility. There is no program reason for differing periods for these exclusions, and uniformity would simplify SSI Administration and public understanding.

The provision would be effective with respect to amounts received on or after the date of enactment.

Elimination of the Dedicated Account Requirement

Section 4 would repeal the requirement that past-due benefits greater than six times the maximum monthly benefit be deposited in a special account and be used only for certain specified purposes. For individuals with dedicated accounts already established under the repealed provision, permit the accounts to continue to be excluded from the eligible individuals' resources for a period of 18 months beginning the month after the month of enactment. Interest or other earnings on such account would be excluded from income for the same period. There would be no restrictions on the use of the funds in the account, other than the normal restrictions that apply to representative payees' use of a recipient's benefits (i.e., that the benefits be used in the best interest of the beneficiary). There is little evidence that the representative payees, most of whom are the disabled children's parents, use past-due benefits for purposes that are not in the children's best interest.

The provision would be effective upon enactment.

Elimination of Certain Restrictions on the Application of the Student Earned Income Exclusion

Section 5 would permit the student earned income exclusion to apply for any individual who is a student under age 22 by removing the term "child," which for SSI purposes includes the requirement that an individual be neither married nor the head of a household. Thus, currently, students who are married or heads of households may not qualify for the student earned income disregards. The provision would provide young married and single parent students the same incentive in the form of an additional earned income exclusion that is available to other students. It does not seem reasonable or equitable to exclude married individuals or heads of households from being able to take advantage of student income exclusion, which may make the difference in their ability to attend school.

The provision would be effective with respect to benefits payable for months that begin 1 year after enactment.

Exclusion of Americorps and Other Volunteer Benefits for Purposes of Determining Supplemental Security Income Eligibility and Benefit Amounts and Social Security Disability Insurance Entitlement

Section 6 would exclude all Americorps and other payments to volunteers for purposes of determining SSI eligibility and benefit amounts and for purposes of determining initial and continuing eligibility for Social Security disability insurance (DI) benefits. All Americorps volunteers receive a living allowance and can receive an educational award. For volunteers in Americorps*VISTA programs, which continue to be funded under ACTION, these payments are categorically excluded from income in the SSI program and are not treated as earnings for trial work period (TWP) and substantial gainful activity (SGA) purposes in the DI program. For other Americorps volunteers, however, these payments are counted as earnings both in the SSI program and for TWP and SGA purposes in the DI program. These earnings also are taxable and earn coverage under title II of the Act. Further, for these other Americorps volunteers, current SSI rules count room and board provided under the program as in-kind support and maintenance. The proposal would eliminate the disparate treatment in the SSI and DI programs of payments to volunteers in the

Americorps programs. This would create an additional incentive for young people with disabilities to participate in Americorps programs.

The provision would be effective with respect to benefits payable for months after September 2002.

Exception to Retrospective Monthly Accounting for Nonrecurring Income

Section 7 would count one-time, nonrecurring income counted only for the month that the income is received and not for any other month during the transition to retrospective monthly accounting during the first 3 months of an individual's SSI eligibility. One-time, nonrecurring income would be defined as the type of income rather than differing amounts of the same type of income—e.g., the exception would not apply to fluctuating amounts of wages or deemed income.) Currently under retrospective monthly accounting, income in the first month of SSI eligibility is counted in determining the amount of benefit in the month that it is received and the following 2 months. In rare instances, this situation results in more income being counted than is actually received. Over the first 3 months of SSI eligibility for these individuals, SSI benefits are reduced $3 for each $1 of countable income. The proposal would eliminate triple counting of one-time, nonrecurring income, which would more accurately and fairly reflect an individual's financial means.

The provision would be effective with respect to benefits payable for months that begin on or after 1 year following enactment.

Removal of Restriction on Payment of Benefits to Children Who Are Born or Who Become Blind or Disabled After Their Military Parents Are Stationed Overseas

Section 8 would extend the current law exception for SSI eligibility for blind and disabled children of military personnel overseas to blind and disabled children of military personnel who were born overseas or first applied for benefits overseas. This provision would be a reasonable change in the law to protect a specific, limited group of children who reside outside the United States only because their parents are serving their country by being stationed overseas. Such extension would eliminate the disparate treatment with regard to SSI eligibility between blind and disabled children of military personnel overseas who were eligible for SSI before they went overseas and those who were born or became blind and disabled while they are overseas with their parents.

The provision would be effective for benefits payable for months after enactment but only on the basis of applications filed after enactment.

Treatment of Education-Related Income and Resources

Section 9 would exclude from the determination of income the total amount of any gift to an individual provided for the educational expenses of that individual to the same extent as the exclusion for grants, scholarships and fellowships. The amount of the gift would be excluded from the individual's resources for 9 months after the month of receipt. Currently, monetary gifts to an SSI recipient are counted as unearned income even if the money is used to pay for tuition or books. Permitting the exclusion of such gifts could encourage familial and community support of an individual's education and, thus, increase the chances that such individual might become self-sufficient and leave the SSI rolls.

The provision would be effective with respect to benefits payable for the month after the month of enactment.

Treatment of Uniformed Service Compensation

Section 10 would treat all cash military compensation as wages and, thus, as earned income. The provision also would treat the compensation reported on a monthly leave and earnings statement issued by the military reflecting compensation *earned* in the prior month as compensation *received* in the prior month. In nonmilitary employment, any remuneration or compensation for work is treated as earned income. The distinction between earned and unearned income is important in determining the amounts to be deemed from a parent or spouse in military service. The proposal would treat cash military compensation and civilian wages alike, and thus eliminate the present unfair and disadvantageous treatment of cash military compensation other than basic pay under SSI. The proposal would simplify the determination of countable income for SSA field offices by making it unnecessary to sort cash military compensation into wages and unearned income. Further, the proposal deals with the monthly computation of military income using leave and earnings statements for purposes of determining deemed income for a spouse or child of a person in the military service. Both parts of the proposal would result in significant program simplification in the area of determining military pay.

The provision is effective with respect to benefits payable for months beginning at least 90 days after the date of enactment.

A BILL

To amend the Social Security Act to make various improvements in the Supplemental Security Income program and the Social Security disability insurance program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; REFERENCES TO ACT; TABLE OF CONTENTS.

(a) Short Title.—This Act may be cited as the "Supplemental Security Income Program amendments of 2002".

(b) References to Act.—Whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or a repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Social Security Act.

(c) Table of Contents.—The table of contents is as follows:

Sec. 1. Short title; references to Act; table of contents.
Sec. 2. Increase In the Interval Used in Calculating Certain Infrequent Or Irregular Income Excluded From Income
Sec. 3. Uniform 9-month resource exclusion periods.
Sec. 4. Elimination of the dedicated account requirement.
Sec. 5. Elimination of certain restrictions on the application of the student earned income exclusion.
Sec. 6. Exclusion of Americorps and other volunteer benefits for purposes of determining Supplemental Security Income eligibility and benefit amounts and social security disability insurance entitlement.
Sec. 7. Exception to retrospective monthly accounting for nonrecurring income.
Sec. 8. Removal of restriction on payment of benefits to children who are born or who become blind or disabled after their military parents are stationed overseas.
Sec. 9. Treatment of education-related income and resources.
Sec. 10. Treatment of uniformed service compensation.

SEC. 2. INCREASE IN THE INTERVAL USED IN CALCULATING CERTAIN INFREQUENT OR IRREGULAR INCOME EXCLUDED FROM INCOME.

(a) In General.—Section 1612(b)(3) (42 U.S.C. 1382a(b)(3)) is amended—

(1) by striking "month" each place it appears and inserting "quarter";

(2) by striking "$20" and inserting "$60"; and

(3) by striking "$10" and inserting "$30".

(b) Effective Date [continuing]. The amendments made by this section shall be effective with respect to benefits payable for months that begin more than 90 days after the date of the enactment of this Act.

SEC. 3. UNIFORM 9–MONTH RESOURCE EXCLUSION PERIODS.

(a) In General.—

(1) Underpayments of benefits [continuing]. Section 1613(a)(7) (42 U.S.C. 1382b(a)(7)) is amended—

(A) by striking "6" and inserting "9"; and

(B) by striking "(or to the first 9 months following such month with respect to any amount so received during the period beginning October 1, 1987, and ending September 30, 1989)".

(2) Earned income tax credit [continuing]. Section 1613(a)(11) (42 U.S.C. 1382b(a)(11)) is amended by striking "month of receipt and the following month" and inserting "9 months following the month in which it is received".

(b) Effective Date [continuing]. The amendments made by this section shall take effect on the date of the enactment of this Act, and shall apply to—

(1) amounts described in paragraph (7) of section 1613(a) of the Social Security Act, and

(2) refunds of federal income taxes described in paragraph (11)(A) of such section, that are received by an eligible individual or eligible spouse on or after such date.

SEC. 4. ELIMINATION OF THE DEDICATED ACCOUNT REQUIREMENT.

(a) In General.—Section 1631(a)(2) (42 U.S.C. 1383(a)(2)) is amended—

(1) by striking subparagraph (F); and

(2) by redesignating subparagraphs (G) and (H) as subparagraphs (F) and (G), respectively.

(b) Transitional Treatment of Funds Previously Subject to the Dedicated Account Requirement.—

(1) In determining the eligibility and benefit amount of any individual (and the individual's eligible spouse, if any) under title XVI of the Social Security Act for any month in the period specified in paragraph (2), there shall be excluded from such individual's (and such spouse's)—

(A) resources, any amount held in an account that, prior to the date of the enactment of this Act, had been established and maintained in accordance with section 1631(a)(2)(F) (as in effect prior to such date), but only to the extent that such amount does not exceed the amount held in such account at the close of the day preceding such date; and

(B) income, the interest or other earnings of any amount excluded from resources under subparagraph (A).

(2) The period specified in this paragraph begins on the date of the enactment of this Act and ends on the last day of the eighteenth month beginning on or after such date of enactment.

(c) Conforming amendments.—

(1) section 1612(b) (42 U.S.C. 1382a(b)) (as previously amended by section 2 of this Act) is further amended—

(A) by striking paragraph (21); and

(B) by redesignating paragraphs (22) and (23) as paragraphs (21) and (22), respectively.

(2) section 1613(a) (42 U.S.C. 1382b(a)) is amended—

(A) by adding "and" at the end of paragraph (11);

(B) by striking paragraph (12); and

(C) by redesignating paragraph (13) as paragraph (12).

SEC. 5. ELIMINATION OF CERTAIN RESTRICTIONS ON THE APPLICATION OF THE STUDENT EARNED INCOME EXCLUSION.

(a) In General.—Section 1612(b)(1) (42 U.S.C. 1382a(b)(1)) is amended by striking "a child who" and inserting "under the age of 22 and"

(b) Effective Date.—The amendment made by this section shall be effective with respect to benefits payable for months that begin on or after 1 year following the date of the enactment of this Act.

SEC. 6. EXCLUSION OF AMERICORPS AND OTHER VOLUNTEER BENEFITS FOR PURPOSES OF DETERMINING SUPPLEMENTAL SECURITY INCOME ELIGIBILITY AND BENEFIT AMOUNTS AND SOCIAL SECURITY DISABILITY INSURANCE ENTITLEMENT.

(a) In General.—

(1) SSI.—Section 1612(b) (42 U.S.C. 1382a(b)) of the Social Security Act (as previously amended by sections 2 and 4(c)(1) of this Act) is further amended—

(A) in paragraph 21, by striking "and" at the end;

(B) in paragraph 22, by striking the period and inserting "; and"; and

(C) by adding at the end a new paragraph as follows:

"(23) any benefit (whether cash or in-kind) conferred upon (or paid on behalf of) a volunteer or participant in a program administered by the Corp. for National and Community Service for service in such program."

(2) SSDI.—Section 223(d)(4)(B) of such Act (42 U.S.C. 423(d)(4)(B)) is amended by adding at the end a new subparagraph as follows:

"(C) In determining under subparagraph (A) when services performed or earnings derived from services demonstrate an individual's ability to engage in substantial gainful activity, the Commissioner of Social Security shall disregard services performed as a volunteer or participant in any program administered by the Corporation for National and Community Service, and any earnings derived from such service.".

(b) Effective Date.—The amendments made by this section shall be effective with respect to benefits payable for months after September 2002.

SEC. 7. EXCEPTION TO RETROSPECTIVE MONTHLY ACCOUNTING FOR NONRECURRING INCOME.

(a) In General.—Section 1611(c) (42 U.S.C. 1382(c)) is amended by adding at the end the following new paragraph:

"(9)(A) Notwithstanding paragraphs (1) and (2), any nonrecurring income which is paid to an individual in the first month of any period of eligibility shall be taken into account in determining the amount of the benefit under

this title of such individual (and his eligible spouse, if any) only for that month, and shall not be taken into account in determining the amount of the benefit for any other month.

"(B) For purposes of subparagraph (A), payments to an individual in varying amounts from the same or similar source for the same or similar purpose shall not be considered to be nonrecurring income.".

(b) Deletion of Obsolete Material.—Section 1611(c)(2) (42 U.S.C. 1382(c)(2)) is amended by striking "shall—" and all that follows and inserting "shall be determined on the basis of the income of the individual and the eligible spouse, if any, and other relevant circumstances in such month."

(c) Effective Date.—The amendments made by this section shall be effective with respect to benefits payable for months that begin on or after 1 year following the date of the enactment of this Act.

SEC. 8. REMOVAL OF RESTRICTION ON PAYMENT OF BENEFITS TO CHILDREN WHO ARE BORN OR WHO BECOME BLIND OR DISABLED AFTER THEIR MILITARY PARENTS ARE STATIONED OVERSEAS.

(a) In General.—Section 1614(a)(1)(B)(ii) (42 U.S.C. 1382c(a)(1)(B)(ii)) is amended—

(1) by inserting "and" after "citizen of the United States,"; and

(2) by striking ", and who," and all that follows and inserting a period.

(b) Effective Date.—The amendments made by this section shall be effective with respect to benefits payable for months beginning after the date of the enactment of this Act, but only on the basis of an application filed after such date.

SEC. 9. TREATMENT OF EDUCATION–RELATED INCOME AND RESOURCES.

(a) Exclusion from Income of Gifts Provided for Tuition and Other Education-Related Fees.—Section 1612(b)(7) (42 U.S.C. 1382a(b)(7)) is amended by striking "or fellowship received for use in paying" and inserting "fellowship, or gift (or portion of a gift) used to pay".

(b) Exclusion from Resources for 9 Months of Grants, Scholarships, Fellowships, or Gifts Provided for tuition and other education-related fees.—Section 1613(a) (42 U.S.C. 1382b(a)) (as previously amended by section 4(c)(2)) is further amended—

(1) by striking "and" at the end of paragraph (11);

(2) by striking the period at the end of paragraph (12) and inserting "; and"; and

(3) by inserting after paragraph (12) a new paragraph as follows:

"(13) for the 9-month period beginning after the month received, any grant, scholarship, fellowship, or gift (or portion of a gift) used to pay the cost of tuition and fees at any educational (including technical or vocational education) institution.".

(c) Effective Date.—The amendments made by this section shall be effective with respect to benefits payable for months that begin more than 90 days after the date of the enactment of this Act.

SEC. 10. TREATMENT OF UNIFORMED SERVICE COMPENSATION.

(a) Treatment of All Uniformed Service Cash Remuneration as Earned Income.—Section 1612(a)(1)(A) (42 U.S.C. 1382a(a)(1)(A)) is amended by inserting "(and, in the case of cash remuneration paid for service as a Member of a uniformed service, without regard to the limitations contained in section 209(d))" immediately before the semi-colon.

(b) Treatment of Pay as Received When Earned.—Section 1611(c) (42 U.S.C. 1382(c)) is amended by adding at the end the following new paragraph:

"(9) For purposes of this subsection, remuneration for service performed as a Member of a uniformed service may be treated as received in the month in which it is earned, if the Commissioner determines that such treatment would promote the economical and efficient Administration of the program authorized by this title.".

(c) Effective Date.—The amendments made by this section shall be effective with respect to benefits payable for months beginning at least 90 days after the date of the enactment of this Act.

Chairman HERGER. If we could have our second panel come up, please: the Honorable Hal Daub, Chairman of the Social Security Advisory Board; the Honorable James G. Huse, Jr., Inspector General of the Social Security Administration; Mr. Tony Young, Chair-

man of the Consortium for Citizens with Disabilities; and Mr. Robert Robertson, Director of Education, Work force, and Income Security Issues at the General Accounting Office.

[Pause.]

Mr. HUSE. I apologize. I didn't realize I was first.

Chairman HERGER. Mr. Huse?

STATEMENT OF THE HON. JAMES G. HUSE, JR., INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, SOCIAL SECURITY ADMINISTRATION

Mr. HUSE. Thank you, Mr. Chairman.

Good morning, Mr. Chairman, Mr. Cardin, and Members of the Subcommittee. In 1997, the General Accounting Office designated the Supplemental Security Income program a high-risk program. I welcome the opportunity to be here today to discuss how far the Social Security Administration has come in the past 5 years as it has strived to improve the SSI program.

In 1996, the year following SSA's independence, Congress terminated Social Security benefits to recipients whose disability redetermination was based on drug or alcohol addiction. Barely a year later, SSA had identified some 209,000 individuals whose disability eligibility determinations were based on drug addiction or alcoholism, and had mailed them notices stating that their benefits would terminate shortly. When our office checked on SSA's work a year later, only 3,190 beneficiaries had been incorrectly paid benefits after the drug and alcohol addiction legislation was enacted.

Another very early sign of an independent SSA commitment to program integrity was the issue of the payment of benefits to prisoners. In an audit report we issued less than a year after SSA's independence, we estimated that the annual cost to SSA in erroneous payments to prisoners was $48.8 million, and we recommended that SSA seek legislation to facilitate the exchange of information with Federal, State, and local prison authorities. Such legislation was enacted in 1999, and SSA again took action. According to SSA's statistics, payments to more than 69,000 prisoners were suspended in fiscal year 2000 based on more than 260,000 prisoner alerts.

Also, in 1996, just a year after SSA's independence, and 1 year before SSI was designated a high-risk program, Congress made fugitive felons ineligible for SSI payments. The Commissioner requested and received our help, and we began immediately. To date, we have identified over 77,000 fugitives receiving SSI, resulting in more than $250 million in projected savings. Additionally, we have provided law enforcement officials with information necessary to locate and apprehend approximately 8,000 fugitives.

Our ability to save government funds and to remove dangerous fugitives from the streets is limited only by the resources we can devote to this task, and by the degree to which the existing infrastructure can provide timely and accurate warrant information from around the country.

Not all of the initiatives directed at improving SSA program integrity, and SSI integrity in particular, are congressional initiatives. Early in our history we realized that prevention of program fraud is more cost-effective and more meaningful if fraud can be

detected before benefits are ever paid. To that end, our office and SSA created the Cooperative Disability Investigations program, or, as we call it, CDI. There are now 13 CDI units across the country, with four more slated to begin operation later this year, with a total of 20 anticipated by the end of fiscal year 2003.

Since 1998, when the first units became operational, CDI units have received almost 7,000 allegations of fraud in the disability programs resulting in over 2,700 denials or terminations and savings of approximately $159 million. More importantly, it is our firm belief that the presence of these units has served as an enormous deterrence to fraud.

Finally, to address the issues raised by the President's management agenda on improving financial performance, the Chief Financial Officer Council and the President's Council on Integrity and Efficiency established a work group to address improper and erroneous payments. The work group is charged with developing and benchmarking methods to reduce or eliminate improper and erroneous payments. One goal is to propose legislation for all federal agencies to provide a mechanism using collections of improper payments to fund the administrative costs incurred for activities designed to prevent, detect, and recover future improper payments. We support this. In fact, we would propose the creation of an integrity fund built on program dollar savings that could be a needed resource to strengthen efforts to reduce fraud, waste, and abuse.

Despite these challenges, we know that more needs to be done. We certainly appreciate the opportunity of being here to talk about the successes we have had and what remains to be done. I will be glad to answer any of your questions.

[The prepared statement of Mr. Huse follows:]

Statement of the Hon. James G. Huse, Jr., Inspector General, Office of the Inspector General, Social Security Administration

Good morning, Chairman Herger, Mr. Cardin, Members of the Subcommittee.

In 1997, the General Accounting Office (GAO) designated the Social Security Administration's (SSA's) Supplemental Security Income (SSI) program, administered under title XVI of the Social Security Act (Act), a high-risk program. As GAO pointed out in a recent update, it was felt that SSA's problems stem from an organizational culture that places a greater priority on processing and paying SSI claims than on controlling expenditures, and that SSA often paid insufficient attention to verifying recipient financial eligibility, deterring fraud and abuse, and identifying options for addressing underlying policy weaknesses that impede program integrity.

I welcome the opportunity to be here today to discuss how far SSA has come in changing its organization culture and recognizing program integrity as *one component* of service to the public. While there undoubtedly remains more to be done, SSA should be proud of the difficult changes it has made, and the improvements brought about by those changes.

As soon as SSA was established as an independent Agency in 1995, enormous new responsibilities were placed upon the Agency, even as it was adjusting to its own independence. These rapid changes were a monumental challenge in themselves, and I'd like to touch briefly on how several of these challenges altered the SSI landscape.

Drug and Alcohol Addiction

In 1996, the year following SSA's independence, Congress enacted legislation terminating Social Security benefits—both title II and title XVI—to recipients whose disability determination was based on drug or alcohol addiction (DA&A). Thus, even before SSA could fully begin to make efforts to improve the SSI program, a fundamental change, representing a massive workload, was placed on the agency.

Still, SSA was up to the challenge. Barely a year after Congress enacted the DA&A legislation, SSA had identified 209,374 individuals whose disability eligibility

determinations were based on drug addiction or alcoholism, and had mailed them notices stating that their benefits would terminate shortly. The complexity of this effort cannot be overstated—disability beneficiaries frequently have several medical bases for their disability determination, and reviewing hundreds of thousands of cases to decide whether the disability was based on DA&A, or whether it was a sufficiently large contributing factor to merit termination of benefits was a monumental task.

Our office checked on SSA's work a year later, when we began an audit in August 1998 to determine if SSA had identified and terminated benefits payments to all individuals where DA&A was a contributing factor. We estimated that 3,190 beneficiaries were incorrectly paid $38.7 million in title II and title XVI benefits after the DAA legislation was enacted. For example, one individual whose case was not even reviewed by SSA following enactment of the DA&A legislation had a disability determination that was clearly based on addiction. The Office of Hearings and Appeals decision awarding benefits stated that "Substance abuse is a substantial reason for the finding of disability and the conferring of benefits in this case." Unfortunately, the case was miscoded, and not even reviewed until our office conducted our work. The individual was overpaid $11,736 in SSI payments.

We concluded our work with four recommendations to improve SSA's implementation of the DA&A legislation and reduce SSA's vulnerability of paying benefits to ineligible individuals.

SSA agreed with our recommendations and began taking corrective action. This was an early sign that SSA was taking seriously its obligation to promote program integrity, and SSI integrity in particular, even before SSI was designated a high-risk program.

In April 2001, we initiated a follow-up audit to determine whether SSA had in fact implemented the recommendations of our prior report. In December 2001, we concluded that overall, SSA had effectively implemented our prior recommendations, but we further recommended that SSA use the Continuing Disability Review process to ensure that diagnosis codes are updated to show the proper disability impairment.

Termination of Benefits to Prisoners

Another very early sign of an independent SSA's commitment to program integrity was the payment of benefits to prisoners. In an audit report we issued—again, less than a year after SSA's independence—we estimated that the annual cost to SSA in erroneous payments to prisoners was $48.8 million, and we recommended that SSA seek legislation to facilitate the exchange of information with Federal, state, and local prison authorities. Such legislation was enacted in 1999, removing the need for computer matching agreements between SSA and prison authorities to be renewed every 18 months under the Computer Matching and Privacy Protection Act of 1988 (5 U.S.C. § 552a). The elimination of this time-consuming process had an overwhelming effect; according to SSA statistics, payments to more than 69,000 prisoners were suspended in FY 2000, based on more than 260,000 prisoner alerts that were received in large part because of that legislation. Progress has been promising and the efficiency of this program should continue to improve as the 1999 legislation paved the way for even more expansive communication between SSA and prison authorities.

We recently initiated some follow-up work on prisoners and expect to issue a report in fiscal year 2003 on SSA's efforts to implement our prior recommendations to improve its prisoner operations.

Fugitive Felons

Also in 1996—again, just a year after SSA independence and one year before SSI was designated a high-risk program—Congress enacted legislation making fugitive felons ineligible for SSI payments. As with the DA&A legislation, this meant that a significant number of SSI recipients would now become ineligible, and that these determinations of eligibility would have to be re-determined. In addition, the legislation required the Commissioner of Social Security to provide state and local law enforcement officials with locator information about fugitives receiving SSI—name, address, even photographs—to facilitate their apprehension. The Commissioner requested—and received—the OIG's help in performing this function, and we began immediately. To date, we have identified over 77,000 fugitives receiving SSI, resulting in more than $250 million in projected savings. Additionally, we have provided law enforcement officials with information necessary to locate and apprehend approximately 8,000 fugitives.

Our two top priorities in this program tracked the double-edged nature of the legislation—apprehension and savings. First and foremost, we wanted to apprehend

the most dangerous fugitives, and get them off the streets. Therefore, we target violent crimes first and have been successful in that endeavor, as was the case with the SSI recipient in California wanted for assault with a deadly weapon on a police officer. The second prong of our effort was the identification of fugitives receiving SSI and the termination of those payments. Our ability to save Government funds, and to remove more dangerous fugitives from the streets, is limited only by the resources we can devote to the task, and by the existing infrastructure to provide timely and accurate warrant information from around the country.

The issue of resources is a matter for Congress to consider. The issue of information is one we have pursued with vigor. Together with SSA, we have executed agreements aimed at improving the volume and accuracy of the information that we act upon with the U.S. Marshals Service, the FBI, and the National Crime Information Center. Additionally, out of the 50 states:

- 24 states and 4 cities or counties have signed agreements with SSA to share fugitive data with SSA;
- 14 states, plus the District of Columbia, now provide all of their felony warrant and parole/probation violator data to NCIC;
- 3 states provide most of their data to NCIC; and
- 3 states provide all of their felony warrants to NCIC, though parole and probation violator data is not provided.

Agreements with the remaining states are pending, and we continue to expand and refine the informational processes by which we receive and utilize fugitive information. Notwithstanding the relative youth of the OIG, and the new independence of SSA when this law was enacted, the fugitive felon program is a resounding success story.

Cooperative Disability Investigations

Not all of the initiatives directed at improving SSA program integrity, and SSI integrity in particular, are Congressional initiatives. Early in our history, we realized that prevention of program fraud is more cost-effective and more meaningful if fraud can be detected before benefits are ever paid. To that end, our office and SSA created the Cooperative Disability Investigations Program, or CDI. There are now thirteen CDI units across the country, with four more slated to begin operation later this year, and a total of twenty by the end of FY 2003. Each unit is comprised of an OIG Special Agent who acts as team leader. The remaining members of the unit are state or local law enforcement personnel, state Disability Determination program specialists, and supporting staff. Their mission is to detect fraud in the early stages—at the time of application for Social Security benefits or during the appeals process. The results have been especially notable. Since 1998, when the first units became operational, CDI units have received more that 6,900 allegations of fraud in the disability programs, the vast majority of which came from those most qualified to detect fraud—DDS adjudicators. The results of CDI investigations were used to support over 2,700 denials or terminations, allowing SSA to avoid improper payments of approximately $159 million, and allowing related, non-SSA programs to save over $79 million. More importantly, it is our firm belief that the presence of these units has served as an enormous deterrence to fraud.

CFOC/PCIE Workgroup

To address the issues raised by the President's Management Agenda on improving financial performance, the Chief Financial Officer Council and the President's Council on Integrity and Efficiency established a work group to address improper and erroneous payments. The work group is charged with developing and benchmarking methods to reduce or eliminate, where possible, improper and erroneous payments made by Federal Government agencies. One of the goals of the work group is to propose legislation for all federal departments and agencies to provide a funding mechanism whereby collections of improper payments could be used to fund the administrative costs incurred for activities designed to prevent, detect and recover future improper payments. The OIG fully supports the development of this legislation and the efforts of the work group.

In fact, we would propose the creation of an integrity fund built on program dollar savings that could be a needed resource reservoir to strengthen efforts to reduce fraud, waste and abuse.

Conclusion

Still, despite these challenges and successes, more remains to be done. Cognizant of this, SSA recently issued an SSI Corrective Action Plan to address those problems identified by GAO and by our office that remain unresolved. This report reflects the

serious nature of SSA's commitment to SSI improvement, and echoes a number of recommendations we have previously made in our audit work. I am optimistic that SSA's plan marks another positive step down the road to recovery, and that ultimately, the SSI program will be removed from GAO's list of high-risk programs. I stand prepared to assist the Commissioner in meeting that goal.

Chairman HERGER. Thank you very much, Mr. Huse. Now, Mr. Daub will testify.

STATEMENT OF THE HON. HAL DAUB, CHAIRMAN, SOCIAL SECURITY ADVISORY BOARD, AND FORMER MEMBER OF CONGRESS

Mr. DAUB. Chairman Herger, Congressman Cardin, my former colleagues, good to see you all, and it is nice to be here. I want to first of all commend you, Mr. Chairman, for holding this hearing on fraud and abuse in the Supplemental Security Income, or, as it is referred to, SSI program. For over 5 years now, the Advisory Board has spent a great deal of time reviewing on a nonpartisan basis the programs administered by the Social Security Administration, including the SSI program. Based on the Board's careful study of the program over the past 5 years, we issued a report in March directed specifically at this issue of program integrity. The Board found that more attention and more resources needed to be devoted to achieving program integrity. I am submitting these documents with my testimony today. I believe the detailed information they contain will be helpful to the Subcommittee as it pursues the subject of today's hearing.

In this statement, I would like to briefly outline just a few of the areas where the Board finds there is an urgent need for improvement in assuring program integrity for the SSI program.

Outright fraud and abuse of the program is, of course, the most troubling type of program integrity issue. It certainly does exist. Each of the semi-annual reports from the Inspector General's office points out specific instances where fraudulent activities have been detected, such as individuals continuing to cash benefit checks issued to deceased individuals and SSI recipients who do not report that they have left the United States.

In the Board's meeting with Social Security field staff, we have heard about other abuses, such as the so-called middlemen who provide false information to get non-English-speaking applicants onto the benefit rolls.

One direct way to combat fraud and abuse is to increase the resources available for investigating allegations or suspicious circumstances, and there have been significant funding increases for the Inspector General's office in recent years. However, the most effective remedy for fraud and abuse is an overall commitment to program integrity, which can minimize the potential for fraud and abuse at the front end of the process.

A high level of payment accuracy in the SSI program requires that the eligibility determinations be done carefully by well-trained and supervised employees who place a high value on making the right decision. It also requires that recipients be adequately instructed on the importance of reporting events that might change their eligibility and that their reports of such events be promptly acted upon.

In its review of the program, the Board has found several elements that have tended to work in the wrong direction. The work measurement system used by the Agency tends to reward quantity of production rather than quality of product. That type of incentive, in combination with staffing shortages and inadequate training and supervision, inevitably leads to the lowering of quality. For example, in our field visits, employees have told the Board that they sometimes just don't pursue lines of questioning, such as the subject of living arrangements, because it takes too long to resolve the issues that might be raised.

When erroneous payments are detected, the Agency has an obligation to attempt to recover the misspent funds. Again, a reputation for prompt and effective action in this area would naturally tend to lessen the incentive for abusive practices such as a failure to report events lowering or eliminating eligibility. The SSA has recently taken steps to increase the collections of overpayments both by better detection and by improved recovery. However, despite the fact that the collection of overpayments is a highly cost-effective activity, the Agency has limited collections because of limited resources.

A large proportion of SSI recipients—one in every three—lacks the capacity to manage their own funds, and in this situation, the Social Security Administration pays benefits to an individual or organization as a "representative payee."

Payments of benefits to third parties in this way is an area that is highly susceptible to abusive practices if the Agency does not carefully select and monitor these representative payees. In response to reports of abusive practices by representative payees, the Agency has taken steps to improve its Administration of this aspect of the program, but much more needs to be done. If vulnerable beneficiaries are to be protected from misuse of benefits, the Agency will need to devote considerably more resources to screening and monitoring representative payees.

I have described just a few of the issues that are important. The Advisory Board reports detail these much more than time here now permits. I don't want to leave the impression that nothing is being done to deal with these problems. As the Subcommittee well knows, legislation has been developed and enacted over the past few years to give the Social Security Administration improved tools to verify income and other eligibility factors and to more effectively recoup their payments. The SSA is implementing a corrective action plan that addresses in particular the issues raised by the GAO in its report that designated SSI as a high-risk program. These actions are welcome and useful, but it needs to be recognized by this Subcommittee and the Congress. Adequate resources will have to be found for these initiatives to be fully successful.

In addition, the Board has pointed out changes of a more fundamental nature that I think need to be addressed, and I just want to take 30 seconds to conclude.

Part of the reason why the SSI program is particularly susceptible to fraud and abuse is that it is an extremely complicated program. To a considerable extent, its complexity arises from the nature of what it attempts to accomplish. However, the Board believes that the Agency should carefully examine program policy and

take the lead in developing measures, however incremental, that will change SSI policy rules, by administrative action or by working with Congress to adopt legislation, so as to make them easier for the Agency to administer and easier for beneficiaries to understand and comply with.

The Agency needs to implement a new quality management system. The program does have a quality assurance component, but it is currently an end-of-the-line approach and is of limited usefulness in finding and correcting problems as they occur. So, in a nutshell, it is simply a matter of time and money.

Thank you.

[The prepared statement of Mr. Daub follows:]

Statement of the Hon. Hal Daub, Chairman, Social Security Advisory Board, and former Member of Congress

Chairman Herger, Congressman Cardin, Members of the Subcommittee, on behalf of the Social Security Advisory Board, I first of all want to commend you on holding this hearing on fraud and abuse in the Supplemental Security Income—SSI—program. For over five years now, the Advisory Board has spent a great deal of time reviewing, on a non-partisan basis, the programs administered by the Social Security Administration including the SSI program.

The Board's legislative charter directs it, among other things, to make recommendations with respect to the quality of service that the Social Security Administration provides to the public. Ensuring a high level of program integrity is an inherent aspect of the agency's obligation to provide good service to the public. Taxpayers have a right to expect that their tax dollars are accurately expended. Program recipients have a right to expect that they and others will have their benefits properly determined and administered.

Over its history, the Social Security Administration has attempted to foster a commitment to program integrity. This is reflected in a catch phrase that, I believe, virtually all SSA employees are familiar with—"the right check to the right person on time." The agency and its employees do understand and want to meet the public's expectations of a high level of program integrity. But increasing workloads and declining resources have undermined this theoretical commitment to integrity. Managers and employees throughout the administrative structure are frustrated that they lack both the time and the tools that they need to do the high quality work that the public deserves and that they expect of themselves.

Based on the Board's careful study of the program over the past five years, we issued a report in March directed specifically at this issue of program integrity. The Board found that more attention and resources need to be devoted to achieving program integrity. That report covers all aspects of SSA's responsibilities and not just the SSI program, but the issues it raises are generally applicable to SSI. Indeed, the complexity of the SSI program makes the achievement of program integrity in that program even more challenging. In May, the Board prepared a statement on the SSI program specifically. This statement commented on, and was included in, the agency's annual report on the SSI program. I am submitting these documents with my testimony today. I believe the detailed information they contain will be helpful to the Subcommittee as it pursues the subject of today's hearing.

In this statement, I would like to briefly outline just a few of the areas where the Board finds there is an urgent need for improvement in assuring program integrity for the SSI program.

Fraud and Abuse

Outright fraud and abuse of the program is, of course, the most troubling type of program integrity issue. And it certainly does exist. Each of the semiannual reports from the Inspector General's office points out specific instances where fraudulent activities have been detected, such as individuals continuing to cash benefit checks issued to deceased individuals and SSI recipients who do not report that they have left the United States. In the Board's meeting with Social Security field staff, we have heard about other manifestations such as so-called "middlemen" who provide false information to get non-English speaking applicants on the benefit rolls.

One direct way to combat fraud and abuse is to increase the resources available for investigating allegations or suspicious circumstances, and there have been significant funding increases for the Inspector General's office in recent years. How-

ever, the most effective remedy for fraud and abuse is an overall commitment to program integrity which can minimize the potential for fraud and abuse at the front end of the process. The incidence of abuse of the program will be far less to the extent that the agency has a reputation for careful attention to verification of eligibility.

Accuracy of SSI Payments

The social security retirement program establishes eligibility on the basis of factors that are relatively easy to determine such as birth date, for which there is generally good documentary evidence, and wage history, which is maintained and updated within the social security databases through mandatory wage reporting by employers. By contrast, the SSI program has a much more complex set of eligibility factors including assets, living arrangements, and income from all sources. Moreover, even if these factors are correctly determined at the point of initial eligibility, they are quite susceptible to change.

A high level of payment accuracy in the SSI program requires that the eligibility determinations be done carefully by well-trained and supervised employees who place a high value on getting the decision right. It also requires that recipients be adequately instructed on the importance of reporting events that might change their eligibility and that their reports of such events be promptly acted on.

In its reviews of the program, the Board has found several elements that have tended to work in the wrong direction. The work measurement system used by the agency tends to reward quantity of production rather than quality of product. That type of incentive, in combination with staffing shortages and inadequate training and supervision, inevitably leads to a lowering of quality. For example, in our visits to field offices, employees have told the Board that they sometimes do not pursue certain lines of questioning (such as the details of living arrangements) because it takes too long to resolve the issues that may be raised. The Board has also heard from SSA employees and members of the public of delays—sometimes extensive—in making payment changes required by events reported by recipients.

Collection of Overpayments

When erroneous payments are detected, the agency has an obligation to attempt to recover the misspent funds. Again, a reputation for prompt and effective action in this area would naturally tend to lessen the incentive for abusive practices such as a failure to report events lowering or eliminating eligibility. SSA has recently taken steps to increase its collections of overpayments both by better detection and by improved recovery. However, despite the fact that the collection of overpayments is a highly cost-effective activity, the agency has limited collections because of resource limitations. Under certain conditions, recipients may properly qualify to have the collection of overpayments waived. However, the Office of the Inspector General has found that many waivers are incorrectly granted or are granted with insufficient documentation. An SSA executive recently told the Board that field offices often are too busy to pursue overpayment collections and find that it is easier to waive the debt.

Representative Payee Accountability

A large proportion of SSI recipients—about one of every three—lacks the capacity to manage their own funds. In this situation, the Social Security Administration pays benefits to an individual or organization as a "representative payee."

The law requires:

- that representative payees expend benefit funds only for the recipient's needs,
- that they report events affecting the recipient's eligibility, and
- that they provide an annual accounting to demonstrate that the funds were used appropriately.

Payment of benefits to third parties in this way is an area that is highly susceptible to abusive practices if the agency does not carefully select and monitor these representative payees. As recently as December 2001, the Office of the Inspector General observed that SSA is not performing background checks of potential payees to determine if they have financial problems, bad credit records, or felony convictions. In response to reports of abusive practices by representative payees, the agency has taken steps to improve its Administration of this aspect of the program, but much more needs to be done. If vulnerable beneficiaries are to be protected from misuse of benefits, the agency will need to devote considerably more resources to screening and monitoring representative payees.

One particular concern is SSA's inadequate oversight of dedicated accounts established for disabled children who receive large retroactive benefit payments. The Congress mandated these accounts to ensure that benefits were spent appropriately for care and services for the child. But due to the complexity of these accounts, the difficulty in administering them and—often times—sympathetic family circumstances, SSA's field employees report that they often look the other way when parents misuse these funds.

What Needs to Be Done

I have described just a few of the issues that are discussed in much more detail in the reports of the Advisory Board and also in the reports that have been issued by the General Accounting Office and the Office of Inspector General. I do not want to leave the impression that nothing is being done to deal with these problems. As this Subcommittee knows well, legislation has been developed and enacted over the past few years to give the Social Security Administration improved tools to verify income and other eligibility factors and to more effectively recoup overpayments. SSA is implementing a corrective action plan addressing in particular the issues raised by GAO in its report designating SSI as a "high-risk" program. Initiatives currently being carried out include gaining easier access to bank account balance information, improving efficiency in identifying and processing information about changes that affect eligibility, and, in particular, devoting more resources to the conduct of periodic eligibility redeterminations. These actions are welcome and useful, but it needs to be recognized that adequate resources will have to be found for these initiatives to succeed fully.

In addition, the Board has pointed out changes of a more fundamental nature that need to be addressed.

Part of the reason why the SSI program is particularly susceptible to fraud and abuse is that it is an extremely complicated program. To a considerable extent, its complexity arises from the nature of what it attempts to accomplish. However, the Board believes that the agency should carefully examine program policy and take the lead in developing measures, however incremental, that will change SSI policy rules, by administrative action or by working with Congress to adopt legislation, so as to make them easier for the agency to administer and easier for beneficiaries to understand and comply with.

The agency also needs to implement a new quality management system. The program does have a quality assurance component, but this currently is essentially an end-of-line approach that is of limited usefulness in finding and correcting problems before they occur. In addition, the Board has heard numerous criticisms from the field that, while the sample size used to evaluate SSA's quality is statistically valid, it is not large enough to be of instructional value to the frontline employees and managers who are responsible for delivering services to the public. Many throughout the organization feel that the existing structures for measuring performance and quality are skewed towards speed and productivity. SSA's leadership needs to implement a system which will make quality a guiding principle for all aspects of its work.

[Attachments are being retained in the committee files.]

Chairman HERGER. Thank you, Mr. Daub. Now, Mr. Robert Robertson?

STATEMENT OF ROBERT E. ROBERTSON, DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Mr. ROBERTSON. Okay. If we have a live mike here—we do. Mr. Chairman, Members of the Subcommittee, I am pleased to be here this morning to talk about the Supplemental Security Income program. As you know, in 1997, we designated this program as a high-risk program after several years of reporting on specific instances of abuse and mismanagement, including poor overpayment detection and recovery practices. What I would like to do this morning is basically make three points about the actions that SSA has taken over recent years to address these problems.

My first point is to loudly and clearly recognize that SSA has taken substantive actions over the past several years to strengthen the integrity of the SSI program—this has been mentioned several times during the hearing already. The list of actions is quite long. For example, to better deter and detect overpayments, the Agency obtained legislative authority to use additional tools to verify recipients' financial eligibility for benefits. It has also enhanced its processes for monitoring and holding staff accountable for completing assigned SSI workloads and has improved its use of automation to strengthen its overpayment detection capabilities.

Now, in addition to improving its ability to detect overpayments, SSA has also increased emphasis on recovering overpaid benefits. For example, SSA now seizes the tax refunds of individuals with unresolved SSI debt and recently began more aggressive actions to recover overpayments from former SSI recipients by reducing their Social Security retirement or disability benefits.

In short, in our view, the actions that SSA has taken demonstrate management's commitment to strike a better balance between meeting the needs of SSI recipients and ensuring fiscal accountability for the program.

The second point I would like to make is simply to say that it may be too soon to assess the full impact of all these actions that we have been talking about. This is because a number of the initiatives that SSA has taken to improve the integrity of the program are in planning or early implementation stages. In fact, this may be part of the explanation for why SSA is not meeting the accuracy goals it has established for the SSI decisionmaking process. More specifically, in 1998, SSA sought to increase the SSI overpayment accuracy rate from 93.5 percent to 96 percent—I understand that target may have been amended just this morning—by 2002. However, the latest estimated rate is about 93.6 percent, and SSA doesn't anticipate achieving the 96-percent rate until 2005.

My third and final point is to note that, despite the very positive steps that SSA has taken to bolster the program's financial integrity, there are still some areas that deserve further management attention. I would like to focus just on four of those, one of which has been discussed earlier by Representative Johnson and Mr. Daub.

First—and we feel strongly about this one—the SSA needs to continue to explore ways to simplify excessively complex program rules for determining recipient living arrangements. This will not be easy, in part because of the inherent tensions between simplifying program rules, keeping program costs down, and ensuring benefit equity for all recipients. However, in our view, payment errors resulting from complex rules represent a significant source of errors as well as a significant obstacle to improving payment accuracy.

Second, we believe that SSA can more aggressively implement administrative penalties and sanctions in an effort to better deter overpayments. Under the law, SSA may impose such penalties on recipients who do not file timely reports about factors or events that can lead to reduction in benefits or who deliberately provide incorrect information. Our work indicates that these penalties and sanctions have not been used to their fullest extent, and as a re-

sult, the full potential of their deterrent value has not been realized.

Third, SSA can do more to recover overpayments. It has yet to implement some recovery initiatives which have been available for several years. More specifically, although regulations have been drafted, SSA has not yet implemented administrative wage garnishment, which was authorized in the Debt Collection Act 1996. In addition, SSA has not implement several provisions of the Foster Care Independence Act 1999. These provisions would allow SSA to offset federal salaries of former recipients, use collection agencies to recover overpayments, and levy interest on outstanding debt

Fourth, and finally, the rapid growth in the amount of overpayments waived over the last several years suggests that SSA may be unnecessarily foregoing recovery of significant amounts of overpaid debt. Overpayment waivers have increased from $32 million in 1993 to $161 million in 2001. In view of this dramatic growth, it is essential that SSA's policies and procedures for waiving overpayments and the staff application of those policies be managed in a way that ensures taxpayer dollars are sufficiently protected.

Mr. Chairman, that concludes my prepared remarks, and I will be happy to answer questions at the appropriate time.

[The prepared statement of Mr. Robertson follows:]

Statement of Robert E. Robertson, Director, Education, Workforce, and Income Security Issues, U.S. General Accounting Office

Status of Efforts to Improve Overpayment Detection and Recovery

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Supplemental Security Income (SSI) program. The Social Security Administration (SSA) administers the SSI program, which is the nation's largest cash assistance program for the poor. Last year, SSI provided $33 billion in benefits to 6.8 million aged, blind, and disabled persons. Benefit eligibility and payment amounts for the SSI population are determined by complex and often difficult to verify financial factors such as an individual's income, resource levels, and living arrangements. Individual financial circumstances also often change, requiring staff to frequently reassess recipients' continuing eligibility for benefits. Thus, the SSI program tends to be difficult and labor intensive to administer. These factors also make the SSI program vulnerable to overpayments. In 2001, outstanding SSI debt and newly detected overpayments totaled $4.7 billion. We designated SSI a high-risk program in 1997 after several years of reporting on specific instances of abuse and mismanagement, including poor overpayment detection and recovery practices. The following year we issued a report with recommendations for improving SSI operations.[1]

My testimony today focuses on our current review of actions taken by SSA over the last several years to improve its overpayment deterrence and detection capabilities as well as its ability to recover overpayments once they occur. To examine these issues, we reviewed SSI performance data and various internal and external reports on SSI management and operations. We also conducted more than 175 interviews with SSA managers and staff at its headquarters in Baltimore and in its Philadelphia, San Francisco, and Atlanta regions and with managers and staff from state Disability Determination Services. During our meetings with management and staff, we documented their views on the priority SSA places on improving SSI program integrity, and verified policy and procedural changes that have been made in operations. We plan to issue our final report in September 2002.

In summary, SSA has taken many actions over the last several years to strengthen SSI program integrity. For example, to better deter and detect overpayments, the agency obtained legislative authority to use additional tools to verify recipients' financial eligibility for benefits; enhanced its processes for monitoring and holding

[1] U.S. General Accounting Office, Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity, GAO/HEHS–98–158 (Washington, D.C.: Sept. 14, 1998)

staff accountable for completing assigned SSI workloads; and improved its use of automation to strengthen its overpayment detection capabilities. However, because a number of initiatives are still in the planning or early implementation stages, it is too soon to assess their ultimate impact on SSI payment accuracy. Further, there are vulnerabilities that SSA has yet to address, such as excessively complex program rules for determining recipient living arrangements and underused penalty authorities for persons who fail to report information affecting their benefits. In addition to improving its overpayment deterrence and detection capabilities, SSA has also made recovery of overpaid benefits a higher priority. For example, SSA now seizes the tax refunds of individuals with unresolved SSI debt and recently began more aggressive actions to recover overpayments from former SSI recipients by reducing their Social Security retirement or disability benefits. Other potentially effective recovery initiatives, such as wage garnishment and referral of debtors to collection agencies, remain unimplemented. Further, at a time when SSA has enhanced its debt recovery capability, its current overpayment waiver policies and practices may be causing SSA to unnecessarily forego the collection of millions of dollars in overpaid benefits annually.

Background

The SSI program provides eligible aged, blind, or disabled persons with monthly cash payments to meet basic needs for food, clothing, and shelter. State Disability Determination Services determine whether SSI applicants are medically disabled, and SSA field office staff determine whether applicants meet the program's nonmedical (age and financial) eligibility requirements. To be eligible for SSI in 2002, persons may not have income greater than $545 per month ($817 for a couple) or resources worth more than $2,000 ($3,000 for a couple). When applying for SSI, persons must report information about their income, financial resources and living arrangements that affect their eligibility. Similarly, once approved, recipients must report changes to these factors in a timely manner. To a significant extent, SSA depends on program applicants and recipients to report changes in their medical or financial circumstances that may affect eligibility. To verify this information, SSA generally uses computer matching to compare SSI payment records with similar information contained in other federal and state government agencies' records. To determine whether recipients remain financially eligible for SSI benefits, SSA also conducts periodic redetermination reviews to verify eligibility factors such as income, resources and living arrangements. Recipients are reviewed at least every 6 years, but reviews may be more frequent if SSA determines that changes in eligibility are likely.

In general, the SSI program is difficult and costly to administer because even small changes in monthly income, available resources, or living arrangements can affect benefit amounts and eligibility. Complicated policies and procedures determine how to treat various types of income, resources, and support that a recipient may receive. SSA must constantly monitor these situations to ensure benefit payments are accurate. After reviewing work spanning more than a decade, we designated SSI a high-risk program in 1997 and initiated work to document the underlying causes of long-standing problems and their impact on program integrity. In 1998, we reported on a variety of management issues related to the deterrence, detection, and recovery of SSI overpayments. Over the last several years, we also issued a number of reports and testimonies documenting SSA's progress in addressing these issues.

Overpayment Prevention and Detection Are Receiving More Emphasis, But Some Weaknesses Remain

Over the last several years, SSA has demonstrated a stronger management commitment to SSI program integrity issues, and today SSA has a much improved capability to verify program eligibility and detect payment errors than it did several years ago. However, weaknesses remain. SSA has made limited progress toward simplifying complex program rules that contribute to payment errors and is not fully utilizing several overpayment prevention tools, such as penalties and the suspension of benefits for recipients who fail to report eligibility information as required.

Management Has Heightened Attention to SSI Program Integrity

SSA issued a report in 1998 outlining its strategy for addressing SSI program integrity problems and submitted proposals to Congress requesting new authorities and tools to implement its strategy. The Foster Care Independence Act of 1999 gave SSA new authority to deter fraudulent or abusive actions, better detect changes in recipient income and financial resources, and improve its ability to recover overpay-

ments. Of particular note is a provision in the act that strengthened SSA's authority to obtain applicant resource information from banks and other financial institutions, since unreported financial resources are the second largest source of SSI overpayments. SSA also sought and received legislative authority to impose a period of benefit ineligibility ranging from 6 to 24 months for individuals who knowingly misrepresent facts.

In addition to seeking and obtaining new legislative authority, SSA also began requiring its field offices to complete 99 percent of their assigned financial redetermination reviews and other cases where computer matching identified a potential overpayment situation caused by unreported wages, changes in living arrangements, or other factors. To further increase staff attention to program integrity issues, SSA also revised its work measurement system—used for estimating resource needs, gauging productivity, and justifying staffing levels—to include staff time spent developing information for referrals of potentially fraudulent cases to its Office of Inspector General (OIG). Consistent with this new emphasis, the OIG also increased the level of resources and staff devoted to investigating SSI fraud and abuse, in order to detect, and prevent, overpayments earlier in the disability determination process. The OIG reported that its investigative teams saved almost $53 million in fiscal year 2001 in improper benefit payments by providing information that led to denial of a claim or the cessation of benefits.

Further, in a June 2002 SSI corrective action plan, SSA reaffirmed its commitment to taking actions to facilitate the removal of the SSI program from our high-risk list.[2] To ensure effective implementation of this plan, SSA has assigned senior managers responsibility for overseeing additional planned initiatives, which include piloting new quality assurance systems, testing whether touchtone telephone technology can improve the reporting of wages, and using credit bureau data and public databases to better detect underreported income and unreported resources (automobiles and real property). To assist field staff in verifying the identity of recipients, SSA is also exploring the feasibility of requiring new SSI claimants to be photographed as a condition of receiving benefits.

SSA Has Improved Its Ability to Detect Payment Errors

SSA has made several automation improvements over the last several years to help field managers and staff control overpayments. Last year, the agency distributed software nationwide that automatically scans multiple internal and external databases containing recipient financial and employment information and identifies potential changes in income and resources. This examination of financial data occurs automatically whenever a recipient's Social Security number (SSN) is entered into the system. SSA also made systems enhancements to better identify newly entitled recipients with unresolved overpayments from a prior SSI coverage period. Now, the process of detecting overpayments from a prior eligibility period and updating recipient records occurs automatically. Thus, a substantial amount of outstanding overpayments that SSA might not have detected under prior processes is now subject to collection action. In fact, the monthly amount of outstanding overpayments transferred to current records has increased on average by nearly 200 percent, from $12.9 million a month in 1999 to more than $36 million per month in 2002.

In addition to systems and software upgrades, SSA now uses more timely and comprehensive data to identify information that can affect SSI eligibility and benefit amounts. In accordance with our prior report recommendation, SSA obtained access to the Office of Child Support Enforcement's National Directory of New Hires (NDNH), which is a comprehensive source of unemployment insurance and wage and new hires data for the nation.[3] In January 2001, SSA field staff received access to NDNH for use in verifying applicant eligibility during the initial claims process. Recently, SSA also began requiring staff to use NDNH as a post-eligibility tool for verifying current recipients' continuing eligibility. With NDNH, SSA field staff now have access to more comprehensive and timely employment and wage information essential to verifying factors affecting SSI eligibility. SSA has estimated that using NDNH will result in about $200 million in overpayment preventions and recoveries per year.

SSA has also enhanced existing computer data matches to better verify continuing financial eligibility. For example, SSA now matches SSI recipient SSNs against its

[2] Social Security Administration, SSI Corrective Action Plan—Removing SSI From GAO's "High-Risk" List, June 2002

[3] See U.S. General Accounting Office, Supplemental Security Income: Opportunities Exist for Improving Payment Accuracy, GAO/HEHS–98–75 (Washington, D.C.: Mar. 27, 1998)

master earnings record semiannually.[4] In 2001, SSA flagged over 206,000 cases for investigation of unreported earnings, a three-fold increase over 1997 levels. To better identify individuals receiving income from unemployment insurance benefits, quarterly data matches have also replaced annual matches. Accordingly, the number of unemployment insurance detections has increased from 10,400 in 1997 to 19,000 last year. Further, SSA's ability to detect nursing home admissions, which can affect SSI benefits, has improved.[5] SSA now conducts monthly matches with all states, and the number of overpayment detections related to nursing home admissions has increased substantially from 2,700 in 1997 to more than 75,000 in 2001. SSA's ability to detect recipients residing in prisons has also improved. Over the past several years, SSA has established agreements with prisons that house 99 percent of the inmate population, and last year it reported suspending benefits to 54,000 prisoners.[6] Lastly, SSA has increased the frequency with which it matches recipient SSNs against tax records and other data essential to identify any unreported interest, income, dividends, and pension income individuals may be receiving. These matching efforts have also resulted in thousands of additional overpayment detections over the last few years.

To obtain more current information on the income and resources of SSI recipients, SSA has also increased its use of on-line access to various state program data, such as unemployment insurance and workers' compensation. As a tool for verifying SSI eligibility, direct on-line connections are generally more effective than using periodic computer matches, because the information is more timely. Thus, SSA staff can quickly identify potential disqualifying income or resources at the time of application and before overpayments occur. In many instances, this allows the agency to avoid having to go through the difficult and often unsuccessful task of recovering overpaid SSI benefits. Field staff can directly query various state records to quickly identify workers compensation, unemployment insurance, or other state benefits individuals may be receiving. As of January 2002, SSA had access to 73 agencies in 42 states, as compared with 43 agencies in 26 states in 1998.

Finally, to further strengthen program integrity, SSA took steps to improve its SSI financial redetermination review process. It increased the number of annual reviews from 1.8 million in fiscal year 1997 to 2.4 million in fiscal year 2001 and substantially increased the number of reviews conducted through personal contact with recipients, from 237,000 in 1997 to almost 700,000 in fiscal year 2002. SSA also refined its profiling methodology in 1998 to better target recipients that are most likely to have payment errors. SSA's data show that estimated overpayment benefits—amounts detected and future amounts prevented—increased by $99 million over the prior year. Agency officials indicated that limited resources would affect SSA's ability to do more reviews and still meet other agency priorities. In June 2002, SSA informed us that the Commissioner of SSA recently decided to make an additional $21 million available to increase the number of redeterminations this year.

Despite its increased emphasis on overpayment detection and deterrence, SSA is not meeting its payment accuracy goals. In 1998, SSA pledged to increase its SSI overpayment accuracy rate from 93.5 percent to 96 percent by fiscal year 2002; however, the latest payment accuracy rate is 93.6 percent, and SSA does not anticipate achieving the 96 percent target until 2005. Various factors may account for SSA's inability to achieve its SSI accuracy goals, including the fact that key initiatives that might improve SSI overpayment accuracy have only recently begun. For example, field offices started to access NDNH wage data in 2001. This could eventually help address the number one source of overpayments—unreported wages, which in fiscal year 2000 accounted for $477 million in overpayments, or about 22 percent of overpayment errors. Further, SSA's data show that unreported financial resources, such as bank accounts, are the second largest source of SSI overpayments. Last year, overpayments attributable to this category totaled about $394 million, or 18 percent of all overpayments detected. SSA now has enhanced authority to obtain applicant resource information from financial institutions and plans to implement a pilot program later this year. Thus, when fully implemented, this tool may also help improve the SSI payment accuracy rate.

Limited Progress Made in Simplifying Complex Program Rules

SSA has made only limited progress toward addressing excessively complex rules for assessing recipients' living arrangements, which have been a significant and long-standing source of payment errors. SSA staff must apply a complex set of poli-

[4] Prior to 1998, SSA conducted these computer matches annually.

[5] Generally, SSI recipients residing in a nursing home for more than 1 month receive only $30 in SSI benefits per month.

[6] Recipients in correctional facilities for more than 30 days are ineligible for benefits.

cies to document an individual's living arrangements and the value of in-kind support and maintenance (ISM)[7] being received, which are essential to determining benefit amounts. Details such as usable cooking and food storage facilities with separate temperature controls, availability of bathing services, and whether a shelter is publicly operated can affect benefits. These benefit determination policies depend heavily on recipients to accurately report whether they live alone or with others; the relationships involved; the extent to which rent, food, utilities, and other household expenses are shared; and exactly what portion of those expenses an individual pays. Over the life of the SSI program, these policies have become increasingly complex as a result of new legislation, court decisions, and SSA's own efforts to achieve benefit equity for all recipients. The complexity of SSI program rules pertaining to living arrangements, ISM, and other areas of benefit determination is reflected in the program's administrative costs. In fiscal year 2001, SSI benefit payments represented about 6 percent of benefits paid under all SSA-administered programs,[8] but the SSI program accounted for 31 percent of the agency's administrative expenses.

Although SSA has examined various options for simplifying rules concerning living arrangements and ISM over the last several years, it has yet to take action to implement a cost-effective strategy for change. During our recent fieldwork, staff and managers continued to cite program complexity as a problem leading to payment errors, program abuse, and excessive administrative burdens. In addition, overpayments associated with living arrangements and ISM remain among the leading causes of overpayments after unreported wages and resources, respectively. SSA's lack of progress in addressing program simplification issues may limit its overall effectiveness at reducing payment errors and achieving its long-range 96 percent payment accuracy goal. SSA's fiscal year 2000 payment accuracy report noted that it would be difficult to achieve SSI accuracy goals without some policy simplification initiatives. In its recently issued SSI Corrective Action Plan, SSA stated that within the next several years it plans to conduct analyses of alternative program simplification options beyond those already assessed.

Administrative Penalties and Sanctions Remain Underutilized

Our work shows that administrative penalties and sanctions remain underutilized in the SSI program. Under the law, SSA may impose administrative penalties on recipients who do not file timely reports about factors or events that can lead to reductions in benefits—changes in wages, resources, living arrangements, and other support being received. Penalty amounts are $25 for a first occurrence, $50 for a second occurrence, and $100 for the third and subsequent occurrences. The penalties are meant to encourage recipients to file accurate and timely reports of information so that SSA can adjust its records to correctly pay benefits. The Foster Care Independence Act also gave SSA authority to impose benefit sanctions on persons who make representations of material facts that they knew, or should have known, were false or misleading. In such circumstances, SSA may suspend benefits for 6 months for the initial violation, 12 months for the second violation, and 24 months for subsequent violations. SSA issued interim regulations to implement these sanction provisions in July 2000.

Currently, however, staff rarely use penalties to encourage recipient compliance with reporting policies. SSA data show that, over the last several years, the failure of recipients to report key information accounted for 71 to 76 percent of overpayment errors and that these errors involved about 1 million recipients annually. Based on SSA records, we estimate that at most about 3,500 recipients were penalized for reporting failures in fiscal year 2001. SSA staff we interviewed cited a number of obstacles or impediments to imposing penalties, as noted in our 1998 report,[9] such as: (1) penalty amounts are too low to be effective; (2) imposition of penalties is too administratively burdensome; and (3) SSA management does not encourage the use of penalties. Although SSA has issued guidance to field office staff emphasizing the importance of assessing penalties, this action alone does not sufficiently address the obstacles cited by SSA staff.

SSA's administrative sanction authority also remains rarely used. SSA data indicate that, between June 2000 and February 2002, SSA field office staff referred about 3,000 SSI cases to the OIG because of concerns about fraudulent activity. In

[7] ISM refers to the noncash income available to a recipient in the form of food, clothing, or shelter. The combination of ISM and cash income available to an applicant or recipient can either reduce or possibly preclude the receipt of SSI benefits.

[8] SSA also administers the Old Age, Survivors, and Disability Insurance Programs under Title II of the Social Security Act.

[9] GAO/HEHS–98–158.

most instances, the OIG returned the referred cases to the field office because they did not meet prosecutorial requirements, such as high amounts of benefits erroneously paid. Despite the large number of cases where staff believed fraud and abuse might be occurring, as of January 2002, field staff had actually imposed sanctions in only 21 SSI cases. Our interviews with field staff identified insufficient awareness of the new sanction authority and some confusion about when to impose sanctions. In one region, for example, staff and managers told us that they often referred cases to the OIG when fraud was suspected, but that it had not occurred to them that these cases could be considered for benefit sanctions if the OIG did not pursue investigation and prosecution.

Overpayment Recovery Improved, But Other Actions Could Enhance Program Management

In our prior work, we reported that SSA had historically placed insufficient emphasis on recovering SSI overpayments. Over the past several years, SSA has been working to implement new legislative provisions to improve the recovery of overpayments. However, a number of key initiatives are still in the early planning or implementation stages, and it is too soon to gauge what effect they will have on SSI collections. Moreover, we are also concerned that SSA's current waiver policies and practices may be preventing the collection of millions of dollars in outstanding debt.

Overpayment Recovery Is Receiving Enhanced Emphasis, But Some Key Initiatives Are Pending

In 1998, SSA began seizing the tax refunds from former SSI recipients with outstanding overpayments. SSA reported that this initiative has yielded $221 million in additional overpayment recoveries at the end of calendar year 2001. In 2002, SSA also began recovering SSI overpayments by reducing the Social Security retirement and disability benefits of former recipients without first obtaining their consent.[10] SSA expects that this initiative will produce about $115 million in additional overpayment collections over the next several years. SSA also recently began reporting former recipients with outstanding debts to credit bureaus and to the Department of the Treasury. Credit bureau referrals are intended to encourage individuals to voluntarily begin repaying their outstanding debts. The referrals to Treasury will provide SSA with an opportunity to seize other federal benefit payments individuals may be receiving.

While overpayment recovery practices have been strengthened, SSA has not yet implemented some key recovery initiatives that have been available to the agency for several years. Although regulations have been drafted, SSA has not yet implemented administrative wage garnishment, which was authorized in the Debt Collection Improvement Act of 1996. In addition, SSA has not implemented several provisions in the Foster Care Independence Act of 1999. These provisions allow SSA to offset federal salaries of former recipients, use collection agencies to recover overpayments, and levy interest on outstanding debt. According to SSA, draft regulations for several of these initiatives are being reviewed internally. SSA officials said that they could not estimate when these additional recovery tools will be fully operational.

SSI Overpayment Waivers Have Greatly Increased

Our work showed that SSI overpayment waivers have increased significantly over the last decade and that current waiver policies and practices may cause SSA to unnecessarily forego millions of dollars in additional overpayment recoveries annually.

Waivers are requests by current and former SSI recipients for relief from the obligation to repay SSI benefits to which they were not entitled. Under the law, SSA field staff may waive an SSI overpayment when the recipient is without fault and the collection of the overpayment either defeats the purpose of the program, is against equity and good conscience, or impedes effective and efficient Administration of the program.

To be deemed without fault, and thus eligible for a waiver, recipients are expected to have exercised good faith in reporting information to prevent overpayments. If SSA determines a person is without fault in causing the overpayment, it then must determine if one of the other three requirements also exists to grant a waiver. Specifically, SSA staff must determine whether denying a waiver request and recovering the overpayment would defeat the purpose of the program because the affected individual needs all of his/her current income to meet ordinary and necessary living expenses. To determine whether a waiver denial in some instances would be against

[10] Until 1998, SSA could only reduce these benefits with the consent of the former recipient.

equity and good conscience, SSA staff must decide if an individual incurred additional expenses in relying on the benefit, and thus requiring repayment would affect his/her economic condition. Finally, SSA may grant a waiver when recovery of an overpayment may impede the effective or efficient Administration of the program—for example, when the overpayment amount is equal to or less than the average administrative cost of recovering an overpayment, which SSA currently estimates to be $500. Thus, field staff we interviewed generally automatically waive overpayments of $500 or less.

In December 1993, SSA markedly increased the threshold for automatic SSI overpayment waivers from $100 to $500. Officials told us that this change was based on an internal study of administrative costs related to investigating and processing waiver requests for SSA's Title II disability and retirement programs, but not on SSI waivers directly. They were unable to locate the study for our review and evaluation. While staff and managers had varying opinions regarding the time and administrative costs associated with denying waiver requests, they also acknowledged that numerous recent automation upgrades may be cause for reexamining the current $500 waiver threshold.

Our analysis of waiver data indicated that since the automatic waiver threshold was changed, the amount of SSI overpayments waived increased 400 percent, from $32 million in fiscal year 1993 to $161 million in fiscal year 2001. This increase has significantly outpaced the growth in both the number of SSI recipients served and total annual benefits paid, which increased by 12 and 35 percent respectively during this same period. Furthermore, the ratio of waived overpayments to total SSI collections has also increased. In fiscal year 1993, SSA waived overpayments were equivalent to about 13 percent of its SSI collections. By 1995, waiver amounts more than doubled, to $66 million, and were equivalent to about 20 percent of SSI collections for that year. By fiscal year 2001, SSI waivers represented nearly 23 percent of SSI collections.

While not conclusive, the data indicate that liberalization of the SSI waiver threshold may be a factor in the increase in waived overpayments. SSA has not studied the impact of the increased threshold. However, officials believe that the trend in waived SSI overpayments is more likely due to annual increases in the number of periodic reviews of recipients' medical eligibility. These reviews have resulted in an increase in benefit terminations and subsequent recipient appeals. During the appeals process, recipients have the right to request that their benefits be continued. Those who lose their appeal can then request a waiver of any overpayments that occurred during the appeal period. SSA will usually grant these requests under its current waiver policies.

Another factor affecting trends in waivers may be staff application of waiver policies and procedures. Although SSA has developed guidance to assist field staff in deciding whether to deny or grant waivers, we found that field staff have considerable leeway to grant waivers based on an individual's claim that he or she reported information to SSA that would have prevented an overpayment. In addition, waivers granted for amounts of less than $2,000 are not subject to second-party review, while another employee in the office—not necessarily a supervisor—must review those above $2,000. During our field visits, we also identified variation among staff in their understanding of how waiver decisions should be processed, including the extent to which they receive supervisory review and approval. In some offices, review was often minimal or nonexistent regardless of the waiver amount, while other offices required stricter peer or supervisory review. In 1999, SSA's OIG reported that the complex and subjective nature of SSA's Title II waiver process, as well as clerical errors and misapplication of policies by staff, resulted in SSA's incorrectly waiving overpayments in 9 percent of 26,000 cases it reviewed. The report also noted that 50 percent of the waivers reviewed were unsupported and that the OIG could not make a judgment as to the appropriateness of the decision. While the OIG only examined waivers under the Title II programs and for amounts over $500, the criteria for granting SSI waivers are generally the same. Thus, we are concerned that similar problems with the application of waiver policies could be occurring in the SSI program.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you or other members of the Subcommittee may have.

GAO Contact and Staff Acknowledgments

For information regarding this testimony, please contact Robert E. Robertson, Director, or Dan Bertoni, Assistant Director, Education, Workforce, and Income Security at (202) 512–7215. Individuals making contributions to this testimony include Barbara Alsip, Gerard Grant, William Staab, Vanessa Taylor, and Mark Trapani.

Chairman HERGER. Thank you very much, Mr. Robertson. Now, Mr. Tony Young to testify.

STATEMENT OF TONY YOUNG, DIRECTOR, GOVERNMENTAL AFFAIRS, NISH, VIENNA, VIRGINIA, AND CHAIRPERSON, TASK FORCES ON SOCIAL SECURITY AND WORK INCENTIVES IMPLEMENTATION, CONSORTIUM FOR CITIZENS WITH DISABILITIES

Mr. YOUNG. Thank you. Can you hear me?

Chairman HERGER. Yes, we can.

Mr. YOUNG. Thank you very much. The Consortium for Citizens with Disabilities' Task Forces on Social Security and Work Incentives Implementation have worked with this Subcommittee, the Subcommittee on Social Security, and SSA to improve the prevention of fraud and abuse in the SSI and Title II disability programs. We have also worked to ensure fair treatment for people with disabilities in the process of preventing fraud and abuse. We remain concerned that people with mental or cognitive impairments who may not understand the implications of their actions be properly protected when questions of fraud or abuse arise. We will continue to work with the Subcommittee on these issues. In this light, we urge you to consider some concerns from the viewpoint of people with disabilities.

First, the chronic problem of overpayments to beneficiaries in both Title II and Title XVI remains a major barrier to their ability to work. The SSI program encourages beneficiaries to work if they are able. Work incentives, coupled with the SSI retrospective accounting system, ensure that virtually everyone who works will have overpayments. Normally, overpayments of 1 month are adjusted in the third month. However, SSA cannot adjust benefits when SSA staff does not properly record or act upon earnings reports.

This longstanding problem is the source of many large overpayments. As a result, beneficiaries who might attempt to work are afraid to do so because they do not want to owe SSA large overpayments.

The SSA must establish a timely, reliable, efficient, beneficiary-friendly method of collecting and recording a worker's earnings. In addition, SSA must adjust benefits in a timely manner. Congress should require SSA to forgive overpayments if a beneficiary is not notified within a reasonable period.

We appreciate the inclusion in the Social Security Program Protection Act of 2002, H.R. 4070, a requirement that SSA provide a receipt whenever a beneficiary reports a change in earnings or work status. This could help to resolve some of the problems with earnings reports. Again, we are talking about law-abiding citizens doing their best to work and to report their earnings to SSA.

Second, it is time to make important improvements in the SSI program. We support passage of the SSI Modernization Act of 2001, H.R. 739. This bill addresses important areas that encourage work, savings, and education. It mandates an increase in amounts that, as has been noted earlier, have never been adjusted for inflation, such as the general income exclusion, the earned income ex-

clusion, the resource limits, and the irregular or infrequent income disregard.

The bill would protect the buying power of beneficiaries' income by indexing these exclusions, limits, or disregards for inflation. It would allow children who are still in school to finish their education prior to their assessment as adults for the SSI program.

Finally, the bill would exclude the entire amount of educational grants from income and, for 9 months, from resources.

Third, there is an issue regarding retention of Medicaid when SSI benefits are lot upon entitlement to early retirement benefits. The Social Security Act requires SSI recipients to apply for all benefits to which they may be entitled. Included in this group are a small number of recipients who are not eligible for SSDI because they ere not currently insured at the onset of their disability but who are fully insured for retirement benefits. These SSI beneficiaries are required to apply for retirement benefits at age 62. Some of them receive a monthly retirement benefit that is high enough to render them financially ineligible for SSI. The loss of eligibility for SSI results in a loss of Medicaid, except in a few States. Because the beneficiaries are under 65, they are not entitled to Medicare and rarely have the ability to pay for private health insurance. This result is particularly devastating to former SSI recipients who are still disabled and are experiencing further deterioration in their health.

The act allows widows or widowers who lose SSI benefits upon early retirement to retain Medicaid coverage. Congress should extend this protection to all SSI recipients who lose Medicaid at early retirement. The number of people who would benefit from this extension is small, but the protection it would provide them is enormous.

Finally, we strongly support removing SSA's limitation on administrative expenses from any domestic discretionary spending category. This is important as it would better assist SSA to conduct timely CDRs to serve the coming disability and retirement years of baby boomers through improved processing time for initial applications and appeals, to assist people with disabilities to go to work, and to meet other responsibilities. The SSA's limitation on administrative expenses would remain subject to congressional oversight through the annual appropriations process, and Congress would retain its role in ensuring continued administrative efficiency.

Thank you for this opportunity. I would be happy to answer any questions you might have.

[The prepared statement of Mr. Young follows:]

Statement of Tony Young, Director, Governmental Affairs, NISH, Vienna, Virginia, and Chairperson, Task Forces on Social Security and Work Incentives Implementation, Consortium for Citizens with Disabilities

Chairman Herger, Mr. Cardin, and Members of the Subcommittee on Human Resources, I thank you for this opportunity to testify regarding the Supplemental Security Income program. I am Tony Young, Director of Governmental Affairs for NISH, one of two Central Nonprofit Agencies responsible for implementing the Javits-Wagner-O'Day Program. I am testifying today in my role as Chairperson of the Consortium for Citizens with Disabilities, specifically representing the CCD Task Forces on Social Security and Work Incentives Implementation. CCD is a coalition of 100 national organizations advocating on behalf of people with physical, mental, and sensory disabilities.

Fraud and Abuse in the SSI Program

Over the last several years, the CCD Social Security Task Force has supported numerous provisions to improve the prevention of fraud and abuse in the SSI program, as well as in the Title II disability programs. We have worked with this Subcommittee, the Subcommittee on Social Security and with the Social Security Administration to ensure that people with disabilities are treated fairly in the process of preventing fraud and abuse. We remain particularly concerned that people with mental or cognitive impairments who may not understand the implications of their actions be properly protected when questions of fraud or abuse arise. We will certainly continue to work with the Subcommittee on these issues.

Overpayments and Earnings Reports

There is one area, however, which we believe particularly needs to be considered from the perspective of people with disabilities. The chronic problem of overpayments to beneficiaries in both Title II and Title XVI is a major barrier to beneficiaries' ability to take advantage of the work incentives programs, including the new incentives of the Ticket to Work and Work Incentives Improvement Act (TWWIIA). In and of themselves, overpayments are not a problem in the SSI program. Nor do overpayments indicate fraud or abuse of the program. In fact, the SSI program, through Section 1619 and other provisions, provides strong encouragement to beneficiaries to work if they are able. Work incentives coupled with the SSI retrospective monthly accounting system ensure that virtually everyone who attempts work will experience overpayments. In the normal course of business, the overpayments of one month are adjusted in the third month.

The problems arise when reported earnings are not properly recorded and monthly overpayments are not properly adjusted and grow into large debts. Notice of these large overpayments often comes "out of the blue" for the beneficiary in a letter from SSA requesting the beneficiary to pay back the funds. It is one of the more common and frustrating experiences of beneficiaries and the organizations representing them that beneficiaries who properly report earnings and changes in work status will be notified of large overpayments. This problem is not limited to the SSI program, but also occurs in the Title II disability programs.

It is a long-standing problem in SSA—acknowledged by SSA officials over the years—that earnings reports by beneficiaries are not properly recorded or acted upon by SSA staff. This is where the large overpayments come from. As a result, many people who might otherwise consider attempting to work are afraid to work because they do not want to owe SSA thousands of dollars in overpayments.

As the system now operates, chronic overpayments to beneficiaries result from significant delays in, and sometimes the complete failure of, SSA personnel recording earnings reports for working beneficiaries. We believe that part of the problem may be that SSA workers do not get any credit for this work in their work evaluations. In addition, there is not a well-defined process for beneficiaries to use in reporting earnings. Beneficiaries often tell us that they are very conscientious in reporting their earnings, but the overpayments still occur over significant periods of time. When that happens, beneficiaries are not well equipped to know whether the benefit amount they are receiving is correct or whether SSA has made an error or failed to record earnings. Over time, overpayments build and it is not unusual for beneficiaries to be told to pay back tens of thousands of dollars.

We believe that SSA must establish a reliable, efficient, beneficiary-friendly method of collecting and recording, in a timely manner, information regarding a worker's earnings. In addition, SSA must adjust benefits in a timely manner. CCD has further recommended that Congress require SSA to forgive overpayments if the beneficiary is not notified within a reasonable period of time. We appreciate the inclusion in the Social Security Program Protection Act of 2002, H.R. 4070, of a requirement that SSA provide a receipt to the beneficiary whenever a change in earnings or work status is reported. This could go a long way in helping to resolve some of the problems with earnings reports.

Modernization of the SSI Program

The CCD Task Force believes it is time to make important improvements in the SSI program and we support passage of the SSI Modernization Act of 2001, H.R. 739.

The SSI Modernization Act of 2001 is an important and much needed step in increasing the ability of people with disabilities and the elderly to improve the quality of their lives. Many people with disabilities must rely on the Supplemental Security Income program for basic income support and the access it provides to critical medical services through Medicaid. Despite severe, lifelong disability requiring on-going support, many beneficiaries attempt to improve the quality of their lives through

earnings. Others receive some income from their past employment efforts. Increasing the minimum value of the small amounts of earned and unearned income to be counted by SSI will assist beneficiaries in improving their overall situation and will also reduce the administrative burden of dealing with small adjustments in payments. In addition, removing barriers to education will provide beneficiaries opportunities for further growth and potential for future work.

The SSI Modernization Act addresses several important areas designed to encourage work, savings, and education. These include:

- an increase in the general income exclusion;
- an increase in the earned income exclusion;
- an increase in the resource limits; and
- an increase in the irregular or infrequent income disregard.

Each of these exclusions, limits, or disregards would be indexed for inflation so that the buying power of beneficiaries' income is protected.

The bill would also ensure that children who are still in school, including those receiving special education services, would be allowed to finish their education prior to their assessment as adults for the SSI program.

Finally, the bill would exclude the entire amount of educational grants from income and, for nine months, from resources.

We believe that theses modest, but important, improvements to the SSI program will assist beneficiaries while encouraging work, savings, and educational efforts. We believe that these improvements could also help people better meet their ongoing obligations, providing vital resources to fall back on for housing repairs and the like. We urge the Subcommittee to support these improvements.

Medicaid Retention

There is another issue also needing attention regarding retention of Medicaid when SSI benefits are lost upon entitlement to early retirement benefits. The Social Security Act requires SSI recipients to apply for any and all other benefits to which they may be entitled. Included in this group are a small number of recipients who are not eligible for Social Security Disability Insurance benefits because they were not currently insured at the onset of their disability but who are fully insured for retirement benefits, either on their own account or on the account of a spouse or ex-spouse. These SSI beneficiaries are required to apply for retirement benefits at age 62. Some of them have earnings records that result in a high enough monthly retirement benefit that renders them financially ineligible for SSI. The loss of eligibility for SSI for these recipients also results in a loss of eligibility for Medicaid except in the few states which provide coverage for the aged and disabled with an income up to 100% of the federal poverty level. Because the beneficiaries are under 65 years of age, they are not entitled to Medicare benefits and often do not have the financial ability to pay for private health insurance. This result is particularly devastating to these former SSI recipients who are still disabled and are experiencing further deterioration in their health as a result of their increasing age.

The Act allows widows and widowers who lose SSI benefits upon entitlement to early retirement benefits to retain Medicaid coverage. 42 U.S.C. § 1383c(d). This protection should be extended to all SSI recipients who lose Medicaid upon entitlement to early retirement benefits. The number of individuals who would benefit from this extension is relatively small but the protection it would provide them is enormous. We urge the Subcommittee close this gap through which they fall.

Limitation on Administrative Expenses

SSA workloads are projected to begin increasing rapidly within the next decade as the baby boom generation begins to reach its peak disability years just prior to reaching early retirement age beginning in 2008. In addition, the SSA workforce is also aging and will begin to lose significant numbers of staff, including senior and leadership staff. About 3,000 employees are expected to retire per year from 2007 through 2009. SSA is also taking on new or more complex responsibilities such as providing increased rehabilitation and employment services for people with disabilities, completing and maintaining an appropriate schedule of continuing disability reviews and other eligibility reviews, and new approaches to prevent fraud and abuse.

In FY 1985, SSA's staffing levels were 80,844 FTEs and 83,406 workyears. The President's budget requests for FY 2003 include 63,464 FTEs and 64,730 workyears, for a reduction of 17,380 FTEs and 18,676 workyears over the last 18 years.

The CCD Social Security Task Force has voiced concern for some time over the continued long-term downsizing of the SSA workforce. We believe that failure to conduct appropriate and timely CDRs and other eligibility reviews could lead to decreased trust in the integrity of the Social Security and SSI programs. In addition,

the new efforts to assist people with disabilities to go to work, through the Ticket to Work and Work Incentives Improvement Act of 1999, require new and expanded approaches for SSA interaction with beneficiaries. Adequate staffing levels are critical for these and other efforts to be successful, especially given the coming disability and retirement years of baby boomers.

For these reasons, we strongly support removing the Social Security Administration's Limitation on Administrative Expenses (LAE) budget authority from any domestic discretionary spending category. Even if the LAE were removed from the domestic discretionary caps, SSA's LAE would still be subject to the annual appropriations process and Congressional oversight. Currently, SSA's administrative expenses total less than 2% of benefit payments paid annually. Congress would still maintain its role in ensuring continued administrative efficiency.

Most importantly, removal of the LAE from the domestic discretionary spending caps would remove it from competition with other programs for limited funds. It would allow for growth that is necessary to meet the needs of the coming baby-boomer retirement years (including the retirement of SSA and state DDS personnel); continue the efforts to improve the processing time for initial applications and appeals; continue the efforts to ensure integrity in the program through CDRs and other redeterminations; and allow for replacement of staff in a timely manner to allow for adequate training and mentoring.

Annually, the Appropriations Committees need to have the ability to approve adequate funds for the Administration of the Social Security programs without weakening other human services programs. Without removal of LAE from the discretionary caps, any increases in SSA staffing and DDS funding will require offsets by reductions in other health, education, and human needs programs. It is critical that Congress allow SSA to make necessary investments in building the staffing infrastructure necessary to meet the needs of the population, as well as new statutory responsibilities such as the Ticket to Work and Work Incentives Improvement Act.

Again, thank you for this opportunity to testify on these important issues. The CCD Social Security Task Force looks forward to working with the Subcommittee on these important issues for people with disabilities in the Supplemental Security Income program.

American Congress of Community Supports and Employment Services
American Council of the Blind
American Network of Community Options and Resources
American Association of Mental Retardation
Brain Injury Association of America
International Association of Psychosocial Rehabilitation Services
National Association of Developmental Disabilities Councils
National Industries for the Blind
National Organization of Social Security Claimants' Representatives
NISH—creating employment opportunities for people with severe disabilities
Paralyzed Veterans of America
The ARC of the United States
Title II Community AIDS National Network (TIICANN)
United Cerebral Palsy Associations, Inc.

Chairman HERGER. Thank you very much, Mr. Young, for your testimony. Now the gentleman from Pennsylvania, Mr. English, to inquire.

Mr. ENGLISH. Mr. Chairman, I thank you for the opportunity. This is a very valuable hearing because it follows up on some of the most important issues that this Subcommittee tackled as part of the 1996 law.

One of the major changes that we pursued that year was to end SSI disability benefits based on drug or alcohol addictions, and, Mr. Huse, as the Chairman said in his opening statement, this program knowingly gave addicts and alcoholics funds to continue their addictions. Few ever left the rolls. I note in the 1994 HHS Inspector General report that there were only 197 recipients from the June 1990 database that left the SSI rolls due to significant earnings or

medical improvement, while one-half of all non-payment cases were the result of the recipient's death.

Given this abysmal record, Congress decided to stop subsidizing addiction and use some of the savings to pay for more drug treatment. Overall, what were the savings achieved by these changes? Can you quantify the benefits of the investment that Congress made?

Mr. HUSE. At the passage of the act at that time, as I stated in my testimony, there were 209,374 beneficiaries—or recipients, rather, that were under the drug and alcohol benefit. At that time, we estimated that that factored out to $48 million a year in payments.

We returned to that issue in a later audit in August 1998 and estimated that 3,190 beneficiaries were incorrectly paid $38.7 million in Title II and Title XVI benefits. In December 2001, in a follow up audit, we concluded that overall, SSA had effectively implemented our prior recommendations. So, that is a significant accomplishment based on what they faced at the outset.

The actual total dollar savings, I think the Agency has to supply that number, and we haven't factored that number ourselves in the Inspector General's office, but we would be glad to do that and respond to you later in writing.

[The information follows:]

Social Security Administration
Office of the Inspector General
Baltimore, MD 21235
February 14, 2003

The Honorable Phil English
House of Representatives
Washington, D.C. 20515

Dear Mr. English:

As requested on February 12, 2003, enclosed is our official response to the question on dollar savings associated with drug addiction and alcoholism raised at the July 25, 2002 Hearing on Fraud and Abuse in the Supplemental Security Income program. We obtained the information in the enclosed chart from the Social Security Administration's (SSA) Office of the Actuary. We have not audited the Actuary's estimates to verify their accuracy; however, we have audited SSA's implementation of the legislation and found the Agency properly identified and reviewed beneficiaries affected by Public Law 104–121.

If you have any questions or would like to be briefed on this issue, please call me or have your staff contact Douglas Cunningham, Executive Assistant, at (202) 358–6319.

Sincerely,

Hon. James G. Huse, Jr.
Inspector General

Enclosure.

Question from July 25, 2002 Hearing on Fraud and Abuse in the Supplemental Security Income Program:

What were the savings achieved from Congress' decision to stop subsidizing drug addiction and alcoholism (DAA) under Public Law 104–121—which was enacted in August 1996?

Answer:

SSA's Office of the Chief Actuary estimated the savings related to implementation of this legislation. The table below shows these estimated annual savings for each year between 1996 (when the DAA legislation was enacted) and 2004.

Social Security Administration—Office of the Chief Actuary's Estimated Dollar Savings in Federal Supplemental Security Income (SSI) Payments and Disability Insurance (DI) Benefits Under the Drug Addiction and/or Alcoholism (DAA) Provisions in Section 205 of Public Law 104–121

(In millions)

Section 205: Prohibit SSI and/or DI eligibility to individuals whose DAA is a contributing factor material to the finding of disability	Fiscal Year									
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**1996–2000**
Savings to the SSI program	$15	$170	$210	$215	$270	$245	$280	$290	$305	$2,000
Savings to the DI Program	12	161	234	272	312	347	379	409	437	2,563
Total	**$27**	**$331**	**$444**	**$487**	**$582**	**$592**	**$659**	**$699**	**$742**	**$4,563**

Notes:

1. SSI estimates were based on the assumptions underlying the President's Fiscal Year 1997 Budget extended through 2006. SSI reduction in benefit payments shown above are projected on a cash outlay basis. In particular, SSI payments due on October 1st in Fiscal Years 1996 and 2001 are included with benefit payments for the prior Fiscal Years.
2. DI estimates are based on the intermediate assumptions from the 1995 Trustee Report.
3. Estimates include the effect of removing existing DAA beneficiaries from the SSI and DI rolls, as well as savings estimated to occur because new DAA beneficiaries would not come on the rolls in 1997 and later.
4. Estimates prepared by SSA's Office of the Actuary and reported in two memos issued on April 1, 1996.

Mr. ENGLISH. On another front, I know Chairman Herger was very involved in the effort to exclude prisoners and fugitives from the SSI disability program. How much has been saved by those provisions since their implementation? As SSA has worked with law enforcement agencies to implement provisions terminating SSI payments to incarcerated individuals and fugitive felons, what sort of response have you gotten from law enforcement officials? Is there anything Congress can do to help you improve either of these programs?

Mr. HUSE. Well, we have success on both sides of those efforts. Certainly with prisoners we have made a tremendous success. As the Agency testified, 98 percent of the facilities that hold prisoners in this country are involved in our effort to stop payments to prisoners.

On the fugitive side, that is a little bit more of a complicated issue. To date, we have identified 77,000 fugitives that are recipients of Supplemental Security Income. That has resulted in $250 million in projected savings. However, only 8,000 of those have actually been apprehended by law enforcement, and there is a reason for those differences. Those were fugitives that law enforcement determined that law enforcement had some interest in apprehending. Not all of the fugitives that have been identified necessarily are people that they wanted to take into the system.

At this point we have 24 States and 4 cities that are signed up in matching agreements with us to provide this data. Fourteen States and the District of Columbia report their data to the National Crime Information Center that is available to us. We have more work to do to certainly obtain matching agreements with the rest of the States. I think one of the things we would like to have is a national warrant database. That certainly would help us in these efforts. That is a report on our progress so far.

Mr. ENGLISH. I thank you. Mr. Chairman, thank you for the opportunity to inquire on this point.

Chairman HERGER. Thank you, Mr. English. Now the gentleman from Maryland, Mr. Cardin, to inquire.

Mr. CARDIN. Thank you, Mr. Chairman.

Hal, it is nice to see you back here in Congress. Mr. Robertson, I understand this is your first appearance before our committee. Welcome. We thank the GAO for all of its help. It has been extremely helpful to us in trying to chart out the right policies.

I appreciate all of your testimonies about trying to make the system simpler and easier for administrative costs, as well as people who benefit from the program understanding the rules and complying with the rules. The SSI is no different than paying your taxes in that we depend upon voluntary compliance to a very large extent so that it is important that we have rules that people understand and people can follow. Clearly, we need to do a better job in that regard. So, I would appreciate any specific advice that you might have for us in trying to simplify the program.

I think sometimes we take too narrow of a view on the specific cost offsets. The reason that I have been raising the earned income offset is that I would be curious as to how many people fall over the dollar amounts that we are trying to recover money from that is basically a very small amount of money involved.

I am also concerned about people who don't make any efforts to work, who would like to work but don't do it because they are intimidated by the offset. They lose 50 percent of their earnings, basically, by working. It is the highest tax rate that we have in the tax code. So, I can understand it discouraging people from even trying to work, which, of course, would help our economy and help our entire system.

We are not saving any money as a result of that because the people are collecting their full SSI. We are actually losing money in our economy, and it is not saving the SSI system any dollars.

So, I would be interested if you have any observations at all as to what impact it would have on the administrative burdens within the system, on the amount of overpayments that we are trying to recover? How much would it encourage people who currently are receiving their full SSI benefits who would then maybe go out and try to earn some additional dollars if these offsets were modernized and increased and keep up with inflation?

Mr. DAUB. I think it is at the heart of the whole attempt that this Subcommittee is undertaking to manage the system better. If you go back to the root of the definition of disability, which for all practical purposes, has not been modernized in 30 years—modernizing it would take a statutory change. One thing would be to send a letter to Boards like ours and to the Social Security Administration to convene some kind of a joint effort to look at the definition of disability. For example, heart medications have revolutionized people's ability to work instead of simply sit in a chair. It's the same with mental impairment. It is a very difficult definition to apply. The court cases, and the interpretive policy that has been written in an attempt to be fair and compassionate just make the ability of the determiner, the examiner, much more difficult to make a decision.

I would start off with that, first let's undertake to modernize the definition of disability. At the same time, look at how the SSI dis-

regard can be modernized. In addition, the use of penalties when SSI recipients provide fraudulent information should be reviewed. Now, the penalty provisions are little utilized in the Social Security system. The same problem exists with the waiver. If there is a minor overpayment, to try to collect it is just too frustrating. The field office staff often say, "we are going to quit, we are going to waive it." It is too much work. It takes too much time away from processing cases. The SSA doesn't really use the rules its got because the rules are frustrating.

I would say look at the definition of disability. From that would flow all of the other solutions to the problem we are looking at.

Mr. CARDIN. Let me stop you a minute. The Chair is very strict on the time, and I want to give Mr. Young a chance.

Mr. DAUB. I was just—you said sum up.

Mr. CARDIN. I know, but he will cut me off. I wanted Mr. Young to be able to at least respond to whether I am correct in my observations that these low-wage offsets discourage people who might want to try to earn a little bit of money from even trying to earn money.

Mr. YOUNG. Clearly. The low level of the offsets are frustrating to people who are just trying to get out and explore work, much less trying to make enough money to live. It costs a lot of money for a person with a severe disability to go to work, not just the regular costs of clothing and transportation, but the extraordinary costs of wheelchairs and special transportation to go to work.

Let me just put two cautions on the table here while we are talking. Medications and medical improvements and assistive technology all are very fine, and they help some people to go to work. However, they are not the only barriers to employment faced by people with significant disabilities. Relooking at the definition of disability is something that we would participate in, but we urge caution in using just medications and other kinds of offsets to redefine that definition.

Second, in complexity, there are good reasons to look at the complexity of these programs and simplify them, but oversimplifying can make them very unfair to people on the benefits. We prefer using decision support software that incorporates all of these rules and gives the practitioner and the beneficiary easy interface of interpreting the rules, and making proper choices rather than making them so simple as to be unfair.

Mr. CARDIN. Thank you, Mr. Chairman, for your tolerance.

Chairman HERGER. You are welcome. That was very helpful, and that is why we are holding this hearing.

Mr. DAUB. In 5 minutes it is very hard to talk about a very complex subject for a Member of Congress or former Member of Congress, let alone the distinguished panel you have here today.

Chairman HERGER. That is acknowledged. Now the gentleman from Washington, Mr. McDermott, to inquire.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

I would like to get sort of an idea of the magnitude of this problem and get from you the definition—we use these terms "waste," "fraud," and "abuse" pretty loosely, and I am not ever quite sure what people mean.

How do you define "fraud" in a fraudulent case or a fraudulent collection of SSI?

Mr. HUSE. Fraud represents to us the law enforcement side of Social Security, a willful criminal intention to deceive the U.S. in obtaining this benefit. That is an abiding definition, a definition that we apply in implementing all of our enforcement activities.

Waste and abuse are other things, but fraud means that you commit a crime. Now, sometimes that crime may be administrative in nature because it doesn't fulfill prosecutorial parameters, but, nevertheless, it means that there is a willful intention to deceive.

Mr. MCDERMOTT. By the recipient.

Mr. HUSE. By the intended recipient.

Mr. MCDERMOTT. Okay.

Mr. HUSE. It does not mean someone who accidentally, because of an impairment, obtains a benefit and then gets on the rolls or forgets to make a report and a change of standards. Those considerations and judgments are made daily over and over again by the people who administer these sanctions. Believe me, some of the reasons these sanctions may appear to be low is because those are fairly rendered every day. That is part of our process to assure that that kind of review occurs.

Mr. MCDERMOTT. What percentage of the money that we are talking about here is related to fraud, that is, willful deception of the department?

Mr. HUSE. In terms of recovering overpayments and debt——

Mr. MCDERMOTT. Yes, or estimate how much is out there. I mean, I don't—any frame you want to use.

Mr. HUSE. We have spent a lot of time and effort trying to determine what the universe of fraud is in Social Security, and it is very difficult to do. What we are really left with at this juncture is a record of what we have determined from our actual investigative activities.

We would be glad to try and break some of that down for you, that data. I don't have that at my fingertips right now.

Mr. MCDERMOTT. What I am trying to figure out here is the interface between fraud and this complexity question which people get back and forth on.

Mr. HUSE. That is a very good——

Mr. MCDERMOTT. So, I don't know whether we are here about tightening up the screws on people who are willfully breaking the law, or are we here to really talk about how to rewrite this law to be a little more——

Mr. HUSE. You are talking about both, because both is part of the—that is——

Mr. MCDERMOTT. You think the fraud part needs to be tightened as well.

Mr. HUSE. Absolutely. There is fraud involved here. There is under-resourcing involved here in terms of the Administration.

Mr. MCDERMOTT. Under-resourcing means we haven't given you enough money for administrative personnel?

Mr. HUSE. No. It means that the workload and administering the workload in terms of what it costs to administer the system and what the real day-to-day activities are results in places where this is way beyond what was ever intended.

Let me give you an example. The Agency stated that about 20 percent of its resources are involved in the Administration of SSI. If you add in disability, which is closely linked to the SSI benefit, you are talking about 75 to 80 percent of the administrative resources of Social Security Administration are tied up in the combination of those two benefits, which is only $34 or $35 billion of an agency whose outlays are close to $400 billion a year. That is an upside down situation that begs some analysis. There is fraud in there, and there is also other complex problems.

Mr. MCDERMOTT. Let me get an answer from these two other——

Mr. ROBERTSON. I just wanted to jump in for a minute and comment that the question you have is a terrific question because it gets you to the very heart of what is the fix to the problem. Is it intentional fraudulent type of activity that is creating these overpayments? Is it unintentional? What are the proportions for these type of overpayments?

So, your question is a very important one. All we have in terms of data at this point in time is just the gross figure of the overpayments and how they have gone over the last few years.

I would say that if you are looking at simplification, you are really possibly getting to correction of both types of errors, intentional and unintentional. This doesn't take a rocket scientist, but basically the more complex rules you have in a program, the easier it is to make a mistake, either intentionally or unintentionally. So, I just wanted to say that the simplification aspect or the simplification route gets you to addressing both the problems.

Mr. YOUNG. Real quickly, our position is that an overpayment doesn't equal fraud or abuse. Sometimes, it is just the mechanics of the program working.

Mr. DAUB. I think a simple example is living arrangements. It is so complex to make the judgment that the beneficiary, the recipient, doesn't know that someone moving in or out of the household changes dramatically their benefit and they should report it. It is just too complex for anyone normally to understand it. If you took this report from May 2000, 2001, or 2002 and read the first 20 pages, which is the annual report on SSI, and looked at the first 20 pages on just the summary of the rules, it is very hard for a determiner to decipher how to make the judgment, let alone for a beneficiary to know that they made a mistake.

Mr. YOUNG. The SSA staff don't get credit in their work performance for doing these kinds of retrospective payment adjustments and things like that. So, they don't take the time to do the good job.

Mr. DAUB. There is one last point, and it is time. If that well-trained examiner has the time to work on the case and isn't hurried along, the quality of that result and the care for that applicant is going to be much better. So, there is a personnel staffing problem here that can't be addressed simply by computer software and computer alerts. The disability determination cannot be made by a computer. It should not be skirted. A personnel manning level and a management oversight process must be measured to give SSA staff enough time on the front end. I am afraid we are not focusing on that enough.

Mr. HUSE. Which, if I might be permitted——

Mr. MCDERMOTT. If you would.

Mr. HUSE. Brings us to the effort I spoke to in my testimony, not only by the President's management initiatives but this work group that has been created in the Chief Financial Officer community and the Inspector General community to deal with the government-wide issue of improper payments and, narrowly, these improper payments at the Social Security Administration. If we were able to establish these integrity funds that would be a resource that we could draw on, that fund would be created by the collection activities of our focus on fraud, and it would enable us to buy the resources that we need to tackle this problem. At that point someday we would be able to come up here and answer what the universe of fraud is.

Mr. MCDERMOTT. Did I catch your statistics that it was 70 percent of the enforcement money is spent on about 10 percent of the actual——

Mr. HUSE. Administrative money.

Mr. MCDERMOTT. Administrative money.

Mr. HUSE. Right.

Mr. MCDERMOTT. Administrative money.

Mr. HUSE. That is correct.

Mr. MCDERMOTT. The $43 billion that goes into the SSI program gets 70 percent of the administrative money in Social Security.

Mr. DAUB. The Social Security Administration's budget is about $7.6 billion, and about two-thirds, more than $5 billion, of that is spent on disability and SSI.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Chairman HERGER. The time has expired by about 4 minutes and 31 seconds, but this is very important, and even an extra 4½ minutes really isn't nearly enough to get into this. I do thank you for your testimony. We do have a vote going on now, but I would like to just finish up this hearing.

Mr. Daub, in your statement on the SSI program that you included in your testimony on page 2 and in the annual report you state that, "A number of Agency employees have told the Board that many SSI claims are currently being paid based largely on allegations." That is a pretty serious charge.

Mr. DAUB. Yes.

Chairman HERGER. I would be interested in your thoughts and what you feel should be done about this.

Mr. DAUB. It is an ultimate issue of time to verify information that the examiner is given. It is as simple as that. The staff would tell you—we have had field hearings all over the country—that it is a process of looking at it and knowing that probably the information could not be true, but just not having time to go verify it.

Chairman HERGER. Thank you, Mr. Daub.

Mr. Young, a question for you. I note that one of your duties is representing a task force on work incentives. You state on page 1 of your testimony that the SSI program "provides strong encouragement to beneficiaries to work if they are able." That is not a view that I commonly hear, and I would be interested in what some

of those incentives are in your view, and how many recipients are actually working?

Mr. YOUNG. It is one of the best kept secrets at Social Security, SSI, that there are these work incentives built into the program. The one-for-two earnings offset in the program is a wonderful encouragement for people to work to the greatest extent of their ability because it rewards work every step of the way.

It would be better if the offsets were raised through the Modernization Act, but it is still a good encouragement.

The 1619 (a) and (b) programs in Medicaid that come with SSI entitlement that allow people to keep their health coverage when they go to work are critically important to people with severe disabilities as they explore the work world.

I don't have at my fingertips statistics on working. I can get those for you. I would be happy to supply them. We try and get this information out to SSI beneficiaries every chance that we get, that they have this opportunity to explore work and to get off benefits.

[The information follows:]

Consortium for Citizens with Disabilities
Washington, DC 20006
February 10, 2003

The Honorable Wally Herger, Chairman
Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Herger:

During the hearing on SSI Fraud and Abuse held on July 25, 2002, you inquired regarding the work incentives available to SSI beneficiaries, and the number of SSI beneficiaries who used these work incentives. In my response, I indicated that I would provide more information in writing after the hearing. According to the March 2002 "SSI Disabled Recipients Who Work" published by SSA, "The number of SSI disabled recipients who work doubled between 1987 and 2001, from 173,000 to 347,000. Initially, the number of participants under sections 1619[a] and 1619 [b] were approximately equal. However, participation under section 1619[b] gradually increased to five times the initial total, and it now exceeds participation under section 1619[a] by three to one. The number of working recipients not participating under either of these provisions has increased by almost 75 percent."

Other SSI work incentives include Plan for Achieving Self-Support [PASS] that allows an SSI recipient to accumulate assets beyond the limits of the program if those assets are used for setting up a business, education or other approved purpose to move to independence. Again, according to that SSA statistical report, some 1650 people nationwide were using PASS plans in March 2002. Additional work incentives for SSI beneficiaries include Impairment-related work expenses [IRWEs] and Blind work expenses [BWEs]. According to SSA's stats, 8441 people were using IRWEs and 3566 people were using BWEs during that quarterly reporting period.

The attached document, prepared by SSA's Office of Research, Evaluation and Statistics, contains additional data.

Thank you for this opportunity to provide comment on these issues. I would be happy to respond to any further questions.

Sincerely,

Tony Young
Chairperson,
Social Security and Work Incentives Task Forces

E. INCENTIVES FOR WORK AND OPPORTUNITIES FOR REHABILITATION

1. Work Incentives

Since the beginning of the **SSI** program, a number of **disabled recipients** have **worked** and received **SSI** payments. Initially, the program contained a basic earned income exclusion that recognized the additional costs associated with **employment.** In addition, the law contained a number of special income exclusions which were intended as **work** incentives. Among these provisions were the income exclusion for blind work expenses (BWE), plans for achieving self-support (PASS), and student earned income exclusion (SEIE).

In the 1980 amendments to the Social Security **Act**, Congress provided additional incentives to help **SSI disabled recipients** become self-supporting. These incentives included:

- Providing for an earned income exclusion for impairment-related work expenses (IRWE);
- Changing the treatment of sheltered workshop earnings from unearned income to earned income, thereby qualifying sheltered workshop earnings for the earned income exclusion;
- Providing for the continuation of **SSI** payments for certain **disabled** individuals enrolled in vocational rehabilitation programs whose disability ceased due to medical recovery (extended to **SSI** blind **recipients**, effective April, 1988);
- Establishing section 1619 which provided:
- In subsection 1619(a), special **SSI** cash benefits to **disabled** individuals who lose eligibility for **SSI** payments because they have earnings exceeding the level that is ordinarily considered to represent substantial gainful activity (SGA), and
- In subsection 1619(b), special **SSI recipient** status for Medicaid purposes to working **disabled** or blind individuals when their earnings make them ineligible for cash payments.

The incentives for **work** and opportunities for rehabilitation are discussed in more detail in section In the tables that follow we provide historical information on participation by **SSI recipients** in **work** incentive programs.[1]

a. Numbers of Participants in Work Incentive Programs

In this section, we present historical data on participation by **SSI recipients** in **work** incentive programs. Table presents historical numbers of **SSI recipients** categorized according to their section 1619 status. Figure V.E1 presents the same information in graphical form.

Table V.E1.—**SSI** Federally Administered Blind or **Disabled** Working **Recipients** as of December, 1987–2001

Year	In current-payment status		1619(b) workers [3]	Total workers
	1619(a) Workers [1]	Other workers [2]		
1987	14,559	142,664	15,632	172,855
1988	19,920	153,599	15,625	189,144
1989	25,655	161,928	18,254	205,837
1990	13,994	182,421	23,517	219,932
1991	15,531	186,824	27,264	229,619
1992	17,603	199,665	31,649	248,917
1993	20,028	210,322	35,299	265,649

[1] More detailed information on participation by **SSI recipients** in **work** incentive programs is provided in the *Quarterly Report on **SSI Disabled** Workers and **Work** Incentive Provisions* prepared by the Office of Research, Evaluation and Statistics, Social Security Administration.

Table V.E1.—**SSI** Federally Administered Blind or **Disabled** Working **Recipients** as of December, 1987–2001—Continued

Year	In current-payment status		1619(b) workers [3]	Total workers
	1619(a) Workers [1]	Other workers [2]		
1994	24,315	217,478	40,683	282,476
1995	28,060	223,573	47,002	298,635
1996	31,085	225,310	51,905	308,300
1997	34,673	228,093	57,089	319,855
1998	37,271	229,662	59,542	326,475
1999	25,528	245,825	69,265	340,618
2000	27,542	249,313	83,572	360,427
2001	22,100	247,555	76,455	346,110

[1] In January, 1990, the SGA level was raised from $300 to $500 and section 1619(a) participants with earnings at or below $500 became eligible for regular **SSI** benefits rather than the special cash payments under section 1619(a). The SGA level was further increased to $700 in July 1999, $740 in January 2001, and $780 in January 2002. Increases in the SGA level in subsequent years will be based on increases in the national average wage index.

[2] Workers' earnings are at or below the SGA level.

[3] 1619(b) **recipients** are not in current-payment status but retain **SSI recipient** status for Medicaid purposes.

Note: Totals do not necessarily equal the sums of rounded components.

Figure V.E1.—**SSI** Federally Administered Blind or **Disabled** Working **Recipients** as of December, 1987–2001

[In thousands]

Table V.E2 presents historical numbers of **SSI recipients** who benefit from other selected **work** incentive provisions: (1) plan for achieving self-support (PASS), (2) impairment-related **work** expense exclusion (IRWE), and (3) blind **work** expense exclusion (BWE). These **recipients** may be benefiting from more than one of these selected **work** incentive provisions. This information is available only for calendar years 1990 and later.

Figure V.E2.—**SSI** Federally-Administered Blind or **Disabled** Individuals with **SSI Recipient** Status Participating in Other **Work** Incentives as of December, 1990–2001

Year	PASS [1]			IRWE	BWE
	Non-workers	Workers	Total		
1990	1,215	1,040	2,255	5,384	4,385
1991	1,969	1,601	3,570	6,546	4,330
1992	3,189	2,658	5,847	7,813	4,454
1993	4,528	3,602	8,130	8,629	4,406
1994	5,842	4,487	10,329	9,484	4,380
1995	5,719	4,603	10,322	9,940	4,433
1996	2,760	1,944	4,704	9,799	4,230
1997	1,290	708	1,998	9,637	4,116
1998	712	362	1,074	9,301	3,802
1999	698	347	1,045	9,520	3,971
2000	862	520	1,382	9,422	3,895

Figure V.E2.—**SSI** Federally-Administered Blind or **Disabled** Individuals with **SSI Recipient** Status Participating in Other **Work** Incentives as of December, 1990–2001

Year	PASS [1]			IRWE	BWE
	Non-workers	Workers	Total		
2001	1,051	549	1,600	8,798	3,642

[1] For years 1990 through 1996, data do not include PASS plans which exclude only resources.

Note: Working **recipients** participating in these other **work** incentives may be 1619(a) recipients, 1619(b) **recipients** or working **recipients** whose earnings are at or below the SGA level.

b. Average Earnings of Participants in Work Incentive Programs

In this section, we present historical data on average earnings of **SSI** working **recipients**. Table V.E3 presents average earnings of **SSI recipients** categorized according to their section 1619 status.

Table V.E3.—Average Monthly Earnings of **SSI** Federally-Administered Blind or **Disabled** Working **Recipients**, as of December, 1987–2001

Blind or disabled workers with SSI recipient status				
Year	In current-payment status		1619(b) workers [3]	Total workers
	1619(a) workers [1]	Other workers [2]		
1987	$494	[4] $124	$739	[4] $211
1988	522	[4] 127	721	[4] 218
1989	518	[4] 131	712	[4] 231
1990	712	145	746	245
1991	724	148	780	262
1992	726	150	781	271
1993	728	153	784	280
1994	746	157	803	301
1995	754	160	834	322
1996	764	162	881	344
1997	772	164	932	367
1998	772	182	954	390
1999	926	207	980	418
2000	945	239	1,048	481
2001	1,004	252	1,043	475

[1] In January, 1990, the SGA level was raised from $300 to $500 and section 1619(a) participants with earnings at or below $500 became eligible for regular **SSI** benefits rather than the special cash payments under section 1619(a). The SGA level was further increased to $700 in July 1999, $740 in January 2001, and $780 in January 2002. Increases in the SGA level in subsequent years will be based on increases in the national average wage index.

[2] Workers' earnings are at or below the SGA level.

[3] 1619(b) **recipients** are not in current-payment status but retain **SSI recipient** status for Medicaid purposes.

[4] Estimated.

2. Vocational Rehabilitation/Ticket to Work Program

Since the inception of the **SSI** program, SSA has made provision for blind or **disabled** individuals who are receiving **SSI** benefits to be referred to State Vocational Rehabilitation (VR) agencies. The 1980 amendments provided for the continuation of **SSI** payments for certain **disabled** individuals enrolled in VR programs whose disability ceased due to medical recovery. This benefit continuation provision applied only if the VR program was approved by SSA and SSA determined that continuation or completion of such program would increase the likelihood that the individual will be permanently removed from the **SSI** rolls. This provision was extended

to **SSI** blind **recipients** effective April, 1988. In 1994, regulations were amended to provide access to alternate private and non-State public VR providers when a State VR agency does not serve an **SSI recipient** whom SSA refers for services.

From the beginning of the **SSI** program through 1981, SSA made block grants to VR agencies to fund services to **disabled** beneficiaries. The 1981 amendments established reimbursement provisions so that VR agencies would be reimbursed for the cost of VR services furnished to blind or **disabled SSI recipient**s only if the services result in the **recipient** returning to **work**. The 1984 amendments authorized reimbursement in other circumstances.[2] In 1994, these reimbursement procedures were amended by regulation to include reimbursement of alternate providers. For reimbursement purposes, **recipients** are considered to have returned to **work** if they have had earnings exceeding the SGA level for 9 continuous months. Effective with the 1990 amendments, reimbursement for the cost of VR services was authorized for services provided in months in which the individual was not receiving federal **SSI** benefits if the individual:

- Had special **SSI recipient** status for Medicaid purposes under section 1619(b) of the Social Security **Act**,
- Received a federally-administered State supplementary payment, or
- Had **SSI** benefits suspended for fewer than 13 consecutive months for a reason other than cessation of disability or blindness.

The Ticket to **Work** and **Work** Incentives Improvement **Act** of 1999 ("the Ticket legislation") established a Ticket to **Work** and Self-Sufficiency program (Ticket to **Work** program) under which a **disabled** beneficiary may obtain vocational rehabilitation, **employment** and other support services from a qualified private or public provider. Providers of such services in this new setting are referred to as "**employment** networks" (ENs). In addition, the Ticket legislation provided for a new procedure for compensating the ENs under an outcome or outcome-milestone payment system to be specified under regulations issued by the Commissioner. By expanding the pool of providers and giving the providers incentives for achieving success, this program seeks to expand a **disabled** beneficiary's access to these services in order to assist the beneficiary in finding, entering, and retaining **employment** and reducing his/her dependence on cash benefits.

The Ticket to **Work** program is being implemented on a State-by-State basis and will be in operation nationwide by January 2004. Once the Ticket to **Work** program is implemented in a State, the traditional VR referral process described earlier will be eliminated in that State, and SSA will provide eligible individuals who receive **SSI** benefits due to blindness or disability in such State with a Ticket to **Work** document ("ticket"). These individuals may use the ticket to obtain the vocational rehabilitation services, **employment** services and other support services needed to return to **work**, or **go** to **work** for the first time. Individuals not eligible for a ticket may still request services from a State VR agency, which must decide whether they are eligible for services under the Rehabilitation **Act** of 1973.

Until the Ticket to **Work** program is fully implemented, the State VR agencies and alternate providers under the traditional system can continue to receive compensation under the cost reimbursement system described above. However, once the Ticket to **Work** program is fully implemented only the State VR agencies will have the option on a case-by-case basis of electing to remain under the traditional VR compensation system. At that time, ENs will be the only other providers of VR services for **disabled** beneficiaries and will be compensated through the new outcome-based system.

Pursuant to the Ticket legislation requirement that SSA establish a corps of **work** incentives specialists to disseminate accurate information with respect to **work** incentives, SSA created and piloted the **Employment** Support Representative (ESR) position. During the pilot, ESRs provided information about SSA's **employment** support programs to (1) **disabled** beneficiaries who want to **work**, (2) applicants for disability benefits and their families, (3) providers of vocational rehabilitation and **employment** support services, and (4) potential employers. SSA is considering how best to implement the results of the pilot experience.

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[2] Reimbursement may be made in cases where the **recipient** medically recovers while engaged in a program of rehabilitation services approved by SSA and SSA determines that continuation or completion of such program increases the likelihood the individual will be permanently removed from the rolls.

Table V.E4 provides historical data on the number of reimbursement claims allowed and the amount of such awards for **SSI recipients**.

Table V.E4.—Vocational Rehabilitation Reimbursement Claims Allowed, Fiscal Years 1987–2001

Fiscal year	Concurrent title II/XVI claims		Title XVI only claims		Total claims	
	Number	Amount [1] (in thousands)	Number	Amount [1] (in thousands)	Number	Amount [1] (in thousands)
1987	[2]	[2]	1,493	$10,010	[2]	[2]
1988	[2]	[2]	1,720	14,831	[2]	[2]
1989	[2]	[2]	1,871	18,366	[2]	[2]
1990	1,267	$3,290	2,819	22,832	4,086	$26,122
1991	1,445	4,325	2,171	20,615	3,616	24,940
1992	1,634	5,312	2,834	28,276	4,468	33,588
1993	1,928	6,670	2,158	22,264	4,086	28,934
1994	1,880	7,057	2,074	23,400	3,954	30,457
1995	2,140	7,761	2,229	26,402	4,369	34,162
1996	2,033	6,518	2,138	24,334	4,171	30,852
1997	2,735	8,541	2,914	31,532	5,649	40,073
1998	3,329	10,089	3,446	36,313	6,775	46,402
1999	3,572	11,403	4,046	42,281	7,618	53,684
2000	3,260	11,357	3,589	40,793	6,849	52,150
2001	2,388	9,590	2,763	34,842	5,151	44,432

[1] For concurrent title II/XVI claims, amounts shown represent title XVI portion of claim.
[2] For fiscal years 1987–89, data on title II reimbursement claims involving concurrent title XVI reimbursement claims are not available.
Note: Totals do not necessarily equal the sums of rounded components.

Chairman HERGER. Good. Thank you very much, Mr. Young.

Then, finally, Mr. Huse, what are the most important actions in your opinion that SSA could take to significantly improve the integrity of the SSI program? What are the most important steps that you feel that Congress can take to help SSA improve integrity of the SSI program?

Mr. HUSE. Do you want——

Chairman HERGER. Excuse me. Mr. Huse, yes.

Mr. HUSE. It was a battle here between GAO and the IG's office.

Mr. ROBERTSON. I will be glad to add my 2 cents, Mr. Chairman.

Chairman HERGER. I am sure you would.

[Laughter.]

Chairman HERGER. Mr. Huse?

Mr. HUSE. Which oversight entity do you want?

Actually, I think the Congress could help us with this integrity fund, and I think there is some interest in that here that we have heard of. Being able to have the funds to build both the enforcement and the administrative mechanisms necessary to put integrity in this program, a key step.

Second step, we have to deal with the complexity of the program because it makes the complexity very difficult.

To correct my comment, 70 percent of the administrative dollars of Social Security Administration go to the Administration of SSI and Disability Insurance, and those two together represent only 25 percent of the outlays of Social Security. I think in that there is an awful lot to make my point. Fix the complexity and give us these resources in terms of—we will pay you back, I believe the Agency said $10 for every $1 invested in that. I think that is pretty accurate.

Mr. DAUB. Maybe the program cap issue raised by our colleague on the panel is equally worthy of consideration by the Subcommittee as is the integrity fund. The offset on integrity funding may be like a police officer who is given a quota to go out and give so many tickets and, therefore, goes out and just writes more tickets when he needs more money. I worry a little bit about that. It still has merit, but the cap would give the Commissioner flexibility to move personnel around.

Chairman HERGER. That is very good. Mr. Robertson, would you like to comment as well?

Mr. ROBERTSON. Yes, this will give me one last time to pitch the simplification. Just as a general comment, in terms of what Congress can do to help SSA, we have talked today about a pretty good success story of what has happened in the past in terms of you folks cooperating with and helping SSA to get the tools that it needed to do a better job to mitigate fraud, waste, and abuse in the SSI program. I am not sure if there is any—at least from our perspective—any burning issues in terms of real quick congressional actions needed beyond the tools that they have got now. They need to use some of the tools a little bit more.

Actions may come up, as SSA, I hope, looks toward simplifying the program rules and the program regulations and the program policies. That could be another time where we need to see the cooperation between the Congress and SSA as they look toward simplifying the program a little bit more.

Chairman HERGER. Very good, and I want to thank each of the members of our panel for testifying on this very important issue. I look forward to working with you and the members of the Subcommittee to improve the integrity of the SSI program. I trust that you will continue to provide us with information, including answering additional questions for the record we may have.

With that, the hearing stands adjourned. Thank you.

[Questions submitted from Chairman Herger to the panel, and their responses follow:]

Social Security Administration
Office of the Inspector General
Baltimore, Maryland 21235
August 13, 2002

The Honorable Wally Herger
Chairman, Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives
Washington, DC 20515

Dear Mr. Herger:

In response to your July 29, 2002 letter, the Social Security Administration, Office of the Inspector General, is pleased to provide you the requested information regarding the integrity of the Supplemental Security Income (SSI) program.

1. Please provide additional information about the proposal to create an "integrity fund" made of program savings that could be used to strenghten efforts to reduce waste, fraud, and abuse. Please describe who would control this fund and what amounts would go into and out of it.

Answer:

PROPOSAL TO CREATE AN INTEGRITY FUND OF PROGRAM SAVINGS

Recently, the President and Congress have expressed interest in measuring the universe of improper payments within the government. In August 2001, the Office of Management and Budget (OMB) published *The President's Management Agenda, fiscal year 2002*, which includes a government-wide initiative for improving financial performance. Under this initiative, the Administration will establish a baseline of the extent of erroneous payments and require agencies to include in their Fiscal Year (FY) 2003 budget submissions information on erroneous payment rates, including actual and target rates, where available, for benefit and assistance programs over $2 billion. Using this information, OMB will work with agencies to establish goals to reduce erroneous payments for each program. On July 17, 2001, OMB issued Circular A–11[1] to federal agencies to assist them in preparing their Fiscal Year (FY) 2003 budget submissions.

In October 2001, the General Accounting Office (GAO) issued an executive guide on *Strategies to Manage Improper Payments*. GAO defined improper payments as payments that should not have been made or that were made for incorrect amounts. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, payments for services not rendered, payments to ineligible beneficiaries, and payments resulting from fraud and abuse by program participants and/or federal employees. GAO further stated that improper payments occur for many reasons, including insufficient oversight or monitoring, inadequate eligibility controls and automated system deficiencies. The risk of improper payments increases in programs with (1) a significant volume of transactions, (2) complex criteria for computing payments, and/or (3) an overemphasis on expediting payments.

To address the issues raised by the President's Management Agenda on improving financial performance, the Chief Financial Officer Council and the President's Council on Integrity and Efficiency established a work group to benchmark methods to reduce or eliminate, where possible, improper and erroneous payments made by federal agencies.

Specifically, the work group plans to propose that legislation be enacted to authorize—for all Federal Departments, agencies and Offices of the Inspector General (OIGs)—a percentage of actual collections of erroneous payments be used to fund activities to prevent, detect and collect erroneous payments. This legislation would establish permanent indefinite appropriations—subject to apportionment by OMB—available to each Department, agency and OIG. Funding of these accounts would be based on a percentage of actual collections. For example, each Department or agency could be authorized to expend up to 22.5 percent, and each OIG up to 2.5 percent, respectively, of actual collections. Further, Departments, agencies and OIGs would report on how these monies were used to prevent, detect, and collect erroneous payments as part of the reports required under the Reports Consolidation Act of 2000 (Accountability Reports) and the Inspector General Act 1978 (Semiannual Reports to Congress). The OIG fully supports the development of this legislation and the work group's efforts. In fact, we propose the creation of an integrity fund built on program dollar savings that this fund could provide resources to strengthen efforts to reduce fraud, waste and abuse.

2. What efforts has the IG made to ensure that individuals who are not residing in the U.S. do not claim SSI benefits? How does automatic deposit of benefits affect this concern?

Answer:

[1] *Transmittal Memorandum No. 74, Subject: Preparing and Submitting Budget Estimates, part 1, subpart III, section 57*, dated July 17, 2001 and revised November 8, 2001.

Efforts To Ensure Only Individuals Residing in the United States Claim SSI Payments

Since early in our existence as an OIG, we have conducted numerous special investigative projects and audits to review United States (U.S.) residency issues for SSI recipients. For example, in 1997, we conducted the Southwest Tactical Operations Plan, a U.S.-Mexico border pilot in El Paso, Texas. This project identified 153 SSI recipients who were ineligible because they were not U.S. residents. Also, in May 1997, we issued a report recommending procedural improvements for the Social Security Administration (SSA)—including expanded use of private contractors to conduct home visits of suspected nonresidents.[2] Further, in May 2001, we reviewed the effectiveness of SSA's New York Project based on nonusage of Medicaid. This report contained six recommendations to improve SSA's detection of nonresident SSI recipients.[3]

SSA's Controls to Identify Nonresidents Receiving SSI Payments

Section 1614(a)(1)(B) of the Social Security Act requires that to be eligible for SSI payments an individual must be a resident of the United States. Additionally, section 1611(f) of the Social Security Act states that no individual shall be considered eligible for SSI payments for any month throughout which the individual is outside the United States. This prohibition also applies to recipients in Puerto Rico and the Virgin Islands. The only exemptions to collecting SSI payments while outside the United States are for:

- certain students temporarily studying abroad and
- blind or disabled children of military families stationed overseas.

Once SSI payments are suspended for being outside the United States, SSI recipients must be back in the United States for 30 consecutive days before SSI payments resume.[4]

SSA has the following controls in place[5] to identify SSI recipients outside of the United States:

- foreign address alert process for concurrent beneficiaries and
- various special projects or studies.

Foreign Address Alert Process for Concurrent Beneficiaries

If an individual concurrently receives both SSI and Old-Age, Survivors and Disability Insurance (OASDI) benefits, and the OASDI record shows an address outside the United States, SSA's systems generate a foreign address alert.[6] This alert notifies the appropriate SSA field office (FO) that the SSI recipient may be outside the United States, and therefore, ineligible for SSI payments. The FO is responsible for investigating the alert to determine whether the SSI payments should be suspended.

SSA's alert process is based only on the OASDI address information—not on direct deposit data. As a result, if OASDI payments are made via direct deposit to a bank outside the United States but the beneficiary's address is in the United States, an alert would not be generated.

Projects to Identify SSI Recipients Outside the United States

SSA has initiated a number of special studies and projects over the years to identify and prevent SSI payments to recipients living outside the United States. These projects—some of which were conducted jointly with the OIG—have improved SSA's controls to prevent SSI payments to recipients outside the United States. The following table describes some of these projects.

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[2] SSA OIG report, *The Adequacy of the Residency Verification Process for the Supplemental Security Income Program* (A–06–96–62001), May 1997.

[3] SSA OIG report, *Effectiveness of the Social Security Administration's Special Project Reviews of Supplemental Security Income Recipients* (A–09–99–62010), May 2001.

[4] Program Operations Manual System (POMS), section SI 00501.410.

[5] SSA also compares Immigration and Naturalization Service applications (Form I–131) for aliens leaving the United States to its payment records.

[6] In November 2001, SSA expanded the alert process to include OASDI addresses in Puerto Rico.

PROJECT	RESULTS
Southwest Tactical Operations Plan[7] (STOP)	We initiated STOP to determine whether individuals were receiving SSI payments based on fraudulent statements regarding residence in the El Paso, Texas area. As a result of this project, we estimated that SSA could recover in overpayments—and save through cessation of payments—$2.9 million projected over a 5-year period. This project also developed characteristics to assist SSA in identifying SSI claimants with questionable residency status.
New York Project	This project was initiated in the New York region to address residency errors and consisted of foreign— and U.S.-born recipients who had not used Medicaid services for at least 15 months. As a result of this project, SSA determined that (a) 20 percent of foreign born SSI recipients had periods of ineligibility due to being outside the United States and (b) 0.2 percent of U.S.-born recipients had payment errors because of U.S. absences. This project in New York—and its expansion into New Jersey—identified $13.6 million in SSI overpayments. This led to additional projects being initiated in other States nationwide.
Address Verification Project	This project was initiated in the New York region to determine the current residence of concurrent beneficiaries who have addresses in Puerto Rico on their Master Beneficiary Records and addresses in the United States on their Supplemental Security Records. Of the 259 cases completed, 205 were suspended, and overpayments of $262,391 were identified. SSA's expansion of the foreign address alert process to include Puerto Rico—which was implemented in November 2001—was a result of this project.
Operation Border Vigil	This project was established to identify suspect claims at selected foreign sites. Specific projects involved the following foreign countries: Panama, Canada, Poland, the Republic of Yemen, Costa Rica, and Mexico. In January 1998, results showed savings of $89,057.
The Adequacy of the Residency Verification Process for the SSI program	This project was conducted by SSA's Chula Vista, California, office in conjunction with the OIG. This project found that 110 of 233 recipients were living outside the United States—or could not be located—and had their SSI payments suspended. We recommended that SSA revise its procedures to provide for expanded residency development.

In addition to the projects listed above, we recently conducted an audit of *Controls to Prevent Supplemental Security Income Payments to Recipients Living in Foreign Countries* (A–01–02–12013). Our review found that SSA has controls in place to prevent SSI payments to beneficiaries who have addresses outside the United States—including addresses in Puerto Rico. However, improvements could be made to enhance SSA's efforts in this area. While the errors identified during our audit were a small percentage of the total payments SSA makes to SSI recipients, we believe SSA can improve controls in this area, without expending significant Agency resources. We recommended that SSA modify its alert process to include (1) SSI payments direct deposited to banks in Puerto Rico and the Virgin Islands and (2) concurrent beneficiaries with OASDI benefits direct-deposited into banks outside the United States.

[7] SSA OIG report, *Southwest Tactical Operations Plan: Lessons Learned* (A–06–97–22010), December 1997.

[1] This statutory exclusion is found in 42 U.S.C. § 1382b(a)(2)(B) and the accompanying regulations contained in 20 C.F.R. § 416.1231.

Automated Teller Machine Withdrawals

While performing the audit described in the preceding paragraph, we explored the idea of examining automated teller machine (ATM) withdrawal records. Such records could be used to identify SSI recipients receiving their payments by direct deposit in a U.S. bank account, but who may be living in a foreign country and withdrawing their benefits from ATM machines outside the United States. However, we could not include ATM records in our audit tests because the Right to Financial Privacy Act of 1978 protects against disclosure of personal financial records held by banks, except under subpoena.

SSA submitted a proposed rule, *Access to Information Held by Financial Institutions,* to OMB in January 2002. This proposed rule would enhance SSA's access to bank account information of SSI applicants and recipients. Specifically, section 213 of the Foster Care Independence Act of 1999 (Public Law (P.L.) 106–169) amended section 1631(e)(1)(B) of the Social Security Act to grant the SSA Commissioner new authority with respect to verifying financial accounts. The rule submitted to OMB proposes to grant SSA permission to contact financial institutions a condition of SSI eligibility. This would allow SSA to ask financial institutions for information when it thinks it is necessary to determine SSI eligibility. If this proposed rule is approved, it may allow SSA and/or the OIG to obtain and analyze ATM withdrawal records for SSI recipients with direct deposit in U.S. banks.

To date, we have not been able to obtain ATM withdrawal records to test for SSI nonresidency. However, we plan to continue our work to ascertain whether ATM information can be obtained and used as a tool to identify SSI recipients who may be ineligible for payments.

3. The report entitled "Major Accomplishments of the SSA's OIG, April 1996 through September 2000," cites almost $6 billion in "monetary accomplishments" for the IG office in recent years.

1995	**$39 million**
1996	**$124 million**
1997	**$767 million**
1998	**$2,449 million**
1999	**$817 million**
2000	**$1,651 million**
Total	**$5,847 million**

Please break down the policies and programs that are most attributable to these achievements.

Answer:

RECENT OIG MONETARY FINDINGS

Since the OIG was established in 1995, our work has resulted in significant monetary findings—almost $6 billion in savings, potential cost avoidance and inaccurate payments. For example, recent OIG audit and investigative work in the areas of workers' compensation (WC), fugitive felons, prisoners, student beneficiaries, and individuals with drug and alcohol addictions has raised numerous concerns about data integrity and challenges associated with depending on self-reporting of beneficiary information.

Below, we have noted by FY where the Agency could achieve significant cost avoidance, potential savings and opportunities to improve payment accuracy. In addition, we have performed many reviews of SSA's business processes that did not result in monetary findings. For example, many of our reviews have recommended improvements in SSA's enumeration process, earnings reporting activities, and financial and performance management. The table below provides an overview of our monetary findings. For additional details and Agency responses to the reports that contributed significantly to these findings, please see appendix C in our report *Integrity of the SSI program* (A–01–02–22095) issued August 9, 2002.

FISCAL YEAR	MONETARY FINDINGS	PROGRAMS AND ACTIVITIES REVIEWED WITH SIGNIFICANT MONETARY FINDINGS
1995 *	$39 million	Field Office Workloads
1996	$124 million	SSI and OASDI Payments to Prisoners
1997	$767 million	SSI and OASDI Payments to Prisoners, Replacement Social Security number (SSN) Cards
1998	$2,449 million	Inconsistent Entitlement Periods in OASDI Program, Offset of Workers Compensation Payments
1999	$817 million	OASDI Benefits Based on Nonwork SSNs, OASDI Beneficiaries Attaining Age 18, Waived OASDI Overpayments
2000	$1,651 million	SSI and OASDI Benefit Payments to Fugitives, SSI Recipients with Income, Individuals with Drug Addiction and/or Alcoholism Impairments, Attorney Fees in OASDI Workers' Compensation Offset Cases
Total	**$5,847 million**	

*Reflects data from April 1 through September 30, 1995.

- **Payments to Prisoners**: The Social Security Act prohibits the payment of benefits to prisoners under both the OASDI and SSI programs. In FYs 1996 and 1997, we conducted two audits related to prisoners—*Effectiveness in Obtaining Records to Identify Prisoners* (A–01–94–02004), May 1996, and *Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments* (A–01–96–61083), June 1997. Our prisoner reviews found that the limited data received from Federal, State, and local correctional facilities resulted in improper payments to prisoners. As a result of these audits, (1) SSA pursued legislation (enacted in 1999) to make the prisoner suspension requirements under both programs consistent and (2) SSA's Chief Actuary estimated a cost avoidance of about $3.4 billion over 7 years.
- **Charging a Fee for Replacement Social Security Cards**: Our report *Canada's Experience in Charging a User Fee for Social Insurance Number Cards* (A–06–97–62003) was issued in May 1997. We assessed the feasibility of SSA charging a fee for replacement SSN cards based on a review of the Canadian government's experience in charging a user fee for replacement cards. Based on SSA's cost estimates for producing an SSN card, we estimated SSA should charge $13 for replacement cards. Through a combination of revenue generation and cost avoidance (assuming some individuals become more responsible with their cards), SSA could save approximately $142 million annually or $710 million over 5 years. Therefore, we recommended that SSA charge a fee for replacement SSN cards.
- **Inconsistent Beneficiary Entitlement Periods**: We assessed the program and financial impacts resulting from SSA's use of the common law definition of age attainment in our review, *Inconsistent Beneficiary Entitlement Periods* (A–09–97–21003), July 1998. Our review determined that current law had created two inconsistencies in SSA's OASDI program that cost SSA about $1.47 billion over a 5-year period. One inconsistency was that the criteria for determining the 1st month of entitlement to benefits varied depending on the type of beneficiary. The other inconsistency was that persons born on the 1st day of a month have different entitlement periods than persons born on other days of the same month.
- **Workers' Compensation Payments**: We conducted two WC reviews—*Effects of State Awarded Workers' Compensation Payments on Social Security Benefits* (A–04–96–61013), September 1998, and *Worker's Compensation Unreported by Social Security Beneficiaries* (A–04–98–64002), December 1999. Our reviews found that inaccurate OASDI benefit payments stemmed from (1) beneficiaries not voluntarily reporting changes in their WC status and benefits and (2) computational errors due to a lack of sufficient quality controls and emphasis on processing claims quickly to meet performance goals and backlogs. We estimated payment errors of $852.5 million—with the trust fund losing $599.5 million due to overpayments, but paying out $253 million in un-

derpayments—with a net effect of the Social Security trust fund losing an estimated $346.5 million. After our review, SSA conducted its own study and determined in FY 2000 that for a universe of 112,230 cases for the period 1966 through 1998, the total estimated prior and future error consists of $1.07 billion in underpayments and $261 million in overpayments.

- **Controls Over Nonwork SSNs**: Our report *Review of Controls over Nonwork Social Security Numbers* (A–08–97–41002), September 1999, analyzed (1) SSA benefits paid to beneficiaries under nonwork SSNs; (2) earnings reported for nonwork SSNs; and (3) whether SSA had adequate controls over the issuance of nonwork SSNs. Based on the results of our review, we estimated that, as of May 1998, unauthorized earnings associated with nonwork SSNs had cost SSA trust funds $287 million. If SSA continues to pay benefits based on unauthorized work, it may spend an additional $63 million per year of trust fund resources. Over the lifetimes of the nonwork SSN holders and their dependents, we estimated that unauthorized earnings associated with these nonwork SSNs may cost SSA's trust funds over $1.7 billion. We proposed legislation to prohibit the crediting of nonwork earnings for purposes of benefit entitlement. We believe that legislative and policy changes are essential to reducing the monetary impact that unauthorized earnings associated with previously issued nonwork SSNs may have on SSA's trust funds.
- **Benefits Paid to Student Beneficiaries After Reaching Age 18**: In our audit *School Attendance by Child Beneficiaries Over Age 18* (A–09–97–61007), September 1999, we found that student beneficiaries received incorrect payments. These incorrect payments occurred because SSA did not adequately monitor the beneficiaries' school attendance and relied on these individuals to voluntarily report events that affected their benefit status. We estimated that the incorrect and unsupported payments amounted to $73.9 million and $140.4 million, respectively.
- **Identification of Fugitives Receiving SSI Payments**: In August 1996, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104–193) amended the Social Security Act to prohibit SSI payments to fugitive felons. However, as a result of our August 2000 audit, *Identification of Fugitives Receiving SSI Payments* (A–01–98–61013), we estimated that fugitives were incorrectly paid at least $76 million in SSI payments from the date Public Law 104–193 took effect through the date we conducted our audit. Further, we estimated that SSA would continue to pay fugitives at least $30 million in SSI payments each year that State fugitive files were not used to prevent such payments.

Further details on the above audit reports and the full text of the reports are available on our web-site at http://www.ssa.gov/oig

Sincerely,

Hon. James G. Huse, Jr.
Inspector General

U.S. General Accounting Office
Washington, DC 20548
August 12, 2002

The Honorable Wally Herger
Chairman, Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives
Room B–317 Rayburn House Office Building
Washington, DC 20515–6351

Dear Mr. Chairman:

The enclosed information responds to your follow-up questions concerning our testimony before the Subcommittee on July 25, 2002. The enclosure restates each of your questions, followed by our answer. If you would like further information please contact me or Dan Bertoni, Assistant Director at (202) 512–7215.

1. Do you have an estimate of the total amount that has been saved by various efforts approved by this Subcommittee and signed into law going back to 1996 designed to prevent fraud and abuse?

Since the 104th Congress, a number of laws have been enacted to strengthen SSA's ability to better detect, deter, and recover SSI overpayments. The Debt Collection Improvement Act of 1996 gave federal agencies the authority to garnish wages of persons with outstanding debt. The Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998 gave SSA authority to reduce Title II retirement

and disability benefits of SSI debtors without their consent. As you are aware, the Foster Care Independence Act of 1999 also provided SSA with a variety of other tools to detect and recover SSI overpayments.

SSA does not routinely maintain data to document the combined savings derived from the various overpayment recovery initiatives implemented over the last several years. However, where data was available, our testimony documents program savings of hundreds of millions of dollars resulting from certain key initiatives, such as tax refund offsets, cross-program recovery, and increased data matching.

2. You indicate that in 2001 outstanding SSI debt and newly detected overpayments totaled $4.7 billion.

a. How long has that debt been on the books?

We have not analyzed the age of the SSI debt. However, outstanding overpayments can be carried forward for many years before recovery efforts cease. Recovery efforts from former recipients may be discontinued when SSA is unable to locate them or determines that they are unwilling or unable to repay the debt. The debt remains on SSA's accounting records and recovery may occur if the former recipient subsequently establishes eligibility for benefits.

b. How much can SSA be reasonably expected to recover?

There is no consistent data maintained by SSA on the extent to which it recovers outstanding SSI debt. However, with the implementation of new overpayment recovery tools over the next several years, SSA's ability to recover SSI overpayments should be enhanced.

c. How has that figure changed over time?

SSA does not routinely track information on the portion of overpayments recovered. Thus, data does not exist to identify changes in SSI recovery rates.

d. What would be the most effective ways of recovering these funds?

The most effective way for SSA to recover overpayments is to reduce benefit payments made to SSI recipients who continue to receive benefits. Thus, it is important that SSA continue to strengthen its ability to use computer matching and other automated tools to prevent and quickly detect overpayments before recipients leave the rolls.

It has always been difficult for SSA to recover overpayments from former SSI recipients. However, it appears that recovery of debt from former recipients has improved in the last several years. By seizing tax refunds of former recipients who refused to repay outstanding debt, SSA has been able to recover $221 million since 1998. In addition, the new cross program recovery authority should also assist SSA efforts to recover debt from former recipients. About one-third of SSI recipients also receive some Social Security Title II benefits and the new authority will allow SSA to reduce those benefits to recover unresolved overpayments. It is important that SSA move forward in implementing additional tools to recover overpayments from individuals no longer on the SSI rolls.

3. The GAO assessment of whether programs are at "high risk" of fraud and abuse is released every other January and the next report is expected in January 2003. Can you give us a preview of what key factors you will consider in deciding whether SSI will remain on your "high risk" list?

During the past year, we have primarily focused on assessing SSA's progress in improving SSI program integrity and identifying additional actions for further improvement. Our findings will ultimately assist GAO in deciding whether the SSI program should be removed from the high-risk list. Generally, agencies and programs must meet the following criteria to be removed: (1) demonstrate a strong commitment and have top leadership support to address the risks; (2) apply the necessary resources to resolve the risk(s); (3) develop a corrective action plan that defines the root causes, identifies effective solutions, and provides for substantially completing corrective measures in the near term; (4) have a program to monitor and independently validate the effectiveness and sustainability of corrective measures, and (5) make progress in implementing corrective measures. This criteria is detailed in our report entitled *Determining Performance and Accountability Challenges and High Risks*, GAO–01–159SP, November 2000.

4. Your testimony indicates that administrative penalties and sanctions are underutilized in the SSI program. At most 3,500 SSI recipients were penalized in 2001 for reporting failures. Yet failure to report key information accounted for more than 70 percent of overpayment errors and those errors involved about 1 million recipients annually.

a. Does this mean close to a million SSI recipients could have been penalized $25, $50 or $100 for filing inaccurate reports were never penalized?

The estimate of 1 million recipients cited in our testimony represents the greatest number of recipients who could have possibly been subject to administrative penalties for reporting failures. There are restrictions, however, on when SSA staff can impose penalties. For example, SSA cannot penalize recipients if they have good cause for the reporting failure. In making good cause decisions, SSA staff are instructed to consider a recipient's ability to understand the reporting requirements and the impact that changes in their circumstances may have on their payments given their mental, educational, and linguistic limitations. We are not aware of any estimate of the portion of this population that would be able to establish good cause.

b. What is the annual dollar figure associated with this failure to use existing provisions to enforce the rules and regulations of the SSI?

No data exists to estimate the amount of penalty dollars forgone.

c. What can Congress or SSA do to change this situation?

We believe that SSA first needs to examine its policies and practices for imposing penalties. As noted in our testimony, SSA staff cited several reasons for not imposing penalties, such as the penalty amounts are too low to be effective, the process is too administratively burdensome, and management has not emphasized their usage. SSA should evaluate these concerns to determine the proper course of action. Because penalty amounts are established in law, Congress may need to revise these amounts if SSA determines that different amounts would be appropriate.

Sincerely yours,

Robert E. Robertson
Director, Education, Workforce and Income Security Issues

Consortium for Citizens with Disabilities
Washington, DC 20006
August 6, 2002

The Honorable Wally Herger, Chairman
Subcommittee on Human Resources
Ways and Means Committee
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Herger:

This is in response to questions in your letter requesting additional information following the July 25 hearing in the Subcommittee on Human Resources regarding fraud and abuse in the Supplemental Security Income program.

1. When recent changes were made to combat fraud and abuse in the SSI program, misgivings were voiced that certain disabled recipients might be harmed by efforts to improve the integrity of the program. Were those concerns confirmed by the outcomes of these changes?

The integrity of the Social Security and SSI disability programs must be protected and cases of true fraud should be uncovered. However, we are always concerned about the potential effect that major changes in the SSI and Title II disability programs would or could have on people with disabilities, particularly those with cognitive or mental impairments. In the fraud and abuse context, our concern is that claimants and beneficiaries must be treated fairly and be given consideration whenever their impairments might influence their understanding of their actions or the consequences of their actions. It is with those concerns in mind that we approach all proposals addressing fraud and abuse, including those included in the recently passed H.R. 4070, the Social Security Program Protection Act. We will continue to raise these issues and to work with this Subcommittee, with the Subcommittee on Social Security, and with the Social Security Administration to ensure that due process protections are in place and that disability-related limitations are taken into consideration in decisions regarding suspected fraud and abuse.

2. Your statement [page 1] notes that it is not unusual for beneficiaries to be told to pay back tens of thousands of dollars. How many cases are you aware of that required repayment of tens of thousands of dollars?

The Task Forces' Member organizations receive complaints and concerns from their own memberships. The very high overpayments are reported to various Task Force members frequently enough that the issues of large overpayments receive some priority attention through the organizations' work in CCD. We have not tried to quantify the frequency of the reports of large overpayments and, in fact, do not have the capacity to conduct such research. However, we believe that the Social Security Administration should be able to provide such information and we would be

interested in knowing the total numbers of overpayments annually and the range of the size of overpayments.

3. Your testimony indicates support for a number of benefit expansions, including those proposed in Mr. Cardin's bill, HR 739. Do you know what those additional benefits would cost? Do you have any recommendations that might help us pay for such changes? In the past, we have found ways of tightening the SSI program, for example, by more quickly recovering overpayments or ending disability benefits based on drug addictions, and then used the savings for worthwhile ends such as providing more drug treatment. Any ideas you have for similar recommendations to help defray some of the additional benefits you support would be helpful.

We do not know of a current Congressional Budget Office estimate on H.R. 739, the SSI Modernization Act of 2001. In addition, we would not support cuts in programs that serve other people in need.

In addition, during the hearing you inquired regarding the work incentives available to SSI beneficiaries, and the number of SSI beneficiaries who used these work incentives. In my response, I indicated that I would provide more information in writing after the hearing. According to the March 2002 "SSI Disabled Recipients Who Work" published quarterly by SSA, "The number of SSI disabled recipients who work doubled between 1987 and 2001, from 173,000 to 347,000. Initially, the number of participants under sections 1619[a] and 1619[b] were approximately equal. However, participation under section 1619[b] gradually increased to five times the initial total, and it now exceeds participation under section 1619[a] by three to one. The number of working recipients not participating under either of these provisions has increased by almost 75 percent."

Other SSI work incentives include Plan for Achieving Self-Support [PASS] that allows an SSI recipient to accumulate assets beyond the limits of the program if those assets are used for setting up a business, education or other approved purpose to move to independence. Again, according to that SSA statistical report, some 1650 people nationwide were using PASS plans in March 2002. Additional work incentives for SSI beneficiaries include Impairment-related work expenses [IRWEs] and Blind work expenses [BWEs]. According to SSA's stats, 8441 people were using IRWEs and 3566 people were using BWEs during that quarterly reporting period.

SSA's Office of Research, Evaluation and Statistics can supply the Subcommittee with additional data of this type.

Thank you for this opportunity to provide comment on these issues. I would be happy to respond to any further questions.

Sincerely,

Tony Young
Chairperson,
Social Security and Work Incentives Task Forces

[Whereupon, at 11:59 a.m., the hearing was adjourned.]
[Submissions for the record follow:]

Statement of Jeffrey H. Price, National Association of Disability Examiners, Raleigh, North Carolina

The National Association of Disability Examiners (NADE) commends the Subcommittee on Human Resources for focusing public and congressional attention on *"Fraud and Abuse in the Supplemental Security Income Program"* and on what is being done, and what needs to be done, to combat this problem. We appreciate this opportunity to present our perspective on this topic.

WHO WE ARE

NADE is a professional association whose mission is to advance the art and science of disability evaluation and to promote ongoing professional development for our members. The majority of our members are employed in the State Disability Determination Service (DDS) agencies and are responsible for the adjudication of claims for Social Security and Supplemental Security Income (SSI) disability benefits. Our membership also includes personnel from Social Security's Central Office and its Field Offices, claimant advocates, physicians, attorneys, and many others. This diversity, combined with our immense program knowledge and our "hands on" experience, enables NADE to offer a unique perspective that is reflective of a pragmatic realism.

THE PROBLEM

While the vast majority of applicants are not out to defraud the program, the designation of the SSI program as "High Risk" by the General Accounting Office is well deserved. For several reasons the SSI disability program is more labor intensive and difficult to administer than the Title II disability program. Both medical eligibility and exact payment amounts are determined by complex rules. Individuals applying for SSI disability benefits are among the most vulnerable of this country's population. They are, by definition, very poor. Most have little or no ongoing medical treatment or treating sources able to provide comprehensive records. Many do not speak English and/or have little education. These individuals are strong candidates for manipulation by others for financial gain. They are often the victims themselves of others whose mission is to defraud the SSI program. Every disability examiner is aware of at least some level of questionable activity on the part of some applicants and/or their representatives.

NADE believes that the efforts undertaken by SSA and supported by Congress to combat fraud are cost-effective and also provide valuable protection to the victims of those who purposely attempt to defraud the program.

PROGRAM INTEGRITY AND THE DISABILITY CLAIMS PROCESS

For the past decade, SSA has attempted to redesign the disability claims process in an effort to produce a new process that will result in more timely and more accurate decisions. Their success in this endeavor thusfar has been minimal. NADE believes that the key to program integrity lies in the basic design of the claims process itself. We believe one of the most important challenges facing the Commissioner of Social Security is the development of an effective and affordable disability claims process. Any process must necessarily take into consideration the need for fair and timely decisions and the need for the American public to have confidence that only the truly disabled are awarded benefits. The basic design of any new disability claims process should ensure that the decisions made by all components and all decision-makers accurately reflect a determination that a claimant is truly disabled as defined by the Social Security Act.

Securing the necessary medical, vocational and lay evidence to assess claimant credibility and fully document a claimant's subjective complaints and then accurately determine the degree of functional restrictions is currently a complex, time-consuming process. It will be made even more so in the future if SSA continues with plans to increase the focus on functionality in the medical listings. SSA and the Congress must realize the tremendous impact that increasing the need to assess claimant function will have for decision-makers in terms of time and resources. NADE is not opposed to such inclusion but the necessary resources must be provided to adequately cover the additional time and personnel that will be necessary to evaluate claims.

Pain and fatigue are legitimate restrictions that can affect an individual's ability to work. As a result, their severity is often the deciding factor in the decision as to whether disability benefits should be awarded. Unfortunately, the lack of any objective method to measure the severity of these symptoms creates opportunities for fraud and abuse. Knowledgeable, well-trained and experienced staff is required in the Field Offices and in the DDSs to investigate and accurately assess the severity of symptoms such as pain and fatigue. There has been insufficient training of current staff to consider potential fraud and there has been too little attention devoted to the need to retain experienced staff so as to not only provide the level of customer service that claimants have a right to expect, but also to provide a front-line defense for fraudulent claims.

NADE firmly believes that the decision as to whether a claimant is disabled is a medical decision that is made within the parameters defined by law and SSA regulations. As such, these decisions should be made only by those especially trained to make such decisions. Disability is based on a physical or mental medical condition and the assessment of how such a condition impacts on a claimant's ability to work must be based on an understanding of how such conditions normally affect an individual's ability to function. Making disability decisions can be extremely difficult without sufficient medical training. Claimants and/or their representatives could possibly present a convincing argument that the claimant is more disabled than is really the case. Consequently, NADE supports requiring similar medical training for all decision-makers at all components in the disability claims process.

Efforts launched by SSA in the past decade to bring DDS and ALJ decisions closer together have been unsuccessful. Process unification was the cornerstone of this effort. Decision-makers in the DDSs and OHA were brought together in 1996 for joint training. However, SSA's failure to follow up on this training initiative in the years since have eroded any potential benefits that may have been derived. NADE be-

lieves that such joint training is critical to the ultimate success of anti-fraud efforts and we concur with the opinion expressed by the Social Security Advisory Board in a recent report issued by that body: "The most important step SSA can take to improve consistency and fairness in the disability determination process is to develop and implement an on-going joint training program for all . . . disability adjudicators, including employees of the State disability determination agencies (DDSs), Administrative Law Judges (ALJs) and others in the Office of Hearings and Appeals (OHA), and the quality assessment staff who judge the accuracy of decisions . . ." (see Social Security Advisory Board report, August, 1998, p. 19)

PROGRAM INTEGRITY AND QUALITY ASSURANCE

Program integrity requires accurate and consistent disability decisions from all components in the adjudication process. An effective quality assurance process provides an effective deterrent to mismanagement and fraud in the SSI program. NADE believes that SSA must incorporate a more uniform quality assurance process into the basic disability claims process to ensure program integrity. We are concerned with recent SSA and congressional initiatives to require pre-effectuation reviews in 50 percent of State agency allowances of SSI adult cases "in order to correct erroneous SSI disability determinations . . .". *The decision regarding an individual's eligibility for disability benefits should be objective and unbiased*. For that reason NADE has long advocated review of an equal percentage of allowances and denials. Realistically, however, without additional resources any increase in the percentage of allowances reviewed will result in a corresponding decrease in the number of denials reviewed. While we support increased reviews of decisions at all levels, we are concerned that an increased focus on DDS allowances may reduce objectivity and compromise program integrity. In addition, without a corresponding review of OHA allowances it is unlikely that the projected program savings will be realized.

Any increase in the number of decisions reviewed should also include childhood claims. While it is not true for the majority of applicants it is, unfortunately, not unheard of for parents or legal guardians to deliberately coach children to feign disabling conditions or to use other means to create circumstances where a child's true condition will be misdiagnosed.

INITIATIVES TO COMBAT FRAUD AND ABUSE

Anti-fraud efforts such as the Cooperative Disability Investigative (CDI) units which effectively utilize the strengths and talents of OIG, disability examiners, and local law enforcement, offer a visible and effective front-line defense for program integrity and serve as a visible and effective deterrent to fraud. Our members have a unique opportunity to observe and assist in the process of detecting fraud and abuse within the SSI program. SSA's Inspector General, Mr. James Huse, Jr. has attributed the success of the CDI units to investigate fraud allegations to the efforts of, ". . . those most qualified to detect fraud—DDS adjudicators." NADE supports the continued expansion of the CDI units to combat fraud and abuse in the disability program.

NADE supports SSA's plans to increase the number of re-determinations to ensure greater payment accuracy. This would help ensure that claimants receiving SSI benefits are, in fact, eligible to do so. We caution that adequate staffing will be needed to ensure that this effort is a true exercise in combating fraud and not a mirror and strings approach to conceal the fact that SSA is not equipped to pursue such anti-fraud efforts. Field Offices have a great responsibility in ensuring program integrity and they should be supported with the sufficient staffing level required for this effort.

An experienced disability examiner can be one of the most effective deterrents to fraud and abuse. NADE urges Congress and SSA to take the necessary action to ensure that the experience level in the DDSs can be maintained. SSA has made the commitment to process record numbers of continuing disability review cases (CDR's). Adequate resources should be allocated to the DDSs to reward experience and maintain a highly knowledgeable, well-trained, and fully equipped staff.

NADE supports increasing the penalties for unintentional and intentional acts of fraud. Penalty amounts of $25 for a first offense, $50 for a second offense and $100 for subsequent offenses should be increased substantially for unintentional acts of fraud as a deterrent to repeat offenses. NADE supports increasing the suspension of benefits for intentional acts of fraud to include the permanent suspension of benefits for a third offense. NADE believes that all intentional acts of fraud should be referred to the proper judicial authority for criminal prosecution.

NADE also supports the immediate suspension of benefits in CDR claims where the DDS proposed a cessation of benefits because the claimant has failed to cooper-

ate or cannot be found. Currently, claimants can appeal these decisions and elect to continue receiving benefits under the benefit continuation provisions. By failing to cooperate with the DDS, claimants can continue receiving benefits for years. While this may not be viewed as fraud, it is abuse and it should be eliminated to ensure program integrity.

CONCLUSION

NADE supports the removal of SSA's administrative budget from the domestic discretionary spending caps. Congress would continue to retain oversight authority of SSA's administrative budget but it would not have to compete with other programs for limited funds. It would allow for the growth necessary to meet the increasing needs of the baby boomer generation for SSA's services while allowing the Agency to expand its anti-fraud efforts to ensure program integrity.

Maintaining program integrity is a vital part of effective public Administration and a major factor in determining the public's view of its government. The Social Security Administration must provide more direction in the development of anti-fraud policies and these policies should reflect pragmatic reality that will make them enforceable. SSA must recognize that more direct guidance is needed from its top levels of management if fraud and abuse are to be effectively curtailed. It is also critical that SSA should be given the congressional support necessary to make the appropriate changes that will recommit the Agency to its primary purposes of stewardship and service.

National Funeral Directors Association
Washington, DC 20002
July 25, 2002

The Honorable Wally Herger,
Chairman,
Subcommittee on Human Resources
U.S. House of Representatives
Committee on Ways and Means
2268 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the National Funeral Directors Association (NFDA), I am pleased to submit the following testimony for the record for the Subcommittee's July 25, 2002 hearing on fraud and abuse in the Supplemental Security Income (SSI) program. NFDA was founded in 1882 and is the largest funeral service organization in the world. NFDA members provide services to families across the United States. The average funeral home conducts approximately 190 services per year. Over ninety percent of the funeral homes in America are family owned and operated businesses and have served their communities for three and four generations.

NFDA supports the Subcommittee's commitment to address fraud and abuse concerns in the SSI program. NFDA believes SSI program integrity is enhanced by establishing clear eligibility rules. These rules should exclude certain funeral and burial arrangements as financial resources for SSI applicants. NFDA urges the Subcommittee to consider legislation which would codify *in statute* current Social Security Administration (SSA) policies. (See attached legislative language.)

Congress has recognized that funeral planning is a beneficial social policy and has provided incentives to consumers to preplan their funerals by excluding certain burial-related assets from SSI and Medicaid resource calculations. Pre-need funeral planning encourages individuals to pay for their burials with funds set aside in advance. This is good public policy and also saves state and local governments' funds as it reduces government funded indigent funerals. However, effective promotion of pre-need planning requires clear policies. Congress should clarify current law in this area.

Background

Current eligibility rules for SSI examine an individual's resources and income. The level of the resources owned by the individual and the income to which the individual is entitled must be below certain minimal thresholds to enable the individual to receive SSI benefits. However, the federal SSI eligibility regulations contain numerous exclusions—i.e., resources that an individual can retain which do not jeopardize his/her SSI eligibility. One of these exclusions is referred to the "burial exclusion."

The SSI "burial exclusion" is in fact three separate SSI exclusions: the "burial space" exclusion,[1] the "burial fund" exclusion,[2] and the "irrevocable pre-need contract" exclusion.[3] The burial space exclusion covers a wide variety of items associated with burial space such as the burial plot, headstones, crypts, vaults and caskets. This exclusion applies to burial space trust funds whether the trust is revocable or irrevocable.

Unlike the burial space exclusion, the burial fund exclusion is limited. "Burial funds" are those funds which are set aside to meet funeral and burial related expenses for a recipient or his/her spouse such as the basic service fee of the funeral director, transportation expenses, and facilities fees. A SSI recipient may exclude no more than $1,500 for the burial expenses of the individual or the individual's spouse. Furthermore, the $1,500 exclusion is offset dollar for dollar by certain insurance policies and by any funds set up in an irrevocable trust. For instance, an individual and his/her spouse can set aside up to $1,500 each to pay for burial expenses, and, in most cases, this money will not be counted as "assets" in determining their eligibility for SSI benefits.

Finally, irrevocable pre-paid burial contracts, and the funds placed into trust to pay for the contracted goods/services, are excluded from SSI and Medicaid recipients' resources.[4] As most states permit the use of irrevocable pre-need contracts, this exclusion is more widely used by SSI applicants than either the burial fund exclusion or the burial space exclusion. Under current SSA policy, this exclusion is unlimited in nature. (We would note that state law governs the general use of irrevocable pre-paid burial contracts.)

Codification of Current Burial Exclusions Would Promote Program Integrity

Unfortunately, because the regulatory framework for burial exclusions described above is complex and spread out between the relevant statutes, regulations and SSA guidance, the rules are hard to understand and do not promote compliance. Ambiguities could unintentionally create opportunities for fraud and abuse. Clear rules minimize these opportunities. SSA field representatives, consumers, and funeral directors trying to "play by the rules" must take several measures to review and understand burial exclusions. First, they must consult the burial exclusion resource provisions contained in the SSA statute and the burial exclusion provisions contained in the SSA regulations. They must also consult the SSI Program Operations Manual System (POMS). The POMS includes a provision stating that an irrevocable trust *does not* constitute a resource.

The current SSA regulatory framework can be confusing as the rules governing burial exclusions differ for revocable burial funds and irrevocable burial contracts. Federal programs with complicated and puzzling rules and regulations can be the targets of fraudulent schemes as murky and complicated rules are difficult to enforce. NFDA believes that consolidating the SSI provisions regarding burial exclusions would shed light on an otherwise gray area and would enhance SSI program integrity.

NFDA believes that Congress should enact legislation to codify current SSA policies. We believe this proposal would not substantively change current eligibility. By incorporating the current policy regarding irrevocable burial contracts in the Social Security Act, Congress would create clarity in an otherwise confusing area.

In closing, NFDA believes that codifying current regulations relating to burial exclusions will simplify pre-need funeral decision-making and increase program integrity. As the Subcommittee explores ways to tighten the program to reassure recipients and taxpayers alike that benefits are going to intended recipients, NFDA urges the Subcommittee to consider the attached legislative proposal.

Thank you in advance for your time and consideration of our comments. I look forward to working with you, your staff, and the Subcommittee on this issue.

Sincerely,

John H. Fitch, Jr.
Director, Government Relations

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[2] This statutory exclusion is found in 42 U.S.C. § 1382(d) and the accompanying regulations contained in 20 C.F.R. § 416.1231.

[3] This non-statutory exclusion is found in the Social Security Administration's regulations on irrevocable pre-need burial contracts. 20 C.F.R. § 416.1231.

[4] A pre-paid (or pre-need) burial contract is an agreement in which the buyer pays in advance for a burial that the seller agrees to furnish upon the death of the buyer or other designated individual. SSA Reg. 01130.420.

[1] *Transmittal Memorandum No. 74, Subject: Preparing and Submitting Budget Estimates, part*

DRAFT LEGISLATIVE LANGUAGE TO BE ADDED TO SSI PROGRAM INTEGRITY PACKAGE

Sec. _____. CERTAIN FUNERAL AND BURIAL ARRANGEMENTS NOT COUNTED AS RESOURCES.

(a) CERTAIN FUNERAL AND BURIAL ARRANGEMENTS NOT COUNTED AS RESOURCES.—Section 1613(a)(2)(A) is amended by striking "and" at the end of the sentence. Section 1613(a)(2)(B) is amended by adding "and" at the end and inserting the following: "(C) the value of any burial trust when an individual or his spouse—

(i) irrevocably contracts with a provider of funeral goods and services for a funeral; and

(ii) the individual or his spouse funds the contract by prepaying for the goods and services; and

(iii) the funeral provider subsequently places the funds in a trust or escrow, or the individual establishes an irrevocable trust naming the funeral provider as the beneficiary;

(b) EFFECTIVE DATE.—This section shall take effect on the date of the enactment of this Act.

EXPLANATORY LANGUAGE

Legislative Proposal to Codify Current Regulatory Framework

The proposed legislation codifies current SSA policy as set forth by internal SSA guidelines. Accordingly, § 1613(a) of the Social Security Act would be amended to read as follows:

Sec. 1613(a) In determining the resources of an individual (and his eligible spouse, if any) there shall be excluded——

(1) the home (including the land that appertains thereto);

(2)(A) household goods, personal effects, and an automobile, to the extent that their total value does not exceed such amount as the Commissioner of Social Security determines to be reasonable;

(B) the value of any burial space or agreement (including any interest accumulated thereon) representing the purchase of a burial space (subject to such limits as to size or value as the Commissioner of Social Security may by regulation prescribe) held for the purpose of providing a place for the burial of the individual, his spouse, or any other member of his immediate family; and

(C) the value of any burial trust when an individual or his spouse—

(i) irrevocably contracts with a provider of funeral goods and services for a funeral; and

(ii) the individual or his spouse funds the contract by prepaying for the goods and services; and

(iii) the funeral provider subsequently places the funds in a trust or escrow, or the individual establishes an irrevocable trust naming the funeral provider as the beneficiary;

(3) other property which is so essential to the means of self-support of such individual (and such spouse) as to warrant its exclusion, as determined in accordance G747with and subject to limitations prescribed by the Commissioner of Social Security, except that the Commissioner of Social Security shall not establish a limitation on property (including the tools of a tradesperson and the machinery and livestock of a farmer) that is used in a trade or business or by such individual as an employee;

Explanation of Provision

This amendment would simply codify current Social Security Administration regulations found in the Program Operations Manual System (POMS) guidance regarding burial trusts.

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