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SOCIAL SECURITY

Observations on Improving Distribution of Death Information

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Chairwoman Kelly, Chairman Shaw, and Members of the Subcommittees:

Thank you for inviting us here today to provide you with our observations on the gathering of death information and its distribution to financial institutions. Over the past few years, Congress, law enforcement, and others have expressed concern over the use and misuse of Social Security numbers (SSNs). Accurate and timely death information (i.e., notification of death), including the SSN, is critical to the integrity of the federal benefits system and can help protect consumers' financial assets against fraud. However, the SSN also is a key identifier used by unscrupulous individuals to steal identities, obtain false identification documents, and commit fraud.¹

In light of the recent terrorist attacks, your committees have considered actions to prevent potential terrorists and criminals from creating false identities using SSNs and, in particular, to prevent the misuse of a deceased person's Social Security number. Accordingly, you asked us to examine the process for gathering death information and distributing it to financial institutions. Specifically, our remarks will focus on (1) how long each stage of the process takes, (2) what actions the financial services industry reported taking to prevent the misuse of a deceased person's Social Security number, and (3) what possible steps could be taken to improve the timeliness of collecting and transmitting death information. Our observations are based on prior GAO work, preliminary work at the Social Security Administration (SSA) and the National Technical Information Service (NTIS), and discussions with the three national credit reporting agencies, eight of the largest credit card issuers, and two national trade associations. We have not independently verified the timing of the process for distributing death information, nor have we assessed the costs associated with improving the timeliness of this process.

In summary, death information collected by SSA generally reaches financial institutions and other entities within 1 to 2 months of a person's death, although delays in processing and distributing information sometimes occur. Complete files of recent deaths are distributed quarterly and updated monthly with information from a number of sources. SSA receives direct reports of deaths from relatives and friends of the deceased and from funeral homes. SSA also obtains further data by cross-checking its own

¹*Identity Fraud: Information on Prevalence, Cost, and Internet Impact Is Limited* (GAO/GGD-98-100BR, May 1998).

files with information from other federal and state agencies. The financial services industry relies on Social Security numbers as one of the primary identifiers to establish the identity of customers, to assess the creditworthiness of customers, and to protect against fraud. Financial institutions check personal information provided by those seeking new credit, and many subscribe to fraud prevention products. The financial services representatives we spoke with expressed interest in receiving more timely death information. SSA is exploring ways to accelerate the process of receiving and processing death information, including producing updates weekly rather than monthly, and transmitting death information to NTIS electronically. In a long-term initiative, SSA is participating with state and local officials to develop an Electronic Death Registration System that could reduce the time to report death information to SSA. However, cost and legal issues remain to be resolved before the electronic system can be fully implemented.

Background

Each year, about 2.5 million people die in the United States. SSA is responsible for keeping track of death information on beneficiaries of the Social Security system, but it gathers such information on non-beneficiaries as well. SSA collects reports on deceased persons from a number of sources, including funeral homes, relatives, other federal agencies, and state vital record offices. SSA places information from the reports, such as the date of death, in its Numerical Identification File (NUMIDENT)—the master file of Social Security number holders. It contains information collected when an individual applies for a Social Security card, when a change of name or other correction is recorded, and when a death is reported. SSA periodically extracts death information from this file to generate the Death Master File (DMF). SSA may make death information available to the public under the Freedom of Information Act.

SSA makes the DMF file available to the public, including financial institutions, through NTIS. NTIS offers this file as a single issue or a subscription. Purchasers who wish to keep their DMF current are required to purchase a subscription, which includes the full file and monthly updates. NTIS makes this information available to its 107 subscribers on magnetic tape or CD-ROM. NTIS subscribers include churches, computer companies, federal and state agencies, insurance companies, non-profit organizations, universities, the national credit reporting agencies, and other financial services organizations.

Death Information Is Distributed to Financial Institutions Within 1 to 2 Months

Death information is collected and transmitted through several steps. Relatives, friends, or funeral homes are generally the first to report deaths to SSA, and the reports typically reach SSA field offices and processing centers within a week of the death.² According to SSA, these sources account for about 90 percent of the death information it receives. The remaining reports come from other federal or state agencies.

Processing information from relatives, friends, or funeral homes generally takes another week after SSA receives the notification. After a death report arrives at a field office or processing center, SSA checks the Master Beneficiary Record or the Supplemental Security Record to determine whether the deceased was a Social Security program beneficiary.³ Death information is recorded directly on NUMIDENT within a few days of the report's receipt. If the deceased was a beneficiary, benefits are also terminated on the Master Beneficiary Record.

In some cases, death reports are delayed or SSA requires more than a week to complete the processing of a report. About 5 percent of the deaths reported to SSA, for example, are identified from SSA computer matches with records of deceased individuals provided by other federal agencies, such as Veterans Affairs and the Centers for Medicare and Medicaid Services, or state agencies, such as state vital statistics bureaus. SSA field offices must verify any death report that was based solely on information from these matches before terminating any benefits or recording the death information on NUMIDENT. Because death data provided by states to SSA is restricted,⁴ some deaths may not be recorded on the DMF distributed to financial institutions.⁵ Over time, the number of death records that are

²For example, funeral home directors, who are generally responsible for submitting death certificates to the state vital statistics bureaus, report deaths to SSA by submitting a form to local SSA field offices.

³The Master Beneficiary Record and Supplemental Security Record are the principal SSA payment files for the Old Age, Survivors, and Disability Insurance and the Supplemental Security Income programs, respectively.

⁴According to the National Association for Public Health Statistics and Information Systems (NAPHSIS), states restrict the disclosure of their death information to secure compensation for its use and to maintain confidentiality. NAPHSIS is a not-for-profit organization representing most of the state registrars and directors of vital statistics.

⁵42 U.S.C. 405(r) permits SSA to restrict state-supplied death information to federal benefit-paying agencies.

affected by this restriction is unclear. Once SSA field offices verify the state-supplied death information with another source and take the necessary action to terminate benefits and update its benefit records, disclosure of the death information is no longer restricted. However, the time period from the date of death until these deaths are recorded on NUMIDENT may be quite long, because death reports from states may be 90 to 120 days old when they arrive at SSA.

The remaining 5 percent are based on files from the Department of the Treasury of payments returned by postal authorities or financial institutions. A Department of the Treasury official told us that it was likely that these reports require more than a week from the date of death to reach SSA. However, we did not verify this information and could not determine how much more than a week might elapse.

At the beginning of each month, SSA extracts death information from the NUMIDENT for the DMF and sends the file to NTIS. According to NTIS officials, the files generally arrive within the first week of the month. NTIS generally needs another 2 to 4 days to produce and send the magnetic tapes and CD-ROMs to its subscribers. In total, about 1 to 2 months elapse between a person's death and the time when the death information is available to financial institutions and other NTIS subscribers, depending on when the death notice is first received by SSA.

Actions Taken By Financial Institutions to Prevent Misuse of Deceased Individuals' Social Security Numbers

The financial services industry relies heavily on SSNs as a key identifier for a number of purposes, such as the reporting of information to the Internal Revenue Service or the accurate processing and recording of customer financial transactions. The timely receipt of death information and prompt updating of financial data are key factors in the industry's ability to prevent fraud and identity theft involving the SSNs of deceased individuals.

In our discussions with representatives from the financial services industry, they reported taking a number of steps to verify information on customers applying for new credit. For example, financial institutions check the creditworthiness of customers by obtaining the credit history of an applicant from credit reporting agencies, using the SSN as one of the key identifiers. However, for existing accounts, most financial institutions we spoke with did not use a formal process or central data source to identify deceased customers. Instead, they relied primarily on family members and on executors or trustees of the estate to provide this information. For existing customers receiving Social Security benefits via direct deposit,

Social Security stated that it generally notifies the financial institution of a beneficiary's death within 24 hours of receiving notice. However, as we discussed above, there could be delays in SSA receiving such notices.

Some of the institutions we spoke with were aware of the Death Master File but were (1) unsure about the information it contained or (2) not aware that they could subscribe to the file from NTIS. Others were not aware that the Death Master File existed. According to the NTIS subscriber list, very few banks subscribe through NTIS for the Death Master File. Only one of the financial institutions we spoke with reported tracking losses or the frequency of fraud associated with deceased customers. However, the financial institutions we spoke with reported that their losses or the frequency of occurrence were not material. Most financial institutions told us that they subscribed to fraud prevention products or services offered by the credit reporting agencies that included alerts for deceased persons' Social Security numbers.

All three national credit-reporting agencies reported subscribing to and receiving the monthly updates to the DMF. However, one credit reporting agency relied solely on the quarterly Death Master File and not on the monthly updates for its normal credit reporting and fraud services. We also found that the credit reporting agencies made the data from the DMF available only for subscribers to their proprietary fraud prevention products. In contrast, death information reported directly to the credit reporting agencies by credit issuers and family members was made available to all their users, along with other credit information on a customer's credit history. This information was generally provided within one to two billing cycles.

Financial institutions also subscribe to other sources for death information. One information service we contacted primarily used the Death Master File and supplemented it with information from other sources, such as funeral homes and local governments. It provided screening and matching services to its clients, to identify deceased customers. The representative we spoke with indicated that his service's clients often lacked the necessary technology infrastructure to process and maintain the Death Master File. This representative also noted that the timeliness of data contained in the DMF had greatly improved since the move to the monthly updates (from quarterly updates). However, the representative said that more frequent updates—weekly or daily—were needed.

Two credit card associations that we contacted have also taken some steps to help prevent the misuse of Social Security numbers of deceased individuals. For example, they cosponsored a verification system for bankcard applications. This system was designed to verify such things as an applicant's address, telephone number, and Social Security number, and whether he or she has provided any questionable data on the application. This system, which was designed to help members reduce losses attributed to fraud, had several fraud alert codes, one specifically designated to flag the use of the Social Security number of a deceased individual.

In our discussions with representatives from the financial services industry, most expressed an interest in receiving more timely death information to narrow the window of opportunity in which criminals can perpetrate fraud. The credit reporting agencies expressed an interest in receiving more frequent DMF updates, but their responses varied regarding how frequently SSA needed to provide those updates. Some could handle the updated information daily; some could process the updates only biweekly. Some recommended that SSA provide a Web-based "look-up" service to verify death information.

Possible Steps for Improving the Collection and Transmission of Death Information

SSA is exploring ways to speed up the collection and processing of death reports and the transmission of death data to financial institutions. In the near term, SSA and NTIS are discussing ways to speed up the transmission of death information to users, such as financial institutions. SSA officials have stated that it would be relatively easy to produce updates on a weekly rather than monthly basis. Additionally, SSA and NTIS officials stated that it should be possible for SSA to transmit updates electronically to NTIS, and that NTIS could also provide its updates to financial institutions electronically. SSA officials have indicated that it would be more difficult and costly to provide updates more frequently than weekly, or to bypass NTIS and provide electronic updates directly to financial institutions.

As we have previously reported, delays in SSA receiving some state death reports have hindered the prompt processing and distribution of such information. In a long-term initiative, SSA is participating in several pilot projects with state and local officials to develop an Electronic Death Registration System that, among other things, would enable the states to report deaths to SSA electronically. This system could improve the speed with which deaths are reported to SSA. For example, in a July 2001 SSA request for contract proposals of the new system, SSA required project plans to demonstrate the capability to send a "fact of death" report to SSA

within 5 days of a death, and within 1 day of receipt in the state bureau of vital records. However, state agreements with SSA preclude the agency from terminating benefits solely on the basis of state-provided death reports. Therefore, SSA also required project plans to demonstrate the capability to confirm death information electronically with entities originating the death report, such as funeral directors.

SSA and the National Association for Public Health Statistics and Information Systems officials also indicated that there are unresolved issues with the Electronic Death Registration System. These include the willingness of the states to adopt this system and SSA's ability to release state-provided death information to financial institutions. For example, SSA officials stated that it remains unclear whether states will be willing or able to pay the cost of installing automated terminals in the funeral homes, hospitals, medical examiner offices, and other locations involved in the death registration process. Additionally, SSA has not yet resolved legal issues that might preclude the release of state-provided death report information to financial institutions.

We inquired about the feasibility of SSA providing death information directly to financial institutions and others from an on-line, Web-based look-up service. SSA officials said that implementing such a system would require significant changes to various SSA systems and might raise privacy considerations.

SSA, NTIS, and the credit reporting agencies told us that additional resources would be required to process death information more frequently. However, NTIS officials expressed some concern that there should be a demonstrated demand for the improved service before making these investments.

Conclusions

In conclusion, it appears that SSA and NTIS could improve the timeliness of the distribution of the Death Master File. Improving the timeliness of death information to the financial services industry would help to narrow the window of time that a criminal has to open new accounts using a deceased individual's identity. Additional education to the financial services industry about the availability and contents of the Death Master File would also be helpful. Providing more timely death information and making financial institutions more aware of a reliable source of such information are tangible steps that could be taken to deter criminals from using deceased individuals' Social Security numbers to obtain false

identities for use in fraudulent activities. However, improving the timeliness of death information would not by itself eliminate identity theft and is not a panacea for addressing the larger issue of the criminal misuse and theft of Social Security numbers.

Chairwoman Kelly and Chairman Shaw, this concludes my statement. We would be pleased to respond to any questions that you or other members of the Subcommittees may have.

Contacts and Acknowledgments

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