



Report to the Chairman, Subcommittee
on Social Security, Committee on Ways
and Means, House of Representatives

April 1998

SOCIAL SECURITY

Better Payment Controls for Benefit Reduction Provisions Could Save Millions





United States
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**Health, Education, and
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The Honorable Jim Bunning
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Some people who earn pensions through employer-sponsored retirement plans are supposed to have their social security benefits reduced. Reductions in social security benefits occur whenever the private pensions are earned from employment where a person did not have to pay social security taxes (noncovered employment). You expressed concern that these benefit reductions are not always being applied, resulting in some people's receiving more social security benefits than they should.

During the past 20 years, the Congress has twice enacted legislation that required the Social Security Administration (SSA) to reduce social security benefits whenever a beneficiary also receives a pension from employment that was not covered by social security. Under the Government Pension Offset (GPO) provision, enacted in 1977, SSA must reduce social security benefits to these beneficiaries when their entitlement to social security is based on another person's (usually their spouse's) social security coverage. Their social security benefits are to be reduced by two-thirds of the amount of their government pension. Under the Windfall Elimination Provision (WEP), enacted in 1983, SSA must use a modified formula to calculate the social security benefits people earn when they have had a limited career in covered employment. The modified formula reduces the amount of payable benefits.

These benefit reduction provisions exist because of concern about unfair benefit advantages that accrued to noncovered government workers. With regard to GPO, spouse and survivor benefits were intended to provide some social security protection to spouses with limited working careers. The GPO provision reduces spouse and survivor benefits to persons who do not meet this limited working career criterion because they worked long enough in noncovered employment to earn a pension.

With regard to the WEP provision, the Congress was concerned that the design of the social security benefit formula provided unintended windfall benefits to workers who spent most of their careers in noncovered

employment. The formula replaces a higher portion of preretirement social security covered earnings when people have low average lifetime earnings than it does when people have higher average lifetime earnings. People who work exclusively, or have lengthy careers, in noncovered employment appear on SSA's earnings records as having no covered earnings or a low average of covered lifetime earnings. As a result, people with this type of earnings history benefit from the advantage given to people with low average social security earnings when in fact their total (covered plus noncovered) lifetime earnings were higher than they appear to be for purposes of calculating social security benefits.

Over the years, social security coverage in the nation's workforce has grown such that about 96 percent of all employment is covered. While several categories of noncovered employment remain, two are predominant: federal government workers hired before 1984 and state and local government workers who participate in their employer-sponsored retirement system and have elected not to participate in social security. Although they are a small portion of the total U.S. workforce, there are still millions of workers and retirees who are potentially affected by the GPO and WEP benefit reduction provisions. You asked us to determine how well SSA administers the GPO and WEP benefit payment provisions of the Social Security Act and to identify options to improve any administrative deficiencies.

To address these questions, we

- met with SSA staff responsible for setting policy, maintaining records, and overseeing operations relative to GPO and WEP administration;
- reviewed SSA policies and procedures;
- visited or telephoned SSA field facilities to observe or discuss administrative actions for these benefit reduction provisions;
- examined various reports and data from the Bureau of the Census and the Bureau of Labor Statistics on the extent of noncovered employment;
- met with Internal Revenue Service (IRS) representatives to discuss the reporting of pension income for tax purposes; and
- met with representatives of 21 retirement systems that administer pension plans involving noncovered employment.

We also identified and examined three recent internal SSA overpayment studies for GPO and WEP. In response to disparities relating to the results of SSA's WEP study, we examined overpayment records for about 500 cases in the study. We performed this assignment between November 1996 and

January 1998 in accordance with generally accepted government auditing standards. Appendix I contains more information on the scope and methodology of our work.

Results in Brief

From several internal studies of SSA's administration of the GPO and WEP provisions, we estimate that the agency made overpayments costing the social security trust funds between \$160 million and \$355 million from 1978 to about 1995. Weaknesses in its internal controls are a primary cause.

- In implementing the benefit reduction provisions for retired federal employees, SSA could make better use of available information. Although SSA reviews information on pension payments to federal retirees to ensure that it has properly applied the GPO provisions, it does not use that information to ensure the appropriate application of the WEP provision.
- In implementing the benefit reduction provisions on retired state and local government workers, SSA relies on the accuracy of information provided by the retirees regarding whether they receive, or will in the future receive, a pension that results from noncovered employment. SSA has not developed any independent source of this pension information. Thus, it cannot verify the accuracy of the self-reported information, a basic and effective internal control practice.

Although SSA managers have long suspected that its controls needed strengthening, they have not yet decided on a way to improve them.

Several courses of action could improve SSA's internal controls. For retired federal employees, SSA could periodically use the pension data it already receives from the Office of Personnel Management (OPM) to check whether WEP has been properly applied. For state and local government retirees, SSA needs to obtain independently reported pension data to adequately control its payments for the GPO and WEP reductions. Both retirement systems that pay benefits for noncovered employment and IRS, which receives reports of each taxpayer's pension income from individual retirement systems, are potential sources of pension data. Both sources have various merits and drawbacks. For example,

- Going directly to retirement systems has the advantage that it could be the most timely source of pension data but has significant logistical problems. For example, it potentially requires identifying and contacting thousands of retirement systems, addressing legal problems because many states

have statutes that restrict disclosure of this type of information, and developing a process for these systems to routinely report needed pension data.

- Obtaining pension income information from IRS would reduce the logistical problems of going to so many state and local government retirement systems and would be a relatively low-cost improvement. Further, because SSA has the right to use tax data for program administration, there would be a major reduction in potential legal problems compared with getting pension information from the state retirement systems. However, this approach would require a modification to the report filed with IRS so that people receiving pensions based on noncovered employment can be distinguished.

Background

Social security benefits are payable to people based on either taxes paid on their own covered earnings or taxes paid on the covered earnings of a spouse or parent. When social security was established in 1935, it covered only workers in commerce and industry (other than the rail industry, which was allowed to establish its own retirement plan). Over the years, however, coverage has been made mandatory for most types of employment.

Today, workers excluded from coverage fall into five broad categories: federal civilian employees hired before 1984, railroad workers, certain employees of state and local governments, household and farm workers whose earnings are below certain minimum requirements, and people with low net earnings from self-employment. The largest categories of noncovered employment are federal government employees (about 1.3 million in 1995) and employees of state governments and their political subdivisions covered under a retirement system whose members have elected not to join social security (an estimated 3.3 million to 7.9 million workers).

To implement the GPO and WEP provisions, SSA needs to know which social security applicants and beneficiaries are, or will be in the future, receiving pensions earned in noncovered employment. SSA takes several steps to identify them. When people apply for benefits, SSA's staff are supposed to examine their earnings record for significant time gaps in their annual covered earnings. When the staff find such time gaps, they are to determine whether noncovered employment is the reason. In addition, staff are supposed to ask applicants whether they are receiving or will in the future receive a pension (either periodic payments or a lump sum

payment) from noncovered employment. For those who respond that they are receiving such a pension, SSA makes the appropriate benefit reduction. For those who say that they will receive such a pension in the future, SSA enters in its records the date when the pension is expected to begin. SSA staff are supposed to contact the beneficiaries in these cases to determine whether an expected pension has begun and to take any actions needed to adjust benefit payment amounts. For applicants who say that they are not receiving and will not receive such a pension, SSA staff record and accept their answer unless the staff believe further investigation is warranted.

For federal retirees, SSA applies additional levels of verification. OPM, the agency that administers the federal government's pension system, provides monthly data that list retired federal employees and the amount of their civil service pension. When an application for benefits is filed, SSA compares the applicant's name and social security number with similar identification data in the OPM beneficiary database. If the comparison provides evidence that the applicant is receiving a federal annuity, the pension information detected is appended to his or her earnings record as it is being examined by SSA staff. With this information, SSA can offset benefits to comply with GPO and WEP requirements.

In addition, for the GPO benefit reduction, SSA makes a monthly "postentitlement" match in which it compares spouse and survivor benefit payments to OPM pension payment records. When SSA detects information that people receiving spouse or survivor benefits may be receiving a noncovered pension from their federal employment, it generates an "alert." SSA refers "alert" cases to its program service centers for investigation of whether an overpayment has been made and should be recovered.¹ SSA does not, however, make the same postentitlement comparison with OPM data to ensure proper application of the WEP benefit reduction for federal retirees.

SSA records show that postentitlement comparisons have been effective in reducing overpayments. From 1994 through 1996, the comparison identified about 13,000 possible overpayment cases each year, even though SSA checks OPM records when a claim is filed. One SSA staff person pointed out that overpayments often happen because a person has an increase in benefits or begins to receive a noncovered federal pension after filing for social security but has not notified SSA.

¹Six program service centers throughout the country and two offices in Baltimore, Maryland, house and service the records of individuals who are receiving social security benefits.

Most of the investigated cases reflect instances in which SSA and OPM records differ in the amount of the noncovered pension a person received. However, each year the comparison has also identified between 2,000 and 3,000 cases in which SSA did not know that a beneficiary was receiving a federal pension.

Periodically, SSA examines a sample of about 500 of the identified cases to compare the reduction in overpayments resulting from the monthly GPO match with the costs of conducting the match. As shown in table 1, this postentitlement monthly match reduces overpayments by millions of dollars each year; administrative expenses for the match and investigation of cases are a fraction of the benefits that are derived.

Table 1: Results of SSA's Postentitlement Matching for Spouse Benefits Paid to Retired Federal Employees

Year of study	Projected 18-month savings (millions)	Estimated cost (millions)	Benefits-to-cost ratio
1991	\$7.5	\$0.3	25:1
1993	\$6.1	\$0.27	22:1
1996	\$9.9	\$0.45	22:1

For the other large group of noncovered workers, retired state and local government employees, SSA has no third-party pension information to identify those who receive pensions from their noncovered employment. The varying level of SSA's payment controls for both major groups of noncovered employees is summarized in table 2.

Table 2: Summary of Internal Control System for Ensuring Application of GPO and WEP Benefit Reductions

Internal control action	Federal government retirees		State and local government retirees	
	GPO	WEP	GPO	WEP
Asks questions based on earnings records	Yes	Yes	Yes	Yes
Checks pension data provided by third party	Yes	Yes	No	No
Makes postentitlement match to pension data	Yes	No	No	No

Timely identification of payment errors is important. According to an SSA official, SSA issued regulations that limit its ability to change benefit payment amounts in order to provide for efficient program administration and protect beneficiaries from having to repay large overpayments caused by SSA errors. Under SSA regulations, reductions in the amount of benefits

paid to an individual generally must be made within 4 years of the date of a benefit determination. If more than 4 years pass, SSA regulations preclude changing the benefit amount either to correct it or to recover any overpayment, unless fraud or some other unusual circumstance exists. However, favorable changes in benefit determinations can be made at any time.

Internal Studies Indicate That SSA's Payment Controls Are Inadequate

Concerned about the adequacy of its payment controls, SSA conducted three studies in the 1990s to assess the extent of GPO- and WEP-related overpayments. For GPO, SSA studied spouse and survivor benefit payments being made to retired state and local government employees in Illinois and Ohio. For WEP, SSA studied the utility of using the OPM pension data it receives for postentitlement matching of benefit payments to retired federal employees. Although these studies have certain limitations, they indicate that SSA made

- between \$109 million and \$274 million in GPO-related overpayments from 1978 to about 1993 and
- between \$52 million and \$81 million in WEP-related overpayments from 1986 to about 1995.

On the basis of these studies, we estimate that GPO- and WEP-related overpayments range between \$160 million and \$355 million. While SSA has corrected and recovered overpayments in many of the cases studied, it has not yet established any approach to improve its payment controls.

SSA's Studies of the GPO Provision for Retired State and Local Government Workers Indicate That Overpayments Are Being Made

For many years, SSA has been concerned with its uneven approach to administering the GPO provision between federal and state and local government retirees. Verifying spouse and survivor benefit payments for federal employees is facilitated because they can be matched to pension benefit data available from a single source (OPM). Further, legislation explicitly permits such a match to enhance program integrity. For state and local government employees, however, such a match is logistically more difficult. No one retirement system makes benefit payments. Rather, possibly thousands of pension plans and retirement systems, administered by both public and private entities, make payments based on noncovered employment. SSA has no information that identifies these employers or the retirement systems offered to their employees. Further, to protect the privacy of former employees, many states have laws that restrict the disclosure of detailed pension information.

Confronted with these problems, SSA relies on its field offices to detect retiring noncovered state and local government workers when they apply for benefits. By questioning applicants and examining earnings records, field staff are expected to identify cases in which GPO applies.

Around 1993, SSA began to examine its application of the GPO offset to state and local government retirees residing in Illinois.² One of its primary purposes was to assess whether its different levels of internal controls were manifest in actual overpayments. In the absence of information on who earned pensions from noncovered employment, SSA had to make its best “guess” to identify beneficiary payments for study. SSA decided to select persons living in Illinois who were receiving spouse or survivor benefits and had other pension income.³ From this group of persons, SSA then searched its earnings records to identify possible noncovered employment. Through this analysis, SSA identified more than 20,000 current beneficiaries living in Illinois to whom the GPO offset might apply and where its payment records did not indicate that the GPO reduction had been considered. SSA selected 440 of these cases for study.

Among these 440 cases, SSA found 16 cases receiving overpayments. The overpayments exceeded \$307,000, an average of about \$19,200 per case. It also found one case for which its regulation, which places a 4-year limit on SSA’s changing of payment determinations and subsequent recovery of overpayments, precluded action. Because 17 overpayment cases had been found (3.8 percent of the cases), the Illinois study showed that there were about 730 overpayments in this state. If the average of \$19,200 per case were applied, the study suggested about \$14 million in GPO-related overpayments.

Believing that its selection criteria needed to be refined to reduce the number of unproductive investigations, SSA undertook a similar study in 1995 of GPO application to state and local government retirees from Ohio. Making some adjustment in the manner in which cases were selected for study, SSA chose 500 cases for examination. As of October 1997, the study had not yet been completed, so we have not used the available results to estimate overpayments. However, SSA had identified 19 cases with more

²The report prepared on the Illinois study does not specify the time period covered by the study or any time-related restrictions on the cases selected. It appears that the study covers cases from 1978 (when GPO became effective) until the early 1990s.

³Until 1990, SSA received and processed IRS form W-2P, which reported pension income. In 1990, this form was eliminated, and pensions, along with many other types of income and taxable events, were reported directly to IRS on form 1099R.

than \$312,000 in overpayments, about the same proportion of cases and a similar amount as detected in the Illinois study.

Using the results of the completed Illinois study to estimate the extent of GPO overpayments nationally is problematic because data on the number of noncovered state and local government employees are limited and what exists is contradictory. For example, a recent Bureau of the Census report indicated that in 1994 there were about 4.1 million state and local government retirees and about 13 million workers. The report also showed that about 60 percent of the state and local government employees were not covered by social security.

In contrast, a recent Bureau of Labor Statistics report for 1994 indicated that 24 percent of state and local workers were not covered by social security.⁴ In addition, SSA staff have estimated that only about 25 percent of state and local government workers in the country are not covered by social security.⁵ If we use Census data on the number of retired state and local government workers, 25 percent and 60 percent to represent the range of noncovered employment, and the results of the Illinois GPO study, the extent of GPO-related overpayments ranges from \$109 million to \$274 million. Table 3 shows how this estimate is constructed.

Table 3: Range of Estimated Nationwide GPO-Related Overpayments

	Low estimate (25 percent noncovered)	High estimate (60 percent noncovered)
Estimated retirees with noncovered pensions ^a	1.0 million	2.5 million
Estimated cases needing investigation (15 percent of cases in SSA's Illinois study)	150,000	375,000
Estimated GPO overpayment cases (3.8 percent of investigated cases in SSA's Illinois study)	5,700	14,250
Estimated GPO overpayment amount (\$19,200 per case in SSA Illinois study)	\$109 million	\$274 million

^aAccording to 1994 Bureau of the Census data, there were 4.1 million retired state and local government workers.

⁴"Employee Benefits in State and Local Governments, 1994," Bureau of Labor Statistics, Washington, D.C., May 1996.

⁵Census staff speculated that the difference between the estimated levels of social security coverage in its study and others could be attributed to several factors. The Census study included only retirement systems that had dedicated revenue sources other than the administering government and a separate accounting fund. These criteria tend to exclude smaller, pay-as-you-go systems. The Census study also focused on financial aspects of state and local retirement systems. Supplementary data on each retirement system's membership, type of beneficiary, and social security coverage are collected to supplement the financial data and are considerably less reliable than the financial data.

SSA's Study of the WEP Provision for Retired Federal Government Employees Indicates That Overpayments Are Being Made

In August 1994, SSA referred to its service centers about 36,000 cases for which it suspected WEP-related overpayments to federal retirees.⁶ SSA had never performed a postentitlement match with OPM data to verify WEP application to federal retirees as it does for GPO. To consider whether it needed to initiate a postentitlement matching program, SSA instructed its service centers to take special steps so that the results of investigating these cases could be determined. The service centers were to

- maintain control sheets and annotate the results of each referred case with designated codes. These codes were designed to indicate either whether WEP applied in the referred case or the reason WEP did not apply.⁷
- code the underlying cause of the payment problem in their overpayment accounting system in a special manner. The special code would allow the generation of management reports on the WEP-related overpayments detected from the referred cases.
- initiate overpayment recovery actions where appropriate.

Management reports on the number of overpayments from investigating these cases indicated that 154 overpayments (about \$725,000) were detected from the 36,000 referrals (about 0.4 percent). Overpayments averaged about \$4,700 in these cases. Although no formal decision has ever been made, SSA staff told us that this level of results did not warrant a postentitlement matching program.

Our discussions with field staff who managed the investigation of the referred WEP cases indicated, however, that the number of overpayments discovered during the study was much greater than the 154 identified in SSA's management report. In response to our questions, service center staff told us that they had apparently often failed to follow the instructions to use a special code when entering the WEP overpayments in SSA's accounting system. Thus, when SSA generated management reports based on the special code, most of the WEP overpayment cases identified in the study were not counted.

We were able to obtain the control sheets several of the service centers used and we found thousands of cases were coded "WEP reduction applies." To estimate the extent of WEP-related overpayments in SSA's study, we asked SSA to provide overpayment records from the cases investigated by one of the service centers where we had the control list of

⁶The WEP study covered claims filed in 1986 (when the provision became effective) through March 1993.

⁷There are about a half dozen conditions under which WEP does not apply.

cases. We asked for overpayment records for all cases that had been coded “WEP reduction applies.” There were 787 of the 6,674 cases investigated by this service center coded this way.

SSA provided overpayment records for 528 of these cases. Our analysis of the 528 cases indicated that 487 had WEP-related overpayments and that overpayment amounts totaled about \$2.2 million in these cases, or an average of about \$4,500 per case.⁸ The data also showed that SSA had either collected or was in the process of recovering most of these overpaid benefits.

With this information, the extent of overpayments among the 36,000 referred cases can be extrapolated. Given that the 487 overpayments represented 7.3 percent of this service center’s cases, we estimate that there are about 2,630 overpayment cases in the 36,000 cases referred to all the service centers. At an average overpayment of \$4,500 per case, we estimate that about \$11.8 million in WEP-related overpayments were detected in SSA’s study.

This estimate, however, excludes cases that were uncollectible because of SSA’s 4-year time limitation for recovering overpayments. At the service center that we examined, an additional 827 of the 6,674 cases (12.4 percent) involved WEP-related overpayments for which recovery was precluded by regulation.

Once a service center determines that the regulation limiting the time period in which overpayment recovery can occur applies, it does not calculate the amount of the overpayment in a given case. Applying the average overpayment amount detected for such WEP cases allows us to estimate the overall overpayments made in the referred cases. Thus, we estimate about 4,500 cases among the 36,000 referred cases for which regulations precluded overpayment recovery. At an average of \$4,500 per case, total lost overpayments amount to \$20.3 million.⁹ Coupled with the previously discussed \$11.8 million in overpayments, the absence of a postentitlement comparison to OPM records for WEP contributed to about \$32 million in overpayments to retired federal employees.

⁸Most of the overpayments that were not caused by WEP were related to individuals who continued to have wages or net earnings from self-employment after retirement, making them susceptible to the annual earnings test. Persons younger than 70 whose earnings exceed thresholds have their social security benefits reduced.

⁹This estimate of WEP-related overpayments is conservative. It is likely that the average overpayment in these cases is larger than the average overpayment in cases in which recovery was pursued because of the 4-year limit on overpayment recovery.

We were unable to identify any studies of the extent to which SSA has made WEP-related overpayments to retired state and local government workers. Therefore, we used SSA's WEP study results for federal retirees to approximate the amount of WEP-related overpayments to retired state and local government workers. We believe that this approximation is reasonable for several reasons.

First, the approximation is conservative. SSA's WEP study for federal employees reflects the level of overpayments occurring even though SSA checked OPM pension data at the time beneficiaries first applied for social security benefits. SSA does not have a similar ability to detect social security applicants already receiving a pension resulting from their noncovered employment by state or local governments. Thus, it seems reasonable to assume that SSA makes WEP-related overpayments to a higher proportion of state or local government retirees than it does to federal government retirees. Second, the amount of the WEP reduction is based on each retiree's covered earnings history, not on the amount of their government pension. Thus, even if federal pensions are higher on average than state and local government pensions, there is no reason to believe that the covered earnings history, and thus the appropriate size of the WEP reduction, would differ between the two groups.

As in the GPO estimate, because of the conflicting data on the number of noncovered state and local government retirees who receive a pension from noncovered employment, we used an estimating range. Table 4 shows that the absence of third-party pension data leads to an estimate of undetected WEP-related overpayments among state and local workers ranging from about \$20 million to about \$49 million.

Table 4: Range of Estimated Nationwide WEP-Related Overpayments to Retired State and Local Government Workers That Remain Undetected

	Low estimate (25 percent noncovered)	High estimate (60 percent noncovered)
Estimated retirees with noncovered pensions ^a	1.0 million	2.5 million
Estimated possible overpayment cases based on WEP study (2.2 percent of cases)	22,000	55,000
Estimated overpayment cases:		
—Undetected WEP overpayment cases (7.3 percent of cases)	1,606	4,015
—Cases in which overpayment recovery was precluded by SSA regulation (12.4 percent of cases)	2,728	6,820
Total	4,334	10,835
Estimated average WEP overpayment (\$4,500 per case)	\$19.5 million	\$48.8 million

^aAccording to 1994 Bureau of the Census data, there were 4.1 million retired state and local government workers.

SSA Can Improve Payment Controls

Improving administration of the WEP benefit reduction for retired federal government employees is relatively straightforward. SSA can use the OPM pension data it currently receives to periodically check the accuracy of benefit payments made to retired federal government employees. Improving GPO- and WEP-related payment controls for retired state and local government employees is more difficult, however. We identified two sources of information that can be used to identify state and local government retirees who have pension income resulting from noncovered employment: the individual retirement systems making pension payments to their eligible members and IRS, which receives reports from the retirement systems identifying pensions paid to each beneficiary every year. The merits and drawbacks associated with obtaining pension data from each source are described below.

Obtaining Pension Data Directly From Retirement Systems

The biggest advantage derived from obtaining third-party pension data directly from retirement systems relates to the timeliness of the data. As periodic payers of benefits, pension plans have the most current information about the beneficiaries, the pension amounts they are receiving, and the form and basis of the payment (annuity, lump sum, survivor benefit, and so on). In addition, by going directly to the retirement system paying benefits, there would be no need for IRS to act as a conduit for the information, slowing its availability to SSA.

Direct receipt of pension data from the retirement systems, however, creates significant logistical problems for SSA and the systems. SSA would have to identify the retirement systems paying benefits to state and local government retirees. There are possibly thousands of plans and systems, some paying pensions for noncovered employment and others not making these types of payments. These systems would have to be contacted to determine whether they pay pensions to persons who worked in noncovered employment.

Once these contacts are made, it is likely that legal problems will have to be resolved. Our contacts with 21 retirement systems for state and local government employees in five states and the District of Columbia indicated that states frequently had statutes restricting the disclosure of this type of information. Some retirement systems believed that the statutes would allow the disclosure of beneficiary payment data to SSA. Others, however, did not believe disclosure of this type of pension data to SSA was permissible under state law. This could mean that either special agreements would have to be established to obtain disclosure or perhaps litigation might be necessary.

A final concern relates to the administrative burden this type of approach would place on retirement systems. Once retirement systems have been identified and contacted and disclosure issues resolved, a system would still have to be established to routinely report pertinent pension information to SSA. This would be an additional reporting requirement for the retirement systems, because now they report beneficiary pension payments to IRS only. In effect, SSA would be seeking the same basic information being reported to IRS each year but perhaps in a different time period, or even more frequently.

Obtaining Pension Data From IRS

Obtaining pension data from IRS, rather than directly from retirement systems, would largely avoid the logistical problems associated with obtaining pension data from state and local government retirement systems. As noted, IRS receives annual reports of the amount of pensions each retirement system pays each of its eligible members on form 1099R ("Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc."). In addition, SSA can obtain access to form 1099R records for program administrative purposes, eliminating the legal issues noted above. Finally, this approach does not require the separate development of a new reporting system or the duplicate reporting

of pension income, thereby mitigating concern about additional taxpayer burdens.

The drawback of using form 1099R is that its current format does not provide SSA with sufficient information to target cases in which overpayments are being made. As the title of the 1099R form suggests, more than pension payments are reported on it. Payments from life insurance contracts, charitable gift annuities, various types of tax-free exchanges, distributions from and direct rollovers of individual retirement accounts, lump sum distributions, and pension income are among the many types of payments reported on form 1099R. A further complication is that with only about 4 percent of the workers not covered by social security, most of the pension payments reported on form 1099R would be earned in employment covered by social security. These pensions are not subject to the GPO and WEP benefit reduction provisions.

With about 50 million form 1099R reports filed with IRS in 1995, a way is needed to distinguish between pensions from noncovered employment and the many types of payments being reported. Adding a unique code for this purpose could do this. IRS has created a specific data field, known as the distribution code, to differentiate the types of payments reported on form 1099R. A code placed in this field indicating that the payment was a pension based on noncovered employment would make form 1099R useful to SSA. With this information, SSA could then compare only the form 1099R reports having this code with its beneficiary payment records. SSA could examine cases for which it has not applied the GPO and WEP reductions. This would allow SSA to target for investigation the cases most likely to have an overpayment.

We discussed with IRS ways that the form 1099R could be revised to provide pension information useful to SSA and the effect that processing changes in the form would have on operations. IRS officials said that the proposed approach would minimally affect their processing costs and that they could be implemented for processing year 2000.

We also discussed these options with many of the retirement systems' managers whom we visited. Overall, most of the managers (12 of 14) told us that requiring that they identify on form 1099R payments based on noncovered employment would not pose a severe administrative problem to them. The managers said that the modification would just involve minor programming changes and that they often have information that their pension payments are based on noncovered employment. A concern about

this change was that sufficient lead time be provided to allow them to make the necessary adjustments to their processes for tax reporting and to obtain the needed data.

Conclusions

SSA needs better payment controls to administer the GPO and WEP benefit reduction provisions of the Social Security Act. Since the enactment of these provisions, SSA has not had sufficient ways to verify, in a timely or complete manner, whether beneficiaries are receiving pensions earned through noncovered employment. Recent SSA studies indicate that the absence of such verifications has resulted in overpayments between 1978 and 1995 that we estimate to have ranged from \$160 million to \$355 million. Further, much of these overpayments has been lost because SSA has not detected the errors within the 4 years required by its regulations.

SSA has been concerned for several years about the adequacy of its payment controls as they relate to the GPO and WEP provisions, and it has struggled to find ways to enhance them. Certainly, SSA can use the OPM pension data that it already has to enhance its WEP enforcement controls for federal employees. But it also needs a way to obtain independent pension data for nonfederal retired workers who did not contribute to social security. We believe that obtaining form 1099R data from IRS is the most efficient and least disruptive option. A modification to form 1099R would provide SSA with the data it needs to improve the administration of GPO and WEP for state and local government retirees.

Recommendations to the Commissioner of Social Security

To improve the administration of the GPO and WEP benefit reductions, the Commissioner of Social Security should

- begin using pension information obtained from OPM to establish a postentitlement matching program for WEP so that it can verify the accurate payment of social security benefits to retired federal government employees and
- work with IRS to revise the reporting of pension information on IRS form 1099R, so that SSA would be able to identify people receiving a pension from noncovered employment and to improve its internal controls by establishing a postentitlement matching program.

Agency Comments and Our Evaluation

Both SSA and IRS were asked to comment on this report. SSA responded favorably to our recommendations. SSA's comments are included as appendix II.

SSA acknowledged that it had been studying the way it administers the GPO and WEP provisions in order to improve its payment controls, and it agreed with both recommendations in our report. The agency plans to use OPM pension data to periodically check the accuracy of benefit payments made to retired federal government employees. SSA also said that it believes that revising form 1099R to indicate payments based on pensions from noncovered employment is the best way to improve GPO- and WEP-related payment controls for retired state and local government employees. The agency will work with IRS to implement the recommended modifications to form 1099R.

SSA also referred to the many cases in this report for which overpayment recovery was precluded by its regulations limiting recovery if more than 4 years have elapsed from the date of a benefit determination. SSA said that the additional planned matching operations would be scheduled frequently enough to permit benefit reductions to occur in a more timely manner and preclude the imposition of its regulations governing the timely identification of payment errors.

IRS said that it will work with SSA to revise the reporting requirements for pension information on form 1099R so SSA will be able to identify persons receiving a pension from noncovered employment. IRS said that it has been in contact with SSA to offer its support and is in the process of scheduling meetings with internal stakeholders to begin addressing issues identified in its preliminary analysis. IRS believes that the additional reporting requirement must be constructed in a way that minimizes the perception of increased burden on the retirement systems and that any associated disclosure issues under Internal Revenue Code Section 6103 must be addressed immediately.

IRS revised an earlier estimate to us that these changes could be implemented in time for processing year 1999. It now believes that the necessary changes to the forms and systems cannot be made before processing tax year 2000 returns. We have revised our report to reflect IRS's latest estimate.

We are providing copies of this report to the Commissioners of Social Security and Internal Revenue, the Director of the Office of Management and Budget, and other congressional committees with an interest in this matter. We will also make copies available to others upon request. Please contact me on (202) 512-7215 if you have any questions about this report. Other major contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink, reading "Barbara D. Bovbjerg". The signature is fluid and cursive, with a large, stylized "B" at the beginning.

Barbara D. Bovbjerg
Associate Director
Income Security Issues

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Abbreviations

GPO	Government Pension Offset
IRS	Internal Revenue Service
OPM	Office of Personnel Management
SSA	Social Security Administration
WEP	Windfall Elimination Provision

Scope and Methodology

Work on this assignment was performed between November 1996 and January 1998. In doing our work, we visited Social Security Administration (SSA) offices at its headquarters in Baltimore, Maryland, and in its San Francisco region, which services claims from California and has a significant number of noncovered employees. We also discussed various issues by telephone with SSA staff in its Southeastern, Mid-America, Great Lakes, and Northeastern program service centers.

A portion of our work also involved discussions with Internal Revenue Service (IRS) and retirement systems that pay benefits to people who worked in state and local, noncovered government employment. We visited 21 retirement systems in states where there are a significant number of workers who are not covered by social security. The states we visited were California, Colorado, Louisiana, Maryland, and Virginia. We also visited a business in the District of Columbia that administers pension plans on a contract basis for many state and local government agencies. During our visits to retirement systems, we discussed state laws governing the disclosure of plan information and the effect of options for providing pension data to SSA on their operations.

Evaluation of GPO and WEP Administration

To determine how well SSA administers the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) benefit reduction provisions, we

- reviewed past reports by the Office of Inspector General, Congressional Research Service, and Congressional Budget Office and SSA's Office of Program Integrity Reviews concerning the GPO and WEP benefit reduction provisions;
- met with SSA headquarters staff in components responsible for policy, operations, and systems for GPO and WEP;
- reviewed SSA operating procedures for processing benefit claims and verifying payments made to retired government employees who worked in positions not covered by social security; and
- examined the results of monthly computer matching to pension data provided under agreement with OPM to identify persons receiving spouse benefits and federal pensions.

During the course of our work, we identified three SSA studies between 1993 and 1995 of GPO and WEP administration that were directly related to the objectives of our review. There were two studies concerning the adequacy of controls for GPO administration for state and local government

retirees who earned pensions from their noncovered employment. At the conclusion of our work, only one of the two was completed. The other study was close to completion in October 1997, but several cases were still being investigated and no formal reports or summaries of the outcome had yet been prepared.

The study of WEP administration was designed to examine whether SSA should make periodic comparisons of its beneficiaries to OPM pension data to detect retired federal government workers receiving a noncovered pension. The results of that study were never published or formally summarized. Management reports on the number of overpayments detected among the referred cases indicated to SSA staff that a postentitlement matching operation would find few payment errors and was probably not warranted.

Although many of the records documenting the WEP study's results could not be located, we were able to obtain several of the master case control lists used by the program service centers to broadly track progress of work and case outcomes. To get a better understanding of the actual results of the WEP study, we asked SSA to provide all overpayment amounts for cases examined by one service center, Mid-America. We selected this service center for analysis because its case control records were the most complete of the four sets we had. We asked for any overpayment records established after July 1994 (the date the cases were referred to the service centers) for every case in which the investigation outcome was coded "WEP reduction applies."

The Mid-America Service Center had received 6,674 cases to investigate for possible WEP-related payment errors. Overall, we requested overpayment records for 787 cases. We received overpayment records for 528 of these cases. After examining these records, we eliminated 41 from our study because available data indicated that the overpayment was most likely related to reasons other than the WEP study. Most of these cases were eliminated because of the annual earnings test that restricts the amount of wages beneficiaries can earn before SSA begins reducing their benefits.

Options for Improving GPO and WEP Administration

To identify options for improving SSA's payment controls and consider their merits and drawbacks, we met with officials from retirement systems in California, Colorado, Louisiana, Maryland, Virginia, and the District of Columbia that administer pension plans that pay benefits to persons

working in noncovered employment. At the plans, we obtained basic information on the types of plans administered and the number of persons in them in noncovered employment. We discussed state laws governing access to pension records and obtained the opinions of officials on various options for reporting pension income to SSA and how those options would affect their operations. We also met with IRS staff to discuss their views on various options for reporting noncovered pension income.

Comments From the Social Security Administration



SOCIAL SECURITY

Office of the Commissioner

March 11, 1998

Ms. Jane L. Ross
Director, Income Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Ross:

Thank you for the opportunity to comment on the draft report, "Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions" (GAO/HEHS-98-76).

The Social Security Administration (SSA) has been conducting studies of the way the Government Pension Offset provision and the Windfall Elimination Provision are being administered in order to make improvements in payment controls. The information provided in the report will be very helpful as we evaluate this area. We agree with both of the report recommendations and implementation action is already underway.

Enclosed are specific comments on the report. If you have any questions, please call me or have your staff contact Sandy Miller at (410) 965-0372.

Sincerely,

Kenneth S. Apfel
Commissioner
of Social Security

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Appendix II
Comments From the Social Security
Administration

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT, "SOCIAL SECURITY:
BETTER PAYMENT CONTROLS FOR BENEFIT REDUCTION PROVISIONS COULD
SAVE MILLIONS" (GAO/HEHS-98-76)

We appreciate GAO's efforts in reviewing SSA's administration of the Government Pension Offset (GPO) provision and the Windfall Elimination Provision (WEP). SSA has been studying this area to improve payment controls in administering these provisions. GAO's input is helpful as we evaluate the process. We agree with both of the report recommendations as follows.

GAO Recommendation

SSA should begin using pension information obtained from the Office of Personnel Management (OPM) to establish a post-entitlement matching program for WEP so that it can verify the accurate payment of social security benefits to retired federal government employees.

SSA Comment

We agree that payment controls for the WEP can be improved by using OPM pension data to periodically check the accuracy of benefit payments made to retired federal government employees. Plans for such a match are currently underway. Target dates are not available as planning is in the preliminary stages.

GAO Recommendation

SSA should work with the Internal Revenue Service (IRS) to revise the reporting of pension information on IRS form 1099R, so that SSA would be able to identify persons receiving a pension from noncovered employment and improve its internal controls through the establishment of a post-entitlement matching program.

SSA Comment

We agree with GAO that improving GPO and WEP-related payment controls for retired state and local government employees can best be accomplished by obtaining form 1099R data from IRS once the form has been modified. We will work with IRS to determine if that agency will implement the recommended modifications to the form. Again, these negotiations are in the very early stages so target dates are not available as yet.

Other Comments

GAO found that many overpayments resulting from GPO and WEP provisions not being applied are not recoverable because SSA has not detected the errors within the 4 years required by regulations. We believe that this will not be an issue for the most part, however, once we begin the planned additional matching operations. The matches should be scheduled frequently enough that any needed benefit reductions would be done much more timely.

Comments From the Internal Revenue Service



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

April 13, 1998

Ms. Barbara D. Bovbjerg
Associate Director, Income Security Issues
Health, Education, and Human Services Division
U.S. General Accounting Office
441 G Street, N.W., Room 5A50
Washington, D.C. 20548

Dear Ms. Bovbjerg:

Thank you for the opportunity to review the draft report entitled "Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions (GAO/HEHS-98-76)." We have reviewed the report and are pleased to inform you that we concur with the recommendation that the Internal Revenue Service (IRS) work with the Social Security Administration (SSA) to revise the reporting requirements for pension information on Form 1099-R, so that the SSA will be able to identify persons receiving a pension from noncovered employment.

We have been in contact with the SSA to offer our support and are in the process of scheduling meetings with internal stakeholders to begin addressing issues identified in our preliminary analysis. We believe that the additional reporting requirement must be constructed in such a way as to minimize the perception of increased burden on the retirement systems and that any associated disclosure issues under Internal Revenue Code Section 6103 be addressed immediately.

We would like to bring to your attention that the draft report states the IRS officials, at the time of the discussions, indicated the proposed change could be implemented for the 1999 processing year. As significant time has elapsed since those discussions, we must request that this statement be revised to reflect that the proposed change could be implemented for the processing year 2000. In explanation, since the requests for systems changes to our processing year programs are finalized in the early months of the previous calendar year, coupled with the extensive workload associated with the initiative to bring our computer systems Year 2000 compliant, we are unable, at this time, to include such a change in our program plans for 1999.

Appendix III
Comments From the Internal Revenue
Service

2

If you need any additional information, please let me know or have a member of your staff contact Amanda Michanczyk at 202-622-6759.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Dolan", written over the word "Sincerely,".

Michael P. Dolan

GAO Contacts and Acknowledgments

GAO Contacts

Roland H. Miller III, Assistant Director (202) 512-7246
William J. Staab, Evaluator-in-Charge (202) 512-6814

Acknowledgments

In addition to those named above, Gerard V. Grant, Evaluator, John G. Smale Jr., Senior Social Science Analyst, and James P. Wright, Assistant Director (Study Design and Analysis) made contributions to the development of this report.

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