

**Statement of James B. Lockhart
The Deputy Commissioner of Social Security**

**Testimony before the Senate Committee on
Homeland Security and Governmental Affairs**

**Subcommittee on Federal Financial Management,
Government Information, and International Security
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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss the efforts the Social Security Administration (SSA) is undertaking to strengthen and maintain the integrity of the Old-Age, Survivors and Disability Insurance (Social Security) and Supplemental Security Income (SSI) programs, and to prevent, detect, and collect improper payments. This issue is crucially important to the Social Security Administration and is essential to insure public confidence in our programs. To that end, I will today describe the scope and magnitude of our Agency's activities.

Administration of Our Programs

SSA's programs promote the nation's economic security by administering America's major income support programs for the elderly, disabled, and their dependents and survivors through the Old-Age and Survivors Insurance (OASI) program, the Disability Insurance (DI) program, and the SSI program. These programs touch the lives of over 95 percent of the American public and improve the economic well being of the nation.

The combined Social Security programs provide a comprehensive package of protection against loss of earnings due to retirement, disability, and death. Cash benefits are financed through payroll taxes paid by workers, their employers, and self employed individuals. SSI, on the other hand, is a needs-based program

funded by general revenues designed to provide assistance to disabled and aged individuals with limited income and resources.

In 2005, SSA paid over \$520 billion to over 48 million individuals in Social Security benefits, and over \$38 billion to over 7 million individuals in SSI payments. Our beneficiary rolls continue to grow. Over the 10-year period beginning October 1996 through the end of September 2005, the number of OASI beneficiaries has increased by 6 percent, DI beneficiaries by 37 percent, and SSI recipients by 10 percent.

As you can see, SSA pays out a large amount of money to a growing beneficiary population. We are proud of the work we do to maintain and improve our high level of payment accuracy. In FY 2004, our combined Social Security/SSI payment accuracy was 99.1 percent with respect to overpayments, and 99.7 percent with respect to underpayments. Even with this high level of performance, we believe we can do better. We are committed to improving our payment accuracy and reducing the volume and magnitude of improper payments we make.

SSA has a well-deserved reputation for providing sound, excellent financial management. We take our reputation, and the stewardship responsibility that comes with it, very seriously. We have made improving the financial integrity and management of all the programs we administer one of our top priorities.

SSA's Stewardship Responsibility

The Social Security Administration faces great challenges: giving the American people the service they expect and deserve, particularly as the number of beneficiaries increases each year with the aging of the baby boomers; improving program integrity through sound fiscal stewardship; ensuring the program's solvency for future generations and maintaining the high quality staff the Social Security Administration needs to meet these challenges. The Agency's strategic goals -- Service, Stewardship, Solvency and Staff -- directly address these challenges. To achieve these goals, we established nine strategic objectives.

One of our strategic objectives is to detect and “Prevent fraudulent and improper payments and improve debt management.” To support this objective, we established individual performance measures aimed at preventing and detecting improper payments and collecting debt efficiently. This goal aligns directly with the President’s Management Agenda (PMA) program initiative to eliminate improper payments. We work closely with OMB on this initiative.

We also work closely with our Inspector General to detect, prevent, and resolve improper payments. For example, the Cooperative Disability Investigations (CDI) program is a joint effort among Federal and state agencies to effectively pool resources to prevent fraud in SSA's Social Security and SSI disability programs and related Federal and state programs. SSA's Office of Operations, Office of Disability Programs, and the OIG manage the CDI Program. In the field, CDI Units are typically comprised of one OIG Special Agent, two Investigators on detail from state or local law enforcement agencies, and two experienced SSA and/or DDS employees.

The mission of the CDI program is to obtain evidence of material fact sufficient to resolve questions of fraud in SSA's Social Security and SSI disability programs. Last year CDI units saved \$123 million related to overpayments caused by fraud.

Definition of Improper Payments

The Improper Payments Information Act of 2002 (IPIA) and OMB implementation guidance define programs whose estimated improper over and underpayments exceed 2.5 percent of program outlays and \$10 million as susceptible to improper payments. SSI has been identified as such a program, and, while improper payments in our retirement, survivors, and disability, programs are well below that threshold, we are part of the “Eliminating Improper Payments” program initiative and are committed to eliminating improper payments in all our programs.

In measuring payment accuracy SSA considers as proper those payments it is required to make under statute or court order, even though some of those payments may later be determined to be overpayments. Both OMB and GAO have affirmed this to be a correct interpretation of IPIA. However, OMB and SSA have agreed that once it is known that these payments are determined to be overpayments and thereby subject to recovery, SSA initiates collection efforts immediately to increase the chances that they will be recaptured. All overpayments, whether improper payments or the result of a statute or court order, are pursued aggressively using all recovery tools available to SSA.

An example of this type of payment occurs when an individual is determined to no longer be disabled, but files an appeal of SSA's decision. Under section 223 (g) of the Social Security Act and pursuant to the 1970 U.S. Supreme Court decision in *Goldberg v. Kelly*, while the appeal is being adjudicated SSA is required to continue to pay disability benefits to the individual if requested to do so. This requirement was extended to SSI payments by the U.S. District Court order in *Cardinale v. Matthews* in August 1975. If the appeal decision upholds the Agency's determination, the individual is considered overpaid as of the date of the original decision. While this results in an overpayment that must be resolved, the payments issued are not considered improper since they were required. It is important to note that, while these payments are not defined as improper, SSA makes every effort to collect the resulting overpayment.

Management Plans Addressing Improper Payments

We have plans in place to reduce improper payments and are implementing them. Our Social Security improper payment rate is extremely low -- one-half of a percent with respect to overpayments and two-tenths of a percent with respect to underpayments in FY 2004. Despite these low percentages, we are committed to taking the steps needed to lower them further because in a program the size of Social Security, each one-half of a percent increase in payment accuracy equates to \$2.6 billion of error prevented.

As of the first quarter in FY 2005, OMB implemented a President's Management Agenda program initiative on Eliminating Improper Payments. Prior to this time, activities in this area were highlighted in the Financial Performance PMA Initiative. We report to OMB every quarter on our accomplishments for the prior three months as well as actions we plan for the next quarter. OMB reviews the quarterly report, and rates the agency both on progress and status using a scorecard with the possible grades of green, yellow, and red. In its most recent scorecard report, OMB scored this initiative as a "green" in progress and a "yellow" in status. We are pleased with this score, but plan to implement additional improper payment safeguards to reach our goal of green in both status and progress.

GAO designated SSI as a high-risk program in 1997. Shortly after Commissioner Barnhart and I came to SSA, we released the SSI Corrective Action Plan in June 2002. This plan outlined a multi-faceted approach to improved stewardship through increased overpayment detection and prevention, improved debt collection, new measurement strategies, potential changes in SSI policies, and Agency accountability. GAO recognized SSA's progress in improving the management of the SSI program by removing it from the high-risk list in January 2003. In FY 2004, our error rates were 6.4 percent with respect to overpayments and 1.3 percent with respect to underpayments. We are pleased with our progress and continue to improve our management of the SSI program. The SSI Corrective Action Plan is updated monthly, and I meet with the SSA accountable executives each month.

As you can see from the attached charts, SSA has been able to keep its error rates at low levels over the last several years. For Social Security benefits, the error rate for both over and underpayments have been less than 1 percent in every year during this period. The SSI program is more error-prone. Over the same period the overpayment error rate ranged from a low of 5.3 percent in 2000 to a high of 6.7 percent in 2001. For the same period, the SSI underpayment error rate has been consistently below 2 percent. The combined rate for all programs, for both over and underpayments,

has been under 1 percent each year. But we can and must do better, especially in the very complex SSI program.

Challenges in Eliminating Improper Payments

The complexity of the programs we administer presents unique challenges in our ability to control improper payments. The risk of improper payments increases in programs with a significant volume of transactions or complex criteria for computing payment. For example, application of provisions relating to the effect of workers' compensation payments on DI benefits varies based on differences in state laws. In addition, we are sometimes unable to get timely information on the amount and payment of workers' compensation from the beneficiaries and payers.

Another error-prone area involves substantial gainful activity (SGA), which is the determination as to whether a DI beneficiary's work activity indicates he/she is no longer eligible for benefits. One issue in this area is the accuracy and timeliness of work reports. Another is the complex nature of the determination, which involves consideration and development of work related income exclusions, subsidy, application of trial work period months, and extended periods of eligibility.

The rules for determining initial and continuing eligibility for SSI are even more complex. Our ability to get timely, accurate information to support payment determinations, especially where wages are concerned, sometimes adversely impacts our ability to effectuate accurate, timely benefits. While we continue to pursue data matches and other initiatives to get the information we need, we must still rely heavily on reports from recipients or their payees to get information timely.

Computing an SSI payment involves developing complex issues such as living arrangements, in-kind support and maintenance, cash income, and ownership and valuation of resources. Resource limits, which exclude a house and one car, are \$2000 for individuals and \$3000 for couples.

Some types of income are subject to specific exclusions. Others, such as some child support payments, do not count dollar for dollar. In addition, many individuals who are eligible for both Social Security and SSI are subject to a complex adjustment of their retroactive payment.

We build accuracy controls into every payment decision we make. Further, SSA has a number of very cost effective processes to prevent and detect improper payments. Prominent among these are continuing disability reviews (CDRs) for assuring ongoing entitlement to disability benefits, and redeterminations of eligibility for SSI recipients to assure that payments reflect any changes in circumstances that affect eligibility. The administrative cost of those types of workloads is more than offset by the savings that result -- by a factor of about eight program dollars saved for every one administrative dollar spent. We use sophisticated profiling techniques to select cases for those reviews and to maximize the resulting savings.

This year the Congress did not fully fund the President's administrative funding request and it is important to acknowledge that budget limitations will impact our ability to pursue as many of those cases as we know would be productive. In his FY '07 the President is asking for special funding and a discretionary cap adjustment to assure that the resources will be available to conduct CDRs.

What We Are Doing

SSA has made great strides in preventing improper payments by obtaining beneficiary information from independent sources sooner and by using technology more effectively. For example, SSA has data matches with a number of Federal and state agencies. These include matches with the Internal Revenue Service, Department of Labor, Office of Personnel Management, and the Department of Veterans Affairs. With the states, we also have developed and are using Electronic Death Registration information to prevent improper payments after an individual's death.

We are in the process of developing automated capabilities that will further prevent, identify, and correct computation errors. For example, we recently entered into an agreement with the Office of Child Support Enforcement (OCSE) to access the database of new hires to detect work activity of DI beneficiaries. We have implemented a system known as eWork, which allows field office staff to record work reports and issue receipts for reported work, and allows managers to track and prioritize our nonmedical CDR workload. We are improving the accuracy of earnings records by encouraging employers to file wage reports electronically. Last year, 66 percent of W-2s were filed electronically, up from less than 10 percent in 1999.

One of our most effective tools to prevent DI overpayments is the Pre-Effectuation Review (PER) of samples of favorable DI awards. During FY 2004, we reviewed over 330,000 cases. An estimated \$13 was saved for every \$1 spent on these reviews.

We are also involved in initiatives specific to controlling SSI improper payments. For example, we are testing an automated telephone process for SSI recipients and their payees to report monthly wages. We are also conducting a test in Kansas City that utilizes a centralized unit to process mailed-in wage reports. During the interview process we use online queries during interviews to access the OCSE online wage and new hire files to help avoid and detect SSI wage overpayments. In addition, we are exploring the usefulness of matching all recipients against the new hires file to learn quickly about unreported work.

To address improper payments caused by unreported financial accounts held by SSI beneficiaries, we initiated a study in our New York region to gather information electronically about account balances directly from financial institutions and ascertain the characteristics of cases that are likely to have unreported resources. We plan to expand this successful pilot.

The redetermination process is one of our most powerful tools for preventing and detecting SSI overpayments. In this process, we review cases to ensure that nondisability factors of eligibility continue to be met and payment amounts are correct. In FY 2004, this process enabled SSA to collect or prevent \$2.4 billion in overpayments and \$1.3 billion in underpayments.

To support our strategic objective to “Prevent fraudulent and improper payments and improve debt management”, SSA established performance goals for processing redeterminations, processing CDRs and for the percentage of outstanding debt in a collection arrangement. I am pleased to report that, in FY 2005, we met each of these goals. We also have very aggressive goals to maintain our Social Security improper payments at 0.4 percent and reduce SSI improper payments to 5.2 percent by 2008.

In addition to our efforts to prevent and detect improper payments, SSA also has a comprehensive debt collection program. We use both internal and authorized external collection tools to collect what we are owed. Internal methods include benefit withholding for persons who are on our rolls, and our own billing and follow-up system to collect overpayments from individuals who are no longer receiving benefits. Other authorized external debt collection methods include:

- Tax Refund Offset (as authorized under IRC section 6402(d));
- Administrative Offset (collection of a delinquent debt from a Federal payment other than a tax refund);
- Mandatory Cross-Program Recovery;
- Credit Bureau Reporting; and
- Administrative Wage Garnishment (AWG);

We plan to expand the use of the AWG program, and are working towards implementing programs involving federal salary offset, non-entitled debtors, interest charging, and private collection agencies.

Legislation

SSA continuously develops legislative proposals to improve administration of our programs and to support the President's annual budget. The Social Security Protection Act of 2004 (SSPA) contained several provisions that simplify administration of the SSI program. These include changing the way we calculate certain income exclusions, making uniform the time period for excluding from countable resources certain payments, and simplifying how we count one-time receipt of income.

SSPA also expanded our ability to use cross-program recovery to collect overpayments. We can now recover overpayments paid under one program from benefits payable under another. We can also withhold up to 100 percent of any underpayment and 10 percent of ongoing monthly income to recover an overpayment.

On February 8, 2006, the President signed S. 1932, the Deficit Reduction Act of 2005. It requires the Commissioner of Social Security to conduct reviews of a specific percentage of SSI initial disability and blindness cases of individuals aged 18 and older that are allowed by state disability determination service agencies (DDS). The provision will be phased in beginning in April of this year. In fiscal year 2007, the review requirement is 40 percent. And, for fiscal years 2008 and thereafter, 50 percent of all DDS allowances will be reviewed. We project these pre-effectuation reviews will save approximately \$490 million over 10 years. By the tenth year, these reviews will have identified and prevented improper payments in an estimated 25,000 incorrect SSI disability and blindness determinations. As I said earlier, we already conduct PER reviews on DI cases and have found them to be an extremely effective improper payment prevention tool.

The President's FY 2007 budget request includes a proposal that would simplify the administration of our workers' compensation offset provisions. Enactment of this proposal would establish a uniform amount of reduction and would limit the duration of the offset imposed to five years.

The budget request also includes a proposal that would improve the administration of provisions that reduce the Social Security benefits of beneficiaries who receive government pensions from work not covered by Social Security. The proposal would establish a mandatory electronic system for collecting data on pension income from non-covered state and local employment. This proposal and the workers' compensation proposal will prevent \$2.8 billion in improper payments over the next 10 years.

As mentioned in the 2007 budget and as part of our SSI Corrective Action Plan, SSA is working on a plan to restructure and simplify the SSI program, including the complicated in-kind support and maintenance rules I mentioned earlier. Our challenge is to do this in a fair and equitable manner while being budget neutral regarding program costs.

This budget also helps SSA to fulfill its fiscal stewardship responsibility by providing funding to conduct CDRs, which ensure proper benefit payments. Funding for CDRs is included in the \$9.5 billion budget for SSA's Limitation on Administrative Expenses (LAE) account. As I mentioned before, the FY 2007 President's budget proposes to finance the increase in SSA's CDR funding through a discretionary cap adjustment of \$201 million. We estimate we will save \$2 billion in program costs through this additional funding.

Conclusion

SSA is committed to ensuring that the public receives the benefits they are due and assuring taxpayers that Trust Fund money and general revenue funds are accurately and efficiently paid. We are responsible for nearly \$560 billion in benefit payments annually, and we take our stewardship responsibility very seriously. Every year, we target initiatives that will have the most potential to improve the integrity of the Agency's programs by improving debt prevention, detection, and collection.

We will continue to work with Congress, OMB, and other stakeholders to achieve the PMA goal of eliminating improper payments. I appreciate the opportunity to discuss our efforts, and I would be happy to answer any questions you may have.