

*Audit Report*

Spousal Beneficiaries Whose  
Government Pension Offset Has  
Stopped

A-09-13-23049 / May 2014

# OIG

Office of the Inspector General  
SOCIAL SECURITY ADMINISTRATION

## MEMORANDUM

**Date:** May 27, 2014 **Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** Spousal Beneficiaries Whose Government Pension Offset Has Stopped (A-09-13-23049)

The attached final report presents the results of our audit. Our objective was to determine whether the Social Security Administration had adequate controls to ensure it did not improperly stop Government Pension Offset for spousal beneficiaries.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

# Spousal Beneficiaries Whose Government Pension Offset Has Stopped

## A-09-13-23049



May 2014

Office of Audit Report Summary

### Objective

To determine whether the Social Security Administration (SSA) had adequate controls to ensure it did not improperly stop Government Pension Offset (GPO) for spousal beneficiaries.

### Background

The GPO provision reduces monthly benefits for spouses, divorced spouses, and surviving spouses who receive a pension based on their own work for a Federal, State, or local government that was not covered by Social Security. The GPO reduction is generally equal to two-thirds of the government pension.

Under certain conditions, an exemption from GPO may apply or SSA may properly stop GPO for beneficiaries who are no longer receiving their pensions. If GPO does not apply, SSA employees must record the reason for the exemption on the Master Beneficiary Record (MBR).

### Our Findings

SSA needs to improve its controls to ensure it does not improperly stop GPO for spousal beneficiaries. We estimate that SSA incorrectly recorded GPO stop dates for 812 spousal beneficiaries on the MBR. This included 314 beneficiaries whom SSA overpaid about \$9.1 million because it improperly stopped withholding GPO or incorrectly calculated the GPO amounts. Finally, we estimate that SSA will overpay the 314 spousal beneficiaries about \$2 million, annually, unless it takes action to identify and correct these payment errors.

Generally, these errors occurred because SSA employees erroneously recorded GPO stop dates on the MBR, did not properly calculate GPO because they incorrectly recorded monthly pensions as lump sum payments, or did not properly apply pension amounts when they calculated the GPO amount.

### Our Recommendations

We recommend that SSA:

1. Take corrective action to remove the improper GPO stop dates for the 88 beneficiaries identified by our audit. In addition, if appropriate, establish overpayments and withhold GPO from 34 of these beneficiaries.
2. Evaluate the results of its corrective action for the 88 beneficiaries and determine whether it should review the remaining population of 823 spousal beneficiaries.
3. Determine whether it should develop additional controls and procedures to ensure GPO stop dates are correct.

SSA agreed with our recommendations

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## **ABBREVIATIONS**

GPO	Government Pension Offset
MBR	Master Beneficiary Record
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration

## OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) had adequate controls to ensure it did not improperly stop Government Pension Offset (GPO) for spousal beneficiaries.

## BACKGROUND

GPO reduces monthly benefits for spouses, divorced spouses, and surviving spouses who receive a pension based on their own work for a Federal, State, or local government not covered by Social Security. The GPO reduction is generally equal to two-thirds of the government pension. Under certain conditions, a GPO exemption may apply. For example, an individual whose last 60 months of employment was work covered by both Social Security and a government pension plan may be exempt from GPO.<sup>1</sup> SSA may also properly stop withholding GPO for beneficiaries who are no longer receiving their pension.<sup>2</sup> Finally, SSA employees must record on the Master Beneficiary Record (MBR) the reason GPO does not apply.<sup>3</sup>

When SSA determines a spousal beneficiary is subject to GPO, it documents the individual's pension information and calculates a GPO amount.<sup>4</sup> GPO applies to all government pension payments whether the payments are made periodically, in a lump sum, or both.<sup>5</sup> For pensions paid monthly, the GPO amount is generally equal to two-thirds of the pension amount.<sup>6</sup> For a lump sum pension payment, the GPO amount is generally based on the beneficiary's age at the time of payment and their life expectancy.<sup>7</sup> If a beneficiary stops receiving his/her pension, SSA employees must update the MBR with a GPO stop date.

We identified 923 spousal beneficiaries for whom, according to the MBR, SSA had previously withheld GPO but then stopped the withholding. From this population, we selected a random sample of 100 beneficiaries for review (see Appendix B).

## RESULTS OF REVIEW

SSA needs to improve its controls to ensure it does not improperly stop GPO for spousal beneficiaries. We also found that SSA did not always properly calculate GPO withholding

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<sup>1</sup> SSA, POMS, GN 02608.100.A (August 29, 2013); SSA, POMS, GN 02608.107 (August 11, 2010).

<sup>2</sup> SSA, POMS, GN 02608.100.A (August 29, 2013).

<sup>3</sup> SSA, POMS, GN 02608.200.B.2 (September 23, 2013).

<sup>4</sup> SSA, POMS, GN 02608.200.C (September 23, 2013).

<sup>5</sup> SSA, POMS, GN 02608.400.A (September 23, 2013).

<sup>6</sup> SSA, POMS, GN 02608.100.A.2.a (August 29, 2013).

<sup>7</sup> SSA, POMS, GN 02608.400.D (September 23, 2013).

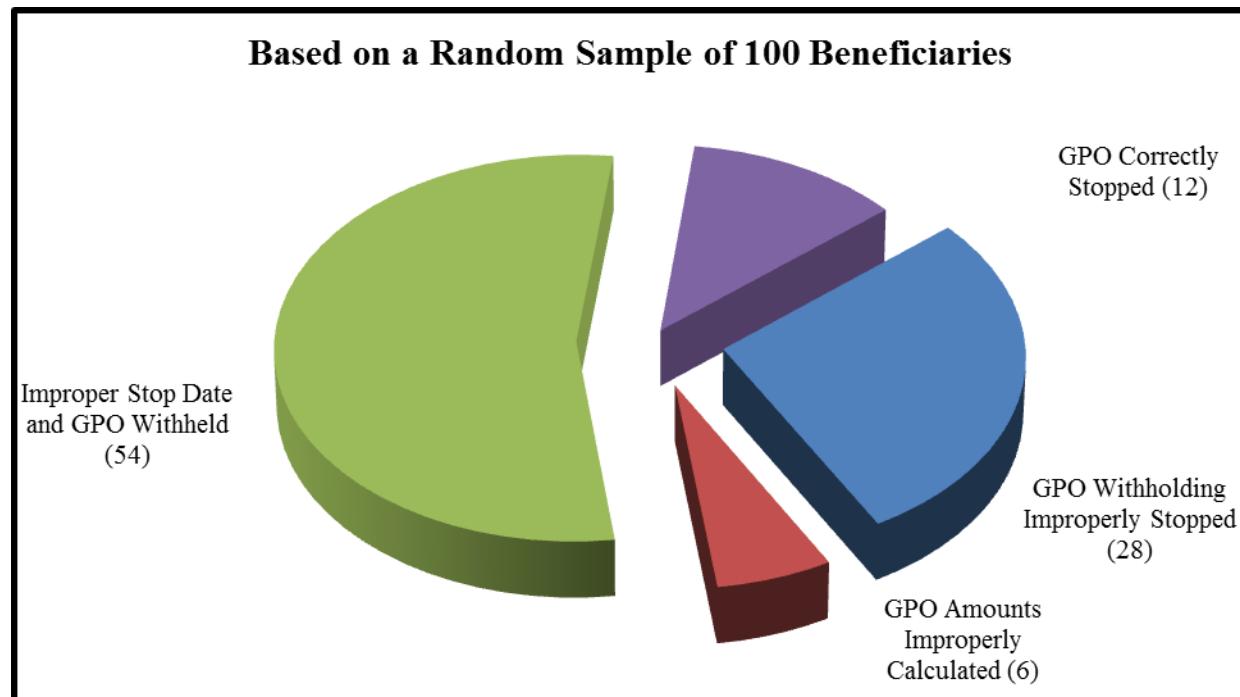
amounts for beneficiaries. Based on our random sample, we estimated that SSA incorrectly recorded GPO stop dates for 812 spousal beneficiaries on the MBR. This included 314 beneficiaries whom SSA overpaid about \$9.1 million because it improperly stopped withholding GPO or incorrectly calculated the GPO amounts. Finally, we estimate that SSA will overpay the 314 spousal beneficiaries about \$2 million, annually, unless it takes action to identify and correct these payment errors.

We are 90-percent confident the number of spousal beneficiaries with improper GPO stop dates ranged from 754 to 855. We are also 90-percent confident the number of spousal beneficiaries for whom SSA improperly stopped or calculated GPO amounts ranged from 246 to 388, and the overpayments ranged from \$6.1 to \$12.2 million (see Appendix B).

Generally, these errors occurred because SSA employees incorrectly recorded GPO stop dates on the MBR, did not properly calculate GPO amounts because they incorrectly recorded monthly pensions as lump sum payments, or improperly applied pension amounts when they calculated the GPO amount.

For the 100 beneficiaries in our sample, SSA improperly recorded a GPO stop date for 88 beneficiaries. Of these, SSA continued withholding GPO for 54 beneficiaries and improperly stopped withholding GPO for 28 beneficiaries. We also found that SSA improperly calculated GPO amounts for six beneficiaries. For the remaining 12 beneficiaries, the GPO stop date was correct because the beneficiaries were exempt from GPO or had stopped receiving their pensions because they returned to work. The following chart summarizes the results of our review.

**Figure 1: Beneficiaries with a GPO Stop Date**



## Improper GPO Stop Dates

If GPO applies, it should continue while spousal beneficiaries receive their pension.<sup>8</sup> However, under certain conditions, SSA may properly stop GPO. For example, beneficiaries may be exempt from GPO if their last 60 months of work was covered by Social Security and a government pension plan<sup>9</sup> or if they stopped receiving their pension.<sup>10</sup> When SSA employees determine a spousal beneficiary is exempt from GPO, they must record the exemption reason on the MBR. If a beneficiary has stopped receiving their pension, SSA must update the MBR with a GPO stop date. However, the GPO stop date on the MBR will not automatically stop GPO from being withheld.

For 88 of the 100 beneficiaries in our sample, we found that SSA improperly recorded a GPO stop date on the MBR. Generally, this occurred because SSA employees incorrectly recorded a GPO stop date when they expected a beneficiary to receive a future pension increase because of a cost-of-living increase. None of the improper GPO stop dates occurred because of an automated action by SSA's system.

For 54 of these beneficiaries, SSA continued withholding GPO. Although SSA continued withholding GPO for these beneficiaries, there is a risk that SSA may stop withholding GPO because of the erroneous stop dates.

For example, a surviving spouse was receiving a State pension. SSA correctly reduced her spousal benefits for GPO beginning July 2009 but incorrectly recorded a GPO stop date of January 2010 on the MBR because it expected her pension would increase for a cost-of-living adjustment. SSA continued withholding the GPO amount from her spousal benefits; however, SSA employees could improperly take action to stop withholding GPO because of the erroneous GPO stop date.

### *GPO Withholding Improperly Stopped*

For 28 of the 100 beneficiaries in our sample, SSA improperly stopped withholding GPO. As a result, SSA overpaid these 28 beneficiaries \$943,196. We found no evidence the 28 beneficiaries had stopped receiving their pension or that a GPO exemption applied. SSA had stopped withholding GPO from these beneficiaries for an average of 5.2 years.<sup>11</sup> Generally, SSA employees incorrectly recorded GPO stop dates because the beneficiaries expected to receive a future pension increase. In addition, we found that SSA employees incorrectly recorded pension information received from pension-paying agencies.

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<sup>8</sup> SSA, POMS, GN 02608.100.A (August 29, 2013).

<sup>9</sup> SSA, POMS, GN 02608.107.A (August 11, 2010).

<sup>10</sup> SSA, POMS, GN 02608.100.A (September 23, 2013).

<sup>11</sup> The mean was 5.2 years. The median was 5.2 years.

For example, beginning in January 1998, SSA withheld GPO from a spousal beneficiary who was entitled to a \$1,409 monthly pension from the State of California. In March 2011, she became entitled to surviving spouse's benefits, and SSA requested her current pension information. The beneficiary confirmed receipt of her \$1,409 pension and provided SSA a letter from the pension agency showing payments through March 2011. The SSA employee incorrectly determined the beneficiary was no longer receiving her pension and stopped withholding GPO. The pension letter stated a benefit end date of "lifetime." As a result, SSA overpaid her \$32,909 from March 2011 through January 2014.

### ***GPO Amounts Improperly Calculated***

For 6 of the 100 beneficiaries in our sample, SSA improperly calculated the GPO amount. As a result, SSA overpaid these beneficiaries \$47,902. When applying GPO, SSA employees must first determine whether a pension is a lump sum, or monthly payment to calculate the GPO amount. However, SSA employees did not always determine the correct GPO amount. Specifically, we found the following.

**Incorrect GPO Calculations** – SSA overpaid five beneficiaries because the pension amounts it used to determine the GPO amount were incorrect. For example, a surviving divorced spouse received two lump sum payments in addition to a monthly pension. SSA miscalculated the GPO amount because it improperly prorated one of the lump sum payments. As a result, SSA overpaid her \$6,394 from March 2012 through January 2014.

**Incorrect Use of Lump sum Pension Amounts** – SSA's policy states that GPO applies to all pension payments not covered by Social Security, regardless of whether the pension is paid periodically, in a lump sum, or both. When the entire pension is paid in a lump sum, the amount may represent a specified period of time or a lifetime. According to SSA policy, if the pension is paid in a lump sum, it uses an equivalent monthly amount provided by the pension payer to determine the GPO amount. If the pension payer does not provide a monthly amount, SSA must prorate the lump sum payment by the number of months specified by the pension payer or over a beneficiary's expected lifetime. SSA considers the beneficiary's life expectancy and age at the time of the award to prorate the lump sum payment into a monthly GPO amount.<sup>12</sup>

We found that SSA overpaid one beneficiary because it improperly prorated their lump sum payments. For example, a spousal beneficiary was receiving a monthly pension of \$116. However, an SSA employee incorrectly recorded her monthly pension as a lump sum payment. As a result, SSA prorated the \$116 to a monthly pension of \$0.94. The correct monthly GPO amount should have been \$77 (two-thirds of \$116). As a result, SSA overpaid the beneficiary \$5,863 from January 2008 through January 2014.

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<sup>12</sup> SSA, POMS, GN 02608.400.A (September 23, 2013).

## **CONCLUSIONS**

SSA needs to improve its controls to ensure it does not improperly stop GPO for spousal beneficiaries. We estimate that SSA incorrectly recorded GPO stop dates for 812 spousal beneficiaries on the MBR. This included 314 beneficiaries whom SSA overpaid about \$9.1 million because it improperly stopped withholding GPO or incorrectly calculated the GPO amounts. Finally, we estimate that SSA will overpay the 314 spousal beneficiaries about \$2 million, annually, unless it takes action to identify and correct these payment errors (see Appendix B).

## **RECOMMENDATIONS**

We recommend that SSA:

1. Take corrective action to remove the improper GPO stop dates for the 88 beneficiaries identified by our audit. In addition, if appropriate, establish overpayments and withhold GPO from 34 of these beneficiaries.
2. Evaluate the results of its corrective action for the 88 beneficiaries and determine whether it should review the remaining population of 823 spousal beneficiaries.
3. Determine whether it should develop additional controls and procedures to ensure GPO stop dates are correct.

## **AGENCY COMMENTS**

SSA agreed with our recommendations. The Agency's comments are included in Appendix C.

# *APPENDICES*

## **Appendix A – SCOPE AND METHODOLOGY**

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From the Social Security Administration's (SSA) Master Beneficiary Record (MBR), we obtained a data extract of 923 spousal beneficiaries who had a Government Pension Offset (GPO) stop date on the MBR and no GPO exemption. SSA had previously withheld GPO but then stopped the withholding for these beneficiaries. From this population, we selected a random sample of 100 beneficiaries for review.

To accomplish our objective, we

- reviewed the applicable sections of the *Social Security Act*, the U.S. Code, the Code of Federal Regulations, and SSA's Program Operations Manual System;
- interviewed appropriate SSA staff regarding systems and controls;
- obtained necessary files from the MBR and Modernized Claims System;
- reviewed SSA's Shared Process System and Non-Disability Repository for Evidentiary Documents for supporting documentation; and
- determined whether GPO stop dates were correct and compared the correct GPO amounts to the amounts that were actually withheld.

We determined whether the computer-processed data were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We performed our work in Richmond, California, between May 2013 and January 2014. The entities reviewed were the Office of Operations under the Office of the Deputy Commissioner for Operations and the Office of Systems under the Office of the Deputy Commissioner for Systems.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **Appendix B – SAMPLING METHODOLOGY AND RESULTS**

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We obtained a data extract from the Master Beneficiary Record (MBR) of 923 spousal beneficiaries who had a Government Pension Offset (GPO) stop date and no GPO exemption as of January 2013. SSA had previously withheld GPO but then stopped the withholding for these beneficiaries. From this population, we randomly selected a sample of 100 beneficiaries for review.

For each beneficiary in our sample, we determined whether the Social Security Administration (SSA) had properly stopped GPO by reviewing information from the MBR. We also reviewed the pension information and the payment history to determine whether GPO withholding had stopped. Additionally, we reviewed information to determine whether a GPO exemption applied or whether a beneficiary had returned to work and/or stopped receiving their pension. We compared the GPO amount on the MBR with pension information from other SSA sources, such as the Modernized Claims System, Shared Process System, and Non-Disability Repository for Evidentiary Documents for supporting documentation to determine whether GPO was correctly calculated.

The following tables provide the details of our sample results and statistical projections.

**Figure B–1: Population and Sample Size**

Description	Number
Population Size	923
Sample Size	100

### **Improper GPO Stop Dates**

Of the 100 beneficiaries in our sample, SSA improperly recorded a GPO stop date on the MBR for 88 beneficiaries. Projecting these results to our population, we estimate that SSA improperly recorded a GPO stop date on the MBR for 812 beneficiaries.

**Figure B–2: Improper GPO Stop Dates**

Description	Number
Sample Results	88
Point Estimate	812
Projection – Lower Limit	754
Projection – Upper Limit	855

**Note:** All statistical projections are at the 90-percent confidence level.

## GPO Withholding Improperly Stopped

Of the 100 beneficiaries in our sample, SSA overpaid \$991,098 to 34 beneficiaries. This occurred because SSA improperly stopped or calculated GPO. Projecting these results to our population of 923 spousal beneficiaries, we estimate SSA overpaid about \$9.1 million to 314 beneficiaries.

**Figure B–3: Overpayments - GPO Improperly Stopped or Calculated**

Description	Number	Amount
Sample Results	34	\$991,098
Point Estimate	314	\$9,147,832
Projection – Lower Limit	246	\$6,084,182
Projection – Upper Limit	388	\$12,211,482

**Note:** All statistical projections are at the 90-percent confidence level.

### *Annual Estimate of Improper Payments*

To estimate the annual amount of overpayments that would occur if SSA does not take action to identify and correct the payments to spousal beneficiaries with improper payments, we used our population estimates and the average overpayment amount for the 12-month period ended November 2013 for our sampled beneficiaries. Using this methodology, we estimate that SSA will overpay about \$2 million ( $\$6,407 \times 314 = \$2,011,798$ ) in spousal benefits, annually, until it takes corrective action.

## **Appendix C – AGENCY COMMENTS**

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### **SOCIAL SECURITY**

#### **MEMORANDUM**

Date: May 7, 2014

Refer To: S1J-3

To: Patrick P. O'Carroll, Jr.  
Inspector General

From: Katherine Thornton /s/  
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, “Spousal Beneficiaries Whose Government Pension Offset Has Stopped” (A-09-13-23049) — INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,  
“SPOUSAL BENEFICIARIES WHOSE GOVERNMENT PENSION OFFSET HAS  
STOPPED” (A-09-13-23049)**

**Recommendation 1**

Take corrective action to remove the improper GPO stop dates for the 88 beneficiaries identified by our audit. In addition, if appropriate, establish overpayments and withhold GPO from 34 of these beneficiaries.

**Comment**

We agree. We will evaluate and determine whether the 88 beneficiaries are overpaid and if we should withhold Government Pension Offset (GPO) from 34 of these beneficiaries. We expect to complete our review by the end of fiscal year 2014.

**Recommendation 2**

Evaluate the results of its corrective action for the 88 beneficiaries and determine whether it should review the remaining population of 823 spousal beneficiaries.

**Comment**

We agree. We will evaluate the results from recommendation 1 and determine whether we will review the remaining population of 823 spousal beneficiaries. We expect to complete this recommendation by the end of calendar year 2014.

**Recommendation 3**

Determine whether it should develop additional controls and procedures to ensure GPO stop dates are correct.

**Comment**

We agree. We will review our current instructions and procedures to ensure we properly input GPO stop dates. We will develop additional controls and procedures, if necessary.

## **Appendix D– MAJOR CONTRIBUTORS**

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James J. Klein, Director, San Francisco Audit Division

Joseph Robleto, Audit Manager

Leticia Lew, Program Analyst

Wilfred Wong, Audit Data Specialist

Alla Resman, IT Specialist

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