

Audit Report

Adjustment of Monthly Benefits
Under the Family Maximum
Provisions

A-09-13-13087 / March 2014

OIG

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: March 11, 2014 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Adjustment of Monthly Benefits Under the Family Maximum Provisions (A-09-13-13087)

The attached final report presents the results of our audit. Our objective was to determine whether the Social Security Administration correctly adjusted child and spousal benefits in accordance with the family maximum provisions when spousal beneficiaries were dually entitled.

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

Adjustment of Monthly Benefits Under the Family Maximum Provisions

A-09-13-13087



March 2014

Office of Audit Report Summary

Objective

To determine whether the Social Security Administration (SSA) correctly adjusted child and spousal benefits in accordance with the family maximum provisions when spousal beneficiaries were dually entitled.

Background

The *Social Security Act* limits the amount of benefits payable to child and spousal beneficiaries on a Social Security record. If the total monthly benefits of all child and spousal beneficiaries exceed the maximum, SSA must reduce their payments to keep the total benefits within the family maximum provisions.

Individuals may be entitled to more than one type of benefit. When individuals are entitled to retirement and spousal benefits, SSA must only consider the amount of spousal benefits actually payable when adjusting monthly benefit amounts under the family maximum provisions. The family maximum may be higher if a child is entitled to benefits on both parents' records. Finally, spouses may receive higher benefits if they have an entitled child in their care who is under age 16 or disabled.

Our Findings

SSA did not always properly adjust child and spousal benefits in accordance with the family maximum provisions. Based on our random sample, we estimate that SSA improperly paid spousal and child beneficiaries about

- \$25.6 million on 2,334 records because it incorrectly calculated the total benefits payable under the family maximum provisions,
- \$10.8 million on 547 records because it did not combine the family maximum for children who were eligible for benefits on more than 1 Social Security record, and
- \$4.6 million on 547 records because it improperly calculated benefits for spouses who had a child in their care.

In addition, we estimate that SSA will improperly pay about \$4.6 million, annually, on 2,006 records unless it takes action to identify and correct these payment errors.

Our Recommendations

We recommend that SSA:

1. Take appropriate action to pay underpayments and establish overpayments on the 94 records identified by our audit.
2. Evaluate the results of its corrective action for the 94 records and determine whether it should review the remaining population of 7,095 records.
3. Improve controls to ensure child and spousal benefits are properly adjusted for records with dually entitled spouses.
4. Remind employees to (1) properly apply the family maximum provisions for records with dually entitled spouses and (2) review eligibility for children entitled to benefits on both parents' records and spouses with a child in their care.

SSA agreed with our recommendations.

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ABBREVIATIONS

MBR	Master Beneficiary Record
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) correctly adjusted child and spousal benefits in accordance with the family maximum provisions when spousal beneficiaries were dually entitled.

BACKGROUND

The *Social Security Act* limits the amount of benefits payable to child and spousal beneficiaries on a Social Security record. Generally, no more than one established maximum amount can be paid to a family, regardless of the number of beneficiaries entitled on that record. If the total monthly benefits of all child and spousal beneficiaries exceeds the maximum, SSA must reduce their payments to keep the total benefits within the family maximum provisions.¹

Individuals may be entitled to more than one type of benefit. For example, individuals may be entitled to retirement benefits based on their own earnings and spousal benefits on another Social Security record. However, their benefit amounts cannot exceed the highest single benefit to which they are entitled. When individuals are entitled to retirement and spousal benefits, SSA must only consider the amount of spousal benefits actually payable when adjusting monthly benefit amounts under the family maximum provisions.²

Children may also be entitled to benefits on more than one of their parents' Social Security records. Under these circumstances, SSA must combine the family maximums on both parents' records to determine the monthly benefit amounts payable to entitled children and spouses.³ Finally, SSA must reduce spouses' benefits if they receive benefits before full retirement age.⁴ However, SSA should not reduce their benefits if the spouses have an entitled child in their care who is under age 16 or disabled.⁵

SSA employees must manually calculate the benefits payable under the family maximum provisions. SSA's automated system validates the benefit payments, including the family maximum computations, for dually entitled beneficiaries. It reviews and corrects monthly benefit amounts for the current year and, if necessary, up to 4 years retroactively. However, the system is not programmed to review payment rates for dually entitled spouses with a child entitled to benefits on more than one Social Security record.

¹ The *Social Security Act* § 203(a), 42 U.S.C. § 403(a). See also SSA, POMS, RS 00615.754 (May 23, 2006).

² The *Social Security Act* § 202(q), 42 U.S.C. § 402(q). See also SSA, POMS, RS 00615.020 (April 13, 2011) and RS 00615.768 (September 22, 2004).

³ We use the term "spouse" generically in this report to include spouses, widow(ers), and mothers and fathers with a child in care.

⁴ The *Social Security Act* § 202(q), 42 U.S.C. § 402(q). See also SSA, POMS, RS 00615.004 (September 16, 2002) and RS 00615.005 (September 16, 2002).

⁵ SSA, POMS, RS 00615.201 (April 22, 2011).

For our review, we identified 7,295 Social Security records with a dually entitled spouse and at least 1 entitled child whose benefits may have been adjusted because of the family maximum provisions. From this population, we selected a random sample of 200 records for review (see Appendix A).

RESULTS OF REVIEW

SSA did not always properly adjust child and spousal benefits in accordance with the family maximum provisions. Based on our random sample, we estimate that SSA improperly paid spousal and child beneficiaries about

- \$25.6 million⁶ on 2,334 records because it incorrectly calculated the total benefits payable under the family maximum provisions,
- \$10.8 million⁷ on 547 records because it did not combine the family maximum for children who were eligible for benefits on more than 1 Social Security record, and
- \$4.6 million⁸ on 547 records because it improperly calculated benefits for spouses who had a child in their care.

In addition, we estimate that SSA will improperly pay about \$4.6 million, annually, on 2,006 records unless it takes action to identify and correct these payment errors.

These errors generally occurred because SSA employees did not correctly apply the family maximum provisions for records with dually entitled spouses and child beneficiaries.

We are 90-percent confident the number of records

- with incorrect calculations under the family maximum provisions ranged from 1,943 to 2,755, and the improper payments ranged from \$17.3 to \$33.9 million;
- without combined family maximums ranged from 344 to 821, and the improper payments ranged from \$5.3 to \$16.2 million; and
- with improperly calculated spousal benefits ranged from 344 to 821, and the improper payments ranged from \$2.2 to \$7 million.

Finally, we are 90-percent confident the annual estimate of records with improper payments ranged from 1,635 to 2,414, and the improper payments ranged from \$3.3 to \$6 million (see Appendix B).

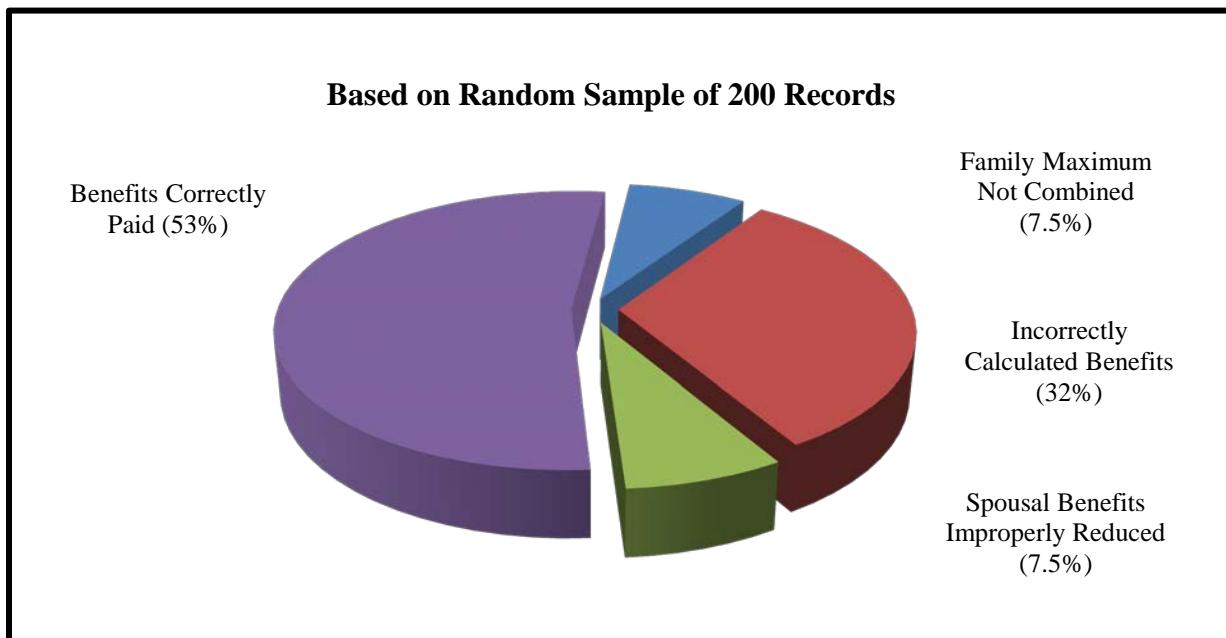
⁶ Based on sample results of \$352,556 in underpayments and \$349,006 in overpayments.

⁷ Based on sample results of \$287,436 in underpayments and \$8,439 in overpayments.

⁸ Based on sample results of \$118,758 in underpayments and \$6,696 in overpayments.

For the 200 records in our sample, SSA (1) incorrectly calculated the family maximum on 64 (32 percent), (2) did not combine the family maximums on 15 (7.5 percent), and (3) improperly calculated benefits for spouses who had a child in their care on 15 (7.5 percent). For the remaining 106 (53 percent) records, SSA correctly calculated the benefit payments. The following chart summarizes the results of our review.

Figure 1: Adjustment of Benefits Under the Family Maximum Provisions



Incorrect Calculations Under the Family Maximum Provisions

To determine the monthly benefits payable to spouses and children, SSA calculates the amount each beneficiary is eligible to receive and determines whether their total benefits exceed the family maximum.⁹ When the total of all monthly benefits exceeds the family maximum, SSA must proportionally reduce the monthly benefit amount for each beneficiary.¹⁰ For example, if a spouse and two children are each entitled to a \$400 monthly benefit and the family maximum is \$900, SSA would only pay each beneficiary \$300. When individuals are entitled to retirement and spousal benefits, SSA must only consider the amount of spousal benefits actually payable when adjusting monthly benefit amounts under the family maximum provisions.¹¹ For example, if a spouse were entitled to a \$200 monthly retirement benefit, SSA would still pay a \$300 monthly benefit (a \$200 retirement benefit and a \$100 spousal benefit). However, only

⁹ SSA, POMS, RS 00615.756 (December 2, 2010).

¹⁰ SSA, POMS, RS 00615.754 (May 23, 2006).

¹¹ SSA, POMS, RS 00615.768 (September 22, 2004).

\$100 would apply to the \$900 family maximum. As a result, each child would receive a \$400 monthly benefit.

For 64 of the 200 records in our sample, SSA incorrectly calculated the child and spousal benefits under the family maximum provisions. In addition, SSA's automated system did not detect and correct these errors. As a result, SSA improperly paid \$701,562 in child and spousal benefits—\$352,556 in underpayments and \$349,006 in overpayments.¹²

For example, in September 2001, a beneficiary was entitled to retirement and spousal benefits. In April 2006, her two adopted children became entitled to child's benefits. She and her two children were each entitled to a \$934 monthly benefit amount, and the family maximum was \$1,914. As a result, each beneficiary's monthly benefit amount should have been \$638 (\$1,914/3). However, the spouse was also entitled to a \$270 monthly retirement benefit. Her \$638 monthly benefit amount consisted of \$270 retirement benefit and a \$368 spousal benefit. Since the spousal benefit payable was \$368, the two children's monthly benefit amounts should have been \$773 each rather than \$638. As a result, SSA underpaid the family \$15,174 from April 2006 to October 2013.

Family Maximums Not Combined

When a child is entitled to benefits on more than one Social Security record, SSA must pay benefits on the record that results in the highest monthly benefit amount.¹³ In addition, SSA must combine the family maximums of all records on which a child is entitled. For example, a child entitled to benefits on the father's record with a family maximum of \$1,000 is also entitled to benefits on the mother's record with a family maximum of \$500. SSA must combine these benefits for a total combined family maximum of \$1,500. SSA must combine the family maximums when

- the child will receive a higher monthly benefit amount,
- other entitled beneficiaries will receive higher monthly benefit amounts, or
- the family will receive a higher total monthly benefit amount even if a child's individual monthly benefit amount is lower.¹⁴

¹² The 64 records included 28 with underpayments, 29 with overpayments, and 7 with under- and overpayments to individuals living in different households.

¹³ The *Social Security Act* § 202(k)(2), 42 U.S.C. § 402(k)(2).

¹⁴ SSA, POMS, RS 00615.770 (April 10, 2013).

For 15 of the 200 records in our sample, SSA did not combine the family maximums for children who were eligible for benefits on more than 1 record. This occurred because SSA employees did not establish the child's entitlement to benefits on both parents' records. As a result, SSA improperly paid \$295,875 in child and spousal benefits—\$287,436 in underpayments and \$8,439 in overpayments.¹⁵

For example, in November 2002, two children were entitled to benefits on their father's Social Security record. The children were also eligible for benefits on their mother's record in November 2002. However, SSA only established their entitlement on their father's record. The dually entitled spouse received a monthly benefit of \$203, and each child received \$279. By combining the family maximums, the spouse would have received \$246, and each child would have received \$326. Therefore, SSA did not combine the family maximums from both records, as required. As a result, SSA underpaid the two children and spouse \$34,297 from November 2002 to October 2013.

Spousal Benefits Improperly Reduced

SSA must reduce a spouse's benefits if they receive benefits before full retirement age unless they are caring for the wage earner's child.¹⁶ The child must be under age 16 or disabled.¹⁷

For 15 of the 200 records in our sample, SSA improperly paid reduced benefits for spouses who had an eligible child in their care. This occurred because SSA employees overlooked the spouses' eligibility for unreduced benefits because they had a child in their care. As a result, SSA improperly paid \$125,454 in child and spousal benefits—\$118,758 in underpayments and \$6,696 in overpayments.¹⁸

For example, in April 2009, a beneficiary was entitled to spousal and retirement benefits. In addition, her two children lived with her and were entitled to benefits on both parents' Social Security records as of April 2009. SSA properly combined the family maximums. However, SSA improperly reduced her spousal benefits even though she had two eligible children under age 16 in her care. As a result, SSA underpaid her \$7,738 in spousal benefits from April 2009 to October 2013.

¹⁵ The 15 records included 14 with underpayments and 1 with an overpayment.

¹⁶ The *Social Security Act* § 202(q)(5), 42 U.S.C. § 402(q)(5).

¹⁷ SSA, POMS, RS 00208.005 (February 23, 2012).

¹⁸ The 15 records included 12 with underpayments, 2 with overpayments, and 1 with under- and overpayments to individuals living in different households.

CONCLUSIONS

SSA did not always adjust the child and spousal benefits in accordance with the family maximum provisions. Based on our random sample, we estimate that SSA improperly paid spousal and child beneficiaries about (1) \$25.6 million on 2,334 records because it incorrectly calculated the total benefits payable under the family maximum provisions, (2) \$10.8 million on 547 records because it did not combine the family maximum for children who were eligible for benefits on more than 1 Social Security record, and (3) \$4.6 million on 547 records because it improperly calculated benefits for spouses who had a child in their care. In addition, we estimate that SSA will improperly pay about \$4.6 million, annually, on 2,006 records, unless it takes action to identify and correct these payment errors (see Appendix B).

RECOMMENDATIONS

We recommend that SSA:

1. Take appropriate action to pay underpayments and establish overpayments on the 94 records identified by our audit.
2. Evaluate the results of its corrective action for the 94 records and determine whether it should review the remaining population of 7,095 records.
3. Improve controls to ensure child and spousal benefits are properly adjusted for records with dually entitled spouses.
4. Remind employees to (1) properly apply the family maximum provisions for records with dually entitled spouses and (2) review eligibility for children entitled to benefits on both parents' records and spouses with a child in their care.

AGENCY COMMENTS

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

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We obtained from the Social Security Administration's (SSA) Master Beneficiary Record (MBR) a data extract of 7,295 records with a dually entitled spouse and at least 1 child whose benefits may have been adjusted because of the family maximum provisions as of April 2010.

To accomplish our objective, we

- reviewed the applicable sections of the *Social Security Act*, the U.S. Code, and SSA's Program Operations Manual System;
- interviewed SSA employees from the Offices of Operations and Systems;
- reviewed a random sample of 200 records;
- reviewed queries from SSA's MBR, Claims File Records Management System, and Online Retrieval System; and
- used SSA's Interactive Computation Facility and Western Program Service Center's Rate Computations to determine the amount of child and spousal benefits payable.

We determined whether the computer-processed data from the MBR were sufficiently reliable for our intended purpose. We tested the data to determine their completeness and accuracy. These tests allowed us to assess the reliability of the data and achieve our audit objective.

We conducted audit work in Richmond, California, and Baltimore, Maryland, between February and October 2013. The entity audited was the Office of Operations under the Office of the Deputy Commissioner for Operations.

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 objective. 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

From the Social Security Administration's (SSA) Master Beneficiary Record, we obtained a data extract of 7,295 records with a dually entitled spouse and at least 1 child whose benefits may have been adjusted because of the family maximum provisions as of April 2010. From this population, we selected a random sample of 200 records for review.

Incorrect Calculations Under the Family Maximum Provisions

For 64 of the 200 records in our sample, SSA incorrectly calculated the total benefits payable under the family maximum provisions. As a result, SSA improperly paid \$701,562 in child and spousal benefits. Projecting our sample results to the population of 7,295 records, we estimate that SSA improperly paid about \$25.6 million in child and spousal benefits on 2,334 records.

Family Maximum Not Combined

For 15 of the 200 records in our sample, SSA did not combine the family maximum for children who were eligible for benefits on more than 1 Social Security record. As a result, SSA improperly paid \$295,875 in child and spousal benefits. Projecting our sample results to the population of 7,295 records, we estimate that SSA improperly paid about \$10.8 million in child and spousal benefits on 547 records.

Spousal Benefits Improperly Reduced

For 15 of the 200 records in our sample, SSA improperly paid reduced benefits for spouses who had a child in their care. As a result, SSA improperly paid \$125,454 in child and spousal benefits. Projecting our sample results to the population of 7,295 records, we estimate that SSA improperly paid about \$4.6 million in child and spousal benefits on 547 records.

Annual Estimate of All Recurring Improper Payments

To obtain an annual estimate of all recurring improper payments, we determined that 55 of the 94 incorrect records in our sample were in current pay status as of April 2013. For these records, we multiplied the total improper payments for April 2013 (\$10,550) by 12 months to estimate the annual amount of improper payments (\$126,600). Projecting our sample results to the population of 7,295 records, we estimate that SSA will improperly pay about \$4.6 million in child and spousal benefits on 2,006 records, annually, unless it takes action to identify and correct these payment errors.

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

Table B–1: Population and Sample Size

Description	Records
Population Size	7,295
Sample Size	200

Table B–2: Incorrect Calculations Under the Family Maximum Provisions

Description	Records	Improper Payments
Sample Results	64	\$701,562
Point Estimate	2,334	\$25,589,474
Projection - Lower Limit	1,943	\$17,319,024
Projection - Upper Limit	2,755	\$33,859,924

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

Table B–3: Family Maximum Not Combined

Description	Records	Improper Payments
Sample Results	15	\$295,875
Point Estimate	547	\$10,792,041
Projection - Lower Limit	344	\$5,337,173
Projection - Upper Limit	821	\$16,246,908

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

Table B–4: Spousal Benefits Improperly Reduced

Description	Records	Improper Payments
Sample Results	15	\$125,454
Point Estimate	547	\$4,575,935
Projection - Lower Limit	344	\$2,174,927
Projection - Upper Limit	821	\$6,976,942

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

Table B–5: Annual Estimate of All Recurring Improper Payments

Description	Records	Improper Payments
Sample Results	55	\$126,600
Point Estimate	2,006	\$4,617,735
Projection - Lower Limit	1,635	\$3,261,312
Projection - Upper Limit	2,414	\$5,974,158

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

Appendix C – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: February 18, 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, "Adjustment of Monthly Benefits Under the Family Maximum Provisions" (A-09-13-13087)--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,
"ADJUSTMENT OF MONTHLY BENEFITS UNDER THE FAMILY MAXIMUM
PROVISIONS" (A-09-13-13087)**

Recommendation 1

Take appropriate action to pay underpayments and establish overpayments on the 94 records identified by our audit.

Response

We agree. We plan to review and take necessary action on the 94 records within 6 months of OIG issuing the final report.

Recommendation 2

Evaluate the results of its corrective action for the 94 records and determine whether it should review the remaining population of 7,095 records.

Response

We agree. We will determine whether reviewing the remaining records is appropriate, after resolving the 94 cases identified by the audit.

Recommendation 3

Improve controls to ensure child and spousal benefits are properly adjusted for records with dually entitled spouses.

Response

We agree. We will explore options for improving controls to ensure we properly adjust child and spousal benefits for records with dually entitled spouses after we review and complete the necessary actions on the 94 cases identified by the audit.

Recommendation 4

Remind employees to: (1) properly apply the family maximum provisions for records with dually entitled spouses and (2) review eligibility for children entitled to benefits on both parents' records and spouses with a child in their care.

Response

We agree. We will issue appropriate policy and processing reminders after reviewing and completing necessary actions on the 94 cases identified by the audit.

Appendix D – MAJOR CONTRIBUTORS

James J. Klein, Director, San Francisco Audit Division

Jack H. Trudel, Audit Manager

Andrew Hanks, Senior Program Analyst

MISSION

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