

Audit Report

Improper Payments to Retired
Beneficiaries Who Worked Before
Full Retirement Age



MEMORANDUM

Date: November 4, 2020 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Improper Payments to Retired Beneficiaries Who Worked Before Full Retirement Age
(A-09-18-50685)

The attached final report presents the results of the Office of Audit's review. The objective was to determine whether the Social Security Administration had adequate controls to ensure it properly adjusted the monthly benefits amounts of retired beneficiaries who worked before they attained full retirement age.

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

A handwritten signature in black ink that reads "Gail S. Ennis".

Gail S. Ennis

Attachment

Improper Payments to Retired Beneficiaries Who Worked Before Full Retirement Age

A-09-18-50685



November 2020

Office of Audit Report Summary

Objective

To determine whether the Social Security Administration (SSA) had adequate controls to ensure it properly adjusted the monthly benefit amounts of retired beneficiaries who worked before they attained full retirement age.

Background

Social Security benefits are intended, in part, to replace earnings lost when an individual retires. When a recipient who has not attained full retirement age earns wages or self-employment income that exceed certain amounts, SSA must reduce his/her benefits to account for these excess earnings. At full retirement age, a beneficiary may earn any amount of wages or income without a reduction to his/her benefits.

SSA must adjust the monthly benefit amount for any beneficiary who attains full retirement age and whose monthly benefits it had reduced because of his/her excess earnings. This adjustment of the reduction factor (ARF) provides a credit for each month a beneficiary does not receive his/her full benefit before full retirement age.

We identified 7,477 beneficiaries who, according to their Master Beneficiary Record (MBR), had a monthly benefit reduced for work on or after January 2000 and whose monthly benefit amount was not adjusted when they attained full retirement age.

Findings

SSA did not properly adjust the benefit amounts for 53 of the 100 beneficiaries in our sample. Based on our sample results, we estimate SSA improperly paid 3,963 beneficiaries approximately \$6.9 million. If SSA does not take corrective action for the remaining beneficiaries, we estimate it will improperly pay them approximately \$1.4 million over the next 12 months. As of January 2020, SSA had taken corrective action for 13 of the 53 beneficiaries we identified.

Recommendations

We recommend SSA:

1. Take corrective action for the remaining 40 beneficiaries identified by our audit.
2. Based on the results of its corrective actions for the 53 beneficiaries, take corrective action for the remaining population of 7,477 beneficiaries.
3. Ensure it generates and resolves alerts for beneficiaries whose ARFs and/or benefit amounts should be adjusted in accordance with its current policies. For example, the Agency could retain alerts until they have been resolved or it could issue follow-up alerts to management when pending alerts are not resolved timely.

SSA agreed with our recommendations.

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ABBREVIATIONS

ARF	Adjustment of the Reduction Factor
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) had adequate controls to ensure it properly adjusted the monthly benefit amounts of retired beneficiaries who worked before they attained full retirement age.

BACKGROUND

The Old-Age and Survivors Insurance program provides monthly benefits to retired workers, including their dependents and survivors.¹ Individuals may apply for retirement benefits as early as age 62;² however, SSA must reduce their monthly benefit amount for each month they receive a benefit before their full retirement age.³ The total reduction ranges from about 0.6 to 30 percent of the monthly amount a beneficiary would have received had he/she retired at full retirement age.⁴

Social Security benefits are intended, in part, to replace earnings an individual loses when he/she retires. Accordingly, when a beneficiary who has not attained full retirement age earns wages or self-employment income over certain annual amounts (for example, \$17,640 for 2019), SSA must reduce his/her benefits⁵ to account for these excess earnings.⁶ Along with other sources, SSA uses information in the Master Earnings File⁷ to determine how much it should reduce benefits.⁸ At full retirement age, a beneficiary may earn any amount of wages or income without a reduction in his/her benefits.⁹ In addition, at full retirement age, SSA must adjust the monthly benefit amount for any beneficiary whose monthly benefits it had reduced because of his/her excess earnings.¹⁰ This adjustment of the reduction factor (ARF) provides a credit for each month a beneficiary did not receive his/her full benefit before full retirement age.

¹ *Social Security Act*, 42 U.S.C. §§ 401(a), 402 (govinfo.gov 2017).

² *Social Security Act*, 42 U.S.C. §§ 402(a)(2) (govinfo.gov 2017).

³ Full retirement age is the age at which unreduced retirement benefits may be paid. It ranges from ages 65 to 67, depending on the beneficiary's year of birth. SSA, *POMS*, RS 00615.003,A (May 21, 2004).

⁴ SSA, *POMS*, RS 00615.101,2 (March 29, 2017).

⁵ SSA, *POMS*, RS 02501.025 (November 1, 2019) and RS 02501.021,B (May 20, 2019).

⁶ SSA, *POMS*, RS 02501.080 (April 27, 2011).

⁷ The Master Earnings File contains numberholders' wage information from 1978 or later. SSA, *POMS*, RM 03809.006,A.1 (December 20, 1989) and RS 01404.003,A.1 (September 1, 2011).

⁸ SSA, *POMS*, RS 02510.001 (May 23, 2007).

⁹ SSA, *POMS*, GN 02409.100 (November 4, 2014). This law was changed in January 2000. No beneficiaries in our population attained full retirement age before January 2000.

¹⁰ SSA, *POMS*, RS 00615.482,B.1 (August 23, 2017).

SSA's Title II Redesign system identifies and automatically adjusts monthly benefit amounts at full retirement age for any beneficiary whose benefits were reduced because of his/her excess earnings before full retirement age.¹¹ In addition, the Title II Redesign system produces an alert to account for adjustments it could not automatically process. In those instances, an SSA employee must take actions to adjust the monthly benefit amount.

We identified 7,477 retired beneficiaries¹² who, according to their Master Beneficiary Records (MBR),¹³ were entitled to retirement benefits before they reached full retirement age, had a monthly benefit reduced for work on or after January 2000, and had a monthly benefit amount that was not adjusted when they attained full retirement age.¹⁴ From this population, we selected a random sample of 100 beneficiaries for review (see Appendix B).¹⁵

RESULTS OF REVIEW

SSA did not properly adjust the benefit amounts for 53 of the 100 beneficiaries in our sample. As of January 2020, SSA had taken corrective action for 13 of these beneficiaries. Based on our sample results, we estimate SSA improperly paid 3,963 beneficiaries approximately \$6.9 million.¹⁶ If SSA does not take corrective action for the remaining beneficiaries, we estimate it will improperly pay these beneficiaries approximately \$1.4 million over the next 12 months (see Appendix B).¹⁷

¹¹ SSA, *POMS*, RS 00615.480 (September 16, 2002).

¹² As of July 2020, 2,883 of the 7,477 records still had zero ARFs on the record. The remaining 4,594 have been updated with at least 1 ARF, though this does not mean SSA completed them correctly.

¹³ The MBR is a file of all current and previously entitled Old-Age and Survivors Insurance beneficiaries. SSA establishes an MBR for a beneficiary when it receives an initial claim.

¹⁴ Beneficiaries in this population attained full retirement age before January 2017.

¹⁵ See Appendix A for additional information related to our scope and sampling methodology.

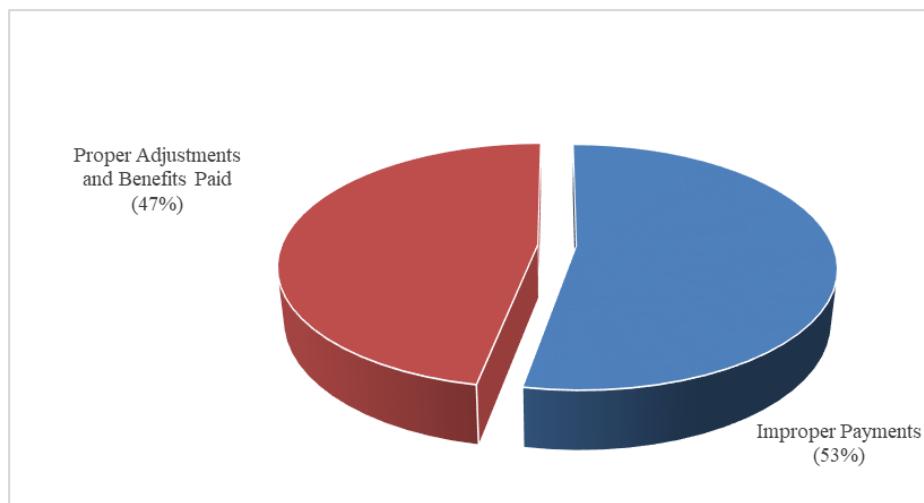
¹⁶ This amount includes both over- and underpayments.

¹⁷ This estimate is based on the beneficiaries for whom SSA had not taken full corrective action.

Beneficiaries with Improper Adjustment of the Reduction Factor Calculations

SSA did not properly adjust for 53 beneficiaries' ARFs and monthly benefit amounts.¹⁸ The remaining 47 beneficiaries' amounts were based on ARFs and were correct. In August 2019, we provided these 53 cases to SSA for corrective action. As of January 2020, SSA had corrected 13 of these cases. Figure 1 summarizes the results of our review.

Figure 1: Retirement Benefits Improperly Adjusted at Full Retirement Age



SSA had not taken timely action to correct the benefit amounts for the 53 error cases. The MBRs for these cases contained incorrect ARFs and benefit amounts for multiple years, which caused improper payments to increase over time since the beneficiaries had attained full retirement age. It had been, on average, 55 months since the 53 beneficiaries attained full retirement age.¹⁹ These delays ranged from 32 to 175 months. Generally, these errors occurred because SSA's²⁰

- Title II Redesign system may not have generated alerts for SSA employees to resolve and/or
- systems did not properly match earnings information from the Master Earnings File to the MBR.

SSA's Title II Redesign system should produce an alert for records that cannot be automatically adjusted and processed. However, we found no evidence in SSA's electronic records that alerts for 45 of the 53 cases were generated, which caused further delays and improper payments.

¹⁸ Of these 53 errors, 22 were caused by an incorrect action SSA took to adjust ARFs and benefit amounts. For the other 31 errors, there was no action taken to establish correct ARFs or benefit amounts.

¹⁹ The median was 44 months.

²⁰ These causes are independent but are not mutually exclusive: 21 of the 53 error cases displayed both issues.

According to SSA's Office of Systems, records do not remain in SSA's systems indefinitely so there is no way to know which records alerted or encountered a processing issue. Although we found evidence that alerts were generated for 8 of the 53 cases, they had not been resolved.

According to SSA's Offices of Operations and Systems, when these alerts are generated, they may not be resolved in a timely manner because there is a workload backlog or they are not a priority.

SSA matches earnings on the Master Earnings File to earnings on the MBR to determine whether it should adjust the reduction factors and monthly benefit amounts.²¹ For 27 of the 53 beneficiaries in our sample, SSA did not update incorrect earnings on the MBR after it had recorded more accurate earnings on the Master Earnings File. As a result, ARFs were over- or understated on these records, and SSA improperly paid the 27 beneficiaries \$39,611²² once they attained full retirement age. The other 26 beneficiaries in our sample had the correct number of work reduction months on the MBR but were improperly paid because SSA had not adjusted the ARFs or benefit amounts properly by the time of our review.

Underpaid Beneficiaries

SSA did not properly adjust 38 individuals' benefits when they reached full retirement age, which resulted in \$70,681 in underpayments. As of January 2020, 25 of these beneficiaries were still being underpaid. For example, a beneficiary was initially entitled to retirement benefits in January 2011, 47 months before his full retirement age. Because he had earnings, SSA reduced his benefits for 24 of the months from his initial month of entitlement to his full retirement age. When he attained full retirement age in December 2014, SSA should have increased his monthly benefit amount. As of March 2020, he had been underpaid \$15,726.

Overpaid Beneficiaries

SSA overpaid 15 beneficiaries a total of \$21,771 because the number of months in which benefits were reduced because of beneficiaries' excess earnings was overstated. As a result, SSA improperly increased the beneficiaries' monthly benefit amounts when they attained full retirement age. As of January 2020, 12 beneficiaries were still being overpaid.

For example, a beneficiary was initially entitled to retirement benefits in January 2012, 47 months before he attained full retirement age. SSA subsequently reduced his benefits for 10 months because of the earnings information on the MBR. The earnings information from the Master Earnings File shows that SSA should not have reduced his benefits for the 10 months, which resulted in an improper increase in his monthly benefit amount at full retirement age. As of March 2020, SSA had overpaid the beneficiary \$4,641.

²¹ SSA, *POMS*, RS 02510.001 (May 23, 2007).

²² This amount includes both over- and underpayments.

CONCLUSIONS

We estimate SSA improperly paid 3,963 beneficiaries approximately \$6.9 million because it did not correctly establish ARFs on their payment records. If SSA does not take corrective action, we estimate it will improperly pay these beneficiaries approximately \$1.4 million over the next 12 months (see Appendix B). These errors generally occurred because SSA may not have generated alerts for SSA employees to resolve, and/or because it did not properly match earnings information from the Master Earnings File to the MBR.

As of January 2020, SSA had corrected 13 of these 53 beneficiaries we identified and resolved improper payments totaling \$15,632. SSA had not taken corrective action on the remaining 40 cases we identified with improper payments totaling \$76,820.

RECOMMENDATIONS

We recommend SSA:

1. Take corrective action for the remaining 40 beneficiaries identified by our audit.
2. Based on the results of its corrective actions for the 53 beneficiaries, take corrective action for the remaining population of 7,477 beneficiaries.
3. Ensure it generates and resolves alerts for beneficiaries whose ARFs and/or benefit amounts should be adjusted in accordance with its current policies. For example, the Agency could retain alerts until they have been resolved or it could issue follow-up alerts to management when pending alerts are not resolved timely.

AGENCY COMMENTS

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



Michelle L. Anderson
Assistant Inspector General for Audit

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

From the Social Security Administration’s (SSA) Master Beneficiary Record, we obtained a data extract of beneficiaries in current pay status who were initially entitled to retirement benefits before full retirement age, had full or partial benefits reduced because of excess earnings, and had not received an increase in their benefits when they attained full retirement age. From this extract, we identified 7,477 beneficiaries who attained full retirement age before January 2017 and whose benefits were reduced for work on or after January 2000.¹ 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* and SSA’s Program Operations Manual System;
- interviewed SSA employees from the Offices of Operations, Systems, and Retirement and Disability Policy;
- reviewed queries from SSA’s Master Beneficiary Record, Master Earnings File, and Claims File User Interface; and
- determined whether SSA made proper adjustments to beneficiaries’ reduction factors and adjusted their benefit amounts.

We determined the computer-processed data from the Master Beneficiary Record were sufficiently reliable for our intended purpose. We tested 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 our audit work in Richmond, California, and Baltimore, Maryland, from May 2019 to March 2020. The entities audited were the Offices of the Deputy Commissioners for Operations and 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹ As of July 2020, 2,883 of the 7,477 records still had zero Adjustment of the Reduction Factors on the record. The remaining 4,594 have been updated with at least 1 Adjustment of the Reduction Factor, though this does not mean SSA completed them correctly.

Appendix B – SAMPLING METHODOLOGY AND RESULTS

From the Social Security Administration’s (SSA) Master Beneficiary Record (MBR), we obtained a data extract of beneficiaries in current pay status who were initially entitled to retirement benefits before they reached full retirement age, had their full or partial benefits reduced because of excess earnings, and had not received an increase in their benefits when they attained full retirement age. From this extract, we identified 7,477 beneficiaries who attained full retirement age before January 2017 and who had benefits reduced for work on or after January 2000.¹ From this population, we selected a random sample of 100 beneficiaries for review.

Our review disclosed that SSA did not properly adjust reduction factors and benefit amounts for 53 beneficiaries in our sample, leading to improper payments totaling \$92,452. This consisted of (1) 38 beneficiaries who were underpaid a total of \$70,681 because SSA did not increase their benefits to account for adjustment of the reduction factors (ARF) and (2) 15 beneficiaries who were overpaid a total of \$21,771 because SSA incorrectly established ARFs on their records. Of those 53 beneficiaries, 37 had ongoing errors, with 25 beneficiaries still being underpaid \$14,352 and 12 being overpaid \$4,884 if their payment amounts are not adjusted within the next 12 months. The following tables provide the details of our sample results and statistical projections.

Table B–1: Population and Sample Size

Description	Beneficiaries
Population Size	7,477
Sample Size	100

Table B–2: Improperly Paid Beneficiaries with Improper ARF Calculations

Description	Beneficiaries	Payments
Sample Results	53	\$92,452
Point Estimate	3,963	\$6,912,636
Projection – Lower Limit	3,318	\$4,445,404
Projection – Upper Limit	4,598	\$9,379,868

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

¹ As of July 2020, 2,883 of the 7,477 records still had zero ARFs on the record. The remaining 4,594 have been updated with at least 1 ARF, though this does not mean SSA completed them correctly.

Table B–3: Ongoing Improperly Paid Beneficiaries

Description	Beneficiaries	Payments
Sample Results	37	\$19,236
Point Estimate	2,766	\$1,438,276
Projection – Lower Limit	2,168	\$813,061
Projection – Upper Limit	3,409	\$2,063,490

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

Appendix C – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: October 27, 2020

Refer To:

To: Gail S. Ennis
Inspector General

A handwritten signature in blue ink that reads "Stephanie Hall".

From: Stephanie Hall
Chief of Staff

Subject: Office of the Inspector General Draft Report, "Improper Payments to Retired Beneficiaries Who Worked Before Full Retirement Age" (A-09-18-50685)" – INFORMATION

Thank you for the opportunity to review the draft report. We agree with the recommendations.

Please let me know if we can be of further assistance. You may direct staff inquiries to Trae Sommer at (410) 965-9102.



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