

Social Security Advisory Board

**Annual Report
2004**

and

**Statement
to accompany the
SSA Annual Report on the
Supplemental Security Income
Program**

October 2005

Social Security Advisory Board

An independent, bipartisan Board created by the Congress and appointed by the President and the Congress to advise the President, the Congress, and the Commissioner of Social Security on matters related to the Social Security and Supplemental Security Income programs.

Message from the Board

In 1994, when the Congress passed legislation establishing the Social Security Administration as an independent agency, it also created an independent, bipartisan Advisory Board to advise the President, the Congress, and the Commissioner of Social Security on matters related to the Social Security and Supplemental Security Income programs. Under this legislation, appointments to the Board are made by the President, the Speaker of the House of Representatives, and the President pro tempore of the Senate. Presidential appointees are subject to Senate confirmation.

Since the Board began meeting in the spring of 1996, it has worked to address the mandate that the law provides. In 2004, we focused our attention on two important topics: the Social Security programs' definition of disability, and the broad issue of retirement security. In April 2004, the Board hosted a forum on Capitol Hill where noted experts discussed domestic and international disability issues. And, during the year we met with disability advocates, professional organizations and government officials to talk about ways in which the disability programs could be improved. To examine the issues involved with retirement security, we met with leading experts in a number of disciplines to discuss health care, pensions, the U.S.'s changing demography and economy, and other issues that Americans face during their retirement years. During 2004, the Board developed a report on retirement security that it subsequently issued in March 2005, *Retirement Security: The Unfolding of a Predictable Surprise*.

Over the years, the Board's work has encompassed a number of other important issues, including the responsibility of the Social Security Administration to operate its programs with integrity and to provide excellent service to the public; long-range financing for Social Security; the administration of the Supplemental Security Income program; and other challenges facing Social Security. Our reports and recommendations have been issued by consensus and without dissent, and they have been widely distributed to Members of Congress, the Administration, and the public.

This, our seventh *Annual Report*, describes the work that the Board has completed and the work that we have underway. In addition, we are incorporating our Statement on the Supplemental Security Income Program, which also accompanies the Social Security Administration's Annual Report on that Program.

Hal Daub, Chairman

Dorcas R. Hardy

Martha Keys

David Podoff

Sylvester J. Schieber

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I. Establishment of the Board

In 1994, when the Congress passed legislation establishing the Social Security Administration as an independent agency, it also created a seven member bipartisan Advisory Board to advise the President, the Congress, and the Commissioner of Social Security on matters relating to the Social Security and Supplemental Security Income (SSI) programs. The conference report on the legislation passed both Houses of Congress without opposition. President Clinton signed the Social Security Independence and Program Improvements Act of 1994 into law on August 15, 1994 (P.L. 103-296).

Advisory Board members are appointed to staggered six year terms, made up as follows: three appointed by the President (no more than two from the same political party); and two each (no more than one from the same political party) by the Speaker of the House (in consultation with the Chairman and the Ranking Minority Member of the Committee on Ways and Means) and by the President pro tempore of the Senate (in consultation with the Chairman and Ranking Minority Member of the Committee on Finance). Presidential appointees are subject to Senate confirmation. The President designates one member of the Board to serve as Chairman for a four year term, coincident with the term of the President, or until the designation of a successor.

Hal Daub was named by President George W. Bush as member and Chairman of the Advisory Board, and confirmed by the Senate in January 2002. He was sworn in as Chairman on March 20, 2002. In addition to Chairman Daub, Bradley Belt, Dorcas R. Hardy, Martha Keys, David Podoff, Sylvester J. Schieber, and Gerald M. Shea served on the Board during all or part of 2004. Mr. Belt resigned from the Board on April 23, 2004, and Mr. Shea's term of office expired on September 30, 2004.

II. The Board's Mandate

The law gives the Board the following functions:

- 1) analyzing the Nation's retirement and disability systems and making recommendations with respect to how the Old-Age, Survivors, and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program, supported by other public and private systems, can most effectively assure economic security;
- 2) studying and making recommendations relating to the coordination of programs that provide health security with the OASDI and SSI programs;
- 3) making recommendations to the President and to the Congress with respect to policies that will ensure the solvency of the OASDI programs, both in the short term and the long term;
- 4) making recommendations with respect to the quality of service that the Social Security Administration provides to the public;
- 5) making recommendations with respect to policies and regulations regarding the OASDI and SSI programs;
- 6) increasing public understanding of Social Security;
- 7) making recommendations with respect to a long-range research and program evaluation plan for the Social Security Administration;
- 8) reviewing and assessing any major studies of Social Security as may come to the attention of the Board; and
- 9) making recommendations with respect to such other matters as the Board determines to be appropriate.

III. Major Activities of the Board

A. Social Security and Economic Security

One of the functions given to the Board by law is to analyze the Nation's retirement and disability systems with respect to how the Old Age, Survivors, and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program, supported by other public and private systems, can most effectively assure economic security. For some time, the Board has been examining the role of Social Security's programs in the overall context of economic security. As the discussion of possible Social Security reform becomes more intense, the Board believes that it is important for policy makers to view the program in the broader context of overall retirement security.

The Board investigated several aspects of economic security: the impact of economic and demographic changes on economic security; the future of Medicare, Medicaid, and private health coverage; comparisons of the United States with other major Nations by looking not only at the public and private income of the aged in other countries, but also in terms of their demographics and economics; changes in the health status of the aged; projected income of older men and women from private pensions, savings and Social Security; prospects for longer labor-force participation of older men and women; SSI projections and the role of SSI; and the interactions of SSA's retirement and disability programs with other public and private programs.

The Board invited experts to discuss the status of economic security of the elderly and individuals with disabilities; long-range costs of Social Security and health programs and forecasting models for those programs; and the role of private pensions in economic security.

As a part of this on-going study, the Board met with Stephen C. Goss, Chief Actuary of the Social Security Administration, to discuss the long-range status of the Social Security Trust Funds as presented in the *Report of the OASDI Trustees*. We were briefed on the changes from the previous year's report and the impact of those changes on the projected financing shortfall. The Board met with Mr. Goss again later in the year to discuss reform proposals and their impact on the long-range solvency of Social Security. At that meeting, the Board also discussed these issues with Douglas Holtz-Eakin, the Director of the Congressional Budget Office, and members of his staff.

The Board also met with Richard Foster, Chief Actuary of the Centers for Medicare and Medicaid Services. He discussed the projected financing problems in the Medicare programs and the enactment of legislation that created a new prescription drug benefit known as Medicare Part D. Mark Pauly of the Health Care Systems Department of the Wharton School, University of Pennsylvania, and Dr. Nortin Hadler of the Department of Medicine at the University of North Carolina presented their views on health care issues relating to the elderly, including the rapid rise of medical costs and the impact of health care on longevity.

Since private pensions are an important element of retirement income security, the Board also met with experts in this field. Ann Combs, Assistant Secretary of Labor, and Joe Piacentini, Director of the Office of Research and Policy at the Department of Labor, presented information on the extent and nature of private pension coverage and trends in coverage. Bradley Belt, Director of the Pension Benefit Guarantee Corporation and a former member of the Social Security Advisory Board, discussed the problems of financing pensions, especially in certain segments of the economy.

Chairman Hal Daub participated in a Public Policy Forum on Retirement Security sponsored by Nationwide Insurance and a Financial Services Roundtable conference where he discussed the role of Social Security and other Federal social insurance programs in the Nation's retirement security structure.

During 2004, the Board began writing a report on retirement security that focuses on the national goal of attaining economic security in the retirement years and highlights the challenges that lie ahead. This report will be released in 2005.¹

B. The Social Security Disability Programs

Management of the Disability Programs

The Board has devoted a great deal of time to the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) disability programs. The Social Security Disability Insurance program provides insurance for 142 million American workers that protects them against the risk of serious illness or injury. Over 8 million workers and their families currently receive income support from disability insurance and an additional 3.7 million people with disabilities receive monthly benefits from the Supplemental Security Income program. The total cost of the disability benefits is over \$100 billion a year and administrative costs exceed \$5 billion a year.

Many of the reports that the Board has issued over the last few years have focused on the problems of the Social Security disability programs. A careful analysis of these problems has led the Board to conclude that solutions will only be found in fundamental change.

In 2004, the Social Security Administration began implementing major new systems initiative designed to help meet this challenge. One of SSA's most important goals is establishing an electronic disability claims process (eDib). Although there is almost unanimous agreement that this is a necessary and positive step that will lead to more efficient processing of disability claims, there had been some concerns expressed about the pace of implementation. By the end of 2004, eDib was installed in over one-half of the State Disability Determination Services (DDSs). The ramp-up and expanded usage has proceeded in a pragmatic fashion taking into account the delicate balance between business process changes and workload demands.

¹ *Retirement Security: The Unfolding of a Predictable Surprise*, March 2005.

The importance of eDib to the future of the disability program has made it a top priority for the Board. Throughout 2004 the Board carefully monitored its progress, meeting several times with State Disability Determination Service directors to discuss areas of concern. In addition, SSAB staff met with SSA's senior systems staff in order to track the progress of eDib implementation. In November the Board visited the Mississippi Disability Determination Service – the first DDS to be fully functioning in an electronic environment – to see firsthand how the new business process was working.

A major area of concern in the disability program is the hearings and appeals process. In previous reports, we have indicated that consideration needs to be given to possible structural changes that might make the hearing process more efficient and uniform, thus enhancing workload management and improving timeliness. The Board continued to closely monitor the hearings and appeals process throughout the year, meeting with Administrative Law Judges, administrative management and staff at all levels. At the annual ALJ Association conference in October, Chairman Hal Daub addressed the need for improved tools and methods for managing the hearings process and assuring high levels of performance, an issue that he reiterated at a September hearing before the Social Security Subcommittee and the Human Resources Subcommittee of the House Ways and Means Committee.

In 2002, the Board wrote that “if SSA genuinely wants to ensure the integrity of its programs...it must put into place a more useful set of measures to drive performance in the field than it currently has. SSA's current system is of limited value in analyzing overall performance and in providing information that can be used to improve the quality of the decisions.” SSAB has recommended changes to SSA's quality process in three separate reports. Given the Board's strong interest in this area, we have closely followed SSA's progress in developing a new quality assurance process. In 2004, SSA, using the services of a contractor, entered the design and development phase of a new quality assurance system. The Board met with senior SSA management to measure the progress of the project and eagerly awaits the implementation of a new quality assurance process in 2005.

In September 2003, Commissioner Barnhart announced significant changes to the disability determination process. Several of the proposals seem designed to respond to issues that we have raised in our reports. The Commissioner has emphasized that the new approach is not a final plan and that changes would be made in an open and collaborative fashion. Throughout 2004, the Board met frequently with key SSA staff and the Commissioner to track the development of the changes and discuss critical issues in order to ensure success. Hal Daub expressed the Board's commitment to improving the disability process and support of the Commissioner in her effort to do so at the September 2004 hearing before the Social Security Subcommittee.

A strong and focused research agenda is critical to SSA's ability to address the challenges facing the disability program in the 21st century. Much of the activity has focused on testing ways to improve a beneficiary's ability to return to the workforce by

providing various incentives. However, as the Board stated in our October 2003 report on *The Social Security Definition of Disability*, despite the many work incentives features that have been incorporated into the disability program, those incentives have done little to substantially encourage self-sufficiency in the population of individuals with disabilities.

Thus, it was with great interest that the Board visited the Bridges to Youth Self-Sufficiency Transition Project in Vallejo California. This is a research and demonstration project that SSA is sponsoring along with the California Department of Rehabilitation, focusing on youth with disabilities and assisting them with entering the workforce. One of the goals of the project is to increase the self-sufficiency of transition-aged youth by decreasing their dependence on public benefits. The Board heard that benefits coordination and intensive service delivery, including employment training and career development, are the cornerstones of this project.

The Social Security Definition of Disability

In its reviews of the Social Security disability programs, the Board became aware that beyond the very significant issues relating to the adjudication of claims and program management, there also exists widespread concern about whether the basic design and definition, adopted a half-century ago, remains appropriate for today's society. The Board first raised this issue in the August 1998 report, *How SSA's Disability Programs Can Be Improved*, and again in the January 2001 report, *Charting the Future of Social Security's Disability Program: The Need for Fundamental Change*. In these reports, the Board questioned whether Social Security's definition of disability is a disincentive to work and whether it is appropriately aligned with national disability policy.

Following a year of study and discussion, we issued a report in October 2003, *The Social Security Definition of Disability: Is it Consistent with a National Goal of Supporting Maximum Self Sufficiency?* The report reviewed the background of the definition of disability, looked at how society and the program have changed, and asked basic questions about whether the disability program is in conflict with the national goal of self-sufficiency for people with disabilities. The report concluded that it is time for the Nation to face up to the contradictions created by the existing definition of disability and seriously address the definitional issue.

We believe that it is imperative to keep this national dialogue on the definition of disability going and to that end the Board sponsored a Discussion Forum on the Social Security Definition of Disability in April 2004. Forum participants looked at whether the current Social Security disability program is consistent with a 21st century national vision of disability policy, and also at what changes might be made to the program structure and definition. This discussion centered not only on U.S. issues, but also the definitions and eligibility criteria used in other countries. Forum participants discussed a vision for reform and explored what the necessary features of a consistent national disability benefits/supports system might be.

Following the April forum, the Board continued its efforts to hear a wide range of perspectives on disability issues. We have had several discussions with experts to learn more about work incentives, rehabilitation, early intervention, and return to work demonstration projects. We met with researchers, advocates, state vocational rehabilitation leaders and SSA administrators to discuss ideas relative to better coordination of services, promoting self-sufficiency and, most importantly, how to change the paradigm of “disability.” We intend to return to this critical public policy issue in the near future.

C. The Social Security Administration’s Service to the Public

When legislation was enacted in 1994 establishing the Social Security Administration as an independent agency and creating an independent Social Security Advisory Board, both the Congress and the President emphasized that a major objective of the legislation was to improve service to the public. The legislation gave the Advisory Board the specific charge of making recommendations for improving the quality of service that the agency provides to the public. This charge has become one of the Board’s highest priorities.

The Board continued its work on service to the public in 2004 with on-site visits to field locations, a public hearing, and meetings with managers and staff from SSA and the Disability Determination Services and with representatives of advocacy groups.

In January, the Board met with New York Regional Commissioner Bea Disman to discuss the implementation of SSA’s responsibilities under the new Medicare prescription drug legislation. The statute gives SSA a substantial role in contacting and taking applications from lower-income individuals who may qualify for assistance in meeting the out-of-pocket costs of the prescription drug program and also in determining the Medicare Part B premium adjustments for higher income beneficiaries. Ms. Disman headed a task force charged with meeting those new agency responsibilities. We met with Ms. Disman again in July for an update on these issues. The Board also met in January with SSA’s Chief Strategic Officer Myrtle Habersham and members of her staff. Ms. Habersham briefed the Board about a recent report from a contractor about SSA’s quality assurance program and about the agency’s short-term and long-term quality assurance initiatives.

In April, Donnell Adams, SSA’s Associate Commissioner for Telephone Service briefed the Board on the state of telephone service at SSA and the agency’s plans to improve it. The discussion included topics such as staffing, training, the telephone services strategic plan, speech-enabled service, waiting times, management information, voice-data convergence, Field Office telephone service, and voice mail.

In June the Board traveled to California. We visited the Vallejo Field Office, where we met with claims representatives and service representatives to discuss the impact of the new electronic disability system, training, the increasing complexity of workloads, and Field Office telephone service issues. We also met there with a group of Field Office

managers and discussed a number of current issues relating to Field Office service delivery, including Field Office telephone service issues. We met with Regional Commissioner Peter Spencer and members of his staff.

At the Western Program Service Center (PSC), we met with a group of PSC managers to discuss service delivery issues including immediate claims taking, debt management, Title II redesign, and disability processing. We visited process modules to meet with employees and see a demonstration of new software.

We also met with staff of the teleservice center (TSC) to discuss issues such as training, staffing, and hours of service. Discussions with the TSC director and management staff focused on training, supervisory ratios, and management observations of telephone calls.

At the Oakland, California Hearing Office we met with Administrative Law Judges, Hearing Office staff, and Hearing Office management staff. Among the service delivery issues discussed were staffing, processing times, and performance measurement. At the Oakland Disability Determination Services (DDS), we met with the executive staff and managers, medical consultants and disability examiners. We discussed DDS service delivery challenges, including staffing, workloads, and the implementation of the new electronic disability system.

The Board also held a public hearing in Oakland. Scheduled witnesses addressed service issues, with an emphasis on disability, service to the homeless, and telephone service. Members of the general public who attended the hearing also expressed their views on SSA's service delivery.

In November, the Board visited the Mississippi DDS. The primary focus of the visit was the implementation of the new electronic disability system and its impact on service to the public.

D. The Social Security Administration's Budget and Resources

Over the past decade, the Advisory Board has repeatedly expressed its concern about the level of resources available to the Social Security Administration for administering the vital Social Security and Supplemental Security Income programs. The growing workloads and increasing complexity of these programs have placed a great deal of stress on the agency's capacity to deliver the kind of service that the public needs and has a right to expect.

In particular the Board has urged that SSA make its annual budget requests based on a realistic assessment of the demands for service rather than merely seeking incremental changes from previous budgets. In response to this recommendation, the agency has in the past few years submitted budgets which were developed on the basis of a service delivery assessment that determined the additional resources needed to eliminate backlogs over a five-year horizon.

The Board continues to monitor the agency's resource needs. Each year, we carefully examine the agency's budget request in order to assess its adequacy vis-à-vis agency needs (as detailed by the Commissioner's yearly-updated service delivery assessment). We follow the progress of the annual appropriations bill as it moves through the stages of Congressional consideration to become law.

At our February 2004 meeting, the Board met with SSA officials who are responsible for the development of the agency's budget to discuss the status of the fiscal year 2004 appropriations and the fiscal year 2005 budget request. The Board heard that, because of constrained funding that resulted from operating under continuing resolutions for four full months, SSA's ultimate administrative budget for fiscal year 2004 was below the level requested from Congress. The Board applauds SSA's effective management of available resources by focusing funding and staff time on those workloads with the highest priority. Ultimately, however, the reduced level of funding in fiscal year 2004 had a negative impact on SSA's ability to deliver high quality service to the public while adequately protecting the integrity of SSA's programs. In the end, SSA was forced to reduce its stewardship activities in favor of maintaining service to the public and the agency ended the year with backlogs that were higher than planned.

The Board was pleased to see that the fiscal year 2005 President's Budget request for SSA was again based on anticipated workloads and the need to reduce the existing backlog of applications, hearings, and other workloads. The Board was also pleased to hear that the increased level of investment being made in SSA's infrastructure and processes is continuing to pay dividends in the form of regular improvements in the agency's productivity, and we applaud SSA's stellar performance vis-à-vis the President's Management Agenda.

In June and November of 2004, during the Board's field visits to Oakland, California and Jackson, Mississippi, the Board heard from SSA's Regional officials that the recent increases in SSA's administrative funding – that have resulted from the development of SSA's service delivery assessment – have made significant improvements in the field's ability to deliver quality service to the public.

On behalf of the Advisory Board, in April of 2004 the Chairman wrote to the Chairmen and Ranking Minority members of House and Senate Appropriations Committees and to the Chairmen and Ranking Minority members of the Appropriations Subcommittees that have jurisdiction over the Social Security Administration's administrative budget. These letters pointed out that, because of the continuing substantial growth in the size and complexity of the SSA workload, the existing level of resources was seriously inadequate. The Chairman urged the Congress to fully fund the President's Budget request for SSA, expressing the Board's view that the increased resources requested in the President's Budget were essential to enabling SSA's ability to carry out effectively, efficiently and with great integrity, the important programs entrusted to it.

E. The Supplemental Security Income Program

Public Law 104-193 requires that members of the Social Security Advisory Board be given an opportunity, either individually or jointly, to include their views in the Social Security Administration's annual report to the President and the Congress on the Supplemental Security Income (SSI) program.

In the 2004 SSI report, the Board commented on two aspects of the program. The first was program integrity, with an emphasis on overpayments. The second was the concept of disability in the SSI program and the extent to which it meets the needs of the American people today.

With regard to program integrity, we noted that, although the Government Accountability Office had removed the SSI program from its list of high-risk programs, recent data showed that the SSI program continued to need attention. Payment accuracy was lower than in 1997, when the program was added to the high-risk list, and the balance of identified SSI overpayments had climbed every year since 1997. The SSI overpayment balance was \$305 million higher at the end of 2003 than at the end of 2002.

In our discussion of the concept of disability in the SSI program, we noted that while the definition of disability had remained unchanged over the three decades of the SSI program, there have been many changes in the economy, in medicine, in rehabilitative technology, and in attitudes about disability and individuals with disabilities. While the SSI program has several provisions aimed at encouraging work activity, we expressed the view that the amount of work activity seemed small in view of the incentives provided. In fact, it appeared to us that actual work activity was less rather than more common despite the addition of numerous features aimed at encouraging work. We went on to raise some policy questions and issues related to alternative program design. We concluded by encouraging the Administration and the Congress to carefully consider how the Social Security disability programs could better meet the high goals set by the Americans with Disabilities Act of assuring people with disabilities "equality of opportunity, full participation, independent living, and economic self-sufficiency."

On May 20, 2004 Board member David Podoff presented testimony on the SSI program before the Subcommittee on Human Resources of the House Committee on Ways and Means. In his testimony he discussed four subjects: stewardship, simplification, disability administration, and the definition of disability. Regarding stewardship, Mr. Podoff stated that with its current level of resources, SSA had been forced to defer important stewardship actions while still seeing unacceptable backlogs in processing claims. Noting that the complexity of the SSI program makes it more difficult and time-consuming to administer, more error-prone, and harder for beneficiaries to understand and comply with, he stated that simplification of the program was a goal that the agency and the Congress should continue to pursue. On the subject of disability program administration, Mr. Podoff noted agency initiatives for creating an electronic disability claims processing system, for revising the adjudication process, and for developing a new quality management system, and he said that the Board would closely

monitor these promising initiatives. He added that SSA needs to thoroughly review its disability policy rules and regulations to determine where changes can be made to improve the quality and consistency of decision making. Mr. Podoff added that it is essential that adequate resources be made available. Finally, he stated that the Board believes it necessary to question whether the half-century old definition of disability that is embedded in the program is consistent with today's societal beliefs about disability and work.

F. The Impact of Immigration on Social Security

Over the last several years, the Advisory Board has grown increasingly interested in the impact that immigration has on the programs administered by the Social Security Administration and on SSA's operations. Because the U.S. is a Nation of people that includes among its numbers immigrants from all over the world, the Social Security Administration strives to serve the public in as many languages as possible. Immigrants residing in the U.S., whether they become full citizens or not, require a Social Security number to work, pay Social Security payroll taxes when they work, receive Social Security benefits upon retirement or disability if they are insured and determined eligible, and may be eligible for SSI benefits if they fall into one of the eligibility categories under current law. As a result, the Social Security Administration interacts with a large number of immigrants daily, many of whom are not able to communicate effectively in English.

The Board has heard repeatedly from SSA Field Office staff, and again during its June 2004 field trip to the San Francisco Region, that most of the non-English speaking public comes into one of SSA's Field Offices when they need service and generally do not do business with the agency using the Internet or the telephone. As a result, maintaining SSA's multilingual capacity necessitates a large staff of field employees who are able to communicate in more than one language, the availability of translators where in-house language skills are not available, and the ability to provide the full range of SSA's services, publications and notices in a multilingual environment. Currently, SSA employs a large cadre of multilingual employees and conducts business in over 100 languages throughout the Nation. In addition, SSA maintains a series of contracts at the national and local levels to provide translation services where necessary. The Board applauds SSA for its resourcefulness in striving to meet the multicultural challenges that the agency faces each day.

Despite these efforts, the Board heard from witnesses at its 2004 public hearing in Oakland, California that many non-English speaking persons still encounter service barriers due to language limitations in some Field Offices and with SSA documents. It is important that policymakers keep in mind that the excellent job that SSA does in providing multilingual services is not without cost. Even though the Agency has been able to expand its capacities despite constrained resources, this workload presents serious complexities and challenges for SSA. The Board believes that it is important that these realities be kept in mind when making decisions about the Agency's future directions and funding.

In addition the Board has had a long-standing interest in the prevalence of Social Security number abuses and its resultant impact on wage reporting and the Earnings Suspense File. While SSA has increased document verifications and developed new initiatives to prevent the inappropriate assignment of Social Security numbers to non-citizens, there is still work to be done to tighten internal controls related to issuing replacement Social Security numbers.

The subject of SSA's totalization agreements with other countries has received significant media attention recently. Totalization agreements with other Nations eliminate dual Social Security taxation of citizens from one country who are sent by their employer to work temporarily in another country and also provide benefit protection for individuals who divide their working careers between two countries. In July of 2004, the Advisory Board met with the Commissioner of Social Security and SSA's Deputy Commissioner for Policy to discuss SSA's policies for and approach to totalization agreements, in particular the Agency's plans for negotiating a totalization agreement with Mexico. The Board heard that many people are opposed to the potential forthcoming totalization agreement with Mexico because they believe it would be costly and result in paying Social Security benefits to illegal immigrants. SSA did not agree with this characterization. The Board intends to explore this issue further.

Immigration also has an impact on the long-range financial solvency of the Social Security program due to its impact on the size and nature of the American labor force. Since the Board's inception, it has convened (1999 and 2003) two expert panels of economists, demographers and actuaries to analyze the assumptions and methods used by the Social Security Trustees in projecting the long-range financial status of the OASDI Trust Funds. The 1999 report accepted the Trustees' central projection but recommended broadening the range of uncertainty in immigration projections. The 2003 Panel recommended a significant increase in both the central assumption and the high cost and low cost alternatives. Additionally, the 2003 Technical Panel recommended that the Trustees make a fundamental change in the way that they derive their net migration assumptions.

More recently, analysis and supporting data released by the Social Security actuaries has shown that changes in the number of immigrants entering the U.S. would have "direct and immediate effects on the size of the working-age population, the size of the labor force, the number of workers in OASDI covered employment, and thus the size and growth rate of Gross Domestic Product (GDP)." The actuaries concluded that a substantial decrease in the number of legal immigrants would have a negative effect on the growth rate in OASDI taxable payroll, while increases in legal immigration would have a positive effect on the OASDI taxable payroll.

At its June 2004 public hearing in Oakland, California, the Board heard from a panel of expert witnesses on immigration that, while there are numeric limits on the number of immigrants allowed to come to the U.S., family members of immigrants can, in many cases, qualify for legal immigration outside of those numeric limits and, as a result, immigration projections are difficult to make. The Board also heard that more research is

needed on the extent to which immigration affects fertility and mortality rates and there may be secondary, generational effects on these rates that are not sufficiently addressed by the Trustees' current projection assumptions.

As a result of these findings, the Board plans to begin looking at these issues more in-depth over the coming year. As a first step in this area, the Board plans to convene a forum in 2005 that will examine the impact of immigration on the OASDI Trust Funds. The Board believes that its work in this area will be an important contribution to the debate on the long-range solvency of Social Security and will help shape SSA's program policy.

IV. Board Operations and Communications

Membership Changes—The terms of Social Security Advisory Board members Gerald Shea and Dorcas Hardy’s expired on September 30, 2004. Dorcas Hardy was reappointed to the Board in October 2004 by the Speaker of the House of Representatives for a six year term. Bradley Belt resigned as a member of the Board on April 23, 2004 upon his appointment as Executive Director of the Pension Benefit Guaranty Corporation.

Meetings—From January 2004 through December 2004, the Board met at its offices nine times and held one conference call. It made two site visits for the purpose of gathering and evaluating information related to the operation of the disability programs, Social Security solvency, program integrity, and other aspects of SSA’s public service.

Public Hearing—The Board conducted a public hearing in Oakland, California in June 2004. At the hearing, the Board focused on SSA’s disability programs and on Social Security in the overall picture of economic security. The Board heard from members of the public and representatives of public and private organizations in the Oakland area who serve Social Security and Supplemental Security Income beneficiaries. It also heard from distinguished scholars who have studied immigration issues. The purpose of the hearing was to learn the views of these individuals on what the Social Security Administration can do to improve its service (especially its telephone service), and also to hear how the financial status of Social Security will be affected by future immigration trends.

Publications—From January 2004 through December 2004, the Board issued one report, its *Annual Report for Calendar Year 2003*. In addition, it commented on the Supplemental Security Income Program in “Statement on the Supplemental Security Income Program,” included in SSA’s *Annual Report of the Supplemental Security Income Program*.

Testimony—On March 29, 2004, Chairman Hal Daub testified before the Senate Homeland Security and Governmental Affairs’ Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia in Cleveland, Ohio. On May 20 Board member David Podoff testified before the House of Representatives’ Committee on Ways and Means’ Subcommittee on Human Resources on the issues facing the Supplemental Security Income program. On September 30 Board Chairman Daub testified before the Subcommittees on Social Security and Human Resources of the House’s Committee on Ways and Means on Commissioner Barnhart’s proposal to improve the Social Security disability process.

Addresses—In May 2004, Chairman Daub addressed the Great Lakes Association of Disability Examiners. In June, he participated in a forum on retirement security in the 21st century sponsored by Nationwide Insurance. In August, Chairman Daub made an address at the annual meeting of the National Council of Disability Determination Directors. In September he addressed the national training conference of the National Association of Disability Examiners, and also participated in a forum sponsored by the

Financial Services Roundtable. In October, Chairman Daub spoke at the annual meeting of the Association of Administrative Law Judges.

Communications—On March 11, 2004 an op-ed submitted by Chairman Hal Daub appeared in the *Omaha World Herald* entitled, “Denial Won't Remedy Social Security's Ills.” In April, the Board sent letters to the leadership of the Senate and House of Representatives' Appropriations Committees stating that increased funding for SSA's administrative budget is critical in order for the agency to meet its responsibilities to serve the public in an effective manner. Similar letters were sent to the leadership of the House Committee on Ways and Means and the Senate Committee on Finance.

V. Visits to Field Sites January 2004 – December 2004

San Francisco Region, June 23-25, 2004—The Social Security Advisory Board met with Social Security Administration officials and staff of the San Francisco Regional Office, the Oakland Hearing Office, the Vallejo Field Office, and the California DDS to discuss service to the public, disability and return to work, and other program issues. The Board held sessions with the Regional Commissioner, the Deputy Regional Commissioner, and the Regional executive staff; the Oakland Hearing Office Chief Administrative Law Judge, Administrative Law Judges, and Hearing Office staff. In addition, sessions were held with management and staff from the Western Program Service Center, Richmond Teleservice Center and the California DDS.

In addition, the Board attended a meeting in Vallejo to learn about an SSA-funded project called the Youth Transition Pilot, a project that aims to work with disabled youth to help them prepare for entrance into the workforce. At this session the Board met with local Social Security officials involved in the project; the Director of the California Department of Rehabilitation (CDR); the Program Coordinator and the Bridges to Youth Self-Sufficiency Project Manager for CDRs Statewide Evaluation; a panel of Bridges to Youth Self-Sufficiency Project Managers; and a panel of student participants and their parents or guardians.

Also, the Board held a public hearing in Oakland, California. We wanted to learn the public's views on how the Social Security Administration can improve its service (especially its telephone service), and also to hear how the financial status of Social Security will be affected by future immigration trends. Invited witnesses included representatives of public and private organizations in the Oakland area who serve Social Security and Supplemental Security Income beneficiaries, and distinguished scholars who have studied immigration issues.

Jackson, Mississippi, November 15, 2004—The Board met with Mississippi Disability Determination Services officials and the Social Security Administration's Atlanta Regional Commissioner to get first hand information on SSA's rollout of its electronic disability processing system (eDib). The Board participated in an eDib demonstration and discussion given by the DDS Director, executives, managers, medical consultants, disability examiners, and other staff at the DDS.

VI. Reports and Publications

1. *Annual Report*, Calendar Year 2003 (May 2004). The Board has prepared *Annual Reports* since 1998. The reports were prepared on a Fiscal Year basis from 1998 to 2002.
2. "Statement on the Supplemental Security Income Program," Additional Statement by the Social Security Advisory Board in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 2004. The Board has prepared these statements annually since 1998.
3. *The Social Security Definition of Disability*, October 2003.
4. *The 2003 Technical Panel on Assumptions and Methods, Report to the Social Security Advisory Board*, October 2003.
5. *Introducing Nonadversarial Government Representatives to Improve the Record for Decision in Social Security Disability Adjudications, A Report to the Social Security Advisory Board*, June 2003.
6. *SSA's Obligation to Ensure that the Public's Funds are Responsibly Collected and Expended*, March 2002.
7. *Alternative Approaches to Judicial Review of Social Security Disability Cases: A Report to the Social Security Advisory Board*, March 2002.
8. *Challenges Facing the New Commissioner of Social Security*, Statement by Stanford G. Ross, December 2001.
9. *Estimating the Real Rate of Return on Stocks Over the Long Term*, Papers presented to the Social Security Advisory Board, August 2001.
10. *Social Security: Why Action Should Be Taken Soon* (Revised Edition), July 2001. The Board issued this report originally in July 1998.
11. *Agenda for Social Security: Challenges for the New Congress and the New Administration*, February 2001.
12. *Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change*, January 2001.
13. *Disability Decision Making: Data and Materials*, January 2001.
14. *The Technical Panel on Assumptions and Methods, Report to the Social Security Advisory Board*, November 1999.

15. *How the Social Security Administration Can Improve Its Service to the Public*, September 1999.
16. *Forum on the Implications of Raising the Social Security Retirement Age*, May 1999 (staff document).
17. *How SSA's Disability Programs Can Be Improved*, August 1998.
18. *Strengthening Social Security Research: The Responsibilities of the Social Security Administration*, January 1998.
19. *Increasing Public Understanding of Social Security*, September 1997.
20. *Forum on a Long-Range Research and Program Evaluation Plan for the Social Security Administration: Proceedings and Additional Comments*, June 24, 1997 (staff document).
21. *Developing Social Security Policy: How the Social Security Administration Can Provide Greater Policy Leadership*, March 1997.

Most reports are available on the Board's web site at www.ssab.gov

APPENDIX

SOCIAL SECURITY ADVISORY BOARD

**STATEMENT ON THE SUPPLEMENTAL
SECURITY INCOME PROGRAM**

MAY 2005

SOCIAL SECURITY ADVISORY BOARD

STATEMENT ON THE SUPPLEMENTAL SECURITY INCOME PROGRAM

Public Law 104-193 requires that members of the Social Security Advisory Board be given an opportunity, either individually or jointly, to include their views in the Social Security Administration's annual report to the President and the Congress on the Supplemental Security Income (SSI) program.

We appreciate the opportunity to present our views on this important program, and we have asked the Social Security Administration to include the following statement of views in this year's annual report.

VIEWS OF THE BOARD REGARDING THE SSI PROGRAM

In presenting our views this year, we would like to comment on three aspects of the SSI program: work incentives, wage reporting, and simplification of the program's provisions on living arrangements and in-kind support and maintenance.

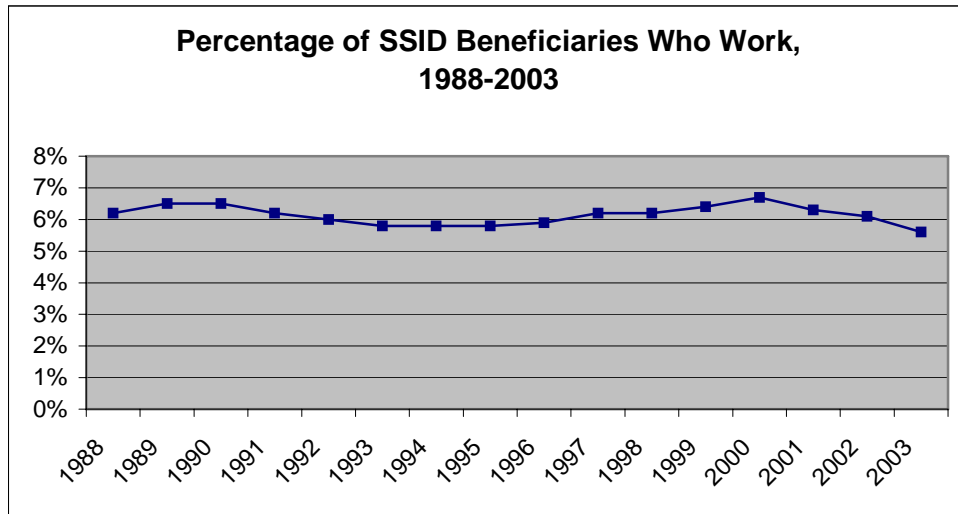
ENCOURAGING SSI BENEFICIARIES TO WORK

In our 2003 report on the definition of disability², we discussed bringing the half-century old disability program up to date with the changes that have occurred in the economy, in medicine, in rehabilitative technology, and in attitudes toward disability and the disabled. The SSI program uses the same definition of disability as the disability insurance program and has many other elements in common, including the need for timely and accurate maintenance of earnings reports, discussed below.

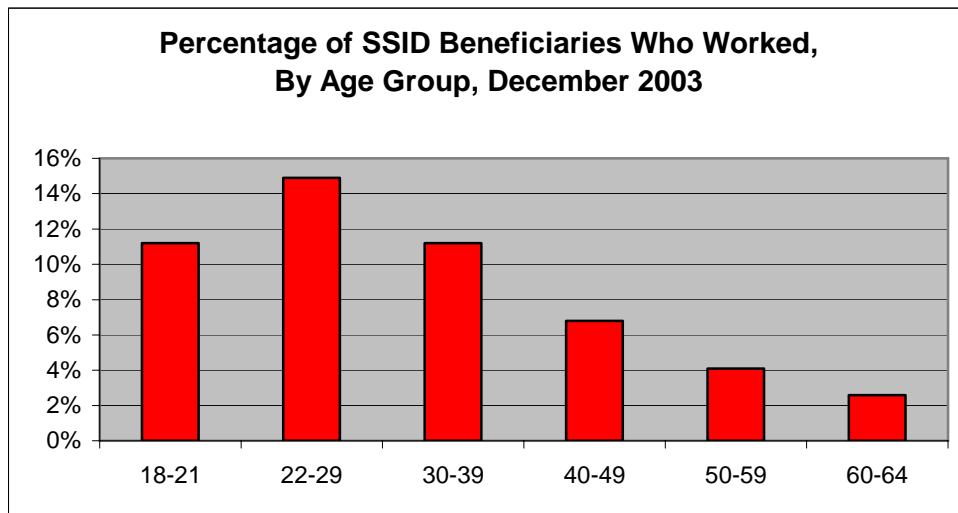
SSI has some different work incentives, however, and attention should be paid to updating them as well. The SSI program was designed with more generous disregards for income, especially earned income, than the old assistance programs it replaced. The report of the House Ways and Means Committee on the original legislation described the program as providing incentives and opportunities for those able to work that would enable them to escape dependency. When it was enacted in 1972, the program allowed \$20 of income from any source and earnings of \$65 per month without any effect on benefits. Earnings above that amount reduced benefits by \$1 for every \$2 earned. These amounts, referred to as general income and earned income disregards, were not indexed and have not changed since 1972. If they had kept pace with inflation, they would now be about \$90 and \$290 per month, allowing disabled beneficiaries to earn up to \$380 per month without reducing their benefits.

² *The Social Security Definition of Disability*, October 2003, available on our website, www.ssab.gov.

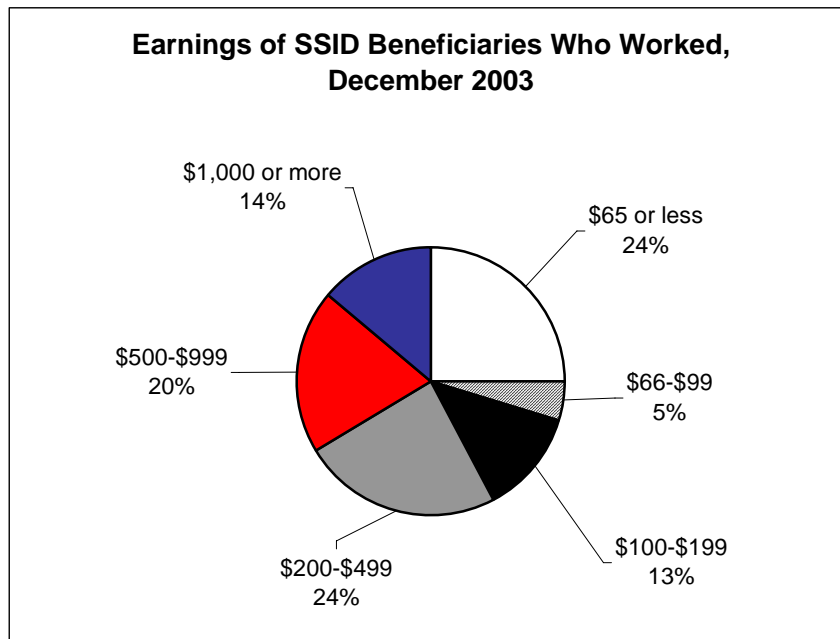
For the last 15 years, the percentage of all disabled SSI beneficiaries who work has been fairly stable, fluctuating around 6 percent.



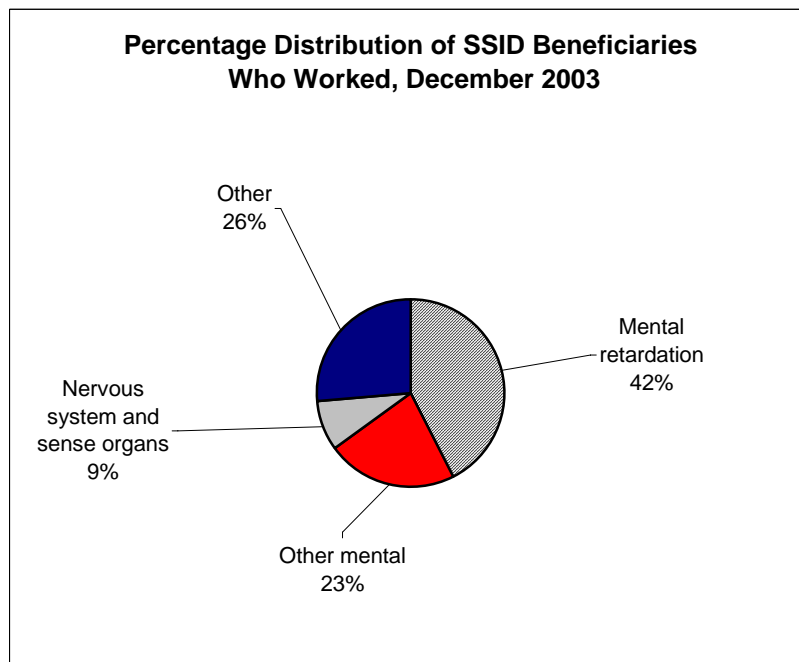
Younger beneficiaries are more likely to work than older ones.



The amount of their earnings varies widely, and a quarter of those who work have earnings below \$65 per month.



There are also some interesting differences by diagnosis.



Two-thirds of the workers have a mental disorder, including 42 percent with a diagnosis of mental retardation. By comparison, 56 percent of all disabled SSI beneficiaries have a mental disorder, including 22 percent with mental retardation.

In addition to the disregards discussed above, there are other work incentives that are used by some SSI beneficiaries who work, including:

- **Continuation of Medicaid eligibility** – Medicaid eligibility will usually continue even if beneficiaries earn too much to receive SSI payments, if they cannot afford similar medical care and depend on Medicaid in order to work.
- **Student earned income exclusion** – For students under age 22 who are regularly attending school and neither married nor the head of a household, up to \$1,340 of earned income per month, to a maximum of \$5,410 per year, is excluded from countable income.
- **Work expenses of the blind** – Any income earned by a blind individual that is used to meet expenses needed to earn that income is excluded from countable income.
- **Plan for achieving self-support (PASS)** – A PASS allows a disabled or blind individual to set aside income and resources to get a specific type of job or to start a business. The income and resources that are set aside are excluded under the SSI income and resource tests.
- **Expedited reinstatement of benefits** – There is a 60-month period in which a former beneficiary may request reinstatement of benefits without filing a new application.
- **Impairment-related work expense exclusion** – The cost of certain impairment-related services and items that a beneficiary needs in order to work are excluded from countable income for SSI purposes and are deducted from earnings when determining if work is substantial.
- **Continued payment under a vocational rehabilitation program** – Beneficiaries who medically recover while participating in a vocational rehabilitation program that is likely to lead to becoming self-supporting may continue to receive benefits until the program ends.

While SSI work incentives can be complex, beneficiaries' decisions about working are much more complex, due to the interactions of multiple means-tested programs from which they may be receiving benefits. SSI beneficiaries face potential reductions of benefits not only from SSI but also from any other transfer programs, plus the regular assortment of federal, state, and local taxes, as well as the potential loss of medical insurance. This combination is equivalent to a high cumulative marginal tax rates for individuals receiving benefits from multiple programs. A 1996 article computed that the rate of income reduction for an additional dollar earned could be as high 89 cents for an SSI recipient who also qualifies for the Earned Income Tax Credit and Food Stamps.

Given the complexity of the work incentives involved, it is impossible to predict what the effect and the costs would be of increasing the 1972 income disregards. SSA is currently conducting a demonstration project that should shed some additional light on these questions. Known as Work Incentives for Participants in the Florida Freedom Initiative, it began in March 2004 and will end by March 2007. As part of this demonstration, SSI beneficiaries who participate will have an earned income disregard of \$280 (four times the current law disregard). Work incentives are an important aspect of updating the SSI disability program, and we look forward to learning the results of this demonstration project. Increasing work incentives would be expensive, but if it is done in the context of a larger reform of the program, including living arrangements and in-kind support (as discussed later in this statement) and potentially other simplifications, there might be sufficient savings to offset the additional costs.

WAGE REPORTING

In some of our previous statements on the SSI program, we discussed wage reporting as it related to program integrity and the administrative aspects of overpayments. We now want to focus on wage reporting and overpayments as an obstacle to increasing the amount of work by SSI beneficiaries.

Wage reporting has been a perennial problem for the SSI program. Earnings above \$65 per month can affect beneficiaries' payments. For children and for beneficiaries with ineligible spouses, a portion of the parents' or spouses' earnings are deemed to be available to the beneficiary, affecting payment amounts. SSA quality reviews have found wages to be a leading cause of SSI overpayments for over a decade.

SSI payments are computed using a system known as "retrospective monthly accounting." This means that they are based on known circumstances for a past month. Payments are computed for each month, and the payment for a month is usually based on the beneficiary's countable income (including deemed income) from the second month before the current month. If earnings are reported promptly and recorded in a timely and accurate manner, they should not result in overpayments. For example, the payment that is made at the beginning of June is generally based on the income for April. If the beneficiary has an increase or decrease in his income in April, he or she can report it at the start of May and should receive the correct payment in June.

Retrospective accounting may make it easier for the agency to administer the program, but it does not serve the best interests of beneficiaries who live at or near the poverty level and are concerned with meeting their current needs. Retrospective accounting makes budget planning difficult for beneficiaries even if all the payments are accurate. Take the case of a beneficiary who goes to work in April and, quite correctly, receives a full payment in April. He has some extra money, which he is likely to spend to meet his current needs. But if he is not working in June, he not only does not have wages, he also gets a smaller benefit and may be unable to meet his needs. In the balance of this statement, we will address the current system, but we recommend that SSA

consider replacing retrospective accounting with a system that better serves the needs of beneficiaries.

SSA directs all SSI beneficiaries and their representative payees to report when the beneficiary (or parent or ineligible spouse) starts working or stops working or when the amount of monthly wages changes. However, this is frequently not done. We have also often heard credible testimony that some beneficiaries report accurately and timely, but their wages are not recorded accurately or timely. Both failure to report wages and failure to record them can cause overpayments. A representative of the Consortium for Citizens with Disabilities told the Ways and Means Committee, “This is a nightmare to people with extremely low incomes and becomes a major barrier to future work.” A study done for the Ticket to Work Advisory Panel in 2003 reported extensive anecdotal evidence on the work disincentive caused by overpayments and the fear of overpayments. A staff member for an agency that provides legal services to beneficiaries stated that it is common for working beneficiaries who receive an overpayment notice to stop working. Another study done for the Ticket to Work Advisory Panel in 2003 reported, “Stories circulate among beneficiaries of people who have been required to repay excess benefits as much as a year after the overpayments were made, and who do not have the funds to do so. However often or infrequently this happens, the stories persist and offer a serious disincentive to the much larger number of people who hear them and learn to fear being caught in this situation.”

The Commissioner of Social Security discussed this issue at a 2003 hearing of the Social Security Subcommittee of the House Ways and Means Committee. Representative Hayworth said, “One concern of many beneficiaries about returning to work is that if they report their earnings to SSA, the agency may not accurately keep track of them, thus leading to overpayments. This fear of having to repay potentially hundreds or thousands of dollars in overpayments is a real concern that prevents many individuals with disabilities from taking that step to return to work.” Commissioner Barnhart replied, “That has been a huge issue in the agency. Quite frankly, the lag time between individuals willingly reporting income that they are earning and it getting posted into their accounts so we know we need to make adjustments in benefits . . . does result in these erroneous overpayments, sometimes after a year or two, and the individual is required to pay that back through overpayment collection efforts unless we grant a waiver. I would say that the major factor contributing to that delay has been a need for additional resources.”

There are numerous obstacles, besides agency resources, to eliminating overpayments due to earnings. The study for the Ticket to Work Advisory Panel enumerated them: “From SSA’s perspective, complex program rules governing the treatment of earnings, earnings definitions, evidence requirements, monthly accounting, limited automation, . . . diffused responsibility, and competing priorities all contribute to untimely processing of wage information. From the beneficiary perspective, understanding reporting and evidence requirements and work incentive provisions, accurately estimating monthly income, and taking appropriate follow-up actions represent significant challenges to the timely reporting of wage information.”

A small pilot conducted recently by SSA offers a glimmer of hope for at least reducing the incorrect SSI payments caused by wages. Between May and December 2003, some 1,300 volunteers participated in a pilot using a voice recognition/touchtone telephone reporting system. They used the telephone to report wages, and their reports went directly into SSA's computer system, without any further work by SSA employees. The evaluation of the pilot found that the wage reports made in this way were much more accurate than the wage estimates that were already on SSA's records. The evaluation estimated that the new system would prevent \$200 in annual SSI overpayments and \$400 in annual SSI underpayments for every person who reports wages monthly. There would be additional administrative savings from avoiding the work involved in processing wage alerts, overpayments, and underpayments. The total savings would exceed the \$2 million to \$3 million annual cost of making the system available if only 3,300 to 4,900 beneficiaries and deemors used it. The major hurdle to fully implementing the system is making it simple to use, while still keeping it secure. The pilot used a password authentication system that participants found difficult. Half the volunteers were unable to use it. The 1,300 who used it needed considerable help from their local field office, and 15 percent reported for only one or two months. Field offices involved in the pilot stated that participants who dropped out of the pilot found it too difficult or were afraid that they would make a mistake that would reduce their SSI check.

SSA is committed to a second pilot, in which participants will be able to use knowledge-based authentication, rather than a password system. That pilot is still being planned. We encourage SSA to move ahead quickly. When the system is fully functional, the agency should consider making its use for wage reporting mandatory.

Even if every working SSI beneficiary or deemor reported wages monthly, SSA's stewardship obligations would require it to verify the amounts that had been reported. In its field visits, the Board has been told that the current wage-verification system is labor-intensive, taking the time of employers, beneficiaries, and SSA staff. It requires beneficiaries or deemors to save all pay stubs for review by SSA staff. This can mean that SSA staff must review up to 52 pay stubs per year (or more for workers with more than one employer) and calculate the exact amount paid each month. (Some offices do this monthly or quarterly, but the amount of work over a year is still the same.) If the worker has not kept the pay stubs, SSA asks the employer to review wage records and report the amount paid per month. The employers' compliance is voluntary, but most do provide the information.

If a reliable monthly wage reporting system were implemented, it would seem feasible to simplify the verification system to one that would simply compare the sum of the monthly wage reports to the annual report from the employer for tax purposes. If the two matched, within some tolerance to be established, the monthly reports could be accepted as accurate, and no further verification required. An SSA report in 2000 on SSI program simplification estimated that annual wage verification could save more than 800 workyears annually.

LIVING ARRANGEMENTS AND IN-KIND SUPPORT

In previous reports and testimony, the Board has stressed the need to simplify the SSI program. Some progress has been made in this area. SSA worked with the Congress to include some simplification provisions in the Social Security Protection Act of 2004. These included exclusion from countable income of small amounts of interest and dividends, easing the rules on infrequent unearned income, preventing triple counting of income in some circumstances, and provisions to help military families. SSA has also made some regulatory changes dealing with resources and non-cash income. All of these changes are welcome accomplishments, but much remains to be done.

One of the areas most in need of simplification is the set of rules that apply when an applicant or recipient lives in the household of another or receives other in-kind support. Program rules in this area are difficult to administer, are a leading cause of incorrect payments, raise questions of equity, and make the program more vulnerable to fraud and abuse. The Government Accountability Office has also drawn attention to the need for simplification, stating in 2002: “A fundamental cause of SSI overpayments are the complex rules governing SSI eligibility. However, SSA has done little to make the program less complex and error prone, especially in regard to living arrangement policies. . . . [L]ongstanding SSI payment errors and high administrative costs suggest the need for SSA to move forward in addressing program design issues and devising cost-effective simplification options.”

Living arrangements and in-kind support are major factors in determining the amount of SSI benefits payable to a beneficiary. In-kind support is unearned income in the form of food or shelter that is paid for by someone else. The agency must go through a process of determining these issues in every claim and redetermination. Claims representatives make these determinations by going through a series of questions that is summarized on a two-page flowchart in SSA’s program operations manual. The decision path can lead through a variety of issues, such as home ownership, rental liability, contributions to household expenses, receipt of public assistance by other household members, and separate purchase or consumption of food. Claimants who are found to be living in the household of another and receiving food and shelter from others in the household are subject to the one-third reduction rule, which means that their Federal benefit rate (FBR) is reduced by one-third. For claimants who are not subject to the one-third reduction but who are receiving in-kind support, the value of that support must be determined. The presumed (and maximum) value of in-kind support is one-third of the full FBR plus \$20. (This would result in a benefit payment equal to that under the one-third reduction.) But the presumed value can be contested. If claimants can show that the actual value of food and/or shelter that they receive is less, the agency will use the actual value in computing the benefit, resulting in a higher payment.

If the paragraph above sounds complicated, the actual development required by cases is much more complicated. The SSA operating manual has the equivalent of 250 single-spaced typed pages of instructions on living arrangements and in-kind support and seems to try to parse every possible combination and permutation. SSA’s Office of the

Inspector General (OIG) issued an evaluation report in 2001 on these factors. The report stated, “Procedures for determining an individual’s [living arrangements] and the value of [in-kind support] are difficult to administer and can result in SSI claims being improperly developed. These difficulties result from complex and difficult to verify eligibility requirements.” As part of its study, OIG sent a questionnaire to a sample of field offices soliciting their opinions on living-arrangements and in-kind support. The answers reinforce what the Board has been told on its visits to field offices. For example:

- The manual section on in-kind support “is filled with complicated computations for situations that rarely occur.”
- “Like most of the SSI program, a title XVI [claims representative] needs to be a Certified Public Accountant, insurance agent, financial advisor, realtor, lawyer and social worker.”
- “The whole concept is too complicated and gets more so”
- “The rules are complicated and difficult for [claims representatives] to agree on, let alone for an applicant with limited education and/or faculties to understand.”

Given this complexity, it is not surprising that living arrangements and in-kind support rank high among factors causing incorrect SSI payments. The most recent report on SSI payment accuracy shows that in-kind support ranked third as a factor in overpayments, accounting for \$187 million. In-kind support and living arrangements ranked second and third as factors in underpayments, accounting for \$93.5 million and \$82.5 million, respectively.

SSA’s policies and procedures on living arrangements and in-kind support also leave the program vulnerable to fraud and abuse. The OIG report mentioned above said, “We determined that SSA has no effective method to verify such key factors as household size and composition, rental liability and marital status. As a result, SSI applicants may qualify for benefits or cause payment errors by providing incorrect [living arrangements and in-kind support] information.” Again, responses to OIG’s questionnaire to field offices are in accord with what the Board has heard on its field visits:

- “So much of the information used to make determinations (such as household expenses, separate purchase of food, rental subsidy) is based on allegation and corroboration, which match the allegation, but do not match reality.”
- “The [living arrangements/in-kind support] process is weak because most allegations . . . (such as household expenses, rental subsidy, separate purchase of food, sharing, etc.) are verified using a corroborative statement from someone known to the applicant and who may have a motivation to be less than objective and truthful. There is no practical way to verify these issues.”

- “The [operations manual] criteria are set up in such a way that it begs for individuals to make fraudulent statements. Once an individual is aware of the rules, they know how to answer the questions in order to get a higher benefit.”
- “A legal advocacy group in our area routinely coaches applicants and recipients on how to answer questions so that they will receive the most advantageous [living arrangements].”
- “[T]he public is more educated on what to say. Clearly a lot of applicants have been schooled before coming to us.”

And all the questioning and development, flawed though it may be, in the end has little effect. As of December 2003, only 4.1 percent of SSI beneficiaries had the one-third reduction applied to their benefits, and only another 3.7 percent were charged with in-kind support.

Current policies also raise questions of equity. Other program rules assume that people living together have certain economies of scale and do not require as much for their current living expenses as the same number of people living separately. That is why couples, with both partners receiving SSI, receive a benefit rate equal to 150 percent of the rate for individuals. The same assumption, however, is not applied to non-married-couple SSI recipients who share a household. In fact, in a household composed of SSI recipients who are not married to each other, each is presumed to be sharing household expenses and is eligible for the full individual rate. A recent analysis found that at least one in five SSI beneficiaries lives with at least one other SSI recipient who is not a spouse. The study also found that the prevalence of poverty among married SSI couples is higher than among non-couple SSI beneficiaries living in the same household.

In short, current policy and procedures on living arrangements and in-kind support are not only administratively cumbersome but also contribute significantly to inaccurate payments, cause vulnerability to fraud and abuse, and are part of a system of dubious equity. Programmatic changes always involve trade-offs, but not necessarily in the form of higher costs. Ways to reduce the complexity of the SSI rules for living arrangements and in-kind support have been identified in the past and merit careful consideration.

In December 2000, for example, SSA published *Simplifying the Supplemental Security Income Program: Challenges and Opportunities*, which examined living arrangements and in-kind support, among other aspects of the SSI program. The report outlined six potential methods to simplify the SSI program. All of the methods examined had advantages and disadvantages. The option we find most attractive would eliminate the current rules for living arrangements and in-kind support and would simply reduce benefits by a fixed percentage for adult SSI beneficiaries living with another adult.³ It would be possible to develop a cost-neutral option for such reductions.

³ The reason for excluding SSI child beneficiaries is that the law currently recognizes parental financial responsibility by deeming parental income to children. In that way, their benefits are already adjusted for the support available from parents.

It might also be possible to shape an option that would provide offsetting savings that would make other program improvements possible. A similar but more substantial change was suggested by one of the participants in the Supplemental Security Income Modernization Project in 1992. That suggestion, by Michael Stern, one of the panel of experts who studied the SSI program, would establish a payment level for any SSI recipient living with another adult at the rate of 75 percent of the payment for an individual living alone. (This would be equal to the rate paid to a member of an SSI couple.) Reductions for in-kind support would be eliminated. Current beneficiaries would have their benefit levels protected. There are no current estimates of savings from implementing this proposal. The original Stern proposal would use the savings (then estimated at \$5 billion over five years) to increase staffing levels and to increase the overall level of SSI benefits, increasing them toward the Federal poverty level. Instead of doing that, it would be possible to use savings toward making other program improvements possible, such as increasing work incentives, as discussed above in this statement.

Making such a change as recommended by either option is not a simple matter and would require legislative change by Congress. If it were simple, it would have been done long ago. Some beneficiaries (those now charged with in-kind support) would have their benefits increased, but more (non-couple beneficiaries now sharing living quarters) would have them reduced. On the other hand, those who would gain would most likely be those in greater need. SSI beneficiaries who live alone are more likely to be in poverty than those who live with others. It would be possible to design methods to ease the transition for those whose benefits would be reduced, for example by making reductions effective only for new claims or for new claims and for current beneficiaries whose living arrangements change. To simply achieve cost-neutrality, the proposal could be designed to have a quite modest impact on new beneficiaries. A larger impact would be necessary if the change were to also generate savings that could be used to finance improvements in other aspects of the program, such as work incentives.

We encourage SSA to continue its study of simplifying rules for living arrangements and in-kind support and to further examine the distributive effects of making such a change. We believe that this is an area that deserves congressional attention. Replacing current rules with an approach that is much simpler would enhance payment accuracy, improve program integrity, increase equity among beneficiaries, reduce administrative burdens, and make the program easier for beneficiaries to understand.

Hal Daub
Chairman

Dorcas R. Hardy Martha Keys

David Podoff Sylvester J. Schieber

Members of the Board

Hal Daub, Chairman

Hal Daub is currently a partner in the law firm of Blackwell Sanders Peper Martin in Omaha, Nebraska and Washington, D.C. Previously, he was President and Chief Executive Officer of the American Health Care Association and the National Center for Assisted Living. He served as Mayor of Omaha, Nebraska from 1995 to 2001, and was an attorney, principal, and international trade specialist with the accounting firm of Deloitte & Touche from 1989 to 1994. Mr. Daub was elected to the U.S. Congress in 1980, and reelected in 1982, 1984, and 1986. While there he served on the House Ways and Means Committee, the Public Works and Transportation Committee, and the Small Business Committee. In 1992, Mr. Daub was appointed by President George H.W. Bush to the National Advisory Council on the Public Service. From 1997 to 1999, he served on the Board of Directors of the National League of Cities, and from 1999 to 2001, he served on the League's Advisory Council. He was also elected to serve on the Advisory Board of the U.S. Conference of Mayors, serving a term from 1999 to 2001. From 1971 to 1980, Mr. Daub was vice president and general counsel of Standard Chemical Manufacturing Company, an Omaha-based livestock feed and supply firm. A former U.S. Army Infantry Captain, he is a Distinguished Eagle Scout, 33rd Degree Mason, active in the Salvation Army, Optimists International, and many other charitable and philanthropic organizations. He is the current chairman-elect of the Community Health Charities of America. Mr. Daub is a graduate of Washington University in St. Louis, Missouri, and received his law degree from the University of Nebraska. Term of office: January 2002 to September 2006.

Bradley Belt⁴

Mr. Belt is currently Executive Director of the Pension Benefit Guaranty Corporation. Previously, Mr. Belt was President the Washington Capital Group, Inc., a consulting firm to corporations, financial institutions, and non-profit organizations on policy matters and business strategy. He has held senior management and staff positions in both the public and private sectors. His prior private sector roles include serving as a member of the executive management team of FOLIOfn, a financial services and technology company that was named by *Red Herring* magazine as one of the 50 private companies "most likely to change the world," and Managing Director of The Commonwealth Group, a government relations consulting firm. Mr. Belt also has held a number of senior government posts with the U.S. Congress and the Securities and Exchange Commission (SEC). He served as Senior Vice President for Policy at the Center for Strategic and International Studies (CSIS), a prominent Washington-based think tank where he was responsible for program management, policy planning, and corporate development. He also served as executive director of the National Commission on Retirement Policy. Mr. Belt completed the senior executive fellows program at the Kennedy School of Government at Harvard University, received his law degree from the Georgetown University Law Center, and obtained his undergraduate degree in business administration from the University of Nebraska.

⁴ Mr. Belt resigned as a member of the Social Security Advisory Board on April 23, 2004 upon appointment as Executive Director of the Pension Benefit Guaranty Corporation.

Dorcas R. Hardy

Dorcas R. Hardy is President of DRHardy & Associates, a government relations and public policy firm serving a diverse portfolio of clients. After her appointment as Assistant Secretary of Human Development Services, Ms. Hardy served as Commissioner of Social Security from 1986 to 1989 and was recently appointed by President Bush to chair the Policy Committee for the 2005 White House Conference on Aging. Ms. Hardy has launched and hosted her own primetime, weekly television program, "Financing Your Future," on Financial News Network and UPI Broadcasting and "The Senior American," an NET political program for older Americans. She speaks and writes widely about domestic and international retirement financing issues and entitlement program reforms and is the author of *Social Insecurity: The Crisis in America's Social Security System and How to Plan Now for Your Own Financial Survival*, Random House, 1992. Ms. Hardy consults with seniors' organizations, public policy groups, and businesses to promote redesign and modernization of the Social Security, Medicare and disability insurance systems. Additionally, she has chaired a Task Force to rebuild vocational rehabilitation services for disabled veterans for the Department of Veterans Affairs. She received her B.A. from Connecticut College, her M.B.A. from Pepperdine University and completed the Executive Program in Health Policy and Financial Management at Harvard University. She is a Certified Senior Advisor and serves on the Board of Directors of The Options Clearing Corporation, Wright Investors Service Managed Funds, and First Coast Service Options. First term of office: April 2002 to September 2004. Current term of office: October 2004 to September 2010.

Martha Keys

Martha Keys served as a U.S. Representative in the 94th and 95th Congresses. She was a member of the House Ways and Means Committee and its Subcommittees on Health and Public Assistance and Unemployment Compensation. Ms. Keys also served on the Select Committee on Welfare Reform. She served in the executive branch as Special Advisor to the Secretary of Health, Education, and Welfare and as Assistant Secretary of Education. She was a member of the 1983 National Commission (Greenspan) on Social Security Reform. Martha Keys is currently consulting on public policy issues. She has held executive positions in the non-profit sector, lectured widely on public policy at universities, and served on the National Council on Aging and other Boards. Ms. Keys is the author of *Planning for Retirement: Everywoman's Legal Guide*. First term of office: November 1994 to September 1999. Current term of office: October 1999 to September 2005.

David Podoff

David Podoff was a senior advisor to the late Senator Daniel Patrick Moynihan on Social Security and other issues while serving as Minority Staff Director and Chief Economist for the Senate Committee on Finance. While on the Committee staff he was involved in major legislative debates with respect to the long-term solvency of Social Security, health care reform, the constitutional amendment to balance the budget, the debt ceiling, plans to balance the budget, and the accuracy of inflation measures and other government statistics. Prior to serving with the Finance Committee he was a Senior Economist with the Joint Economic Committee and directed various research units in the Social Security Administration's Office of Research and Statistics. He has taught

economics at Baruch College of the City University of New York, the University of Massachusetts and the University of California in Santa Barbara. He received his Ph.D. in economics from the Massachusetts Institute of Technology and a B.B.A. from the City University of New York. Term of office: October 2000 to September 2006.

Sylvester J. Schieber

Sylvester J. Schieber is Vice President/U.S. Director of Benefits Consulting at Watson Wyatt Worldwide, where he specializes in analysis of public and private retirement policy issues and the development of special surveys and data files. From 1981 to 1983, Mr. Schieber was the Director of Research at the Employee Benefit Research Institute. Earlier, he worked for the Social Security Administration as an economic analyst and as Deputy Director at the Office of Policy Analysis. Mr. Schieber is the author of numerous journal articles, policy analysis papers, and several books including: *Retirement Income Opportunities in An Aging America: Coverage and Benefit Entitlement*, *Social Security: Perspectives on Preserving the System*, and *The Real Deal: The History and Future of Social Security*. He served on the 1994 - 1996 Advisory Council on Social Security. He received his Ph.D. from the University of Notre Dame. First term of office: January 1998 to September 2003. Current term of office: October 2003 to September 2009.

Gerald M. Shea⁵

Gerald M. Shea is currently assistant to the president for Government Affairs at the AFL-CIO. He previously held several positions within the AFL-CIO, serving as the director of the policy office with responsibility for health care and pensions, and also in various executive staff positions. Before joining the AFL-CIO, Mr. Shea spent 21 years with the Service Employees International Union as an organizer and local union official in Massachusetts and later on the national union's staff. He was a member of the 1994-1996 Advisory Council on Social Security. Mr. Shea serves as a public representative on the Joint Commission on the Accreditation of Health Care Organizations, is a founding Board member of the Foundation for Accountability, Chair of the RxHealth Value Project, and is on the Board of the Forum for Health Care Quality and Measurement. He is a graduate of Boston College. First term of office: January 1996 to September 1997. Second term of office: October 2000 to September 2004.

Members of the Staff

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Katherine Thornton, Deputy Staff Director

Joel Feinleib

Beverly Rollins

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⁵ Mr. Shea served through September 30, 2004 when his term as a member of the Board expired.

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