



## SOCIAL SECURITY

### MEMORANDUM

Date: September 30, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Quick Response Evaluation: Individuals Withdrawing Title II Benefit Applications (A-05-08-28110)

The attached final quick response evaluation presents the results of our review. Our objective was to assess the process, and related volume of transactions, whereby Title II retired beneficiaries age 62 and over withdrew their Social Security Administration benefit applications and requested new benefits based on a later retirement date.

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr." with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachment

# ***QUICK RESPONSE EVALUATION***

## ***Individuals Withdrawing Title II Benefit Applications***

**A-05-08-28110**



September 2008

## **Mission**

**By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.**

## **Authority**

**The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:**

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

**To ensure objectivity, the IG Act empowers the IG with:**

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

## **Vision**

**We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.**

# Executive Summary

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## OBJECTIVE

Our objective was to assess the process, and related volume of transactions, whereby Title II retired beneficiaries age 62 and over withdrew their Social Security Administration (SSA) benefit applications and requested new benefits based on a later retirement date.

## BACKGROUND

An SSA beneficiary's monthly benefit amount can vary based on the age at which the beneficiary decides to start receiving benefits. If the beneficiary requests benefits before full retirement age (FRA), he or she will get a reduced monthly benefit. Also, if a beneficiary waits until age 70 to retire, the monthly benefit amount increases. SSA policy also allows beneficiaries to withdraw an application after it has been filed once beneficiaries consent in writing to the withdrawal and repay all the benefits received.

## RESULTS OF REVIEW

Current SSA policy allows withdrawal of an application for any reason. The Agency did not maintain detailed management information related to the number of Title II retirement application withdrawals. We estimate that Title II retirement application withdrawals in Calendar Year 2007 ranged from about 12,000 applications (the number we were able to extract from SSA's systems) to about 26,000 applications (the Agency's reported number). Our review of withdrawal applications indicated the majority of beneficiaries withdrawing benefits are doing so prior to FRA as a result of work activity that has reduced or eliminated monthly benefit payments. We identified cases where it appeared beneficiaries were withdrawing benefits to obtain a higher monthly benefit, though the volume was small. Nonetheless, SSA's open-ended policy on application withdrawals allows individuals to bypass the Agency's retirement policies that encourage delayed retirement. Moreover, the policy allows the beneficiaries to deny the Trust Fund use of these monies prior to withdrawal without being required to pay interest or penalties for the use of these Federal funds. Finally, while the number of beneficiaries using this process may be small at this time, the workload could grow and SSA will need to decide if this is where it wants to invest its scarce resources.

## MATTERS FOR CONSIDERATION

SSA may want to modify the criteria for withdrawing Title II benefit applications and limit its use. For example, withdrawals could be limited to cases where (1) work activity has significantly reduced the amounts received by the beneficiary and (2) the beneficiary has yet to reach FRA. SSA may want to also ensure beneficiaries are aware of the implications of this withdrawal process, which may entail additional information on SSA's website.

# Table of Contents

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	Page
<b>BACKGROUND</b> .....	1
<b>RESULTS OF REVIEW</b> .....	4
WITHDRAWAL APPLICATION REQUIREMENTS .....	4
VOLUME OF WITHDRAWALS .....	5
REASON FOR WITHDRAWALS .....	7
POLICY INCENTIVES AND DISINCENTIVES .....	10
USE OF FEDERAL RESOURCES .....	11
<b>MATTERS FOR CONSIDERATION</b> .....	13
<b>APPENDICES</b>	
<b>APPENDIX A</b> – Acronyms	
<b>APPENDIX B</b> – Request for Withdrawal of Application	
<b>APPENDIX C</b> – Flowchart of Title II Withdrawal Process	
<b>APPENDIX D</b> – Selected Title II Retirement Policies	
<b>APPENDIX E</b> – Scope and Methodology	
<b>APPENDIX F</b> – Cases Related to Large Repayments of Title II Retirement Benefits	
<b>APPENDIX G</b> – OIG Contacts and Staff Acknowledgments	

## OBJECTIVE

Our objective was to assess the process, and related volume of transactions, whereby Title II retired beneficiaries age 62 and over withdrew their Social Security Administration (SSA) benefit applications and requested new benefits based on a later retirement date.

## BACKGROUND

SSA administers the Old-Age, Survivors and Disability Insurance program under Title II of the *Social Security Act*.<sup>1</sup> Title II provides monthly benefits to qualified retired workers, survivors and disabled workers, as well as their eligible dependents. These benefits are based on the worker's earnings, averaged over his or her working lifetime.

An individual's monthly Title II retirement benefit amount can vary based on the age at which the beneficiary decides to start receiving benefits. If the beneficiary requests benefits before full retirement age (FRA), he or she will get a reduced monthly benefit.<sup>2</sup> Also, if a retired wage earner waits until age 70 to receive benefits, the monthly benefit amount increases due to delayed retirement credits (DRC).<sup>3</sup> See Appendix D for more information on these policies and Figure 1 for an example of how these policies impact monthly benefits.

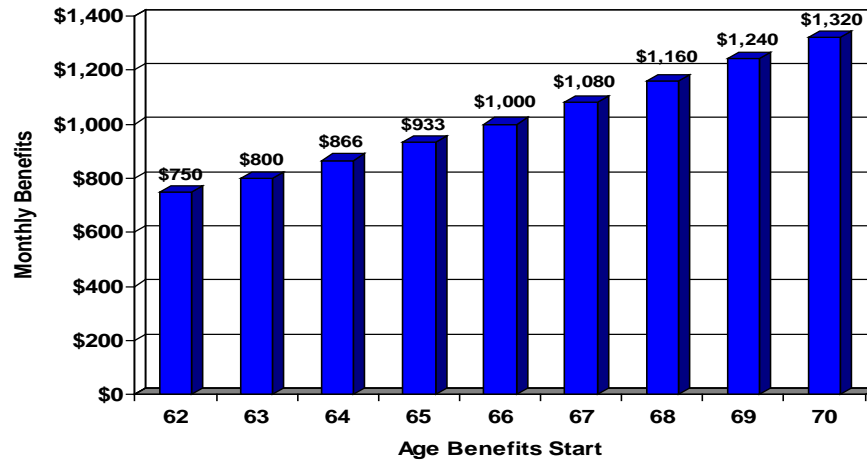
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<sup>1</sup> *The Social Security Act* § 201 *et seq.*, 42 United States Code (U.S.C.) § 401 *et seq.*

<sup>2</sup> *The Social Security Act* § 202(q), 42 U.S.C. § 402(q). The reduced monthly benefit is a percentage of the beneficiary's Social Security benefit amount at full retirement age.

<sup>3</sup> *The Social Security Act* § 202(w), 42 U.S.C. § 402(w).

**Figure 1: Monthly Benefits Based on Age When Retirement Starts**



**Note:** Assumes full retirement age is 66.

**Source:** When to Start Receiving Retirement Benefits, SSA Publication No. 05-10147, July 2008, ICN 480136.

## SSA's WITHDRAWAL POLICY

SSA policy allows beneficiaries to withdraw an application after it has been filed, provided beneficiaries consent in writing to the withdrawal and repay all the benefits received to date.<sup>4</sup> When a beneficiary decides to withdraw his or her Title II application, the field office (FO) representative should explain to the beneficiary the advantages and disadvantages of withdrawing the application according to his or her situation. If the beneficiary still wants to withdraw the application, he or she completes a *Request for Withdrawal of Application* (Form SSA-521)<sup>5</sup> and remits all benefits already received.<sup>6</sup> If SSA approves the withdrawal application, the application will be considered as if it was never filed.<sup>7</sup>

<sup>4</sup> SSA, Program Operations Manual System (POMS) GN 00206.005 – *Conditions for Withdrawal*. Also see 20 Code of Federal Regulations (C.F.R.) § 404.640, *Withdrawal of an Application*. This withdrawal and repayment includes benefits paid to other individuals on the beneficiary's record, such as a spouse.

<sup>5</sup> The SSA-521 is not required to initiate the withdrawal process. According to POMS, GN 00206.050, A, 1 – *Manner of Requesting W/D* [withdrawal]: "A form SSA-521 'Request for Withdrawal of an Application' is the preferred instrument for executing a [withdrawal] request. However, **any** written request for withdrawal signed by the claimant or a proper applicant on the claimant's behalf will suffice" (emphasis in original). See Appendix B for a copy of Form SSA-521.

<sup>6</sup> Repayment would include both SSA benefits as well as any Medicare benefits paid by the Agency on behalf of the beneficiary. See SSA, POMS GN 00206.095 – *Processing and Repayment in Withdrawal (WD) After Payment Effectuation Cases*.

<sup>7</sup> The SSA Program Service Center (PSC) has jurisdiction of the Title II withdrawal request when payments have started, whereas the FO has jurisdiction of the request when an award has not been processed. See Appendix C for a flowchart of the application withdrawal process. See SSA, POMS GN 00206.075 – *Jurisdiction of Approvals and Denials of Withdrawal Requests*.

## RECENT MEDIA ARTICLES ON THE WITHDRAWAL PROCESS

Recent media articles have promoted the use of SSA's application withdrawal process as a means for retired individuals to increase their benefits. One such article noted "Millions of retired Americans could substantially raise their living standards throughout retirement by sending checks for tens of thousands of dollars to the Social Security Administration." The article also stated "Does this really pay off? Yes, if you compare the Social Security ploy with what you'd have to pay an insurance company for a similar annuity."<sup>8</sup>

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<sup>8</sup> Janet Novack, "Trade In Your Social Security Check," Forbes, 7 February 2008 (online article).



# Results of Review

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Current SSA policy allows the withdrawal of an application for any reason. We found the Agency did not maintain detailed management information related to the number of Title II retirement application withdrawals. We estimated that Title II retirement application withdrawals in Calendar Year (CY) 2007 ranged from about 12,000 to about 26,000. Our review of withdrawal applications indicated the majority of beneficiaries withdrawing benefits are doing so prior to FRA as a result of work activity that has reduced or eliminated monthly benefit payments. We identified cases where it appeared beneficiaries were withdrawing benefits to obtain a higher benefit, though the volume was small. Nonetheless, SSA's open-ended policy on application withdrawals allows individuals to bypass the Agency's retirement policies that encourage delayed retirement. Moreover, the policy allows the beneficiaries to deny the Trust Fund use of these monies prior to withdrawal without being required to pay interest or penalties for the use of these Federal funds. Finally, while the number of beneficiaries using this process for their own gain may be small at this time, the workload could grow and SSA will need to decide if this is where it wants to invest its scarce resources.

## WITHDRAWAL APPLICATION REQUIREMENTS

Current SSA policy does not place any restrictions on the use of the withdrawal application regarding beneficiaries' circumstances or reasons for the withdrawal. Moreover, SSA's publications explaining retirement policies made no mention of the withdrawal process.

## WITHDRAWAL POLICY

SSA policy states all written benefit application withdrawal requests are approved, unless:

- The person requesting the withdrawal is not the claimant or the proper applicant for the claimant;
- An otherwise proper withdrawal request is filed after the death of the claimant but the Treasury Department has already certified payment;
- Benefits are not repaid (or there is no way to offset the initial benefits that will be payable on a new claim or against current benefits due other beneficiaries); or
- Required consents are not obtained.<sup>9</sup>

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<sup>9</sup> SSA, POMS GN 00206.070 –*Manner of Approving or Disapproving Withdrawal*.

## WITHDRAWAL FORM

The Form SSA-521 provides some basic information, including the lack of appeal rights, the need to repay benefits, and how the form should be used when the “decision to file has resulted, or will result, in a disadvantage to you.” The Form SSA-521 also provides two options for the beneficiary to select when requesting the withdrawal. The options include a check box indicating (1) the beneficiary intends to continue working and (2) other – the beneficiary writes in the reason(s) for the withdrawal.<sup>10</sup> Hence, a beneficiary can provide a multitude of reasons for withdrawing an application, including a desire to receive a larger benefit.

## PUBLICATIONS AND THE INTERNET

We reviewed SSA’s retirement publications and website and found very little mention of the application withdrawal process. As of mid-August 2008, we found 16 publications on SSA’s website regarding retirement benefits, but none of these publications mentioned the application withdrawal process. We also reviewed the “Frequently Asked Questions” section of the website, but did not find any information on the application withdrawal process. Only by searching on the term “withdrawal” could we find a link to SSA’s Handbook Section 1515, *Right to Withdraw Application*. However, this Handbook section provides only basic information and does not discuss other aspects of the withdrawal process, such as the need to return amounts for any Medicare premiums paid by the Agency or the potential tax implications when repaying previously taxed benefits to SSA.<sup>11</sup> The lack of SSA information on the withdrawal process, in the light of increasing media interest, allows parties other than SSA to define this process for the public. In responding to this report, the Agency agreed to pursue enhanced education for the public and SSA employees on the subject of application withdrawals.

## VOLUME OF WITHDRAWALS

SSA did not maintain detailed management information related to the number of Title II retirement application withdrawals. However, we estimated that Title II retiree application withdrawals in CY 2007 ranged from about 12,000 to 26,000.<sup>12</sup> At the start of the review, we asked SSA for application withdrawal data covering the 5 most recent CYs. The Agency provided summary data for CYs 2006 and 2007, as well as the first 3 months of 2008 (see Table 1). SSA provided summary management information indicating a workload of approximately 26,400 applications in CY 2007. SSA did not provide break-outs by age or Title II program.

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<sup>10</sup> See Appendix B for a copy of the Form SSA-521.

<sup>11</sup> Internal Revenue Service (IRS) Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, discusses the repayment of SSA benefits.

<sup>12</sup> By comparison, as of December 2007, approximately 41 million workers, survivors and dependents were receiving SSA Title II benefits.

**Table 1: Title II Application Withdrawal Activity Provided by SSA<sup>1</sup>**

<b>Program Service Center<sup>2</sup></b>	<b>CY 2006</b>	<b>CY 2007</b>	<b>CY 2008<sup>3</sup></b>
Birmingham	4,169	4,397	917
Chicago	3,787	3,945	858
Kansas City	4,674	4,660	1,044
New York	5,028	4,494	880
Philadelphia	3,365	3,390	779
San Francisco	4,133	3,778	891
Headquarters <sup>4</sup>	1,490	1,710	338
<b>Totals</b>	<b>26,646</b>	<b>26,374</b>	<b>5,707</b>

**Note 1:** SSA's data includes application withdrawals related to Title II retirees, survivors, Medicare-only beneficiaries and disabled beneficiaries.

**Note 2:** These withdrawals were handled by SSA's Program Service Centers (PSC).

**Note 3:** This period is from January 2008 through the middle of March 2008.

**Note 4:** Headquarters includes the Office of Disability Operations and the Division of International Operations.

To confirm the Agency's workload figures, we extracted cases from one segment<sup>13</sup> of the Master Beneficiary Record (MBR) containing information indicating an application for withdrawal had been processed. For instance, our extract identified 602 beneficiaries age 62 and over who appeared to have some form of withdrawal activity related to Title II benefits in CY 2007.<sup>14</sup> If we assume that our results for this segment are representative of the entire MBR, we estimate that approximately 12,000 beneficiaries age 62 and over initiated a benefit withdrawal in CY 2007.<sup>15</sup>

When we spoke to SSA staff about the differences between our numbers and the Agency's numbers, the staff noted that some of the withdrawals may have been recorded more than once since it often takes several contacts with a beneficiary to complete a withdrawal action. Staff also noted that some of the identifiers used to extract the information may not have existed for the earlier withdrawals due to changes in the system. In addition, our extract was specific to beneficiaries age 62 and over, whereas the Agency's numbers were not age specific. Finally, our own experience with the extracted data indicated that some of the data fields in the MBR may be overwritten with time, so evidence of withdrawal activity may disappear over time.

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<sup>13</sup> The MBR is divided into 20 segments based on the terminal digits of a Social Security number. Each segment is considered representative of the entire MBR.

<sup>14</sup> In addition to retired workers, the age 62 and over beneficiaries in our extract also included survivors, Medicare-only beneficiaries and disabled beneficiaries. We found that 93 percent of these beneficiaries were wage earners, 4 percent were widows/widowers, and the remaining 3 percent were aged or divorced spouses.

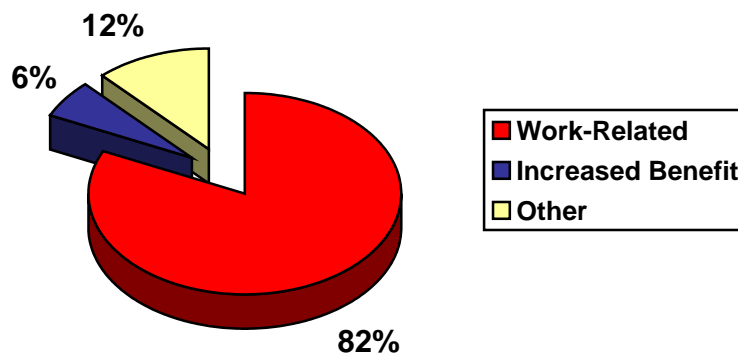
<sup>15</sup> The Office of Central Operations (OCO) also attempted to support the application withdrawal figures provided in Table 1. OCO's final count on this workload was lower than our extract from the MBR.

## REASON FOR WITHDRAWALS

We reviewed 50 Title II application withdrawal cases related to beneficiaries age 62 and over from one segment of the MBR to determine the reasons that beneficiaries withdraw their benefit applications.<sup>16</sup> Our analysis of these cases, representing withdrawal activity between CYs 2000 and 2008, indicated that 41 beneficiaries, or 82 percent, were using this process because they continued to work and were often receiving no monthly payments and/or reduced monthly payments (see Figure 1). Specifically, we found:

- 41 beneficiaries withdrew as a result of continuing to work;
- 3 beneficiaries withdrew to acquire a higher monthly payment amount;
- 6 beneficiaries withdrew for other reasons.

**Figure 1: Review of 50 Title II Application Withdrawal Cases  
(CYs 2000 to 2008)**



The 41 beneficiaries withdrawing due to work activity applied for benefits prior to their FRA, which led to their earnings being subject to earnings limits.<sup>17</sup> Moreover, the 41 beneficiaries were receiving benefits for an average of less than 1 year before they decided to withdraw their application.<sup>18</sup> While SSA would adjust the monthly benefits

<sup>16</sup> None of these 50 cases related to disability benefits.

<sup>17</sup> For example, in 2008, a person under FRA for the entire year is allowed to have annual earnings of \$13,560 or less before his/her benefits are reduced. SSA deducts \$1 from benefits for each \$2 earned above this earnings limit. The rules are more complex during the first year of retirement before FRA and in the year of FRA. Only wages and net earnings from self-employment count toward this earnings limit. SSA does not count income such as other government benefits, investment earnings, interest, pensions, annuities and capital gains.

<sup>18</sup> In some of these cases, we had to estimate the date the withdrawal was requested by reviewing the MBR and other SSA records since SSA-521s for 10 of the 50 cases were unavailable.

payable to these beneficiaries when they reach FRA to account for those months where earnings exceeded the limits and they received a full or partial work reduction, the withdrawal process adjusts the monthly benefit amount earlier.<sup>19</sup>

For example, in one case, the beneficiary applied for retirement benefits in October 2007, indicating that she would like to begin receiving SSA benefits beginning in January 2008. On January 20, 2008, she requested a withdrawal of the Title II application, indicating that she planned to continue working and would like to delay her retirement. She did not receive any SSA benefits during this period and SSA approved her withdrawal.

Of the three cases where the beneficiaries appeared to withdraw to obtain a higher benefit, only one had reapplied for retirement benefits at the time of our review. All three beneficiaries applied for benefits prior to FRA and none of the beneficiaries showed significant work activity in SSA's records. The repaid amount on the one case was \$13,866.

## **REPAYMENTS OVER \$15,000**

To determine whether SSA's systems had evidence of large repayments of benefits by beneficiaries, we also reviewed those withdrawal cases between CYs 2000 and 2008 where a repayment of \$15,000 or more was posted to the Agency's Payment History Update System (PHUS).<sup>20</sup> Of the cases we reviewed,<sup>21</sup> we identified 39 withdrawal cases where beneficiaries repaid more than \$15,000 to SSA.<sup>22</sup> Our review indicated that 11 beneficiaries, or about 28 percent, withdrew their applications primarily to acquire higher monthly payment amounts (see Figure 2).

- 25 beneficiaries withdrew as a result of continuing to work;
- 11 beneficiaries withdrew to acquire a higher payment amount; and
- 3 beneficiaries withdrew due to other reasons.<sup>23</sup>

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<sup>19</sup> See Appendix D.

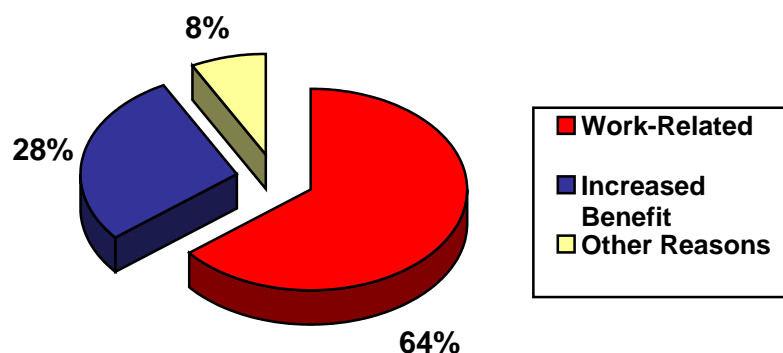
<sup>20</sup> We reviewed remittances between CYs 2004 and 2008. As with the earlier test, we used the same segment of the MBR.

<sup>21</sup> Our population represented one segment of the MBR. While these cases had some form of remittance posted to the PHUS, we did not determine whether the remittance related to a withdrawn application unless the total amount remitted exceeded \$15,000.

<sup>22</sup> We identified another case related to disability payments, which we did not include in our analysis since it did not relate to retirement benefits.

<sup>23</sup> In two cases, SSA overpaid these beneficiaries and they were returning the funds. In the third case, the beneficiary decided to claim benefits on another record.

**Figure 2: Review of 39 Title II Application Withdrawal Repayments Exceeding \$15,000 (CYs 2004 to 2008)**



For example, one 67 year-old beneficiary repaid \$81,432 related to benefit payments from June 2003 to March 2008, and then reapplied for benefits.<sup>24</sup> During this period, he did not have significant earnings.<sup>25</sup> As a result of this repayment, his monthly benefit amount increased by approximately \$453 per month. At the rate of \$453 per month, it will take approximately 15 years for this beneficiary to recover the funds he repaid to SSA,<sup>26</sup> at which time he will be about 82 years-old.<sup>27</sup> See Appendix F for more information on the 11 cases where we believe the primary reason for the withdrawal was to increase the monthly benefit payments.

Given the fact that we isolated only 11 cases in one segment of the MBR where it appears Title II retired beneficiaries were repaying more than \$15,000 to obtain a higher

<sup>24</sup> His FRA began in December 2006. By repaying his past benefit amounts and reapplying, he will receive the full FRA monthly payment (unreduced) as well as DRCs.

<sup>25</sup> The beneficiary had minor wages prior to FRA that did not exceed the annual exemption amount. We were not able to determine if this individual had other sources of income that may have been used to repay these benefits. SSA's Master Earning File (MEF) records wages, self-employment income, and some other types of income, such as pensions. However, the MEF would not record income sources such as investment interest and dividends, rental income, etc. While this information may have been reported to the IRS, it is generally not recorded in SSA's systems.

<sup>26</sup> While we did not see this break-even calculation or discussion in the documents we reviewed for this case, in another withdrawal case we found the following language: "I understand that my withdrawing my claim and repaying the benefits that I have received that it will take me 10.5 years to recoup the money that I am refusing and repaying." It does not appear this break-even analysis takes into consideration the opportunity cost of using one's funds to repay benefits. Since the repaid funds will no longer generate interest or other revenue for the beneficiary, this loss would offset some of the gain from the larger SSA monthly payments.

<sup>27</sup> Monthly payment increases would apply to this applicant as well as any auxiliary beneficiaries on his record.

monthly payment,<sup>28</sup> it does not appear at this time that a significant number of beneficiaries are taking advantage of the withdrawal process for the sole purpose of obtaining a larger monthly payment.<sup>29</sup>

## POLICY INCENTIVES AND DISINCENTIVES

Beneficiaries who return their benefit payments could potentially bypass the intention of SSA's retirement policies. While SSA's retirement policies encourage later retirement, the application withdrawal policies allow individuals to benefit from these incentives regardless of their decision to retire early.

## REDUCTION FACTOR

Benefits are reduced one-half of one percent for each month an individual receives a retirement benefit before he or she attains FRA.<sup>30</sup> While SSA's communications with the public clearly state that deciding when to retire is a "personal decision," the Agency also notes that a decision to retire early will lead to a "permanently" reduced benefit amount:

You can get Social Security retirement benefits as early as age 62, but if you retire before your full retirement age, your benefits will be **permanently** reduced, based on your age. For example, if you retire at age 62, your benefit would be about 25 percent lower than what it would be if you waited until you reach full retirement age (emphasis in original).<sup>31</sup>

This being said, the current application withdrawal policy allows these "permanently" reduced monthly payments to be repaid and a new monthly benefit established as if the person never elected to retire early. Given the cost of repaying years worth of past benefits, it is unlikely that the average retired individual is in a position to reverse this earlier decision.

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<sup>28</sup> Based on these 11 cases from one segment of the MBR, we estimate that approximately 220 repayment cases would be found in all 20 segment of the MBR associated with our review period.

<sup>29</sup> However, as noted earlier, our estimate of annual application withdrawals is lower than the Agency's count. Hence, the total number of beneficiaries repaying more than \$15,000 to obtain a higher monthly payment could be greater.

<sup>30</sup> See Appendix D.

<sup>31</sup> SSA, *Retirement Benefits*, SSA Publication No. 05-10035, January 2008, ICN 457500.

## **DELAYED RETIREMENT CREDITS**

The DRC takes effect if an SSA beneficiary delays receiving SSA's retirement benefits beginning at FRA and until age 70.<sup>32</sup> The DRC is a percentage added to the benefit due and varies depending on the individual's date of birth. For example, the annual rate of increase in benefits is currently 8 percent for individuals born in 1943 or later (see Appendix D). Again, this increase is intended to benefit those individuals who decide to delay retirement and forgo payments from the Trust Fund. By allowing beneficiaries to repay benefits and then reapply at a later age, SSA is providing DRCs to beneficiaries who did not actually delay their retirement.

## **USE OF FEDERAL RESOURCES**

SSA's policy allowing beneficiaries to withdraw their applications and repay entitlement amounts received allows the beneficiaries the use of Federal funds at a zero percent interest rate. In addition, this policy denies the Old-Age and Survivors Insurance (OASI) Trust Funds the opportunity to earn interest on those same funds. Moreover, the processing of the withdrawal applications uses resources in SSA's FOs and PSCs.

## **INTEREST EARNED BY BENEFICIARY**

Our review of withdrawal repayments demonstrated that beneficiaries withdrawing from the Title II program were repaying the exact benefit amounts that they received from SSA without any additional interest. As a result, these beneficiaries had use of the Federal funds for months and even years interest-free. For example, the beneficiary discussed earlier in this report who repaid \$81,432 in Title II benefits received from June 2003 to March 2008 had almost 5 years' use of Federal funds without any assessment of interest or other penalties.

## **INTEREST EARNED BY THE TRUST FUND**

Beneficiaries withdrawing Title II benefit applications are not required to reimburse the OASI Trust Fund for lost interest. OASI Trust Fund monies are invested in Federal securities which earn interest.<sup>33</sup> Hence, SSA has lost use of these monies as well as the interest that would have been earned when funds are withdrawn from the OASI Trust Fund to pay benefits to beneficiaries who later return these funds. To expand on our earlier example, a beneficiary repaying \$81,432 to SSA is returning only the principal funds to SSA. The beneficiary is not repaying the interest that those same funds would have earned had they remained in the OASI Trust Fund.

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<sup>32</sup> See Appendix C.

<sup>33</sup> These securities are special issues – securities issued only to the Trust Fund. Interest on special-issue investments is paid semi-annually, at the end of June and December. Because the Trust Funds hold no cash, investments are redeemed each month to pay for benefits and administrative expenses. When investments are redeemed, interest is paid. The amount of interest paid is used to offset the amount of investment redemptions.



## SSA WORKLOAD

As noted earlier, the number of application withdrawals is not significant at this time. Nonetheless, each withdrawal application can involve FO staff explaining the withdrawal process and whether it is appropriate for the individual, PSC staff recalculating repayment amounts, and FO staff processing new benefit applications. Moreover, increasing media attention regarding the withdrawal process may lead to greater workloads in the future. This comes at a time where SSA is faced with other workload challenges. As stated by SSA's Commissioner in February 2008,

SSA is now at a critical juncture. Due to the aging of the baby boomers, SSA is facing an avalanche of retirement and disability claims at the same time that it must address large backlogs due to years of increasing workloads and limited resources. Over the last few years as SSA offices lost staff, waiting times increased, lines grew longer, and busy rates in our field offices deteriorated.<sup>34</sup>

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<sup>34</sup> Statement of *Commissioner Michael J. Astrue*, before the Committee on Appropriations Subcommittee on Labor, Health and Human Services, Education and Related Agencies, concerning SSA's FY 2009 budget request, as well as plans to improve the disability workloads, February 28, 2008.

## *Matters for Consideration*

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While SSA policy allows retired beneficiaries to withdraw their Title II benefit application, this policy also allows certain SSA beneficiaries to bypass the intent of SSA's retirement policies. SSA's policy on application withdrawal does not place any restrictions on its use regarding beneficiaries' circumstances or reasons for the withdrawal. The openness of these procedures allows a loophole for those SSA beneficiaries who would like to increase the amount of their reduced benefits. Moreover, it permits SSA beneficiaries use of Federal funds at a zero percent interest rate while denying the OASI Trust Fund the opportunity to earn interest on those same funds.

For these reasons, SSA may want to modify the criteria for withdrawing Title II benefit applications and limit its use. For example, withdrawals could be limited to cases where (1) work activity has significantly reduced the amounts received by the beneficiary and (2) the beneficiary has yet to reach FRA. SSA may want to also ensure beneficiaries are aware of the implications of this withdrawal process, which may entail placing additional information on SSA's website.

# *Appendices*

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## Acronyms

ARF	Adjustment to the Reduction Factor
C.F.R.	Code of Federal Regulations
CY	Calendar Year
DRC	Delayed Retirement Credit
FO	Field Office
FRA	Full Retirement Age
IRS	Internal Revenue Service
MBR	Master Beneficiary Record
MEF	Master Earnings File
OASI	Old-Age and Survivors Insurance
OCO	Office of Central Operations
OIG	Office of the Inspector General
PHUS	Payment History Update System
POMS	Program Operations Manual System
PSC	Program Service Center
Pub. L. No.	Public Law Number
SSA	Social Security Administration
U.S.C.	United States Code
<b><u>Form</u></b>	
SSA-521	<i>Request for Withdrawal of Application</i>

# Request for Withdrawal of Application

SOCIAL SECURITY ADMINISTRATION		Form Approved TOE 420 OMB No. 0960-0015
<b>REQUEST FOR WITHDRAWAL OF APPLICATION</b>		Do not write in this space
<p><b>IMPORTANT NOTICE.</b>— This is a request to cancel your application. If it is approved, the decision we made on your application will have no legal effect, all rights attached to an application, including the rights of reconsideration, hearing, and appeal will be forfeited, and any payments we made to you or anyone else on the basis of that application will have to be returned. You must then reapply if you want a determination of your Social Security rights at any time in the future but any subsequent application may not involve the same retroactive period. This procedure is intended to be used only when your decision to file has resulted, or will result, in a disadvantage to you. Your local Social Security office will be glad to explain whether, and how, this procedure will help you.</p>		
NAME OF WAGE EARNER, SELF-EMPLOYED INDIVIDUAL, OR ELIGIBLE INDIVIDUAL		SOCIAL SECURITY NUMBER
PRINT YOUR NAME <i>(First name, middle initial, last name)</i>	DATE OF APPLICATION	TYPE OF BENEFIT
	TYPE OF APPLICATION	
<p>I hereby request the withdrawal of my application, dated as above, for the reasons stated below. I understand that (1) this request may not be cancelled after 60 days from the mailing of notice of approval; and (2) if a determination of my entitlement has been made, there must be repayment of all benefits paid on the application I want withdrawn, and all other persons whose benefits would be affected must consent to this withdrawal. I further understand that the application withdrawn and all related material will remain a part of the records of the Social Security Administration and that this withdrawal will not affect the proper crediting of wages or self-employment income to my Social Security earnings record.</p>		
Give reason for withdrawal. <i>(If you need more space, use the reverse of this form.)</i>		
<p>1. <input type="checkbox"/> I intend to continue working. (I have been advised of the alternatives to withdrawal for applicants under full retirement age and still wish to withdraw my application.)</p> <p>2. <input type="checkbox"/> Other (Please explain fully): _____</p> <p>_____</p> <p>_____</p>		
		<input type="checkbox"/> Continued on reverse
SIGNATURE OF PERSON MAKING REQUEST		
Signature <i>(First name, middle initial, last name)</i> <i>(Write in ink)</i>		Date <i>(Month, day, year)</i>
<b>SIGN HERE</b>		Telephone Number <i>(include area code)</i>
		Mailing Address <i>(Number and Street, Apt. No., P.O. Box, or Rural Route)</i>
City and State	ZIP Code	Enter Name of County (if any) in which you now live
<p><b>Witnesses are required ONLY if this request has been signed by mark (X) above. If signed by mark (X), two witnesses to the signing who know the person making the request must sign below, giving their full addresses.</b></p>		
1. Signature of Witness		2. Signature of Witness
Address <i>(Number and Street, City, State and ZIP Code)</i>		Address <i>(Number and Street, City, State and ZIP Code)</i>
FOR USE OF SOCIAL SECURITY ADMINISTRATION		
<input type="checkbox"/> APPROVED	<input type="checkbox"/> NOT APPROVED BECAUSE _____	<input type="checkbox"/> BENEFITS NOT REPAYED <input type="checkbox"/> CONSENT(S) NOT OBTAINED <input type="checkbox"/> OTHER <i>(Attach special determination)</i>
SIGNATURE OF SSA EMPLOYEE	TITLE	DATE
	<input type="checkbox"/> CLAIMS AUTHORIZER <input type="checkbox"/> OTHER <i>(Specify)</i>	
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Additional Remarks:

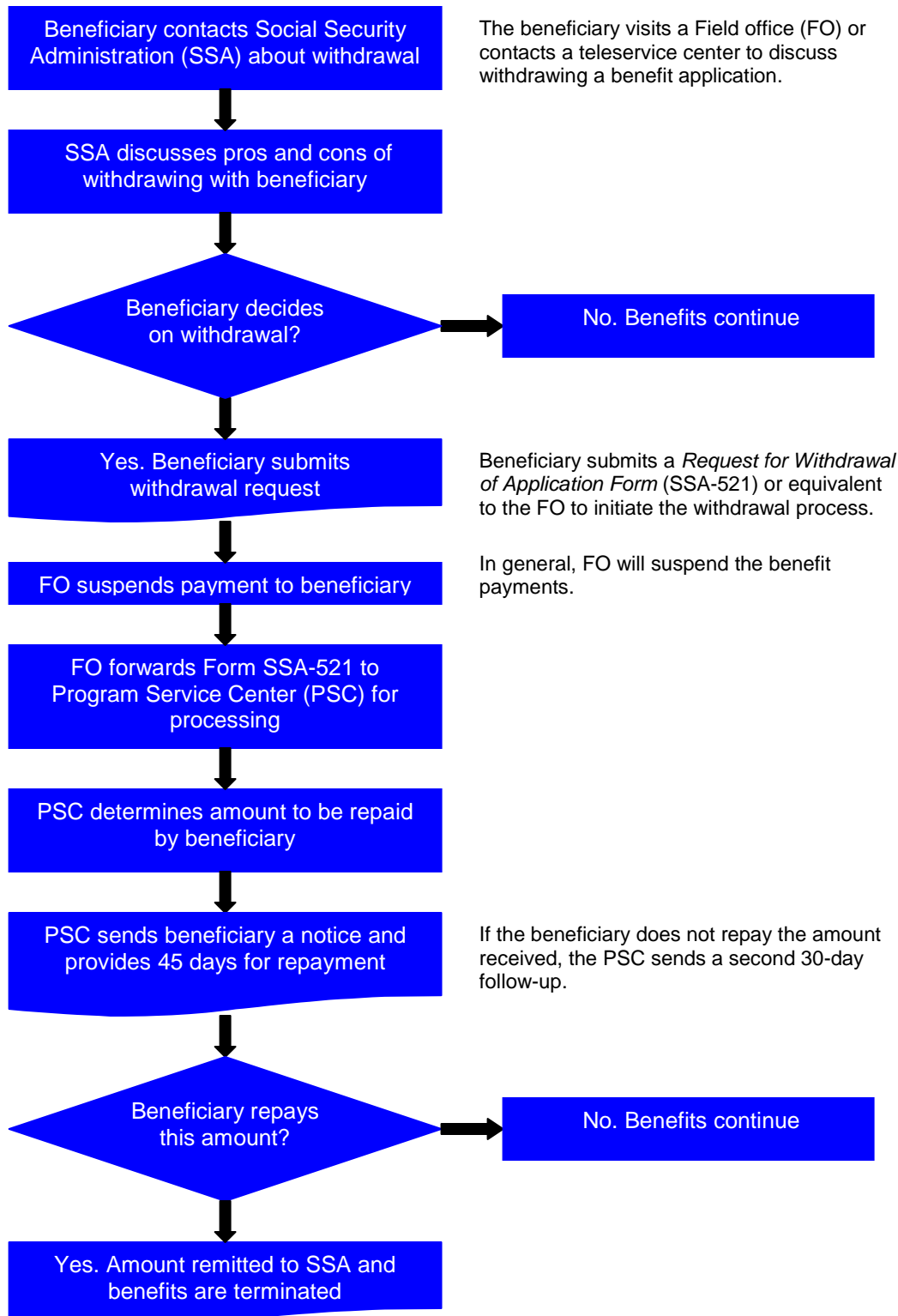
We may also use the information you give us when we match records by computer. Matching programs compare our records with those of other Federal, State, or local government agencies. Many agencies may use matching programs to find or prove that a person qualifies for benefits paid by the Federal government. The law allows us to do this even if you do not agree to it.

Explanations about these and other reasons why information you provide us may be used or give out are available in Social Security Offices. If you want to learn more about this, contact any Social Security Office.

**Paperwork Reduction Act Statement** - This information collection meets the requirements of 44 U.S.C. § 3507, as amended by Section 2 of the Paperwork Reduction Act of 1995. You do not need to answer these questions unless we display a valid Office of Management and Budget control number. We estimate that it will take about 5 minutes to read the instructions, gather the facts, and answer the questions. **SEND THE COMPLETED FORM TO YOUR LOCAL SOCIAL SECURITY OFFICE.** The office is listed under U. S. Government agencies in your telephone directory or you may call Social Security at 1-800-772-1213. *You may send comments on our time estimate above to: SSA, 1338 Annex Building, Baltimore, MD 21235-6401. Send only comments relating to our time estimate to this address, not the completed form.*

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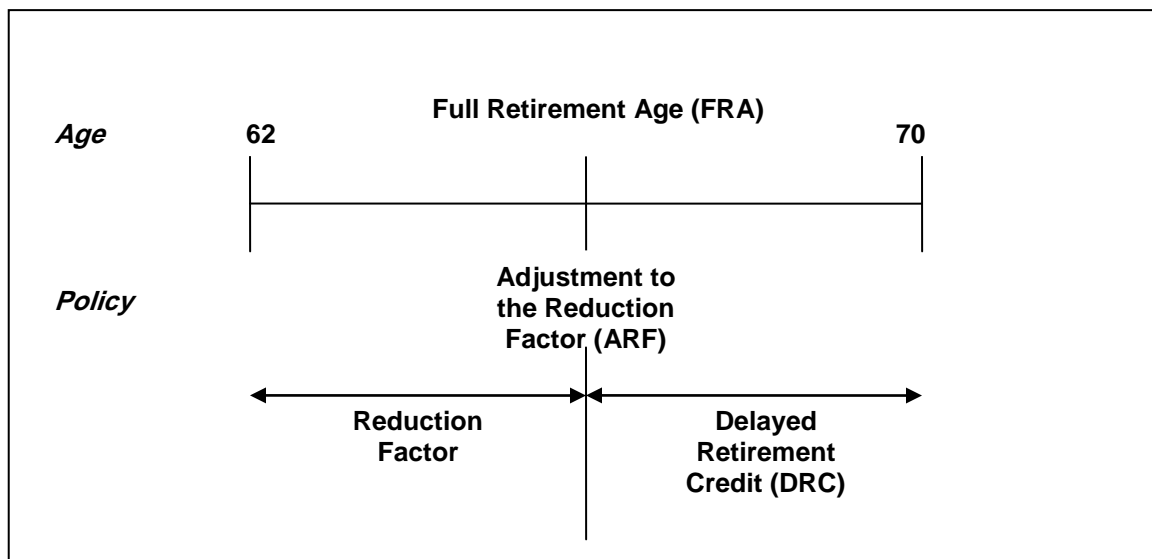
## Flowchart of Title II Withdrawal Process



## Selected Title II Retirement Policies

Individuals can start Social Security retirement benefits as early as age 62, but the benefit amount received will be less than the full retirement benefit amount. If the benefits are started early, they will be “permanently” reduced based on the number of months the individual received benefits before full retirement age. This is called the reduction factor. It may be to the individual’s advantage to delay filing an application for monthly benefits if the individual has not yet reached full retirement age (FRA) and the individual wishes to wait to receive an unreduced benefit at FRA. Social Security benefits are increased by a certain percentage (depending on date of birth) if the individual retires beyond full retirement age. This is called the Delayed Retirement Credit (DRC). See Figure D-1 regarding the retirement decision choices.

**Figure D-1: Retirement Date Decision**



**Reduction Factor:**<sup>1</sup> The reduction factor occurs with early retirement (retirement before FRA).<sup>2</sup> The reduction factors are the number of months before FRA that a beneficiary elects to receive retirement benefits. Benefits are reduced one-half of 1 percent for each month an individual receives a retirement benefit before he or she

<sup>1</sup> *The Social Security Act* § 202(q), 42 U.S.C. § 402(q).

<sup>2</sup> The Social Security Amendments of 1983 included a provision for raising the full retirement age beginning with people born in 1938 or later. See Pub. L. No. 98-21 § 201(a).



attains FRA. For example, the following are the monthly benefit reductions for a beneficiary whose FRA is age 67:

- 62 is about 30 percent;
- 63 is about 25 percent;
- 64 is about 20 percent;
- 65 is about 13.3 percent; and
- 66 is about 6.7 percent.

**Excess Earnings:**<sup>3</sup> “Excess earnings” occur with early retirement (i.e., from age 62 through FRA). The “excess earnings” are the beneficiary’s earnings that exceed the annual exempt amount. The annual exempt amount varies from year to year according to increases in the nationwide earnings level.

**Adjustment of the Reduction Factor (ARF):** The ARF occurs at FRA. The ARF determines the monthly amount payable to the beneficiary for the month in which the beneficiary reaches FRA and later months. It is made for (1) a full or partial work deduction or (2) any month the beneficiary was entitled to retirement benefits and also entitled to disability benefits.

**DRC:**<sup>4</sup> The DRC occurs in the month of FRA and later. The DRC takes effect if an SSA retired wage earner delays receiving SSA’s retirement benefits beginning at FRA and until age 70. The beneficiary’s year of birth and the number of months retirement was delayed determine how much the benefit will increase (see Table D-1).

**Table D-1: Delayed Retirement Credits by Year of Birth**

Year of Birth	Annual Rate of Increase in Benefit Payments
1917-1924	3.0%
1925-1926	3.5%
1927-1928	4.0%
1929-1930	4.5%
1931-1932	5.0%
1933-1934	5.5%
1935-1936	6.0%
1937-1938	6.5%
1939-1940	7.0%
1941-1942	7.5%
1943 or later	8.0%

<sup>3</sup> 20 C.F.R. § 404.434, *Excess Earnings; Method of Charging*.

<sup>4</sup> *The Social Security Act* § 202(w), 42 U.S.C. § 402(w).

# Scope and Methodology

To accomplish our objectives, we:

- Reviewed applicable laws, regulations and Social Security Administration (SSA) policies and procedures, including sections of SSA's Online Handbook and Program Operations Manual System.
- Reviewed prior Office of the Inspector General and Government Accountability Office reports.
- Requested 5 years of withdrawal application data from SSA.
- Reviewed an extract from one segment of the Master Beneficiary Record (MBR)<sup>1</sup> to identify benefit application withdrawals since Calendar Year (CY) 2000 related to Title II beneficiaries age 62 and over. After analyzing this data, we also contacted system specialists in the Office of Central Operations, Region V and the Great Lakes Program Service Center to verify our numbers and potential discrepancies. Using this data, we:
  - ✓ Reviewed a sample of 50 withdrawal applications from CYs 2000 to 2008 to determine the reason for the withdrawal.
  - ✓ Obtained remittance data from CYs 2004 to 2008 for withdrawal applications from CYs 2000 to 2008, identified remittances greater than \$15,000, and determined the reason for the withdrawal.
- Interviewed representatives from SSA's Headquarters, Region V and Great Lakes Program Service Center components to learn more about the Title II withdrawal application process.

Due to time constraints, we did not review the internal controls related to SSA's management and oversight of the withdrawal application process. Moreover, as stated in our report findings, we did not find SSA's withdrawal application summary data to be reliable, though we attempted to recreate these numbers to provide a range of withdrawal activities for this report. The entity reviewed was field offices and program service centers under the Deputy Commissioner for Operations. We performed our review in Chicago, Illinois, between March and August 2008 in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

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<sup>1</sup> The MBR is divided into 20 segments based on the terminal digits of a Social Security number. Each segment is considered representative of the entire MBR.

## Cases Related to Large Repayments of Title II Retirement Benefits

To determine whether the Social Security Administration's (SSA) systems had evidence of large repayments of benefits by Title II retired beneficiaries age 62 and over, we reviewed those withdrawal cases between Calendar Years (CY) 2000 and 2008 where a repayment of \$15,000 or more was posted to the Agency's Payment History Update System between CYs 2004 to 2008.<sup>1</sup> Of the cases we reviewed, we identified 39 withdrawal cases where beneficiaries repaid more than \$15,000 to SSA. Our review indicated 11 cases, or about 28 percent of the beneficiaries, withdrew their applications primarily to acquire higher monthly payment amounts (see Table F-1).

**Table F-1: Title II Retired Beneficiaries Age 62 and Over Repaying More than \$15,000 to Obtain an Increased Benefit**

Case	Date of Full Retirement Age	Date of Application	Date of Withdrawal	Time Between Application and Withdrawal	Amount to be Repaid	Date Reapplied for Benefits <sup>1</sup>
1	05/2006	08/2002	04/2008	5 years, 7 months	\$95,449.00	N/A
2	12/2006	02/2003	03/2008	5 years, 1 month	\$81,432.70	03/2008
3	02/2007	04/2003	08/2007	4 years, 4 months	\$63,274.40	03/2007
4	09/2008	11/2004	03/2008	3 years, 3 months	\$49,727.40	N/A
5	03/2007	06/2004	08/2007	3 years, 2 months	\$45,848.50	08/2007
6	03/2003	03/2000	04/2008	8 years, 1 month	\$33,693.20	03/2008
7	07/2005	07/2005	09/2007	2 years, 2 months	\$29,524.00	06/2008
8	08/2005	01/2006	06/2007	1 year, 5 months	\$26,854.00	09/2007
9	09/2010	10/2006	11/2007	1 year, 1 month	\$19,719.00	N/A
10	06/2007	07/2003	10/2006	3 years, 3 months	\$18,437.50	04/2007
11	02/2006	09/2002	08/2005	2 years, 10 months	\$16,604.20	N/A

**Note 1:** Cases with "N/A" had not yet reapplied for benefits at the time of our review.

<sup>1</sup> We used the same randomly-selected segment of the Master Beneficiary Record discussed earlier in this report.

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

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For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-05-08-28110.

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### **Office of Audit**

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.