



United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-258485

September 26, 1994

The Honorable Slade Gorton
United States Senate

Dear Senator Gorton:

On May 4, 1994, you asked us to look into a constituent's concerns about the Social Security Administration's (SSA) accounting system that generates reports on the amount of social security benefits paid to individuals each year. Your constituent, Mr. Leroy Mason, described events related to his social security benefit statement (form SSA 1099) for tax year 1993. SSA is required to send these forms to beneficiaries to help them file their income tax returns. Mr. Mason said that several data entries on his form 1099 were erroneous. Although he did not articulate any specific question, Mr. Mason expressed concern that these erroneous data are ultimately aggregated with information for other beneficiaries like him and used to justify the need for more resources. As agreed with your staff, this letter responds to your request.

In summary, we found that Mr. Mason's form SSA 1099 does contain inaccurate data on the amount of benefits he was paid and the amount of benefits that he repaid to SSA in 1993. We did not, however, find any evidence that the problems he describes adversely impact SSA's budgetary data in the larger sense. SSA produces overpayment budgetary data from a different accounting system than the one that generates 1099 forms. Although these two systems share data, system limitations cause a loss of detail about account actions. Ultimately, this loss can produce erroneous information on 1099 forms, as in cases like Mr. Mason's. However, the source data for budgetary purposes were correct.

The problem that Mr. Mason encountered began when his former employer did not report that the income in question was deferred compensation. Since 1990, employers have been directed to report deferred compensation payments, such as Mr. Mason's, in a separate box of the W-2 form (form W-2 Wage and Tax Statement). Our review of Mr. Mason's W-2s shows that his former

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employer had not reported any of his deferred compensation payments in this box. If it had, SSA would not have erroneously identified the overpayment, and the reporting problem would not have occurred.

BACKGROUND

Social security retirement, survivor, and disability benefits are determined from a worker's average lifetime earnings. SSA receives information on each worker's annual earnings from wage reports of W-2 forms filed directly with SSA by employers. After recording each worker's annual wages, SSA provides the data from the W-2 reports to the Internal Revenue Service, which uses this information for tax administration.

SSA maintains a variety of separate, but integrated, accounting systems to administer the social security programs. Overpayments and recoveries of overpaid amounts are tracked through its Recovery, Overpayment and Accounts Receivable (ROAR) system. Its Master Beneficiary Record (MBR) contains a wide variety of current account information on beneficiaries. The Payment History Update System (PHUS) was established to provide information needed to generate the SSA form 1099 statement of annual benefits. As changes in the status of a beneficiary's account occur (for example, addresses, benefit amounts, overpayments), these systems share pertinent information to update account information.

CONSTITUENT'S CONCERNS

Mr. Mason stated that his 1099 form had erroneous data. He related that he was an executive with a large company before retiring and in that position had the opportunity to participate in a deferred compensation plan that would pay him benefits after retirement. His problems with the data on his 1099 form relate to these deferred compensation payments.

Under the Internal Revenue Code, the SSA form 1099 statement must show the amount of benefits paid and repaid in the given year. The net difference between these two figures is the amount of benefits that must be considered when a person calculates his or her income taxes. It is shown in a separate box on the form.

Mr. Mason stated that his SSA form 1099 had erroneous data about the amount of benefits that he had been paid and had repaid in 1993. But he stated that the

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difference between these two amounts--the net benefits paid--was accurate. Our review of his files and discussion of his case with SSA staff confirm his comments about the accuracy of the data on his 1099 form.

WHY THE ERRORS OCCURRED

The Social Security Act has an earnings test. Under the test, SSA must reduce the benefits of those who continue to work while they are under age 70 and earn income that exceeds limits established by law. For example, in 1993, for people over age 65, SSA had to reduce their benefits by \$1 for every \$3 earned over \$10,560.

To preclude making excessive overpayments in these situations, beneficiaries are asked to report their estimated earnings each year to SSA. Using these estimates of earnings, SSA reduces a person's monthly benefits payable to account for his or her anticipated earnings.

To enforce this provision of the act, SSA later matches earnings reports (W-2s) it receives from employers with an estimate of earnings that beneficiaries file each year. Using this type of computer match, SSA can identify overpayment situations.

Mr. Mason apparently did not file a report of expected earnings in 1992. However, he did receive a deferred compensation payment from his former employer that year for \$43,022. When his former employer reported this income on his W-2 in 1993, it failed to identify the payment as a deferred compensation payment.

Identifying deferred compensation payments helps SSA administer the earnings test more effectively. Under the earnings test, wages count only during the period when they are earned, not during the period when they are paid. Thus, because deferred income is by definition earned in an earlier tax period, it would not count as income that would cause benefits to be reduced under the earnings test.

When SSA got a report of \$43,022 in earnings from his former employer, it determined that Mr. Mason had been overpaid by about \$10,000 in 1992. It set up an overpayment on its ROAR accounting system. At this time, the ROAR system automatically updated Mr. Mason's MBR file, noting that

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- an overpayment existed,
- SSA was planning to withhold monthly benefit amounts to recover the overpayments, and
- a notice had been sent to advise Mr. Mason of SSA's plans to recover the overpaid amount.

In addition, the PHUS system was updated to indicate that an overpayment situation existed.

When Mr. Mason received SSA's overpayment notice, he proceeded to provide SSA with evidence that the payment in question was deferred compensation. As deferred compensation, it was income earned before 1992 and should not have counted for earnings test purposes.

The problem in the amounts reported on his 1099 begins with the correction of the overpayment data in SSA's accounting systems and how these three systems communicate with each other. In correcting the ROAR system, SSA records show that SSA reduced the overpayment amount, recognizing that the detection was erroneous. Next, the MBR and PHUS systems were updated to show the change in Mr. Mason's overpayment status. However, systems limitations impact the way these systems capture and record information about the overpayment reduction.

The MBR basically overwrites information that SSA is proposing to withhold all monthly benefits until the overpayment is recovered. When the MBR updates the PHUS system, PHUS simply records that an overpayment recovery has occurred. Details about the way the overpayment was recovered (for example, the overpayment detection was erroneous) are not recorded. When PHUS prepares the SSA form 1099 at year end, it shows that an overpayment and recovery occurred.

SSA is aware that its PHUS system can generate erroneous data in some 1099 forms and will issue a corrected 1099 to beneficiaries who request one. SSA, however, has not acted to remedy the system's problems because they affect relatively few people. SSA staff said that few people have access to deferred compensation plans such as Mr. Mason's, and few requests are received to correct them. More importantly, the figure needed for tax purposes--net benefits paid--was accurate, as Mr. Mason pointed out in his letter.

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ERRONEOUS DATA NOT USED
FOR BUDGET PURPOSES

Mr. Mason raised an interesting question about whether situations like his were resulting in a false financial picture that could justify the need for additional staff resources to collect large amounts of outstanding overpayments. We found no evidence that validates his concern.

Budget data for overpayment activity are prepared from the ROAR system. As noted above, the ROAR system properly accounted for the correction of Mr. Mason's overpayment situation. The PHUS system, which was limited in how it accounted for the overpayment condition, generated the inaccurate 1099 form report.

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I hope that this letter responds to your request. If you have any further questions, you may contact me on (202) 512-7215.

Sincerely yours,



Joseph F. Delfico
Director, Income Security Issues

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