Review of Tier 1 Reductions for Other Disability Benefits
Report No. 00-12, August 4, 2000

This report presents the results of the Office of Inspector General's (OIG) review of annuity reductions resulting from concurrent entitlement to worker's compensation or public disability benefits ("other disability benefits").

Background

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers the health and welfare provisions of the Railroad Retirement Act (RRA) which provide retirement-survivor benefits for eligible railroad employees, their spouses, widows and other survivors. Approximately 748,000 annuitants received benefits under the RRA in fiscal year (FY) 1999.

The regular RRA annuity is composed of tier I benefits, based on railroad and non-railroad earnings, and tier II benefits which are computed using railroad compensation only. In addition to the tier I and tier II benefits, individuals who were considered vested under both the RRA and the Social Security Act at the end of 1974 may be entitled to an additional benefit known as the Vested Dual Benefit. A supplemental annuity may be available to career railroad employees who worked in the railroad industry prior to October 1981 and meet certain service-related requirements.

The tier I component of an RRA annuity is based primarily on formulas contained in the Social Security Act. Tier I approximates the benefit that Social Security would pay if railroad earnings were covered by that system.

The Social Security Act, as amended, limits the amount of disability benefits payable under that Act when the recipient has concurrent entitlement to other disability benefits. The RRB's Bureau of Law has determined that these provisions of the Social Security Act also apply to the tier I portion of disability benefits awarded under the RRA.

As of May 2000, there were approximately 125 annuities subject to reduction as a result of concurrent entitlement to other disability benefits. In addition, there were 30 debts on the program accounts receivable system that were assessed as a result of retroactively applied reductions for such entitlement.

The tier I reduction is determined through a calculation that considers both total family benefits under the RRA and the earnings history of the disabled worker. After the initial reduction, the annuitant remains eligible for the periodic increases in the tier I benefit amount that result from annual cost of living adjustments.

The reduction for other disability benefits ends when the annuitant reaches age 65, the age at which non-disabled individuals become entitled to full, unreduced benefits under the

Social Security Act.

The RRB's strategic plan states that "we will optimize accuracy in providing benefits" as the agency's first strategic objective in meeting its overall goal of providing excellent customer service. This audit speaks directly to that key area of agency performance.

Objective, Scope and Methodology

The objective of this review was to assess the accuracy of tier I reductions related to an annuitant's entitlement to other disability benefits. In order to achieve our objective, we reviewed applicable policy and procedure, interviewed responsible agency management and tested selected cases to determine whether the tier I reduction had been correctly calculated and any related overpayment properly assessed.

We selected cases for detailed review from:

--the 125 annuities currently subject to reduction for other disability benefits as of May 2000; and

--the 30 accounts receivable established as a result of retroactive annuity adjustment for other disability benefits without regard to the collection status of the account.

Our work was limited to tests of the accuracy of benefit adjudication under current RRB procedure. We did not review the legal basis for that procedure, nor did we test the sufficiency of current procedure in implementing the law.

Our work was performed in accordance with generally accepted auditing standards as applicable to the objective. Fieldwork was conducted at RRB headquarters during October 1999 through May 2000 in conjunction with an OIG review of benefit overpayments.

Results of Review

We reviewed the cases of 35 annuitants selected on a non-random basis. We identified 12 cases in which the tier I reduction had not been adjudicated in accordance with applicable agency procedure. In these cases, the beneficiary was subject to an incorrect or erroneous tier I reduction as a result of one or more of the following errors:

--the initial reduction was based on an erroneous determination of the amount of other disability benefits being received;

--the initial reduction was computed incorrectly;

--subsequent cost-of-living increases were not paid or were computed incorrectly; continued reduction of tier I after the annuitant had reached age 65 or notice that entitlement to other disability benefits had ended.

In some cases, the error committed in computing the tier I reduction resulted in assessment of an incorrect or erroneous overpayment.

The reduction for concurrent entitlement to other disability benefits is a complex calculation that is designed to limit the total amount of benefits received from all sources to the pre-disability earnings level of the annuitant. This is an error-prone process because cases requiring a reduction for other disability benefits occur infrequently and claims examiners have little opportunity to become proficient in making this intricate calculation.

Because of the small number of annuitants affected, the aggregate financial impact of errors is not large. However, we estimate that the monetary impact of calculation errors ranges from one dollar to $100 per month per individual. The largest monetary impact on annuitants occurs when the tier I reduction is not removed timely. During the audit, we identified a case in which the tier I had not been restored to the full amount at age 65. The financial impact of this error was $3,200 through May 2000.

Recommendations

We recommend that the Office of Programs:

--develop controls that will ensure the accuracy of tier I reductions for other disability benefits (Recommendation #1); and

--review, and correct as appropriate, annuities currently subject to reduction for other disability benefits as well as previously assessed overpayments related to that reduction (Recommendation #2).

Management's Response

The Office of Programs agrees with the findings and recommendations presented in this report.