Review of Spouse Annuity Work Deductions at the Railroad Retirement Board
Report No. 04-10, September 30, 2004

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of spouse annuity work deductions at the Railroad Retirement Board (RRB).

Background

The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment or sickness. The RRB paid out nearly $9 billion in benefits during fiscal year (FY) 2003.

Retirement benefits are payable to the spouses of retired railroad employees based on age and the retired workers' years of railroad service. In most cases, a spouse becomes eligible for benefits at age 60, if the retired worker has 30 years of railroad service, or at age 62, if the worker has less than 30 years of service. Spouses may become entitled to benefits before age 60 if they are caring for the retired employee's minor or disabled adult child.

The RRB awarded about 8,700 spouse annuities during FY 2003; approximately 147,000 spouses, receiving an average of $598 per month, were in current pay status at the end of the year. Total payments for spouse annuities were approximately $1 billion during the fiscal year, representing approximately 12% of all benefit payments.

A regular RRA annuity is composed of a tier I benefit which is computed using Social Security Act formulas applied to both railroad and non-railroad earnings, and a tier II benefit which is computed using a formula established under the RRA and applied to railroad compensation only. A vested dual benefit and/or supplemental annuity may be awarded to individuals who meet certain age, service and vesting requirements.

Annuities paid under the RRA are subject to reduction for post-retirement earnings in excess of the annual exempt amount. Annuitants who work after retirement are advised of their responsibility to notify the agency of their estimated earnings so that the agency can take appropriate action to adjust their monthly benefit payment. Working annuitants who do not voluntarily disclose their expected earnings incur overpayments which are subject to recovery.

Reductions to tier 1 and vested dual benefits end when the annuitant reaches full retirement age under the Social Security Act which ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later. The tier II and supplemental annuity components are subject to reduction for any earned income from the annuitant's last pre-retirement employer without respect to age; there is no exempt amount.

The Office of Programs coordinates direct services to beneficiaries under the RRA and RUIA including processing retirement, disability, survivor, Medicare, unemployment and sickness benefits and is responsible for the agency's program integrity initiatives. The Office of Programs has established a monitoring program to identify post-retirement earnings that have not been disclosed voluntarily.

The RRB's 2003-2008 Strategic Plan has established ensuring the integrity of benefit programs as a strategic objective within the agency's larger goal of serving "as responsible stewards for our customers' trust funds and agency resources." This review directly addresses that key area of agency performance.

Objective, Scope, and Methodology

The objective of this review was to determine if the RRB has adequate controls to ensure that work deductions are applied to spouse annuities paid under the RRA. The scope was limited to the spouse annuities of individuals under age 65, in current pay status as of May 2004.

To achieve our objective, we:

- interviewed management and staff in the Office of Programs;
- reviewed pertinent laws and regulations;
- documented agency policies, procedures and internal controls;
- tested, on a sample basis, the effectiveness of existing controls in identifying undisclosed post-retirement earnings among spouse annuitants under age 65; and
- tested, on a sample basis, the effectiveness of voluntary reporting of post-retirement earnings among spouse annuitants under age 60 with children in care.

The details of our sampling methodology are presented in Appendices I and II for spouses under age 65 and spouses under age 60 with children in care, respectively.

This audit was conducted in accordance with generally accepted government auditing standards, as applicable to the objectives. The fieldwork was performed at the RRB headquarters in Chicago, Illinois from May through August 2004.

RESULTS OF REVIEW

In general, the RRB has reduced the risk of overpayment due to undisclosed post-retirement earnings among spouse annuitants to an acceptable level. We estimate that unreported earnings result in undetected overpayments in less than 2% of all spouse annuities not exempt from such deductions by reason of age. However, spouse annuitants under age 60 were omitted from the agency's work deduction monitoring program. As a result, the RRB has been relying on voluntary reporting alone to identify post-retirement income in this beneficiary group, which experiences a much higher rate of undetected overpayments than the population of spouse annuitants as a whole.

The details of our finding and recommendations for corrective action follow.

Spouses under 60 with Children Not Included in Monitoring Program

The RRB did not include spouses under age 60 with children in its work deduction monitoring program.

The RRA provides for the payment of retirement benefits to the spouses of retired railroad employees as early as age 60. The RRA also provides for payment of benefits to the spouses of a retired worker who has not yet reached age 60 if they have minor children in their care. These annuitants are subject to work deductions on the same basis as other beneficiaries under the Act.

Although the RRB advises beneficiaries of their duty to report post-retirement earnings in advance, the agency also monitors the wage histories of its beneficiaries to identify undisclosed income. Through an automated process, the RRB obtains wage information from the Social Security Administration and identifies those annuitants who may be subject to work deductions.

During FY 2000, the RRB modified the automated work deduction monitoring process. Due to insufficient pre-implementation testing by the RRB, the new program did not include spouses under age 60 with children in the population of cases subject to evaluation. As a result, some overpayments occurred which could have been prevented or detected in a more timely manner.

We reviewed the benefit and wage histories of 260 spouse annuitants who were under age 60 with children in care. Our tests identified 17 cases (6.5%) in which an annuitant had post-retirement earnings without a corresponding reduction in RRA benefits. Based on that result, we estimate that a similar review of the current population of young spouses would identify approximately 68 overpayments valued at $400,000.

As a result of our findings, the Office of Programs has implemented programming changes to include the previously omitted demographic group in the monitoring program.

Recommendation

The OIG recommends that the Office of Programs identify prior-period post-retirement earnings among spouse annuitants under age 60 with children, and assess additional work deductions and overpayments as appropriate.

Management's Response

The Office of Programs concurs with the findings and recommendations. They have corrected the automated program and identified 66 current cases of unreported earnings for review and correction. They are in the process of analyzing different approaches to identify additional cases which should have been monitored for prior earnings.

The full text of management's response is included as Appendix III to this report.

Sampling Methodology and Results
Spouse Annuitants Under Age 65

We used statistical sampling to assess the effectiveness of existing controls by estimating the number of overpayments due to unreported post-retirement earnings among spouse annuitants under age 65.

Audit Objective

The objective of the sample review was to estimate the number of spouse annuities that were overpaid because work deductions were not applied.

Scope

We selected the sample from the population of 25,308 spouses under age 65, in current pay status as of May 2004, with an annuity beginning date before 2004.

Review Methodology

We used attribute estimation sampling and a sample size of 320. For each case, we obtained and reviewed the annuitant's benefit history for previously applied work deductions and his/her Social Security Act earnings history for undisclosed earnings. Audit exceptions were defined as follows.

- A spouse annuitant who had no work deduction but who had earnings over the threshold amount. The threshold amount, which changes yearly, is the maximum amount of money that can be earned in a year without losing any retirement benefits.
- A spouse annuitant who worked for their Last Pre-Retirement Nonrailroad Employer (LPE) after their annuity beginning date and had no work deduction taken. All LPE earnings are subject to a work deduction.

Results of Review

Our evaluation of 320 randomly selected spouses identified a total of five exceptions. Based on these sample results, we estimate, with 95% confidence, that the number of spouse annuities to which work deductions may not have been applied is approximately 404 (1.6%), but may be as low as 126 (.5%), or as high as 911 (3.6%).

Conclusion

Based on our evaluation, we conclude that the overall risk of overpayment associated with unreported post-retirement earnings is relatively low.

Sampling Methodology and Results
Spouse Annuitants Under Age 60 With Children

We used statistical sampling to assess the effectiveness of voluntary reporting by estimating the number of overpayments due to unreported post-retirement earnings among spouse annuitants under age 60 with children. This sub-group was not subject to monitoring for post-retirement earnings as part of the agency's program integrity initiative.

Audit Objective

The objective of the sample review was to estimate the number of spouse annuities that were overpaid because work deductions were not applied.

Scope

We selected the sample from the population of 1,045 spouses under age 60, in current pay status as of May 2004, with an annuity beginning date before 2004.

Review Methodology

We used attribute estimation sampling and a sample size of 260. For each case, we obtained and reviewed the annuitant's benefit history for previously applied work deductions and his/her Social Security Act earnings history for undisclosed earnings. Audit exceptions were defined as follows.

- A spouse annuitant who had no work deduction but who had earnings over the threshold amount. The threshold amount, which changes yearly, is the maximum amount of money that can be earned in a year without losing any retirement benefits.
- A spouse annuitant who worked for their Last Pre-Retirement Non-railroad Employer (LPE) after their annuity beginning date and had no work deduction taken. All LPE earnings are subject to a work deduction.

Results of Review

Our evaluation of 260 randomly selected spouses identified a total of 17 exceptions. Based on these sample results, we estimate, with 95% confidence, that the number of spouse annuities to which work deductions may not have been applied is approximately 68 (6.5%), but may be as low as 43 (4.1%), or as high as 104 (9.9%).

Conclusion

Based on our evaluation, we conclude that the overall risk of overpayment associated with unreported post-retirement earnings among young spouses is much higher than among the total population of spouse annuitants subject to such reductions.

UNITED STATES GOVERNMENT
MEMORANDUM

FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

SEP 3 0 2004

TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser Catherine A. Leyser
Director of Assessment and Training

THROUGH: Dorothy Isherwood D. Isherwood
Director of Programs

SUBJECT: Draft Report- Review of Spouse Work Deductions at the Railroad Retirement Board

Response to the Draft Report

General Comments We have read the draft report and concur with the findings and recommendations. The report includes one recommendation which is addressed below.

Recommendation *The OIG recommends that the Office of Programs(OP) identify prior-period post-retirement earnings among spouse annuitants under age 60 with children, and assess additional work deductions and overpayments.*

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Response to the Draft Report, Continued

OP response

We agree.

We corrected the automated program July 2004 and we identified 66 current cases out of 1,011 young spouses with children in their care.

We will review prior year earnings back to the ABD for the 66 spouse cases and take appropriate actions.

We are in the process of analyzing different approaches to identify additional cases which should have been monitored for prior earnings and were not. We plan on having an action plan by March 31, 2005 and will provide a target completion date at that time.

Copies

Director of Operations
Director of Retirement Benefit Divisions
Director of Policy and Systems
Chief of Payment Analysis and Systems