

**Testimony of
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Commissioner
of
Social Security
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Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss the administrative challenges facing the Social Security Administration (SSA). As I prepared for this hearing, I realized that this is my first appearance before this committee since my confirmation hearing on October 4, 2001, even though we have worked closely together since that time. I am pleased to have this opportunity to discuss the progress we have made as well as the new challenges we face.

Much has changed in the world and at SSA since the day I last sat here almost five years ago, but the core mission of the Agency remains the same: giving the American people the high quality service they deserve; improving program integrity through sound financial stewardship; ensuring the program's financial solvency for future generations; and maintaining the quality staff SSA needs to provide the service and stewardship.

Over time however, Mr. Chairman, SSA has been tasked with new and non-traditional workloads through new legislation which I will discuss later in my testimony. Managing these new workloads, such as our duties under the Medicare Modernization Act and the Intelligence Reform and Terrorism Prevention Act, in a way that does not erode our ability to carry out our core responsibilities, is a challenge, especially in a world of tighter resource constraints.

SSA's responsibilities are great, and our mission is critical. In FY 2007, SSA employees will process over 6.7 million claims for benefits; process almost 245,000 Medicare Part D low income subsidy applications; make decisions on over 575,000 hearings;

issue 18 million new and replacement Social Security cards; process 265 million earnings items for workers' earnings records; handle approximately 59 million transactions through SSA's 800-number; serve 42 million visitors to our field offices; process millions of actions to keep beneficiary and recipient records current and accurate; and conduct 1.6 million continuing disability reviews (CDR) and over 1 million non-disability SSI redeterminations.

First, I will discuss where we are in terms of delivering our traditional services.

Service

As I told you that day in 2001, when I asked you to confirm my appointment, I made it clear that I did not accept this position to manage the status quo. Nowhere was the need for change more apparent than in the disability program. Therefore, from the outset I made improving service to our disability claimants a priority.

We have taken significant steps toward that end—especially the successful development and implementation of the electronic disability process, or eDib.

As of January 31, 2006, all 50 State Disability Determination Services (DDS) have rolled out the electronic disability folder. As you know, DDSs are the state agencies that make initial determinations for Social Security and SSI disability claims. Already, in 26 States the electronic claims folder is the official Agency record. I am proud that the medical information we capture electronically is already the world's largest repository of electronic medical records, with over 34 million records.

I want to assure you that SSA is monitoring the implementation of eDib carefully. We have developed a certification process, called the Independence Day Assessment (IDA) certification, to determine when each State is ready to use eDib exclusively as the official Agency record and no longer maintain paper folders for new cases. During the IDA certification process, SSA assesses the electronic business process and evaluates the system performance. IDA is an important quality assurance initiative that accurately measures eDib rollout

progress while allowing for the unique characteristics of each State's disability determination infrastructure, population, and demographics. As I noted, 26 State DDSs have completed this process. The remainder will be certified IDA within a year.

Let me share with you a real-life story that makes obvious the necessity of eDib. In the aftermath of Hurricane Katrina – while issuing almost 74,000 immediate benefits payments for displaced persons and setting up response units at the Houston Astrodome and other evacuation centers--SSA provided further relief. Of the 5,000 cases in the New Orleans Disability Determination Services, 1,500 had already been stored electronically through eDib. These records were immediately transferred to other offices to be processed. Ultimately, we gained access to the building, packed the remaining 3500 folders in 400 hundred boxes and carted those down six flights of stairs by flashlight.

The implementation of eDib is important in and of itself to improving service and efficiency, but it is also a vital precursor to the successful implementation of process changes that I believe will significantly improve the disability determination process. In July 2005, SSA published a Notice of Proposed Rule Making to improve the disability determination process. The central goal is to make the right decision as early in the process as possible.

To that end, the regulations were developed after a long and comprehensive outreach process to all groups involved at every step of the disability determination process. We listened to interested parties and groups in both the government and private sector, and to the claimants and beneficiaries who rely on us to provide the best possible service. I personally participated in more than 60 meetings with more than 40 organizations. My staff participated in many more meetings, and we received more than 700 comments and recommendations over the Internet alone.

I was very impressed with the spirit of cooperation and professionalism that these groups brought to our discussion.

When we published the proposed rule, I did not expect agreement on every element of the approach outlined in the NPRM. However, I hoped for—and got—a continuation of the same spirit that we saw in the initial outreach period.

During the comment period, SSA received almost 900 comments. We reviewed these comments very carefully. In fact, I met with my senior staff to consider all of these comments. And we have made changes in response. I am pleased to report that as of last month, the final rule was under review at the Office of Management and Budget, and we expect it to be published shortly. The Disability Service Improvement regulation represents a major step forward in the Agency's effort to effectively serve the public.

In our disability program as with all our core services, the Agency continually strives to find cost-effective means for providing excellent service. In response to the growing number of Americans who prefer the convenience of electronic service delivery, SSA has developed a suite of Internet and automated telephone applications that are safe, accurate and efficient. Last year, more than 23 million inquiries were answered through our Internet Frequently Asked Questions (FAQs), rather than by our employees. FAQs are easy to use and ensure consistent and accurate information is provided to those who need it. Electronic transactions initiated by the public, such as applications for benefits and reports of status changes, grew from 611,266 in FY 2004 to 1,685,959 in FY 2005, an increase of approximately 175 percent. We continue to seek ways to make such services effective and appealing.

Stewardship

SSA's commitment to quality service extends to all of our programs. I've discussed today some of the steps we are taking to improve the disability process so that eligible claimants receive the benefits they are entitled to. But true public service also requires sound stewardship of public resources. The people of America, who fund the Social Security program through their tax contributions and the

Supplementary Security Income (SSI) program through their income tax payments, expect and deserve well managed programs. And we take very seriously this responsibility to ensure that those entitled to benefits—but only those that are entitled—receive them.

In addition, there is also a strong economic incentive for avoiding improper payments. In several areas, such as SSA's continuing disability reviews, ensuring that disability beneficiaries still meet eligibility criteria can reap significant savings.

But good stewardship involves more than money. It also means making sure that earnings reported and recorded by employers are as accurate and precise as possible, credited to the correct worker, and that those with criminal intent are prevented from using Social Security numbers (SSNs) and cards to advance their illicit operations.

Accurate earnings information is vitally important to our administration of the Social Security program because a worker's earnings record is the basis for determining eligibility for and computing retirement, survivors, and disability benefits. If a worker's earnings are not properly recorded, he or she may not qualify for Social Security benefits or the benefit amount payable may be wrong.

SSA has assigned over 436 million SSNs since 1936. Earnings posted to an individual's SSN are used to determine eligibility for and the amount of Social Security benefits to which that worker and his or her family may be entitled. Ultimately, the SSN is used to track earnings and the payment of those benefits.

Over the years, SSA has worked to offer employers alternative methods to verify SSNs. One of those methods is the Employee Verification Service (EVS). EVS is a free, convenient way for employers to verify employee SSNs. It provides employers with several options depending on the number of SSNs to be verified. For up to five SSNs, employers can call SSA's toll-free number for employers (1-800-772-6270) weekdays from 7:00 a.m. to 7:00 p.m. Eastern Standard Time. Employers may also use this number to get answers to any questions they may have about EVS or to request assistance. In FY 2005, SSA responded to nearly 1.5 million calls.

Employers also have the option to submit a paper listing to the local Social Security office to verify up to 50 names and SSNs. In addition, employers may use a simple registration process to verify requests of more than 50 names and SSNs or for any number of requests submitted on magnetic media. Currently, almost 17,000 employers have registered for this verification service.

To further increase the ease and convenience of verifying employee SSNs, SSA developed the Social Security Number Verification Service (SSNVS), which is an internet option that permits employers to quickly verify the accuracy of employees' names and SSNs by matching the employee-provided information with SSA's records. SSA expanded this service to all employers in June 2005. We processed over 25.7 million verifications for over 12,000 employers in 2005.

On June 2, 2005 I announced the nationwide rollout of the SSNVS at the SSA- sponsored National Payroll Reporting Forum in Baltimore, Maryland. SSA has publicized SSNVS in various ways. An article on SSNVS was placed in the SSA/IRS Reporter that is sent to over 6.5 million employers. It was also featured in the SSA wage reporting email newsletter, W2News. We have also highlighted SSNVS in our many speaking engagements before the employer community. There is a special section on SSA's website for employers that highlights and explains the use of SSNVS.

In addition, employers may participate in the Basic Pilot program, an ongoing initiative in which SSA supports the Department of Homeland Security (DHS) in assisting employers confirming employment eligibility for newly hired employees. Participating employers register with DHS to use the DHS' automated system to verify an employee's SSN and work authorization status. The information the employer submits to DHS is sent to SSA to verify that the social security number, name, and date of birth submitted match information in SSA records. SSA will also confirm US citizenship, thereby confirming

work authorization; DHS confirms current work authorization for all non-citizens. DHS will notify the employer of the employee's current work authorization status. In December 2004 the Basic Pilot was expanded to be available on a voluntary basis to employers nationwide. This program is also available to all employers, as long as SSA receives sufficient funding to perform this work.

In 2005, through the EVS, SSNVS, and Basic Pilot programs, we estimate we provided a total of 67 million employer verifications, up from 62 million in 2004.

Employers report wages to SSA on Forms W-2 (Wage and Tax Statement). SSA processes the Form W-2 data for tax purposes for the Internal Revenue Service (IRS). Self-employed individuals report information on self-employment income to IRS on Schedule SE. IRS then sends this self-employment information to SSA. SSA uses the SSN to record employees' earnings.

Last year, SSA processed over 235 million W-2s from 6.6 million employers that are sent to the SSA either on electronic media or on paper. Over 150 million wage earners work in jobs covered by Social Security, which means that many workers were employed in more than one job during a year. While some employers continue to send us their reports on paper, we encourage electronic filing. We work with the employer community to educate them on the advantages of this method and expect its use to expand as technology improves. In fact, in FY 2005, 66 percent of W -2s were filed electronically, up from less than 10 percent in 1999. We believe the increase in electronic filing will reduce errors over time.

SSA also offers a suite of services called Business Services Online (BSO). BSO offers Internet services for businesses and employers who exchange information with Social Security. Available services for registered users include the ability to report W-2s via the internet.

As you know, SSA mails Social Security Statements to workers over age 25 each year (approximately 144 million in 2005). The Statement is a concise, easy-to-read personal record of the earnings on which the worker has paid Social Security taxes during his or her

working years and a summary of the estimated benefits the individual and his/her family may receive as a result of those earnings. We encourage workers to review the Statement to ensure that the information in SSA's records is correct and to contact SSA to make any corrections necessary.

When a person files for benefits, an SSA employee reviews the earnings record with the worker and assists the worker to establish any earnings that are not shown or are not correctly posted. However, since it may be difficult for the worker to accurately recall past earnings or to obtain evidence of them, SSA strives to maintain accurate records at the time the wages are reported.

Apart from enumeration initiatives, we also fulfill our fiscal stewardship responsibility by conducting Continuing Disability Reviews (CDRs), which ensure that those who receive disability benefits continue to meet our definition of disability. CDRs are a cost-effective program integrity workload, saving \$10 in program benefits for every \$1 spent in administering them. An increase in the number of CDRs conducted in FY 2007 will result in greater program savings, but let me stress that we need our full request for administrative resources for CDRs, whether provided in our appropriation within the discretionary spending cap, or provided as an adjustment to the cap.

Staffing

SSA is an agency committed to technology and innovation, but it is also an agency which believes that its devoted employees are the heart of its success. Our most critical asset in continuing to maintain a high level of service is the excellence of our workforce, and we currently have almost 65,000 full time and part time permanent employees.

However, we expect that just over 40 percent of that workforce will be retiring by 2014. Our workloads are also expected to grow dramatically as the baby boom generation approaches their peak disability and retirement years. Consequently, the greatest human

capital challenge facing SSA is to develop strategies that ensure we will be able to maintain a high performing workforce that is prepared to deliver quality service.

In 2004, SSA developed its first Human Capital Plan as a tool to chart the Agency's course, and we issued an updated Plan in 2005. As a supplement, we developed the Future Workforce Transition Plan to serve as a roadmap to develop and engage the workforce of the future. It outlines our plans to successfully recruit, hire, develop, and retain a diverse workforce to carry out the mission of the Agency.

Through our efforts, we have turned the retirement wave into an opportunity. Over the past five fiscal years, we have hired approximately 18,350 permanent employees, and we have focused on equal opportunities for all, including minorities and women.

We attribute our success to several factors:

- Support from the highest levels of the agency;
- Strong linkage to the agency strategic plan;
- Development of a long-term service vision;
- Analysis and study of potential future losses;
- A specific workforce transition plan; and
- National and regional leadership development programs.

At the beginning of my testimony, I said that I am concerned that new and non-traditional workloads may affect our ability to perform our core responsibilities. I will discuss those now.

Medicare Prescription Drug Program

As you know, the Medicare Modernization Act, or MMA, enacted in December 2003, established the new Medicare prescription drug benefit. The new Medicare prescription drug coverage was designed to allow all people with Medicare an opportunity to voluntarily enroll in prescription drug coverage. MMA also provided an extra level of assistance for people with Medicare who have limited incomes and resources in helping to pay for the monthly premiums and cost-sharing that are required by the new Medicare prescription drug coverage. This assistance is the low income subsidy, or extra help, as it is frequently called.

SSA was given the responsibility by Congress to take extra help applications and to make extra help eligibility determinations for individuals who were not automatically eligible. In order to be eligible for the subsidy, individuals must enroll in the Part D program, have incomes below 150 percent of the poverty level applicable to their corresponding household size, and have resources of less than \$11,500 for single individuals or \$23,000 for married couples.

Individuals with incomes between 135 percent and 150 percent of poverty are eligible for a subsidy amount based on a sliding scale. Individuals with incomes below 135 percent would be eligible for full premium subsidies if they enrolled in the basic drug plan, with no annual deductibles.

Additionally, SSA was charged by Congress with the collection of premiums for the prescription drug program itself, in cases where beneficiaries tell the prescription drug plans when they enroll that they want their premiums withheld from monthly Social Security benefits. This withholding of premiums is similar to the function SSA already performs for beneficiaries in the withholding of other Medicare premiums.

SSA was given these responsibilities because of its network of nearly 1,300 offices with 35,000 employees across the country, and because of our existing role in administering some parts of the Medicare program and our proven experience in serving the public. Over the past 70 years, SSA has gained a reputation for helping citizens in the communities where they live, and Congress realized that SSA's presence on the ground would be vital in the launch of the Medicare extra - help program.

Also, the low income subsidy was designed with many similarities to the Supplemental Security Income (SSI) program, a means-tested assistance program for low-income aged, blind and disabled individuals, which SSA has administered for more than 30 years.

As of the end of February, SSA has received applications from over 4.5 million beneficiaries. We have made over 3.6 million determinations on the eligibility for extra help, and have now found nearly 1.5 million of these individuals eligible.

At this point, let me say that I am aware that there was a concern that SSA was not prepared to deal with the increased traffic from callers asking questions about the new drug plan. It is true that beginning in the fall we experienced an increase in visits to our field offices and in telephone calls. Traffic spiked in early and mid-January, coinciding with our busiest time of the year when many people contact us to file retirement claims, to report their earnings from the prior year, and to request new or replacement Social Security cards—which, starting in December, require more specific identity document verification. Fortunately, the increase in traffic proved to be short term. By the beginning of February we had already seen a reduction in the January levels. At the beginning of March, visits to our offices averaged about 173,000 per day, down from a high of 200,000 in early January, and our 800 number busy rate is well under 10 percent on most days.

We will face new Medicare challenges at the beginning of FY 2007. Section 811 of the MMA reduces the federal subsidy of Medicare Part B premiums for those with higher incomes. Currently, Part B enrollees pay about 25 percent of their Part B cost (the “standard” premium). The remainder is financed by transfers from general revenues into the part B Trust Fund.

Starting in January 2007, the 25 percent/75 percent formula will change for Medicare Part B enrollees with higher incomes. There will be an income threshold test and depending on their income level, higher income beneficiaries will have to pay an increased share of the premium. There will be four levels of increases to the beneficiary’s share of the cost of the Part B premium. This subsidy reduction will be phased in over three years. MMA requires that we use IRS data to determine who is affected and the amount of the additional premium they will have to pay.

In 2007, the threshold level (the amount above which a higher premium is paid) is \$80,000 for those who file a single income tax return and \$160,000 for married couples who file a joint return. Threshold levels will be indexed annually.

MMA requires use of modified adjusted gross income. This is adjusted gross income plus tax-exempt interest income. We will do the first annual data exchange with IRS in October 2006 for premiums paid effective 2007. Weekly exchanges for the newly entitled will start prior to January 2007. Ongoing premium amount determinations will be made annually, prior to the start of each calendar year, and will be effective the entire year. It will also be made on an ongoing basis as people enroll in Medicare Part B.

The IRS data we will get is 2 years old, or if that is not available, 3 years old. Because of the time lag, the law permits Medicare beneficiaries to request that we use more recent tax return data to determine the premium when they have a life-changing event that significantly reduces their income or to provide corrected or amended tax returns.

SSA published proposed regulations concerning these rules on Friday, March 3. Those regulations and the statute define those life changing events as well as the procedures beneficiaries may use when questioning the amount of their modified adjusted gross income and the new premium amounts. While beneficiaries may appeal SSA's calculation of the premium, SSA cannot process appeals of IRS data.

Affected Medicare beneficiaries will receive a notice from Social Security by December 2006. And I need not tell you, Mr. Chairman, that we can expect to see another uptick in calls and visits when those notices go out.

New Enumeration Procedures

As I touched on earlier, we have taken a number of steps to further strengthen the processes associated with issuing SSNs. You will recall that SSA formed a high-level response team to develop recommendations on enumeration policy and procedure in the aftermath of the terrorist attacks of September 11, 2001. Implementation of many of the team's recommendations has strengthened our capability of preventing those with criminal intent from obtaining and using SSNs and SSN cards. Some of these initiatives include:

- Beginning June 1, 2002, SSA began verifying birth records with the issuing agency for all United States born SSN applicants age one or older. Under former rules, we only verified birth records for applicants age 18 and older. As of December 17, 2005, SSA is verifying all birth records.
- Beginning in July 2002, SSA began verifying the immigration status of all non-citizen applicants for SSNs with DHS before assigning SSNs to these persons.

In addition, we have new responsibilities under the Intelligence Reform and Terrorism Prevention Act of 2004 which became effective in mid-December. As a result, the processes we employ to issue Social Security numbers and cards have changed. For instance, we now require applicants to submit documents that include a name, identifying information, and a photograph. For U.S. citizens, we must see a driver's license, a state-issued picture ID, or a passport if one is available. If these documents are not available and the applicant cannot obtain one within 10 days, we will accept other documents, such as an employee identification card, a school ID, a health insurance card, a U.S. military ID card, or an adoption decree. For non-citizens, we must see current U.S. immigration documents. This may require an applicant to return to the field office if they come to an office without one. This requirement also appears to be increasing traffic to our offices.

Other Possible Changes

More new workloads could be on our horizon as a result of proposed changes to our immigration laws. As the President has said, workplace enforcement is one of the key ingredients to an effective immigration policy. I realize that Congress and the Administration are grappling with important national policy issues in determining how to achieve that goal. SSA's primary role in this discussion is to provide information on how various proposals could affect our workloads and our ability to provide quality service. For example, Congress is in the process of considering changes in immigration policies that could require additional verification of documents, or that make other changes to the way we do business.

There are several recent proposals that would require SSA to disclose wage reporting information from our databases to other agencies. I would like to take this opportunity to clarify that any data generated as a result of the wage reporting process is derived from information reported to the IRS in the form of tax return data. SSA processes employer wage reports for IRS and uses that information to credit earnings to workers' records so that eventually we can pay them or their dependents and survivors the benefits that they have earned. Redislosure of tax return information is within the purview of the Secretary of the Treasury and is proscribed under section 6103 of the Internal Revenue Code, 26 U.S.C.

Let me emphasize that I am not here today to take a position on the wisdom of making any particular change to our immigration enforcement procedures. As I said before, these are important national policy decisions that require consideration of a wide range of issues. I would like to clarify, however, how some of these potential changes might affect SSA.

There are several proposals that would require all employers to use an electronic work authorization verification system that would be similar to the current Basic Pilot program. If the program remains essentially the same, SSA would not anticipate significant changes to our current systems architecture to support this initiative. However, should there be revisions to the program, and depending on the extent of those changes, SSA might need to make changes as well as enhancements to our current service capacity.

Of course, we would expect additional traffic in our field offices as workers whose data does not match our records come in to provide correct information. We would hope that consideration of such proposals take into account the time and resources SSA would need to ensure that workers would not have to wait lengthy periods after being hired, before being able to straighten out their SSN records because of delays in the verification process.

Similarly, there are a number of proposals under consideration that would require workers seeking new employment to show a different kind of Social Security card—thus requiring them to obtain replacement cards. Again, we believe that it is important to include in

the consideration of such proposals an assessment of the time and resources that would be required to meet the increased demand for replacement cards so that workers would not have to wait potentially long periods to start working. Under existing requirements, SSA already issues approximately 12 million replacement cards each year.

Funding and Productivity

SSA is a good and worthy investment. Our achievements over the last year are proof that resources provided to SSA are used efficiently and effectively to administer America's social security programs. In FY 2005, SSA made benefit payments monthly to over 52 million people for an annual total of over \$552 billion. In addition to carrying out this responsibility, SSA has made progress in meeting a wide range of challenges despite tough choices required to operate within appropriated resources.

In FY 2005, SSA productivity increased by 2.7 percent over the previous year, part of an impressive cumulative increase of 12.6 percent since 2001. I am proud to note that we kept to our promise to increase productivity annually for fiscal years 2003, 2004, and 2005.

In addition, from FY 2001 to FY 2005, SSA improved performance in several key service areas. For example, SSA has reduced processing time for both initial disability claims (from 106 days to 93 days) and appeals of hearing decisions (from 447 days to 242 days). SSA has also processed more work. In FY 2005, SSA processed over 450,000 more initial disability claims, approximately 140,000 additional SSA and Medicare hearings, and over 670,000 more retirement and survivors claims than in FY 2001.

Since funding is the fuel that drives our ability to meet the needs of the people who rely on our services, I must tell you that there are very real consequences when we have reduced resources. Under the current performance-based budgets, there is a certain amount of work that can be done for a certain amount of funding, and when our portfolio of traditional work and the new workloads I have described expands without funding, our effectiveness is jeopardized.

In recent years, the Congress has appropriated less for SSA than called for in the President's budget requests. When Congress passed our FY 2006 budget in late December, it gave SSA \$300 million less than the President requested. As a result, we must closely scrutinize discretionary workloads and make decisions accordingly. For instance, the FY 2006 budget reduction will result in processing 390,000 fewer CDRs and 808,000 fewer SSI non-disability redeterminations, which are also cost-effective.

The President's FY 2007 administrative budget \$9.496 billion for SSA - would provide the resources to allow SSA to maintain service and fulfill our new responsibilities, some of which I have outlined today. We would also continue to improve the way we do business with investments in technology, such as eDib, and my disability service improvements.

This budget also helps SSA to fulfill its fiscal stewardship responsibility by providing funding to conduct CDRs, which ensure proper benefit payments. The President's FY 2007 \$9.496 billion budget for SSA's Limitation on Administrative Expenses account includes \$490 million for CDRs, with \$201 million funded through a cap adjustment. We estimate we will save \$2 billion in program costs through this additional funding.

Conclusion

I am very proud of the exceptional dedication of the men and women of Social Security and the State Disability Determination Services. Our employees share a deep commitment to finding better ways to be even more responsive to those who depend on our service and sound fiscal stewardship. I am fortunate to work with such dedicated and compassionate public servants.

Finally, Mr. Chairman, thank you again for inviting me to be here today. In order to meet the challenges I have described, and others, we will continue to need the help and advice of the Congress, and your continued support to obtain the needed funding for our operations.

I will be happy to answer any questions you may have.