

Questions for the Record, from Ranking Member Hatch, for Acting Deputy Commissioner LaCanfora regarding the July 24, 2014 Committee on Finance Hearing titled “Social Security: A Fresh Look at Workers’ Disability Insurance.”

Thank you for your responses to questions that I posed earlier. Some responses prompt further inquiry, found below, in the interest of clarifying the policies and policy positions of the Social Security Administration.

1. In your response to my prior question 3b (reproduced below), you identified that you were unaware of the Social Security actuaries’ memorandum when you testified. Your testimony was given on July 24, 2014 and the actuaries’ reallocation proposal was put forth publicly on July 28, 2014. Following your testimony and the time at which you responded to my original question 3b, Acting Commissioner Colvin identified on July 31, 2014 that “If reallocation were to occur, SSA’s actuary projects that reserves in both the OASI and DI trust funds would be available through 2033.” The only specific proposal of reallocation that I am aware of is the actuaries’ proposal, and that proposal puts forward one particular reallocation scheme (out of many schemes that could be constructed) which generates projected reserve depletion of the OASI trust fund and the DI trust fund in the same year: 2033. Given that Acting Commissioner Colvin identifies that specific reallocation dating scheme, it would seem that she supports the proposal put forward by the Social Security actuaries. Given that, and given that you now are presumably aware of the proposal put forward by the Social Security actuaries, is the Social Security Administration’s support of reallocation support of that proposal?

Original question 3b: The only specific proposal of reallocation that I am aware of is one put forward by the actuaries at the Social Security Administration (see, under “Proposals Affecting Trust Fund Solvency” at <http://www.ssa.gov/OACT/solvency/index.html> , the July 28, 2014 proposal). Therefore, is the administration’s and SSA’s support of reallocation that you provided in your testimony support of that proposal?

2. In your response to my prior question 3f (reproduced below), you identified that the administration supports reallocation as a stand-alone change in the law. I assume that by “stand-alone change in the law” you mean that the President’s administration supports a reallocation of payroll tax inflows from the OASI (“retirement”) trust fund to the DI (“disability”) trust fund, with no other change put forward in the reallocation legislation that would alter in any other way any part of the law governing the OASI and DI programs. Has there ever before been a legislated “stand alone” reallocation of payroll tax inflows from the OASI trust fund to the DI trust fund with no other accompanying changes in any part of the law governing OASI and DI programs included in the legislation that gave rise to the reallocation?

Original question 3f: In SSA's, and the administration's, support of "reallocation," does SSA and the administration support reallocation as a stand-alone change in the law, or does SSA and the administration also wish to consider additional actions to address DI finances?

3. Your response to my prior question 3g (reproduced below) did not address the question that I asked. The question involved timing, and your response merely identified that Congress should, in the eyes of SSA and the administration, "reallocate the payroll tax rate" to provide some notion of certainty. Of course, the certainty that SSA and the administration seek involves arriving at legislation that would postpone reserve depletion in one trust fund and accelerate reserve depletion in the other, ensuring that benefit cuts relative to "scheduled benefits" can be expected to occur later for disabled American workers and a bit sooner for retired American workers who are not disabled. In the interest of providing certainty, it would seem that resolution of any uncertainty ought to occur as soon as possible. Indeed, Acting Commissioner Colvin has agreed with what she has identified as the administration's belief that Congress should act to reallocate the payroll tax rate "as soon as possible." Do you agree? If so, and given that Presidential support for any reallocation scheme adopted by Congress would be essential toward provision of certainty, is it the case that the precise reallocation scheme that the President supports is the one put forward by the Social Security actuaries and, if not, are you aware of what proposal would the President support and which would not be acceptable?

Original question 3g: In SSA's support of reallocation, does it matter whether a policy decision to reallocate resources from one trust fund to another occurs as soon as possible, or would any time between now and the end of 2016 be consistent with whatever is the particular policy that you support?

4. In response to my prior question 4 (reproduced below), you identified that: "With the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's Budget, we expect a net deficit savings of nearly \$35 billion in the 10-year window and additional savings in the out-years." Please identify what the gross budgetary cost to the general fund would be over the 10 year window associated with the requested level of discretionary funding for program integrity in 2015 and the mandatory funding in 2016 through 2024, according to the President's budget.
5. Also, in relation to my prior question 4 asking whether SSA supports policy concepts other than reallocation, you identify proposals in the President's budget "aimed at improving the administration of our programs, including the DI program." I take that to mean that SSA supports those proposals. Given that the administration supports reallocation as a stand-alone change in the law, it follows that the administration only supports the program administration proposals in the President's budget in separate legislation. Are you aware of whether the administration agrees with that implication of its support for reallocation only on a stand-alone basis?

6. Also, in relation to my prior question 4, do the SSA and the administration support any changes to the OASI and/or DI program involving an increase in the maximum amount of earnings subject to payroll taxes for American workers earning between the current maximum of \$117,000 up to \$250,000? Please answer in the affirmative (yes) or the negative (no), given that it would be an inefficient use of legislative resources to arrive at policy proposals that would end up being vetoed by the administration.

Original question 4: Given that you chose to express support for a policy concept, are there other policy concepts that SSA supports, such as whether SSA supports increasing the amount of maximum earnings subject to payroll taxes, or increases in payroll tax rates, or benefit cuts, or other policy concepts?

7. In response to my prior question 6b (reproduced below) asking whether SSA agrees with an OECD assessment that disability program reforms are needed to stem the tide of new enrollments, you did not respond in the affirmative or the negative. Rather, you identified that program reforms could be made along several dimensions and that SSA research has identified three factors that are claimed to explain 90 percent of the growth in new disabled-worker entitlements over the 1972-2008 period. Does SSA agree with the OECD assessment that reforms are needed to stem the tide of new enrollments?
8. Relatedly, SSA puts forward OECD findings with respect to the “strictness” of DI eligibility in the U.S. relative to other countries as support for identifying DI eligibility criteria as being very strict. The OECD has, in addition to claiming with respect to the U.S., that “disability reforms are needed to stem the tide of new enrollments,” written that: “Much of the increase [in U.S. new DI enrollments] in recent decades reflects a relaxation of eligibility restrictions and increased replacement rates, as well as an influx of disabled war veterans (Autor, 2011; Autor, Duggan and Lyle, 2011).” In your response to one of my prior questions, in which I pointed to the nonpartisan Congressional Budget Office’s identification of legislation in the early 1980s having “allowed symptoms of mental illness and pain to be considered in assessing whether a person qualified for admission to the DI program, even in the absence of clear-cut medical diagnosis,” you respectfully disagreed with CBO’s characterization of the effects of the Social Security Disability Benefits Reform Act of 1984. Do you also disagree with the OECD claim that much of the increase in DI enrollments in recent decades reflects a relaxation of eligibility restrictions? If so, then is it reasonable to conclude that SSA takes in agreement the findings and assertions of the OECD which support SSA’s findings and positions, but SSA disagrees with other findings and assertions of the OECD which do not support SSA’s findings and positions, in which case OECD findings and assertions are not necessarily reliable indicators of the facts about the U.S. DI program administered by SSA?

Original question 6b: Does SSA agree with OECD’s assessment that disability reforms are needed to stem the tide of new enrollments?

9. Your response to my earlier question 9 (reproduced below) usefully points to products produced by the Retirement and Disability Research Consortiums. Thank you. For some of

the links to studies that you provided, I was unable to access any studies, particularly ones that, once the link is accessed, pull up information from the National Bureau of Economic Research's (NBER) Disability Research Center within the NBER Aging Program. The information provided seem to be abstracts of research papers, or perhaps are proposals and not research "studies." Is there a way to obtain those studies and papers, or are the "studies" under the NBER Aging Program only proposals at this point?

Original question 9: You testified that SSA is collaborating with the Retirement and Disability Research Consortia to "...build an evidentiary base for potential policy improvements." Please provide evidence of such collaboration that has taken place over the past two years, and explain how that collaboration has helped build and [sic] evidentiary base.

10. Your response to my earlier question 10 (reproduced below) identifies that: "Our on-duty counts come from our payroll system. Biweekly, data is fed into the system by the Department of Interior, via an accounting feeder file." The 11,000 employee loss over a three-year period does not correspond to what I have been able to determine based on publicly available data. Are the data, or other employee counts based on the data, provided into your payroll system by the Department of Interior publicly available?

Original question 10: You testified that: "We lost about 11,000 employees over that three-year period." That period, according to your testimony, is "the last three years prior to 2014." I have not been able to verify that number of SSA staff reductions, and find smaller amounts based on publicly available data produce [sic] by SSA. Please identify the source of your number.

11. Your response to my earlier question 11 (reproduced below) identifies that: "In each of these three years [2011, 2012, 2013], we planned and budgeted based on the President's Budget level, then had to make major mid-year adjustments to accommodate significant reductions, compounding the impact of this chronic underfunding." Is it a prudent risk-management decision to plan and budget on the basis of levels that for three consecutive years were in excess of the realized amounts? Also, please identify, over the course of a 20 (fiscal year) period prior to 2011 the number of times realized (actual) funding equaled the President's Budget level.

Original question 11: You testified that "for the last three years prior to 2014, our agency received an average of nearly \$1 billion less than the President requested for our administrative budget, including our program integrity work." And you go on to identify that difference relative to the President's request in his budget, which has not received a vote in Congress, as: "That level of chronic under-funding..." In what sense is a one year shortfall relative to a Presidential budget request "chronic underfunding?"

12. Your response to my earlier question 14 (reproduced below) identifies net accuracy rates of 98.1% (initial net accuracy) and 97.1% (reconsideration net accuracy) for fiscal year 2010.

In testimony delivered on January 24, 2012 before the Subcommittee on Social Security of the House Committee on Ways and Means, then Deputy Director Colvin stated that: “Overall, our SSDI payments are highly accurate. Our most recent data show that, in FY 2010, 99.3 percent of all SSDI payments were free of an overpayment, and 99.0 percent were free of an underpayment. While we are proud of our high accuracy rate for SSDI payments, we recognize that our SSI overpayment accuracy rate falls short of that high standard. To a large extent, inaccuracy is inherent in the complex program rules and the delays in receiving income data. SSI payments can change each month due to income and resource fluctuations and changes in living arrangements. Our overpayment accuracy rate, though improving, reflects that complexity. In the SSI program, 93.3 percent of all payments were free of an overpayment, and 97.6 percent of all payments were free of an underpayment, a significant improvement from FY 2008.” Are the accuracy rates that you identified in your response to my earlier question 14 different from the ones referred to in the quote above? Also, please provide additional information about the meaning of the net accuracy rate and net error rate that you identify, and what can be inferred from those rates about subsequent (to the initial and reconsideration levels of appeals) about the likely numbers of DI claims denied at the initial and reconsideration levels but subsequently appealed and approved. For example, does a reconsideration net accuracy rate of, say, 97 percent mean that there is a 97 percent point estimate of the likelihood that a reconsidered DI applicant who was denied was denied accurately, and therefore a 3 percent likelihood that a subsequent appeal would be successful?

Original question 14: In the hearing, you identified that: “At the Disability Determination Services where we make our initial and reconsideration determinations, our quality is consistently above 99 percent...” Please provide data, along with a definition of the measure, showing the above-99 percent “quality,” as well as a time series of those data to corroborate your claim of consistency.

13. Your response to my earlier questions 17a and 17b includes statements such as: “By ‘direct marginal costs of processing additional CDRs,’ we are referring simply to the costs of processing CDRs that will increase or decrease based upon the volume of CDRs processed. These costs do not include various fixed costs, such as agency overhead, rent, or information technology (IT) spending, that do not vary based upon the level of work processed” The response is confusing. A marginal cost typically refers to an incremental change in total cost associated with an incremental change in the activity (say, a one unit change in the level of CDRs). Of course, fixed costs would not show up in a marginal cost, because fixed costs do not change with an incremental change in an activity (that is the nature of the costs’ fixity). However, what you refer to as a marginal cost is a cost that increases or decreases based upon the volume of an activity, which is typically not thought of as a “marginal cost” but, rather, is regarded to be a variable cost. The confusion generated by the way in which the cost information, and its relation to the “return on investment (ROI)” for CDRs, leads to confusion about precisely what is being claimed about returns to “investments” in CDRs and, consequently, concern about the administration’s views about allocating significant resources to an activity for which the returns on allocating those resources seem not to be clearly articulated and possibly not clearly understood. As SSA has identified in some of its writings, the ROI on CDRs measures the expected present value of future program savings

relative to amounts spend on CDRs. More specifically, as expressed by SSA in a 2013 report, for example (<http://www.ssa.gov/legislation/FY%202011%20CDR%20Report.pdf>), the ROI is computed as the estimation ratio of program savings to administrative costs which, for FY2011, was calculated “by dividing the estimated present value of total lifetime benefits saved from periodic CDR cessations, \$5.4 billion (including OASDI, SSI, Medicare and Medicaid savings) by the \$409 million we spent to conduct periodic CDRs in FY2011.” This, then, is a ratio of expected total program savings to total spending on CDRs and should not be taken to represent a marginal saving or marginal cost or marginal savings. In SSAs CDR reports, what is elsewhere loosely called an ROI is clearly stated to be a “savings-to-cost ratio,” which is clearly not a marginal return on CDR investments. Yet, in the President’s FY2014 budget, it was stated that: “SSA estimates that each additional \$1 spent on CDRs would save the Federal Government \$9, yet SSA has a backlog of 1.3 million overdue CDRs.” (emphasis added). Such a claim of a marginal return of \$9 to each incremental \$1 spent is not consistent with the way SSA measured the 9:1 ratio of expected total program savings to total spending on CDRs that was the relevant projected total savings relative to total CDR cost ratio at the time. Promoting an “investment” in CDR activities as something for which every additional dollar spend would generate a savings return to the government corresponding to SSAs total expected savings relative to total CDR spending ratio is misleading, at best. Given my understanding of ROI calculations made by SSA and typical use of the concept of marginal costs, please further explain what is meant in the President’s fiscal year 2015 budget by the statement that: “As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs.” Please also indicate whether you agree, or not, that what are loosely called returns on investments in CDRs are actually ratios of total expected savings to total CDR spending, and are not identifications of what SSA would expect to receive for each dollar or for an incremental dollar spent on CDRs.

Original question 17: The analytical perspectives of the President’s fiscal year 2015 budget contains the following: “As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond.”

The budget, which I understand SSA supports, identifies that the return on investment on Social Security’s Continuing Disability Reviews (CDRs) is calculated based on the “direct marginal costs of processing additional CDRs.”

- a. Given SSAs support of the budget, SSA must understand what they are supporting and therefore what is in the budget and accompanying explanations. Therefore, please identify what “direct marginal costs of processing additional CDRs” means, since it seems inconsistent with what I have been led to understand are the calculations that give rise to the 9:1 and 4:1 numbers referred to in the text.

b. Please also explain what is meant by 2014 ROIs begin temporarily lower “because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities.” What does additional overhead costs mean? And what, in the ensuing sentence, is meant by “The Budget proposes to return to funding only the direct marginal costs of CDFs in 2015 and beyond?” What does funding direct marginal costs mean, and what would other, indirect costs, be; overhead costs?