

OFFICE OF INSPECTOR GENERAL

Audit Report

Management Information Report

**Projected Financial Impact of Railroad Retirement
Board Unilateral Disability Freeze Cases on the
Financial Interchange**

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RAILROAD RETIREMENT BOARD

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INTRODUCTION

This management information report presents the results of the Office of Inspector General's (OIG) review of the financial impact of Railroad Retirement Board (RRB) unilateral disability freeze cases on the financial interchange.

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers comprehensive 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. These programs provide income protection during old age and in the event of disability, death, temporary unemployment, or sickness.

Disability Freeze Cases and the Financial Interchange

To receive an annuity based upon a disability from the RRB, a railroad employee must be found disabled under the RRA. If an employee is found disabled under the RRA, the RRB will determine whether he/she qualifies for a period of disability, commonly referred to as a "disability freeze," as defined in the Social Security Act.¹ The RRB's authority to determine a disability freeze is included in section 7(d) of the RRA.²

The RRB's Office of Programs is responsible for processing initial disability freeze determinations and subsequent requests for reconsideration. Coordination of disability freeze cases between the RRB and Social Security Administration (SSA) is based on a signed Memorandum of Understanding (MOU). Each agency has mutually agreed to share disability evidence which they have obtained. However, this coordination does not always result in joint agreement between the two agencies and the MOU does not require that mutual agreement or consensus be achieved.

When SSA concurs with the RRB's decision to grant a disability freeze, the RRB recovers the social security equivalent of the RRA disability benefits from the SSA's disability insurance trust fund through the financial interchange. The financial interchange serves as a funds transfer mechanism between the RRB and SSA. Financial interchange amounts are computed by the RRB's Bureau of the Actuary using statistical sampling methods.

When SSA does not concur with the RRB's decision to grant a disability freeze, the RRB independently makes a unilateral disability freeze decision. None of the benefits are recovered as social security equivalents through the financial interchange, when a unilateral freeze determination is made by the RRB. Because the RRA trust fund bears the entire cost of the RRB benefits, a subsequent change to an annuitant's condition could have a potential long-term impact on the financial interchange.

¹ A disability freeze protects disabled workers and their families from a loss of benefits by freezing the worker's wage record and excluding earnings during the period of disability from the benefit determination.

² 45 U.S.C. Section 231f(d)(3).

In response to concerns from the OIG's Office of Investigations regarding the potential long-term financial impact of unilateral disability freeze cases, the OIG's Office of Audit initiated this review. This review supports one of the goals of the RRB's Strategic Plan, which is to safeguard customers' trust funds through prudent stewardship.

Objective

The objective of this review was to determine the projected financial impact of unilateral disability freeze cases on the financial interchange between the RRB and SSA.

Scope

The scope of this review was limited to the analysis of the financial impact of approximately 1,600 unilateral disability freeze cases for annuitants under the age of 62, the minimum SSA retirement age. These cases were in active payment status as of February 1, 2012. We relied on the Bureau of the Actuary's financial interchange sampling methodology and estimates in determining the projected impact on the financial interchange.

Methodology

To accomplish our objective, we:

- met with RRB officials and reviewed agency policies and procedures to obtain an understanding of the unilateral disability freeze process and the role of the financial interchange;
- conducted background research and reviewed legislation and regulation impacting unilateral disability freeze cases;
- reviewed the MOU between the RRB and SSA that directs the coordination of disability cases and processing of disability freeze determinations;
- analyzed an extract of the unilateral disability freeze cases; and
- acquired financial interchange information from the Bureau of the Actuary.

We conducted our fieldwork at the RRB's headquarters in Chicago, Illinois from March through July 2012.

RESULTS OF REVIEW

Our review found that the Office of Programs does not submit unilateral disability freeze cases to SSA for reconsideration, when the RRB determines that the disability annuitant's condition has worsened. Because the RRA trust fund bears the entire cost of the disability benefits, a subsequent change in the annuitant's condition could have a potential long-term impact on the financial interchange. The financial impact of unilateral disability freeze cases is projected to range between \$1 million and \$32 million annually in potential reimbursement to the RRA trust fund through the financial interchange process.

In this report, we concluded that the financial impact of unilateral disability freeze cases on the RRA trust fund could be minimized by reviewing the existing 1,600 cases to determine if the annuitant's condition has subsequently worsened, and submitting those cases to SSA for reconsideration.

Projected Impact of Unilateral Disability Freeze Cases on the Financial Interchange

The impact of not submitting unilateral disability freeze cases to SSA for reconsideration, when the RRB determines that the disability annuitant's condition has worsened is projected to range between \$1 million and \$32 million annually in potential reimbursement to the RRA trust fund through the financial interchange between the RRB and SSA.

The following table shows the potential social security equivalent of the RRA disability benefit that could be reimbursed to the RRB by SSA as part of the financial interchange process, if SSA subsequently agrees that the annuitant qualifies for a disability freeze.

Projected Financial Impact of Unilateral Disability Freeze Cases Based on the Bureau of the Actuary's Financial Interchange Sampling Methodology	
Number of potential cases where the annuitant's condition has worsened and SSA subsequently agrees that the annuitant qualifies for a disability freeze³	Potential annual reimbursement to the RRA trust fund from those cases included in the financial interchange sample
1600	\$16 to \$32 million
1000	\$10 to \$20 million
500	\$5 to \$10 million
100	\$1 to \$2 million
Source: Bureau of the Actuary	

³ This represents a hypothetical number of cases where the disability status of the case changed after the annuitant was awarded disability benefits by the RRB under a unilateral disability freeze.

While it is unlikely that all 1,600 unilateral disability freeze cases would be reversed, the Bureau of the Actuary's projection shows the potential financial impact of unilateral disability freeze cases where a subsequent change in disability status resulted in a joint agreement with SSA.

The Bureau of the Actuary advised us that approximately one percent of the unilateral disability freeze cases can be expected to be included in the financial interchange sample. This one percent sample is projected to the entire population at an approximate payment rate per disability case which results in the potential reimbursement amount.

The MOU between the agencies instructs the RRB to notify SSA of any change in status relating to an annuitant's disability. The Office of Programs is also required to collect information concerning whether an annuitant's condition has worsened during the continuing disability review process. The Board's regulations and procedures (20 CFR 220.186 (e) and DCM 8.5.6) state that, if the evidence developed during a continuing disability review demonstrates that the annuitant's impairment has improved, is expected to improve, or has worsened since the last review, the Board may reclassify the annuitant's impairment to reflect this change in severity.

However, the Office of Program's continuing disability review process, by design, prioritizes the review of cases where the annuitant's condition has improved or is expected to improve, and conversely does not require that reclassified unilateral disability freeze cases be submitted to SSA for reconsideration, when the RRB determines that an annuitant's condition has worsened.

Resubmission of unilateral disability freeze cases to SSA when the annuitant's condition has worsened could result in additional RRA trust fund reimbursement of the social security equivalent of the RRA disability benefit through the financial interchange as shown on the table on page 3.

Conclusion

Unilateral disability freeze cases have a significant financial impact on the RRA trust fund and the financial interchange. Resubmitting these cases to SSA when the RRB determines the annuitant's condition has worsened could provide an opportunity for reimbursement of the social security equivalent of the RRA disability benefit. In addition, revising the continuing disability review procedures will provide the disability examiners with specific instructions for handling these cases.

The RRB's Strategic Plan includes safeguarding customers' trust funds as one of its strategic goals. The OIG believes that implementation of the following initiatives by the Office of Programs could result in potential reimbursement of \$1 to \$32 million to the RRA trust fund through the financial interchange between RRB and SSA, and helps to ensure that the RRB achieves their goal.

The Office of Programs should:

1. Review the existing 1,600 unilateral disability freeze cases to determine if the annuitant's condition has worsened, and submit any reclassified cases to SSA for reconsideration.
2. Revise the policies and procedures for the continuing disability review process to require that reclassified unilateral disability freeze cases be submitted to SSA for reconsideration when an annuitant's condition has worsened.