



SOCIAL SECURITY

The Commissioner

June 27, 2013

The Honorable Max Baucus
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing to submit our annual report on pre-effectuation reviews of disability determinations conducted during fiscal year (FY) 2011. As required by section 221(c)(3)(C) of the Social Security Act (Act), we conducted reviews of at least 50 percent of all State agency title II initial and reconsideration disability allowances, and a sufficient number of continuing disability review continuances to ensure a high level of accuracy. As required by section 1633(e) of the Act, we also reviewed at least 50 percent of all State agency title XVI allowances based on adult blindness or disability.

In FY 2011, we reviewed 503,209 allowances and 8,453 continuances. The direct cost of conducting these reviews was approximately \$48 million. However, we estimate that by preventing incorrect allowances and continuances in these cases, the reviews will result in lifetime savings with a present value (after all appeals) of about \$439 million in cash benefits to the Federal Old-Age and Survivors Insurance Trust Fund and Federal Disability Insurance Trust Fund combined. We also estimate lifetime savings of \$80 million in Federal Supplemental Security Income payments, \$219 million to the Medicare trust funds, and \$14 million in the Federal share of Medicaid payments.

I hope this information is helpful. I am also sending this report to Chairman Camp. If you have any questions, please contact me or have your staff contact Mr. Scott Frey, our Deputy Commissioner for Legislation and Congressional Affairs, at (202) 358-6030.

Sincerely,

Carolyn W. Colvin
Acting Commissioner

Enclosure

Annual Report
on
Social Security Pre-effectuation Reviews of
Favorable State Disability Determinations



Fiscal Year 2011

**PRE-EFFECTUATION REVIEW (PER) OF FAVORABLE
STATE DISABILITY DETERMINATIONS BY
THE SOCIAL SECURITY ADMINISTRATION
FISCAL YEAR (FY) 2011**

Background—We submit this annual report pursuant to section 221(c)(3)(C) of the Social Security Act (Act). The Act requires us to report to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate on the PERs conducted during the previous fiscal year. The legislative mandate specifies that the PER report include information on: (1) the numbers of such reviews and (2) our findings based on such reviews of the accuracy of the State agencies' determinations.

Title II of the Act requires the Commissioner to review at least 50 percent of all State disability determination services (DDS) initial and reconsideration allowances of applications for Old-Age, Survivors, and Disability Insurance (OASDI) benefits based on disability. The Act further requires the Commissioner to review a sufficient number of OASDI continuing disability review (CDR) continuances to ensure a high level of accuracy in such determinations.

In addition, Public Law 109-171 added section 1633(e) to title XVI of the Act, requiring similar PERs of specified levels of DDS allowances of applications by persons aged 18 or older for Supplemental Security Income (SSI) benefits based on blindness or disability. Since FY 2008, the required level of our SSI reviews is also at least 50 percent of initial and reconsideration allowances.

We present the PER results for FY 2011 in table 1. The following paragraphs also summarize some of the key findings.

Initial and reconsideration allowances—We reviewed 383,826 title II allowances under the PER process, representing 53.0 percent of all DDS allowances for title II disability benefits in FY 2011. We returned 10,161 deficient cases to the DDSs, representing a return rate of 2.6 percent, 0.3 percentage points higher than in FY 2010. After corrective action, we estimate that 5,520 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 1.4 percent of the total reviews of allowances initiated under title II. Table 1 presents these overall results for reviews initiated under title II, split between cases that involved only title II benefits and those cases that also involved title XVI benefits.

In addition, for cases involving only title XVI disabled or blind adults, we reviewed 119,383 title XVI initial and reconsideration allowances for adults based on blindness or disability during FY 2011, representing 52.9 percent of all DDS allowances for adult SSI benefits. We determined that 2,533 of these cases were deficient and returned them to the DDSs for corrective action, a return rate of 2.1 percent, 0.5 percentage points higher than in FY 2010. After corrective action, we estimate that 1,421 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 1.2 percent of the total reviews of title XVI allowances. It is important to note that we base these change rate projections on the results of corrective action on at least 95 percent of deficient PER cases; therefore, the actual number of changed decisions could vary slightly from the projected numbers.

Disability continuance determinations—In FY 2011, we initiated 8,453 PERs of favorable title II CDR determinations, representing 5.4 percent of all such continuances. Of these reviews, we returned 119 deficient CDR continuances to the State DDSs, representing a return rate of 1.4 percent. After we corrected deficient continuances, we estimate that 69 of the continuance determinations reviewed in FY 2011 would change to cessations, an estimated change rate of 0.8 percent. Of the 8,453 CDR continuances we reviewed, 1,721 were concurrent title II/XVI continuances. Unlike title II, there is no requirement to review any title XVI-only CDR continuances, and we conducted no such reviews in FY 2011.

Table 1.—Pre-effectuation reviews in FY 2011

	Reviews initiated under title II			Reviews initiated under title XVI	Total
	Title II-only reviews	Title II reviews involving title XVI recipients	Subtotal, title II		
Universe of cases subject to PER—					
DDS allowances:					
Initials	439,750	218,353	658,103	207,403	865,506
Reconsiderations	39,646	26,364	66,010	18,324	84,334
Total, initials and reconsiderations	479,396	244,717	724,113	225,727	949,840
CDR continuances	132,194	24,545	156,739	(1/)	156,739
Cases reviewed—					
<i>Number of cases:</i>					
Initials	170,750	171,975	342,725	108,740	451,465
Reconsiderations	19,194	21,907	41,101	10,643	51,744
Total, initials and reconsiderations	189,944	193,882	383,826	119,383	503,209
CDR continuances	6,732	1,721	8,453	(1/)	8,453
<i>Percent of corresponding cases subject to PER:</i>					
Initials	38.8%	78.8%	52.1%	52.4%	52.2%
Reconsiderations	48.4%	83.1%	62.3%	58.1%	61.4%
Total, initials and reconsiderations	39.6%	79.2%	53.0%	52.9%	53.0%
CDR continuances	5.1%	7.0%	5.4%	(1/)	5.4%
Cases returned for correction—					
<i>Number of cases:</i>					
Initials	4,026	5,150	9,176	2,320	11,496
Reconsiderations	426	559	985	213	1,198
Total, initials and reconsiderations	4,452	5,709	10,161	2,533	12,694
CDR continuances	100	19	119	(1/)	119
<i>Percent of corresponding cases reviewed:</i>					
Initials	2.4%	3.0%	2.7%	2.1%	2.5%
Reconsiderations	2.2%	2.6%	2.4%	2.0%	2.3%
Total, initials and reconsiderations	2.3%	2.9%	2.6%	2.1%	2.5%
CDR continuances	1.5%	1.1%	1.4%	(1/)	1.4%
Cases projected to have decision changed after review—					
<i>Number of cases:</i>					
Initials	2,059	2,850	4,909	1,284	6,193
Reconsiderations	271	340	611	137	748
Total, initials and reconsiderations	2,330	3,190	5,520	1,421	6,941
CDR continuances	59	10	69	(1/)	69
<i>Percent of corresponding cases reviewed:</i>					
Initials	1.2%	1.7%	1.4%	1.2%	1.4%
Reconsiderations	1.4%	1.6%	1.5%	1.3%	1.4%
Total, initials and reconsiderations	1.2%	1.6%	1.4%	1.2%	1.4%
CDR continuances	0.9%	0.6%	0.8%	(1/)	0.8%

1/ Pre-effectuation reviews of title XVI CDR continuances are not required, and we conducted none in FY 2011.

Findings on the accuracy of favorable disability determinations under title II and title XVI—Based on results of our PERs in FY 2011, we found that the decision to allow or continue was supportable in 98.6 percent of all DDS favorable title II disability determinations. Regarding title XVI-only adult disability benefit applications, we found that the decision to allow was supportable in 98.8 percent of such DDS allowances.

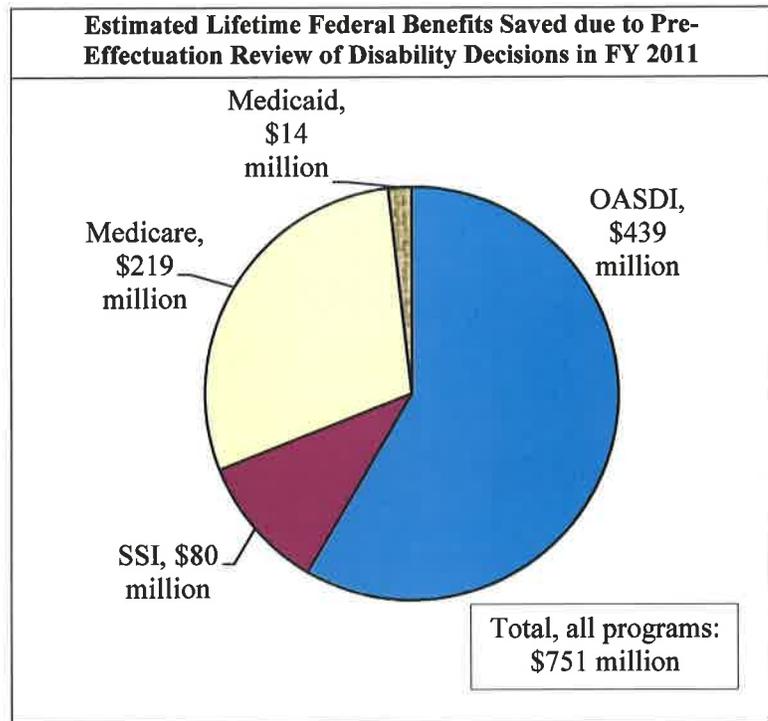
Estimated savings attributable to PER—Individuals denied because of a PER, as with other DDS-level determinations, may appeal the decision. Following all appeals, we estimate that 3,079 title II initial and reconsideration error cases (0.8 percent of all such PER reviews) will remain denials. For the corresponding reviews of title XVI-only cases, we estimate that 839 cases (0.7 percent of all such PER reviews) will remain denials. For reviews of title II CDR cases, we estimate that 32 of the continuance error cases (0.4 percent of all such reviews) will remain cessations after all appeals. These changed determinations result in a reduction in lifetime benefits that would have been payable from the OASDI and SSI programs had we not conducted the PERs, along with savings from Medicare and Medicaid. Overall, we estimate that the PER process for FY 2011 will result in savings in Federal outlays totaling \$751 million in lifetime Federal benefits. We present details of these estimates in table 2.

Item	Initial and reconsideration allowances	CDR continuances	Total, all reviews
Estimated number with decision changed after review, and after all appeals:			
Cases initiated under title II	3,079	32	3,111
Cases initiated under title XVI	839	(3/)	839
Estimated present value of lifetime benefits saved, as of the end of fiscal year 2011 (in millions):			
OASDI benefit payments 1/	\$435	\$4	\$439
Medicare benefit payments 2/	216	3	219
Federal SSI payments:			
Title XVI-only cases	58	(3/)	58
Concurrent cases	22	(4/)	22
Subtotal, SSI savings	80	(4/)	80
Federal share of Medicaid payments: 2/			
Title XVI-only cases	7	(3/)	7
Concurrent cases	6	(4/)	6
Subtotal, Medicaid savings	14	(4/)	14
Total, all Federal savings:			
Cases initiated under title II	679	7	687
Cases initiated under title XVI	65	(3/)	65
Total	744	7	751
1/ Includes a net gain of \$5.3 million from changing the date of disability onset in certain initial and reconsideration cases.			
2/ The Office of the Actuary in the Centers for Medicare & Medicaid Services provided the estimates shown in the above table for savings in the Medicare and Medicaid programs.			
3/ Pre-effectuation reviews of title XVI CDR continuances are not required, and we conducted none in FY 2011.			
4/ Between -\$0.5 million and \$0.5 million.			
Note: Totals may not equal sum of components due to rounding.			

As shown in table 2, we estimate that the prevention of incorrect allowances and continuances of FY 2011 cases will result in lifetime savings (after all appeals) of \$439 million in OASDI benefit payments, \$80 million in Federal SSI payments, \$219 million in Medicare benefits, and \$14 million in the Federal share of Medicaid payments. We illustrate the relative size of these PER savings contributions in the chart below. In our report on the cohort of pre-effectuation

reviews conducted in FY 2010, we reported a significantly lower estimate of the Federal share of Medicaid savings from that reported for the FY 2009 cohort. That reported reduction was primarily due to reflecting the effects of an Affordable Care Act (ACA) provision that mandated all States provide Medicaid coverage to individuals residing in households with income up to 138 percent of poverty. For the FY 2011 cohort, we are reporting higher estimated Federal Medicaid savings attributable to reflecting the effects of the recent Supreme Court decision that made the Medicaid expansion under ACA *optional* for States.¹

The direct cost of the pre-effectuation review of 503,209 allowances and 8,453 continuances was about \$48 million. This amount, however, does not include the cost of processing appeals of allowances or continuances that we reversed to denials or cessations after a PER. We estimate the total amount expended to achieve these estimated Federal savings, including the cost of processing appeals of PER reversals, to be approximately \$56 million. Thus, we estimate that the reviews conducted in FY 2011 will result in savings of approximately \$16 for every \$1 spent directly on PERs, or \$13 for every \$1 of the total cost of PERs. We present a complete summary of these benefit-to-cost ratio results in table 3 below.



Item	Reviews initiated under --		Total, all reviews
	Title II	Title XVI	
Estimated present value of lifetime Federal benefits saved under the OASDI, SSI, Medicare, and Medicaid programs (in millions).....	\$687	\$65	\$751
Cost of conducting PER (in millions):			
Direct cost of PER reviews	44	4	48
Estimated cost of appeals of PER reversals	7	1	8
Total cost of PER	51	5	56
Benefits saved per \$1 of --			
Direct PER review cost ¹	15.6	15.8	15.6
Total PER cost ¹	13.5	12.6	13.4

¹ Computed using unrounded amounts of estimated benefits and administrative expenses.
Note: Totals may not equal sum of components due to rounding.

¹ National Federation of Independent Business v. Sebelius, 132 S.Ct. 2566 (2012).