



## SOCIAL SECURITY

The Commissioner

May 12, 2016

The Honorable Orrin Hatch  
Chairman, Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

I am pleased to submit our annual report on pre-effectuation reviews we conducted during fiscal year (FY) 2014 of disability determinations made by the State Disability Determination Services (DDS). As required by section 221(c)(3)(C) of the Social Security Act (Act), we reviewed at least 50 percent of all State DDS 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 DDS Title XVI allowances based on adult blindness or disability.

In FY 2014, we reviewed 410,487 DDS initial and reconsideration allowances and 7,372 Continuing Disability Review (CDR) continuances. The direct cost of conducting these reviews was approximately \$54 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 \$408 million in Title II benefits to the Federal Old-Age and Survivors Insurance Trust Fund and Federal Disability Insurance Trust Fund combined. We also estimate lifetime savings of \$58 million in Federal Supplemental Security Income payments under Title XVI, \$213 million to the Medicare trust funds, and \$2 million in the Federal share of Medicaid payments.

I hope that this information is helpful. I am sending similar letters to Senator Wyden, Representative Brady, and Representative Levin. If you have any questions or if I can be of further assistance, please contact me or have your staff contact Ms. Judy Chesser, 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 2014**

**PRE-EFFECTUATION REVIEW OF FAVORABLE  
STATE DISABILITY DETERMINATIONS BY  
THE SOCIAL SECURITY ADMINISTRATION  
FISCAL YEAR 2014**

**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 pre-effectuation reviews (PER) conducted during the previous fiscal year of disability determinations made by the State Disability Determination Services (DDS). 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 DDS determinations.

Title II of the Act requires the Commissioner to review at least 50 percent of all State 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 medical Continuing Disability Review (CDR) continuances to ensure a high level of accuracy in such determinations.

In addition, Public Law 109-171, the Deficit Reduction Act of 2005, 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 fiscal year (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 2014 in table 1. The following paragraphs also summarize some of the key findings.

**Initial and reconsideration allowances**—We reviewed 308,936 Title II allowances under the PER process, representing 52.1 percent of all DDS allowances for Title II disability benefits in FY 2014. We returned 9,541 deficient cases to DDS offices, representing a return rate of 3.1 percent. After corrective action, we estimate that 5,178 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 1.7 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 101,551 Title XVI initial and reconsideration allowances for adults based on blindness or disability during FY 2014, representing 52.8 percent of all DDS allowances for adult SSI benefits. We determined that 2,508 of these cases were deficient and returned them to DDS offices for corrective action, representing a return rate of 2.5 percent. After corrective action, we estimate that 1,376 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 1.4 percent of the total reviews of Title XVI adult allowances.

It is important to note that we base both the Title II and Title XVI 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 2014, we initiated 7,372 PERs of favorable Title II CDR determinations, representing 2.9 percent of all such continuances. Of these reviews, we returned 122 deficient CDR continuances to State DDS offices, representing a return rate of 1.7 percent. After we corrected deficient continuances, we estimate that 55 of the continuance determinations reviewed in FY 2014 would change to cessations, an estimated change rate of 0.7 percent. Of the 7,372 CDR continuances we reviewed, 1,533 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 2014.

	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		
<b>Universe of cases subject to PER—</b>					
<b>DDS allowances:</b>					
Initials .....	377,988	161,704	539,692	177,060	716,752
Reconsiderations .....	33,348	19,995	53,343	15,404	68,747
Total, initials and reconsiderations .....	411,336	181,699	593,035	192,464 <sup>a</sup>	785,499
CDR continuances .....	209,012	41,029	250,041		250,041
<b>Cases reviewed—</b>					
<i>Number of cases:</i>					
Initials .....	152,118	124,732	276,850	92,330	369,180
Reconsiderations .....	16,183	15,903	32,086	9,221	41,307
Total, initials and reconsiderations .....	168,301	140,635	308,936	101,551	410,487
CDR continuances .....	5,839	1,533	7,372	<sup>a</sup>	7,372
<i>Percent of corresponding cases subject to PER:</i>					
Initials .....	40.2%	77.1%	51.3%	52.1%	51.5%
Reconsiderations .....	48.5%	79.5%	60.2%	59.9%	60.1%
Total, initials and reconsiderations .....	40.9%	77.4%	52.1%	52.8%	52.3%
CDR continuances .....	2.8%	3.7%	2.9%	<sup>a</sup>	2.9%
<b>Cases returned for correction—</b>					
<i>Number of cases:</i>					
Initials .....	4,299	4,259	8,558	2,316	10,874
Reconsiderations .....	489	494	983	192	1,175
Total, initials and reconsiderations .....	4,788	4,753	9,541	2,508	12,049
CDR continuances .....	93	29	122	<sup>a</sup>	122
<i>Percent of corresponding cases reviewed:</i>					
Initials .....	2.8%	3.4%	3.1%	2.5%	2.9%
Reconsiderations .....	3.0%	3.1%	3.1%	2.1%	2.8%
Total, initials and reconsiderations .....	2.8%	3.4%	3.1%	2.5%	2.9%
CDR continuances .....	1.6%	1.9%	1.7%	<sup>a</sup>	1.7%
<b>Cases projected to have decision changed after review—</b>					
<i>Number of cases:</i>					
Initials .....	2,186	2,375	4,561	1,263	5,824
Reconsiderations .....	307	310	617	113	730
Total, initials and reconsiderations .....	2,493	2,685	5,178	1,376	6,554
CDR continuances .....	43	12	55	<sup>a</sup>	55
<i>Percent of corresponding cases reviewed:</i>					
Initials .....	1.4%	1.9%	1.6%	1.4%	1.6%
Reconsiderations .....	1.9%	1.9%	1.9%	1.2%	1.8%
Total, initials and reconsiderations .....	1.5%	1.9%	1.7%	1.4%	1.6%
CDR continuances .....	0.7%	0.8%	0.7%	<sup>a</sup>	0.7%

<sup>a</sup> Pre-effectuation reviews of Title XVI CDR continuances are not required, and we conducted none in FY 2014.

**Findings on the accuracy of favorable disability determinations under Title II and Title XVI**—Based on results of our PERs in FY 2014, we found that the decision to allow or continue was supportable in 98.3 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 98.6 percent of such DDS allowances.

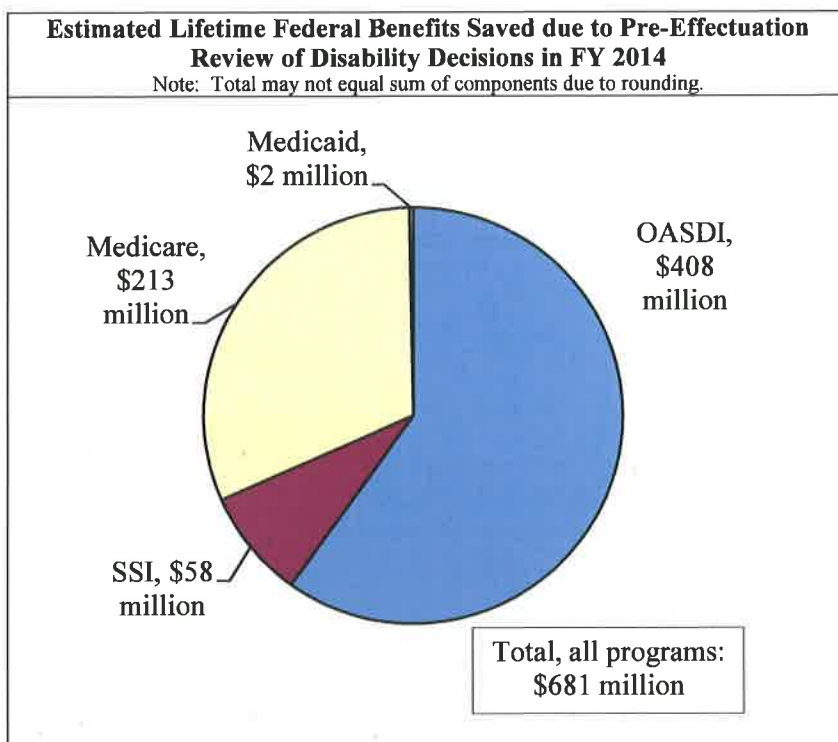
**Estimated savings attributable to PER**—Individuals denied because of a PER, as with other DDS-level determinations, may appeal the decision. Following all appeals, we estimate that 2,986 Title II initial and reconsideration error cases (1.0 percent of all such PER reviews) will remain denials. For the corresponding reviews of Title XVI-only cases, we estimate that 809 cases (0.8 percent of all such PER reviews) will remain denials. For reviews of Title II CDR cases, we estimate that 26 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 net savings from Medicare and Medicaid. Overall, we estimate that the PER process for FY 2014 will result in savings in Federal outlays totaling \$681 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.....	2,986	26	3,013
Cases initiated under Title XVI.....	809	"	809
Estimated present value of net lifetime benefits saved, as of the end of FY 2014 (in millions):			
OASDI benefit payments <sup>b</sup> .....	\$404	\$3	\$408
Medicare benefit payments <sup>c</sup> .....	211	2	213
Federal SSI payments:			
Title XVI-only cases.....	42	"	42
Concurrent cases.....	16	"	16
Subtotal, SSI savings.....	58	"	58
Federal share of Medicaid payments <sup>c</sup> :			
Title XVI-only cases.....	2	"	2
Concurrent cases.....	1	"	1
Subtotal, Medicaid savings.....	2	"	2
Total, all Federal savings:			
Cases initiated under Title II.....	632	6	637
Cases initiated under Title XVI.....	43	"	43
Total.....	675	6	681
<sup>a</sup> Pre-effectuation reviews of Title XVI CDR continuances are not required, and we conducted none in FY 2014. <sup>b</sup> Includes a net gain of \$14.3 million from changing the date of disability onset in certain initial and reconsideration cases. <sup>c</sup> 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. <sup>d</sup> Between -\$0.5 million and \$0.5 million.			
Notes: 1. We base the estimates on the intermediate assumptions from the 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, the intermediate assumptions of the 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, and assumptions underlying the 2015 Annual Report of the Supplemental Security Income Program. 2. 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 2014 cases will result in lifetime savings (after all appeals) of \$408 million in OASDI benefit payments, \$58 million in Federal SSI payments, \$213 million in Medicare benefits, and \$2 million in the Federal share of Medicaid payments. The Medicaid estimates reflect the effects of an Affordable Care Act provision whereby States have the option starting in 2014 to provide Medicaid coverage to individuals residing in households with income up to 138 percent of

poverty<sup>1</sup> with significantly higher Federal matching on the benefits paid under the expanded coverage than without the expansion. We illustrate the relative size of these PER savings contributions in the chart below.

The direct cost of the pre-effectuation review of 410,487 allowances and 7,372 continuances was about \$54 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 \$60 million. Thus, we estimate that the reviews conducted in FY 2014 will result in savings of approximately \$12 on average per \$1 spent directly on PERs, or \$11 on average per \$1 of the total cost of PERs. We present a complete summary of these benefit-to-cost ratio results in Table 3 below.



**Table 3.—Estimated Cost Effectiveness of the FY 2014 PER Process**

Item	Reviews initiated under --		Total, all reviews
	Title II	Title XVI	
Estimated present value <sup>a</sup> of lifetime Federal benefits saved under the OASDI, SSI, Medicare, and Medicaid programs (in millions).....	\$637	\$43	\$681
Cost of conducting PER (in millions):			
Direct cost of PER reviews .....	47	7	54
Estimated cost of appeals of PER reversals .....	4	1	6
Total cost of PER .....	52	8	60
Benefits saved per \$1 of --			
Direct PER review cost <sup>b</sup> .....	13.4	6.1	12.5
Total PER cost <sup>b</sup> .....	12.3	5.2	11.3

<sup>a</sup> As of September 30, 2014  
<sup>b</sup> Computed using unrounded amounts of estimated benefits and administrative expenses.  
 Note: Totals may not equal sum of components due to rounding.

As indicated in Table 3, reviews conducted in FY 2014 that were initiated under Title II provided on average more than twice as much in Federal benefit savings as those initiated under Title XVI, per \$1 of the cost of conducting PERs.

<sup>1</sup> National Federation of Independent Business v. Sebelius, 132 Supreme Court 2566 (2012).