



## SOCIAL SECURITY

The Commissioner

June 6, 2014

The Honorable Ron Wyden  
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) 2012 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 2012, we reviewed 466,266 allowances and 8,509 continuances. The direct cost of conducting these reviews was approximately \$47 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 \$404 million in Title II 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 \$77 million in Federal Supplemental Security Income payments under Title XVI, \$187 million to the Medicare trust funds, and \$2 million in the Federal share of Medicaid payments.

I hope that the information I have provided is helpful. I am sending a similar letter to Chairman Camp. If you have any questions or if I can be of further assistance, 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



## SOCIAL SECURITY

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June 6, 2014

The Honorable Dave Camp  
Chairman, Committee on Ways and Means  
House of Representatives  
Washington, DC 20515

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Carolyn W. Colvin  
Acting Commissioner

Enclosure

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



**Fiscal Year 2012**

**PRE-EFFECTUATION REVIEW OF FAVORABLE  
STATE DISABILITY DETERMINATIONS BY  
THE SOCIAL SECURITY ADMINISTRATION  
FISCAL YEAR 2012**

**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 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 2012 in table 1. The following paragraphs also summarize some of the key findings.

**Initial and reconsideration allowances**—We reviewed 354,521 Title II allowances under the PER process, representing 51.3 percent of all DDS allowances for Title II disability benefits in FY 2012. We returned 9,341 deficient cases to the DDSs, representing a return rate of 2.6 percent, the same percentage point as in FY 2011. After corrective action, we estimate that 5,155 of these deficient initial and reconsideration allowances will change to denials, representing a change rate of 1.5 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 111,745 Title XVI initial and reconsideration allowances for adults based on blindness or disability during FY 2012, representing 51.1 percent of all DDS allowances for adult SSI benefits. We determined that 2,370 of these cases were deficient and returned them to the DDSs for corrective action, representing a return rate of 2.1 percent, the same percentage point as in FY 2011. After corrective action, we estimate that 1,357 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 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 2012, we initiated 8,509 PERs of favorable Title II CDR determinations, representing 4.1 percent of all such continuances. Of these reviews, we returned 90 deficient CDR continuances to the State DDSs, representing a return rate of 1.1 percent. After we corrected deficient continuances, we estimate that 46 of the continuance determinations reviewed in FY 2012 would change to cessations, an estimated change rate of 0.5 percent. Of the 8,509 CDR continuances we reviewed, 1,715 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 2012.

**Table 1.—Pre-effectuation Reviews in FY 2012**

	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>					
<i>DDS allowances:</i>					
Initials .....	422,956	202,153	625,109	200,458	825,567
Reconsiderations .....	40,511	25,989	66,500	18,376	84,876
Total, initials and reconsiderations .....	463,467	228,142	691,609	218,834	910,443
CDR continuances .....	174,674	32,598	207,272	(1/)	207,272
<b>Cases reviewed—</b>					
<i>Number of cases:</i>					
Initials .....	157,973	157,129	315,102	101,471	416,573
Reconsiderations .....	18,382	21,037	39,419	10,274	49,693
Total, initials and reconsiderations .....	176,355	178,166	354,521	111,745	466,266
CDR continuances .....	6,794	1,715	8,509	(1/)	8,509
<i>Percent of corresponding cases subject to PER:</i>					
Initials .....	37.3%	77.7%	50.4%	50.6%	50.5%
Reconsiderations .....	45.4%	80.9%	59.3%	55.9%	58.5%
Total, initials and reconsiderations .....	38.1%	78.1%	51.3%	51.1%	51.2%
CDR continuances .....	3.9%	5.3%	4.1%	(1/)	4.1%
<b>Cases returned for correction—</b>					
<i>Number of cases:</i>					
Initials .....	3,782	4,551	8,333	2,142	10,475
Reconsiderations .....	446	562	1,008	228	1,236
Total, initials and reconsiderations .....	4,228	5,113	9,341	2,370	11,711
CDR continuances .....	69	21	90	(1/)	90
<i>Percent of corresponding cases reviewed:</i>					
Initials .....	2.4%	2.9%	2.6%	2.1%	2.5%
Reconsiderations .....	2.4%	2.7%	2.6%	2.2%	2.5%
Total, initials and reconsiderations .....	2.4%	2.9%	2.6%	2.1%	2.5%
CDR continuances .....	1.0%	1.2%	1.1%	(1/)	1.1%
<b>Cases projected to have decision changed after review—</b>					
<i>Number of cases:</i>					
Initials .....	1,924	2,590	4,514	1,217	5,731
Reconsiderations .....	274	367	641	140	781
Total, initials and reconsiderations .....	2,198	2,957	5,155	1,357	6,512
CDR continuances .....	37	9	46	(1/)	46
<i>Percent of corresponding cases reviewed:</i>					
Initials .....	1.2%	1.6%	1.4%	1.2%	1.4%
Reconsiderations .....	1.5%	1.7%	1.6%	1.4%	1.6%
Total, initials and reconsiderations .....	1.2%	1.7%	1.5%	1.2%	1.4%
CDR continuances .....	0.5%	0.5%	0.5%	(1/)	0.5%

1/ Pre-effectuation reviews of Title XVI CDR continuances are not required, and we conducted none in FY 2012.

**Findings on the accuracy of favorable disability determinations under Title II and Title XVI**—Based on results of our PERs in FY 2012, 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.

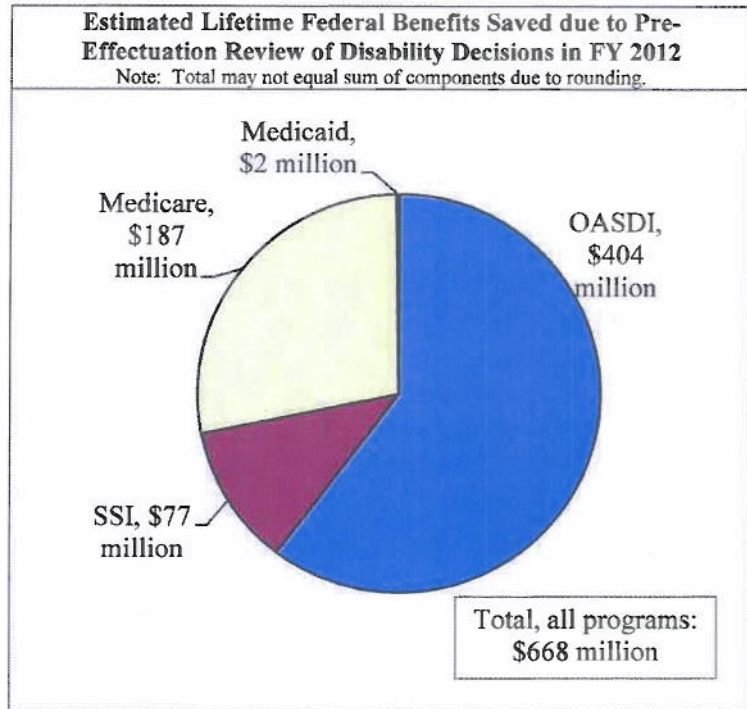
**Estimated savings attributable to PER**—Individuals denied because of a PER, as with other DDS-level determinations, may appeal the decision. Following all appeals, we estimate that 2,859 Title II initial and reconsideration error cases (0.8 percent of all such PER reviews) will remain denials. For the corresponding reviews of Title XVI-only cases, we estimate that 795 cases (0.7 percent of all such PER reviews) will remain denials. For reviews of Title II CDR cases, we estimate that 21 of the continuance error cases (0.2 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 2012 will result in savings in Federal outlays totaling \$668 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.....	2,859	21	2,880
Cases initiated under Title XVI.....	795	(1)	795
Estimated present value of lifetime benefits saved, as of the end of FY 2012 (in millions):			
OASDI benefit payments <sup>2/</sup> .....	\$401	\$3	\$404
Medicare benefit payments <sup>3/</sup> .....	185	2	187
Federal SSI payments:			
Title XVI-only cases.....	55	(1)	55
Concurrent cases.....	21	(4)	21
Subtotal, SSI savings.....	77	(4)	77
Federal share of Medicaid payments: <sup>3/</sup>			
Title XVI-only cases.....	2	(1)	2
Concurrent cases.....	(4)	(4)	(4)
Subtotal, Medicaid savings.....	2	(4)	2
Total, all Federal savings:			
Cases initiated under Title II.....	607	4	611
Cases initiated under Title XVI.....	57	(1)	57
Total.....	664	4	668
<sup>1/</sup> Pre-effectuation reviews of Title XVI CDR continuances are not required, and we conducted none in FY 2012.			
<sup>2/</sup> Includes a net gain of \$12.9 million from changing the date of disability onset in certain initial and reconsideration cases.			
<sup>3/</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>4/</sup> Between -\$0.5 million and \$0.5 million.			
Notes: 1. We base the estimates on the intermediate assumptions from the 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds and assumptions underlying the 2013 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 2012 cases will result in lifetime savings (after all appeals) of \$404 million in OASDI benefit

payments, \$77 million in Federal SSI payments, \$187 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 466,266 allowances and 8,509 continuances was about \$47 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 \$54 million. Thus, we estimate that the reviews conducted in FY 2012 will result in savings of approximately \$14 for every \$1 spent directly on PERs, or \$12 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.



**Table 3.—Estimated Cost Effectiveness of the FY 2012 PER Process**

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).....	\$611	\$57	\$668
Cost of conducting PER (in millions):			
Direct cost of PER reviews .....	42	4	47
Estimated cost of appeals of PER reversals.....	7	1	8
Total cost of PER.....	49	5	54
Benefits saved per \$1 of --			
Direct PER review cost <sup>1</sup> .....	14.5	13.1	14.4
Total PER cost <sup>1</sup> .....	12.5	10.7	12.3

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

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