



Pension Benefit Guaranty Corporation
Office of Inspector General
Audit Report

Disability Benefits and Earning Limitations

February 6, 2006

2006-7/PA-0016



Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

February 6, 2006

MEMORANDUM

To: William Hulteng
Acting Chief Operating Officer

From: Luther Atkins
Assistant Inspector General for Audits

Re: Disability Benefits and Earning Limitations

Attached is the final report on the audit of Disability Benefits and Earning Limitations. In formulating this report the OIG met with your office and designated representatives on January 24, 2006, to discuss our presentation of the findings and related recommendations. We received your comments on January 27, 2006 and incorporated them into the report.

We would like to take this opportunity to express our appreciation for the overall cooperation that we received from your office in performing this audit.

Attachment

Cc: Marty Boehm

Table of Contents

Introduction.....	3
Results in Brief	3
Background.....	4
Findings	5
Disability Benefits	5
Earning Limitations	5
Other Restrictions	5
Performance Review Program	7
PRISM and Spectrum Information Systems	7
PBGC Agency Policy	8
Appendix I, Objectives, Scope and Methodology	9
Appendix II, Abbreviations	10
Appendix III, Management Comments	11

Introduction

In January 2005, the Chief Operating Officer (COO) requested the Office of Inspector General determine how the Pension Benefit Guaranty Corporation (PBGC) guards against making disability payments to participants that are no longer eligible. In addition, he was interested in determining how PBGC guarded against overpaying participants whose plans had certain earning limitations. Because PBGC was in the process of rebuilding its computerized participant information system, the COO wanted to ensure that the new system could be used to identify and monitor continued eligibility of plan participants receiving disability payments and those participants with earning limitations.

In response, we conducted an audit to determine how PBGC:

- identifies and processes adjustments to disability payments for participants that are no longer disabled,
- administers and monitors pension plan participants whose payments are subject to earning limitations or restrictions, and
- plans to use the new participant information system to assist in managing disability payments and earnings limitations.

We met with PBGC officials responsible for administering these issues and officials at two Field Benefit Administration (FBA) offices. We also interviewed PBGC staff responsible for designing the new pension plan participant information system which is scheduled to be launched in the spring of 2006.

Results in Brief

Our audit work confirmed that PBGC does not have a policy or process to identify and verify plan participants' continuous eligibility to receive disability benefits, and does not know the universe of participants receiving disability payments. Also, we found that PBGC did monitor participants with earning limitations however it was done in accordance with each participants individual plan provision. To standardize the process, PBGC recently developed an operational policy requirement and procedures for FBAs to monitor income limitations which will be effective January 1, 2006. In addition, we believe this policy is a positive step however it does not address participants receiving disability benefits or other restrictions. Therefore, PBGC has been at risk of paying participants payments for which they were no longer entitled. In all cases, we believe the underlying cause of the problem is that PBGC does not have an overall policy that requires verification of continuous eligibility to benefit payments.

Our work found that PBGC's participant information system and its replacement, are not designed to include the controls necessary to identify and monitor participants to verify continuous eligibility to disability benefits or participant benefits subject to earning limitations or other restrictions. Therefore, we recommend that PBGC establish an overall policy for the identification, monitoring and verification of participants continuous eligibility to benefits.

We also recommend that PBGC develop operating procedures, revise the performance review program for the FBAs, and design the information system, including the necessary controls, to better identify and monitor plan participants that require ongoing verification of eligibility to benefit payments.

We are making several recommendations to better identify, monitor and verify the continuous eligibility of participants receiving disability payments and certain other payments subject to other restrictions. PBGC agreed in concept with our report and our recommendations.

Background

When PBGC terminates and trustees a pension plan, sometimes there are participants who are already receiving disability payments because of preexisting injury or illness. In such cases, PBGC continues to make disability payments to participants until they reach normal retirement age, or are determined to be healthy enough to return to work. During this interim period, some pension plans require ongoing verification of continued eligibility. Therefore, PBGC should periodically verify these participants continued eligibility for disability payments to prevent overpayments.

Another interim period adjustment that PBGC must monitor is for participants it pays who have earning limitation provisions in their respective pension plans. Some defined benefit plans restrict the amount of benefit payments participants can receive when they are gainfully employed and earning income. Other plans may restrict the income benefit payment based on the source of income such as worker compensation. Hence, these restrictions limit the participant's earnings, resulting in offsets that could reduce PBGC's pension liability.

When PBGC becomes trustee of a plan, all the data for a given plan *is not* loaded into PBGC's Participant Records Information Systems Management (PRISM), including data identifying participants receiving disability and or participants subject to earning limitations. However, the FBA's have developed off-line spreadsheets to capture the data. In addition, at the completion of the valuation of a plan, not all of the data used in the calculation is transferred into PRISM. Hence, plan information for participants is not fully captured in PRISM. PRISM is being replaced with a new information system called Spectrum in spring 2006. One of the objectives of our audit was to determine if and how the new system could be used as a tool to assist PBGC to monitor participants receiving disability payments, and participants with earning limitations. The overall objective of this review was to determine how PBGC monitors participants receiving disability payments and those on earning limitations.

FINDINGS

Disability Benefits

We confirmed that PBGC does not know the universe of participants with disability benefits, and it does not identify and verify participant's continuous eligibility to disability benefits. We further found that participants PBGC identified as disabled are not routinely monitored to verify eligibility to receive benefits after the final benefit valuation is completed.

Upon our request, PBGC was unable to provide a verifiable universe of participants receiving disability payments. For example, the Benefit Payment Branch provided one number and the Operations and Actuarial Systems Division provided three different numbers, all purporting to be the disability benefit universe. We could not verify any of the numbers because the data field identifying disability benefits in PRISM is used inconsistently.

PBGC acknowledges it does not have definitive policy and procedures to identify or verify continuous eligibility for participants who receive disability benefits. In contrast to PBGC, the Social Security Administration (SSA) procedures require periodic reviews to identify individuals that are no longer eligible for benefits, and terminate payments based on ineligibility. PBGC has not established similar procedures to identify continuous eligibility for disability benefits after the date of plan termination. PBGC recognized this problem when they asked us to conduct this review. In an effort to get a handle on identifying participants with disability benefits, the Problem Resolution Office is negotiating a memorandum of understanding (MOU) with SSA. We understand that the MOU will be limited to selected plans and participants whose disability determinations require SSA proof of disability.

Earning Limitations

Some defined benefit plans restrict the amount of benefit payment that participants can receive when gainfully employed and earning income. PBGC is monitoring participant benefits that are subject to earning limitations, however, the process used by the FBA's has been inconsistent. In an effort to standardize the process, the Operations Policy and Support Staff, an office that supports the Benefit Administration and Payment Department, established operational policy for the application of earning offset provisions that is standardized. This policy will become effective January 1, 2006, therefore, we make no assessment on its effectiveness.

Other Restrictions

PBGC does not monitor participant benefits that are subject to *other restrictions* such as worker's compensation. If not corrected, participants could receive benefits for which they are not entitled. For example in 2005, PBGC paid a participant \$5,266 in supplemental benefits over a three year period, that the participant was not entitled to receive. This

overpayment was discovered when the participant's telephone call alerted an FBA to the problem. The FBA had the participant put his request in writing which was received on May 10, 2005. The participant was not eligible for the supplemental benefit because the plan prohibited the participant from receiving a supplemental benefit when receiving a disability payment from the SSA.

PBGC relies on participants to notify them of changes that affect their benefits. OIG determined that PBGC does not have policy or procedures to sufficiently monitor participants that receive these types of benefits with restrictions. Therefore, policy and procedures are needed to ensure participants are only paid for the benefits they are entitled to receive.

Recommendations:

We issued a draft report that made the following recommendations:

- Identify the universe of current participants that are receiving disability payments.
- Determine whether any current participants were recently deleted from the SSA disability roles.
- Establish written policy and procedures that requires continuous monitoring for verification of participants eligibility.
- Develop policy and procedures to identify and verify continuous eligibility for participants who receive benefits that are subject to *other restrictions* such as disability from SSA, worker's compensation, etc.

PBGC said that they agreed with the concept of our report and the intent of our recommendations. However, PBGC raised both practical and cost effective concerns in their ability to implement the recommendations as written. They suggested alternative language to our draft recommendations that did not change our original intent. We are therefore making the following recommendations and PBGC management agrees with them.

We recommend the COO:

- Identify participants who are receiving disability payments in new plans taken over by PBGC when new systems are implemented. **(OIG Control Number COO – 1)**
- Identify participants who are receiving Social Security disability benefits in plans currently administered by PBGC; e.g. by working with Social Security Administration. **(OIG Control Number COO – 2)**
- Consult with the Social Security Administration to identify participants who have been deleted from the SSA disability roles. **(OIG Control Number COO – 3)**
- Develop policy and procedures to identify and verify continuous eligibility for participants who receive benefits that are subject to restrictions such as Social Security disability benefits, worker's compensation, black lung, earning limitations, etc. **(OIG Control Number COO – 4)**

Performance Review Program

Based on interviews with PBGC officials and a review of the FBA performance review program, we confirmed that PBGC does not have procedures in the FBA performance review process to identify and verify participant continuous eligibility for: disability benefits, benefits subject to earning limitations, and benefits with other restrictions. We believe if the FBA's were provided an incentive to review and check for participant continuous eligibility to receive benefits, the extent of overpayments could be reduced.

Recommendation

PBGC agreed to the following recommendation:

We recommend the COO:

- Require period follow-up reviews to identify and verify participant's continuous eligibility to:
 - Disability benefits,
 - Benefits that are subject to earning limitations; and
 - Benefits with other restrictions such as disability from the SSA, workers compensation, etc. **(OIG Control Number COO – 5)**

Prism and Spectrum Information Systems

PBGC currently handles over 578,000 participants in pay status which requires the total support of an information technology system. Neither PRISM nor its successor, Spectrum, which is expected to be launched in April 2006, have the design capability to identify participant benefits and verify continued eligibility. Hence, both systems lack the design capability that is needed to implement the controls to identify and verify participants continued eligibility to benefits after DOPT.

OPSS' position is that the additional data fields that have been added to Spectrum will facilitate identifying participants with disabilities or benefits subject to earning limitations. However, a Spectrum design team representative asserted that placing data fields into Spectrum will not result in the data fields being populated. The policy and procedures (protocols) for using these fields must first be defined. In addition, officials in the Office of Information Technology confirmed that Spectrum can be designed to perform the functions needed, but the protocols must first be developed. Thus far, the Spectrum design team has not received the protocols. Finally, creating new data fields in Spectrum will not identify current participants or plans having restrictions.

Without the necessary controls, the information technology system will be unable to support the implementation of a policy that requires the identification and verification of continuous eligibility to participant benefits.

Recommendation

PBGC agreed to the following recommendation:

We recommend the COO:

- Update the participant information systems with procedures, protocols and necessary controls to enable PBGC to implement a policy that requires the identification and verification of participant's continuous eligibility to benefits. **(OIG Control Number COO – 6)**

PBGC Agency Policy

We believe the underlying cause of problems identified above is that there is not an overall policy that requires the routine identification, monitoring, and verification of participants with benefits subject to continuous eligibility. Without established policy and procedures PBGC risks paying participants benefits they are no longer entitled to receive.

Recommendation

PBGC agreed to the following recommendation:

We recommend the COO:

- PBGC establish an overall policy for the identification, monitoring and verification of participants continuous eligibility to benefits. **(OIG Control Number COO – 7)**

Appendix I: Objectives, Scope and Methodology

OIG performed an audit to determine whether PBGC has the ability to:

- Identify and process adjustments to disability payments, and;
- Monitor the administration of pension plan participants that have earning limitations or restrictions.

We also reviewed PRISM to determine if it could be used as a tool for monitoring disability participants and participants with earning limitations. Because PRISM is being replaced with a new information system called Spectrum in April 2006, we met with PBGC officials responsible for these systems to discuss the capabilities of the old and new systems.

This audit was performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. We conducted an audit of PBGC's ability to identify and monitor participants receiving disability benefits or benefits affected by earning limitations.

From May through December 2005, we examined Federal and agency laws and regulations, agency directives, and reviewing opinions the Office of the General Council issued relating to *Disability* and *Earning Limitations*. OIG reviewed how PBGC's actuaries calculate plan participant accrued benefits. We interviewed PBGC actuaries, staff, and others such as FBA's with oversight of pension plans that have earning restrictions or limitations. Finally, OIG interviewed PBGC's information system staff responsible for PRISM and Spectrum.

The work done for this audit supports OIG's continued effort to assist management with independent examinations of PBGC's operations. OIG has not previously performed any work in this area. On September 29, 2005, OIG held an exit conference with PBGC officials on the results of this audit.

Appendix II: Abbreviations

BAPD.....Benefit Administration and Payment Department

BPB.....Benefit Payment Branch

CFR.....Code of Federal Regulations

COO.....Chief Operating Officer

DOPT.....Date of Plan Termination

ERISA.....Employee Retirement Income Security Act of 1974

FBA.....Field Benefit Administrator

MOU.....Memorandum of Understanding

OASD.....Operations and Actuarial Systems Division

OIG.....Office of Inspector General

OPSS.....Operations and Policy Support Staff

PBGC.....Pension Benefit Guaranty Corporation

PRISM.....Participant Records Information Systems Management

SSA.....Social Security Administration

Appendix III: Management Comments

See Attached



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Memorandum

To: Robert Emmons
Inspector General

From: William B. Hulteng
Acting Chief Operating Officer

Subject: Response to Draft Report on Disability Benefits and Earning
Limitations, dated December 22, 2005 (2005-PA-0016)

Date: January 27, 2006

In May of 2005 the Chief Operating Officer asked you to review how PBGC administered disability benefits and benefits subject to certain limitations such as earnings limitations. I would like to thank you for your review and the opportunity to respond to your draft report, and for the work of your staff in helping to resolve some of the issues raised in the findings and recommendations presented.

It is BAPD's intent to identify, monitor and verify the continuous eligibility of participants receiving *certain* disability payments (e.g. those subject to Social Security provisions) and payments subject to "*other restrictions*" in situations where it is practical. As we discussed with your staff, BAPD is already in the process of implementing new systems and procedures to strengthen benefits administration practices in these areas.

With respect to disability payments, our scope is to identify and monitor payments consistent with Social Security disability benefits. Thus, we will monitor plans that define disability benefits consistent with Social Security. To do this, we are developing an MOU with the Social Security Administration that will enable us to identify cases where participants have been dropped from Social Security disability roles. We believe the majority of participants will fall within the scope of the Social Security definition. We do not believe it would be practical or cost effective (or even possible in many cases) to identify and monitor disability payments that are defined and administered by a plan in ways different from Social Security. For example, in some cases a plan may require a doctor to examine the participant to determine whether the participant continues to be disabled. This is outside of the scope of what we believe it is practical for BAPD to do.

Thus, we agree in concept with your report, but we believe the specific wording of the recommendations should be narrowed to reflect the scope of what is possible for BAPD to do. To this end, we have revised the wording of your recommendations to preserve their intent, yet more precisely define their scope.

COO-1: Identify participants who are receiving disability payments in new plans taken over by PBGC when new systems are implemented.

COO-2: Identify participants who are receiving Social Security disability benefits in plans currently administered by PBGC; e.g. by working with Social Security Administration.

COO-3: Consult with the Social Security Administration to identify participants who have been deleted from the SSA disability roles.

COO-4: Develop policy and procedures to identify and verify continuous eligibility for participants who receive benefits that are subject to restrictions such as Social Security disability benefits, worker's compensation, black lung, earning limitations, etc.

COO-5: Require periodic follow-up reviews to identify and verify participant's continuous eligibility to:

- Disability benefits;
- Benefits that are subject to earning limitations; and
- Benefits with other restrictions such as disability from the SSA, workers compensation, etc.

COO-6: Update the participant information systems with procedures, protocols and necessary controls to enable PBGC to implement a policy that requires the identification and verification of participant's continuous eligibility to benefits.

COO-7: Establish an overall policy for the identification, monitoring and verification of participants' continuous eligibility to benefits.

Please feel free to contact me if you have any further questions.

cc: Bennie Hagans
Michelle Gray
Susan Strassman
Kathy Hubert
David Harvey
Andrea Schneider