

OFFICE OF INSPECTOR GENERAL

Audit Report

Audit of Railroad Retirement Act Dual Spouse Annuity Adjustments

**Report No. 14-04
March 20, 2014**



RAILROAD RETIREMENT BOARD

EXECUTIVE SUMMARY

The Office of Inspector General for the Railroad Retirement Board conducted an audit to determine whether spouse annuities were appropriately adjusted for entitlement to dual railroad benefits.

Findings

Our audit determined that there were instances of dual spouse annuities that had not been appropriately adjusted. Our review of a statistical sample of 114 dual spouse annuity cases identified 3 sample cases that contained a payment error for the actual rate. Projecting the statistical sample to the population, there are at least 56 spouse annuities that are not appropriately adjusted. The estimated monetary impact of these improper payments is approximately \$1.8 million.

In addition, during preliminary data analysis, we identified five cases where the spouse annuities were not appropriately adjusted. These five cases were identified outside of the statistical sample. We estimate the monetary impact of the improper payments for the five cases to be approximately \$866,000.

The total financial impact of all errors is estimated to be approximately \$2.7 million.

Key Recommendations

We recommend that agency management:

- take action to correct the spouse annuities for the error cases cited, and to establish overpayments and/or issue accruals when necessary; and
- provide additional training to claims examiners concerning spouse annuity adjustments.

Management's Response

Agency management agreed with all recommendations and agreed to take corrective action. The full text of agency management's response is included in this report as Appendix V on page 13.

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INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of dual spouse annuity adjustments under the Railroad Retirement Act (RRA).

A glossary of terms has been provided in Appendix I on page 7.

Background

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. In fiscal year (FY) 2013, the RRB paid retirement and survivor benefits totaling \$11.7 billion to approximately 568,000 beneficiaries.

For the month of July 2013, the RRB paid approximately \$129 million in benefits to nearly 140,000 spouse annuitants and divorced spouse annuitants.

The RRA provides for annuities to employees, spouses, and survivors. Regular railroad retirement annuities are calculated under a two-tier formula. The first tier ("Tier I") is based on railroad retirement credits and any social security credits an employee has acquired. The amount of Tier I is calculated using social security formulas, but with railroad retirement age and service requirements. The second tier ("Tier II") is based on railroad retirement credits only, and can be compared to the retirement benefits paid over and above social security benefits to workers in other industries.

The term "Dual Railroad Retirement Annuity" applies to situations where an individual is entitled to more than one railroad retirement annuity. The scope of our audit was limited to individuals who are entitled to both an employee annuity and a spouse annuity. These dual benefits consist of (a) the employee's annuity based upon his/her own railroad earnings and (b) a second annuity based upon the railroad earnings of the employee's retired spouse. The law, however, requires that the spouse annuity be adjusted for the employee annuity.¹ The required adjustment to the spouse annuity varies depending on certain criteria which are outlined in Appendix III on page 10. (See "Determination of Accuracy of Dual Spouse Annuity Adjustments.")

The Office of Programs within the RRB is the primary organization responsible for the adjustments to spouse annuities for dual railroad retirement benefits. To keep track of entitlements, the Office of Programs maintains two benefit records for each dual annuitant: one record under the annuitant's employee number, and one under their spouse's employee number. Entitlement and payment records for both the employee annuitant and the spouse annuitant are found in RRB computer systems. The Office of Programs' claims examiners are responsible for processing spouse adjustments.

¹ 45 United States Code § 231a, 231b, and 231c.

This audit supports the RRB's Strategic Goal II to "[s]erve as responsible stewards for our customers' trust funds and agency resources."² One objective for achieving that goal is to ensure the accuracy and integrity of benefit programs. The mission of the agency is to ensure that the RRB pays benefits to the right people, in the right amounts, in a timely manner. This audit directly addresses that key area of performance.

Audit Objective

The objective of this audit was to determine whether spouse annuities were appropriately adjusted for entitlement to dual railroad retirement benefits.

Scope

The scope of this audit was limited to selected spouse records in the agency's Master Benefit File (MBF) for July 2013. The records selected were for spouses that had dual entitlement to an employee annuity and a spouse annuity, and were in current pay status.

Methodology

To accomplish the audit objective, we:

- reviewed applicable laws and regulations;
- reviewed agency documentation;
- identified and reviewed internal controls over the calculation of the dual spouse annuity adjustment;
- performed data analysis to identify spouse annuities that included a restored amount for which the annuitant was not eligible (See Appendix II on page 8 for testing methodology and results.);
- performed data analysis on the spouse MBF to define the universe from which to draw a statistical sample;
- selected a statistical sample of dual spouse annuitants and recomputed the annuity adjustments for accuracy (See Appendix III on page 10 for sampling methodology and results.); and
- interviewed agency management and staff.

² "Railroad Retirement Board, Performance and Accountability Report, Fiscal Year 2013."

To assess the reliability of the spouse data provided in the MBF download, we:

- compared data elements in the spouse MBF to the corresponding data in the applicable Payment Rate Entitlement History (PREH) screens;
- interviewed Office of Programs staff about inconsistencies observed in the PREH screens; and
- reviewed the employee and spouse MBF data dictionaries.

We determined that the downloaded data was sufficiently reliable for the purposes of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our fieldwork at the RRB's headquarters in Chicago, Illinois from September 2013 through January 2014.

RESULTS OF AUDIT

Our audit determined that there were instances of dual spouse annuities that had not been appropriately adjusted. Our statistical sample of 114 cases identified 3 cases with inaccurate dual spouse annuity adjustments. Based on our projection, we estimate the monetary impact of unidentified improper payments to be approximately \$1.8 million for 56 cases. In addition, we identified five cases where spouse annuities were not appropriately adjusted. These five cases were identified during data analysis, not as part of the statistical sample. We estimate the monetary impact of the improper payments for the five cases to be approximately \$866,000. The total financial impact of all errors is estimated to be approximately \$2.7 million.

The details of our findings and recommendations for corrective action follow. The full text of management's response is presented as Appendix V on page 13 of this report.

Restored Amount Not Always Adjusted as Required

The restored amount used to calculate the Tier II portion of the spouse annuity is not always updated for events that occur after the initial annuity computation. Our review of a statistical sample of 114 dual spouse annuity adjustments identified 3 sample cases that contained a payment error which resulted from an inappropriate adjustment to spouse annuities. The three cases are classified as follows:

- We identified two cases with monthly underpayments. The underpayments occurred because the earnings records were recalculated, but the spouse annuities were not appropriately adjusted.
- We identified one case with a monthly overpayment. This overpayment occurred because the spouse began receiving a social security benefit on their own earnings record, but the spouse annuity was not appropriately adjusted.

According to RRB regulations, the Tier II component of the spouse's annuity should be increased by a restored amount if either the annuitant or the spouse had railroad service prior to 1975. The restored amount is equal to the amount that the spouse's Tier I component was reduced for the spouse's own employee annuity. The restored amount must be recomputed if the spouse becomes entitled to a government pension, social security benefit, or other social insurance.³

These errors were caused by examiner oversight and the overpayments were not detected by the RRB's quality assurance reviews.⁴ Projecting the improper payments from these cases to the population could result in an estimated \$1.8 million in improper payments. See Appendices III and IV on pages 10 and 12 respectively for additional details.

³ 20 Code of Federal Regulations (CFR) § 226.32(b).

⁴ The agency's quality assurance reviews consist of a statistical sample of initial awards; therefore, all errors may not be detected.

Recommendations:

We recommend that the Office of Programs:

1. take action to correct the spouse annuities for the error cases cited, and to establish overpayments and/or issue accruals when necessary; and
2. provide additional training to claims examiners concerning spouse annuity adjustments.

Management's Response

The Office of Programs agreed with Recommendation 1 and stated that they are in the process of correcting the cases.

The Office of Programs agreed with Recommendation 2.

Improper Restored Amounts Paid

During our preliminary data analysis, we identified five error cases. These cases were errors because the adjustment to the spouse annuity included a restored amount to which the annuitant was not entitled. In each case, the annuitant did not meet the criteria to be entitled to a restored amount. See Appendix II on page 8 for the methodology related to the data analysis.

A restored amount is only payable if either the annuitant or their spouse has railroad service prior to 1975. The restored amount is an increase to the Tier II component of a spouse annuity that is equal to the amount the spouse's Tier I component was reduced for the spouse's own employee annuity.⁵

For the five error cases we identified, the RRB improperly included a restored amount in the adjustment to the dual spouse annuity as if the annuitant or their spouse had service prior to 1975. We found, however, that neither the annuitant nor their spouse had railroad service prior to 1975. Therefore, the adjustments were not appropriate. The errors were caused by dual spouse payment processes that were in place at the time the annuities were initially awarded in 2009 and 2010. Although the agency had identified some errors during its own quality assurance reviews and changed the payment processes in 2011 to prevent these types of errors from happening in the future, the five error cases that we identified were not detected by the agency's quality assurance reviews.

The total estimated overpayment for the five individuals is \$172,927. The total financial impact to the RRB over the expected lifetime of the annuitants if the identified overpayments went undetected is approximately \$866,000. See Appendix IV on page 12 for the full explanation of the overpayment calculations.

⁵ 20 CFR § 226.32(b).

Recommendation:

3. We recommend that the Office of Programs take action to correct the amount of the spouse annuities for the five error cases cited, and to establish overpayments as appropriate.

Management's Response

The Office of Programs agreed with Recommendation 3 and stated that they are in the process of correcting the cases.

We make no further recommendations due to the changes that were implemented after the errors occurred, but prior to this audit. In addition, we applied the data analysis to the entire population and identified no more error cases of this type.

GLOSSARY OF TERMS

Annuity	Payment due an entitled individual for a calendar month.
Creditable Compensation	Any form of payment made to an individual for services rendered as an employee for an employer, as defined in the RRA, and various other payments, such as separation and dismissal allowances.
Dual Entitlement	<p>An individual is entitled to more than one railroad retirement annuity. There are four types of dual railroad retirement annuities:</p> <ol style="list-style-type: none"> 1. An employee annuity and a spouse annuity; 2. An employee annuity and a survivor annuity; 3. A survivor annuity and a spouse annuity – only the higher annuity is payable; and 4. A survivor annuity and a survivor annuity – only the higher annuity is payable.
Employee	An individual who is, or has been, in the service of a railroad employer.
Restored Amount	An increase in a spouse's Tier II benefit that is equal to the amount that the spouse's Tier I benefit was reduced for the spouses own employee annuity.
Spouse	The wife or husband of an annuitant who was married to the annuitant for at least one year.
Tier I benefits	Benefits paid by the RRB that are calculated using social security formulas based on earnings credited under social security and railroad retirement.
Tier II benefits	Benefits paid by the RRB that are comparable to the private pensions paid over and above social security benefits in other industries.

DATA ANALYSIS TESTING METHODOLOGY AND RESULTS

This appendix represents the methodology and results of our test to identify spouse annuities that included a restored amount for which the annuitant was not entitled.

Test Objective and Scope

Our test objective was to identify spouse annuities that include a restored amount for which the annuitant was not entitled. Our scope was limited to spouse annuities in current pay status in the July 2013 MBF where the spouse was also receiving an employee annuity.

Review Methodology

To identify potential erroneous restored amounts, we performed the following steps.

- Created a table of dual spouse annuitants from the July 2013 MBF.
- Created a table of dual spouse annuitants with Tier II adjustments.
- Created a table of individuals with service before 1975.
- Matched the table of dual spouse annuitants with Tier II adjustments to the table of individuals with service before 1975 to find spouse annuitants with Tier II adjustments where neither the spouse nor the employee had service before 1975. This match produced a list of potential errors.
- Due to the limitations of the tables used, it was necessary to manually confirm that there was no service before 1975.
- For each of the confirmed cases, we reviewed the RRB's Payment and Rate History database to determine if the dual adjustment represented a restored amount for which the individual was not entitled.
- For each case that had a restored amount for which the individual was not entitled, we estimated the overpayment through February 1, 2014.
- We then calculated the potential future savings to the RRB (based on the life expectancy of the annuitants) if they correct the identified errors. See Appendix IV on page 12 for the full explanation of the overpayment calculations.

Results of Review

The initial match identified 75 potential error cases. Our review of these 75 cases identified 5 actual errors. The RRB improperly calculated the five annuities as if the annuitant or their spouse had service prior to 1975.

Conclusion

Based on these results, we concluded that there were five spouse annuities that included a restored amount for which the annuitant was not entitled. The total financial impact to the RRB over the expected lifetime of the annuitants (if the identified overpayments went undetected) is approximately \$866,000.

See Table 2 in Appendix IV on page 12 for the estimation of the overpayments and future savings.

STATISTICAL SAMPLING METHODOLOGY AND RESULTS

This appendix represents the methodology and results of our statistical sampling test of dual spouse annuity adjustments.

Sample Objective

Our sampling objective was to determine if the RRB had correctly calculated adjustments for dual spouse annuities.

Scope

We selected the sample from the dual entitlement universe of 5,637 spouse records in the July 2013 MBF. To obtain the dual entitlement universe, we extracted all spouse records in current pay status where the spouse's social security number matched the claim number for an employee record in current pay status. We then removed five cases from the universe that we identified as exception cases through the use of data analysis. The difference resulted in a sample population of 5,632 spouse records with dual entitlement.

Review Methodology

We used attribute estimation sampling and a sample size of 114.

Determination of Accuracy of Dual Spouse Annuity Adjustments

The required adjustment to the spouse annuity varies depending on certain criteria. We developed spreadsheets for the following situations:

1. If the spouse is divorced, the spouse's Tier I annuity component is reduced by the spouse's own employee total annuity rate (Tier I and Tier II). Divorced spouses are not entitled to Tier II.
2. If there is no service prior to 1975 for either spouse or employee, the spouse's total annuity rate (Tier I and Tier II) is reduced by the spouse's own employee total annuity rate (Tier I and Tier II).
3. If there is service prior to 1975, the spouse's Tier I is reduced by the spouse's own employee Tier I rate, and the Tier II is increased by a restored amount that is equal to the Tier I reduction. The restored amount needs to be recomputed if the spouse becomes entitled to a government pension, social security benefit, or other social insurance.

We used the applicable spreadsheet to recalculate the dual entitlement adjustment and compared it to the agency's record. This recalculation and comparison was done for the most recent annuity calculation and for the annuity calculation when dual entitlement began. For exception cases, we calculated additional annuity calculations to determine the total overpayment or underpayment. We then determined the current average monthly financial impact by adding the absolute values of the current monthly overpayment or underpayment for each exception and dividing by the total number of exceptions.

Results of Review

Our evaluation of the 114 randomly selected spouse records with dual entitlement identified 3 incorrect payments. Based on the sample results, we estimate, with 90% confidence, that at least 1% of the cases in the universe contain errors, which projects to 56 error cases in the universe. We estimate a projected financial impact of approximately \$1.8 million due to examiner oversight. See Table 1 in Appendix IV on page 12 for the estimated financial impact.

Audit Conclusion

Based on our evaluation, we concluded that the discovery of payment errors related to dual entitlement adjustments warrants action to correct the three error cases identified and additional training.

ESTIMATED FINANCIAL IMPACT OF INACCURATE SPOUSE ANNUITY CASES INVOLVING DUAL ENTITLEMENT

The tables below show the estimated financial impact of the inaccurate adjustments to spouse annuities related to the spouse's entitlement to their own employee annuity. The total estimated financial impact provided below assumes that the errors would not have been detected throughout the duration of the annuity.

Table 1 shows the financial impact of projected errors based on our statistical sample. The population for our statistical sample was 5,632 cases. The sample results yielded a minimum error rate of 1%. When projected to the population, there would be at least 56 error cases (1% x 5,632). We determined that the average monthly impact of the sample errors was \$135. The life expectancy for spouses at age 66 is 19.9 years (238.8 months) per actuarial statistics.⁶

Table 1 – Projected Errors – Statistical Sample

Average Monthly Financial Impact of Sample Errors	Financial Impact Over 19.9 Years	Projected Number of Error Cases	Financial Impact of Projected Error Cases
\$ 135	\$ 32,300	56	\$ 1,808,800

Table 2 shows the financial impact of known errors discovered through data analysis. In each case, the spouse annuity included a restored amount even though the spouse annuitant did not meet the criteria to be entitled to a restored amount. The life expectancy is based on actuarial statistics using the age and sex of the annuitant.

Table 2 – Known Errors – Data Analysis

	Current Monthly Overpayment	Life Expectancy	Future Savings	Estimated Overpayment through 2-1-14	Total Financial Impact
Case 1	\$ 775	16.5	\$ 153,418	\$ 44,035	\$ 197,453
Case 2	\$ 505	13.9	\$ 84,284	\$ 28,351	\$ 112,635
Case 3	\$ 494	16.9	\$ 100,088	\$ 20,455	\$ 120,543
Case 4	\$ 665	18.9	\$ 150,806	\$ 27,560	\$ 178,366
Case 5	\$ 942	18.1	\$ 204,507	\$ 52,526	\$ 257,033
Total	\$ 3,381		\$ 693,103	\$ 172,927	\$ 866,030

We estimate the monetary impact to be approximately \$2.7 million for the projected and known improper payments.

⁶ U.S. Railroad Retirement Board, Bureau of the Actuary, *Actuarial Notes - Longevity of Railroad Retirement Beneficiaries*, No. 1-12 (November 2012).



UNITED STATES
GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

March 19, 2014

TO: Diana Kruei
Assistant Inspector General for Audit

FROM: Ronald Russo *Ronald Russo*
Director of Policy and Systems

THROUGH: Martha Barringer *Martha Barringer*
Director of Programs

SUBJECT: Draft Report – Audit of Railroad Retirement Act Dual Spouse Annuity Adjustments

Thank you for the opportunity to comment on the draft audit report.

Recommendation 1 We recommend that the Office of Programs take action to correct the spouse annuities for the error cases cited, and to establish overpayments and/or issue accruals when necessary.

Office of Programs Response We agree. We are in the process of correcting the cases and will provide documentation of our corrective action under separate cover by June 30, 2014.

Recommendation 2 We recommend that the Office of Programs provide additional training to claims examiners concerning spouse annuity adjustments.

Office of Programs Response We agree. We expect to complete the training by June 30, 2014.

Recommendation 3 We recommend that the Office of Programs take action to correct the amount of the spouse annuities for the five error cases cited, and to establish overpayments as appropriate.

**Draft Report – Audit of Railroad Retirement Act Dual
Spouse Annuity Adjustments**,*continued*

**Office of
Programs
Response**

We agree. We are in the process of correcting the cases and will provide documentation of our corrective action under separate cover by June 30, 2014.

cc:

Director of Program Evaluation and Management Services
Director of Retirement Benefits