



Office *of the* Inspector General

SOCIAL SECURITY ADMINISTRATION

*Congressional Response Report*

The Social Security Administration's  
Application of the Childcare Dropout  
Year Provision

*A-01-18-50660 | September 2018*

**OIG** Office of the Inspector General  
SOCIAL SECURITY ADMINISTRATION

September 17, 2018

The Honorable Sam Johnson  
Chairman, Subcommittee on Social Security  
Committee on Ways and Means  
Washington, DC 20515

The Honorable Lynn Jenkins  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
Washington, DC 20515

Dear Mr. Chairman and Madame Chairman:

In a February 14, 2018 letter, you asked that we review issues related to the Social Security Administration's policy on childcare dropout years. The report highlights various facts pertaining to the issues raised in your letter. To ensure the Agency is aware of the information provided to your office, we are forwarding a copy of this report to the Agency.

If you have any questions concerning this matter, please call me or have your staff contact Walter Bayer, Congressional and Intragovernmental Liaison, at (202) 358-6319.

Sincerely,



Gale Stallworth Stone  
Acting Inspector General

Enclosure

cc:  
Commissioner of Social Security

# The Social Security Administration's Application of the Childcare Dropout Year Provision A-01-18-50660



September 2018

Office of Audit Report Summary

## Objective

To answer specific questions regarding the Social Security Administration's (SSA) application of the childcare dropout year (CDY) provision in the *Social Security Act*.

## Background

Generally, SSA may grant a CDY when four requirements are met.

1. The beneficiary has been living with a child under age 3 for at least 9 months of a year.
2. The beneficiary has no earnings for the calendar year(s) he/she was living with the child under age 3.
3. The beneficiary must be age 25 through 36 in the year disability began.
4. The no earnings year(s) from Requirement 2 must be used to calculate the benefit amount.

On February 14, 2018, we received a request from Congress to answer specific questions related to SSA's use of the CDY provision.

## Conclusion

The criteria in the *Social Security Act* for a CDY only apply to a small number of beneficiaries. From the 10.5 million Disability Insurance beneficiaries allowed in Calendar Years 2005 through 2016, we identified 165,045 who were potentially eligible for a CDY and reviewed a sample of 600 claims. Of our sampled beneficiaries, SSA correctly applied a CDY for 1, and the remaining 599 did not meet all 4 requirements to receive a CDY.

We estimated about 15,000 beneficiaries allowed in 2005 through 2016 reported they had a child 3-years-old or younger in care during a year the beneficiary had no earnings before the year disability was established. However, these beneficiaries did not meet other requirements and therefore were not eligible for CDYs.

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## ABBREVIATIONS

CDY	Childcare Dropout Year
C.F.R.	Code of Federal Regulations
CY	Calendar Year
DI	Disability Insurance
OIG	Office of the Inspector General
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
U.S.C.	United States Code

## OBJECTIVE

Our objective was to answer specific questions regarding the Social Security Administration’s (SSA) application of the childcare dropout year (CDY) provision in the *Social Security Act*.

## BACKGROUND

SSA pays Disability Insurance (DI) benefits to eligible individuals under Title II of the *Social Security Act*.<sup>1</sup> The Agency bases an individual’s primary insurance amount—generally, the monthly benefit amount for a disabled worker<sup>2</sup>—on his/her average monthly earnings.<sup>3</sup>

The years considered for an individual’s average monthly earnings, known as elapsed years, begin at age 22 and end with the year before the individual becomes disabled.<sup>4</sup> There must be at least 2 elapsed years in the average. Computation years may include years of no earnings when the number of computation years is greater than the number of base years.<sup>5</sup> SSA may apply CDYs for eligible individuals for these years of no earnings.

### Disability Dropout Years

SSA will drop out up to 5 of a beneficiary’s elapsed years with the lowest earnings when it calculates the average monthly earnings amount.<sup>6</sup> This provision reduces the effects of years of lower earnings on a beneficiary’s benefit amount. For example, for a beneficiary with 7 years of

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<sup>1</sup> *Social Security Act*, 42 U.S.C. § 423 (govinfo.gov 2016).

<sup>2</sup> The monthly benefit amount, known as the primary insurance amount, is the amount SSA pays a disabled worker who has never received a retirement benefit reduced for age. 42 U.S.C. §§ 415(b)(2)(A)(ii), 423(a)(2) (govinfo.gov 2016).

<sup>3</sup> Earlier earnings are adjusted in terms of their current dollar value so they are comparable to the earnings level in the year an individual became disabled. The average monthly earnings, known as the Average Indexed Monthly Earnings, are calculated as the sum of indexed earnings over the computation period, divided by the number of computation years (in months), 20 C.F.R. § 404.211 (f) (govinfo.gov 2018). The amount is calculated based on an individual’s earnings record by indexing the worker’s earnings during full calendar years (CY) after 1950 and up to the second year before the year (the indexing year) an individual became disabled, 20 C.F.R. § 404.211. Earnings in years after the indexing year are not indexed and are counted at their actual value.

<sup>4</sup> 20 C.F.R. § 404.211 (e)(1) (govinfo.gov 2018).

<sup>5</sup> Computation years are the actual number of years used to compute the individual’s primary insurance amount. Base years are years of earnings that may be considered when computing an individual’s primary insurance amount. When base years are greater than computation years, there are more years of earnings to choose from than years needed to compute the primary insurance amount. Therefore, years of no earnings would not be included in the primary insurance amount computation, eliminating the need for CDYs. 20 C.F.R. §§ 404.211(b)(2), (e)(2)-(4) (govinfo.gov 2018).

<sup>6</sup> Also known as the 1-for-5 rule, for every 5 elapsed years of earnings, the lowest year(s) of earnings will be dropped, up to a maximum of 5 total disability dropout years for a worker with 25 or more years of earnings. *Social Security Act*, 42 U.S.C. § 415(b)(2)(A)(ii) (govinfo.gov 2016); 20 C.F.R. § 404.211 (e)(3) (govinfo.gov 2018).

work history in covered employment,<sup>7</sup> SSA only uses the highest 6 years of earnings to average monthly earnings (that is, applying 1 disability dropout year). If the beneficiary had 10 years in covered employment, SSA would use the highest 8 years of earnings (that is, applying 2 disability dropout years).

## CDYs

If a beneficiary received fewer than 3 dropout years under the general disability dropout year provisions, he/she may be credited with up to 2 additional dropout years, known as CDYs.<sup>8</sup> The eligibility criteria for the CDY is specific in that the beneficiary must have had no earnings in a CY he/she had a child under age 3 living with him/her for at least 9 months.<sup>9</sup> Additionally, the year selected for CDY must also be a year that would have been included in the benefit computation.<sup>10</sup> With such specific criteria, few beneficiaries qualify to receive a CDY.

### *Requirements to Meet Eligibility for a CDY*

Once SSA determines an individual is disabled and entitled to benefits, a beneficiary must meet four requirements to have a CDY(s) applied in the calculation of his/her monthly benefit amount.

**Requirement 1:** The beneficiary must have been living with a child under age 3 for at least 9 months of a year. For partial years (that is, years during which the child was born, attained age 3, or died), the period during which the child was not living with the beneficiary cannot exceed 91 days, or half the period in question, whichever is less.

**Requirement 2:** The beneficiary must have no earnings for the CY(s) he/she has been living with the child mentioned in Requirement 1.

**Requirement 3:** The beneficiary must be age 25 through 36 in the year disability began, which means the beneficiary would have 3 to 14 elapsed years (see Table 2) and fewer than 3 disability dropout years. SSA will drop out up to 5 of a beneficiary's elapsed years (SSA counts from age 22 through the year before disability began to compute the number of elapsed years) with the lowest earnings in calculating the average monthly earnings amount, known as the 1-for-5 rule. The rule is applied as every 5 elapsed years of earnings, the lowest year(s) of earnings will be

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<sup>7</sup> Generally, Social Security benefits are based on earnings in SSA's records. An individual receives credit only for earnings covered for Social Security purposes. An employee's employer reports the covered earnings. Self-employed individuals report their own covered earnings. 20 C.F.R. § 404.1001(a)(1) (govinfo.gov 2018).

<sup>8</sup> *Social Security Act*, 42 U.S.C. § 415 (b)(2)(A)(Clause ii) (govinfo.gov 2016); 20 C.F.R. § 404.211 (e)(4) (govinfo.gov 2018). The provision became effective July 1981, *Social Security Disability Amendments of 1980*, Pub. L. No. 96-265, 94 Stat. 441, pp. 443-444 (1980).

<sup>9</sup> 20 C.F.R. § 404.211 (e)(4)(ii) (govinfo.gov 2018). For partial years (that is, years during which the child was born, attained age 3, or died), the period during which the child was not living with the beneficiary cannot exceed 91 days, or half the period in question, whichever is less.

<sup>10</sup> SSA, *POMS*, RS 00605.235, A.1, (August 15, 2008).

dropped, up to a maximum of 5 total disability dropout years for a worker with 25 or more years of earnings. When SSA computes the average monthly earnings, it must use a minimum of 2 elapsed years.

**Requirement 4:** The no earnings year(s), which meets Requirement 2, must be used to calculate the primary insurance amount as a computation year(s). To meet this requirement, the number of computation years<sup>11</sup> must be greater than the number of base years.<sup>12</sup> When base years are higher than computation years, a CDY would not apply because a year of no earnings would not be included in the primary insurance amount computation.<sup>13</sup>

### *Congressional Request*

On February 14, 2018, the Committee on Ways and Means requested that we answer six questions related to the CDY provision. The request referred to a Congressional Research Service report that suggested the CDY provision applied to about 0.16 percent of DI beneficiaries based on the CDY code on SSA's Master Beneficiary Records (MBR).<sup>14</sup> See Appendix A for the congressional request.

We initially planned to rely on the CDY field on the MBR,<sup>15</sup> but we found the data were not reliable. Therefore, we identified a population of 10,523,777 DI applicants allowed DI benefits in CYs 2005 through 2016. From this population, we identified 165,045 beneficiaries who were potentially eligible for a CDY as they had (1) fewer than 15 elapsed years, (2) a child or children listed on their MBR, and (3) at least 1 year before date of entitlement with no earnings. We selected a random sample of 50 beneficiaries in each year to determine how many had a CDY used to determine their monthly benefit amount. See Appendix B for our scope, methodology, and sample results.

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<sup>11</sup> Computation years is the number of years used to compute the primary insurance amount. Computation years equals the number of elapsed years less the number of dropout years. When the primary insurance amount is calculated, there must be a minimum of 2 computation years used.

<sup>12</sup> Base years are the years of earnings that can be considered in computing the primary insurance amount. SSA calculates the base years by counting any years with earnings starting in 1951 through the year before the disability began.

<sup>13</sup> Many younger beneficiaries who began working before age 22 do not qualify for a CDY because of this requirement. For example, an individual who began working at age 18 would have 4 base years (for years between ages 18 and 22) before the first computation year.

<sup>14</sup> Congressional Research Service, *Social Security Disability Insurance: Becoming Insured, Calculating Benefit Payments, and the Effect of Dropout Year Provisions*, p. 5 (January 24, 2014).

<sup>15</sup> The MBR is an electronic record containing information about a numberholder's Social Security benefits as well as any benefits paid to other individuals entitled on the numberholder's record.



## RESULTS OF REVIEW

The criteria in the *Social Security Act* for a CDY only apply to a small number of beneficiaries. Of our sampled 600 DI beneficiaries, SSA correctly applied a CDY for 1, and the remaining 599 did not meet all 4 requirements to receive a CDY.

We estimated about 15,000 beneficiaries allowed in 2005 through 2016 reported having a child 3-years-old or younger in care during a year the beneficiary had no earnings before the year disability was established. However, these beneficiaries did not meet other requirements—related to the number of base years used in the benefit calculation—and were therefore not eligible for CDYs (see Appendix B).

The congressional questions and our responses are below.

### **1. For each year since 2000, what percent of DI applicants who receive benefits have CDYs applied to their benefit calculation?**

Based on data analysis of disabled workers allowed DI benefits from 2005<sup>16</sup> through 2016 and our detailed review of a sample of 600 claims that had the possibility of meeting the CDY requirements, we only identified 1 beneficiary who met all 4 CDY requirements. As a result, the percent of DI applicants who received benefits with a CDY applied was too small to estimate with a reasonable level of precision. See below for information on our sample results.

#### *Beneficiaries Who Received a CDY*

We identified 1 DI beneficiary who had a CDY applied to her benefit calculation in CYs 2005 through 2016, based on our review of 600 beneficiaries (that is, 50 beneficiaries for each year). See Table 1. For the remaining 599 claims, the beneficiaries did not meet all 4 requirements to receive a CDY.<sup>17</sup>

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<sup>16</sup> In 2004, SSA changed its processing system for hearings. Therefore, we were only able to obtain national data for CYs 2005 through 2016.

<sup>17</sup> We did not recalculate the monthly benefit calculation amounts for all 599 beneficiaries to ensure SSA appropriately did not apply CDYs.

**Table 1: Number of Sampled Beneficiaries Eligible to Receive a CDY**

Year	Number of Beneficiaries Potentially Eligible for a CDY <sup>18</sup>	Sampled Beneficiaries	Number of Sampled Beneficiaries Who Had a CDY Applied
2005	8,660	50	0
2006	9,861	50	0
2007	11,040	50	0
2008	13,418	50	0
2009	17,093	50	0
2010	19,233	50	1
2011	19,111	50	0
2012	17,589	50	0
2013	15,838	50	0
2014	13,064	50	0
2015	11,549	50	0
2016	8,589	50	0
<b>Total</b>	<b>165,045</b>	<b>600</b>	<b>1</b>

For example, when a DI beneficiary applied for disability benefits, she claimed childcare years for 1989 through 1994. The beneficiary had children in care born in 1989, 1991, and 1993, and the beneficiary had no earnings from 1989 through 1994. Therefore, the beneficiary met CDY Requirements 1 and 2.

SSA determined the beneficiary's disability began in 2007 and she was born in 1976. Therefore, the beneficiary was age 31 in the year when disability began, so she met Requirement 3.

Since the beneficiary was born in 1976, she turned age 22 in 1998; therefore, SSA calculated 9 elapsed years (1998 through 2006).<sup>19</sup> When applying the 1-for-5 rule, SSA determined the number of disability dropout years was 1 (9 elapsed years divided by 5 equals 1.8, rounded down to 1).

According to the beneficiary's earnings record, she had earnings from CYs 2001 through 2008. When SSA calculated the base years, it included all years with earnings from 1951 through the year before the disability began, which, in this case, was 2006. Therefore, SSA determined there were 6 base years (CYs 2001 through 2006). SSA determined there were 8 computation years for this case (9 elapsed years less 1 disability dropout year). Because the number of computation

<sup>18</sup> Potential eligibility for a CDY was based on ages 25 through 36 at date of entitlement, having a child on the record, and having at least 1 year of no earnings before the year of entitlement.

<sup>19</sup> SSA counts from age 22 through the year before disability began to get the number of elapsed years.

years was greater than the number of base years, SSA would have used the year of no earnings in the benefit computation. Therefore, the beneficiary met Requirement 4.

Since this beneficiary met all four general CDY requirements, SSA applied the CDY when it calculated her monthly benefit amount of \$869. Had SSA not applied a CDY, her monthly benefit amount would have been \$811. Because a CDY was applied to her monthly benefit calculation, she received an additional \$58 per month.

### *Beneficiaries Reporting Child Age 3 or Younger in Care During Year of No Earnings but Were Not Eligible to Receive a CDY*

Of the 600 beneficiaries sampled, we identified 52 who reported having a child age 3 or younger in care during a year of no earnings before disability onset. These 52 beneficiaries met all the requirements for a CDY except for Requirement 4. For all 52 beneficiaries, the base years were greater than or equal to the computation years; therefore, a CDY did not apply because SSA did not use a year with no earnings as a computation year. Based on the results of the sample, we estimate 15,113 beneficiaries met all CDY requirements except for Requirement 4. See Table B-2 in Appendix B for a summary by year for CYs 2005 through 2016.

For example, when a DI beneficiary applied for disability benefits, she claimed childcare years for 2002 through 2004 and 2006 through 2008. The beneficiary had children in care born in 1999, 2000, 2001, and 2005 and had no earnings in 2005 and 2006; therefore, the beneficiary met Requirements 1 and 2 since she had a child in care born in 2005 and no earnings in 2005 and 2006.

SSA determined the beneficiary's disability began in 2012 and she was born in 1978. Therefore, the beneficiary was age 34 in the year when disability began, so she met Requirement 3.

Since the beneficiary was born in 1978, she was age 22 in 2000. Therefore, SSA calculated 12 elapsed years (2000 through 2011). When applying the 1-for-5 rule, SSA determined the number of disability dropout years was 2 (12 elapsed years divided by 5 equals 2.4, rounded down to 2).

According to the beneficiary's earnings record, she had earnings from 1994 through 2004 and 2007 through 2017. When calculating the base years, SSA included any years with earnings from 1951 through the year before the disability began, which was 2011. Therefore, SSA determined there were 16 base years (1994 through 2004 and 2007 through 2011). SSA determined there were 10 computation years for this case (12 elapsed years less 2 dropout years). Because the number of computation years was less than the number of base years, SSA would not have used the year of no earnings in the benefit computation. Therefore, the beneficiary did not meet Requirement 4.

## 2. How does the use of CDYs change as a person ages and accrues additional “elapsed years”? What percent of individuals who receive DI benefits in a given year have at least 15 “elapsed years,” meaning that CDYs would no longer apply?

CDYs are available for disabled beneficiaries who were ages 25 through 36 on the date disability began.<sup>20</sup> Table 2 shows the maximum number of CDYs, by a beneficiary’s age, used in calculating the number of total dropout years and computation years.

**Table 2: CDY Computation Chart**

Age of Beneficiary When Disability Began	Elapsed Years	Disability Dropout Years	Maximum CDY(s)	Total Dropout Years	Total Computation Years (Elapsed Years Less Total Dropout Years)
22	0	0	0	0	N/A
23	1	0	0	0	N/A
24	2	0	0	0	2
25	3	0	1	1	2
26	4	0	2	2	2
27	5	1	2	3	2
28	6	1	2	3	3
29	7	1	2	3	4
30	8	1	2	3	5
31	9	1	2	3	6
32	10	2	1	3	7
33	11	2	1	3	8
34	12	2	1	3	9
35	13	2	1	3	10
36	14	2	1	3	11
37+	15 or more	3 or more <sup>21</sup>	0	3 or more (5 maximum)	12 or more <sup>22</sup>

<sup>20</sup> According to SSA, the average age of a DI beneficiary for CY 2016 was 54.2. SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2016*, p. 58 (October 2017).

<sup>21</sup> A disabled worked could receive up to 5 disability dropout years with 25 or more years of earnings.

<sup>22</sup> Depending on the number of disability dropout years (5 maximum), SSA would determine how many computation years.

As illustrated in Table 2, only beneficiaries ages 25 through 36 could be eligible for CDYs.<sup>23</sup> Additionally, as seen in Table 2, for beneficiaries age 37 and older, CDYs no longer apply.<sup>24</sup> For example, as shown in Table 3, 90 percent of beneficiaries allowed in CYs 2015 and 2016 were over age 36 at disability onset. These beneficiaries had at least 15 elapsed years and would not be eligible for a CDY.

**Table 3: Age at Disability Onset for Beneficiaries Allowed in CYs 2015 and 2016**

Year	Age at Disability Onset	Number of Beneficiaries Allowed	Percent
2015	Under 25	15,875	2%
	25 through 36	62,000	8%
	Over 36	679,090	90%
	<b>Total</b>	<b>756,965</b>	<b>100%</b>
2016	Under 25	14,691	2%
	25 through 36	57,442	8%
	Over 36	635,760	90%
	<b>Total</b>	<b>707,893</b>	<b>100%</b>

### 3. How do field office employees determine whether to request that a DI applicant complete the Child Care Questionnaire?

When an individual files a claim, SSA's systems automatically determine the potential for CDYs.<sup>25</sup> If the claimant is in the applicable age range and SSA would use 1 or 2 years of no earnings in the monthly benefit amount computation (that is, potential CDYs), SSA's systems will include the questions from the *Child Care Dropout Questionnaire* (Form SSA-4162) as part of the interview, either online or with the SSA employee. See Appendix C for an example of the questionnaire.

<sup>23</sup> To calculate the average monthly earnings, an individual must have at least 2 computation years. SSA counts the years an individual reaches age 22 through the year before a person becomes disabled, known as elapsed years. Elapsed years less any dropout years would equal computation years. Therefore, an individual age 22 through 24 would have no more than 2 elapsed years and thus not be eligible for CDY(s). At age 25, an individual would have 3 elapsed years and thus a CDY could be applicable to get 2 computation years (3 elapsed years less 1 CDY).

<sup>24</sup> At age 37, a disabled worked would have 15 elapsed years (ages 22 to 37); therefore, under the 1-for-5 rule, he/she would receive 3 disability dropout years (15 elapsed years divided by 5).

<sup>25</sup> We did not specifically determine whether SSA's systems were automatically identifying the potential for CDYs.

#### **4. What is the process field office employees go through in applying CDYs following receipt of the Child Care Questionnaire? How many Child Care Questionnaires are completed annually?**

The SSA employee who processes the benefit application should review the responses to the questions related to potential CDYs. If the beneficiary alleges a child under age 3 was living with him/her for at least 9 months and he/she had no earnings for that year(s), the SSA employee should obtain proof of the child's relationship to the beneficiary (the child must be either his/her own or his/her spouse's) and the child's age in the year(s) on the questionnaire.<sup>26</sup> If the proof is obtained, the SSA employee should review the beneficiary's earnings record to ensure the beneficiary did not have any earnings for the years reported. Finally, SSA accepts allegations of "living with" and establishes the year(s) as CDY(s).<sup>27</sup>

The SSA employee should review the beneficiary's earnings record and select the years of highest earnings from the initial base years equal in number to the computation years. The number of computation years equals the number of elapsed years minus the number of disability (1-for-5 rule) dropout years. SSA should select a potential CDY up to the maximum number as shown in Table 2.<sup>28</sup>

We estimate SSA reviewed 17,028 completed CDY questionnaires in CYs 2005 through 2016. To determine this, we considered anyone who claimed child care years on his/her DI application as someone who completed the CDY questionnaire. See Table B-3 in Appendix B for the number of CDY questionnaires completed by each CY.

#### **5. How do field office employees verify whether an individual had covered or non-covered earnings in a potential CDY?**

SSA staff reviews the beneficiary's earnings record to determine whether he/she had no earnings as he/she alleged.<sup>29</sup> If SSA's records show earnings for a year in which a beneficiary says he/she did not work, he/she may disclaim earnings or self-employment income if he/she did not provide services or receive income. SSA generally accepts a beneficiary's signed statement disclaiming the earnings and removes them from the beneficiary's record. However, if removing the earnings is to the beneficiary's advantage, the Agency should not accept the statement or remove

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<sup>26</sup> The child for whom the CDY may be granted must be the child of the numberholder or his/her spouse. SSA, *POMS*, RS 00605.235A.1 (August 15, 2008). In some instances, SSA may have sufficient evidence in its records to establish age. In other situations, staff may need to obtain a birth certificate for proof of age, which may also provide sufficient evidence to establish relationship.

<sup>27</sup> SSA, *POMS*, RS 00605.235, B.2, (August 15, 2008).

<sup>28</sup> Subsequent re-computations of the monthly benefit amount do not affect the number or designation of CDYs.

<sup>29</sup> SSA, *POMS*, RS 00605.235, B.2 (August 15, 2008).

the earnings based on the statement without a complete investigation of the situation involved.<sup>30</sup> Examples of the types of evidence SSA can use to verify earnings include

- Form W-2 (*Wage and Tax Statement*);
- Form W-2c (*Statement of Corrected Income and Tax Amounts*);
- Employer-Prepared Wage Statements;
- End-of-the-year pay statement/pay stub;
- Form SSA-1002-F3 (*Statement of Agricultural Employer*) or Form-1003-F3 (*Statement of Agricultural Employer for Years 1988 and Later*);
- Statement signed by a custodian of the employer's records; and
- Internal Revenue Service copy of employee's tax return.<sup>31</sup>

## **6. How are DI applicants made aware of CDYs? Does SSA policy allow applicants to request a Childcare Dropout Questionnaire if they think the policy may be applicable to them? If so, under what conditions will field office employees review this application?**

SSA's benefit application system automatically checks for CDYs and displays the relevant questions from the *Childcare Dropout Questionnaire* (Form SSA-4162).<sup>32</sup>

There is no policy that prevents applicants from requesting the *Childcare Dropout Questionnaire*. In addition, the *Childcare Dropout Questionnaire* is available on SSA's Website, and the *Social Security Handbook* provides information on childcare dropout years.<sup>33</sup> SSA's policy requires employees to develop for CDY(s) when they potentially exist. Additionally, if SSA re-computes a monthly benefit amount to which CDYs were applied, the Agency's policy requires a review of the re-computation to ensure the CDY(s) are not improperly eliminated.

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<sup>30</sup> SSA, *POMS*, RM 03870.060, A and B (January 29, 2015).

<sup>31</sup> SSA, *POMS*, RS 01403.010 (April 3, 2009) and RS 01404.110, C.1, bullet 11 (June 26, 2018).

<sup>32</sup> The benefit application system automatically checks for other earnings issues, such as lag earnings, military service, railroad work, and government employment.

<sup>33</sup> SSA, *Social Security Handbook*, § 703.2 B.3 (October 31, 2003)  
[https://www.ssa.gov/OP\\_Home%2Fhandbook/handbook.html](https://www.ssa.gov/OP_Home%2Fhandbook/handbook.html) (last visited March 16, 2018).

## CONCLUSIONS

The criteria in the *Social Security Act* for a CDY only apply to a small number of beneficiaries, as the beneficiary must generally meet the following requirements.

1. The beneficiary lived with a child under age 3 for at least 9 months of a year.
2. The beneficiary had no earnings in a CY he/she was living with a child under age 3.
3. The beneficiary must be age 25 through 36 in the year disability began.
4. The no earnings year(s) from Requirement 2 must be used to calculate the benefit amount.

With such specific criteria, few beneficiaries qualified to receive a CDY. Of our 600 sampled DI beneficiaries allowed in CYs 2005 through 2016 who had the possibility to meet the CDY requirements based on our data analysis, SSA applied a CDY for only 1. For the remaining 599 claims, the beneficiaries did not meet all 4 requirements to receive a CDY.

## AGENCY COMMENTS

SSA did not have any comments on the report, see Appendix D.



Rona Lawson  
Assistant Inspector General for Audit



# *APPENDICES*

# Appendix A – CONGRESSIONAL REQUEST

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## COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, DC 20515

February 14, 2018

Gale Stallworth Stone  
Acting Inspector General  
Social Security Administration  
6401 Security Boulevard  
Baltimore, MD 21207

Dear Ms. Stone:

We are writing to request a study of the use of Childcare Dropout Years (CDYs).

Since Social Security benefit amounts are based on average lifetime earnings, years without Social Security-covered earnings may reduce the benefit amount. By law, individuals applying for DI may “drop out” from the benefit calculation up to 3 years with zero earnings if these years occurred while caring for a child under age 3. However, Social Security Administration (SSA) data obtained by the Congressional Research Service suggests that only about 0.16 percent of individuals who received DI benefits from 2000 to 2013 had CDYs applied.

Given our responsibility to provide oversight of the way the SSA implements current law, we ask that you review the SSA's administration of this important policy. In particular, we are interested in understanding the following:

- 1) For each year since 2000, what percent of DI applicants who receive benefits have CDYs applied to their benefit calculation?
- 2) How does the use of CDYs change as a person ages and accrues additional “elapsed years”? What percent of individuals who receive DI benefits in a given year have at least 15 “elapsed years,” meaning that CDYs would no longer apply?
- 3) How do field office employees determine whether to request that a DI applicant complete the Child Care Questionnaire?
- 4) What is the process field office employees go through in applying CDYs following receipt of the Child Care Questionnaire? How many Child Care Questionnaires are completed annually?
- 5) How do field office employees verify whether an individual had covered or non-covered earnings in a potential CDY?

- 6) How are DI applicants made aware of CDYs? Does SSA policy allow applicants to request a Childcare Dropout Questionnaire if they think the policy may be applicable to them? If so, under what conditions will field office employees review this application?

Thank you for your prompt attention to this request. Please contact Amy Shuart, Staff Director of the Social Security Subcommittee, or Machalagh Carr, Staff Director of the Oversight Subcommittee, at (202) 225-9263 if you have any questions concerning this letter.

Sincerely,



Sam Johnson  
Chairman  
Subcommittee on Social Security



Lynn Jenkins, CPA  
Chairman  
Subcommittee on Oversight

## Appendix B – SCOPE, METHODOLOGY, AND SAMPLE RESULTS

To answer the questions in the February 14, 2018 letter from the U.S. House of Representatives, Committee on Ways and Means, we:

- Reviewed applicable sections of the *Social Security Act* and the Social Security Administration’s (SSA) rules, policies, and procedures.
- Reviewed the Congressional Research Service report, *Social Security Disability Insurance (SSDI): Becoming Insured, Calculating Benefit Payments, and the Effect of Dropout Year Provisions*, January 24, 2014.
- Consulted with Congressional Research Service staff on its January 24, 2014 report.
- Obtained a file of Disability Insurance (DI) primary beneficiaries with a 1, 2, or 3 in the Childhood Dropout Year (CDY) field on SSA’s Master Beneficiary Record (MBR). We reviewed 50 sample cases and determined only 10 percent had a CDY applied. We then discussed our results of the sample with SSA and determined the data were not reliable.
- Obtained and/or confirmed information with SSA staff regarding data and policies pertaining to CDYs.
- Obtained the SSA 831 claim files (initial and reconsideration determinations) and the Case Processing Management System data (hearings decisions) for Calendar Years 2005 through 2016 and determined the data were reliable for our objective.
- Identified 10,523,777 beneficiaries allowed DI benefits in Calendar Years 2005 through 2016, obtained earnings information from SSA’s Master Earnings File for these DI beneficiaries and determined the data were reliable for our objective.
- Identified 165,045 DI beneficiaries who were age 36 or younger at the initial date of disability entitlement,<sup>1</sup> had no earnings in a year before the initial date of entitlement and had a child auxiliary beneficiary on the Master Beneficiary Record.<sup>2</sup>
- Selected a random sample of 50 DI beneficiaries from each year identified in the steps above to determine whether SSA applied CDYs in benefit computations. Specifically, we
  - ✓ determined whether the beneficiary had a child age 3 years or younger during a year with no earnings;

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<sup>1</sup> Based on discussion with SSA, we should have identified individuals who were age 36 or younger when the disability began, which was the disability onset date. We estimate we would have had about 9,500 additional beneficiaries in our population had we used the disability onset date to identify our populations. We do not believe our results would have been any different had we used the disability onset date; thus, we did not pull sample cases from this population.

<sup>2</sup> The Master Beneficiary Record is an electronic record containing information about a numberholder’s Social Security benefits as well as any benefits paid to other individuals entitled on the numberholder’s record.

- ✓ determined whether the DI beneficiary reported child care years to SSA during the disability application process;
  - ✓ determined whether each DI beneficiary meeting the two criteria mentioned above was eligible for a CDY based on the number of computation years compared to base years;<sup>3</sup> and
  - ✓ recalculated the primary insurance amount for each DI beneficiary who met all the criteria above to determine whether any CDYs were applied.
- Identified 756,965 DI beneficiaries allowed in CY 2015 and 707,893 allowed in CY 2016 and grouped them by age at onset date (under 25, 25 through 36, and over 36).

## Sample Results

As Table B–1 shows, 1 DI beneficiary (from a sample of 600) was eligible for a CDY in Calendar Years 2005 through 2016.

**Table B–1: Beneficiaries Eligible or Not Eligible for a Childcare Dropout Year**

Year	Beneficiaries Potentially Eligible for a CDY <sup>4</sup>	Sample	Sample Beneficiaries Not Eligible for a CDY	Sample Beneficiaries Eligible for a CDY
2005	8,660	50	50	0
2006	9,861	50	50	0
2007	11,040	50	50	0
2008	13,418	50	50	0
2009	17,093	50	50	0
2010	19,233	50	49	1
2011	19,111	50	50	0
2012	17,589	50	50	0
2013	15,838	50	50	0
2014	13,064	50	50	0
2015	11,549	50	50	0
2016	8,589	50	50	0
	<b>165,045</b>	<b>600</b>	<b>599</b>	<b>1</b>

<sup>3</sup> Computation years are the number of years used to compute the individual’s primary insurance amount. Base years are years of earnings which may be considered for use in the computation of an individual’s primary insurance amount. When base years are greater than computation years, there are more years of earnings to choose from than years needed to compute the primary insurance amount. Therefore, years of no earnings would not be included in the primary insurance amount computation, eliminating the need for CDYs. 20 C.F.R. §§ 404.211(b)(2), (e)(2)-(4) (govinfo.gov 2018).

<sup>4</sup> Potential eligibility for a CDY was based on ages 25 through 36 at date of entitlement, having a child on the record, and having at least 1 year of no earnings before the year of entitlement.

From our sample of 600 beneficiaries, 52 would have been eligible for a CDY—as they met all the general CDY requirements with 1 exception. The one exception was the beneficiary’s base years were greater than or equal to their computation years. Therefore, a year of no earnings would not have been used in the primary insurance amount computation; therefore, there was no need to apply a CDY. Based on the sample, we estimated 15,113 beneficiaries from CYs 2005 through 2016 met all but this one requirement to be eligible for a CDY (see Table B–2).

**Table B–2: Beneficiaries with a Child in Care Age 3 and Under, During a Year of \$0 Earnings but Did Not Have a CDY Applied Because Base Years Were Greater than or Equal to Computation Years**

Year	Population	Sample	Number of Beneficiaries with a Child Age 3 and Under and a Year of \$0 Earnings	Estimate
2005	8,660	50	3	520
2006	9,861	50	3	592
2007	11,040	50	3	662
2008	13,418	50	4	1,073
2009	17,093	50	3	1,026
2010	19,233	50	5	1,923
2011	19,111	50	7	2,676
2012	17,589	50	5	1,759
2013	15,838	50	5	1,584
2014	13,064	50	8	2,090
2015	11,549	50	3	693
2016	8,589	50	3	515
<b>Total</b>	<b>165,045</b>	<b>600</b>	<b>52</b>	<b>15,113</b>
			<b>Lower Limit</b>	<b>11,724</b>
			<b>Upper Limit</b>	<b>18,501</b>

**Note:** All projections are at the 90-percent confidence level.

From our sample of 600 beneficiaries, 58 completed a *Childcare Dropout Questionnaire*.<sup>5</sup> Based on this, we estimated 17,028 beneficiaries completed a *Childcare Dropout Questionnaire* from CYs 2005 through 2016. See Table B–3.

<sup>5</sup> SSA does not track the number of CDY questionnaires completed. Based on SSA’s automated process, anyone who claimed to have more than zero childcare years listed on his/her DI application would have completed a *Childcare Dropout Questionnaire* as part of his/her application process.

**Table B-3: Beneficiaries Who Completed the *Childcare Dropout Questionnaire***

Year	Population	Sample	Number of Beneficiaries Who Completed the Childcare Dropout Questionnaire	Estimate
2005	8,660	50	3	520
2006	9,861	50	3	592
2007	11,040	50	4	883
2008	13,418	50	4	1,073
2009	17,093	50	4	1,367
2010	19,233	50	7	2,693
2011	19,111	50	7	2,676
2012	17,589	50	6	2,111
2013	15,838	50	5	1,584
2014	13,064	50	8	2,090
2015	11,549	50	4	924
2016	8,589	50	3	515
<b>Total</b>	<b>165,045</b>	<b>600</b>	<b>58</b>	<b>17,028</b>
			<b>Lower Limit</b>	<b>13,438</b>
			<b>Upper Limit</b>	<b>20,617</b>

**Note:** All projections are at the 90-percent confidence level.

We conducted our review between February and August 2018 in Boston, Massachusetts. The entity reviewed was the Office of the Deputy Commissioner for Operations. 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 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.



# Appendix C – EXAMPLE OF CHILD CARE DROPOUT YEAR QUESTIONNAIRE

Form SSA-4162 (08-2017) UF  
 Discontinue Prior Editions  
 Social Security Administration

Page 1 of 2  
 OMB No. 0960-0474

## Childcare Dropout Questionnaire

See Paperwork/Privacy Act Notice on Reverse

Name of Wage Earner or Self-Employed Person			Social Security Number		
Name of Person Making Statement (If other than above wage earner or self-employed person)			Relationship to Wage Earner or Self-Employed Person		
1. Was a child, either your own or your spouse's, living with you while the child was under age 3 in any year after 1950? If "Yes," give the following information:			<input type="checkbox"/> Yes <input type="checkbox"/> No		
Name of Each Child	Child's Date of Birth	Relationship to You or Your Spouse	Years the Child Was Under 3 and Lived With You	No. of Days in Each Year the Child Lived With You	
2. Did you work in any of the years listed in item 1? If "Yes," indicate each year in which you worked:			<input type="checkbox"/> Yes <input type="checkbox"/> No		
I declare under penalty of perjury that I have examined all the information on this form, and on any accompanying statements or forms, and it is true and correct to the best of my knowledge.					
<b>Signature of Person Making Statement</b>					
Signature (First name, middle initial, last name) (Write in ink)			Date (Month, day, year)		
Mailing Address (Number and street, Apt. No., P.O. Box, Rural Route)			Telephone Number (include area code)		
City and State				ZIP Code	
Witnesses are required ONLY if this statement has been signed by mark (X) above. If signed by mark (X), two witnesses to the signing who know the individual must sign below, giving their full addresses.					
1. Signature (First name, middle initial, last name) (Write in ink)			2. Signature (First name, middle initial, last name) (Write in ink)		
Address (Number and Street, City, State, and ZIP Code)			Address (Number and Street, City, State, and ZIP Code)		



**Privacy Act Statement**  
**Collection and Use of Personal Information**

Section 215(b)(2)(A) of the Social Security Act, as amended, allows us to collect this information. We will use the information you provide to determine if you and your dependents are eligible for insurance coverage or monthly benefits.

Furnishing us this information is voluntary. However, failing to provide all or part of the information may prevent us from making an accurate and timely decision on the claim.

We rarely use the information you supply for any purpose other than what we state above, however, we may use the information for the administration of our programs, including sharing information:

1. To comply with Federal laws requiring the release of information from our records (e.g., to the Government Accountability Office and Department of Veterans Affairs); and,
2. To facilitate statistical research, audit, or investigative activities necessary to ensure the integrity and improvement of our programs (e.g., to the Bureau of the Census and to private entities under contract with us).

A list of when we may share your information with others, called routine uses, is available in our Privacy Act System of Records Notice, 60-0089, entitled Claims Folder System. Additional information about this and other system of records notices and our programs is available from our Internet website at [www.socialsecurity.gov](http://www.socialsecurity.gov) or at your local Social Security office.

We may also use the information you provide in computer matching programs. Matching programs compare our records with records kept by other Federal, State, or local government agencies. Information from these matching programs can be used to establish or verify a person's eligibility for federally funded or administered benefit programs and for repayment of incorrect payments or delinquent debts under these programs.

**Paperwork Reduction Act Statement** - This information collection meets the requirements of 44 U.S.C. § 3507, as amended by section 2 of the Paperwork Reduction Act of 1995. You do not need to answer these questions unless we display a valid Office of Management and Budget control number. We estimate that it will take about 5 minutes to read the instructions, gather the facts, and answer the questions. Send only comments relating to our time estimate above to: SSA, 6401 Security Blvd, Baltimore, MD 21235-6401.

## Appendix D – AGENCY COMMENTS

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## SOCIAL SECURITY

### MEMORANDUM

Date: September 13, 2018

Refer To: SIJ-3

To: Gale S. Stone  
Acting Inspector General

From: Stephanie Hall  
Acting Deputy Chief of Staff



Subject: Office of the Inspector General Congressional Response Review Draft Report of, “The Social Security Administration’s Application of the Childcare Dropout Year Provision” (A-01-18-50660) -- INFORMATION

Thank you for the opportunity to review the draft report. As the report states, the application of the childcare dropout year provision is rare. We appreciate your recognition that our current policies ensure that we accurately identify applicants who qualify for the provision and compute their benefits appropriately.

Please let me know if we can be of further assistance. You may direct staff inquiries to Trae Sommer at (410) 965-9102.

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