



**HEARING BEFORE THE  
COMMITTEE ON FINANCE,  
U.S. SENATE  
ON  
TAX FRAUD, TAX ID THEFT AND TAX REFORM:  
MOVING FORWARD WITH SOLUTIONS**

**APRIL 16, 2013**

**STATEMENT OF**

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**Statement of Marianna LaCanfora,  
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Social Security Administration  
before the Senate Finance Committee**

**April 16, 2013**

Chairman Baucus, Ranking Member Hatch, and Members of the Committee:

Thank you for inviting me to this important hearing on Tax Fraud, Tax ID Theft, and Tax Reform. I will discuss the death information that we maintain to administer our programs, and our collection, use, and safeguarding of wage information. I am Marianna LaCanfora, the Social Security Administration's (SSA's) Acting Deputy Commissioner for Retirement and Disability Policy.

Let me begin by saying that we agree wholeheartedly that the Federal government must do everything it can to combat fraud and curb improper payments. In addition to discussing death information and wage reporting, I will also describe four legislative proposals in the President's budget that, if enacted, would enhance the Federal government's ability to combat fraud and curb improper payments.

Program Overview

We administer the Old-Age, Survivors, and Disability Insurance (OASDI) program, commonly referred to as "Social Security," which protects insured persons and their families against loss of earnings due to retirement, death, and disability. Workers, their employers, and self-employed persons finance Social Security through payroll taxes. We also administer the Supplemental Security Income program, funded by general revenues, which provides cash assistance to aged, blind, and disabled persons with very limited means.

In addition to administering these programs, we handle lesser-known but critical services that bring millions of people to our field offices or prompt them to call us each year. For example, we help administer the Medicare low-income subsidy program and verify information for other Federal and State programs.

The responsibilities with which we have been entrusted are significant. In fiscal year (FY) 2012, we:

- Paid over \$800 billion to almost 65 million beneficiaries and recipients;
- Handled over 56 million transactions on our National 800 Number Network;
- Received over 65 million calls to field offices nationwide;
- Served about 45 million visitors in over 1,200 field offices nationwide;
- Completed over 8 million claims for benefits and 820,000 hearing dispositions;
- Handled almost 25 million changes to beneficiary records;
- Issued about 17 million new and replacement Social Security cards;

- Posted over 245 million wage reports;
- Handled over 15,000 disability cases in Federal District Courts;
- Completed over 443,000 full medical continuing disability reviews (CDR); and
- Completed over 2.6 million non-medical redeterminations of SSI eligibility.

Few government agencies touch as many people as we do. The programs we administer provide a financial safety net for millions of Americans, and many consider them the most successful large-scale Federal programs in our Nation's history. We have demonstrated throughout the years that we are effective stewards of program dollars and administrative resources. Moreover, we take great pride in securing the sensitive data and personal information that we maintain to administer our programs.

### Collecting Death Information to Administer Our Programs and the History of the Death Master File

Currently, we administer benefit payments to over 61 million beneficiaries and recipients. We collect death information so that we can timely stop paying beneficiaries who have died and pay benefits to survivors of insured persons. Each year, we receive about 2.5 million reports of death primarily from family members, funeral homes, financial institutions, and States. When we receive information about an individual, we update our records, including the Numident file.<sup>1</sup>

Over time, individuals and entities became aware that we were gathering this high-value information. In 1978, Ronald Perholtz filed a lawsuit against us under the Freedom of Information Act (FOIA) to gain access to the death information in our files. In 1980, we entered into a court-approved consent decree that required—and still requires—the agency to release to Mr. Perholtz death information maintained by the agency. The Department of Justice advised us that Congress had not provided an exemption to the FOIA or the Privacy Act that would permit us to withhold the data requested by Mr. Perholtz.

In 1983, Congress added subsection (r) to section 205 of the Social Security Act to require us to collect death information from States to update our program records. This subsection also describes the circumstances under which certain government agencies may receive such information from us. In addition, it specifies that the death information we receive from States is otherwise exempt from disclosure under the FOIA and the Privacy Act. However, the 1983 amendment did not exempt from disclosure death information that we obtain from sources other than the States.

Following the consent decree in the Perholtz litigation, we began to receive additional requests for the same death information that we were providing to Mr. Perholtz. Because we had no legal basis to withhold that death information, we created a file that we could make available to requesters. The file—now commonly known as the public Death Master File (DMF)—contains the non-State death information we maintain to administer our programs.

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<sup>1</sup> The Numident contains identifying information associated with a Social Security Number, including a death indicator and parents' names.

Since 1992, due to the growing number of individuals and entities seeking the DMF, we have provided the file to the Department of Commerce's National Technical Information Service (NTIS) to distribute. We chose NTIS because it functions as a national clearinghouse for a wide array of Government data. NTIS's customers include life insurance companies, State agencies, schools, researchers, genealogical services, and financial institutions that, like us, need death information to stop paying benefits to deceased individuals and pay benefits to survivors of insured persons.

Over the years, we have made use of technology to more efficiently administer our programs, including the timely and accurate collection of death information. Since 2002, we have worked with States to increase the use of Electronic Death Registration (EDR). EDR automates our receipt of death information and is highly accurate because the States first verify the name and Social Security Number of deceased individuals against our records before they issue a death certificate or actually transmit the death report to us. Currently 32 states, the City of New York, and the District of Columbia participate in EDR. The death information we collect through EDR is State information, which we do not disclose to the public. (The President's FY 2014 Budget includes an increase of \$22 million in Public Health Service Evaluation transfers for the Vital Statistics System supported within the Centers for Disease Control and Prevention (CDC). This increase will allow CDC to gradually phase in electronic death records in the 21 remaining jurisdictions over four years.)

Today, under section 205(r), we provide an electronic file to Federal benefit-paying agencies containing all of our death information on a regular basis, including the death information we receive from the States. The Centers for Medicare & Medicaid Services, the Department of Defense, and IRS are among the many agencies that receive this data. In addition, we provide death information to State agencies administering federally-funded programs. Like us, these benefit paying agencies need death information to ensure accuracy of their benefit payments and prevent fraud, waste, and abuse. In addition, we send certain agencies, including the IRS, a weekly update to the electronic file of all of our death records.

#### Legislation to Limit Access to Death Information and to Use Death Information to Combat Fraud and Curb Improper Payments

Just as access to accurate death information helps agencies to combat fraud and reduce improper payments, we understand that the public availability of death information could contribute to fraud perpetrated by criminals. We believe that this information should no longer be accessible to those entities or individuals who might misuse it. At the same time, we are mindful that many institutions, such as financial institutions, legitimately need our publicly available death information to combat private sector fraud. As I said earlier, we currently do not have a legal basis to withhold non-State death information under FOIA. Even if we could withhold death information, FOIA does not allow us to withhold death information from certain entities while making it available to others who legitimately need it. Only Congress can strike the proper balance between restricting access to death information and making it available to those entities that legitimately need the information to combat fraud.

Over the past year we have worked closely with an inter-agency group, led by the Office of Management and Budget, to develop a legislative proposal that would strike that balance. I am

pleased to report that the President's FY 2014 Budget includes a legislative proposal that would restrict access to the public DMF. Specifically, the proposal would delay the release of a deceased individual's information on the public DMF for 3 years after he or she dies. This would significantly reduce the ability of criminals to use death information to commit tax fraud. Only private entities that the Commissioner certifies as having a legitimate need for the information—and sufficient protections in place to safeguard the information—would be permitted to receive the public DMF.

At the same time, our proposal would allow additional Federal agencies to access our death information—including State death information—to combat fraud and curb improper payments. Under our proposal, we would be permitted to share our entire death file with Federal agencies for the purposes of public health or safety, law enforcement, tax administration, health oversight, debt collection, payment certification, disbursement of payments, and for the prevention, identification, or recoupment of improper or erroneous payments. We look forward to working with Congress, the Administration, and other parties to refine this legislation.

#### Additional Efforts to Combat Fraud

A number of Federal agencies are working individually and cooperatively to help assure that their programs do not create opportunities for fraud. For instance, we support Treasury's new Do Not Pay initiative that will help administrators of federally-funded programs reduce improper payments. The Do Not Pay initiative will provide a one-stop shop that will allow these agencies to check various databases, including death information, to identify ineligible recipients and prevent fraud and errors before making payments or awards.

Additionally, the President's FY 2014 Budget also includes a legislative proposal that would remove some restrictions on our ability to share the information that we maintain on prisoners, and expand the data that correctional facilities are required to provide us to include the prisoner's release date. Under this proposal, our prisoner information would become part of the Do Not Pay program, which would make it available to other agencies to help detect and prevent improper payments in a wide array of government programs.

#### Wage Reporting

Employers are required to file annual reports of their employees' earnings with us. We use this information to ensure that we properly credit employees with the wages they have earned.

Before the mid-1970s, employers were required to report wage information to IRS and SSA on a quarterly basis. However, legislation enacted in 1976 (P.L. 94-202) changed wage reporting to an annual process. Additionally, that legislation required SSA and IRS to develop a single consolidated annual wage report process. Shortly after enactment of that legislation, SSA undertook the responsibility of collecting all wage information through the W-2, Wage and Tax Statement and timely sending that information to the IRS. In return, IRS collects self-employment income and shares the data with us. We use the individual's name and SSN to record his or her earnings.

Employers that file paper W-2s are required to submit their reports to us by February 28 following the end of the tax year. Employers who file reports electronically have until March 31 to file. We process the wage data, and use it to maintain earnings information on every worker for SSA program purposes. On a daily basis, we provide it to IRS for tax administration purposes.

Over the past 10 years, the number of wage reports ranged from a low of 220 million to a high of almost 250 million. The number of employers making reports ranged from 6.3 to 6.7 million annually. We encourage electronic wage reporting because it is more accurate, and we work with the employer community to educate them on its advantages. More and more employers submit their wage reports electronically; in fact, employers filed about 87 percent of W-2s electronically in Calendar Year 2012 -- up from less than 10 percent in 1999.

### Legislative Proposals to Enhance the Wage Reporting Process

The President's FY 2014 Budget includes two proposals that we believe would enhance the wage reporting process while also helping to prevent fraud. One proposal would gradually reduce the electronic wage reporting threshold from 250 to 50 employees. Reducing the threshold to 50 would increase the percentage of electronic filing to approximately 90 percent of all W-2s. This will enable us to take better advantage of automation, reduce the work effort required to process paper forms, reduce errors caused by manual processing, and speed the process of correctly posting wages.

The second proposal would restructure the Federal wage reporting process by requiring employers to report wages quarterly rather than annually. Increasing the frequency and timeliness of wage reporting would enhance our ability to detect fraud and curb improper payments in our programs. We recognize that a return to quarterly reporting may be perceived as imposing a burden on businesses, especially small businesses. The Administration is committed to working with the business community to minimize any burden and alleviate any concerns.

### Other Initiatives to Enhance Wage Reporting

In addition to the President's FY 2014 Budget proposals, we have some initiatives underway that will help make the wage reporting process more accurate and efficient, thereby providing us with greater capacity. By redesigning our earnings reporting system we will be able to take greater advantage of automation that will result in improved accuracy and faster processing of the ever-increasing number of electronic wage reports.

Also, we are working to greatly reduce paper wage reports, which are error-prone and expensive to process. In FY 2012, we implemented enhancements to our electronic wage report (EWR) filing tool to make it more user-friendly for small business. And the number of registered EWR users has increased from 500,000 in tax year 2009 to over 734,000 in tax year 2012. Through a variety of marketing tools and outreach, we encourage employers to file electronic W-2s through our *Business Services Online*.

## Conclusion

We appreciate Congress' interest in working with us to protect our fellow Americans. We are committed to continuing to share death information with our Federal partners and appreciate that there are other parties that, with vigilant oversight, have reasonable and responsible purposes for obtaining death data. We stand ready to assist Congress and the Administration to take steps to combat fraud and improve wage reporting.