

**GAO**

March 1990

**MEDICARE  
CATASTROPHIC**

**Roll Back of Premiums  
on Schedule**





United States  
General Accounting Office  
Washington, D.C. 20548

Information Management and  
Technology Division

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March 16, 1990

The Honorable John Heinz  
United States Senate

The Honorable David H. Pryor  
United States Senate

This report responds to your requests asking us to address a series of questions about the Social Security Administration's (SSA) effort to stop withholding Medicare catastrophic coverage premiums. This report updates information we gave to your offices during January and February 1990.

The Medicare Catastrophic Coverage Act of 1988<sup>1</sup> expanded the Medicare program to cover catastrophic medical expenses and a prescription drug benefit for millions of elderly and disabled enrollees. Payments for this coverage were to be deducted from monthly Social Security payments. But almost immediately, the act came under fire from beneficiaries who either already had catastrophic coverage or who had to pay more than they wanted or expected. As a result, in December 1989, most provisions of the act were repealed effective January 1, 1990.<sup>2</sup>

However, SSA was not able to stop withholding catastrophic coverage payments by January 1, 1990, without jeopardizing the timely processing of basic monthly Social Security benefits. Consequently, SSA will continue to withhold premiums averaging \$5.30 from the monthly Social Security payments of 27 million beneficiaries until it can reprogram its computers. At the same time, the Department of the Treasury will send refunds back to the beneficiaries.

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## Results in Brief

May's Social Security checks will be the first not to have catastrophic coverage premiums withheld even though SSA expects to have reprogrammed its computers by mid-March. Consequently, Treasury will issue two refunds—one which was issued in February and another which will be issued in April—returning the excess withholdings of \$572 million. The unusual arrangement of collecting premiums while issuing refunds may be SSA's best solution but will cost about \$49 million.

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<sup>1</sup>P.L. 100-360, enacted on July 1, 1988.

<sup>2</sup>P.L. 101-234, enacted on December 13, 1989.

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After the programs are modified they will be tested to ensure their accuracy. SSA must be extremely careful not to introduce errors into its carefully constructed payment system that pays \$19 billion each month to 40 million beneficiaries. SSA's existing payment software is designed with comprehensive audit trails and accounting processes to guard against error and to provide protection against fraud. As a result, SSA procedures require modified software programs to be tested before they are used to process Social Security data.

During testing, deficiencies in the programs will be identified and the necessary revisions made to correct the deficiencies. The SSA testing staff then will evaluate the revisions to ensure that all deficiencies are corrected before final acceptance. SSA's plans call for testing to be completed, including final acceptance, by March 17, 1990. This date, however, is too late to affect April's Social Security checks. May's Social Security checks will be the first not to have the premiums deducted because of the time it takes the Treasury Department to process and distribute Social Security payments after SSA provides Treasury with the necessary information.

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## What Are the Plans for Refunding Premiums?

SSA will refund premiums in two special payments. These payments will be processed by Treasury's Financial Management Service at five of its regional financial centers. Treasury officials believe the centers have enough capacity to handle the increased work load.

In February 1990, a special \$10.60 refund was issued to cover the deductions made in January and February. During April, another refund will be issued to cover March and April deductions and any balance due. Treasury will get the April refund amounts from SSA. SSA will use its computers to calculate the amount of catastrophic premiums an individual has paid since January 1990, deduct the amount of the February refund, and calculate the balance.

The special refund operation will occur during Treasury's busiest time of the year. Treasury estimates it will issue about 80 million income tax refund payments between February and May 1990, in addition to processing its normal monthly volume of 55 million to 65 million payments such as Social Security benefits, federal salaries, and contractor payments.

Treasury's financial centers must fit the special refund effort around their normal work loads. Treasury issued all of the first special refund

SSA expects to receive about 2.7 million inquiries from beneficiaries about refund payments and changes that appear in their monthly benefit payments. As of February 16, 1990, SSA had received about 1 million inquiries from beneficiaries about their refund payments. The cost of responding to an inquiry includes employee salaries and telephone line charges for use of SSA's "800" telephone service. It also includes manually resolving benefit payment differences.

SSA also expects that about \$4.4 million in overpayments will occur. Overpayments will occur because a refund of \$10.60 was issued during February to all of the estimated 27 million individuals enrolled in the catastrophic coverage program during January and February, including those who had less than \$10.60 withheld. SSA estimates that about 3 percent of the individuals enrolled in the catastrophic coverage program have less than \$5.30 withheld each month. Individuals who live in Puerto Rico, for example, pay \$3.80 a month.

An analysis made by SSA shows that it would cost about \$40 million to collect the overpayments. Because it will not be cost-effective, the Commissioner of Social Security is evaluating a proposal to waive the collection of overpayments. A decision by the Commissioner is expected later in 1990.

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## Does SSA Need to Overhaul Its Computer Systems?

SSA needs to overhaul its computer systems in order to respond faster to legislative changes. SSA's difficulties in stopping the catastrophic coverage premiums are indicative of the long-standing computer systems problem the agency has, namely, the need to modernize its computer systems so that they are easy to maintain. SSA has stated, and we have previously reported, that the complex structure of SSA's software programs makes them difficult to understand and maintain.<sup>3</sup> This lack of software programs that are easy to maintain is a long-standing problem that SSA is addressing in its computer modernization. SSA expects to complete the modernization of its programs by the mid-1990s.

One important measure of a computer system's maintainability is how well its software programs are structured. A well-structured program is

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<sup>3</sup>Social Security Administration's Computer Modernization Effort May Not Achieve Planned Objectives (GAO/IMTEC-85-16, Sept. 30, 1985), Software Systems: SSA Encountering Significant Delays in Its Claims Modernization Project (GAO/IMTEC-87-8, Dec. 22, 1986), and Software Maintenance: SSA's Use of Its Software Maintenance Package (GAO/IMTEC-89-38, June 15, 1989).

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used to respond swiftly to future emergency changes until the modernization of SSA's programs is completed.

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## Scope and Methodology

Our review was conducted from December 1989 to February 1990 at SSA's headquarters in Baltimore, Maryland, and at the Department of the Treasury's Financial Management Services headquarters in Washington, D.C., in accordance with generally accepted government auditing standards.

We reviewed SSA's plans for rolling back catastrophic coverage premium withholding and for refunding premium overpayments, obtained supporting documentation and interviewed SSA personnel responsible for implementing the roll back and refund. To determine the extent to which software affected by the repeal of catastrophic coverage will be ready for use by mid-March 1990, we reviewed the process SSA is using to modify and test catastrophic repeal-related software changes. We also examined the approach SSA is using for detecting and reporting problems with the software before placing it into service. In addition, we examined past GAO reports on SSA's modernization.

We reviewed the process the Financial Management Service plans to use to process and issue catastrophic coverage refunds. We obtained supporting documentation and interviewed Service personnel responsible for overseeing the refunding operation.

We discussed the facts presented in this report with SSA and Financial Management Service officials during the course of our work and have incorporated their views where appropriate. We did not obtain official agency comments on a draft of this report.

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As arranged with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after its issue date. At that time, we will send copies to the Secretary of Health and Human Services; the Secretary of the Treasury; the Commissioner, Social Security Administration; the Commissioner, Financial Management Services; the Director, Office of Management and Budget; and other interested parties. This report was prepared under the direction of Daniel C. White, Special Assistant to the Assistant Comptroller



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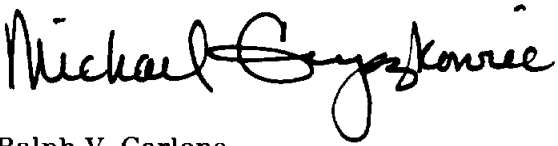
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clearly organized; its logic is apparent and easily understood by a programmer. As a result, the program can be modified, enhanced, or corrected with reasonable cost, effort, and risk. By contrast, the programs that collect catastrophic coverage premiums are not well organized; their logic is complex, making them difficult to understand, thus increasing maintenance time and cost.

SSA officials believe the agency's computers could have been reprogrammed sooner if the software programs used to collect catastrophic coverage premiums had been better organized, as well as easier to understand and maintain. SSA is documenting the procedures used to stop the withholding of catastrophic coverage premiums to help SSA computer programmers quickly respond to rate changes in the future.

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## Conclusions

Given the limitations of SSA's computer systems, the agency's approach appears to us as the quickest way to stop the collection of the repealed catastrophic coverage premiums as well as return the money withheld. SSA and Treasury have established specific goals, objectives, and milestones for refunding catastrophic coverage premiums, demonstrating that the agencies have attached a high degree of importance to stopping the collection of these premiums and refunding the money collected as quickly as possible.

The absence of well organized computer programs affected SSA's ability to quickly reverse the process used to collect catastrophic coverage premiums. Documenting the process that was followed to reverse withholding, as well as keeping current the computer programs that were developed, will help save time and money in making future rate changes until the agency's effort to overhaul its existing computer system is completed.

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## Recommendations

We recommend that the Commissioner of Social Security require SSA officials managing the reprogramming to complete the documentation of specific changes that were made. The documentation prepared should as a minimum (1) list the programs that were used to calculate and deduct catastrophic payments; (2) document the order in which these programs should be run; and (3) provide detailed descriptions of each program showing the input, its format, the files required, and the output to be expected. We further recommend that the Commissioner require SSA officials to maintain the special software developed so that it can be

payments by February 28, 1990. Because production schedules varied at each center, the mailing of catastrophic coverage refund payments was staggered. As a result, beneficiaries did not receive their refund payments on the same day. For example, a couple who receives separate monthly Social Security payments may have received their special refund payments on different days. Treasury tracked the progress of the agency's five financial centers on a daily basis. Treasury notified SSA of any delays or problems so that SSA could respond to inquiries regarding the status of their refunds.

A December 1989 study conducted by Treasury concluded that the five financial centers which process SSA payments should have sufficient capacity to also process the millions of catastrophic refunds. Some centers plan to hire temporary personnel. Also, all centers may have to adjust employee work schedules to keep operating 24 hours a day. If necessary, Treasury will move some of the special refund check processing work load to a sixth center.

We analyzed reports for the five financial centers showing the volumes of special refunds that were processed through February 28, 1990. Our analysis shows that the centers were able to meet the February goal.

## How Much Will It Cost to Stop and Then Refund These Premiums?

SSA estimates the cost at \$45 million. The agency's estimate does not include, however, about \$4.4 million in overpayments SSA expects to make. The cost to stop and roll back catastrophic coverage premiums will be paid from funds appropriated to administer the Medicare program. Table 1 shows the expected costs to stop and roll back catastrophic coverage premiums, including refund overpayments.

**Table 1: Estimated Costs to Stop and Roll Back Catastrophic Coverage Premiums**

Item	Estimated cost
Inquiries and telephone line charges to resolve payment questions	\$29,000,000
Check printing and postage	
Treasury's costs	8,000,000
SSA's costs	7,000,000
Refund overpayments	4,400,000
Reprogramming SSA's computers	1,000,000
<b>Total</b>	<b>\$49,400,000</b>

Note: SSA estimates that firm cost figures will not be available until October 1990.

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To stop withholding catastrophic coverage premiums and make refunds, SSA has to identify and modify the software programs that calculate and withhold premiums and then test the programs to ensure they work. The Department of the Treasury has to process and mail refunds after SSA provides Treasury with the necessary data.

SSA officials acknowledge that withholding premiums could have been stopped sooner if the agency's computer software programs for catastrophic coverage premiums were better organized and easier to maintain. Reducing the time needed to reprogram SSA's computers might have eliminated the need for a second refund check, thereby lowering the overall cost to implement the "roll back". Not having well organized, easy to maintain software is a long-standing problem which SSA is addressing in its effort to overhaul its computer systems.

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## Why Will It Take So Long to Stop Withholding Premiums?

Halting the withholding of catastrophic coverage premiums requires the software programs that calculate and deduct catastrophic coverage premiums to be modified and tested. Software programs are the step-by-step instructions, called code, that control computers. Written as a series of logical decisions, programs are structured something like a tree with many branches. Some loop back into other branches, creating a web of pathways. The programs SSA uses to calculate Social Security payments as well as catastrophic coverage deductions contain more than 19 million separate instructions and thousands of decision points.

To stop withholding catastrophic premiums, SSA plans to follow the same process it uses to make annual cost-of-living changes. This process normally takes 9 months to complete. However, for catastrophic premiums, SSA plans to complete the process in 4 months. First, SSA will determine which instructions calculate and deduct catastrophic coverage payments from monthly Social Security payments. Then SSA computer programmers will modify these instructions. In addition, new instructions will be written so that SSA computers can search the agency's automated files of the 40 million individuals receiving Social Security benefits to identify (1) the individuals who are having catastrophic payments withheld during 1990, and (2) the total amount withheld from their monthly Social Security payments.

SSA has assigned about 100 analysts and computer programmers to the project. These individuals were selected based on their technical skills and knowledge of the agency's software programs.

