

Social Security Beneficiaries Financially Advantaged by Electing to Convert from Disability Benefits to Reduced Retirement Benefits

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Office of Audit Report Summary

Objective

To determine the extent to which section 202(q)(7)(F) of the *Social Security Act* (Act) gave a financial advantage to certain disability beneficiaries.

Background

Beneficiaries may elect to receive reduced retirement benefits as young as age 62. When beneficiaries begin receiving retirement benefits before full retirement age (FRA), the Social Security Administration (SSA) generally permanently reduces the payment amount based on the number of months before FRA they begin receiving payments.

When disability beneficiaries elect to receive reduced retirement benefits, the reduction is not permanent, as it is for non-disability beneficiaries. Specifically, for beneficiaries who (1) were entitled to both disability and retirement benefits and (2) elected to receive reduced retirement benefits, section 202(q)(7)(F) requires that SSA pay a higher benefit amount when the beneficiary reaches FRA.

From the Master Beneficiary Record, we identified 32,474 beneficiaries who, as of September 5, 2019, (1) had reached FRA, (2) had been entitled to disability benefits and elected to receive reduced retirement benefits, (3) were in current payment status, and (4) were entitled to a higher benefit amount at FRA. We reviewed a random sample of 100 beneficiaries from this population.

Findings

Section 202(q)(7)(F) of the Act gave a financial advantage to 89 of 100 beneficiaries in our sample. By electing reduced retirement benefits, they received higher payments than they would have had they continued receiving disability benefits. Of the 89 beneficiaries,

- 70 avoided a reduction because they were receiving workers' compensation or public disability payments;
- 11 increased total payments for their families; and
- 8 avoided a reduction because they returned to work.

When they reached FRA, the Act provided them a financial advantage because it required that SSA remove the age-based reduction for any months the individual was entitled to both disability and reduced retirement benefits and begin paying higher retirement benefits.

Because section 202(q)(7)(F) of the Act gave them an advantage, these 89 beneficiaries have already received approximately \$1.8 million more in benefits since FRA. Further, 86 of the 89 beneficiaries will receive an estimated \$2.4 million more in benefits because this advantage continues through the rest of their lives. We estimate this provision will result in approximately 29,000 beneficiaries receiving almost \$1.4 billion in additional lifetime benefits.

Recommendation

We recommend SSA determine whether it should propose a change to section 202(q)(7)(F) of the Act to eliminate the financial advantage it gives to certain disability beneficiaries. SSA disagreed with our recommendation and deferred to Congress to determine whether a legislative change is necessary.