

Insight on the Issues

Current Issues in Social Security: Financial Capability and Representative Payees

James Palmieri
AARP Public Policy Institute

In 2016, the Social Security Administration (SSA) paid nearly \$900 billion to 60.5 million Old-Age, Survivors, and Disability Insurance (OASDI—that is, Social Security) beneficiaries. SSA paid out another \$57 billion to 8.3 million beneficiaries of Supplemental Security Income (SSI), a federal program that provides cash assistance to meet the basic needs of people with little or no income who are ages 65 and older, are blind, or have a disability.¹

Generally, adult beneficiaries are capable of managing or directing the management of their benefits; some, however, need help due to mental or physical impairments. To help ensure benefits are used as intended, Congress amended the Social Security Act in 1939 to allow SSA to appoint “representative payees.” Representative payees manage benefits for those needing assistance, and they are required to spend benefits to meet a beneficiary’s day-to-day needs for food, clothing, shelter, and medical care.

Recent concerns about how the program operates, as well as predicted increases in the use of representative payees over the coming decades, indicate the need to reassess the current

system. This *Insight on the Issues* provides a thorough background on the representative payee program, discusses current system challenges, explains future demographic shifts that will impact the program, and highlights ideas for reform.

BACKGROUND

Among all Social Security beneficiaries, approximately 41.2 million are retired worker beneficiaries, and another 9 million are disabled (table 1). Relatively few of these beneficiaries,

TABLE 1
Number and Percentage of Old-Age, Survivors, and Disability Insurance Beneficiaries, with Representative Payees by Category, December 2016

Type of Beneficiary	All Beneficiaries	Beneficiaries w/ Representative Payees	
		Number	Percentage
Adults	Retired	41,233,126	537,923 1.3
	Spouses	2,505,754	21,696 0.9
	Nondisabled Widow(ers)	3,878,927	104,744 2.7
	Disabled Workers	8,808,736	904,143 10.3
	Disabled Widow(ers)	259,207	13,855 5.3
	Total Adults	56,685,750	1,582,361
Children	Under Age 18	3,006,839	3,004,567 99.9
	Disabled Adult Children	1,085,262	796,160 73.4
	Students, Ages 18-19	129,456	4,867 3.8
	Total Children	4,221,557	3,805,594
Total Adults & Children	60,907,307	5,387,955	8.8

Source: Social Security Administration, “Annual Statistical Supplement to the Social Security Bulletin,” Social Security Administration, Washington, DC, 2017, Table 5.L1.



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however, have representative payees. Children under age 18 and adult children with disabilities² rely on representative payees at far higher rates. In fact, 70 percent of all representative payees assist children under 18 and adult children with disabilities.

Although child beneficiary representative payees dominate the system, SSA predicts significant growth in older beneficiary representative payees over the coming decades for two reasons. First, significantly more people will age into the “retired worker” category (retired worker benefits are first available at age 62). Second, older baby boomers will start to age into the “85 or older” category, a period of greater mental and physical challenges.³

Considerably more payees serving retired worker beneficiaries are *not* family members (43 percent) compared to workers with disabilities (29 percent) or children (1 percent). Aware of projected growth in the need for representative payees through 2035 (figure 1), SSA is using several approaches to attract more representative payees. For example, SSA field offices work with local agencies on aging to identify suitable representative payees. In addition, SSA is currently running a pilot program in Maryland to determine the feasibility of recruiting licensed attorneys, regardless of specialty, to serve as representative payees on a pro bono basis.

The overall patterns of representative payee use in the SSI program are similar. Children under 18 generally have a parent or adult relative acting as their representative payee. SSI beneficiaries who are blind or disabled also have high rates of representative payee use. In fact, representative payees are generally used at a much higher rate in the SSI program due to more beneficiaries with disabilities in SSI (37.1 percent) than in

Social Security (8.8 percent). Given the scarce income resources of SSI participants, ensuring benefits are spent wisely takes on added importance (table 2).

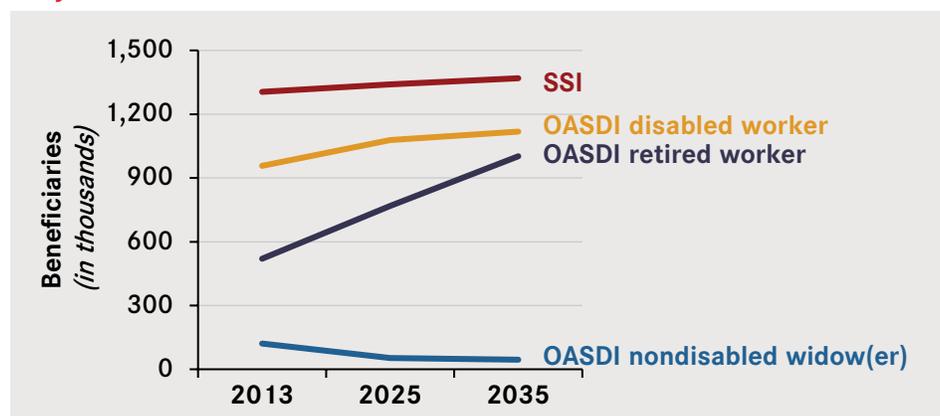
DETERMINING FINANCIAL CAPABILITY

When physical or mental challenges interfere with the financial capability of a beneficiary, SSA has the authority to make benefit payments directly to an individual or organization to take care of the beneficiary’s basic needs. Clearly, such a change means a loss of independence and can be emotionally difficult for the beneficiary.

SSA assumes a beneficiary is financially capable to manage benefits unless it receives information from an informant (often a relative) alerting the agency to a potential problem. SSA works through its field offices to determine if a beneficiary needs a representative payee. SSA field office staff use three different kinds of information to make their determination, which beneficiaries have the right to appeal within 60 days:

- **Legal evidence.** SSA automatically assigns a representative payee to any beneficiary declared legally incompetent through a court order. Even without a court order, however, SSA may assign a representative payee if a court recognizes a beneficiary’s difficulty in managing funds.

FIGURE 1
Number of Adult OASDI Beneficiaries and SSI Recipients with Representative Payees, by Selected Beneficiary Type: 2013 and Projected 2025 and 2035



Source: Chris E. Anguelov, Gabriella Ravida, and Robert R. Weathers II, “Adult OASDI Beneficiaries and SSI Recipients Who Need Representative Payees: Projections for 2025 and 2035,” Social Security Bulletin 75, no. 2 (2015): 5.

For these individuals, SSA uses additional medical and lay evidence to make its capability determination.

- Medical evidence.** SSA considers medical records and opinions that address a beneficiary’s mental or physical abilities. Such information must come from a physician, psychologist, or other qualified medical practitioner able to assess the individual’s ability to manage benefits.
- Lay evidence.** Lay evidence is all documentation other than legal or medical evidence that provides further support for how well a beneficiary can manage funds. Lay evidence may include interviews with beneficiaries, their relatives, friends, neighbors, or landlords about the ability to manage funds and meet basic needs. It is important to note that for lay evidence, questions are asked about the beneficiary’s ability to manage funds; however, the beneficiary does not take any formal test of financial capability.

SSA prefers selecting a representative payee who sees the beneficiary often and knows the beneficiary’s needs. Often the representative payee is a family member or close friend. When no individual is available to act as a representative payee, nursing homes or social service agencies can represent a beneficiary, and are known as organizational representative payees. Once SSA designates a representative payee, benefits are paid directly to the payee, who manages these funds to meet the beneficiary’s most important needs—food, clothing, and shelter.

ISSUES AND OPPORTUNITIES

Representative payees play an important role for individuals unable to manage or direct the management of their benefits. By maintaining a more secure environment, they help beneficiaries stay in their homes, reduce isolation, improve health outcomes, and add to their overall quality

TABLE 2
Number and Percentage of SSI Recipients with Representative Payees by Category and Age, December 2016

Type of Beneficiary	All Beneficiaries	Beneficiaries w/ Representative Payees	
		Number	Percentage
Category	Aged	1,164,589	53,480 4.6
	Blind	68,344	20,225 29.6
	Disabled	7,018,228	2,986,475 42.6
	Total by Category	8,251,161	3,060,180 37.1
Age	Under 18	1,213,079	1,212,089 99.9
	18–64	4,845,735	1,643,265 33.9
	65 or Older (includes blind and disabled persons 65 and over)	2,192,347	204,826 9.3
	Total by Age	8,251,161	3,060,180 37.1

Source: Social Security Administration, “Annual Statistical Supplement to the Social Security Bulletin,” Social Security Administration, Washington, DC, 2017, Table 7.E4.

of life. Further, they help keep beneficiaries out of institutional environments, where the costs for daily living needs are much higher.

On the other hand, representative payees present challenges. For an adult beneficiary, using a representative payee after managing one’s finances for a lifetime indicates a loss of independence and can promote feelings of insecurity. Many representative payees are family members, which can create conflicts with other family members who are not managing the beneficiary’s finances. In addition, because SSA pays the beneficiary’s monthly benefit directly to the representative payee, funds may be spent inappropriately.

Issues with the Current System

While representative payees play an important role in helping beneficiaries manage their money wisely, concerns continue to reduce confidence in the program and spur calls for reform.⁴ Generally, problem areas noted by researchers focus on the following:

- Missed beneficiaries needing representative payee assistance.** A 2010 Office of the Inspector General (OIG) report for SSA noted that 61 out

of 275 randomly chosen beneficiaries over age 85 were not capable of managing or directing the management of their benefits, yet these individuals were receiving their benefits directly from SSA. Extrapolating to the entire population, OIG estimated about \$1 billion in monthly benefits were paid to an estimated 1 million beneficiaries over 85 incapable of managing their benefits. It is likely these individuals face greater risk of mismanaging their money and financial fraud.⁵

2. **Lack of a dynamic system to track ability to manage benefits.** Cognitive and physical status can decline or improve numerous times over a person's life, meaning a representative payee may be necessary intermittently. SSA tends to view individuals as capable of managing their own finances until they are not. Once they are not capable, there are no systematic reviews to reverse a finding of incapability.
3. **Simplistic categorization as either financially capable or incapable.** Classifying beneficiaries into two possible categories (financially capable or financially incapable) misses people who have some ability to manage or direct the management of their finances, but could benefit from less-intrusive third-party supervision.
4. **Inconsistent classifications across different programs.** Some beneficiaries receive payments from multiple programs. A 2012 OIG report found more than 6,000 people receiving benefits from both SSI and Social Security Disability Insurance had a representative payee in one program, but not the other. Moreover, SSA, the Department of Veterans Affairs, and the US Office of Personnel Management use their own separate guidelines for determining financial capability, which opens up possible conflicts for individuals receiving benefits from more than one agency.⁶
5. **Representative payees misusing funds.** Representative payees manage the benefits of vulnerable individuals at higher risk of exploitation. A recurring concern centers on payees misusing funds, either due to inadequate accounting for expenditures or, in extreme cases, outright fraud. While SSA believes parental and spousal payees pose little risk for misuse of funds, it has happened in some well-documented cases.⁷

Ideas for Reform

Given the vital role representative payees play and their projected growth in the decades to come, it's important to look for ways to improve the system. The following options would improve the program and its commitment to at-risk beneficiaries:

1. **Better screening.** To identify quickly beneficiaries needing representative payees, SSA should implement new screening procedures using SSA data to identify financial incapability predictors. The findings should be shared with field offices to improve their ability to identify beneficiaries needing representative payees.
2. **Status consistency among programs.** It makes no sense for one program to view a beneficiary as financially capable while another one does not, but communication challenges across federal agencies sometimes cause this to occur. SSA recently started requiring its employees to check beneficiaries receiving payments from more than one program and to follow up on instances when a beneficiary's status differs between programs.
3. **Closer examination of nursing homes acting as representative payees.** Nursing homes provide important services to individuals under their care; however, organizations on aging are concerned with nursing homes acting as representative payees for such individuals. An important conflict of interest arises when a resident pays a nursing home for the services it provides, and at the same time manages the resident's finances. In such a situation, the financial interests of a nursing home might differ from an individual in its care. Tighter requirements and oversight seem especially warranted. In particular, nursing homes should counsel residents and their families about what it means for a nursing home to become a creditor representative payee, follow necessary SSA application procedures to become representative payees, acknowledge their duties

and responsibilities as representative payees, and maintain accurate records of beneficiary expenditures.

4. ***Policy that acknowledges a spectrum of need.*** The change from financial capability to incapability may be very sudden for some beneficiaries, but very slow for others. SSA should consider adopting early detection warning signs and best practices. For those facing a slow change, benefits could still be paid directly to the beneficiary, with appropriate supervision by a suitable individual. This approach, known generally as *supported decision making*, is preferred by mental health professionals because it is far less paternalistic than the traditional method of turning all control over to a representative payee. See Appendix 1 for further discussion of supported decision making.
5. ***Mechanisms to monitor spending.*** Under the current system, when financial incapability exists, SSA pays benefits directly to the representative payee. While this makes it easier for the payee, the potential for fund misuse is likely much higher. While tracking all spending may place an extreme burden on payees (and dissuade people from becoming payees), SSA should consider monitoring spending, when needed, through low-cost technology such as debit cards that flag suspicious expenditures for further evaluation. In addition, SSA should work

with financial institutions to determine how best to monitor payments and expenditures. These suggestions would complement the misuse prediction models and Criminal Bar Policy that SSA currently uses to reduce fraud.⁸

6. ***Extra monitoring for lump-sum or special payments.*** When an individual becomes newly eligible for a program benefit, it is not uncommon for a delay of a month or two in payments to the beneficiary, followed by a lump-sum “catch-up” payment. Depositing several thousand dollars at one time in a representative payee’s account increases the risk for misuse. SSA should consider subjecting these larger payments to special monitoring, if possible.

CONCLUSION

Millions of the most vulnerable Social Security and SSI beneficiaries are well-served by representative payees managing their benefits. The representative payee program has its challenges, but relatively simple enhancements would make an already strong program even better. Given likely aging trends, the need for representative payees will increase substantially, especially for beneficiaries at advanced ages. Greater use of technological safeguards will certainly help, as will reasonable oversight and program flexibility. Such reforms become all the more important given the projected increase in the use of representative payees in the future.

APPENDIX 1

Supported Decision Making and Representative Payees

Many Social Security beneficiaries with representative payees feel a loss of autonomy because the representative payee receives the benefit directly from SSA and controls how the benefit is spent. While this surrogate decision-making model makes financial management easier for the representative payee, it can alienate the beneficiary.

Under certain conditions, a different model of financial capability known as supported decision making might be more appropriate in helping Social Security beneficiaries manage their money wisely. This approach balances the right of individuals to control their lives with the recognition that assistance is necessary when physical or mental challenges exist. The U.S. Department of Veterans Affairs (VA) already has such a model in place with its Supervised Direct Pay option. Under this policy, VA beneficiaries deemed incompetent might still manage their benefits if they are capable of handling their financial affairs with appropriate supervision.

Might a supported decision-making framework operate in the context of Social Security? A review of financial capability in Social Security suggests it could.⁹ Such a framework might include the following characteristics:

1. The beneficiary (not the representative payee) would receive benefit payments directly from SSA, and maintain control over all or a portion of these benefits.
2. The beneficiary would use trusted individuals, including family members, friends or even professionals, to understand better relevant financial issues when they arise and make good decisions.
3. The exact form of support could vary, but would likely include:
 - a. explaining the issue and possible courses of action in simplified terms,
 - b. using audio or visual aids,
 - c. assisting in creating pros/cons for different options under consideration,
 - d. working with the beneficiary to prioritize what decisions are necessary and when they need to be made, and
 - e. assisting the beneficiary at important meetings to help ensure a thorough understanding of what is being discussed.

It is uncertain whether a supported decision-making model would be effective for Social Security beneficiaries; however, a panel of financial capability experts recommends SSA perform research in this area to find out.¹⁰

- 1 Social Security Administration, “Monthly Statistical Snapshot, January to December,” 2016, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot.
- 2 A disabled adult child is defined as an unmarried individual, age 18 or over, who becomes disabled before age 22 and has a parent who is deceased or starts receiving retirement or disability benefits. It is called a “child’s” benefit because it is paid based on a parent’s Social Security earnings record.
- 3 Chris E. Anguelov, Gabriella Ravida, and Robert R. Weathers II, “Adult OASDI Beneficiaries and SSI Recipients Who Need Representative Payees: Projections for 2025 and 2035,” *Social Security Bulletin* 75, no. 2 (2015): 5.
- 4 Social Security Advisory Board, “Representative Payees: A Call to Action,” Issue Brief, 2016, <http://www.ssab.gov/Details-Page/ArticleID/899/Representative-Payees-A-Call-to-Action-March-2016>.
- 5 Social Security Administration, Office of the Inspector General, “Aged Beneficiaries in Need of Representative Payees,” Audit Report, 2010, <https://oig.ssa.gov/aged-beneficiaries-need-representative-payees>.
- 6 Social Security Administration, Office of the Inspector General, “Disabled Individuals with Mental Impairments in Need of a Representative Payee,” Audit Report, 2012, <https://oig.ssa.gov/audits-and-investigations/audit-reports/A-07-11-11110>.
- 7 Social Security Advisory Board, “Representative Payees.”
- 8 SSA’s Criminal Bar Policy prevents individuals convicted of committing, attempting to commit or conspiring to commit certain crimes from serving as a representative payee. For a more detailed list of these crimes, as well as exemptions, see: <https://secure.ssa.gov/poms.nsf/lnx/0200502133>.
- 9 National Academies of Sciences, Engineering, and Medicine, “Informing Social Security’s Process for Financial Capability Determination,” 2016, The National Academies Press, <http://www.nap.edu/21922>.
- 10 National Academies of Sciences, Engineering, and Medicine, “Informing Social Security’s Process for Financial Capability Determination,” 2016, The National Academies Press, <http://www.nap.edu/21922>.

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 601 E Street, NW
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