

## Mismanagement of Canadians' Social Insurance Numbers: Should We Be Concerned about Losses and the Potential for Fraud?

*by Jason Clemens, Keith Godin, Milagros Palacios and Niels Veldhuis*

### Main Conclusions

- The Social Insurance Number (SIN) now underpins some \$117.9 billion in government spending, representing nearly one-fifth of all government expenditures in Canada last year.
- The Social Insurance Number (SIN) has become an integral part of many transactions in Canada, whether with the federal government for programs like the Canada Pension Plan (CPP) or Employment Insurance (EI), or with provincial governments for programs such as welfare, or with the private sector, which uses SINS for identification.
- In 1998 and again in 2002, the Auditor General of Canada raised serious concerns about the management of the SIN system and, in particular, about the number of active, non-dormant SINS compared to the actual population.
- Specifically, the Auditor General noted that in 2002 there were some 2.4 million more SINS than there were actual Canadians.
- The 2002 report also noted that there were still over 8.3 million usable SINS that had not been verified with personal identification or documentation.
- The Auditor General has completed a series of reviews over the years of programs that rely on the SIN for identification. The Auditor General consistently noted the presence of overpayments and in several reports warned about the potential for fraud and abuse. Programs reviewed include income support for seniors (Old Age Security and Canada Pension Plan), the CPP Disability Benefit, income-tax support programs such as the GST Tax Credit and the Child Tax Credit, and Employment Insurance.
- Using overpayment figures from the Auditor General's reports, the authors conclude that a conservative estimate of potential loss due to mismanagement of the SIN is between \$377.3 million and \$2.4 billion for 2005/06.
- The study urges the Government of Canada to undertake a fundamental review of the SIN system and set out a time frame for solving the problems identified.

## Introduction

The Social Insurance Number (SIN) has become an integral part of many transactions in Canada, whether with the federal government for programs like the Canada Pension Plan (CPP) or Employment Insurance (EI), or with provincial governments for programs such as welfare, or with the private sector, which uses SINS for identification. The SIN now underpins some \$117.9 billion in government spending, representing nearly one-fifth of all government expenditures in



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Canada last year. The management and integrity of the SIN system is critical for the proper functioning of the programs in which it provides fundamental identification of participants and, consequently, for the appropriate use of the government resources allocated by these programs.

## Importance and widespread use of the Social Insurance Number

The Social Insurance Number (SIN) has become a de-facto national source of identification despite the intentions of the federal government.<sup>1</sup> In 1998, the Auditor General of Canada (hereafter referred to as the Auditor General) noted that the SIN is now attached to “almost any transaction related to an income support program or loan, revenue collection, and an individual’s personal finances” (Auditor General, 1998: §16.24). The SIN is the backbone of almost all of Canada’s federal income-support programs, including the Canada Pension Plan (CPP), Old Age Security (OAS), Employment Insurance (EI), and student assistance, to name just a few. The use of the SIN has also expanded to provincial programs such as welfare and to the private sector, where many firms use the SIN as an identifier for employees.

Table 1, taken from the 2002 report on the SIN by the Auditor General summarizes the programs linked to the SIN. The scope of the use of SINS is remarkable. One now requires a SIN for everything from receiving income-support payments across any number of programs (public pensions, welfare, and employment

insurance), to filing taxes, to negotiating student loans, to securing health insurance.

According to Statistics Canada (2006), income-support programs linked to the SIN such as Canada Pension Plan (CPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), Employment Insurance (EI), and Welfare amounted to \$117.9 billion in 2005/06.<sup>2</sup> This represented over one-fifth of all government spending in that year, including federal, provincial, and local spending.

This study covers three aspects of the use of the Social Insurance Number (SIN) in Canada. First, it summarizes instances of mismanagement identified by the Auditor General. In particular, we compare the number of useable SINS with the actual number of Canadians to identify potential sources of problems. Second, the study summarizes a series of case studies made by the Auditor General of programs that rely on the SIN. Finally, the study presents some estimates of potential total losses from mismanagement of the SIN.

## I. Mismanagement of the SIN

Given the number of government programs that rely on the SIN system, and the amount of money disbursed through these programs, the management of the SIN system is critical. The Auditor General<sup>3</sup> has now criticized the federal government three times for its management of the SIN system, without significant result. The ongoing failures to reform may be explained, in part, by the fact that several

**Table 1: Use of the SIN in the Public and Private Sectors**

**PUBLIC SECTOR**

**Federal Government**

**Human Resources Development Canada (HRDC)**

- Canada Education Savings Grants
- Canada Labour Code
- Canada Pension Plan
- Canada Student Financial Assistance
- Canada Student Loans
- Employment Insurance
- Labour Adjustments Benefits
- Old Age Security

**Canada Customs and Revenue Agency**

- Excise Tax—GST
- Gasoline and Aviation Gasoline Excise Tax
- Income Tax—Appeals and Adverse Decisions
- Tax Rebate discounting

**Other**

- Canada Elections
- Canada Wheat Board
- Family Orders and Agreements Enforcement Assistance
- Farm Income Protection
- Immigration Resettlement Assistance
- Income and Health Care—Veterans' Affairs
- National Dose Registry for Occupational Exposures to Radiation
- Rural and Native Housing Program (CMHC)
- Social Assistance and Economic Development Program (INAC)
- Veterans Allowance

**Other Jurisdictions**

- Health Insurance
- Social Assistance
- Welfare
- Workers' Compensation

**PRIVATE SECTOR**

- Interest reporting to CCRA
- Income Tax
- Employer file numbers
- Client identification
- Credit checks

Source: Auditor General 2002.

departments of the federal government are responsible for the SIN system. The Auditor General summarized the administration of the SIN in the 2002 report as follows:

The Canada Employment Insurance Commission is named in the *Act* and Regulations as the body responsible for SIN administration. On behalf of the Commission, Human Resources Development Canada (HRDC) issues SINs and maintains the Social Insurance Registry, which holds all relevant information on SIN applicants. The Treasury Board is responsible for the SIN policy, and the Treasury Board Secretariat is responsible for developing guidelines that govern how federal departments collect and use the SIN. (Auditor General, 2002: §1.9)

*Auditor General's 1998 Report*

The first review of the SIN system by the Auditor General was in 1998. The report raised a number of concerns about the serious gap between the number of living SIN holders in the Social Insurance Registry (SIR) and the actual number of Canadians. Table 2 summarizes the SIN and population data used in the report.

The report noted that there were 3.8 million more SINs for people over the age of 20 in 1998 than there were people (Auditor General, 1998: §16.30). The Auditor General also noted that there were 311,000 people over the age of 100 years according to the SIR compared to the actual number of roughly 3,000

**Table 2: Comparing the Social Insurance Registry and Statistics Canada Data on the Number of Living Individuals Aged 20 or Older, 1998**

Age	SIR: Number of SINS	Statistics Canada: Actual Population	Difference
20 - 29	4,258,017	4,237,481	20,536
30 - 39	5,541,599	5,270,366	271,233
40 - 49	5,466,430	4,649,732	816,698
50 - 59	4,093,556	3,176,758	916,798
60 - 69	2,746,661	2,351,296	395,365
70 - 79	2,091,465	1,729,139	362,326
80 - 89	1,084,768	728,261	356,507
90 & over	770,871	127,095	643,776
Total	26,053,367	22,270,128	3,783,239

Source: Exhibit 16.3, Auditor General (1998).

people according to Statistics Canada's census data. Table 2 indicates rather large gaps between the number of people in the SIR and the actual number of Canadians estimated by Statistics Canada across all age groups.

The report noted a number of possible explanations: people leaving the country, deaths not reported to HRDC, and fraud (Auditor General, 1998: §16.30). After analysis, the Auditor General concluded that unreported deaths was one of the main factors in explaining the gap. The report noted that between 1965 and 1990 "only 1 million deaths were registered in the SIN database, far below the 4.4 million deaths in the Canadian population" (Auditor General, 1998: §16.31).

The report did note improvements in the data about deceased SIN holders between 1991 and 1997 as HRDC collected more information from sources such as the CPP and Revenue Canada. However, the

Auditor General concluded that "the collection of death data still needs to be improved" (Auditor General, 1998: §16.32).<sup>4</sup> The need for improvement was based on the continuing large gaps between the SIR data and Statistics Canada's data on population by age.

Equally as alarming as the problems in the management of the number of SINS was the finding by the Auditor General that some 16.8 million SIN entries, representing roughly 51% of SINS issued, had not been supported with identification documents (Auditor General, 1998: §16.36). After accounting for records that had been cancelled, voided, or validated by other program records, the number of uncertified records in the Social Insurance Registry stood at 11.8 million. The Auditor General commented that this number of uncertified records created the potential for "error, misuse, and abuse" (Auditor General, 1998: §16.36).

### *Auditor General's 2002 Report*

Four years later, and after an interim review of the SIN system in 2000, the Auditor General again made a thorough review of the SIN system. The Auditor General concluded that "little change" had occurred since the review of 1998, which had highlighted a number of serious problems. Indeed, three of the four areas examined and compared to 1998 were determined to have made "limited progress" in dealing with the issues and problems identified in the 1998 report.

The report noted that HRDC had made some progress in a number of areas identified as deficient in the 1998 audit. For example, it was able to classify as dormant and thus explain 3.2 million SINS through cross-checks and obtaining data from Canada Customs and Revenue Agency for tax returns between 1993 and 1997. The audit report also noted that HRDC was now routinely undertaking investigations of SIN-related transactions in dormant accounts.

The audit report noted, however, that the gap between the number of SIN holders in the SIR and population figures from Statistics Canada persisted. Table 3 summarizes the difference between the two series. In all, there are a little over 5.0 million more usable SINS than Statistics Canada calculates there are people. The Auditor General noted that, even after accounting for dormant or inactive SINS, the discrepancy still stands at some 2.4 million SINS (Auditor General, 2002: §1.71).

The report also noted that there were still over 8.3 million usable SINS that have not been verified

**Table 3: Comparing the SIR with the Population (2001 Census)**

Age	Usable SINS in the SIR	Population Based on Statistics Canada's 2001 Census	Difference
20 - 29	4,378,563	3,854,010	524,553
30 - 39	5,390,632	4,619,595	771,037
40 - 49	5,838,149	4,912,295	925,854
50 - 59	4,656,062	3,679,995	976,067
60 - 69	2,899,245	2,407,405	491,840
70 - 79	2,153,021	1,822,880	330,141
80 - 89	1,102,428	797,925	304,503
90 & over	829,687	134,120	695,567
Total	27,247,787	22,228,225	5,019,562

Source: Exhibit 1.4, Auditor General (2002).

against personal identification and documentation. In addition, the Auditor General concluded that the majority of SINS issued since 1998 were not properly verified with the applicant's identity and citizenship status.

The report ends with a clear statement of failure: "We began our audit expecting to find that the issues we raised in 1998 had been substantially addressed. Instead, we have concluded that HRDC has not done enough to safeguard and strengthen the integrity of the SIN" (Auditor General, 2002: §1.87).

## II. Case Studies of the Cost of Mismanaged SINS

In addition to the two main reports and the follow-up report on SINS, the Auditor General has also made a number of reviews of programs linked to the SIN. These program-specific audit reports indicate a potential for fraud and

inappropriate payments. It must be stressed that, because the reviews generally examined only portions of the programs, the case studies illustrate only a small portion of the totality of programs that are exposed to fraud, mis-payments, and wasted resources. Below are summaries of each of these audits with a estimate of losses, if available.

### *Canada Pension Plan Disability Program*

In a 1992 audit of the Canada Pension Plan Disability Program, the Auditor General determined that despite having good evidence that large amounts of money were being paid to ineligible beneficiaries, the Department of National Health and Welfare did not improve their process of reassessment for Canada Pension Plan Disability benefits (for those aged less than 65 years).

In 1991/92, 9,000 reassessment questionnaires were mailed to beneficiaries. However, the Department

focused primarily on new applications and rarely examined the questionnaires. In a sample of 4,600 beneficiaries in 1988, 80% had not been reassessed since being granted disability benefits (some as far back as 1980/81). As a result of the subsequent reassessment, one benefit in ten from this sample was cancelled and the Department identified overpayments totalling \$8.0 million. The Department's estimate of the annual overpayment for nearly 224,000 beneficiaries was \$65.0 million. This represents losses of roughly 3.6% on program spending of \$1.8 billion (Auditor General, 1992: §2.88).

A subsequent audit of this program in 1996 found that between 1986/87 and 1995/96 the number of CPP Disability beneficiaries had grown by 93.0% (155,000 to almost 300,000), while the labour force had grown by only 11.9%. In addition, the audit noted that the number of Quebec Pension Plan (QPP) beneficiaries remained relatively stable (1996: §17.34).

Further, during this time the amount paid out in CPP Disability benefits more than tripled, from \$841.0 million to close to \$3.0 billion. The audit noted that the Department launched its own investigation after repeated questions from the Chief Actuary regarding the causes of the large increases in program spending.<sup>5</sup> However, the review contained no quantifiable estimates and very little information regarding the factors responsible for the increase.

Official estimates of overpayments for 1994, which are distinct from the concerns raised by the Chief Actuary, were \$14.0 million but

further review indicated that the actual overpayments were between \$21.0 and \$38.0 million. This represents between 0.7% and 1.3% of total CPP disability spending for 1994.<sup>6</sup> This represents an improvement from the previous estimate of potential overpayments calculated in 1992. Unfortunately, according to a follow-up audit of the program published in November 1999, there were large mis-payments, which included overpayments. The Department specifically estimated that mis-payments (including overpayments) for 1996 totalled \$60.0 million or 2.0% of program spending in 1995/96.<sup>7</sup>

### *Programs for Seniors*

The Auditor General reviewed a number of income-support programs for seniors (including CPP) and reported in 1993 that “the systems and procedures in place for recording and collecting [Programs for Seniors] overpayments are completely inadequate” (Auditor General, 1993: §18.80). Based on information provided by the Department of National Health and Welfare, the Auditor General estimated that overpayments in the Old Age Security and Canada Pension Plan programs totalled at least \$70.0 million and possibly reached as high as \$108.0 million. This is in addition to the overpayments identified in the Guaranteed Income Supplement (GIS) benefit, which totalled \$40.0 million. All told, the overpayments for these income-support programs for seniors ranged from \$110.0 million, 0.37% of affected program spending, to \$148.0 million, 0.50% of affected program spending.<sup>8</sup> In

addition, the Auditor General noted that managing the debts arising from benefit overpayments had increased the administrative costs of delivering benefits by more than 50%, some \$130.0 million.

In November 2006, the Auditor General undertook an examination of OAS overpayments but found that information collected on OAS overpayments was quite limited: information on new overpayments identified and collected, and overpayments still outstanding were not recorded.<sup>9</sup> Human Resources and Social Development Canada estimated that the amount outstanding (not yet recovered, written off, or forgiven) in overpayments of OAS benefits was roughly \$82.0 million, 0.3% of spending.<sup>10</sup>

### *Income Support Tax Credits*

In September of 1996, the Auditor General examined HRDC and Revenue Canada’s management of the Child Tax Benefits and GST Credit programs. The Auditor General reported that between 6,000 and 34,000 children (born in 1993) had been improperly included on the 1994/95 Child Tax Benefit roll. As a result, improper payments were in the range of \$5.9 million to \$31.6 million and increased each year as the children grew older because there was no process in place to confirm eligibility for benefits. The Department’s own estimate (as of March 31, 1996) of overpayments since inception totalled \$69.0 million.

While the Department did not produce similar estimates for the GST Credit program, the Auditor General found that the increase in total GST credits outpaced the growth in the

number of recipients between 1992/93 to 1994/95 by 50% as the number of total recipients grew by 8.0% while the benefits paid increased by 12.0% (\$2.5 billion to \$2.8 billion). At the request of the Auditor General, the Department estimated that overpayments amounted to \$19.8 million for the 1994/95 benefit year. In total, the overpayments ranged from \$25.7 million (0.32%) to \$51.4 million (0.63%).<sup>11</sup>

The Auditor General followed up on the audit of the Canada Child Tax Benefit (formerly the Child Tax Benefit) and GST Credit programs in 2001. While there had been some improvement, there were several significant problems that still remained, including outstanding overpayments that were higher than originally estimated. For example, the Department originally indicated that outstanding overpayments were \$69.0 million in 1996. The outstanding CTB overpayment (receivables) were actually closer to \$122.0 million.

### *Employment Insurance*

In December 2000, the Auditor General conducted a limited review of the Unemployment Insurance system (now referred to as Employment Insurance). The Auditor General determined that there was abuse of the Employment Insurance (EI) program in British Columbia and that EI benefits were obtained through the use of false records. Officials of Human Resources Development Canada (HRDC) had been aware of the alleged fraud for over 20 years and Canada Customs and Revenue Agency had never prosecuted employers or claimants for making fraudulent claims.

Unfortunately, no financial estimates of abuse or fraud were provided for this program, whose spending is expected to reach \$14.6 billion in 2006/07 (Canada, Department of Finance, 2006: 168).

### *Heating Expense Relief Program*

The Auditor General reviewed the Heating Expense Relief program in 2001. The final report determined that relief payments for heating expenses, which were distributed through the GST Credit program, were poorly targeted. The relief was designed to provide payments (ranging from \$125 for individuals to \$250 for families) to help pay heating expenses. The program was supposed to aid households with low or modest income that faced immediate increases in heating expenses. However, the Auditor General determined that the delivery of the relief, which amounted to \$1.46 billion distributed to 8.6 million recipients, went mostly to Canadians not in immediate need. The Auditor General found that:

- 1 million households could have received more than one payment
- approximately 600,000 Canadians with low or modest incomes did not qualify for the program because of their previous year's income: 90,000 of these people required immediate assistance to help with increased heating costs
- 4,000 Canadians not living in Canada and 7,500 deceased people received payment
- 1,600 inmates also could have received payment.

In total, the Auditor General concluded that only \$250.0 million to \$350.0 million of the payments went directly to those in immediate need, implying that some \$1.1 billion to \$1.21 billion was misallocated and poorly used.

### *Social Insurance Number*

Finally, and perhaps most interestingly, the Auditor General noted potential sources of loss in the 1998 review of the SIN, which is the basis of this report. For example, the Auditor General noted that overpayments for employment insurance (EI) claims were estimated to be \$102.0 million in 1996/97, which represented roughly 0.83% of program spending.<sup>12</sup> In addition, the report noted that investigations into fraudulent use of SINs resulted in the identification of GST Credit overpayments as high as \$8.2 million, roughly 0.29% of program spending.<sup>13</sup> Moreover, in the last five years leading up to the audit, Revenue Canada made 1,132 corrections to tax records, representing income totalling \$36.0 million.

## **III. Potential Program Losses Due to Mismanagement of SINs**

As discussed in Section I, the number of useable and non-dormant SINs in Canada exceeds the actual size of the population to a significant degree. The Auditor General has repeatedly raised concerns both about the management of SINs and about overpayments and the potential for fraud in a number of programs such as the Canada Pension Plan (CPP), Old Age Security (OAS), and Employment Insurance (EI) that

rely on the SIN to identify recipients of benefits.

These concerns are particularly urgent given the size of the resources distributed through various programs using the SIN. In 2005/06, the latest year for which data are available, nearly one fifth of all government spending, amounting to nearly \$118 billion, was allocated by programs that relied on the SIN. The purpose of this section is to provide a reasonable estimate of the losses possible as a result of the mismanagement of the SIN system noted by the Auditor General.

Reviewing the Auditor General's case studies presented in Section II finds a range of potential losses between 0.32% and 2.0% of spending in the programs reviewed.<sup>14</sup> This would mean a dollar loss of between \$377.3 million and \$2.4 billion for 2005/06, based on the spending of the various programs linked to the SIN.<sup>15</sup> It should be noted that this estimate is quite conservative. First, it relies exclusively on the estimates calculated by the Auditor General, which are almost exclusively estimates of overpayments and do not necessarily include fraud. Indeed, the Auditor General notes in several reports the possibility for serious fraud but fails to attach a cost estimate.

## **Conclusion**

The potential for loss associated with mismanagement and abuse of the SIN system is clear. Some \$118 billion of government expenditures are tied to the SIN system. It is critical that the federal government commit itself to a specific timeline

for fundamentally and transparently assessing the current state of the SIN system and to a plan for reform with specific and measurable outcomes.

## Notes

- 1 According to the 1998 Auditor General's report on the SIN, the federal government sought to restrict the use of the SIN in 1988 (Auditor General, 1998). The report specifically noted that the government wanted to prevent the spread of the SIN as a national personal identifier.
- 2 The categories used to calculate this figure are Social Assistance and Workers' Compensation Benefits from the consolidated Financial Management System (FMS) of Statistics Canada, consolidated to include federal, provincial, and local expenditures. The figure includes "transfer payments, including refundable tax credits ... general welfare payments to disadvantaged individuals, refundable tax credits and rebates for low-and-middle income individuals or families, outlays relating to contributory plans such as CPP and QPP, and non-contributory plans, such as Old Age Security (including the guaranteed income supplement), family allowance payments and child tax benefits made under federal, provincial and territorial programs, the employment insurance benefits, the rent supplement, the spouse's allowances and the blind and disabled persons allowances" (Statistics Canada, 2006: 38).
- 3 Please note that the Auditor General of Canada only has jurisdiction to audit and review federal programs. There are provincial Auditor Generals in each of the provinces.
- 4 Interestingly, the Auditor General noted in the report that "about a third of the approximately 3,000 frauds detected by Income Security programs at HRDC since 1985-86 pertained to cheques negotiated after the eligible recipient's death" (Auditor General, 1998: §16.33).
- 5 The Chief Actuary completed estimates of increased disbursements that were a result of legislative changes in 1987 and 1992. Increased disbursements resulting from the 1992 legislative changes (Bill C-57) were estimated to be \$30.0 million in 1992, increasing to \$57.0 million in 2000. However, the actual costs of the increase in disbursements have almost always exceeded the actuarial estimates.
- 6 The total expenditure on CPP Disability Benefit payments for 1994 (\$2.9 billion) was not provided by the Auditor General in this report. The total expenditure on disability payments is from Canada, Office of the Chief Actuary, 1997.
- 7 Total program spending for 1995/96 was \$3.0 billion (Auditor General, 1996a: §17.28).
- 8 Total program spending was \$19.1 billion for OAS and GIS and \$10.7 billion for CPP payments (excluding disability and orphans payments) for 1992/93 (Auditor General, 1993: §18.55).
- 9 Moreover, the Auditor General noted that because data collection is deficient, overpayments are growing as older overpayments become more difficult to collect over time. For instance, from March 2003 to March 2005, the proportion of overpayments older than 5 years increased from 14.0% to 21.0% of total outstanding overpayments.
- 10 Total program spending was \$21.36 billion for Old Age Security (OAS) and \$6.04 billion for the Guaranteed Income Supplement (GIS) for 2004/05 (Auditor General, 2006: exhibit 6.2).
- 11 Total program spending was \$5.3 billion for child tax benefits and \$2.8 billion for GST credits for 1994/95 (Auditor General, 2006: §19.12).
- 12 The total expenditure on Employment Insurance payments for 1996 was not provided in the Auditor General's report. The figure used, \$12.32 billion, was based on data from Statistics Canada, Income and Expenditure Accounts Division, 1996.
- 13 The total expenditure on Goods and Services Tax Credit payments for 1996 was not provided in this Auditor General report. The total expenditure for GST credits (\$2.87 billion) was sourced from Statistics Canada's Provincial Economic Accounts (1996).
- 14 These estimates are taken from the GST Tax Credit review and the CPP Disability benefits review (1999), respectively. All of the remaining estimates of losses are within this range, except for the heating expense relief program, which the authors felt was too aggressive an estimate of loss.

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15 Note that this figure does not include potential losses in the private sector caused by SIN fraud and misuse.

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