

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA

Ann Charles v. Commissioner of Social Security Administration

Charles · No. CV-25-01040-PHX-SPL · Decided March 12, 2026

SUMMARY

The United States District Court for the District of Arizona reviewed the denial of Ann Charles’s application for Supplemental Security Income benefits. The Court held that the Administrative Law Judge inadequately explained the Step Three determination that Charles did not meet or medically equal Listings 12.03(C), 12.04(C), or 12.15(C), particularly the marginal-adjustment requirement. The Court vacated the Commissioner’s decision and remanded for further administrative proceedings, declining to reach the remaining arguments.

CASE DETAILS

COURT	United States District Court for the District of Arizona
JURISDICTION	United States District Court for the District of Arizona
DECIDED	March 12, 2026
DOCKET	CV-25-01040-PHX-SPL
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Judicial review under 42 U.S.C. § 405(g) of the Commissioner’s denial of Plaintiff’s application for Supplemental Security Income disability benefits.
STANDARD OF REVIEW	The Court may set aside the Commissioner’s disability determination only if it is unsupported by substantial evidence or based on legal error. Substantial evidence is relevant evidence that a reasonable person might accept as adequate to support a conclusion, and the Court must consider the entire record as a whole. The Court reviews only issues raised by the party challenging the decision.
PRECEDENTIAL VALUE	unpublished
PARTIES	Ann Charles v. Commissioner of Social Security Administration

TOPICS

- disability definition
- judicial review of agency action
- administrative law
- remedies

PRACTICE AREAS

QUESTIONS PRESENTED

1. Whether the ALJ adequately explained the finding that Plaintiff's impairments did not meet or medically equal the paragraph C criteria of Listings 12.03, 12.04, and 12.15.
2. Whether the Court should reach Plaintiff's remaining challenges to the residual functional capacity assessment and the rejection of her symptom testimony.
3. Whether the record required application of the credit-as-true rule and a remand for calculation of benefits rather than further administrative proceedings.

HOLDINGS

1. The ALJ committed reversible error by failing to adequately explain the evidence supporting the determination that Plaintiff did not satisfy the paragraph C2 marginal-adjustment requirement of the applicable mental-disorder listings.
2. Further administrative proceedings, rather than an immediate award of benefits, were appropriate because the record contained unresolved issues and further proceedings would help clarify the ALJ's Step Three determination.

KEY QUOTATIONS

"The Court may set aside the Commissioner's disability determination only if it is not supported by substantial evidence or is based on legal error." (at 2)

"The Court may only "review the reasons the ALJ asserts" in the decision." (at 8)

"Here, the ALJ failed to assert clear reasons for the Step Three determination, which is especially troublesome in light of evidence showing Plaintiff's ongoing need for support around her mental conditions, including inpatient psychiatric hospitalizations, in response to changes and stressors in her life." (at 8)

"In considering "whether the record as a whole is free from conflicts, ambiguities, or gaps, whether all factual issues have been resolved, and whether the claimant's entitlement to benefits is clear under the applicable legal rules," the Court finds that further administrative proceedings would be useful to clarify the ALJ's Step Three determination." (at 9)

FACTUAL BACKGROUND

Ann Charles applied for Supplemental Security Income based on multiple physical and mental impairments, including schizoaffective disorder, depressive disorder, posttraumatic stress disorder, borderline personality disorder, and other medical conditions. The ALJ found that her impairments did not meet or medically equal Listings 12.03(C), 12.04(C), or 12.15(C), including the paragraph C2 requirement of only marginal adjustment. The administrative record included psychiatric hospitalizations associated with suicidal ideation, psychosis, paranoid delusions, hallucinations, and life stressors, as well as evidence of ongoing treatment and support.

PROCEDURAL HISTORY

Plaintiff filed a Title XVI Supplemental Security Income application in March 2020. After the claim was denied initially and on reconsideration, an ALJ found Plaintiff not disabled, and the Appeals Council adopted that decision as the final agency decision. On a prior appeal, this Court vacated and remanded the ALJ's decision. Following a remand hearing, the ALJ again found Plaintiff not disabled, and Plaintiff sought judicial review. The Court vacated the Commissioner's final decision and remanded for further administrative proceedings because the ALJ inadequately explained the Step Three determination.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

The Commissioner's final decision is vacated, and the matter is remanded for further administrative proceedings consistent with the order, including reconsideration and adequate explanation of the Step Three determination under Listings 12.03(C), 12.04(C), and 12.15(C). The Clerk was directed to enter judgment and terminate the case.

CASES CITED

- Lewis v. Apfel, 236 F.3d 503, 517 n.13 (9th Cir. 2001)
- Orn v. Astrue, 495 F.3d 625, 630 (9th Cir. 2007)
- Thomas v. Barnhart, 278 F.3d 947, 954 (9th Cir. 2002)
- Tackett v. Apfel, 180 F.3d 1094, 1098 (9th Cir. 1999)
- Marcia v. Sullivan, 900 F.2d 172, 176 (9th Cir. 1990)
- De Botello v. Astrue, No. CV 10-01203-PHX-JAT, 2011 WL 3292401, at *8-*9 (D. Ariz. Aug. 1, 2011)
- Molina v. Astrue, 674 F.3d 1104, 1121 (9th Cir. 2012)
- Connett v. Barnhart, 340 F.3d 871, 874 (9th Cir. 2003)
- Treichler v. Commissioner of Social Security, 775 F.3d 1090, 1099, 1103-04 (9th Cir. 2014)

OPINION

1 WO 2 3 4 5 6 IN THE UNITED STATES DISTRICT COURT 7 FOR THE DISTRICT OF
ARIZONA 8 9 Ann Charles, No. CV-25-01040-PHX-SPL 10 Plaintiff, ORDER 11 v. 12
Commissioner of Social Security Administration, 13 Defendant. 14 15 Plaintiff Ann Charles seeks
judicial review of the denial of her application for 16 Supplemental Security Income disability
benefits under the Social Security Act, 42 U.S.C. 17 § 405(g).

Before the Court are Plaintiff's Opening Brief (Doc. 9), Defendant Commissioner 18 of Social
Security Administration's Answering Brief (Doc. 11), Plaintiff's Reply Brief 19 (Doc. 12), and the
Administrative Record ("AR") (Doc. 6). Upon review, the Court 20 reverses the Administrative
Law Judge's decision (AR at 2264–81) and remands for further 21 proceedings.

22 I. BACKGROUND 23 On March 5, 2020, Plaintiff filed a Title XVI application for supplemental security 24 income for a period beginning on March 5, 2020. (AR at 13). Her claims were initially 25 denied November 9, 2020, and again upon reconsideration on August 26, 2021. (AR at 13). 26 Plaintiff testified at an administrative hearing on January 19, 2022 (AR at 13, 34–62), after 27 which the Administrative Law Judge (“ALJ”) found Plaintiff was not disabled (AR at 13– 28 27).

On July 29, 2022, the Appeals Council denied Plaintiff’s request for review and 1 adopted the ALJ’s decision as the agency’s final decision. (AR at 1–6). Plaintiff appealed 2 the denial to the District Court (AR at 2342–43), and the Court vacated the ALJ’s decision. 3 (AR at 2352–56).

The matter was then remanded to the ALJ for further proceedings. (AR 4 at 2360–62). The ALJ held a remand hearing on December 11, 2024. (AR at 2291–2309). 5 On January 22, 2025, the ALJ issued a decision and again found that Plaintiff was not 6 disabled during the relevant time period. (AR at 2264–81). Plaintiff appealed the ALJ’s 7 decision to this Court by filing a Complaint on March 31, 2025.

(Doc. 1). 8 The Court has reviewed the medical evidence in its entirety and will discuss the 9 pertinent medical evidence in addressing the issues raised by the parties. Upon considering 10 the medical records and opinions, the ALJ evaluated Plaintiff’s disability based on the 11 following medically determinable impairments: depressive disorder, posttraumatic stress 12 disorder, schizoaffective bipolar type, and borderline personality disorder, breast and skin 13 cancer, lumbar degenerative disc disease, ankle dysfunction, COPD, asthma, 14 hypothyroidism, atherosclerosis of aorta, onychomycosis, and fibromyalgia.

(AR at 2267– 15 71). Ultimately, the ALJ concluded that Plaintiff “has not been under a disability, as 16 defined in the Social Security Act, since March 5, 2020, the date the application was filed.” 17 (AR at 2281). 18 II. LEGAL STANDARD 19 A person is considered “disabled” for the purpose of receiving social security 20 benefits if she is unable to “engage in any substantial gainful activity by reason of any 21 medically determinable physical or mental impairment which can be expected to result in 22 death or which has lasted or can be expected to last for a continuous period of not less than 23 12 months.” 42 U.S.C. § 423(d)(1)(A).

In determining whether to reverse an ALJ’s 24 decision, the district court reviews only those issues raised by the party challenging the 25 decision. See *Lewis v. Apfel*, 236 F.3d 503, 517 n.13 (9th Cir. 2001). The Court may set 26 aside the Commissioner’s disability determination only if it is not supported by substantial 27 evidence or is based on legal error.

Orn v. Astrue, 495 F.3d 625, 630 (9th Cir. 2007). 28 Substantial evidence is relevant evidence that a reasonable person might accept as adequate 1 to support a conclusion. *Id.* To determine whether substantial evidence supports a decision, 2 the Court “must consider the entire record as a whole

and may not affirm simply by isolating a ‘specific quantum of supporting evidence.’” *Id.* (citation omitted).

Generally, “[w]here the evidence is susceptible to more than one rational interpretation, one of which supports the ALJ’s decision, the ALJ’s conclusion must be upheld.” *Thomas v. Barnhart*, 278 F.3d 947, 954 (9th Cir. 2002). To determine whether a claimant is disabled for purposes of the Act, the ALJ follows a five-step process. *Tackett v. Apfel*, 180 F.3d 1094, 1098 (9th Cir.

1999) (citing 20 C.F.R. § 404.1520(a)). The claimant bears the burden of proof on the first four steps, and the burden shifts to the Commissioner at step five. *Id.* At the first step, the ALJ determines whether the claimant is presently engaging in substantial gainful activity. 20 C.F.R. § 404.1520(a)(4)(i). At step two, the ALJ determines whether the claimant has a “severe” medically determinable physical or mental impairment.

20 C.F.R. § 404.1520(a)(4)(ii). At step three, the ALJ considers whether the claimant’s impairment or combination of impairments meets or medically equals an impairment listed in Appendix 1 to Subpart P of 20 C.F.R. Part 404. 20 C.F.R. § 404.1520(a)(4)(iii). If so, the claimant is automatically found to be disabled. *Id.* At step four, the ALJ assesses the claimant’s residual functional capacity (“RFC”) and determines whether the claimant is still capable of performing past relevant work.

20 C.F.R. § 404.1520(a)(4)(iv). If not, the ALJ proceeds to the fifth and final step, where she determines whether the claimant can perform any other work in the national economy based on the claimant’s RFC, age, education, and work experience. 20 C.F.R. § 404.1520(a)(4)(v). If not, the claimant is disabled. *Id.* III. ANALYSIS Plaintiff argues the ALJ erred by: (1) finding that Plaintiff does not meet the criteria for Medical Listings 12.03(C), 12.04(C), and/or 12.15(C); (2) assigning a residual functional capacity that is not supported by substantial evidence; and (3) failing to provide clear and convincing reasons for rejecting Plaintiff’s symptom testimony.

The Court will begin its analysis with Plaintiff’s argument that the ALJ erred at Step Three by finding that Plaintiff’s conditions did not meet or medically equal the listings. At step three, the ALJ considers whether the claimant’s impairment or combination of impairments meets or medically equals an impairment listed in Appendix 1 to Subpart P of 20 C.F.R. Part 404.

20 C.F.R. § 404.1520(a)(4)(iii). If so, the claimant is automatically found to be disabled. *Id.* Plaintiff contends that the ALJ erred by failing to find that her impairments met or medically equaled the Listings for schizophrenia spectrum and other psychotic disorders (12.03), depressive, bipolar and related disorders (12.04), and/or trauma- and stressor-related disorders (12.15).

(Doc. 9 at 3–13). Specifically, Plaintiff 9 argues that she meets the paragraph C criteria for these listings. (Id.). Plaintiff’s counsel 10 raised this argument before the ALJ at the remand hearing on December 11, 2024. (AR at 11 2293–96, 2307–08). 12 For listings 12.03, 12.04, and 12.15, the paragraph C criteria are used “to evaluate 13 ‘serious and persistent mental disorders.’” 20 C.F.R. Pt.

404 Subpt. P, App. 1 § 14 12.00(A)(2)(c). A mental disorder satisfies paragraph C when “there is a medically 15 documented history of the existence of the mental disorder in the listing category over a 16 period of at least 2 years,” and the evidence shows that the disorder meets the following: 17 (C1) “you rely, on an ongoing basis, upon medical treatment, mental health therapy, 18 psychosocial support(s), or a highly structured setting(s), to diminish the symptoms and 19 signs of your mental disorder,” and (C2) “despite your diminished symptoms and signs, 20 you have achieved only marginal adjustment,” meaning that “you have minimal capacity 21 to adapt to changes in your environment or to demands that are not already part of your 22 daily life.” 20 C.F.R. § Pt.

404, Subpt. P, App. 1 § 12.00(G)(2). Plaintiff argues that she 23 meets all requirements under paragraph C. (Doc. 9 at 3–13) 24 “[I]n determining whether a claimant equals a listing under step three of the 25 Secretary’s disability evaluation process, the ALJ must explain adequately his evaluation 26 of alternative tests and the combined effects of the impairments.” *Marcia v. Sullivan*, 900 27 F.2d 172, 176 (9th Cir.

1990). “However, while an ALJ is required ‘to discuss and evaluate 28 the evidence that supports his or her conclusion,’ the ALJ does not have to do so at any 1 particular place in his or her opinion.” *De Botello v. Astrue*, No. CV 10-01203-PHX-JAT, 2 2011 WL 3292401, at * 8 (D. Ariz. Aug. 1, 2011) (citing *Lewis v. Apfel*, 236 F.3d 503, 513 3 (9th Cir. 2001)).

Therefore, the Court will look at the decision as a whole to determine 4 whether the ALJ discussed the evidence supporting the Step Three conclusion. 5 At Step Three, the ALJ found that Plaintiff’s impairments did not satisfy the 6 paragraph C criteria. (AR at 2273–74).

For all three listings, the ALJ first found that “the 7 claimant does not have a medically documented history of the existence of the disorder 8 over a period of at least 2 years.” (Id.). Following that statement, the ALJ simply listed the 9 two additional requirements of paragraph C, without making a clear determination or 10 providing evidence related to either.

(Id.). Defendant does not dispute that there is evidence 11 of mental disorders over a two-year period or that Plaintiff relies on the kind of structured 12 treatment and support described in paragraph C1. (Doc. 11 at 8–9). Instead, Defendant 13 argues that the ALJ did not err because the decision “discernably shows that Plaintiff failed 14 to show marginal adjustment, the second prong of the paragraph C criteria,” particularly 15 with respect to the ALJ’s RFC determination that

Plaintiff could “tolerate occasional 16 changes in a routine work setting.” (Id. at 8–9 (citing AR at 2274)).

17 Thus, only the marginal adjustment requirement in paragraph C2 is at issue on 18 appeal. The paragraph C2 criteria is satisfied when: 19 [D]espite your diminished symptoms and signs, you have achieved only marginal adjustment. “Marginal adjustment” means that your 20 adaptation to the requirements of daily life is fragile; that is, you have minimal capacity to adapt to changes in your environment or 21 to demands that are not already part of your daily life.

We will consider that you have achieved only marginal adjustment when 22 the evidence shows that changes or increased demands have led to exacerbation of your symptoms and signs and to deterioration in 23 your functioning; for example, you have become unable to function outside of your home or a more restrictive setting, without 24 substantial psychosocial supports (see 12.00D).

Such deterioration may have necessitated a significant change in medication or other 25 treatment. Similarly, because of the nature of your mental disorder, evidence may document episodes of deterioration that 26 have required you to be hospitalized or absent from work, making it difficult for you to sustain work activity over time. 27 28 20 C.F.R. § Pt. 404, Subpt.

P, App. 1 § 12.00(G)(2)(c). 1 As Plaintiff points out, the ALJ’s discussion of the paragraph C criteria at Step Three 2 was boilerplate. (AR at 2273–74). Further, it does not appear that the ALJ explicitly 3 discussed the paragraph C requirements at any point in the decision.

However, the ALJ 4 discussed Plaintiff’s SMI (seriously mentally ill) designation, group supported 5 employment, medical treatment, and work and daily activities in Step Four. (AR at 2275– 6 79); see *Molina v. Astrue*, 674 F.3d 1104, 1121 (9th Cir. 2012) (“Even when an agency 7 explains its decision with less than ideal clarity, we must uphold it if the agency’s path may 8 be reasonably discerned.”) (internal quotations and citation omitted).

9 Defendant asserts that “the ALJ discussed that Plaintiff engaged in fairly demanding 10 work activities” (Doc. 11 at 8 (citing AR at 2279)) and that the ALJ’s “RFC assessment 11 and discussion of her work activities amply showed that Plaintiff had significant capacity 12 for change and work demands.” (Id. at 9).

The ALJ assessed Plaintiff’s activities of daily 13 living which included “performing person [sic] care, preparing simple meals, performing 14 simple household chores, going out alone, and using public transportation.” (AR at 2279). 15 In addition, the ALJ considered that, “as early as November 18, 2020 [Plaintiff] was getting 16 paid \$150 a week to fold and deliver newspapers ‘under the table.’” (Id.).

Finally, as to 17 Plaintiff’s work activities, the ALJ stated that “[r]ecords from Copa Health, exhibit 48F, 18 also show multiple instances in which [Plaintiff] engaged in more than 2 step tasks

in a 19 work environment.” (Id.; see AR at 3613, 3617, 3628).

The ALJ does not connect these 20 findings to the paragraph C criteria, and the Court finds that this evidence does not 21 constitute an adequate discussion of the ALJ’s determination with respect to the paragraph 22 C criteria. See *Marcia*, 900 F.2d at 176. 23 The ALJ also discussed Plaintiff’s mental status exams and psychiatric history, 24 including a history of several inpatient hospitalizations.

The ALJ found that although there 25 were instances in the record of exacerbated symptoms, like hospitalizations, Plaintiff’s 26 mental exams “reflected generally normal findings except for noted auditory and or visual 27 hallucinations, with some occasions relating to the claimant’s endorsement of suicidal 28 ideation.” (AR at 2277).

To support the contention that mental status exams showed normal 1 findings, the ALJ cited to ten exhibits totaling over 1,500 pages.¹ As an example, the ALJ 2 highlights one visit in July 2021 where Plaintiff was assessed to have “normal behavior 3 and motor activity, normal gait and station, normal speech, full affect, logical and goal 4 directed thought process and associations, no psychosis with thought content, she was alert 5 and oriented, she had fair judgment and insight, language was within normal limits, fund 6 of knowledge was fair, she had within normal limits memory, and she was alert and 7 attentive.” AR at 2278 (citing AR at 2170).

The ALJ cited four additional behavioral health 8 visits between July and August 2021 showing similar findings. (Id. (citing Ex. 38CF)). The 9 ALJ’s general assertions about Plaintiff’s normal mental findings also do not provide 10 adequate discussion of the ALJ’s determination at Step Three. 11 The ALJ also discussed Plaintiff’s hospitalizations in August, September, and 12 November 2021.

(AR at 2278). Plaintiff argues that the circumstances surrounding the 13 hospitalizations show marginal adjustment. (Doc. 9 at 10–12). The evidence in the record 14 cited by the ALJ shows that Plaintiff was admitted to the hospital for one week in 15 September 2021 “on a voluntary basis for management of suicidal ideation with plan to run 16 into traffic, psychosis, and paranoid delusions.” (AR at 1144).

The treatment notes indicate 17 that the “[b]iggest current stressor is housing/possible homelessness within the next few 18 weeks.” (Id.). The ALJ reasoned that the hospitalization in September was “related to 19 increase in stressors” and that Plaintiff’s symptoms improved “significantly” by the end of 20 her hospitalization. (AR at 2278 (citing AR at 1144–45)).

21 In addition, the ALJ discussed Plaintiff’s admission to the hospital on November 22 24, 2021 for “worsening depression and requested medication dose adjustment,” and stated 23 that Plaintiff’s exams were “normal... except for noted endorsement of suicidal 24 ideations.” (Id. (citing AR at 1402)).

The treatment notes cited by the ALJ reflect that Plaintiff's chief complaint upon admission in November 2021 was "hallucinations to hurt 26 27 1 The ALJ cited the following exhibits: C17F which is 79 pages, C26F which is 145 pages, C34F which is 397 pages, C35F which is 107 pages, C37F which is 153 pages, C38F 28 which is 429 pages, C40F which is 63 pages, and C45F–47F which totals over 200 pages.

(AR at 2277). 1 self" and that she was admitted with "auditory hallucination to run into traffic after being 2 left by sister at home for the holiday." (AR at 1402). The ALJ reemphasized that the 3 hospitalization was voluntary, and that Plaintiff was discharged several days later, "and 4 exam results were unremarkable." (AR at 2278). Overall, the ALJ concluded that the 5 evidence of hospitalizations "contributes to the finding the claimant has severe mental 6 impairments... [but is] insufficient to support a finding the claimant has disabling 7 limitations to the extent alleged during the period at issue." (Id.).

It is unclear whether this 8 evidence factored into the ALJ's determination at Step Three, despite its relevance to 9 paragraph C2. See 20 C.F.R. § Pt. 404, Subpt. P, App. 1 § 12.00(G)(2)(c) ("[E]vidence may 10 document episodes of deterioration that have required you to be hospitalized or absent from 11 work, making it difficult for you to sustain work activity over time.").

12 In sum, the Court cannot conclude that the ALJ provided adequate reasons behind 13 the determination that Plaintiff does not meet the paragraph C requirements for Medical 14 Listings 12.03(C), 12.04(C), and/or 12.15(C). It is unclear what evidence supports the 15 ALJ's apparent determination that Plaintiff does not meet the paragraph C2 (marginal 16 adjustment) requirement for the listings above.

Although the ALJ is not required to discuss 17 the evidence supporting a Step Three conclusion at any specific point in the decision, 18 Lewis, 236 F.3d at 513, the ALJ must still "explain adequately his evaluation of alternative 19 tests and the combine effects of the impairments." Marcia, 900 F.2d at 176.

The ALJ has 20 not done so here, even though Plaintiff raised the issue at the hearing and in the briefing. 21 Cf. De Botello, 2011 WL 3292401, at * 9 (finding the ALJ's Step Three analysis adequate 22 when Plaintiff did not argue for a Medical Listing at the hearing or in the Opening Brief). 23 The Court may only "review the reasons the ALJ asserts" in the decision.

Connett v. 24 Barnhart, 340 F.3d 871, 874 (9th Cir. 2003). Here, the ALJ failed to assert clear reasons 25 for the Step Three determination, which is especially troublesome in light of evidence 26 showing Plaintiff's ongoing need for support around her mental conditions, including 27 inpatient psychiatric hospitalizations, in response to changes and stressors in her life.

28 Therefore, the ALJ's statement that Plaintiff did not meet or medically equal the listings 1 || was insufficient and constitutes reversible error. See Marcia, 900 F.2d at 176. 2 IV. CONCLUSION 3

Finding error in the ALJ's determination at Step Three, this case will be remanded. 4|| See id. Accordingly, the Court will not reach Plaintiff's other arguments. /d. at 177 n.6 5 || ("Because we remand for reconsideration of step three, we do not reach the other arguments || raised."). "[T]he proper course, except in rare circumstances, is to remand to the agency 7\| for additional investigation or explanation." Treichler v. Comm'r of Soc.

Sec., 775 F.3d 1090,1099 (citation omitted). Plaintiff argues instead that the Court should apply the credit- 9 || as-true rule and remand for calculation of benefits. (Doc. 9 at 23). In considering "whether 10 || the record as a whole is free from conflicts, ambiguities, or gaps, whether all factual issues 11 || have been resolved, and whether the claimant's entitlement to benefits is clear under the 12 || applicable legal rules," the Court finds that further administrative proceedings would be 13 || useful to clarify the ALJ's Step Three determination. /d. at 1103-04.

14 Accordingly, 15 IT IS ORDERED that the final decision of the Commissioner of the Social Security 16 || Administration is vacated and remanded for further proceedings consistent with this || order. 18 IT IS FURTHER ORDERED directing the Clerk of Court to enter judgment || accordingly and terminate this case. 20 Dated this 11th day of March, 2026. 21 73 United States District kidge 24 25 26 27 28 -9-