



**FINANCIAL  
SECTION**

## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

---

As SSA's new Chief Financial Officer, I am pleased to report that the Social Security Administration (SSA) maintained its traditional high standards in financial management for fiscal year (FY) 2007. SSA received its 14<sup>th</sup> consecutive unqualified opinion on the consolidated financial statements from our independent auditors. The unqualified opinion attests to the fair presentation of SSA's financial statements, and demonstrates the discipline and accountability essential to our responsibilities as stewards of Social Security funds. We are also proud that SSA's FY 2006 Performance and Accountability Report received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. This marks the 9<sup>th</sup> time SSA received the award, the only agency to do so every year since its inception.



I'm also pleased to report that SSA also received an unqualified opinion on its assertion on the effectiveness of internal control over financial reporting, with no material weaknesses or reportable conditions. We are pleased that our management assurance statement affirms, with reasonable assurance, that internal control over financial reporting was operating effectively as of year end. At SSA, we take our duty of sound fiscal vigilance very seriously and we are committed to upholding the public's trust in the integrity of our programs.

During FY 2007, SSA built upon the control assessment program that was developed to meet the requirements of Appendix A to OMB Circular A-123, *Management's Responsibility for Internal Controls*, by refining the key controls in the financial reporting process and enhancing the documentation supporting the process. One of the benefits of this program has been the attention that internal controls receive throughout all of SSA, which in turn is manifested in a smoother audit process.

In FY 2007, SSA maintained its "green" score for both status and progress on the President's Management Agenda Improved Financial Performance initiative. SSA continues to integrate new features into its financial accounting system, the Social Security Online Accounting and Reporting System (SSOARS), to enhance functionality. Throughout FY 2007, we integrated additional financial systems with SSOARS to provide real-time access to validate accounting information and fund availability. We are also engaged in implementing an improved cost accounting system which will provide more user-friendly access to information necessary to manage and account for resources.

SSA is committed to maintaining constant vigilance over financial reporting, and we are proud of our history of responsibly managing the programs entrusted to us. We will continue to uphold the highest standards of integrity in discharging our fiduciary responsibilities.

I want to acknowledge the efforts of the many SSA employees who contribute to our goal of providing timely and reliable information to Congress and the public. Their hard work and devotion make it possible to fulfill the SSA mission of advancing the economic security of our nation's people.

A handwritten signature in cursive script that reads "Mary Glenn-Croft".

Mary E. Glenn-Croft  
Chief Financial Officer  
November 7, 2007

# FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

The Agency's financial statements and additional information for fiscal years (FY) 2007 and 2006 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2007 and 2006, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2007 and 2006. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2007 and 2006. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by major programs as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2007 and 2006. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.
- The **Statement of Social Insurance** presents the actuarial present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future income and cost expected to arise from the formulas specified in current law for current and future program participants. The difference between these values is presented, both including and excluding the value of the combined OASI and DI Trust Fund assets at the beginning of the period, in order to provide an indication of the program's financial status.
- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated and an interpretive analysis of trends revealed by the data.

Consolidated Balance Sheets as of  
September 30, 2007 and September 30, 2006  
(Dollars in Millions)

Assets	2007	2006
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	\$ 6,146	\$ 4,778
Investments (Note 5)	2,182,091	1,995,307
Interest Receivable, Net (Note 6)	27,727	25,631
Accounts Receivable, Net (Note 6)	451	536
Total Intragovernmental	2,216,415	2,026,252
Accounts Receivable, Net (Notes 3 and 6)	8,017	7,654
Property, Plant and Equipment, Net (Notes 3 and 7)	1,892	1,641
Other	5	5
<b>Total Assets</b>	<b>\$ 2,226,329</b>	<b>\$ 2,035,552</b>
<b>Liabilities (Note 8)</b>		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,802	\$ 3,754
Accounts Payable	7,788	8,033
Other	95	93
Total Intragovernmental	11,685	11,880
Benefits Due and Payable	69,938	66,104
Accounts Payable	372	264
Other	1,263	873
Total Liabilities	83,258	79,121
<b>Net Position</b>		
Unexpended Appropriations-Earmarked Funds (Note 9)	57	57
Unexpended Appropriations-Other Funds	2,222	1,614
Cumulative Results of Operations-Earmarked Funds (Note 9)	2,140,617	1,954,921
Cumulative Results of Operations-Other Funds	175	(161)
Total Net Position	2,143,071	1,956,431
<b>Total Liabilities and Net Position</b>	<b>\$ 2,226,329</b>	<b>\$ 2,035,552</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Net Cost for the Years Ended September 30, 2007 and September 30, 2006

(Dollars in Millions)

	2007	2006
<b>OASI Program</b>		
Benefit Payments	\$ 481,026	\$ 451,516
Operating Expenses (Note 10)	3,099	3,083
<b>Total Cost of OASI Program</b>	<b>484,125</b>	454,599
Less: Exchange Revenues (Notes 11 and 12)	9	8
<b>Net Cost of OASI Program</b>	<b>484,116</b>	454,591
<b>DI Program</b>		
Benefit Payments	97,410	90,944
Operating Expenses (Note 10)	2,560	2,574
<b>Total Cost of DI Program</b>	<b>99,970</b>	93,518
Less: Exchange Revenues (Notes 11 and 12)	8	9
<b>Net Cost of DI Program</b>	<b>99,962</b>	93,509
<b>SSI Program</b>		
Benefit Payments	34,142	35,237
Operating Expenses (Note 10)	3,117	3,147
<b>Total Cost of SSI Program</b>	<b>37,259</b>	38,384
Less: Exchange Revenues (Notes 11 and 12)	261	268
<b>Net Cost of SSI Program</b>	<b>36,998</b>	38,116
<b>Other</b>		
Benefit Payments	8	15
Operating Expenses (Note 10)	1,689	1,753
<b>Total Cost of Other Program</b>	<b>1,697</b>	1,768
Less: Exchange Revenues (Notes 11 and 12)	6	11
<b>Net Cost of Other</b>	<b>1,691</b>	1,757
<b>Total Net Cost</b>		
Benefit Payments	612,586	577,712
Operating Expenses (Note 10)	10,465	10,557
<b>Total Cost</b>	<b>623,051</b>	588,269
Less: Exchange Revenues (Notes 11 and 12)	284	296
<b>Total Net Cost</b>	<b>\$ 622,767</b>	\$ 587,973

The accompanying notes are an integral part of these financial statements.

**Consolidated Statements of Changes in Net Position for the Years Ended  
September 30, 2007 and September 30, 2006  
(Dollars in Millions)**

	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning Balances</b>				
Earmarked Funds	\$ 1,954,921	\$ 57	\$ 1,770,660	\$ 53
All Other Funds	(161)	1,614	256	1,393
<b>Total All Funds</b>	<b>\$ 1,954,760</b>	<b>\$ 1,671</b>	<b>\$ 1,770,916</b>	<b>\$ 1,446</b>
<b>Budgetary Financing Sources</b>				
Appropriations Received				
Earmarked Funds		19,335		16,378
All Other Funds		40,334		40,454
Appropriations Transferred In/Out-Earmarked Funds		0		38
Other Adjustments				
Earmarked Funds		(9)		(6)
Appropriations Used				
Earmarked Funds	19,326	(19,326)	16,406	(16,406)
All Other Funds	39,726	(39,726)	40,233	(40,233)
Tax Revenues-Earmarked Funds (Note 13)	647,387		620,007	
Interest Revenues-Earmarked Funds	108,457		99,880	
Transfers In/Out Without Reimbursement				
Earmarked Funds	(6,268)		(4,868)	
All Other Funds	6,449		6,538	
Railroad Retirement Interchange-Earmarked Funds	(4,068)		(3,959)	
Net Transfers In/Out				
Earmarked Funds	(10,336)		(8,827)	
All Other Funds	6,449		6,538	
Other Budgetary Financing Sources-				
Earmarked Funds	(50)		(50)	
<b>Other Financing Sources (Non-Exchange)</b>				
Transfers In/Out-All Other Funds	(2,701)		(2,907)	
Imputed Financing Sources-				
All Other Funds (Note 14)	541		537	
<b>Total Financing Sources</b>				
Earmarked Funds	764,784	0	727,416	4
All Other Funds	44,015	608	44,401	221
<b>Net Cost of Operations</b>				
Earmarked Funds	579,088		543,155	
All Other Funds	43,679		44,818	
<b>Net Change</b>				
Earmarked Funds	185,696		184,261	
All Other Funds	336		(417)	
<b>Ending Balances</b>				
Earmarked Funds	2,140,617	57	1,954,921	57
All Other Funds	175	2,222	(161)	1,614
<b>Total All Funds</b>	<b>\$ 2,140,792</b>	<b>\$ 2,279</b>	<b>\$ 1,954,760</b>	<b>\$ 1,671</b>

The accompanying notes are an integral part of these financial statements.

**Combined Statements of Budgetary Resources for the Years Ended  
September 30, 2007 and September 30, 2006  
(Dollars in Millions)**

	2007	2006
<b>Budgetary Resources (Note 15)</b>		
Unobligated Balance, Brought Forward, October 1	\$ 1,791	\$ 1,832
Recoveries of Prior Year Unpaid Obligations	485	539
Budget Authority		
Appropriation	832,560	796,683
Spending Authority from Offsetting Collections		
Earned		
Collected	3,984	4,224
Change in Receivable	9	(16)
Change in Unfilled Customer Orders		
Advance Received	348	1
Expenditure Transfers from Trust Funds	9,364	9,204
Subtotal	846,265	810,096
Nonexpenditure Transfers, Net	274	122
Temporarily Not Available Pursuant to Public Law	(183,870)	(181,621)
Permanently Not Available	16	(40)
<b>Total Budgetary Resources</b>	<b>\$ 664,961</b>	<b>\$ 630,928</b>
<b>Status of Budgetary Resources (Note 15)</b>		
<b>Obligations Incurred</b>		
Direct	\$ 657,824	\$ 624,951
Reimbursable	3,991	4,186
Subtotal	661,815	629,137
<b>Unobligated Balance</b>		
Apportioned	2,802	1,475
<b>Unobligated Balance - Not Available</b>	344	316
<b>Total Status of Budgetary Resources</b>	<b>\$ 664,961</b>	<b>\$ 630,928</b>
<b>Change in Obligated Balance</b>		
<b>Obligated Balance, Net</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 73,058	\$ 69,215
Uncollected Payments from Federal Sources, Brought Forward, October 1	(2,069)	(2,091)
Total Unpaid Obligated Balance, Net	70,989	67,124
<b>Obligations Incurred, Net</b>	661,815	629,137
<b>Gross Outlays</b>	(657,659)	(624,755)
<b>Obligated Balance Transferred, Net</b>		
<b>Recoveries of Prior Year Unpaid Obligations, Actual</b>	(485)	(539)
<b>Change in Uncollected Payments from Federal Sources</b>	(215)	22
<b>Obligated Balance, Net, End of Period</b>		
Unpaid Obligations	76,729	73,058
Uncollected Payments from Federal Sources	(2,284)	(2,069)
Total Obligated Balance, Net, End of Period	74,445	70,989
<b>Net Outlays</b>		
Gross Outlays	657,659	624,755
Offsetting Collections	(13,491)	(13,434)
Distributed Offsetting Receipts	(22,400)	(25,809)
<b>Net Outlays</b>	<b>\$ 621,768</b>	<b>\$ 585,512</b>

The accompanying notes are an integral part of these financial statements.

**Statement of Social Insurance**  
**Old-Age, Survivors and Disability Insurance**  
**as of January 1, 2007**  
(In billions)

## Estimates from Prior Years

	<u>2007</u>	<u>2006</u>	<u>2005</u> unaudited	<u>2004</u> unaudited	<u>2003</u> unaudited
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) received from or on behalf of: (Note 17)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	\$17,515	\$16,568	\$15,290	\$14,388	\$13,576
Have attained retirement eligibility age (Age 62 and over)	477	533	464	411	359
Those expected to become participants (Under age 15)	16,121	15,006	13,696	12,900	12,213
All current and future participants	34,113	32,107	29,450	27,699	26,147
<i>Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of: (Note 17)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	27,928	26,211	23,942	22,418	21,015
Have attained retirement eligibility age (Age 62 and over)	6,329	5,866	5,395	4,933	4,662
Those expected to become participants (Under age 15)	6,619	6,480	5,816	5,578	5,398
All current and future participants	40,876	38,557	35,154	32,928	31,075
<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost (Note 17)</i>	-\$6,763	-\$6,449	-\$5,704	-\$5,229	-\$4,927

## Additional Information

<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost (Note 17)</i>	-\$6,763	-\$6,449	-\$5,704	-\$5,229	-\$4,927
<i>Combined OASI and DI Trust Fund assets at start of period</i>	2,048	1,859	1,687	1,531	1,378
<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) and combined OASI and DI Trust Fund assets at start of period over cost (Note 17)</i>	-\$4,715	-\$4,591	-\$4,017	-\$3,699	-\$3,550

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.



# NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(Presented in Millions)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and the actuarial present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular A-136 *Financial Reporting Requirements*.

Prior to June 2007 the financial statements included a Statement of Financing, the reconciliation of net cost to budgetary resources. In conformance with new regulations effective June 2007, this reconciliation is included in the accompanying footnotes. Refer to Note 16, Reconciliation of Net Cost of Operations to Budget.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by OMB in Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds and four general fund appropriations. LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of PTF appropriations but also contains non-material activities.

### FUND BALANCE WITH TREASURY

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with the Department of the Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 4, Fund Balance with Treasury.

### INVESTMENTS

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the *Social Security Act*. These investments

consist of U.S. Treasury special issue bonds. Special issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets.

### **PROPERTY, PLANT AND EQUIPMENT**

SSA's property, plant and equipment (PP&E) are recorded in the LAE program, but represents the capital assets purchased by the OASI, DI, Health Insurance (HI) and Supplemental Medical Insurance (SMI) Trust Funds. HI/SMI's share of capital assets is considered Non-Entity Assets. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. The capitalization threshold for most PP&E categories is \$100 thousand. Automated Data Processing and Telecommunications Site Preparation, buildings and other structures are capitalized with no threshold.

The change in PP&E from one reporting period to the next is presented on the chart in Note 16, Reconciliation of Net Cost of Operations to Budget on the Resources that Finance the Acquisition of Assets line. This line item represents the capital assets purchased by the OASI, DI, and HI/SMI Trust Funds that effect budgetary obligations. However, HI/SMI's share of capital assets is considered Non-Entity Assets.

### **BENEFITS DUE AND PAYABLE**

Liabilities are accrued for OASI and DI benefits due for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases. Refer to Note 8, Liabilities.

### **BENEFIT PAYMENTS**

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a Federally recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

### **ADMINISTRATIVE EXPENSES AND OBLIGATIONS**

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the *Social Security Act* requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate OASI, DI, HI and SMI Trust Fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. Obligations are incurred in each of the financing sources (OASI, DI, SSI, and Other) once LAE's authority is recorded. Since LAE is reported with its financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE's obligations are recorded twice. This is in compliance with OMB's directive to have the Combined Statement of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

## RECOGNITION OF FINANCING SOURCES

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations Used includes payments and accruals for the SSI program and for the OIG and PTF appropriations, which are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 13, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Refer to Note 11, Exchange Revenues. Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

Capitalized expenditures are recognized in the Combined Statements of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

## EARMARKED FUNDS

SFFAS No. 27, *Identifying and Reporting Earmarked Funds* requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

SSA's earmarked funds are the OASI and DI Trust Funds, PTF and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 9, Earmarked Funds, for additional information.

## 2. CENTRALIZED FEDERAL FINANCING ACTIVITIES

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance and health benefit programs. However, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statements of Changes in Net Position may be from tax revenue, public borrowing or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the OASI and DI Trust Funds, capitalized and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

SSA contributions to CSRS were \$112 and \$115 million for the years ended September 30, 2007 and 2006. SSA contributions to the basic FERS plan were \$273 and \$247 million for the years ended September 30, 2007 and 2006. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to the FERS savings plan were \$100 and \$89 million for the years ended September 30, 2007 and 2006. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

### **3. NON-ENTITY ASSETS**

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are \$6,423 and \$6,331 million as of September 30, 2007 and 2006. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable, (2) SSI overpayments collected, (3) General Fund's portion of fees collected to administer SSI State Supplementation, (4) General Fund's portion of fees collected to administer Title VIII State Supplementation, (5) SSI Attorney fees that are returned to the Department of the Treasury General Fund and (6) portions of SSA's PP&E that were purchased with HI/SMI funds.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are \$3,500 and \$3,285 million as of September 30, 2007 and 2006. The SSI accounts receivable, net has been reduced by \$1,623 and \$1,955 million for FY 2007 and 2006 respectively as intra-agency elimination. SSI Federal overpayment collections included as a part of the Fund Balance with Treasury on the Consolidated Balance Sheets are \$2,757 and \$2,905 million as of September 30, 2007 and 2006. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the Department of the Treasury General Fund. These funds, upon deposit, are assets of the Department of the Treasury General Fund and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets. SSI State overpayment collections are used to offset reimbursements due from the States to SSA.

The Fund Balance with Treasury includes the General Fund's portion of fees collected to administer SSI State Supplementation in the amount of \$127 and \$137 million as of September 30, 2007 and 2006. The fee collection is classified as exchange revenue. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative fees. In addition, the General Fund's cumulative portion of fees related to Title VIII State Supplementation and SSI Attorney fees totaled \$5 and \$4 million as of September 30, 2007 and 2006.

## 4. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury (FBWT), shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI, DI, and LAE Trust Fund budgetary accounts are not used in chart 4b since OASI and DI Trust Fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in chart 4b will not match corresponding activity on the combined SBR.

Chart 4a - Fund Balances as of September 30: (\$ in millions)			Chart 4b - Status of Fund Balances as of September 30: (\$ in millions)		
	2007	2006		2007	2006
<b>Trust Funds*</b>			<b>Unobligated Balance</b>		
OASI	\$ (941)	\$ (795)	Available	\$ 2,481	\$ 1,226
DI	(361)	(348)	Unavailable	76	64
LAE	9	71			
<b>General Funds</b>			<b>Obligated Balance Not Yet</b>		
SSI	4,445	2,725	Disbursed	1,948	1,495
Other	60	60	OASI, DI and LAE	(1,293)	(1,072)
<b>Other Funds</b>			<b>Non-Budgetary FBWT</b>	2,934	3,065
SSI	174	155	<b>Total</b>	\$ 6,146	\$ 4,778
Other	2,760	2,910			
<b>Total</b>	\$ 6,146	\$ 4,778			

\*The phrase "Trust Funds" is being used as the fund type as defined by OMB.

The negative fund balances reported for the OASI and DI Trust Funds as of September 30, 2007 and 2006 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

## 5. INVESTMENTS

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest bearing securities backed by the full faith and credit of the Federal government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Treasury Secretary to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. The interest rates on these investments range from 3 1/2 percent to 7 1/4 percent and are payable on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust

Funds mature at various dates ranging from the present to the year 2022. SSA's investments in Special Issue U.S. Treasury Securities are \$2,182,091 and \$1,995,307 million as of September 30, 2007 and 2006 respectively.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the U.S. Treasury. Because the OASI and DI Trust Funds and the U.S. Treasury are both part of the Government, these assets and liabilities offset each other for consolidation purposes in the U.S. Government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. Government-wide financial statements.

The U.S. Treasury does not set aside financial assets to cover its liabilities associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the U.S. Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

## **6. INTEREST AND ACCOUNTS RECEIVABLE**

### **INTEREST RECEIVABLE**

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury. Interest receivable amounts are \$27,727 and \$25,631 million as of September 30, 2007 and 2006.

### **ACCOUNTS RECEIVABLE**

#### **Intragovernmental**

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets in the amounts of \$451 and \$536 million as of September 30, 2007 and 2006 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The LAE gross accounts receivable has been reduced by \$1,844 and \$1,538 million as of September 30, 2007 and 2006 as an intra-agency elimination. This elimination is to offset SSA's LAE receivable to be paid from the appropriate fund with corresponding payables set up for anticipated LAE disbursements.

An allowance for doubtful accounts was not applied to determine the net value of Intragovernmental Accounts Receivable. According to SFFAS No. 1, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

#### **With the Public**

Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6. Amounts in the OASI and DI programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents overpaid Federal and State SSI payments to be recovered from SSI recipients who are no longer eligible to receive supplemental income or receive benefits in excess of their eligibility. Refer to Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments.



Chart 6 - Accounts Receivable with the Public by Major Program as of September 30:  
(\$ in millions)

	2007			2006		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,498	\$ (166)	\$ 2,332	\$ 2,238	\$ (126)	\$ 2,112
DI	4,735	(1,955)	2,780	4,378	(1,492)	2,886
SSI*	7,005	(1,781)	5,224	7,032	(1,722)	5,310
LAE	14	0	14	15	0	15
Subtotal	14,252	(3,902)	10,350	13,663	(3,340)	10,323
Less:						
Eliminations**	(2,333)	0	(2,333)	(2,669)	0	(2,669)
Total	\$ 11,919	\$ (3,902)	\$ 8,017	\$ 10,994	\$ (3,340)	\$ 7,654

\*See Discussion in Note 3, Non-Entity Assets    \*\* Intra-Agency Eliminations

Chart 6 shows that in FY 2007 and 2006, gross accounts receivable was reduced by \$2,333 and \$2,669 million as an intra-agency elimination. This intra-agency activity results primarily from Special Disability Workloads (SDW) cases. In a prior period, SSA determined that a group of SSI recipients who were eligible to receive DI benefits were paid either SSI or OASI benefits. At that time, the agency recognized and established receivables from both the OASI and SSI programs with an offsetting payable in the DI program.

SSA continues to identify and settle SDW cases and current estimates indicate that there are about 78,000 SDW cases remaining for which SSA expects to incur a net accrued liability for the combined OASI and DI Trust Funds and an offsetting SSI receivable. OASI SDW receivables are \$710 and \$714 million as of September 30, 2007 and 2006. DI SDW receivables are less than \$1 million as of September 30, 2007 and 2006. SSI SDW net receivables are \$1,218 and \$1,688 million as of September 30, 2007 and 2006.

A ratio of the estimated allowance for doubtful accounts is recalculated annually using a moving 5-year average of write-offs divided by clearances comprised of write-offs, waivers, and collections. The ratio is then applied to outstanding receivables to compute the amount of allowances for doubtful accounts.

## 7. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment, Net as reported on the Consolidated Balance Sheets is reflected by major class in chart 7.

Chart 7 - Property, Plant and Equipment as of September 30:  
(\$ in millions)

Major Classes:	2007			2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 4	\$ 0	\$ 4	\$ 4	\$ 0	\$ 4
Buildings	513	(268)	245	388	(200)	188
Equipment (incl. ADP Hardware)	483	(401)	82	433	(356)	77
Internal Use Software	2,380	(825)	1,555	1,951	(590)	1,361
Leasehold Improvements	189	(183)	6	189	(178)	11
Total	\$ 3,569	\$ (1,677)	\$ 1,892	\$ 2,965	\$ (1,324)	\$ 1,641

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	3-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6 years	Straight Line

## 8. LIABILITIES

Liabilities of Federal agencies are classified as liabilities Covered or Not Covered by budgetary resources and are recognized when they are incurred. Chart 8a discloses SSA's liabilities Covered by budgetary resources and Not Covered by budgetary resources.

Chart 8a - Liabilities as of September 30: (\$ in millions)	2007			2006		
	Covered	Not		Covered	Not	
		Covered	Total		Covered	Total
Intragovernmental:						
Accrued RRI	\$ 3,802	\$ 0	\$ 3,802	\$ 3,754	\$ 0	\$ 3,754
Accounts Payable	38	7,750	7,788	1	8,032	8,033
Other	40	55	95	39	54	93
Total Intragovernmental	3,880	7,805	11,685	3,794	8,086	11,880
Benefits Due and Payable	66,924	3,014	69,938	63,475	2,629	66,104
Accounts Payable	16	356	372	(62)	326	264
Other	644	619	1,263	278	595	873
Total	\$ 71,464	\$ 11,794	\$ 83,258	\$ 67,485	\$ 11,636	\$ 79,121



## ACCRUED RAILROAD RETIREMENT INTERCHANGE

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

## INTRAGOVERNMENTAL ACCOUNTS PAYABLE

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to the Department of the Treasury General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. Refer to Note 3, Non-Entity Assets for a description of the SSI receivables established for the repayment of SSI benefit overpayments. Also included in the Not Covered Intragovernmental Accounts Payable amount are \$127 and \$137 million as of September 30, 2007 and 2006 for SSI State Fees payable to the Department of the Treasury General Fund. Refer to Note 3, Non-Entity Assets and Note 11, Exchange Revenues, for a discussion of the SSI State Administrative Fees.

## INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Other Liabilities Covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts for the Federal Employees' Compensation Act (FECA), administered by DOL. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to DOL's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is \$55 and \$54 million as of September 30, 2007 and 2006.

## BENEFITS DUE AND PAYABLE

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2007 and 2006. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

Chart 8b - Benefits Due and Payable as of September 30: (\$ in millions)		
	2007	2006
OASI	\$ 44,030	\$ 41,677
DI	24,017	23,611
SSI	4,224	3,485
Subtotal	72,271	68,773
Less: Intra-agency eliminations	(2,333)	(2,669)
Total	\$ 69,938	\$ 66,104

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b also includes estimated payables related to SDW. Refer to Note 6, Interest and Accounts Receivable. OASI payables are \$325 and \$329 million as of September 30, 2007 and 2006. DI payables are \$2,869 and \$3,500 million as of September 30, 2007 and 2006. In FY 2007, the OASI and DI net payables have decreased by the excess of discharged liabilities for adjudicated cases over continued benefit accrual for previously identified cases not yet adjudicated.

Chart 8b also shows that as of FY 2007 and 2006, gross Benefits Due and Payable was reduced by \$2,333 and \$2,669 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Refer to Note 6, Interest and Accounts Receivable. Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

Chart 8c shows the estimated net SDW liability due to the public as of September 30, 2007 and 2006.

Chart 8c - Net SDW Liability as of September 30: (\$ in millions)		
	2007	2006
Net DI Liability	\$ 2,869	\$ 3,500
Net OASI Receivable	(384)	(385)
Net SSI Receivable	(1,218)	(1,688)
Net Liability Due to the Public	\$ 1,267	\$ 1,427

**ACCOUNTS PAYABLE**

Accounts Payable Not Covered by budgetary resources consists of SSI overpayments due to States and the SSI windfall amounts. States are entitled to any overpayment that SSA expects to collect since they make the actual payments to the beneficiaries. SSI windfall amounts are generated when a SSI recipient is found to be eligible for OASI or DI benefits. Any overlapping payments to the beneficiary made by OASI or DI are paid back to the SSI program, creating the windfall amount. This windfall amount, like the state overpayment is set up as an accounts payable until payment is made to the states.

**OTHER LIABILITIES**

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of \$272 and \$275 million as of September 30, 2007 and 2006 represents the expected liability from FECA claims for the next 23 year period. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

**CONTINGENT LIABILITIES**

We have been apprised by the Internal Revenue Service (IRS) that twelve employment tax refund cases are pending in Federal courts throughout the country. The cases concern whether medical residents should continue to be subject to FICA taxation. FICA taxes are collected by the U.S. Treasury and then transferred to the OASI and DI Trust Funds. The cases concern two different IRS regulations, have led to disparate outcomes for the Government in the various courts on the question of medical resident taxation, and are being actively litigated and appealed. The Government is contesting the cases vigorously. The Department of Justice (Tax Division) is handling the litigation and SSA is not a named party. SSA is not able to make an estimate of the possible liability, if any, at this time.

## **9. EARMARKED FUNDS**

The OASI and DI Trust Funds, PTF and SSI State Administrative Fees are classified as earmarked funds. These funds obtain revenues primarily through earmarked receipts, such as Social Security payroll taxes, and, to a lesser extent, offsetting collections.

### **OASI AND DI TRUST FUNDS**

The OASI Trust Fund provides assistance and protection against loss of earnings due to retirement or death and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

The OASI and DI Trust Funds are primarily funded by payroll and self-employment taxes. Additional income is provided to these funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 13, Tax Revenues for a discussion on employment taxes credited to the OASI and DI Trust Funds and Note 6, Interest and Accounts Receivable for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments for a discussion on Treasury securities.

### **PTF**

PTF consist of transfers authorized by law between the Department of Treasury General Fund and the OASI and DI Trust Funds. PTF activity includes Income tax on Social Security Benefits, Reimbursable Union Activity, Coal Industry Retiree Health Benefits, Pension Reform, Special Age 72 Benefits, Income Tax Credit Reimbursement and Unnegotiated Check Reimbursement. PTF funds are warranted from the general fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, PTF is considered earmarked from the point that it is transferred into SSA and reported as Appropriations Received on the Statement of Changes in Net Position.

### **SSI STATE ADMINISTRATIVE FEES**

Administrative Fees collected from state SSI are also classified as earmarked funds. Section 1616.42 U.S.C. authorizes the Commissioner of Social Security to assess each state an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the state for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Charts 9a for balances of earmarked funds as reported in the Consolidated Financial Statements for the years ended September 30, 2007 and 2006.

Chart 9a - Earmarked Funds as of September 30:  
Consolidating Schedule  
(\$ in millions)

	2007				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$ (941)	\$ (361)	\$ 65	\$ 0	\$ (1,237)
Investments	1,968,262	213,829	0	0	2,182,091
Interest Receivable	25,041	2,686	0	0	27,727
Accounts Receivables	2,332	2,780	0	(710)	4,402
<b>Total Assets</b>	<b>\$ 1,994,694</b>	<b>\$ 218,934</b>	<b>\$ 65</b>	<b>\$ (710)</b>	<b>\$ 2,212,983</b>
<b>LIABILITIES and NET POSITION</b>					
Liabilities	\$ 48,030	\$ 24,987	\$ 2	\$ (710)	\$ 72,309
<b>Total Liabilities</b>	<b>48,030</b>	<b>24,987</b>	<b>2</b>	<b>(710)</b>	<b>72,309</b>
Unexpended Appropriations	0	0	57	0	57
Cumulative Results of Operations	1,946,664	193,947	6	0	2,140,617
<b>Total Liabilities and Net Position</b>	<b>\$ 1,994,694</b>	<b>\$ 218,934</b>	<b>\$ 65</b>	<b>\$ (710)</b>	<b>\$ 2,212,983</b>
<b>Statement of Net Cost</b>					
Program Costs	\$ 481,615	\$ 97,589	\$ 3	\$ 0	\$ 579,207
Less Earned Revenue	0	0	119	0	119
<b>Net Cost of Operations</b>	<b>\$ 481,615</b>	<b>\$ 97,589</b>	<b>\$ (116)</b>	<b>\$ 0</b>	<b>\$ 579,088</b>
<b>Statement of Changes in Net Position</b>					
Net Position Beginning of Period	\$ 1,771,908	\$ 183,007	\$ 63	\$ 0	\$ 1,954,978
Adjustments	(5,042)	5,042	0	0	0
<b>Beginning Balances, Adjusted</b>	<b>\$ 1,766,866</b>	<b>\$ 188,049</b>	<b>\$ 63</b>	<b>\$ 0</b>	<b>\$ 1,954,978</b>
Non-Exchange Revenue	10,568	(1,512)	(116)	0	8,940
Net Cost of Operations	(481,615)	(97,589)	116	0	(579,088)
Taxes and Interest Revenue	650,845	104,999	0	0	755,844
<b>Change in Net Position</b>	<b>179,798</b>	<b>5,898</b>	<b>0</b>	<b>0</b>	<b>185,696</b>
<b>Net Position End of Period</b>	<b>\$ 1,946,664</b>	<b>\$ 193,947</b>	<b>\$ 63</b>	<b>\$ 0</b>	<b>\$ 2,140,674</b>

Chart 9a includes eliminations between SSA’s earmarked funds which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, \$2,785 million of liabilities in the earmarked funds for the year ended September 30, 2007 need to be eliminated against LAE and SSI, which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in chart 9a.

Near the close of FY 2005, SSA determined that the DI Trust Fund had not been reimbursed for certain expenses initially paid from the DI Trust Fund on behalf of the OASI Trust Fund. SSA’s General Counsel and Counsel from the U.S. Department of the Treasury determined that current law supports the transfer of the principal balance of \$3,253 million and the interest balance of \$2,362 million from the OASI Trust Fund to the DI Trust Fund as of September 17, 2007. SSA’s Net Position remains unchanged as a result of this immaterial transfer. After consulting

with OMB and Treasury on this matter, SSA reported \$573 million of the transfer as current year activity while the remainder, \$5,042 million, has been reported as an adjustment to the beginning balances within the current period.

	2006				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Chart 9a - Earmarked Funds as of September 30: Consolidating Schedule (\$ in millions)					
Balance Sheet					
ASSETS					
Fund Balance with Treasury	\$ (795)	\$ (348)	\$ 66	\$ 0	\$ (1,077)
Investments	1,793,129	202,178	0	0	1,995,307
Interest Receivable	23,004	2,627	0	0	25,631
Accounts Receivables	2,114	2,887	0	(714)	4,287
Total Assets	\$ 1,817,452	\$ 207,344	\$ 66	\$ (714)	\$ 2,024,148
LIABILITIES and NET POSITION					
Liabilities	\$ 45,544	\$ 24,337	\$ 3	\$ (714)	\$ 69,170
Total Liabilities	45,544	24,337	3	(714)	69,170
Unexpended Appropriations	0	0	57	0	57
Cumulative Results of Operations	1,771,908	183,007	6	0	1,954,921
Total Liabilities and Net Position	\$ 1,817,452	\$ 207,344	\$ 66	\$ (714)	\$ 2,024,148
Statement of Net Cost					
Program Costs	\$ 452,144	\$ 91,128	\$ 0	\$ 0	\$ 543,272
Less Earned Revenue	0	0	117	0	117
Net Cost of Operations	\$ 452,144	\$ 91,128	\$ (117)	\$ 0	\$ 543,155
Statement of Changes in Net Position					
Net Position Beginning of Period	\$ 1,595,523	\$ 175,137	\$ 53	\$ 0	\$ 1,770,713
Non-Exchange Revenue	9,138	(1,498)	(107)	0	7,533
Net Cost of Operations	(452,144)	(91,128)	117	0	(543,155)
Taxes and Interest Revenue	619,391	100,496	0	0	719,887
Change in Net Position	176,385	7,870	10	0	184,265
Net Position End of Period	\$ 1,771,908	\$ 183,007	\$ 63	\$ 0	\$ 1,954,978

Charts 9b present the Statement of Changes in Net Position in columnar format. Eliminations have no effect on columnar totals presented for the years ended September 30, 2007 and 2006.

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: Consolidated Schedule (\$ in millions)			
	2007		
	Cumulative Results of Operations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 1,954,921	\$ (161)	\$ 1,954,760
Budgetary Financing Sources			
Appropriations Used	19,326	39,726	59,052
Tax Revenues (Note 13)	647,387	0	647,387
Interest Revenues	108,457	0	108,457
Transfers In/Out Without Reimbursement	(6,268)	6,449	181
Railroad Retirement Interchange	(4,068)	0	(4,068)
Net Transfers In/Out	(10,336)	6,449	(3,887)
Other Budgetary Financing Sources	(50)	0	(50)
Other Financing Sources (Non-Exchange)			
Transfers-In/Out	0	(2,701)	(2,701)
Imputed Financing Sources (Note 14)	0	541	541
Total Financing Sources	764,784	44,015	808,799
Net Cost of Operations	579,088	43,679	622,767
Net Change	185,696	336	186,032
Cumulative Results of Operations	\$ 2,140,617	\$ 175	\$ 2,140,792

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: (\$ in millions)			
	2007		
	Unexpended Appropriations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 57	\$ 1,614	\$ 1,671
Budgetary Financing Sources			
Appropriations Received	19,335	40,334	59,669
Other Adjustments	(9)	0	(9)
Appropriations Used	(19,326)	(39,726)	(59,052)
Total Budgetary Financing Sources	0	608	608
Total Unexpended Appropriations	57	2,222	2,279
Net Position	\$ 2,140,674	\$ 2,397	\$ 2,143,071

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: Consolidated Schedule (\$ in millions)			
	2006		
	Cumulative Results of Operations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 1,770,660	\$ 256	\$ 1,770,916
<b>Budgetary Financing Sources</b>			
Appropriations Used	16,406	40,233	56,639
Tax Revenues (Note 13)	620,007	0	620,007
Interest Revenues	99,880	0	99,880
Transfers In/Out Without Reimbursement	(4,868)	6,538	1,670
Railroad Retirement Interchange	(3,959)	0	(3,959)
Net Transfers In/Out	(8,827)	6,538	(2,289)
Other Budgetary Financing Sources	(50)	0	(50)
<b>Other Financing Sources (Non-Exchange)</b>			
Transfers-In/Out	0	(2,907)	(2,907)
Imputed Financing Sources (Note 14)	0	537	537
Total Financing Sources	727,416	44,401	771,817
Net Cost of Operations	543,155	44,818	587,973
Net Change	184,261	(417)	183,844
Cumulative Results of Operations	\$ 1,954,921	\$ (161)	\$ 1,954,760

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: (\$ in millions)			
	2006		
	Unexpended Appropriations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 53	\$ 1,393	\$ 1,446
<b>Budgetary Financing Sources</b>			
Appropriations Received	16,378	40,454	56,832
Appropriations Transferred In/Out	38	0	38
Other Adjustments	(6)	0	(6)
Appropriations Used	(16,406)	(40,233)	(56,639)
Total Budgetary Financing Sources	4	221	225
Total Unexpended Appropriations	57	1,614	1,671
Net Position	\$ 1,954,978	\$ 1,453	\$ 1,956,431

## 10. OPERATING EXPENSES

### CLASSIFICATION OF OPERATING EXPENSES BY MAJOR PROGRAM

Chart 10a displays SSA's operating expenses for each major program. The HI/SMI Trust Funds' shares of SSA's operating expenses, which include the Medicare Prescription Drug Program, are recorded in Other. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statements of Net Cost. OASI and DI Trust Fund Operations include expenses of the Department of the Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries.

Chart 10a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)						
2007						
	LAE SSA	OIG	OASI and DI Trust Fund Operations	Vocational Rehabilitation	Total	
OASI	\$ 2,474	\$ 36	\$ 589	\$ 0	\$ 3,099	
DI	2,347	34	106	73	2,560	
SSI	3,013	0	0	104	3,117	
Other	1,662	24	0	3	1,689	
	\$ 9,496	\$ 94	\$ 695	\$ 180	\$ 10,465	

Chart 10a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)						
2006						
	LAE SSA	OIG	OASI and DI Trust Fund Operations	Vocational Rehabilitation	Total	
OASI	\$ 2,420	\$ 35	\$ 628	\$ 0	\$ 3,083	
DI	2,356	34	176	8	2,574	
SSI	3,044	0	0	103	3,147	
Other	1,730	23	0	0	1,753	
	\$ 9,550	\$ 92	\$ 804	\$ 111	\$ 10,557	

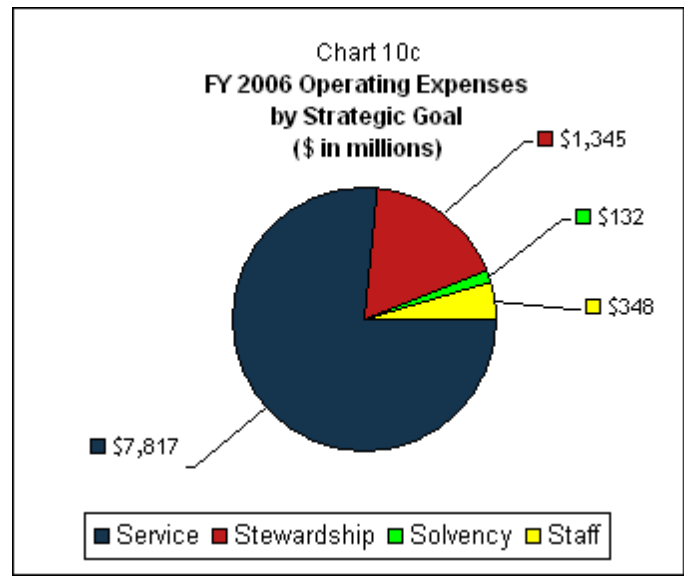
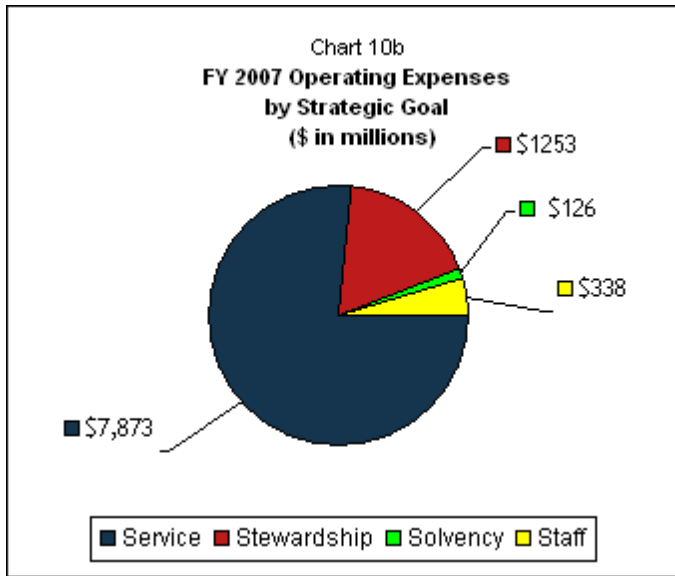
### CLASSIFICATION OF OPERATING EXPENSES BY STRATEGIC GOAL

SSA's Annual Performance Plan (APP) is characterized by broad-based strategic goals that are supported by the entire Agency. The four goals are:

- Service -- To deliver high-quality, citizen-centered service;
- Stewardship -- To ensure superior stewardship of Social Security programs and resources;
- Solvency -- To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations; and
- Staff -- To strategically manage and align staff to support SSA's mission.

Charts 10b and 10c exhibit distribution of FY 2007 and 2006 SSA and OIG LAE operating expenses to the four APP Strategic goals which agree to the Agency's LAE budget appropriation. OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see chart 10a) are not included in LAE by strategic goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.





## 11. EXCHANGE REVENUES

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the Agency’s cost. Total exchange revenues are \$284 and \$296 million for the years ended September 30, 2007 and 2006. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 23 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional administrative fees are collected for administering Title VIII State Supplementation and handling SSI attorney fees. SSA earned administrative fee revenue in the amount of \$250 and \$253 million for the years ended September 30, 2007 and 2006.

A portion of the administrative fees earned by SSA are non-entity assets, which are included within Fund Balance with Treasury in the amount of \$131 and \$140 million for the years ended September 30, 2007 and 2006. The portion of these non-entity asset fees collected to administer SSI State Supplementation total \$127 and \$137 million as of September 30, 2007 and 2006. The fees are deposited directly to the Department of the Treasury General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to the Department of the Treasury General Fund is presented so that net position is not affected by this activity. The remainder of the administrative fees, which meet the criteria of an earmarked fund, in the amount of \$119 and \$117 million for the years ended September 30, 2007 and 2006 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned \$34 and \$43 million for the years ended September 30, 2007 and 2006 in other exchange revenue.

## 12. COSTS AND EXCHANGE REVENUE CLASSIFICATIONS

Chart 12 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks, employee benefits and imputed financing costs. Refer to Note 14, Imputed Financing for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments, SSI payments, and payroll and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided which includes reimbursements from the United States Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided which includes fees for administering the states portion of SSI payments. The Other program primarily reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Chart 12- Costs and Exchange Revenue Classifications as of September 30: (\$ in millions)						
	2007			2006		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
<b>OASI Program</b>						
Intragovernmental	\$ 1,291	\$ (6)	\$ 1,285	\$ 1,309	\$ (3)	\$ 1,306
Public	482,834	(3)	482,831	453,290	(5)	453,285
OASI Subtotal	484,125	(9)	484,116	454,599	(8)	454,591
<b>DI Program</b>						
Intragovernmental	774	(5)	769	776	(4)	772
Public	99,196	(3)	99,193	92,742	(5)	92,737
DI Subtotal	99,970	(8)	99,962	93,518	(9)	93,509
<b>SSI Program</b>						
Intragovernmental	853	(7)	846	856	(8)	848
Public	36,406	(254)	36,152	37,528	(260)	37,268
SSI Subtotal	37,259	(261)	36,998	38,384	(268)	38,116
<b>Other Program</b>						
Intragovernmental	475	(4)	471	459	(2)	457
Public	1,222	(2)	1,220	1,309	(9)	1,300
Other Subtotal	1,697	(6)	1,691	1,768	(11)	1,757
<b>Total</b>	<b>\$ 623,051</b>	<b>\$ (284)</b>	<b>\$ 622,767</b>	<b>\$ 588,269</b>	<b>\$ (296)</b>	<b>\$ 587,973</b>

## **13. TAX REVENUES**

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service (IRS) or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of \$647,387 and \$620,007 million for the years ended September 30, 2007 and 2006.

## **14. IMPUTED FINANCING**

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of \$939 and \$937 million for the years ended September 30, 2007 and 2006 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The Consolidated Statements of Changes in Net Position recognizes an imputed financing source of \$541 and \$537 million for the years ended September 30, 2007 and 2006 that represents annual service cost not paid by SSA.

## **15. BUDGETARY RESOURCES**

### **APPROPRIATIONS RECEIVED**

The Combined Statements of Budgetary Resources discloses Appropriations Received of \$832,560 and \$796,683 million for the years ended September 30, 2007 and 2006. Appropriations Received on the Consolidated Statements of Changes in Net Position are \$59,669 and \$56,832 million for the same years. The primary differences of \$772,891 and \$739,851 million represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the general fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Public Debt where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Since OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's directive to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

## APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as Category A. Other apportionments such as activities, projects, objects or a combination of these categories are classified as Category B. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B, and Exempt from Apportionment. The variance between FY 2007 and FY 2006 concerning Category B and Exempt from Apportionment is due to a reclassification of certain activities.

During FY 2006, it was determined that certain activities, consisting primarily of the OASI and DI Trust Fund transfer accounts and the Taxation of Social Security Benefits, should be classified as Exempt from Apportionment since these activities do not receive an apportionment from OMB.

Chart 15a - Apportionment Categories of Obligations Incurred as of September 30: (\$ in millions)						
	2007			2006		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	\$ 50,450	\$ 3,991	\$ 54,441	\$ 50,227	\$ 4,181	\$ 54,408
Exempt	607,374	0	607,374	574,724	5	574,729
Total	\$ 657,824	\$ 3,991	\$ 661,815	\$ 624,951	\$ 4,186	\$ 629,137

## PERMANENT INDEFINITE APPROPRIATION

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides monetary assistance and protection against the loss of earnings due to retirement or death. The DI Trust Fund provides monetary assistance and protection against the loss of earnings due to a wage earner's disability. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, *Foster Care Independence Act of 1999*. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of PL 106-169, their SSI benefits would terminate the month after the veterans leave the U.S. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

## LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

All OASI and DI Trust Fund receipts collected in the FY are reported as new budget authority on the Combined Statements of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated in the OASI and DI Trust Funds. The portion of OASI and DI Trust Fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the SBR; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the OASI and DI Trust Funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 15b displays OASI and DI Trust Fund activities and balances. The OASI and DI Trust Fund Balances, Ending totals are included in Investments on the Consolidated Balance Sheets.

Chart 15b - OASI and DI Trust Fund Activities as of September 30:  
(\$ in millions)

	2007	2006
Beginning Balance	\$ 1,924,920	\$ 1,743,299
Receipts	773,198	739,961
Less Obligations	589,328	558,340
Excess of Receipts Over Obligations	183,870	181,621
Ending Balance	\$ 2,108,790	\$ 1,924,920

### **UNDELIVERED ORDERS AT THE END OF THE PERIOD**

Undelivered orders consist of unpaid orders of goods and/or services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are \$1,481 and \$1,373 million for the years ended September 30, 2007 and 2006.

### **EXPLANATION OF MATERIAL DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

A reconciliation of budgetary resources, obligations incurred and outlays as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2006 has been conducted. There are no material differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.

A reconciliation has not been presented for the year ended September 30, 2007 since this report is published in November 2007 but the actual budget data for FY 2007 will not be available until December 2007 by the Department of Treasury.

## 16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

### Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2007 and September 30, 2006 (Dollars in Millions)

	2007	2006
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 661,815	\$ 629,137
Less: Offsetting Collections and Recoveries	(14,190)	(13,952)
Obligations Net of Offsetting Collections and Recoveries	647,625	615,185
Less: Offsetting Receipts	(22,400)	(25,809)
Net Obligations	625,225	589,376
Other Resources		
Imputed Financing	541	537
Other	(249)	(253)
Net Other Resources Used to Finance Activities	292	284
Total Resources Used to Finance Activities	625,517	589,660
<b>Resources Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated, Not Yet Provided	238	(16)
Resources that Fund Expenses Recognized in Prior Periods	(3)	(10)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	21,461	20,158
Resources that Finance the Acquisition of Assets	(492)	(458)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(24,666)	(21,633)
Total Resources Not Part of the Net Cost of Operations	(3,462)	(1,959)
Total Resources Used to Finance the Net Cost of Operations	622,055	587,701
<b>Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	0	3
Other	386	361
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	386	364
Components Not Requiring or Generating Resources		
Depreciation and Amortization	296	234
Other	30	(326)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	326	(92)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	712	272
<b>Net Cost of Operations</b>	<b>\$ 622,767</b>	<b>\$ 587,973</b>

Chart 16, presents a reconciliation between proprietary and budgetary information. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement.

Effective for FY 2007, per OMB's authority under SFFAS #7, this information is presented as a schedule to the notes.

## **17. SOCIAL INSURANCE DISCLOSURES**

The Statement of Social Insurance discloses the actuarial present value for the 75-year projection period of the estimated future income (excluding interest), estimated future cost, and the excess of income over cost for the "open group" of participants. The open group of participants includes all current and future participants (including those born during the projection period) who are now or who are expected to eventually participate in the OASI and or DI Social Insurance programs.

Actuarial present values are computed on the basis of the intermediate economic and demographic assumptions specified in the 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Trustees Report) and over the 75-year projection period beginning January 1, 2007. Similar estimates are shown in the Statement of Social Insurance based on the prior four Trustees Reports reflecting actuarial present values at January 1 of the applicable year.

Estimated future income (excluding interest) consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

In addition to the actuarial present value of estimated future excess of income over cost, shown in the basic financial statements, for the open group of participants, it is possible to make a similar calculation for the "closed group" of participants. The closed group of participants consists of those who, in the starting year of the projection period, have attained age 15. The closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. In order to calculate the actuarial present value of estimated future excess of income over cost for the closed group, one would subtract the actuarial present value of estimated future cost for or on behalf of the specified group of current participants from the actuarial present value of estimated future income (excluding interest) for that group of participants.

Also included on the face of the Statement of Social Insurance as "additional information" for the open group are (1) the actuarial present value of the excess of estimated future income over the estimated future cost, (2) the combined OASI and DI Trust Fund assets at the start the period, and (3) the sum of (1) and (2). While this additional information is not required by the applicable accounting standards, SSA believes their inclusion enhances evaluation of the financial status of the program.

Combined OASI and DI Trust Fund assets represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund assets, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund assets as of January 1, 2007 totaled \$2,048 billion and were comprised almost entirely of investment securities which are backed by the full faith and credit of the Federal government.

The actuarial present value, for a 75-year projection period, of estimated future excess of income over cost, and combined OASI and DI Trust Fund assets at the start of the period, is shown as a negative value which represents the magnitude of what is commonly referred to as the "open group unfunded obligation" of the program over the 75-year projection period. This value is included in the applicable Trustees Report and is also shown in the Report as a percentage of taxable payroll and gross domestic product over the period.

**ASSUMPTIONS USED FOR THE STATEMENT OF SOCIAL INSURANCE**

The estimates used in this presentation for the current year (2007) are based on the assumption that the income and cost of the programs will continue at the levels scheduled under current law. They are also based on various economic and demographic assumptions, including those in the following table:

**Table 1: Significant Assumptions and Summary Measures Used for the Statement of Social Insurance 2007**

	Total Fertility Rate <sup>1</sup>	Age-Sex-Adjusted Death Rate <sup>2</sup> (per 100,000)	Period Life Expectancy At Birth <sup>3</sup>		Net Annual Immigration (persons per year) <sup>4</sup>	Real-Wage Differential <sup>5</sup> (percentage points)	Annual Percentage Change In:				Average Annual Interest Rate <sup>10</sup>
			Male	Female			Average Annual Wage in Covered Employment <sup>6</sup>	CPI <sup>7</sup>	Total Employment <sup>8</sup>	Real GDP <sup>9</sup>	
2007	2.04	839.8	75.1	79.7	1,075,000	2.7	4.6	1.9	1.0	2.6	4.6%
2010	2.03	825.3	75.5	79.9	1,000,000	1.4	4.2	2.8	0.8	2.6	5.7%
2020	2.02	764.5	76.7	80.7	950,000	1.0	3.8	2.8	0.4	2.1	5.7%
2030	2.00	705.4	77.7	81.6	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2040	2.00	652.8	78.6	82.4	900,000	1.1	3.9	2.8	0.4	2.0	5.7%
2050	2.00	606.6	79.5	83.1	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2060	2.00	565.7	80.3	83.8	900,000	1.1	3.9	2.8	0.3	1.9	5.7%
2070	2.00	529.3	81.1	84.5	900,000	1.1	3.9	2.8	0.3	1.9	5.7%
2080	2.00	496.8	81.9	85.1	900,000	1.1	3.9	2.8	0.3	1.9	5.7%

1. The total fertility rate for a year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age assumed for the selected year, and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex assumed for the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in the selected year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age assumed for the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year.
5. The real-wage differential is the difference between the percentage increases in the average annual wage in covered employment and the average annual Consumer Price Index (CPI).
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment represents total of civilian and military employment in the U.S. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real Gross Domestic Product (GDP) is the value of total output of goods and services in the U.S. economy, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which are compounded semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.



The estimates used in the Statement of Social Insurance for the current year and in corresponding Statements in prior years are based on various economic and demographic assumptions. The values for each of these assumptions move from recently experienced levels or trends toward long-range ultimate values within 2 to 25 years from the start of the projection period. These ultimate values are summarized in Table 2. Detailed information, similar to that denoted within Table 1, for the prior years is publicly available on the SSA website at: <http://www.ssa.gov/finance/>.

**Table 2: Significant Ultimate Assumptions and Summary Measures Used for the Statement of Social Insurance for Current and Prior Years**

Year of Statement	Total Fertility Rate <sup>1</sup>	Average Annual Percentage Reduction in the Age-Sex Adjusted Death Rates <sup>2</sup>	Net Annual Immigration (persons per year) <sup>3</sup>	Real-Wage Differential <sup>4</sup> (percentage points)	Average Annual Percentage Change In:			Average Annual Real Interest Rate <sup>8</sup>
					Average Annual Wage in Covered Employment <sup>5</sup>	CPI <sup>6</sup>	Total Employment <sup>7</sup>	
FY 2007	2.0	0.71	900,000	1.1	3.9	2.8	0.4	2.9
FY 2006	2.0	0.72	900,000	1.1	3.9	2.8	0.4	2.9
FY 2005 unaudited	1.95	0.72	900,000	1.1	3.9	2.8	0.3	3.0
FY 2004 unaudited	1.95	0.72	900,000	1.1	3.9	2.8	0.4	3.0
FY 2003 unaudited	1.95	0.76	900,000	1.1	4.1	3.0	0.4	3.0

1. The total fertility rate for a year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age assumed for the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in the 25<sup>th</sup> year of the projection period. For the 2006 estimates, the ultimate total fertility rate was increased from 1.95 to 2.0.
2. The age-sex-adjusted death rate is computed as the crude rate that would occur in the enumerated total population as of a standard date if that population were to experience the death rates by age and sex for the selected year. For the FY 2003 statement, the standard date was April 1, 1990. For the 2004-2007 statements, the standard date was April 1, 2000. The more recent standard date places greater weight on higher ages where reduction in death rates is assumed to be slower. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage reduction during each measurement period. The annual rate of reduction declines gradually during the period, so no ultimate rate is achieved. For the 2007 Statement, the average annual rate of reduction is computed based on death-rate levels, as shown in Table 1.
3. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. The ultimate assumption is reached by the 20<sup>th</sup> year of the projection period.
4. The real-wage differential is the difference between the percentage increases in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI). Except for minor fluctuations, the ultimate assumption is reached within the first 10 years of the projection period.
5. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The annual rate of change stabilizes after the first 10 years of the projection period except for minor fluctuations.
6. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W). The ultimate assumption is reached within the first 10 years of the projection period. For the 2004 estimates, the assumption was decreased from 3.0 to 2.8 percent.
7. Total employment represents total of civilian and military employment in the U.S. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2007 Statement, the average annual rate of change is consistent with the annual percentages as shown in Table 1.
8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is assumed to be reached within the first 10 years of the projection period. For the 2006 Statement, the assumption was decreased from 3.0 to 2.9 percent. For the 2007 Statement, the average annual real interest rate is consistent with the nominal interest rates shown in Table 1.

These assumptions and the other values on which Table 2 is based reflect the intermediate assumptions of the 2007-2003 Trustees Reports. Estimates made in prior years differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Additional information on Social Insurance is contained in the *Required Supplementary Information: Social Insurance* of this report.

## **18. RECOVERY OF MEDICARE PREMIUMS**

SSA identified a systemic and recurring error in the process for recovering certain transfers to the Centers for Medicare and Medicaid Services (CMS) of Medicare Part B premiums. Beneficiaries of OASDI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premiums transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, SSA generally did not have procedures to recover Medicare premiums transferred to CMS. As a result, SSA estimates that approximately \$800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002. SSA and Health and Human Services are currently conducting research to determine the most appropriate legal resolution to this issue.

This page was intentionally left blank.

**Other Accompanying Information: Balance Sheet by Major Program  
as of September 30, 2007  
(Dollars in Millions)**

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
<b>Intragovernmental:</b>							
Fund Balance with Treasury	\$ (941)	\$ (361)	\$ 4,619	\$ 2,820	\$ 9	\$ 0	\$ 6,146
Investments	1,968,262	213,829	0	0	0	0	2,182,091
Interest Receivable, Net	25,041	2,686	0	0	0	0	27,727
Accounts Receivable, Net	0	0	0	0	2,295	(1,844)	451
<b>Total Intragovernmental</b>	<b>1,992,362</b>	<b>216,154</b>	<b>4,619</b>	<b>2,820</b>	<b>2,304</b>	<b>(1,844)</b>	<b>2,216,415</b>
Accounts Receivable, Net	2,332	2,780	5,224	0	14	(2,333)	8,017
Property, Plant and Equipment, Net	0	0	0	0	1,892	0	1,892
Other	0	0	0	0	5	0	5
<b>Total Assets</b>	<b>\$ 1,994,694</b>	<b>\$ 218,934</b>	<b>\$ 9,843</b>	<b>\$ 2,820</b>	<b>\$ 4,215</b>	<b>\$ (4,177)</b>	<b>\$ 2,226,329</b>
<b>Liabilities</b>							
<b>Intragovernmental:</b>							
Accrued Railroad Retirement Interchange	\$ 3,399	\$ 403	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,802
Accounts Payable	601	561	5,674	2,758	38	(1,844)	7,788
Other	0	0	0	0	95	0	95
<b>Total Intragovernmental</b>	<b>4,000</b>	<b>964</b>	<b>5,674</b>	<b>2,758</b>	<b>133</b>	<b>(1,844)</b>	<b>11,685</b>
Benefits Due and Payable	44,030	24,017	4,224	0	0	(2,333)	69,938
Accounts Payable	0	6	358	0	8	0	372
Other	0	0	386	5	872	0	1,263
<b>Total Liabilities</b>	<b>48,030</b>	<b>24,987</b>	<b>10,642</b>	<b>2,763</b>	<b>1,013</b>	<b>(4,177)</b>	<b>83,258</b>
<b>Net Position</b>							
Unexpended Appropriations-Earmarked Funds	0	0	0	57	0	0	57
Unexpended Appropriations-Other Funds	0	0	2,207	0	15	0	2,222
Cumulative Results of Operations-Earmarked Funds	1,946,664	193,947	6	0	0	0	2,140,617
Cumulative Results of Operations-Other Funds	0	0	(3,012)	0	3,187	0	175
<b>Total Net Position</b>	<b>1,946,664</b>	<b>193,947</b>	<b>(799)</b>	<b>57</b>	<b>3,202</b>	<b>0</b>	<b>2,143,071</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,994,694</b>	<b>\$ 218,934</b>	<b>\$ 9,843</b>	<b>\$ 2,820</b>	<b>\$ 4,215</b>	<b>\$ (4,177)</b>	<b>\$ 2,226,329</b>

**Other Accompanying Information: Schedule of Net Cost for the Year Ended  
September 30, 2007**  
(Dollars in Millions)

	Program	LAE	Total
<b>OASI Program</b>			
Benefit Payments	\$ 481,026	\$ 0	\$ 481,026
Operating Expenses	589	2,510	3,099
Total Cost of OASI Program	481,615	2,510	484,125
Less: Exchange Revenues	0	9	9
<b>Net Cost of OASI Program</b>	<b>481,615</b>	<b>2,501</b>	<b>484,116</b>
<b>DI Program</b>			
Benefit Payments	97,410	0	97,410
Operating Expenses	179	2,381	2,560
Total Cost of DI Program	97,589	2,381	99,970
Less: Exchange Revenues	0	8	8
<b>Net Cost of DI Program</b>	<b>97,589</b>	<b>2,373</b>	<b>99,962</b>
<b>SSI Program</b>			
Benefit Payments	34,142	0	34,142
Operating Expenses	104	3,013	3,117
Total Cost of SSI Program	34,246	3,013	37,259
Less: Exchange Revenues	250	11	261
<b>Net Cost of SSI Program</b>	<b>33,996</b>	<b>3,002</b>	<b>36,998</b>
<b>Other</b>			
Benefit Payments	8	0	8
Operating Expenses	3	1,686	1,689
Total Cost of Other	11	1,686	1,697
Less: Exchange Revenues	0	6	6
<b>Net Cost of Other</b>	<b>11</b>	<b>1,680</b>	<b>1,691</b>
<b>Total Net Cost</b>			
Benefit Payments	612,586	0	612,586
Operating Expenses	875	9,590	10,465
Total Cost	613,461	9,590	623,051
Less: Exchange Revenues	250	34	284
<b>Total Net Cost</b>	<b>\$ 613,211</b>	<b>\$ 9,556</b>	<b>\$ 622,767</b>

**Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2007**  
(Dollars in Millions)

	OASI	DI	SSI	
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning Balances</b>				
Earmarked Funds	\$ 1,771,908	\$ 183,007	\$ 6	\$ 0
All Other Funds	0	0	(2,918)	1,596
Adjustments				
Corrections of Errors	(5,042)	5,042	0	0
<b>Total All Funds</b>	<b>1,766,866</b>	<b>188,049</b>	<b>(2,912)</b>	<b>1,596</b>
<b>Budgetary Financing Sources</b>				
Appropriations Received				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	0	40,300
Other Adjustments				
Earmarked Funds	0	0	0	0
Appropriations Used				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	39,689	(39,689)
Tax Revenues-Earmarked Funds	553,414	93,973	0	
Interest Revenues-Earmarked Funds	97,431	11,026	0	
Transfers In/Out Without Reimbursement				
Earmarked Funds	14,120	(1,065)	0	
All Other Funds	0	0	(5,668)	
Railroad Retirement Interchange - Earmarked Funds	(3,563)	(505)	0	
Net Transfers In/Out				
Earmarked Funds	10,557	(1,570)	0	
All Other Funds	0	0	(5,668)	
Other Budgetary Financing Sources-				
Earmarked Funds	11	58	(119)	
<b>Other Financing Sources (Non-Exchange)</b>				
Transfers In/Out-All Other Funds	0	0	0	
Imputed Financing Sources-All Other Funds	0	0	0	
<b>Total Financing Sources</b>				
Earmarked Funds	661,413	103,487	(119)	0
All Other Funds	0	0	34,021	611
<b>Net Cost of Operations</b>				
Earmarked Funds	481,615	97,589	(119)	
All Other Funds	0	0	34,115	
<b>Net Change</b>				
Earmarked Funds	179,798	5,898	0	
All Other Funds	0	0	(94)	
<b>Ending Balances</b>				
Earmarked Funds	1,946,664	193,947	6	0
All Other Funds	0	0	(3,012)	2,207
<b>Total All Funds</b>	<b>\$ 1,946,664</b>	<b>\$ 193,947</b>	<b>\$ (3,006)</b>	<b>\$ 2,207</b>

### Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2007 (Continued)

(Dollars in Millions)

	Other		LAE		Consolidated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning Balances</b>						
Earmarked Funds	\$ 0	\$ 57	\$ 0	\$ 0	\$ 1,954,921	\$ 57
All Other Funds	0	0	2,757	18	(161)	1,614
Adjustments						
Corrections of Errors	0	0	0	0	0	0
<b>Total All Funds</b>	0	57	2,757	18	1,954,760	1,671
<b>Budgetary Financing Sources</b>						
Appropriations Received						
Earmarked Funds	0	19,335	0	0	0	19,335
All Other Funds	0	8	0	26	0	40,334
Other Adjustments						
Earmarked Funds	0	(9)	0	0	0	(9)
Appropriations Used						
Earmarked Funds	19,326	(19,326)	0	0	19,326	(19,326)
All Other Funds	8	(8)	29	(29)	39,726	(39,726)
Tax Revenues-Earmarked Funds	0	0	0	0	647,387	0
Interest Revenues-Earmarked Funds	0	0	0	0	108,457	0
Transfers In/Out Without Reimbursement						
Earmarked Funds	(19,323)	0	0	0	(6,268)	0
All Other Funds	2,757	0	9,360	0	6,449	0
Railroad Retirement Interchange - Earmarked Funds	0	0	0	0	(4,068)	0
Net Transfers In/Out						
Earmarked Funds	(19,323)	0	0	0	(10,336)	0
All Other Funds	2,757	0	9,360	0	6,449	0
Other Budgetary Financing Sources-						
Earmarked Funds	0	0	0	0	(50)	0
<b>Other Financing Sources (Non-Exchange)</b>						
Transfers In/Out-All Other Funds	(2,757)	0	56	0	(2,701)	0
Imputed Financing Sources-All Other Funds	0	0	541	0	541	0
<b>Total Financing Sources</b>						
Earmarked Funds	3	0	0	0	764,784	0
All Other Funds	8	0	9,986	(3)	44,015	608
<b>Net Cost of Operations</b>						
Earmarked Funds	3	0	0	0	579,088	0
All Other Funds	8	0	9,556	0	43,679	0
<b>Net Change</b>						
Earmarked Funds	0	0	0	0	185,696	0
All Other Funds	0	0	430	0	336	0
<b>Ending Balances</b>						
Earmarked Funds	0	57	0	0	2,140,617	57
All Other Funds	0	0	3,187	15	175	2,222
<b>Total All Funds</b>	\$ 0	\$ 57	\$ 3,187	\$ 15	\$ 2,140,792	\$ 2,279

**Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2007**  
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
<b>Budgetary Resources</b>						
<b>Unobligated Balances, Brought Forward, October 1</b>	\$ 0	\$ 0	\$ 1,236	\$ 57	\$ 498	\$ 1,791
<b>Recoveries of Prior Year Unpaid Obligations</b>	3	3	294	1	184	485
<b>Budget Authority</b>						
Appropriations Received	666,417	106,474	40,300	19,343	26	832,560
Spending Authority from Offsetting Collections						
Earned						
Collected	0	0	3,931	5	48	3,984
Change in Receivable	0	0	15	0	(6)	9
Change in Unfilled Customer Orders						
Advance Received	0	0	349	0	(1)	348
Without Advance	0	0	0	0	0	0
Expenditure Transfers from Trust Funds	0	0	2	0	9,362	9,364
<b>Subtotal</b>	<b>666,417</b>	<b>106,474</b>	<b>44,597</b>	<b>19,348</b>	<b>9,429</b>	<b>846,265</b>
<b>Nonexpenditure Transfers, Net</b>	<b>(4,906)</b>	<b>5,180</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>274</b>
<b>Temporary Not Available Pursuant to Public Law</b>	<b>(172,749)</b>	<b>(11,121)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(183,870)</b>
<b>Permanently Not Available</b>	<b>36</b>	<b>(9)</b>	<b>0</b>	<b>(10)</b>	<b>(1)</b>	<b>16</b>
<b>Total Budgetary Resources</b>	<b>\$ 488,801</b>	<b>\$ 100,527</b>	<b>\$ 46,127</b>	<b>\$ 19,396</b>	<b>\$ 10,110</b>	<b>\$ 664,961</b>
<b>Status of Budgetary Resources</b>						
<b>Obligations Incurred</b>						
Direct	\$ 488,801	\$ 100,527	\$ 39,680	\$ 19,335	\$ 9,481	\$ 657,824
Reimbursable	0	0	3,946	5	40	3,991
<b>Subtotal</b>	<b>488,801</b>	<b>100,527</b>	<b>43,626</b>	<b>19,340</b>	<b>9,521</b>	<b>661,815</b>
<b>Unobligated Balances</b>						
Apportioned	0	0	2,456	25	321	2,802
Exempt from Apportionment	0	0	0	0	0	0
<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>2,456</b>	<b>25</b>	<b>321</b>	<b>2,802</b>
<b>Unobligated Balances - Not Available</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>31</b>	<b>268</b>	<b>344</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 488,801</b>	<b>\$ 100,527</b>	<b>\$ 46,127</b>	<b>\$ 19,396</b>	<b>\$ 10,110</b>	<b>\$ 664,961</b>
<b>Change in Obligated Balances</b>						
<b>Obligated Balances, Net</b>						
Unpaid Obligations, Brought Forward, October 1	\$ 45,544	\$ 24,375	\$ 1,483	\$ 4	\$ 1,652	\$ 73,058
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	0	9	0	(2,078)	(2,069)
<b>Total Unpaid Obligated Balance, Net</b>	<b>45,544</b>	<b>24,375</b>	<b>1,492</b>	<b>4</b>	<b>(426)</b>	<b>70,989</b>
<b>Obligations Incurred, Net</b>	<b>488,801</b>	<b>100,527</b>	<b>43,626</b>	<b>19,340</b>	<b>9,521</b>	<b>661,815</b>
<b>Gross Outlays</b>	<b>(486,312)</b>	<b>(99,851)</b>	<b>(42,864)</b>	<b>(19,340)</b>	<b>(9,292)</b>	<b>(657,659)</b>
<b>Recoveries of Prior Year Unpaid Obligations, Actual</b>	<b>(3)</b>	<b>(3)</b>	<b>(294)</b>	<b>(1)</b>	<b>(184)</b>	<b>(485)</b>
<b>Change in Uncollected Payments from Federal Sources</b>	<b>0</b>	<b>0</b>	<b>(15)</b>	<b>0</b>	<b>(200)</b>	<b>(215)</b>
<b>Obligated Balance, Net, End of Period</b>						
Unpaid Obligations	48,030	25,048	1,951	3	1,697	76,729
Uncollected Payments from Federal Sources	0	0	(6)	0	(2,278)	(2,284)
<b>Total Unpaid Obligated Balance, Net, End of Period</b>	<b>48,030</b>	<b>25,048</b>	<b>1,945</b>	<b>3</b>	<b>(581)</b>	<b>74,445</b>
<b>Net Outlays</b>						
Gross Outlays	486,312	99,851	42,864	19,340	9,292	657,659
Offsetting Collections	0	0	(4,282)	(5)	(9,204)	(13,491)
Distributed Offsetting Receipts	(17,543)	(1,850)	(250)	(2,757)	0	(22,400)
<b>Net Outlays</b>	<b>\$ 468,769</b>	<b>\$ 98,001</b>	<b>\$ 38,332</b>	<b>\$ 16,578</b>	<b>\$ 88</b>	<b>\$ 621,768</b>



## REQUIRED SUPPLEMENTARY INFORMATION: SOCIAL INSURANCE

### PROGRAM DESCRIPTION

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as “Social Security,” provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2006, OASDI benefits were paid to more than 49 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. The amount of OASDI income and benefits may be altered by changes in laws governing the program.

### PROGRAM FINANCES AND SUSTAINABILITY

As discussed in Note 8 to the consolidated financial statements, a liability of \$66 billion as of September 30, 2007 (\$63 billion as of September 30, 2006) is included in “Benefits Due and Payable” on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2007. Also, an asset of \$2,182 billion as of September 30, 2007 (\$1,995 billion as of September 30, 2006) is recognized for the “investments in Treasury securities.” These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investment Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2007. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and are not considered deferred compensation, as would employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker’s expected retirement benefits has been recognized by the time the worker retires.

**REQUIRED SUPPLEMENTARY INFORMATION** - While no liability has been recognized on the balance sheet for future payments beyond those due at the reporting date, actuarial estimates are made of the long-range financial condition of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; interest income from Treasury securities held as assets of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **income excluding interest:** income, as defined above, excluding the interest income from Treasury securities held as assets of the OASI and DI Trust Funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;

- **present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the payments as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2007 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

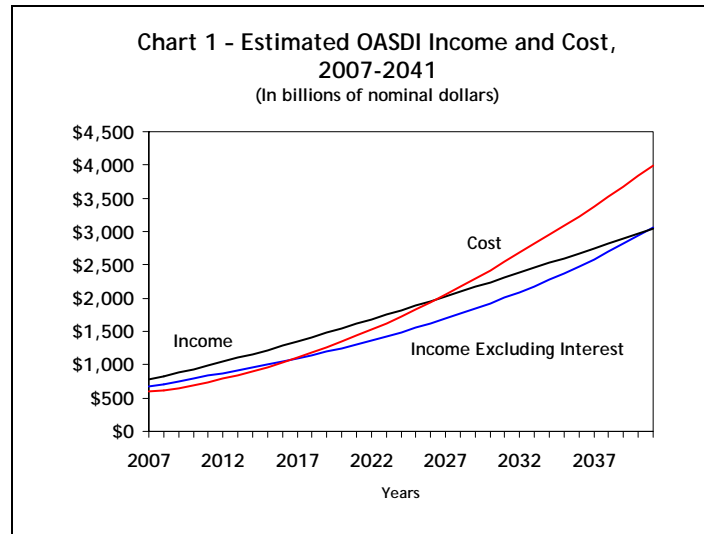
- (1) actuarial present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
- (2) estimated annual income (excluding interest) and cost in nominal dollars and as percentages of taxable payroll and GDP;
- (3) the ratio of estimated covered workers to estimated beneficiaries; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions.

**SUSTAINABLE SOLVENCY** - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to maintain assets in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the assets in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

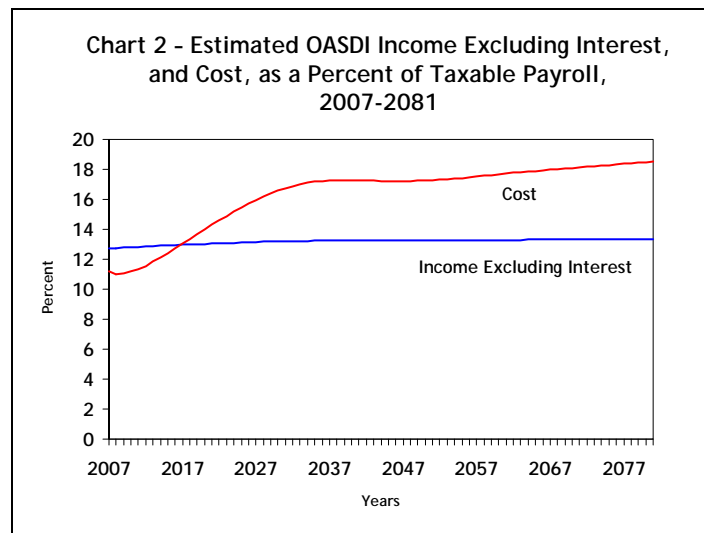
**CASHFLOW PROJECTIONS** - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2007-2041 in nominal dollars. These estimates are only displayed through 2041, the year that the combined OASI and DI Trust Funds are projected to become exhausted. At the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this chart, which is intended to illustrate the source of revenue needed to meet the cost of the program, beyond the point of combined OASI and DI Trust Fund exhaustion, would be inappropriate.

The estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost on behalf of such workers during that period.

As chart 1 shows, estimated cost starts to exceed income (including interest) in 2027. This occurs because of a variety of factors including the retirement of the “baby boom” generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated cost starts to exceed income excluding interest in 2017. At that time, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption will differ from that of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.



**PERCENTAGE OF TAXABLE PAYROLL** - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2017, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 70 percent of the estimated cost.

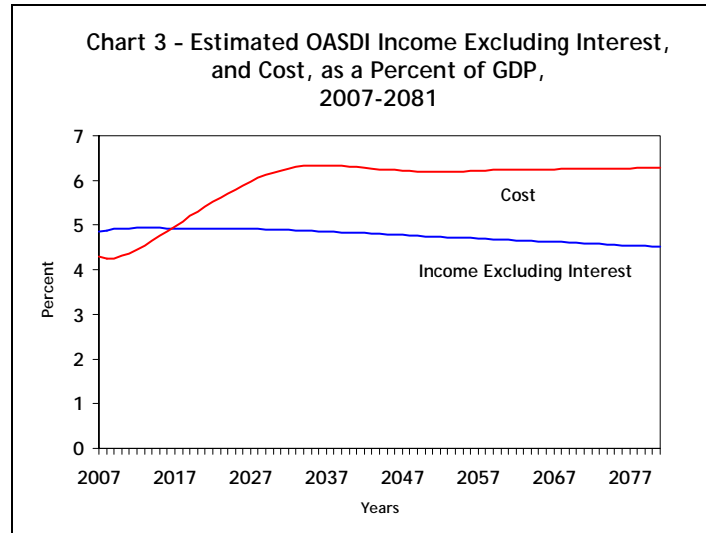


**ACTUARIAL BALANCE** - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$6,763 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2007), it is -\$4,715 billion. This excess does not equate to the actuarial balance in the Trustees Report of -1.95 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level by the end of the period.

One interpretation of this negative actuarial balance (-1.95 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain

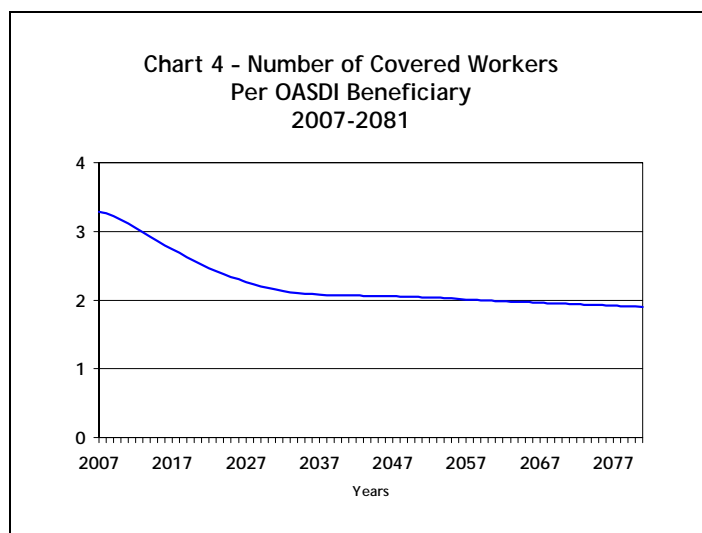
at that level. An increase of 1.95 percentage points in this rate for each year of the 75-year projection period (0.975 percentage points for employees and employers each, resulting in a total rate of 14.35 percent or a rate of 7.175 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all benefits during this period could be reduced by about 13.0 percent on average (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

**PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP)** - Chart 3 shows estimated annual income excluding interest and cost expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.



In 2006, OASDI cost was about \$555 billion, which was about 4.2 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.2 percent of GDP in 2030 and then gradually increases to 6.3 percent of GDP in 2081. The increase will occur because baby boomers will become eligible for OASDI benefits, lower birth rates will result in fewer workers per beneficiary, and beneficiaries will continue to live longer.

**RATIO OF WORKERS TO BENEFICIARIES** - Chart 4 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2006 to 1.9 in 2081.



## SENSITIVITY ANALYSIS

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury securities. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2007 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2007 and are based on estimates of income and cost during the 75-year projection period 2007-2081. In this section, for brevity, “income” means “income excluding interest.”

For each assumption analyzed, one table and two charts are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The first chart shows estimated annual OASDI net cashflow based on each of those values. The second chart, labeled with the suffix “A,” shows the present value of each net cashflow amount shown in the first chart and is included to facilitate interpreting net cashflow in terms of today’s dollar. Because the calculation of present values is a discounting process, the magnitude of the present value for each year in the second chart is lower than the corresponding net cashflow amount in the first chart--positive values are less positive and negative values are less negative.

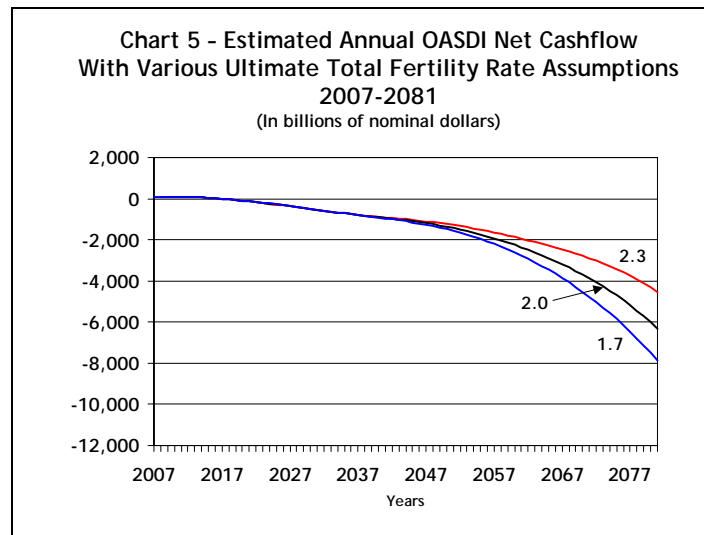
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Reports present high-cost and low-cost alternative assumption sets which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees have also recently added to their Annual Report an additional way of analyzing variability in assumptions and cost based on a stochastic model developed by the Office of the Chief Actuary.

**TOTAL FERTILITY RATE** - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0 and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2007 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2031.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,488 billion, from \$6,763 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to \$6,016 billion.

<b>Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2007-2081</b>			
Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-\$7,488	-\$6,763	-\$6,016

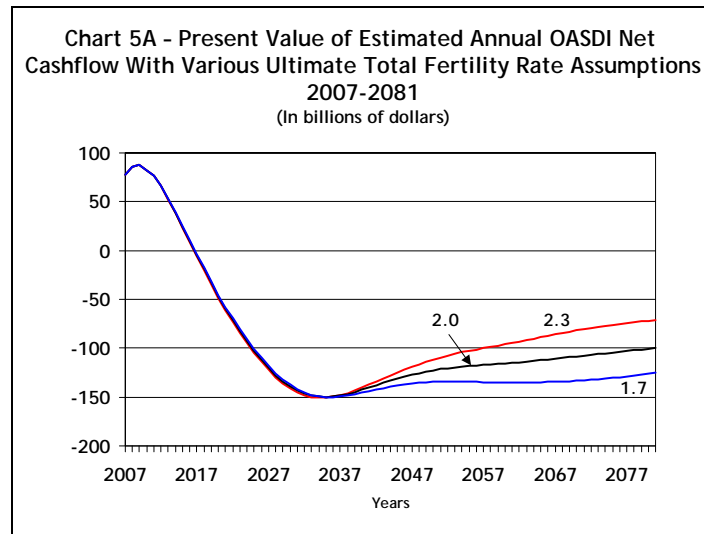
Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 1. Chart 5 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing in the first two years, the net cashflow estimates decrease steadily through 2081. They remain positive through 2016 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 34 years before the combined OASI and DI Trust Funds are projected to become depleted under each of these fertility assumptions.

In the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2036 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from 2036 on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

Chart 5A shows the present value of the estimated annual OASDI net cashflow.



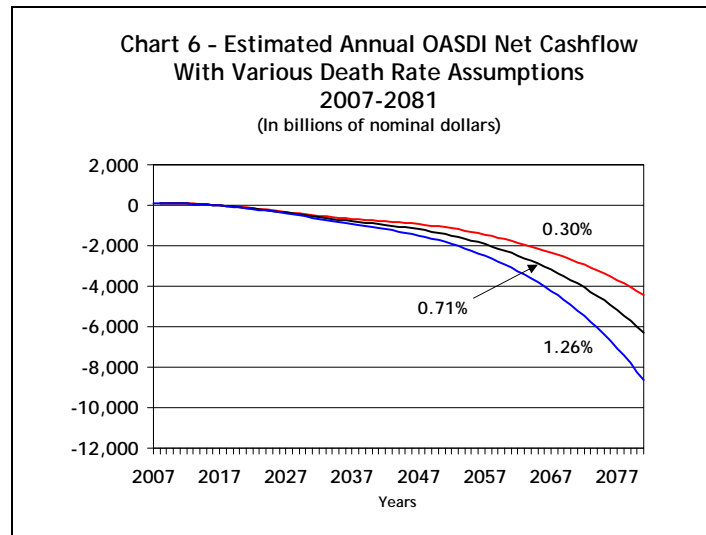
The three patterns of the present values shown in Chart 5A are similar. After increasing for two years, the present values decrease rapidly until around 2030. They remain positive through 2016 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2035 for a total fertility rate of 2.3, 2036 for a total fertility rate of 2.0, and 2037 for a total fertility rate of 1.7). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2037 than it would to cover the annual deficit in 2036.

**MORTALITY** - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2006-2081 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.30, 0.71 and 1.26 percent per year, where 0.71 percent is the intermediate assumption in the 2007 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 20, 41 and 61 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 77.3 in 2006 to 80.4, 83.5, and 87.6 in 2081 for average annual reductions in the age-sex-adjusted death rate of 0.30, 0.71 and 1.26 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.71 percent, the Trustees' intermediate assumption, to 0.30 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$5,233 billion, from \$6,763 billion; if the annual reduction were changed to 1.26 percent, meaning that people live longer, the shortfall would increase to \$8,595 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2007-2081			
Average Annual Reduction in Death Rates (from 2006 to 2081)	0.30 Percent	0.71 Percent	1.26 Percent
Present Value of Estimated Excess (In billions)	-\$5,233	-\$6,763	-\$8,595

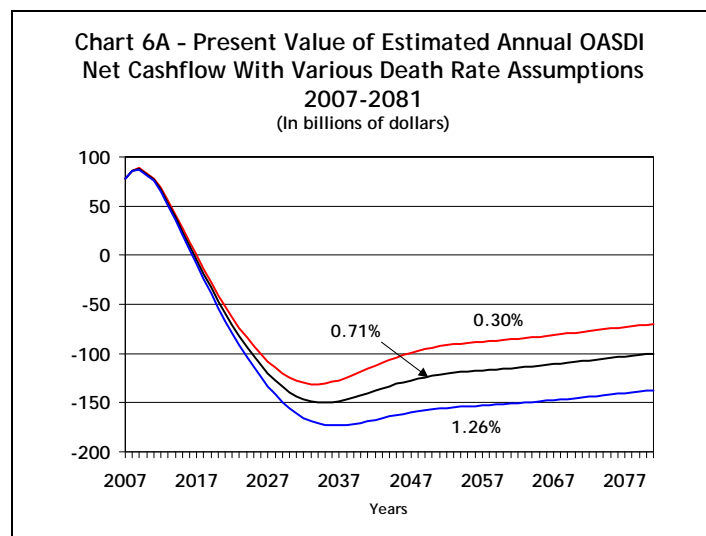
Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 2. Chart 6 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing in the first two years, the net cashflow estimates decrease steadily through 2081. They remain positive through 2016 for all three assumptions, after which the annual net cashflow estimates are negative. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). At young ages, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

Chart 6A shows the present value of the estimated annual OASDI net cashflow.





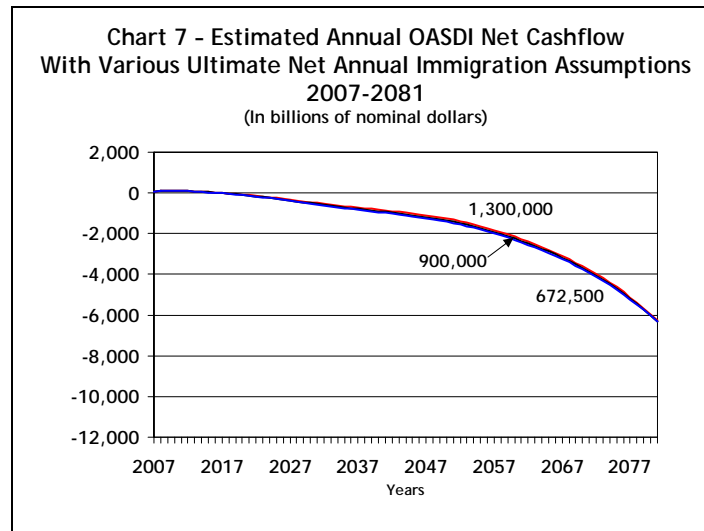
The three patterns of the present values shown in Chart 6A are similar. After increasing for two years, the present values decrease rapidly until around 2030. They remain positive through 2016 under all three assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2038 for assumptions of reductions of 0.30, 0.71 and 1.26 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

**NET ANNUAL IMMIGRATION** - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of net annual immigration. These assumptions are that the ultimate net annual immigration (legal and other) will be 672,500 persons, 900,000 persons and 1,300,000 persons, where 900,000 persons is the intermediate assumption in the 2007 Trustees Report.

Table 3 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate ultimate assumption, to 672,500 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,112 billion, from \$6,763 billion. If the ultimate net annual immigration assumption were changed to 1,300,000 persons, the present value of the shortfall would decrease to \$6,266 billion.

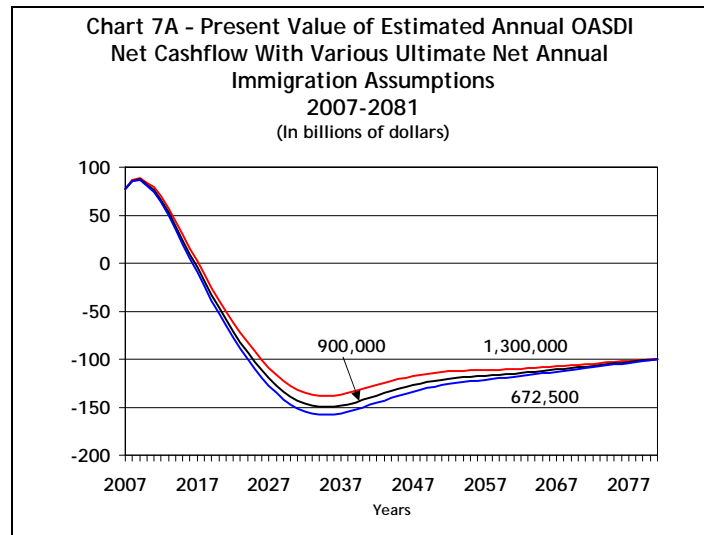
<b>Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Net Annual Immigration Assumptions Valuation Period: 2007-2081</b>			
Ultimate Net Annual Immigration	672,500 Persons	900,000 Persons	1,300,000 Persons
Present Value of Estimated Excess (In billions)	-\$7,112	-\$6,763	-\$6,266

Charts 7 and 7A show estimates using the same assumptions about net annual immigration used for the estimates in Table 3. Chart 7 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing in the first two years, the net cashflow estimates decrease steadily through 2081. They remain positive through 2016 for the annual ultimate net immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons. Very little difference is discernible among the estimates of net cashflow based on the three assumptions about net annual immigration.

Chart 7A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 7A are similar. After increasing for two years, the present values decrease rapidly until around 2030. They remain positive through 2016 for the assumed ultimate net annual immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons, after which the present values are negative. Present values based on all three assumptions about net annual immigration begin to increase (become less negative) in 2036 for all three assumptions.

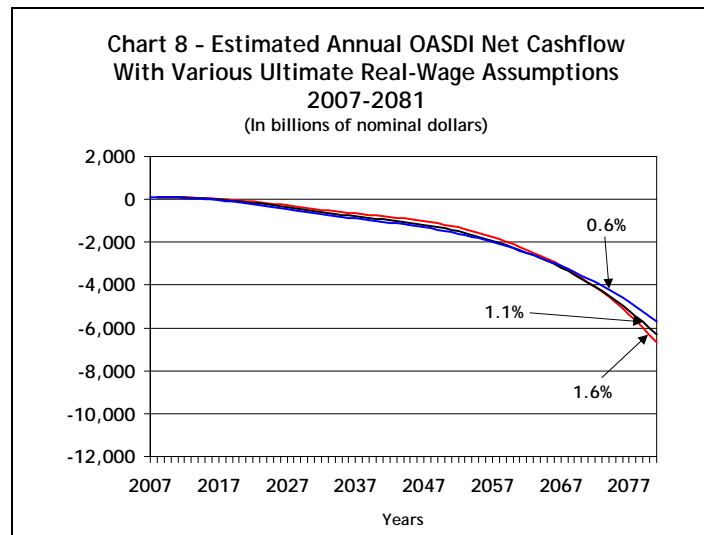
Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three assumptions about net annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Thus, even in the early years, the present values, year by year, are higher (less negative in later years) for higher net annual immigration. Because a constant number of net immigrants is assumed each year, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Thus, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

**REAL-WAGE DIFFERENTIAL** - The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1 and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2007 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 3.9 and 4.4 percent, respectively.

Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,482 billion from \$6,763 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to \$5,757 billion.

<b>Table 4: Present Value of Estimated Excess of OASDI Income over Cost                      With Various Ultimate Real-Wage Assumptions                      Valuation Period: 2007-2081</b>			
Ultimate Annual Increase in Wages, CPI; <b>Real Wage Differential</b>	3.4% , 2.8%; <b>0.6%</b>	3.9% , 2.8%; <b>1.1%</b>	4.4% , 2.8%; <b>1.6%</b>
Present Value of Estimated Excess (In billions)	-\$7,482	-\$6,763	-\$5,757

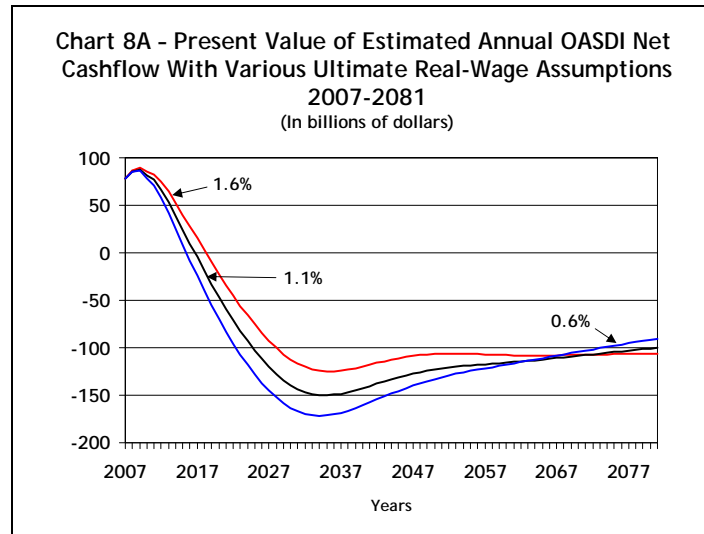
Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4. Chart 8 shows the estimated annual OASDI net cashflow.



The three patterns of estimated net annual OASDI cashflow shown in Chart 8 generally increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and is negative thereafter.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, around 2070, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

Chart 8A shows the present value of the estimated annual OASDI net cashflow.



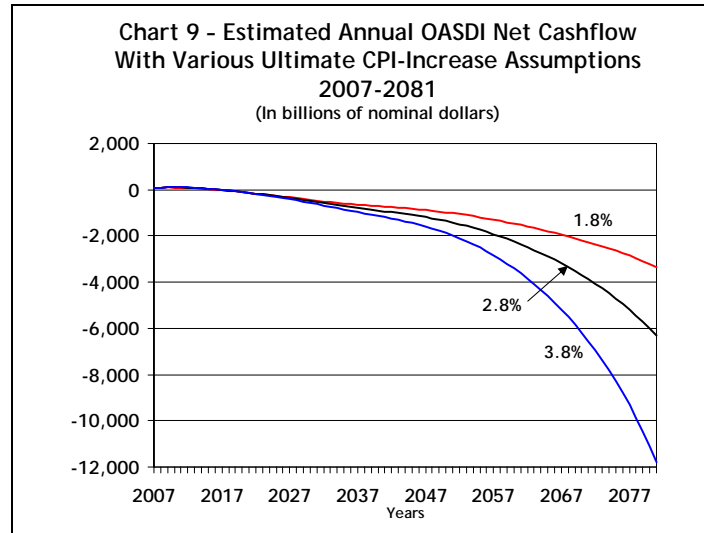
The three patterns of the present values shown in Chart 8A increase for two years, and then, decrease rapidly until around 2030. They remain positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2037 for an assumed ultimate real-wage differential of 0.6, 1.1 and 1.6 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2053 when decreases temporarily begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

**CONSUMER PRICE INDEX** - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8 and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2007 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.9, 3.9 and 4.9 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,218 billion, from \$6,763 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to \$6,301 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

<b>Table 5: Present Value of Estimated Excess of OASDI Income over Cost                      With Various Ultimate CPI-Increase Assumptions                      Valuation Period: 2007-2081</b>			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	2.9% , <b>1.8%</b> ; 1.1%	3.9% , <b>2.8%</b> ; 1.1%	4.9% , <b>3.8%</b> ; 1.1%
Present Value of Estimated Excess (In billions)	-\$7,218	-\$6,763	-\$6,301

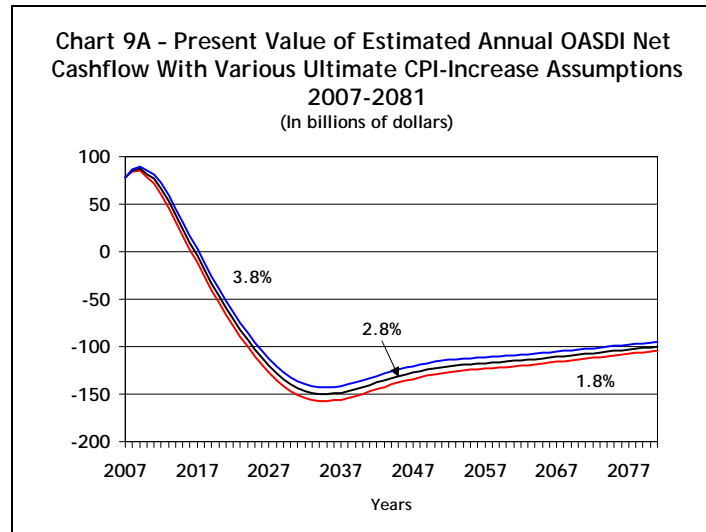
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2081. Annual net cashflow remains positive through 2016 for assumed ultimate annual increases in the CPI of 1.8 percent and 2.8 percent; and through 2017 for an assumed ultimate annual increase in the CPI of 3.8 percent. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher benefits based on these higher wages. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost in nominal dollars.

Larger increases in the CPI cause earnings and income to increase sooner, and thus by more in each year, than benefits and cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Initially (through 2021) the larger percentage increase in CPI results in a larger nominal-dollar increase in income, so net cashflow is increased for higher inflation in Chart 9. However, shortly after 2021, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because program income begins to fall well below program cost, and thus the larger percentage increases in CPI eventually produce smaller nominal-dollar increases in income than in program cost.

Chart 9A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 9A are similar. After increasing for two years, present values decrease rapidly until around 2030 before beginning to increase once again. They remain positive through 2016 (2017 for an assumed ultimate annual increase in the CPI of 3.8 percent) and are negative thereafter. Present values begin to increase (become less negative) in 2036 for all three assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

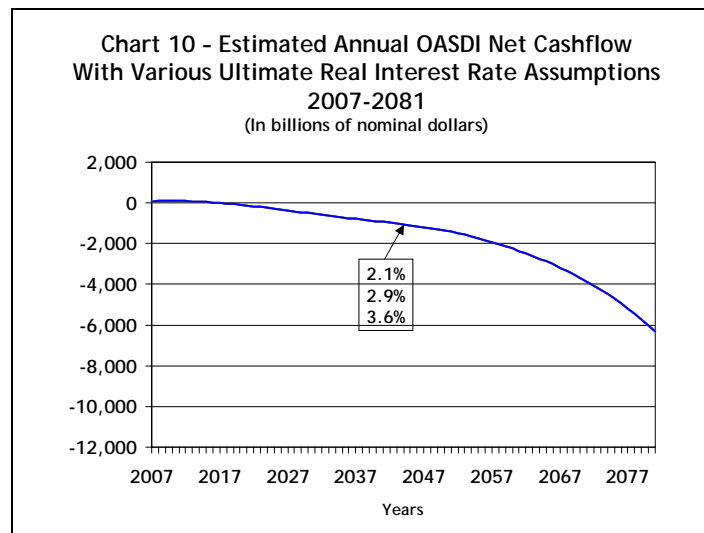
The magnitudes of the present values in Chart 9A are lower, year by year, than the amounts in Chart 9 because of the discounting process used for computing present values. This would be the case even if the nominal interest rates on which the present values are based were assumed to be the same for all three patterns of annual net cashflow. For this analysis, however, larger increases in the CPI are combined with the same assumed real interest rates, thereby producing higher nominal interest rates. The effect of these higher interest rates is to reduce the magnitudes of the present values of annual net cashflow even more--the present values of positive annual net cashflow become less positive, and the present values of negative annual net cashflow become less negative. The compounding effect of the higher interest rates is strong enough, relative to the factors increasing benefits, to reduce the magnitudes of the present values of the negative annual net cashflow of the later years sufficiently to eliminate the crossover of the patterns that occurred in Chart 9.

**REAL INTEREST RATE** - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.1, 2.9 and 3.6 percent, where 2.9 percent is the intermediate assumption in the 2007 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 6 demonstrates that, if the ultimate real interest rate is changed from 2.9 percent, the Trustees' intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to \$9,414 billion, from \$6,763 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to \$5,120 billion.

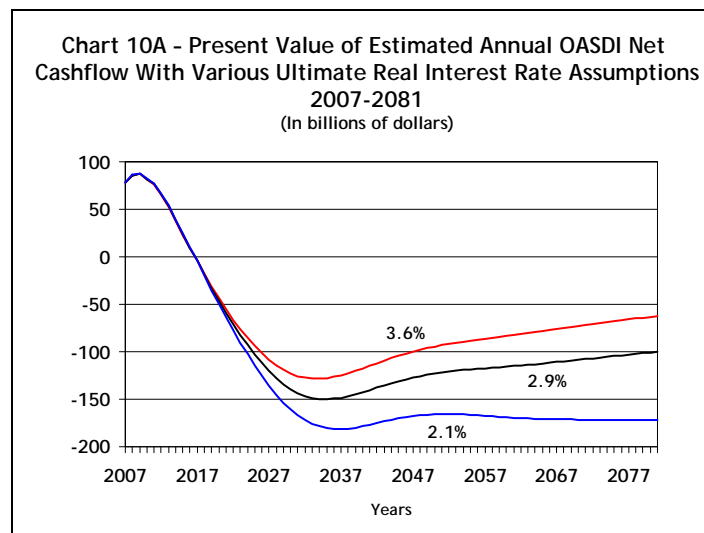
<b>Table 6: Present Value of Estimated Excess of OASDI Income over Cost                      With Various Ultimate Real-Interest Assumptions                      Valuation Period: 2007-2081</b>			
Ultimate Annual Real Interest Rate	2.1 Percent	2.9 Percent	3.6 Percent
Present Value of Estimated Excess (In billions)	-\$9,414	-\$6,763	-\$5,120

Charts 10 and 10A show estimates using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6. Chart 10 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow (which does not include interest) shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2009, the net cashflow estimates decrease steadily through 2081. They remain positive through 2016 and are negative thereafter.

Chart 10A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 10A are similar. After increasing for two years, the present values decrease rapidly until around 2030. They remain positive through 2016 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2038, 2036 and 2034 for assumed ultimate real interest rates of 2.1, 2.9 and 3.6 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real interest rate of 2.1 percent, the present values continue increasing temporarily, through 2053, then generally decrease thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Although not observable, Chart 10A includes a crossover in the patterns of the present values of the net cashflow. The crossover occurs at the time the net cashflow changes from positive to negative, which happens in 2017. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.



# AUDITOR'S REPORTS



## SOCIAL SECURITY

November 7, 2007

To: The Honorable Michael J. Astrue  
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2007 and 2006 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements, Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance and Other Matters*.

### **Objective of a Financial Statement Audit**

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

PwC's audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

### **Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations**

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2007 financial statements. PwC also audited the FY 2006 financial statements, presented in SSA's Performance and Accountability Report for FY 2007 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2007 and 2006 financial statements. PwC also reported that SSA's assertion that its internal control over financial reporting was operating effectively as of September 30, 2007, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. PwC identified no reportable instances of noncompliance with the laws, regulations or other matters tested.

## OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2007 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 07-04;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2007, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.  
Inspector General



PricewaterhouseCoopers LLP  
 Suite 900  
 1800 Tysons Boulevard  
 McLean VA 22102  
 Telephone (703) 918 3000  
 Facsimile (703) 918 3100  
 www.pwc.com

## Report of Independent Auditors

To the Honorable Michael J. Astrue  
 Commissioner  
 Social Security Administration

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of SSA as of September 30, 2007 and 2006, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2007 and January 1, 2006 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2007.
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

The following sections outline each of these conclusions in more detail.

### OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2007 and 2006, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2007 and January 1, 2006. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



In our opinion, the financial statements referred to above and appearing on pages 104 through 134 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2007 and 2006, and its net cost of operations, changes in net position, and budgetary resources for the years then ended and the financial condition of its social insurance programs as of January 1, 2007 and January 1, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The additional information presented on the statement of social insurance as of January 1, 2007 and January 1, 2006 is not a required part of the financial statements and is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statements of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statements of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statements of social insurance and the actual results, and those differences may be material.

#### **REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL**

We have also examined management's assertion, included in the accompanying Federal Manager's Financial Integrity Act (FMFIA) Assurance Statement on page 38 of this Performance and Accountability Report (PAR), that SSA's internal control over financial reporting was operating effectively as of September 30, 2007 based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2007, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.



We did note matters involving the internal control and its operation that we will communicate in a separate letter.

### **INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS**

With respect to internal control relevant to data that support reported performance measures on pages 14, 15 and 16 of this PAR, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on the internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

### **REPORT ON COMPLIANCE AND OTHER MATTERS**

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 as of September 30, 2007.

Under FFMIA, we are required to report whether SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which SSA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph as of September 30, 2007.

### **OTHER INFORMATION**

The Management's Discussion and Analysis (MD&A) included on pages 5 to 41, and Required Supplementary Information (RSI) included on pages 1 and 140 and 141 to 156 of this performance and accountability report are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board or OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 140 of this PAR, is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 136 to 139 of this performance and accountability report are presented



for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The other accompanying information included on pages 2 to 4, 42 to 103, 135, 157 to 158, and 163 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

\* \* \* \* \*

This report is intended solely for the information and use of management and the Inspector General of SSA, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP". The signature is written in a cursive, flowing style.

November 7, 2007



**SOCIAL SECURITY**  
The Commissioner

OCT 30 2007

PricewaterhouseCoopers LLP  
1301 K Street, NW  
Washington, D.C. 20005

Ladies and Gentlemen:

We reviewed the draft Report of the Independent Auditors for the fiscal year 2007 financial statement audit of the Social Security Administration (SSA). This report contains PricewaterhouseCoopers' opinion on SSA's Financial Statements and SSA management's assertion about the effectiveness of its internal control and a report about SSA's compliance with laws and regulations.

We are extremely pleased that, for the third consecutive year, the report contains no findings or recommendations. This is validation of the Agency's continued commitment to protecting and carefully managing the resources, assets and programs entrusted to us. SSA takes pride in our ability to sustain strong and vigilant financial management.

If your staff have any questions, they may contact Mary Glenn-Croft at (410) 965-2910.

Sincerely,

Michael J. Astrue

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

# INSPECTOR GENERAL STATEMENT ON SSA'S MAJOR MANAGEMENT CHALLENGES

---



## SOCIAL SECURITY

November 7, 2007

The Honorable Michael J. Astrue  
Commissioner

Dear Mr. Astrue:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. As required by the *Reports Consolidation Act*, this Statement will be placed in the *Social Security Administration's Fiscal Year 2007 Performance and Accountability Report*.

In November 2006, we identified six significant management issues facing the Social Security Administration for Fiscal Year (FY) 2007.

- **Social Security Number Protection**
- **Internal Control Environment and Performance Measures**
- **Management of the disability Process**
- **System security and critical Infrastructure Protection**
- **Improper payments and Recovery of Overpayments**
- **Service Delivery and Electronic Government**

I congratulate you on the progress you have made during FY 2007 in addressing these challenges. My office will continue to focus on these issues in FY 2008. I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the Office of the Inspector General's assessment of these six management challenges.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr." with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.  
Inspector General



**INSPECTOR GENERAL STATEMENT  
ON THE  
SOCIAL SECURITY ADMINISTRATION'S  
MAJOR MANAGEMENT CHALLENGES**



## SOCIAL SECURITY NUMBER PROTECTION

---

In Fiscal Year (FY) 2007, the Social Security Administration (SSA) issued approximately 5.7 million original and 11.6 million replacement Social Security number (SSN) cards and received approximately \$620 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

SSA has taken significant steps over the past several years to improve controls in its enumeration process. The Agency has made progress in providing greater SSN protection; nevertheless, incidents of SSN misuse continue to rise. To further strengthen SSN integrity, we believe SSA should (1) seek legislation to reduce the allowable circumstances in which entities may require the collection and use of SSNs as unique identifiers or recordkeeping tools and improve the protection of this information when obtained, (2) continue to address identified weaknesses in its information security environment to safeguard SSNs in a better way, and (3) continue to coordinate with partner agencies to pursue any data sharing agreements that would increase data integrity.

In May 2007, the Office of Management and Budget (OMB) issued Memorandum M-07-16 to Federal agencies regarding safeguarding against and responding to breaches of personally identifiable information (PII), including the establishment and implementation of plans to eliminate unnecessary collection and use of SSNs. We believe this is an important step in protecting SSNs in the Federal sector and can serve as a model for State and local governments, as well as private entities. We are encouraged that SSA is taking steps to implement this OMB guidance. For further information on the SSA's actions to protect PII, see our discussion in the Systems Security and Critical Infrastructure Protection section of this report.

Maintaining the integrity of the SSN and Social Security programs also involves properly posting earnings reported under SSNs. Accurate earnings records are used to determine both the eligibility for Social Security benefits and the amount of those benefits. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for wage earners whose names and SSNs fail to match SSA's records. As of October 2006, the ESF had accumulated approximately 264 million wage items for Tax Years 1937 through 2004, representing about \$586 billion in wages.

While SSA cannot control all of the factors associated with erroneous wage reports, SSA can continue to improve wage reporting by educating employers on reporting criteria, identifying and resolving employer reporting problems, and encouraging greater use of both SSA's and the Department of Homeland Security's (DHS) employee verification programs. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting. SSA also needs to work with DHS to improve controls over employee verification programs. Finally, SSA will need to coordinate closely with DHS on its recently proposed rule (Safe-Harbor Procedures for Employers Who Receive a No-Match Letter) requiring employers to take timely action on SSA no-match letters to avoid liability under immigration laws. The use of SSA's employer no-match letter process to assist DHS with its worksite enforcement mission has led to public concerns from labor advocacy groups and unions regarding individuals being denied employment inappropriately. In October 2007, a preliminary injunction was issued preventing the mailing of the letters based on a lawsuit filed by labor advocacy organizations.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to noncitizens when (1) a Federal statute or regulation requires that noncitizens provide an SSN to receive a federally funded benefit to which they have established an entitlement or (2) a State or local law requires that noncitizens who are legally in the United States provide an SSN to receive public assistance benefits to which they are entitled and for which all other requirements have been met. SSA assigns these individuals SSN cards with a "Not Valid for Employment" annotation. SSA also provides information about earnings reported under a nonwork SSN to DHS as required by law. Nonetheless, prior audits have noted several issues related to nonwork SSNs, including the (1) type of evidence provided to obtain a nonwork SSN, (2) reliability of nonwork SSN information in SSA's records, (3) volume of wages reported under nonwork SSNs, and (4) restrictions on payment of benefits to noncitizens who qualified for their benefits while

working in the United States but lack proper authorization. SSA's future accomplishments with nonwork SSNs will require increased coordination with DHS to ensure SSA has correct work status information.

### **SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE**

Over the past 5 years, SSA has implemented numerous improvements to its enumeration process. For example, SSA implemented new systems software, which field offices are required to use, called the SS-5 Assistant. This program has simplified the interpretation of, and compliance with, SSA's complex enumeration policies and, unlike the traditional process, will not process an SSN request unless SSA staff enters all of the applicant's required information. SSA has also established five Social Security Card Centers that focus exclusively on assigning SSNs and issuing SSN cards—and it has plans to open more as resources permit.

In addition, SSA has implemented several enhancements designed to protect the SSN under the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA) (Pub. L. No. 108-458). The enhancements include (1) restricting the issuance of multiple replacement SSN cards to 3 per year and 10 in a lifetime; (2) requiring independent verification of any birth record submitted by a U.S. born individual to establish eligibility for an SSN, other than for purposes of enumeration at birth; (3) consulting with DHS and other agencies to further improve the security of SSNs and SSN cards; and (4) strengthening the standards and requirements for citizenship and identity documents presented with SSN applications to ensure the correct individual obtains the correct SSN. Additionally, SSA has significantly decreased the number of nonwork SSNs it assigns to noncitizens as a result of a change in regulations and field office compliance with procedures to ensure that nonwork SSNs are issued only to qualified individuals.

SSA has also taken steps to reduce the size and growth of the ESF. In June 2005, the Agency expanded its voluntary Social Security Number Verification Service (SSNVS) to all interested employers nationwide. SSNVS allows employers to verify the names and SSNs of employees before reporting their wages to SSA. During Calendar Year 2006, SSNVS processed over 49 million verifications for over 13,400 registered employers.

SSA also supports DHS in administering "E-Verify" formerly known as the Basic Pilot Program, which verifies the names and SSNs of employees as well as their authorization to work in the United States. The "E-Verify" program is available to employers nationwide and was recently enhanced to include a Photo Screening Tool feature, which allows an employer to check the photos of a new hire's Employment Authorization Document or Permanent Resident Card ("Green Card") against images stored in DHS immigration databases. During FY 2006, "E-Verify" processed about 1.7 million verifications for approximately 12,000 employers.

The Agency continues to modify the information it shares with employers. Under IRTPA, SSA is required to add both death and fraud indicators to the SSN verification systems for employers, State agencies issuing drivers' licenses and identity cards, and other verification routines, as determined appropriate by the Commissioner of Social Security. SSA added death indicators to those verification routines used by employers and State agencies on March 6, 2006 and added fraud indicators in August 2007.

---

## MANAGEMENT OF THE DISABILITY PROCESS

---

SSA needs to continue to improve critical parts of the disability process, such as making timely disability decisions and safeguarding the integrity of its disability programs. SSA's disability program has remained on the Government Accountability Office's (GAO) high-risk list since 2003 due, in part, to outmoded concepts of disability, lengthy processing times, and inconsistencies in disability decisions across adjudicative levels and locations.

At the forefront of congressional and Agency concern is the timeliness of SSA's disability decisions at the hearings adjudicative level. The average processing time for the Office of Disability Adjudication and Review (ODAR), responsible for SSA's hearings and appeals programs, continues to increase each FY—from 293 days in FY 2001 to 512 days in FY 2007. In our December 2006 report on Disability Insurance (DI) payments made during the appeals process, we found that financial performance and citizen satisfaction of the DI program could be greatly increased if SSA would establish a business process to allow more timely decisions on medical cessation appeals. In our March 2007 audit on ODAR's workload status reports, we reported that we found no clear link between the Agency's internal hearings workload benchmarks and the overall performance goal for the average processing time of a hearing.

ODAR's pending workload also continues to increase steadily. At the end FY 2007, the pending workload was 746,744 cases—up from 392,387 cases in FY 2001. We recently presented SSA with the results of our review on Administrative Law Judges' (ALJ) Caseload Performance. The review recommended SSA establish a performance accountability process to address ALJ performance when it falls below an acceptable level. The recommendation, when implemented by SSA, will assist the Agency in reducing pending workloads.

### SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

In August 2006, SSA implemented a Quick Disability Determination (QDD) process which uses a computer model to identify cases when the individuals are obviously disabled and are likely to be allowed. The QDD process was successful with Disability Determination Services (DDS) issuing decisions on 95 percent of cases within the required timeframe. Based on the results of the QDD process in the Boston region, the Commissioner of Social Security required DDSs nationwide to implement the QDD process by March 2008.

In response to our March 2007 audit on ODAR's workload status reports, the Agency has developed "guidelines" related to the steps in the hearings process to track the Agency's performance goal for average processing time. ODAR has also taken other steps, such as encouraging hearing offices to view case processing using a weekly rather than monthly timeframe, to improve office productivity.

To address its pending workload, ODAR accelerated and expanded efforts to address cases that have been waiting 1,000 days or more for a hearing—with the goal of having these cases to a negligible level by the end of FY 2007. Specifically, at the beginning of FY 2007, there were about 63,000 cases pending which were or would become over 1,000 days old by the end of the FY. As of end of FY 2007, this pending workload was reduced to 108 cases.

The Commissioner also recently announced additional initiatives in an effort to reduce the hearings backlog by FY 2012. Many of these initiatives are either ongoing or expected to begin within the next few months. The Commissioner's initiatives include:

- **Compassionate allowances** where SSA plans to build on the success of the QDD process by implementing additional initiatives to quickly identify and allow applicants who are obviously disabled.
- **Increased adjudicatory capacity** which includes filling hearing dockets of current ALJs to capacity by increasing staff overtime, improving ALJ productivity, hiring at least 150 ALJs and the necessary accompanying support staff, streamlining folder assembly, and using personnel from other SSA components to assist the most affected hearing offices.

- **Using automation and improved business processes** such as video equipment in all hearings offices, electronic file assembly, electronic scheduling, and decision-writing templates to improve case processing at the hearings level.
- **Opening a National Hearing Center** where ALJs in a centralized, fully electronic facility will handle electronic files and conduct only video hearings.

We continue to work with the Agency to safeguard the integrity of its disability programs with the Cooperative Disability Investigations (CDI) program. Under the CDI program, our Office of Investigations and SSA staff obtain evidence to resolve questions of fraud in disability claims. Since the program's inception in FY 1998, the 19 CDI units, operating in 17 States, have been responsible for over \$879 million in projected savings to SSA's disability programs and over \$539 million in projected savings to non-SSA programs.

---

## IMPROPER PAYMENTS AND RECOVERY OF OVERPAYMENTS

---

Improper payments are defined as any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Examples of improper payments include payments made to ineligible recipients, duplicate payments, and payments that are for the incorrect amount. Furthermore, the risk of improper payments increases in programs with a significant volume of transactions, complex criteria for computing payments, and an overemphasis on expediting payments.

SSA and the Office of the Inspector General (OIG) have discussed such issues as detected versus undetected improper payments and avoidable versus unavoidable overpayments that are outside the Agency's control and a cost of doing business. OMB issued specific guidance to SSA to include only avoidable overpayments in its improper payment estimate because those payments can be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate.

The President and Congress continue to express interest in measuring the universe of improper payments in the Government. In August 2001, OMB published the President's Management Agenda (PMA), which included a governmentwide initiative for improving financial performance, including reducing improper payments. The *Improper Payments Information Act of 2002* (IPIA) (Pub. L. No. 107-300) was enacted in November 2002, and OMB issued guidance in May 2003 (OMB Memorandum M-03-13) on implementing this law. In August 2006, OMB updated and revised this guidance (OMB Memorandum M-06-23). Significant updates to the guidance include new language to clarify the definition of an improper payment and clarification of OMB's authority to require agencies to track programs under the IPIA with low error rates (i.e., less than 2.5 percent), but significant improper payment amounts.

SSA issues billions of dollars in benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs—and some improper payments are unavoidable. In FY 2007, SSA issued over \$612 billion in benefit payments to over 54 million people. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of people, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

In January 2007, OMB issued a report *Improving the Accuracy and Integrity of Federal Payments* noting that eight Federal programs—including SSA's OASDI and SSI programs—accounted for more than 89 percent of the improper payments in FY 2006. However, this report also noted that the OASDI error rate dropped by 1/10<sup>th</sup> of 1 percent, which resulted in a \$401 million reduction in improper payments.

In August 2007, we issued a report, *Improper Payments Resulting from the Annual Earnings Test*, that showed that SSA did not adjust the benefit payments for all beneficiaries who were subject to the Annual Earnings Test. We estimated SSA overpaid about \$313 million to 89,300 beneficiaries and underpaid about \$35 million to 12,800 beneficiaries. These payment errors primarily occurred because SSA did not process all records identified by its Earnings Enforcement Operation (EEO). Furthermore, unless SSA takes corrective action to process all future EEO selections, we estimated it would pay at least \$104 million in overpayments and \$11 million in underpayments annually.

### SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. For example, the Agency is continuing its efforts to prevent payments after a beneficiary dies by using Electronic Death Registration information. Also, the Agency's Continuing Disability Review process is in place to identify and prevent beneficiaries who are no longer disabled from receiving payments.

SSA is also taking steps to recover overpayments. For example, the Agency generally agreed to the recommendations to improve its efforts for cross-program recovery of overpayments that were in our June 2007 report, *Cross-Program Recovery of Benefit Overpayments*. For the records we reviewed, we estimated SSA could

collect a maximum of about \$3.6 million over a 21-month period from SSI payments to recover OASDI overpayments. The amounts recovered could also earn about \$149,000 in interest for the OASDI trust funds over the 21-month period. In addition, we estimated that over the 21-month period, SSA could recover a maximum of about \$13.4 million in SSI overpayments. In September 2007, SSA implemented Cross Program Recovery III, which collects OASDI overpayments from SSI underpayments. SSA reported that the new program provided for the collection of over \$4 million in its first month of implementation.

We will continue to work with SSA to identify and address improper payments in its programs. For example, in our review, *Title II Disability Insurance Benefits with a Workers' Compensation Offset* (issued in November 2006), we found that the percentage of payments in error identified in this report declined significantly when compared to the percentage we reported in our prior workers' compensation offset audits. However, although there has been an improvement in reducing improper payments due to workers' compensation, we still identified about 25,377 disability insurance claims totaling approximately \$149 million that had payment errors. SSA agreed to implement the five recommendations we made regarding this workload.



## INTERNAL CONTROL ENVIRONMENT AND PERFORMANCE MEASURES

Sound management of public programs includes both effective internal controls and performance measurement. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. OMB's *Circular No. A-123, Management's Responsibility for Management Control*, requires the Agency and its managers to take systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management. Accordingly, SSA management is responsible for determining through performance measurement and systematic analysis if the programs it manages achieve intended objectives.

Establishing appropriate controls over the development of disability claims under the DI and SSI programs is one of the main work processes for which SSA is responsible. Disability determinations under DI and SSI are required to be performed by DDSs in each State in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2007, SSA allocated over \$1.7 billion to fund DDS operations.

From FY 2000 through FY 2007, we conducted 61 DDS administrative cost audits. In 32 of the 61 audits, we identified internal control weaknesses and over \$110 million that SSA reimbursed to the States that were not properly supported or could have been put to better use. Fourteen of the 61 audits conducted were completed in FY 2007. Six of these reports noted similar control weaknesses identified in DDS audits in previous years and over \$28 million of questioned costs and/or funds that could be put to better use. We believe the large dollar amounts claimed by State DDSs and the control issues we have identified, warrant this issue remaining a major management challenge.

Another area that requires sound management and effective internal control is the selection and oversight of contractors assisting the Agency in meeting its mission. In FY 2007, SSA spent over \$715 million on contracts. We reviewed 11 of SSA's contracts in FY 2007. We generally found that the costs claimed for services provided by the contractors involved were reasonable and allowable. While we noted no major concerns in the reviews conducted, we believe ensuring proper oversight and controls over its contracts is inherently a major management challenge for SSA due to the total dollar amounts awarded and risks involved with contractors adequately delivering services and meeting contract objectives.

The *Government Performance and Results Act of 1993* (Pub. L. No. 103-62) and the PMA call for the identification of outcome measures that accurately monitor programs' performance. Also, SSA managers need sound information to monitor and evaluate performance. In FY 2007, we issued 7 audits that addressed 14 of SSA's performance measures. Four of the seven audits were based on work that began in FY 2006, with audit work continuing into FY 2007. The nine performance measures addressed in these four reports are listed below.

- Increase the Usage of Electronic Entitlement and Supporting Actions
- Agency Decisional Accuracy Rate
- Average Processing Time for Hearings Appeals
- Disability Determination Services Cases Processed per Workyear
- Number of Initial Disability Claims Processed by the Disability Determination Services
- Increase the Percent of Employee Reports (W-2 forms) Filed Electronically
- Number of SSA Hearings Processed
- Average Processing Time for SSA Hearings
- Average Processing Time for Initial Disability Claims

We concluded the data used for five of the nine measures were reliable and that the data used for four of them were unreliable.



Three of the seven audits released in FY 2007 were based on work that began and was completed in FY 2007. The five performance measures addressed by these audits are listed below.

- Percent of Individuals Who Do Business with SSA Rating the Overall Service as “Excellent,” “Very Good,” or “Good”
- Minimize Skill and Knowledge Gaps in Mission-Critical Positions
- Align Employee Performance with Agency Mission and Strategic Goals
- Percent of Old-Age, Survivors, and Disability Insurance Payments Free of Overpayment and Underpayment
- Continue to Achieve 2 Percent Productivity Improvement on Average

We concluded that the data used for four of the five measures were reliable and that the data used for one of them was unreliable.

Generally, when data was determined to be unreliable, it was due to weaknesses in internal or access controls over the systems used to collect and process it. Due to the control weaknesses, the data was not sufficiently secure to be certain of its integrity. The challenge SSA faces in this area is ensuring that it has reliable management information when making strategic and operational plans.

### **SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE**

SSA has taken steps to develop internal controls over its operations and contractor performance and in developing sound performance data. SSA has generally agreed with our recommendations that address internal control weaknesses associated with DDSs and has taken the recommended steps to ensure that reimbursements provided to DDSs are allowable and properly supported. Additionally, SSA is working to limit the number of employees that have access and the ability to change data in its performance data collection systems to help ensure the integrity of its management information. Also, the Agency has worked with us to determine what is the best way to audit its performance data without significantly increasing its data storage costs. This effort includes gaining real time access to SSA’s performance data, which allows us to test the data as it is being created.

---

## SYSTEMS SECURITY AND CRITICAL INFRASTRUCTURE PROTECTION

---

Protecting the critical infrastructure of the United States is essential to the Nation's security, public health and safety, economic vitality, and way of life. Attacks on critical infrastructure could significantly disrupt the functioning of Government and business alike and produce cascading effects far beyond the targeted sectors and physical location of the incident. Therefore, any disruptions in the operation of information systems that are critical to the Nation's infrastructure should be infrequent, manageable, of minimal duration and result in the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures.

SSA's information security challenge is to understand and mitigate system vulnerabilities. Weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations have been identified. While many of these weaknesses have been resolved, SSA needs to monitor these issues diligently to ensure that they do not reoccur.

OMB continues to stress the importance of protecting the public's privacy and PII as emphasized by new guidance such as OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*. This new guidance mandates agencies increase efforts to reduce the use of PII collected and held. OMB Memorandum M-07-16 complements existing PII guidance including OMB Memorandum M-06-15, *Safeguarding Personally Identifiable Information*, and OMB Memorandum M-06-19, *Reporting Incidents Involving Personally Identifiable Information and Incorporating the Cost for Security in Agency Information Technology Investments*. OMB is also incorporating more privacy and PII protection questions in its annual *Federal Information Security Management Act (FISMA)* (Pub. L. No. 107-347, Title III) guidance (OMB Memorandum M-07-19).

### SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has taken numerous steps to address OMB guidance on PII. In September 2006, the Agency released, *Policy and Procedures for All SSA Employees for Reporting the Loss or Suspected Loss of Personally Identifiable Information (Information Systems Security Handbook, Appendix V)*. This policy requires the reporting of incidents involving the loss or potential loss of PII within 1 hour of discovery. In March 2007, the Agency issued procedures on safeguarding PII while in transit or outside of secure SSA space. In September 2007, SSA issued the, *SSA Breach Notification Policy, The Social Security Administration's Implementation Plan To Eliminate Unnecessary Use Of Social Security Numbers, and The Social Security Administration's Plan and Progress Update on Review and Reduction of Holdings of Personally Identifiable Information (PII)*. The Agency has also established workgroups, a PII Executive Steering Committee, which provides oversight and recommendations on SSA policy, and the PII Breach Response Group whose role is to engage in Agency planning in the event a breach occurs.

SSA addresses significant information technology control issues in many other ways. For example, the Agency developed and implemented configuration standards for all major operating system platforms and software components. SSA also began an extensive monitoring process to ensure that the Agency's over 100,000 servers and workstations are in compliance with established system configuration standards. Further, SSA maintained Certifications and Accreditations for all 20 major systems, which were substantially compliant with security standards. SSA has instituted access control policies to ensure appropriate segregation of duties by limiting access to critical information on a 'need only' basis.

Over the years, SSA has worked to establish sufficient access controls as evidenced by the use of Top Secret software and the System Security Profile Project (SSPP). An employee's profile is the primary element used to control access to SSA's databases. As a result of the SSPP, in FY 2005, the access control issue was removed as a reportable condition from SSA auditor's financial statement report. SSA needs to continue its efforts to fully implement the policies that control access to sensitive records. Such efforts should include:

- Updating and developing new configuration standards when appropriate;
- Strengthening its access control processes to ensure that the user profiles are adequately reviewed and tested;

- Continuing to monitor the Agency's devices for compliance with established configuration standards;
- Continuing to work the SSPP and the regular monitoring of accesses made to sensitive data; and
- Controlling and monitoring DDS employees and contractors' access to sensitive SSA information.

SSA has implemented a variety of methods to protect its critical information infrastructure and systems security. For example, SSA's Critical Infrastructure Protection workgroup continuously looks to find ways to ensure Agency compliance with various directives, such as Homeland Security Presidential Directives and FISMA. To provide for the protection of the critical assets of the SSA National Computer Center, SSA has initiated the Information Technology Operations Assurance (ITOA) project. The objective of the ITOA project is to build a second, fully functional, co-processing data center. SSA also routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

---

## SERVICE DELIVERY AND ELECTRONIC GOVERNMENT

---

One of SSA's goals is to deliver high-quality "citizen-centered" service. This goal encompasses traditional and electronic services to applicants for benefits, beneficiaries and the general public. It includes services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. This area includes the challenges of the Representative Payee Process, Medicare Prescription Drug Program, Managing Human Capital and Electronic Government (e-Government).

When SSA determines a beneficiary cannot manage his or her benefits, SSA selects a representative payee who must use the payments for the beneficiary's interests. In FY 2007, SSA reported there were approximately 5.3 million representative payees who managed about \$49.9 billion in annual benefit payments for approximately 7.1 million beneficiaries in FY 2006. While representative payees provide a valuable service for beneficiaries, SSA must provide appropriate safeguards to ensure its responsibilities are met to the beneficiaries it serves.

In FY 2007, we identified several problematic conditions during our reviews of SSA's representative payee process. We found SSA's procedures did not ensure new representative payees were selected when the death of current payees occurred. We were also unable to identify if SSA referred, as required, all misuse cases to the OIG. Furthermore, SSA did not always use its authority to redirect benefit payments to the local field office when representative payees failed to submit annual accounting reports. Finally, in July 2007, the National Academy of Sciences (NAS) issued a report, *Improving the Social Security Representative Payee Program: Serving Beneficiaries and Minimizing Misuse*, that contained several recommendations to improve SSA's representative payee program. For example, NAS reported that SSA should take steps to prevent and detect misuse of beneficiary funds in a better way. In addition, NAS recommended that SSA conduct targeted reviews of those representative payees most likely to misuse benefits.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Pub. L. No. 108-173) established a new, voluntary Prescription Drug Program that became effective January 2006. Under this program, certain low-income individuals are eligible to receive prescription drug coverage, premium, deductible, and co-payment subsidies. Implementation of the program presented several challenges for SSA. For example, SSA needed to conduct outreach efforts to promote the program, perform income and resource verifications for individuals who applied for low-income subsidies and review appeals for applicants who disputed SSA's eligibility determinations.

As of January 2007, the GAO continued to identify strategic human capital management on its list of high-risk Federal programs and operations. Further, Strategic Management of Human Capital is one of five governmentwide initiatives contained in the PMA. By the end of 2012, SSA projects its DI rolls will have increased by 35 percent. Further, by FY 2015, 54 percent of current SSA employees will be eligible to retire. This could result in a loss of institutional knowledge that will affect SSA's ability to deliver quality service to the public.

SSA faces numerous challenges in its attempts to provide eServices to the public, Government and business. For example, SSA is facing increased workloads as "baby boomers" become eligible for retirement and as the disability beneficiary population grows. At the same time, there is a greater need for prompt, secure, and efficient Government Internet services. We believe SSA needs to increase its efforts to encourage claimants to file claims via the Internet Social Security Benefit Application (ISBA). The percentage of claims filed through the Internet has remained at about 3 to 5 percent over the previous 5 years. Furthermore, about 73 percent of claimants who file electronically for retirement or disability benefits over ISBA still have to be contacted by SSA's field offices before processing can be completed.

## **SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE**

SSA has taken several actions to address the challenges of its representative payee process. This includes providing periodic reports mandated by Congress under the *Social Security Protection Act of 2004* on its representative payee site reviews and other reviews. SSA has also established a Representative Payment Steering Committee to address the NAS conclusions and recommendations and planned enhancements to its information systems for the issuance of alerts to field offices to select a new representative payee when SSA is notified of a payee's death.

To manage the challenges presented by the Medicare Prescription Drug Program, SSA conducted more than 75,000 outreach events across the country to promote the program. Based on income and resource verifications performed as of February 2007, SSA approved low income subsidies to about 2.1 million applicants and denied low income subsidies to about 2.5 million applicants. SSA created a Subsidy Appeals Unit to process appeals of its subsidy eligibility determinations and continues to perform periodic redeterminations of subsidy eligibility.

Since June 2004, SSA has consistently scored "green" in both "Current Status" and "Progress in Implementing the PMA," for Human Capital on the Executive Branch Management Scorecard. The scorecard tracks how well the departments and major agencies are executing the governmentwide management initiatives. SSA has taken various actions to address its human capital challenges. In the Agency's FY 2006 Annual Human Capital Accountability Report, SSA reported it developed an Office of Personnel Management certified Human Capital Accountability System and Operating Plan. In addition, SSA reported it instituted changes in its organizational structure to expedite service to the public.

E-Government is a cornerstone of the PMA. SSA is incorporating this Presidential initiative into its process by promoting convenient, quality on-line services. SSA is currently using the Web to provide services through its Homepage. ISBA has consistently rated at the top of all Federal offerings by the American Customer Satisfaction Index Scorecard. In FY 2007, SSA reported a 292 percent increase over the FY 2004 baseline in the use of electronic entitlement and supporting actions during FY 2006. One of the more recent users of SSA's electronic services was the Nation's first "baby boomer" who filed for retirement benefits on-line.

# OTHER REPORTING REQUIREMENTS

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit						
Audit Opinion	Unqualified					
Restatement	No					
	Beginning Balance	New	Resolved	Consolidated	Ending Balance	
Material Weaknesses						
Total Material Weaknesses	0	0	0	0	0	
Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unqualified					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weaknesses						
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unqualified					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weaknesses						
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform to financial management system requirements					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Non-Conformances						
Total Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

## ANTI-FRAUD ACTIVITIES

SSA is committed to improving financial management by preventing fraudulent and improper payments (see the *Agency Challenges* section and the *Improper Payments Information Act of 2002 Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296 requires SSA to report annually on the extent to which cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI) benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

### ENTITLEMENT REVIEWS

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. Cases are selected and reviews undertaken, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. Listed below are major entitlement reviews conducted by the Agency:

### DISABILITY QUALITY ASSURANCE REVIEWS

SSA performs quality assurance reviews of random samples of DDS determinations to measure the level of accuracy against standards mandated by the Regulations. These reviews are conducted prior to the effectuation of the DDS determinations and cover initial claims, reconsideration claims, and determinations of continuing eligibility. The following table shows that, for favorable determinations, the State DDSs have consistently made the correct decision to allow or continue benefits.

Quality Assurance Review					
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
% of State DDS decisions to allow or continue not returned to the DDSs for correction	96.2%	96.4%	96.3%	96.3%	96.9%
No. of cases reviewed	39,066	40,323	37,101	35,433	33,329
No. of cases returned to the DDSs due to error or inadequate documentation	1,499	1,454	1,389	1,326	1,028

**TITLE II PREEFFECTUATION REVIEWS**

SSA also performs preeffectuation reviews of favorable Title II and concurrent Title II/Title XVI initial and reconsideration determinations using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. SSA also reviews a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. The following table shows that over 96 percent of the decisions made on Title II preeffectuation reviews are accurate.

Title II Preeffectuation Reviews					
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
% of State DDS decisions to allow or continue not returned to the DDSs for correction	96.2%	96.3%	95.9%	96.0%	96.3%
No. of cases reviewed	318,505	334,774	328,189	305,233	307,878
No. of cases returned to the DDSs due to error or inadequate documentation	12,090	12,498	13,338	12,118	11,258

**TITLE XVI PREEFFECTUATION REVIEWS**

Following recently enacted legislation, SSA began preeffectuation reviews of favorable Title XVI initial and reconsideration adult determinations. Although the review began midway through FY 2006, FY 2007 is the first full year of review. As in Title II cases, SSA also uses a profiling system to select cases for review. The following table shows that over 97 percent of the decisions made on Title XVI preeffectuation reviews are accurate.

Title XVI Preeffectuation Reviews					
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
% of State DDS decisions to allow not returned to the DDSs for correction	N/A	N/A	N/A	N/A	97.4%
No. of cases reviewed	N/A	N/A	N/A	N/A	80,784
No. of cases returned to the DDSs due to error or inadequate documentation	N/A	N/A	N/A	N/A	2,124

**CONTINUING DISABILITY REVIEWS (CDRs)**

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews through which SSA determines whether beneficiaries continue to be entitled to benefits because of their medical conditions. Once an individual becomes entitled to Social Security or SSI benefits, any changes in their circumstances may affect the amount or continuation of payment and thus must be reflected in SSA's records. SSA also conducts a quality review of those decisions. The accuracy of these CDRs is shown on the following table.



CDR Accuracy					
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Overall Accuracy	94.2%	94.7%	94.9%	93.5%	95.6%
Continuance Accuracy	94.4%	95.0%	95.3%	93.8%	96.4%
Cessation Accuracy	93.5%	93.0%	93.3%	92.4%	93.5%

### **OASI AND SSI QUALITY ASSURANCE REVIEWS**

One of SSA's four *Government Performance and Results Act* strategic goals is 'to ensure superior stewardship of Social Security programs and resources'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the *Performance Section* of this report on pages 72-73 and 74-75.

### **SSI REDETERMINATIONS**

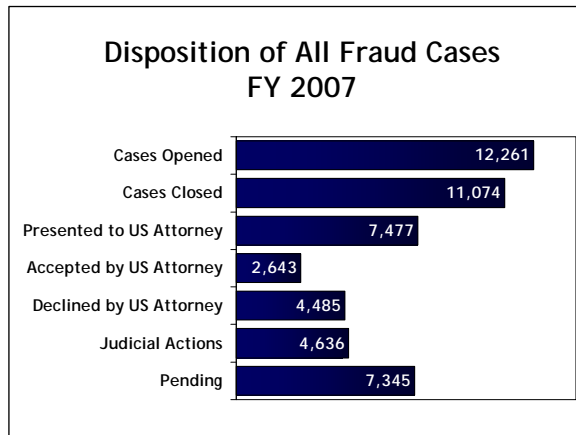
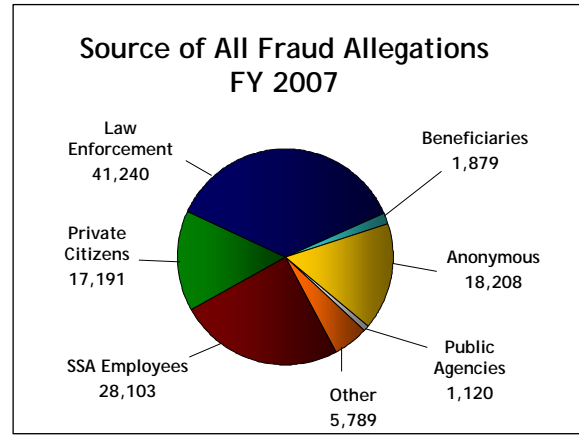
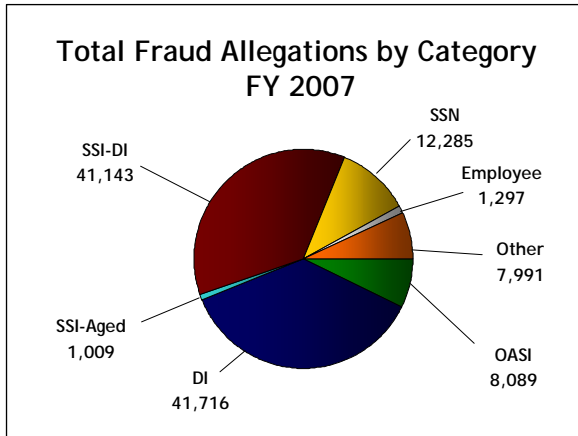
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA set a goal for the number of SSI redeterminations to be processed in FY 2007. Detailed discussion on SSI redetermination performance can be found in the *Performance Section* of this report on page 70.

### **PAYMENT SAFEGUARDS ACTIVITIES**

Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In continuing efforts to improve payment accuracy, SSA invested over \$877 million in processing over 7.8 million alerts in FY 2006. Current estimates indicate that these payment safeguard activities provided benefits to the trust funds of over \$5.7 billion in retroactive overpayments detected and future overpayments prevented. Future preventions are calculated by projecting the amount of change to recurring monthly benefits to some number of future months. The projection of the number of future months that a change in the recurring monthly benefit amount can last varies and can depend on the source of the data and/or the frequency of the activity that led to the change. The FY 2007 results of these payment safeguard activities will be available in 2008.

**THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) ANTI-FRAUD ACTIVITIES**

In FY 2007, as part of its fraud detection and prevention program for safeguarding the Agency’s assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts below summarize OIG’s involvement in fraud activities throughout the FY.



**BIENNIAL REVIEW OF USER FEE CHARGES**

**SUMMARY OF FEES**

User fee revenues of \$290 and \$284 million in FY 2006 and FY 2007, respectively, accounted for less than 1 percent of SSA’s total financing sources. Over 86 percent of user fee revenues are derived from agreements with 23 States and the District of Columbia to administer some or all of the States’ supplemental SSI benefits. During FY 2007, SSA charged a fee of \$9.69 per payment for the cost of administering State supplemental SSI payments. This fee will increase to \$9.95 for FY 2008. The user fee will be adjusted annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. SSA charges full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

## **BIENNIAL REVIEW**

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal Agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law and periodically adjust these fees to reflect current costs or market value. SSA's review of fees during FY 2006 did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed. SSA is planning to perform a review of these fees during FY 2008.

## **DEBT MANAGEMENT**

During FY 2007, SSA continued its comprehensive debt collection program. SSA employs its own internal debt collection methods, as well as other authorized, aggressive methods which in some cases make use of external entities. SSA's internal debt collection methods include benefit withholding to collect overpayments from monthly benefits when the person is still on the rolls. In FY 2007, SSA collected \$2.49 billion in overpayments by this method.

When the person is no longer on the rolls, SSA uses its own billing and follow-up system to collect overpayments. Using that system, SSA sends a series of progressively stronger notices requesting repayment and makes telephone calls to negotiate repayment. The Agency collects several hundred million dollars a year by this method. In addition, SSA used the following aggressive debt collection tools authorized for the Agency:

- Tax Refund Offset which is the collection of a delinquent debt from a Federal tax refund.
- Administrative Offset which is the collection of a delinquent debt from a Federal payment other than a tax refund.
- Cross Program Recovery which is the collection of a former SSI recipient's debt from any Old-Age, Survivors and Disability Insurance (OASDI) benefits or the collection of an OASDI debt from an SSI underpayment due that person.
- Credit Bureau Reporting which acts as an incentive for individuals to repay their delinquent debts, or face the consequences of a bad credit report.
- Administrative Wage Garnishment which is the collection of delinquent debts from the wages of overpaid individuals.
- Non-Entitled Debtors which collects overpayments made to representative payees after the death of the beneficiary.
- Federal Salary Offset which is the collection of delinquent SSA debts from the salary of overpaid Federal government employees.

These tools continue to demonstrate their significance in the collection of delinquent program debt. In FY 2007, SSA surpassed cumulative collections of \$1.3 billion as a result of the use of tax refund offset and administrative offset since 1992. In FY 2007 alone, SSA collected over \$149 million as a result of the Treasury Offset Program. Since implementation of mandatory Cross Program Recovery in February 2002, SSA has collected over \$342 million by that method.

In FY 2007, SSA expanded the Non-Entitled Debtors (NED) initiative. NED is a system that manages overpayments and other debts owed by individuals who are not entitled to OASDI benefits or SSI payments. The NED initiative is being developed in a series of releases, each targeting a different group of debts. The initial phase of the NED system, implemented in November 2005, controls prospective overpayments made to representative payees after the death of Title II beneficiaries. The second phase of the NED system, implemented in July 2007, controls existing overpayments made to representative payees after the death of the Title II beneficiaries.

Also in FY 2007, SSA further expanded its uses of Cross Program Recovery (CPR). In August 2007, SSA expanded the CPR initiative to allow for the collection of an OASDI debt from an SSI underpayment.

Future plans include further expansion of the NED and CPR programs as well as an assessment of the feasibility of utilizing additional debt collection tools such as administrative fees, interest charging/penalties and private collection agencies.

In addition, SSA continues to use the system developed in FY 2002 to analyze and monitor its debt portfolio. The system is instrumental in creating and tracking a performance measure for debt collection. This measure is the percent of outstanding OASDI and SSI debt that is scheduled for collection by benefit withholding or installment payment. SSA recognizes that these performance indicators can be improved by focusing overpayment recovery efforts on those overpayments most likely to result in collections. SSA has underway a series of initiatives that will prioritize the overpayments that are not in a collection arrangement based on their potential for collection. This is expected to lead to an increase in the rate of collection and more efficient use of available resources.

The following collection data includes all the program debt owed to SSA and is presented on a combined basis without intra-Agency eliminations. Collection data shown in the Performance Section only includes legally defined overpayments in which beneficiaries have certain due process rights.

FY 2007 Quarterly Debt Management Activities (In Millions)				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables (cumulative)	\$14,022.5	\$13,856.0	\$13,714.4	\$14,253.4
Total collections (cumulative)	(1,231.8)	(1,427.7)	(2,124.1)	(2,892.7)
Total write-offs (cumulative)	(246.4)	(469.2)	(730.4)	(986.1)
TOP collections (cumulative)	(2.4)	(45.3)	(68.3)	(71.3)
Aging schedule of delinquent debts:				
- 180 days or less	1,111.7	972.2	983.7	1,014.7
- 181 days to 10 years	2,316.8	2,367.9	2,349.0	2,413.9
- Over 10 years	70.1	66.0	76.3	80.8
- Total delinquent debt	\$3,498.6	\$3,406.1	\$3,409.0	\$3,509.4

SSA Debt Management Activities					
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Total debt outstanding end of FY (millions)	\$13,418.4	\$12,260.2	\$13,154.8	\$13,662.3	\$14,253.4
% of outstanding debt					
- Delinquent	18.9%	20.3%	21.8%	23.9%	24.6%
- Estimated to be uncollectible	21.1%	24.6%	24.2%	24.4%	27.4%
New debt as a % of benefit outlays	0.8%	0.8%	0.8%	0.9%	0.8%
% of debt collected	17.2%	18.3%	18.5%	20.2%	20.1%
Cost to collect \$1	\$0.10	\$0.09	\$0.09	\$0.08	\$0.07
% change in collections from prior FY	(0.3%)	(2.5%)	9.5%	13.4%	3.5%
% change in delinquencies from prior FY	22.4%	(2.1%)	15.3%	13.9%	7.6%
Collections & write-offs as a % of Total Debt	19.4%	18.0%	19.3%	21.2%	20.6%
Collections as a % of clearances	71.5%	71.6%	74.3%	71.1%	74.4%
Total write-offs of debt (in millions)	\$918.7	\$892.7	\$841.8	\$1,123.6	\$986.1
Average number of months to clear receivables:					
- OASI	18	22	20	18	18
- DI	33	38	30	29	39
- SSI	52	47	42	43	42

# IMPROPER PAYMENTS INFORMATION ACT OF 2002 DETAILED REPORT

---

## **BACKGROUND**

SSA is committed to reducing improper payments. SSA reports improper payments findings (both overpayments and underpayments) from its stewardship reviews of the non-medical aspects of Old-Age and Survivors' Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs on an annual basis. In accordance with Office of Management and Budget (OMB) guidelines implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), SSA reports as improper those payments that should not have been made or were made in an incorrect amount. Stewardship review findings provide the basis for reports to Congress and other monitoring authorities. Data from these reviews are also used in corrective action planning and in monitoring performance as required by the *Government Performance and Results Act of 1993*.

## **STATISTICAL SAMPLING**

The Old-Age, Survivors and Disability Insurance (OASDI) payment outlay rates developed in the stewardship review reflect the accuracy of payments issued to OASDI beneficiaries currently on SSA rolls. In addition to the combined payment outlay rates for OASDI, separate rates are calculated for OASI and DI. A statistically valid national sample is selected monthly from the payment rolls consisting of OASDI beneficiaries in current pay status. For each sample selected, the beneficiary or representative payee is interviewed, collateral contacts are made, as needed, and all non-medical factors of entitlement are redeveloped as of the current sample month. Findings are input to a national database for analysis and report preparation. Similarly, the SSI payment outlay rates are determined by an annual review of a statistically valid national sample of the SSI recipient rolls, selected monthly. Separate rates are determined for the accuracy of payments in terms of overpayment and underpayment dollars.

## **RISK-SUSCEPTIBLE PROGRAM**

The SSI program has been identified as susceptible to significant improper payments; i.e., estimated improper payments exceed 2.5 percent of program outlays and \$10 million (see Table 1). SSI's estimated improper payments are expressed separately in terms of overpayments and underpayments. For fiscal year (FY) 2006, improper payments resulting in overpayments were \$3.2 billion, or 7.9 percent of outlays. Improper payments resulting in underpayments totaled \$896 million representing 2.2 percent of total outlays. Every tenth of a percent change represents \$40.3 million dollars in error. Even though the OASI and DI programs are not identified as susceptible to significant improper payments, IPIA has extended the improper payments reporting requirements to those programs and activities listed in the former Section 57 of OMB Circular A-11.

Since the OMB guidance on IPIA requires the evaluation of all payment outlays; e.g., beyond the OASI, DI and SSI programs that SSA administers, for the fourth consecutive year SSA performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments.

## **IMPROPER PAYMENT RATES AND TARGET GOALS**

The improper payment rates for the OASI, DI and SSI programs for FYs 2004, 2005 and 2006 are presented in Table 1. The overpayment rate is calculated by dividing overpayment dollars by dollars paid. The underpayment rate is calculated by dividing underpayment dollars by dollars paid.

Target accuracy goals for FYs 2007, 2008, 2009 and 2010 for the OASDI and SSI programs are presented in Table 2. In the OASDI program, SSA's goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments. For the SSI program, SSA's goal is to maintain the underpayment accuracy rate at 98.8 percent and overpayment accuracy rates of 95.7 percent for FY 2007 and 96.0 percent for FYs 2008–2010.

Table 1: Improper Payments Experience FY 2004 - FY 2006 (\$ in millions)						
	FY 2004		FY 2005		FY 2006	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASI</b>						
Total Payments	\$415,100	100%	\$430,400	100%	\$454,300	100%
Underpayments	\$535	0.13%	\$507	0.11%	\$238	0.05%
Overpayments	\$1,286	0.33%	\$210	0.05%	\$948	0.21%
<b>DI</b>						
Total Payments	\$78,200	100%	\$83,800	100%	\$90,700	100%
Underpayments	\$564	0.72%	\$473	0.56%	\$442	0.49%
Overpayments	\$1,296	1.70%	\$2,100	2.50%	\$877	0.97%
<b>OASDI</b>						
Total Payments	\$493,300	100%	\$514,200	100%	\$545,000	100%
Underpayments	\$1,099	0.21%	\$980	0.19%	\$680	0.12%
Overpayments	\$2,582	0.53%	\$2,300	0.45%	\$1,824	0.32%
<b>SSI</b>						
Total Payments	\$37,470	100%	\$39,068	100%	\$40,328	100%
Underpayments	\$504	1.3%	\$528	1.4%	\$896	2.2%
Overpayments	\$2,406	6.4%	\$2,500	6.4%	\$3,193	7.9%
Notes:						
1. Total Payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.						
2. OASI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2004, $\pm 0.11\%$ for underpayments and $+0.32\%$ and $-0.34\%$ for overpayments; for FY 2005, $+0.13\%$ and $-0.11\%$ for underpayments and $+0.05\%$ and $-0.04\%$ for overpayments; and for FY 2006, $+0.05\%$ and $-0.04\%$ for underpayments and $+0.24\%$ and $-0.20\%$ for overpayments.						
3. DI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2004, $+0.68\%$ and $-0.69\%$ for underpayments and $+1.53\%$ and $-1.54\%$ for overpayments; for FY 2005, $+0.64\%$ and $-0.56\%$ for underpayments and $+1.81\%$ and $-1.82\%$ for overpayments; and for FY 2006, $+0.64\%$ and $-0.48\%$ for underpayments and $+0.85\%$ and $-0.85\%$ for overpayments.						
4. SSI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2004, $\pm 0.3\%$ for underpayments and $\pm 1.0\%$ for overpayments; for FY 2005, $\pm 0.3\%$ for underpayments and $\pm 0.9\%$ for overpayments; and for FY 2006, $\pm 0.5\%$ for underpayments and $\pm 1.0\%$ for overpayments.						

**Table 2: Improper Payments Reduction Outlook FY 2007 - FY 2010**  
(\$ in millions)

	2007 target		2008 target		2009 target		2010 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASDI</b>								
Total Payments	\$576,003	100%	\$604,479	100%	\$637,154	100%	\$675,204	100%
Underpayments	\$1,152	0.2%	\$1,209	0.2%	\$1,274	0.2%	\$1,350	0.2%
Overpayments	\$1,152	0.2%	\$1,209	0.2%	\$1,274	0.2%	\$1,350	0.2%
<b>SSI</b>								
Total Payments	\$44,033	100%	\$46,144	100%	\$48,194	100%	\$50,279	100%
Underpayments	\$528	1.2%	\$554	1.2%	\$578	1.2%	\$603	1.2%
Overpayments	\$1,893	4.3%	\$1,846	4.0%	\$1,928	4.0%	\$2,011	4.0%

Notes:

1. SSA does not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2007 data will not be available until June 2008; therefore, the rates shown are targets (goals).
3. The FYs 2008, 2009 and 2010 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2008 Budget. The projections for FY 2007 are adjusted (from those presented in the Mid-Session Review) for the fact that there are only 11 payment days in that year, yet the quality review is not affected by payment days, but rather by entitlement months.

**IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS**

To better track the causes of improper payments in the OASI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years (FYs 2002-2006), a total of over \$2.1 trillion was paid to OASI beneficiaries. Of that total, \$3.0 billion was projected to be overpaid, representing 0.15 percent of outlays. Underpayments during this same period were projected to be \$1.7 billion, the equivalent of 0.08 percent of outlays.

Applying the same analysis to the DI program, we find that over the last 5 years, (FY's 2002-2006), a total of over \$386.7 billion was paid to DI beneficiaries. Of that total, \$5.6 billion was overpaid, representing 1.4 percent of outlays. Underpayments during this same period totaled \$1.9 billion, the equivalent of 0.5 percent of outlays.

**MAJOR CAUSES OF OASDI IMPROPER PAYMENTS**

Major causes of improper overpayments in the OASDI program over this 5-year period are listed below (followed by a detailed description under the Corrective Actions section) and account for nearly 80 percent of the improper overpayments identified.

- Substantial Gainful Activity (SGA)
- Computations
- Relationship/Dependency (e.g., unreported marriage, not having child-in-care, and students not in full-time school attendance)
- Annual Earnings Test
- Government Pension Offset



The major causes of improper underpayments in the OASDI program have been:

- Computations
- Workers' Compensation (WC)
- Wages/Self-Employment Income (SEI)

While the improper payment rate in the OASDI program is very low, SSA's annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. For the 5-year period from FY 2002 through FY 2006, OASDI deficiency dollars totaled \$11.9 billion, an average of about \$2.4 billion per year. Accordingly, SSA seeks continuous improvement in its processes to minimize improper payments.

### **CORRECTIVE ACTIONS**

**SGA:** Although SGA is strictly an issue for Title II DI cases, errors attributed to SGA accounted for almost 53 percent of all OASDI overpayment deficiency dollars for the last 5 FYs (2002-2006). The process for making SGA determinations has inherent delays that contribute to the magnitude of the overpayments. Almost three-quarters of the deficiency dollars associated with SGA are due to the beneficiary's failure to report that he/she is working. The remaining one-quarter of the deficiency dollars is associated with cases where SSA receives notice of work activity, but fails to take appropriate action to adjust payment. In terms of all errors (both overpayments and underpayments), SGA accounted for about 37 percent of total OASDI deficiency dollars.

One of the efforts to address SGA-related issues was the eWork system, which was implemented nationwide in FY 2005. The eWork system is a means of controlling and processing reports of work and earnings made by individuals receiving disability benefits. The application provides improved management information and tighter controls on the work Continuing Disability Review (CDR) process.

The Continuing Disability Review Enforcement Operation (CDREO) process is designed to alert Title II and concurrent Title II/Title XVI claims with potentially uninvestigated substantial earnings after disability onset. However, these alerts are dependent upon the earnings posting operation, which lags well behind when wages are actually earned. In addition, some alerts are generated which result in no change to the worker's benefits because the work is determined not to be SGA due to special work accommodations or other factors. However, review is still required to determine whether the beneficiary's work activity is or is not SGA.

SSA has developed software that tracks the disposition of overpayments over time beginning with when they are detected. This software separates overpayments by dollar ranges and can be used to isolate debts based on a variety of other factors, such as the age of the beneficiary or type of disability. To better understand the problems with processing SGA cases, SSA has analyzed several hundred recently established SGA overpayments. One objective is to develop a method which differentiates overpayments that reflect significant problems from those that appear to be less problematic. We anticipate that SSA's review of the CDREO alert process will produce a comprehensive picture of how SGA affects benefits. We are currently developing a plan to use the results of this review to prioritize this workload through profiling and statistical modeling.

SSA also conducted an analysis of the Office of Child Support and Enforcement (OCSE) database of new hires to determine whether a matching operation with that database would be useful to SSA in identifying unreported work that affects DI benefits. The assumption was that identification of unreported wages from a match with the OCSE database would be timelier than the current annual earnings reporting/processing operation. SSA examined a sample of 1,003 cases where there was a match between the OCSE new hires file and the Master Beneficiary Record. A retrospective examination of the sample cases found that in none of the cases would having this "new hire" information lead to an earlier determination to suspend or terminate disability benefits sooner than through the current CDR process. Consequently, SSA has concluded that an ongoing matching operation with OCSE new hires file, and the early knowledge of new employment, would have little, if any, effect in reducing improper payments.

**DEATH NOTIFICATION:** Timely and accurate death data enables SSA to better effectively administer programs and increase prevention of incorrect payments. SSA is working with State governments and other jurisdictions to improve the current death registration process. The most efficient manner to improve timeliness and accuracy of State data is by using an Electronic Death Registration (EDR) system, a web-based automation of the death registration process. EDR electronically links the participants in death registration and contains an online real-time Social Security Number (SSN) verification process. SSA's goal is to receive a verified death report within 5 days of death and within 24 hours of the report's receipt in the State repository. EDR helps improve the accuracy of the death master file that we share with other Federal agencies. SSA currently receives death data via EDR from 16 States, New York City, and the District of Columbia. Fourteen States are in the process of implementing EDR. These States will implement by September 2008.

**COMPUTATIONS:** For the last 5 FYs (2002-2006), errors attributed to computations accounted for about 37 percent of all OASDI underpayment deficiency dollars and 11 percent of all OASDI overpayment deficiency dollars. In terms of all errors, computations accounted for 19 percent of total OASDI deficiency dollars for the period. For the 5-year period, leading causes of computational related underpayments were calculations involving family maximums, Automatic Earnings Reappraisal Operation (AERO), primary insured amount, and adjusted retirement factor/delayed retirement credit. The major cause of computation-related overpayments were cases involving the Windfall Elimination Provision.

SSA has developed two automation tools, "MacPaste" and "AEROWiz," to address errors involving computations. The first tool, MacPaste, helps eliminate transcription errors made by technicians who enter benefit rate and Primary Insurance Amount (PIA) information into the system, thereby enhancing productivity and accuracy. The second tool, AEROWiz, helps technicians process recomputations of benefit amounts by providing them with a convenient summary of all of the issues involved with the case. AEROWiz also helps technicians make decisions when determining years of coverage in cases involving the Windfall Elimination Provision and in cases involving earnings postings within the prior six years.

**RELATIONSHIP/DEPENDENCY:** This category involves a variety of issues such as unreported remarriage, not having child-in-care, and students who were not in full-time attendance. The deficiency dollars in this category are all overpayment-related. Errors attributed to relationship/dependency issues accounted for about 9 percent of all OASDI overpayment deficiency dollars. This category accounted for about 3 percent of total OASDI deficiency dollars.

SSA is evaluating several recommendations to address relationship/dependency errors. These recommendations include potential systems enhancements related to entitlement of stepchildren, procedural revisions and a possible legislative change.

**WAGES/SEI:** Wages or self-employment errors result when the earnings record does not accurately reflect the individual's earnings and the error is not detected when the individual files for benefits. Earnings-related errors most often result in underpayments to the beneficiary. For the period FY 2002-2006, about 90 percent of the deficiency dollars for this category were underpayments. Errors attributed to wages or self-employment issues accounted for about 25 percent of all OASDI underpayment deficiency dollars and 1 percent of all OASDI overpayment deficiency dollars. This category accounted for 8 percent of total OASDI deficiency dollars.

The Agency has taken a number of actions to reduce earnings-related errors. SSA added language to the improved Social Security Statement to remind the public to inform SSA of incorrect earnings postings. Beginning in FY 2000, all workers age 25 or over began receiving their statements, thereby giving them the opportunity to review and correct any earnings record errors before they file for benefits.

SSA has also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled SSA to exceed its goal (80 percent) to receive all Form W-2s electronically for tax year 2006. As of July 2007, SSA received 239,553,638 (84.4 percent) of W-2s electronically. For tax year 2007, SSA's goal is to receive 80 percent of all W-2s electronically.

To further improve posting of earnings records, in June 2005 SSA implemented the Social Security Number Verification Service (SSNVS). SSNVS allows registered employers or their third party representatives to verify the names and SSNs of hired employees for wage reporting purposes. Over the internet, users can verify up to 10 names and SSNs per screen with immediate results or upload a file with up to 250,000 names and SSNs with the results available the next business day. In calendar year 2007, through September 28, 2007, SSA has verified over 43.5 million names/SSNs for nearly 33,000 employers.

The first phase of the Earnings Alert Project, which addresses the earnings problems prospectively, was implemented in October 2006. This phase automated the earnings review of Internet claims and extended the automation of the review criteria to all initial claims. Past analysis has shown that the Internet review criteria is effective in identifying earnings record inaccuracies and will effectively identify the source of the inconsistency. In addition, the revisions will eliminate an estimated 50 percent of the nonproductive alert reviews.

Earnings that remain in suspense after the annual posting cycle are wage or self-employment earnings that are not matched to an earnings record after all routine matching operations are complete. SSA is working to develop automated processes and system prototypes to:

- Identify accounts with significant probability of having missing earnings/military service;
- Search the suspense file for missing earnings; and,
- Match and move items from suspense to the beneficiary's earnings record.

SSA has also initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. These new processes have removed about 11 million wage items from the earnings suspense file. SSA also expects this re-examination process will produce information that will help the Agency to better manage the suspense file.

**WC:** SSA has an ongoing effort to prevent future problems in the WC area, as well as clean up past problem cases. However, this manually-intensive workload continues to be a challenge. Although WC offset is solely limited to Title II DI cases, errors attributed to WC offset accounted for about 31 percent of all OASDI underpayment deficiency dollars and 3 percent of all OASDI overpayment deficiency dollars. This category accounted for 11 percent of total OASDI deficiency dollars.

Many of the problems associated with this complex workload are due to technical difficulties in determining the correct rates and dates to be used in WC computations. There is no automated verification of WC payments, so SSA relies mainly on beneficiary disclosure of WC payments and changes. Many beneficiaries do not report this information on a timely basis, if at all. Consequently, some of these individuals are paid a higher Social Security disability benefit than they are eligible for, while others are underpaid since their WC stopped and their SSA benefit amount is not increased accordingly.

In addition, the variations in state laws regarding the offset of Social Security benefits for both WC payments and public disability benefits (PDB) contribute to payment problems. Some beneficiaries also receive a combination of weekly payments, PDBs and a lump-sum settlement. The combination of variance in state laws and multiple types of payments of WC/PDB received by a beneficiary often results in technical errors.

In FYs 2006 and 2007, SSA's processing centers (PCs) conducted a series of studies to determine the most productive cases to work in future years. Also in FY 2007, as part of a comprehensive approach to WC case processing, the PCs turned their attention to the quality of current WC case processing as the best avenue for fixing the perennial WC cleanup problem. To track the quality of all WC cases, the WC Quality Today (WCQT) project was launched in March 2006. WCQT incorporates a web-based quality review process and online reports providing accuracy and error data for each PC.

As part of WCQT, three initiatives aimed at improving the overall quality of the work have been implemented:

1) uniform random sampling of WC/PDB dispatches; 2) targeted reviews of highly error-prone cases; and, 3) refresher training for technicians who process WC cases. The initiatives have paid off with a 9.3 percent improvement rate in WC/PDB payment and accuracy rate from March 2006 to May 2007. In addition, efforts to improve processing of these complex claims have included enhancements to the Interactive Computation Facility for computing WC offset and specialized training for technicians.

For FY 2008, the PCs expect to review 10,255 clean-up cases, using the criteria developed in FY 2006 to determine which cases yield the highest return on investment, while continuing to concentrate on the quality of current WC case processing.

**DUAL ENTITLEMENT:** SSA has also improved its process for ensuring SSI recipients file for benefits in the OASDI program. One of the conditions for SSI eligibility is that individuals file for any other benefits that they may be eligible to receive. SSA has identified nearly a half-million SSI disability recipients, current and former, who are potentially eligible for OASDI payments after earning sufficient work credits to qualify for the Disability Insurance program while receiving SSI benefits.

To prevent future missed entitlement, we have enhanced programs on both the SSI and OASDI systems. In FY 2007 we enhanced both the Title II and the Title XVI modernized claims systems to include questions that assist in the development of potential entitlement to SSI and other OASDI benefits. In addition, we implemented an enhancement in the SSI system to add the date that an OASDI claim was filed for documentation, and historical reference. Future enhancements planned for FY 2008 include implementing a follow-up alert when responses during an SSI interview reflect that an OASDI claim should be taken but none has been adjudicated, and establishing an automated control or lead for other potential benefits.

**ANNUAL EARNINGS TEST (AET):** AET errors involve situations where deductions in payments related to a beneficiary's work after retirement age were not taken into account or were not computed properly. Errors attributed to AET accounted for about 1 percent of all OASDI underpayment deficiency dollars and 7 percent of all OASDI overpayment deficiency dollars. Nearly 94 percent of the deficiency dollars in this category are Retirement and Survivors Insurance (RSI) overpayments. This category accounted for 5 percent of total OASDI deficiency dollars.

When a person has earnings after retirement, he/she is asked to report his/her earnings when those earnings exceed the annual exempt amount or when a change in expected earnings will affect benefits payable. SSA uses these reports to adjust benefits for the year. SSA's Stewardship review data indicates the leading cause of AET error is that wages were not reported or were reported incorrectly.

If a beneficiary does not provide an annual estimate or report (or provides an incorrect report), the enforcement process will identify the earnings when they are posted to the earnings record. SSA will develop through the FO to determine if withholding of benefits is applicable. Stewardship reviewers do not record an AET error until after the full enforcement process has been completed for a particular year.

**GOVERNMENT PENSION OFFSET (GPO):** GPO rules generally require Social Security benefits for a spouse or surviving spouse who receive a monthly pension from a State or local government agency to be reduced. Errors attributed to GPO accounted for 6.5 percent of all OASDI overpayment deficiency dollars. This category accounted for 5 percent of total OASDI deficiency dollars.

**CRITICAL PAYMENT PROCESSING:** In cases of dire need and financial emergency, SSA field offices have the option to use the Third Party Payment System (TPPS) to issue an immediate payment directly to the beneficiary. In FY 2007, SSA implemented a real-time interface between TPPS and the Critical Payment System (CPS). The automated interface enables field office personnel to initiate an immediate payment without having to make separate inputs to TPPS and CPS and enhances both payment accuracy and programmatic accounting.

## **IMPROPER PAYMENTS IN THE SSI PROGRAM**

To better track the causes of improper payments in the SSI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years, (FY's 2002-2006), a total of over \$186.6 billion was paid to SSI recipients. Of that total, \$12.6 billion was overpaid, representing 6.8 percent of outlays. Underpayments during this same period totaled \$2.8 billion, the equivalent of 1.5 percent of outlays.

### **MAJOR CAUSES OF SSI IMPROPER PAYMENTS**

For the 5-year period, FY 2002-2006, the major causes of overpayments in the SSI program (followed by a detailed description under the Corrective Actions section) were:

- Wages
- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.)

Each of these causes individually exceeded the sum of the next three leading causes of overpayment deficiencies.

The major causes of underpayments in the SSI program for the same period (followed by a detailed description under the Corrective Actions section) were:

- Wages
- Living Arrangements
- In-kind Support and Maintenance

### **CORRECTIVE ACTIONS**

For the entire 5-year period, 71 percent of the overpayment improper payments were caused by a change that occurred independent of an initial claim or redetermination.

**WAGES:** Wages have been one of the leading deficiency types for overpayment improper payments in the last 5 combined years. They accounted for about 18 percent of total overpayment improper payments during the 5-year period. The major factor (78 percent) in wage overpayment improper payments was the failure of recipients/representative payees to provide an accurate and timely report of new or increased wages for the recipient or deemor. Wage overpayments increased from \$416 million in FY 2005 to \$778 million in FY 2006, an 87 percent increase.

In an effort to achieve more timely and accurate reporting of wages, SSA has completed a pilot to test the feasibility of implementing large scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, SSA tested whether SSI recipients (or their representatives, parents or spouses, where deemed wages affect benefit payments) would report wages monthly using this new technique. The key issues were the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period. The results of this pilot were evaluated and SSA decided to conduct a second pilot to test a more user-friendly knowledge-based authentication process rather than the PIN/password process used in the first pilot (reporters had difficulty navigating the PIN/password process). The evaluation of the second pilot recommended expansion of wage reporting using touch-tone and voice recognition telephone technology. Timely and accurate reporting of wages offers the opportunity to prevent a substantial volume of SSI wage overpayments. SSA has planned to make enhancements to the authentication system and to allow implementation of a verification tolerance.

In both FY 2006 and FY 2007, there were significant changes in how non-medical redeterminations (RZs) and limited issues (LIs) were selected and released to the field offices. Due to Agency resource constraints, cases meeting certain characteristics were not automatically selected for redetermination unless they met specific criteria,



thereby decreasing the number of RZ and LI selections. The Agency completed almost 1.5 million RZ and LI reviews of SSI recipients in FY 2006, a decrease of 850,000 compared to FY 2005. The decrease in the number of RZs and LIs selected may have contributed to the 87 percent increase in wage overpayments for FY 2006.

Wages have been the leading cause of underpayment improper payments in 4 of the last 5 years, accounting for about 18 percent of total underpayment improper payments during the 5-year period. The major factor (80 percent) in wage underpayment improper payments was the failure of recipients/representative payees to report a decrease or termination in wages for the recipient or deemor. Over the 5-year period, wages earned by deemors accounted for 66 percent of underpayment improper payments and wages earned by recipients accounted for 34 percent of underpayment improper payments.

For the 5-year reporting period, wage fluctuations accounted for 48 percent of underpayment wage improper payments. The remaining improper payments resulted because recipients/representative payees failed to report a reduction or termination of wages, or because of miscellaneous reasons; e.g., wages were deemed that should not have been deemed. Regular and accurate monthly wage reports will help reduce underpayments caused by wages.

**FINANCIAL ACCOUNTS:** For the 5-year period, financial accounts were one of the leading causes of overpayment improper payments, accounting for about 19 percent of the total. For FY 2006, financial account overpayment deficiencies project to \$682 million.

Financial account deficiencies occur when financial accounts owned by the recipient or deemor (parent or spouse of an eligible individual) exceed the resource limit and the recipient becomes ineligible for SSI payments. For each year in the 5-year period, the primary cause of these errors was the failure of the recipient or representative payee to advise the Agency of the existence of a financial account or an increase in the amount of an account.

Each year, the majority of improper payments in this category were attributed to changes that occurred subsequent to an initial claim or after completion of the last redetermination. That is, these improper payments developed after the Agency had been in contact with the recipient. In FY 2006, 94 percent of the improper payments in this category fit this description.

The *Foster Care Independence Act of 1999* gives the Commissioner the authority to require SSI applicants and recipients and those individuals whose income and resources we consider in determining an individual's eligibility and benefit amount (deemors) to provide authorization for SSA to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA promulgated final regulations in FY 2004 that exercised the Commissioner's authority to require the authorization that set the stage to allow the Agency to query financial institutions electronically. In February 2004, SSA began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated the financial community's support of this process. In addition, verification requests were returned quickly to the Agency which allows immediate continuation of the SSI application or redetermination.

In February 2005, SSA initiated a study to ascertain the characteristics of cases that are likely to have unreported resources. The data gathering for this study concluded in FY 2005. A report of the findings from the Access to Financial Institutions pilot study was issued on November 3, 2006. Using the findings from a sample of initial claims and redeterminations processed by the New York and New Jersey field offices, the report presented an estimate of potential benefits and costs associated with a full national roll out of the Accuity's automated financial account verification system. SSA has pursued the issue of funding a national rollout of this initiative with OMB. Until such resources are available, we are continuing the operation of the Accuity system in the New York/New Jersey field offices and in SSA's Quality Performance offices nationwide to assist them in detecting bank account errors as part of the annual stewardship review process. We are also expanding the use of the Accuity system to field offices in the state of California. The target date for implementing this expansion is November 1, 2007. Eventually, a system that integrates the Accuity system with the Modernized Supplemental Security Income Claims System will be built to handle verifications in a more efficient and less labor-intensive manner. The development of

such a system is currently in the planning and analysis stage, but also dependent on the successful acquisition of additional funding.

**LIVING ARRANGEMENTS:** Living arrangements were the second leading cause of underpayment improper payments for 4 of the last 5 years, and the leading category in FY 2002. This category includes people who should have been paid based on “living in own household” (e.g., home ownership, rental liability, paying pro rata share of household expenses, but were paid based on another living arrangement.

Over the 5 years, this deficiency primarily occurred (78 percent) when the recipient/representative payee failed to provide an accurate timely report showing that the value of the one-third reduction (the reduction factor when a recipient is not paying his or her full share of the household expenses) no longer applied. Overall, recipients and representatives were responsible for the vast majority of underpaid dollars (80 percent) in this category because they initially provided an incomplete or inaccurate report or failed to report a change. For each year in the 5-year period, over one-half of the underpayment improper payments were caused by a change that occurred after an initial claim or after the last redetermination. Only 5 percent of the total underpayment improper payments resulted when the recipient changed a contribution after receipt of the first SSI payment.

**IN-KIND SUPPORT AND MAINTENANCE (ISM):** ISM deficiencies were the third leading cause of underpayment error dollars over the last 5 years. The primary cause of ISM underpayment improper payments for the 5-year period was when the recipient was no longer receiving ISM yet it continued to be figured into the payment calculation (82 percent). This occurred because recipients/representative payees failed to report changes or made an incomplete/inaccurate report (73 percent) and because field offices inaccurately processed cases (19 percent). The remainder occurred because of administrative tolerances or mail-in redeterminations that did not solicit information to identify the change in ISM. For the 5-year period, over one-half of the ISM improper payments resulted from a change subsequent to an initial claim or after the last redetermination.

On February 7, 2005, SSA issued regulations to simplify the SSI exclusions for automobiles and household goods and personal effects, and to simplify the counting of ISM by eliminating clothing from consideration. These changes simplify several SSI rules and make them less cumbersome to administer and easier for the public to understand. These simplifications were implemented by SSA field offices, and in October 2006, the SSI computer system was modified to fully support these simplifications. In FY 2007, SSA revised three of the information collection forms used to develop ISM in order to make them more effective. SSA is continuing to look at options for simplifying living arrangements and ISM policies which we believe would contribute to a reduction in underpayments.

The redetermination process is one of the most powerful tools available to SSA for preventing and detecting improper SSI payments. As described above, the vast majority of improper payments occur at a point in time when the Agency is not in contact with the individual. Clearly, more frequent redeterminations will result in reductions in the level of improper payments.

### **MEDICAL ASPECTS OF THE DI AND SSI PROGRAMS**

The medical aspects of the DI and SSI programs are administered through State agencies at the initial claim, reconsideration and continuing disability review stages of the disability process. SSA has established net accuracy rate goals for Disability Determination Service (DDS) allowance and denial decisions. The goals reflect the percent of initial claims that maintain their original DDS decision after Federal review and subsequent additional development, as required.

The allowance, denial and overall accuracy rates for FYs 2005 and 2006 are presented in Table 3. These rates are determined by SSA's quality assurance review of initial claims. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, SSA established a combined allowance and denial goal for net accuracy. The goal for FY 2007 is 97 percent. FY 2007 data will be available in January 2008.

Table 3: DDS Initial Claim Net Accuracy		
Initial Claim Net Accuracy	FY 2005	FY 2006
Allowance	98.0%	98.1%
Denial	95.3%	95.1%
Combined	96.3%	96.2%

Note: The changes from FY 2005 to FY 2006 are not statistically significant.

The *Social Security Act* also requires a review of 50 percent of the favorable DI and concurrent DI/SSI initial and reconsideration DDS determinations; i.e., pre-effectuation reviews (PER). To the extent feasible, the selection is made from those determinations most likely to be incorrect.

Using a logistic regression methodology, initial and reconsideration allowances are profiled and cases falling within the established cut off score are selected for review. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected. For FY 2005, the Actuary has produced estimates that PER saved \$720 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 14:1.

The *Social Security Act* now includes an extension of the PER review of favorable adult disability decisions to the SSI program. This initiative supports the President’s management reform to reduce improper payments, improves the accuracy and integrity of the SSI and Medicaid programs, and applies consistency to the DI and SSI programs. We anticipate significant program savings from this initiative.

**IMPROPER PAYMENTS FOR ADMINISTRATIVE OUTLAYS**

An evaluation was conducted of SSA’s FY 2006 administrative payments and they were determined not to be susceptible to significant improper payments. In FY 2006, SSA outlaid \$10,557 million to administer the OASI, DI and SSI programs. These costs largely consisted of payroll and benefits but also included payments to State agencies for the DDS.

**RISK ASSESSMENT**

To better facilitate the risk assessment process, SSA segmented administrative payments into several categories. These categories were used to analyze and determine SSA’s vulnerability to improper payments.

Table 4: FY 2006 Administrative Expenses (\$ in millions)	
Payroll and Benefits	\$5,272
State DDS	\$1,772
Other Administrative Expenses*	\$3,513
<b>Total Administrative Payments</b>	<b>\$10,557</b>
Notes:	
*Other Administrative Payments includes Travel, Transportation, Rents, Communications & Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land & Structure, Grants, Subsidies, & Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest & Dividends, and Insurance Claims and Indemnities.	



Using OMB guidelines, SSA conducted a risk assessment on each of the categories listed in Table 4 on the previous page. The payment categories were reviewed and any identified improper payments were assessed versus the entire payment category. The result of this analysis showed that SSA's administrative payments were not susceptible to significant improper payments.

Also considered as part of the risk assessment were:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive edits inherent in SSA's administrative payment systems; and,
- The strong internal control structure SSA has in place to prevent, detect, and recover improper administrative payments.

Based on the results of the overall risk assessment, the Agency determined that SSA's administrative payments do not meet the criteria for further reporting to Congress or OMB based on the OMB-issued guidance.

### **RECOVERY AUDIT PROGRAM**

Section 831 of the *Defense Authorization Act for FY 2002* added a subchapter to the U.S. Code (31 USC 3561-3567) that requires agencies that enter into contracts with a total value in excess of \$500 million in a FY to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

OMB guidance states that Agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments to contractors resulting from payment errors. To comply with this guidance and support the evaluation that administrative payments are not susceptible to significant improper payments, SSA has established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges; additionally, computer-assisted auditing techniques are utilized to identify possible duplicate payments. SSA's in-house recovery audit program employs an automated query system to identify payments made to the same vendor, with the same invoice date and for the same amount to help identify payments which represent a higher risk of being double payments.

Results from our in-house recovery audit program and quality review process continue to confirm that Administrative Payments are well below the threshold established for reporting improper payments. These results further validate SSA's existing controls for the prevention, detection, and collection of improper payments. Results from the recovery audit program continue to reinforce our internal control structure, thus demonstrating our commitment to the President's Management Agenda.

### **PROGRAM SCOPE**

The recovery audit program scope included a review of administrative contractor payments for FY 2006 totaling \$1.4 billion. Of that amount, about 0.12 percent or \$1,712,454 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and collection of administrative improper payments.

The Agency has elected to exclude the following classes of contracts from the scope of the recovery audit:

- Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and condition of the contract.

- Cost-type contracts that were completed, subjected to final contract audit and, prior to final payment of the contractor’s final voucher, all prior interim payments made under the contract were accounted for and reconciled.

Agency Component	Amount subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
Administrative Expenses	\$1,383	\$54.876	\$1.712	\$1.712	\$.196	\$.196	\$1.908	\$1.908

**ACCOUNTABILITY FOR IMPROPER PAYMENTS**

In June 2002, SSA released the SSI Corrective Action Plan which outlined a multi-pronged approach to improve stewardship through increased overpayment detection and prevention, new measurement strategies, potential changes in SSI policies and Agency accountability. We are extremely pleased that the Government Accountability Office (GAO) removed the SSI program from its high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA’s progress to improve the management of the program. We are continuing our efforts to improve our management of the SSI program across three fronts: improved prevention of overpayments, increased overpayment detection, and increased collection of debt. To achieve these goals, SSA executives are held accountable for meeting the initiatives in the SSI Corrective Action Plan. Progress is monitored in regular meetings with SSA executives.

**AGENCY INFORMATION SYSTEMS TO REDUCE IMPROPER PAYMENTS**

**BACKGROUND**

In the SSI Corrective Action Plan discussed above, the Agency has identified a number of information technology (IT) initiatives aimed at prevention, detection and collection of improper payments. SSA has a formal process to plan and execute IT projects and the IT budget. The Information Technology Advisory Board (ITAB) is an executive body offering advice to the Agency’s Chief Information Officer (CIO) on areas of Capital Planning and Investment Control (CPIC). The ITAB is comprised of the CIO, Deputy Commissioner for SSA, all Deputy Commissioners and other executive staff.

As part of the CPIC environment, IT plans outlining Office of Systems IT initiatives are reviewed and approved by the ITAB prior to the beginning of the fiscal year. These IT plans become the blueprint for the developmental and maintenance activity within the Office of Systems.

On a quarterly basis, the ITAB reviews the progress of each IT plan and the agreed capital investments. Major investments are assessed at key decision points to ensure they are well founded, are achieved within the approved cost and schedule, and provide expected benefits. They may be redirected or terminated when necessary. These activities are key to SSA's capital investment and control process.

**IT STRATEGY**

Starting in FY 2005, the "clusters" of IT projects were replaced with Strategic Objective (SO) Portfolios. These SO Portfolios are based on SSA's nine Strategic Objectives as defined in the Agency Strategic Plan. There are also two additional portfolios not corresponding to an Agency Strategic Objective: one for Infrastructure and one for

Legislation. The majority of improper payment IT initiatives fall within two SO portfolios: 1) Improper payments; and 2) Manage finances.

Provided the Agency develops the IT initiatives identified to improve preventing, detecting and collecting improper payments and is given the resources to do so, SSA will be in a better position to achieve its strategic objectives in this area. The President's FY 2008 budget for SSA is \$9,597 billion for Limitation on Administrative Expenses (LAE), an increase of \$299 million in discretionary budget authority over SSA's FY 2007 appropriation. With the President's FY 2008 budget, SSA will continue to improve the disability program through automation and process improvements; maintain service in the face of growing workloads; increase SSA's overall productivity; and improve administration of the nation's retirement, survivors, and disability programs. The budget supports SSA's efforts to improve payment accuracy through a broad range of activities designed to prevent and detect improper payments. These efforts include investments in continuing disability reviews and SSI non-disability redeterminations, as well as the use of computer matches to identify and prevent overpayments. Through these activities, SSA can ensure the ongoing stewardship of our programs.

### **STATUTORY AND REGULATORY BARRIERS TO REDUCING IMPROPER PAYMENTS**

SSA continuously develops legislative proposals to improve administration of the OASI, DI and SSI programs. For example, on May 29, 2007, SSA sent to Congress for their consideration amendments to the OASI, DI and SSI programs in support of the President's FY 2008 budget. One of the proposals would simplify administration of the DI program by modifying the rules for computing the reduction under the workers' compensation (WC) offset provision. (Receipt of WC payments often results in a reduction in the benefits payable to a disabled worker and the worker's entitled family members.)

**WC OFFSET SIMPLIFICATION PROPOSAL:** Simplifying the DI program reduces improper payments. One of the proposals in the President's budget would change the amount of the offset to a benefit reduction equal to the lesser of the worker's monthly WC benefit or a flat percentage (31 percent) of the Social Security DI benefits payable to the disabled worker and the worker's family. In addition, the offset period would be limited to no longer than 5 years from the worker's first month of entitlement to disability benefits.

The current WC offset provision is a complex aspect of the Social Security DI program, is difficult to administer, and is error-prone. The provision requires SSA to 1) base the initial offset on an amount equal to 80 percent of the worker's pre-disability earnings, 2) continually monitor the amount of the ongoing WC payment, 3) apply special rules when adding annual Cost-of-Living-Adjustments (COLAs) to the benefit payable, and 4) redetermine every three years the amount of the pre-disability earnings used in the offset. Due to the complexity of the provision, SSA devotes substantial staff time to reworking cases in which errors were made. This proposal would simplify the administration of the WC offset provision, thus allowing SSA to use its administrative resources more effectively. These resources could be applied to other pressing workloads at SSA—e.g., conducting Continuing Disability Reviews.

### **AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI AND SSI PROGRAMS**

In FY 2007, SSA collected \$2.49 billion in program debt. The Agency's debt collections are achieved in a variety of ways that have been developed over the years. Collection techniques include SSA's internal methods such as benefit withholding and billing and follow-up. In addition, the Agency uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (DCIA) for OASDI debts and the *Foster Care Independence Act of 1999* (FCIA) for SSI debts. These debt collection tools include the Treasury Offset Program (TOP), credit bureau reporting, administrative wage garnishment (AWG) and Federal Salary Offset (FSO).

SSA's strategy for improving its debt collection program is to focus on the techniques that provide direct collections from revenue sources or that can be easily integrated into existing systems. In keeping with this strategy, SSA has worked steadily over the years to build the strong debt collection program it now employs. Although the Agency has a history of striving for maximum stewardship of the OASI and DI Trust Funds and the General Fund, it

launched an expansion of debt collection tools in the early 1990s that continues today. Taking advantage of the legal authorities granted to it in the *Omnibus Budget Reconciliation Act of 1990* (for OASDI debts), and the *Deficit Reduction Act of 1984* (for SSI debts), SSA began its expansion with the implementation of tax refund offset (TRO) in 1992. The Agency enhanced its TRO program twice in the 1990s and then merged it with TOP in 1998. To date, SSA has collected over \$1.3 billion in delinquent debt via TRO/TOP.

In 1998, SSA began reporting delinquent OASI and DI debts to credit bureaus. After receiving the authority to use credit bureau reporting for SSI debts in 1999, the Agency also began reporting those delinquent debts to the credit repositories. Since 1998, the negative consequences of credit bureau reporting have contributed to the voluntary repayment of over \$409 million in delinquent overpayments by people who do not want to submit to the reporting or to other aggressive collection tools such as TOP and AWG.

After receiving the authority to use mandatory Cross Program Recovery (CPR), or the collection of an SSI overpayment from monthly OASI and DI benefits due the debtor, SSA developed and implemented this internal collection method. Since 2002, the Agency has collected over \$342 million in SSI overpayments from the Social Security benefits paid each month to the former SSI recipients.

SSA received additional authority for CPR in the *Social Security Protection Act of 2004*. We are now able to use mandatory CPR in situations where CPR was not previously permitted. SSA started using this new authority in January 2005 to collect SSI overpayments from large OASDI underpayments, even when the individual remains eligible for SSI monthly payments. In August 2007, SSA further expanded its use of CPR to include recovery of OASDI overpayments from SSI underpayments. Since implementing this expanded CPR process, SSA has recovered about \$4.7 million in OASDI overpayments. The Agency intends to continue expanding the CPR program to other situations in the future.

SSA also implemented AWG, a process in which a Federal agency orders an employer to withhold amounts each pay day from an employee who owes a debt to the agency, and the employer pays those amounts to the agency. The first garnishment orders were issued in April 2005 to the employers of OASI, DI and SSI debtors who became delinquent in 2005. SSA expanded its AWG program to all existing delinquent debtors in August 2006. To date SSA has recovered over \$13 million in AWG.

In November 2005, the Agency implemented a new initiative called the Non-Entitled Debtors (NED) program, also authorized by the FCIA. This automated system enables SSA to collect debts owed by people who do not have a master record with the Agency. Debtors such as representative payees who receive overpayments after the death of the beneficiary are controlled by this system. Work is continuing on the expansion of this system, which will eventually include all types of debtors who are not entitled to benefits and will allow SSA to collect NED debts by means such as TRO, AWG and FSO.

FSO, authorized by the DCIA for OASDI debts and the FCIA for SSI debts, was also implemented in FY 2006. FSO is the process whereby the salary paying agency withholds amounts each pay day from an employee of the Federal government who owes a debt to a creditor agency. For SSA, FSO is a debt collection tool used to collect delinquent SSA overpayments owed by Federal employees, including employees who work for SSA.

In addition to the preceding improvements, SSA implemented other debt collection techniques of major import. One such improvement is called "Netting," an automated process implemented in September 2002 to automatically net SSI overpayments against SSI underpayments. Since implementing automatic netting, SSA has prevented over \$471 million in overpayments computed and underpayments paid through September 2007.

SSA also helped other Federal agencies with debt collection by collaborating with Treasury's Financial Management Service and Internal Revenue Service to develop two collection programs for collecting delinquent non-tax and tax debt: (1) The Benefit Payment Offset program, authorized by the DCIA, collects delinquent non-tax debts from Social Security benefits; and (2) the Federal Payment Levy Program, authorized by the *Taxpayer Relief Act of 1997*, collects delinquent tax debts from Social Security benefits.

Continued improvement in the Agency's debt collection program is also underway. The future will see the completion of several remaining debt collection tools. They include the use of private collection agencies and administrative fees, interest-charging, or indexing a debt to reflect its current value. For additional information, please refer to the Debt Management narrative in the *Other Reporting Requirements* section of the report.

This page was intentionally left blank.