

# SOCIAL SECURITY ADMINISTRATION

## The President's Proposal:

- Enhances program integrity initiatives to reduce payment errors;
- Institutes new information technology initiatives to improve customer access and expand the range of services offered to customers; and
- Increases productivity in key work areas.

### Social Security Administration

Jo Anne B. Barnhart, Commissioner

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**Headquarters:** Baltimore, Maryland

**Number of Employees:** 63,464

**2002 Spending:** \$492.7 billion

**Field Offices:** 1,337

The Social Security Administration (SSA) promotes the economic security of the nation through disbursing America's major income support entitlements for the elderly, disabled, and their dependents. SSA manages the Old-Age, Survivors, and Disability Insurance (OASDI) programs, universally known as Social Security. SSA also administers the Supplemental Security Income (SSI) program for low-income aged and disabled individuals. In addition, the agency provides services that support the Medicare program on behalf of the Centers for Medicare and Medicaid Services.

## Administering Benefits

SSA is responsible for paying around \$40 billion in benefits to more than 50 million people every month, processing more than five million new claims for benefits each year, handling approximately 61 million phone calls to its 800-number, and issuing 136 million Social Security statements. Other activities include issuing Social Security numbers, maintaining earnings records for wage earners and self-employed individuals, updating beneficiary eligibility information, educating the public about programs, combating fraud, and conducting research, policy analysis, and program evaluation. These activities are largely integrated across the various programs that SSA administers.

The 2003 Budget includes resources to increase productivity in customer service areas while also redeploying staff to front-line customer service positions, thus improving performance in important areas as identified in the accompanying table.

**Performance Measurements**

Goal	2001	2002	2003
Percent of retirement claims processed within 14 days .....	83%	85%	88%
Percent of SSA's customer-initiated services available to customers either electronically via the Internet or through automated telephone service.....	21%	30%	40%
Percent of callers that access SSA's 800 number within five minutes of their first attempt .....	92%	92%	94%

***Services for Persons with Disabilities.***

The Ticket to Work and Work Incentives Improvement Act of 1999 was designed to reduce barriers and increase incentives for individuals with disabilities to participate in the workforce. Ticket to Work makes it easier for disability beneficiaries to obtain employment services and lets them choose from a wider array of service providers. The program also provides for cooperative agreements and grant programs in each state for activities aimed at educating beneficiaries about available employment support services and helping them understand the work incentives built into the law. For example, one important incentive gives Disability Insurance (DI) beneficiaries the opportunity to test their ability to earn wages during a nine-month trial work period without affecting their eligibility for benefits.

As part of his New Freedom Initiative, the President supported swiftly implementing Ticket to Work. The program will be up and running in 13 states this year. SSA will expand Ticket to Work to all states and U.S. territories in 2003, and the program will be fully operational by early 2004. Over the long run, Ticket to Work is expected to increase the percentage of DI and SSI beneficiaries who are employed. Achieving this goal generates at least a three-way benefit. First, the federal government sees benefit payments to such persons drop. Second, the U.S. Treasury collects taxes on wages earned. More importantly, though, the beneficiaries return to the dignity and independence of work. The budget includes \$40 million for SSA's return-to-work activities in 2003.



The Ticket to Work program helps people with disabilities return to work.

**Stewardship**

SSA conducts activities that at some point touch nearly everyone in America—including issuing Social Security numbers, maintaining earnings records that will later be used to calculate Social Security benefits, and administering the benefit programs. As such, SSA has an obligation to ensure

sound financial management of its programs, as well as accurate and reliable processes in other areas such as Social Security number issuance.

A crucial aspect of good management in income support programs is ensuring that only eligible individuals receive benefits, and that they receive benefits in the correct amount. SSA undertakes a variety of activities to minimize improper payments through means such as verifying beneficiaries' eligibility status, collecting debt, and investigating and deterring fraud. Despite these efforts, the SSI program, in particular, remains inherently vulnerable to payment error and consequently has been designated as a high-risk program by the General Accounting Office since 1997.

SSA has two major tools for ensuring payment accuracy: Continuing Disability Reviews (CDRs) and SSI non-disability redeterminations. The first does what its title implies to ensure that only those who remain disabled continue receiving benefits. Redeterminations are used to assess whether an SSI recipient continues to meet the financial eligibility requirements or has experienced a change of circumstances that would affect his or her monthly benefit amount.

***Detecting and Preventing Payment Errors.*** The budget supports activities undertaken by SSA to ensure the integrity of records and payments. The Administration proposes a total of \$1.05 billion for conducting CDRs and redeterminations for 2003. The amount for CDRs (\$642 million) and redeterminations (\$411 million) will enable SSA to conduct CDRs on schedule and increase the number of SSI redeterminations conducted by nine percent over the budgeted 2002 level. This level of funding will allow SSA to conduct almost 1.4 million CDRs and 2.5 million redeterminations in 2003. Approximately two out of every five SSI recipients will receive a redetermination in 2003 with this level of funding. SSA targets its redetermination effort on cases that are most likely to experience a change in eligibility, such as when a beneficiary's non-SSI income changes. SSA's experience shows \$11 in program savings for each \$1 invested in CDRs and approximately \$7 in program savings from overpayments collected and prevented for each \$1 invested in redeterminations.

***Protecting Social Security Numbers.*** Social Security numbers (SSNs) themselves have taken on added importance as the SSN has become widely used as the key to a person's identity. Firms request SSNs for such basic activities as employment, opening a bank account, and applying for credit. Their value motivates unscrupulous individuals to fraudulently acquire and use them. To effectively reduce SSN fraud, SSA is reexamining its enumeration process to improve its ability to assess whether individuals applying for SSNs are who they say they are.

#### **SSI Recipient Used Over 30 Aliases to Conceal His Identity**

SSA's Inspector General investigated a man in 2001 who used multiple SSNs and identification documents to obtain SSA benefits under various aliases. During searches, investigators seized counterfeit identifications, SSN cards, and fake military documents. The evidence showed the man used 33 or more aliases, was a five-time convicted felon, and was a federal fugitive for 17 years.

The man, a career criminal, at various times posed as a firefighter, traffic investigator, animal control officer, Central Intelligence Agency agent, and U.S. Marine Corps officer. At times, he portrayed himself as a highly decorated combat veteran and former prisoner of war. He was incarcerated and ordered to pay \$56,900 in restitution to SSA.

SSA has gotten more sophisticated at preventing SSN fraud. Software changes planned for 2002 and 2003 will interrupt the issuance of a card in cases where suspicious circumstances exist. Nevertheless, vulnerabilities remain, especially with regard to verifying some documents presented as identification. Working in partnership with other federal agencies, SSA will remain at the forefront of conquering any technological obstacles and institutional barriers that provide an opportunity for fraud to occur.

### **Strengthening Social Security For The Long Term**

For more than 60 years, Social Security has provided retirement security for tens of millions of Americans. Yet, Social Security itself is showing signs of insecurity. Increasing life expectancies and falling birthrates have combined to put the current system on a path to insolvency. Social Security costs are projected to exceed annual cash revenues starting in 2016, and the gap between costs and revenues will continue to grow thereafter. Between 2016 and 2038, Social Security trust fund “balances”—consisting of debt the government owes itself—will make up the difference, although all this means is that general tax revenues will increasingly be tapped to pay benefits. After 2038, incoming Social Security revenue will only cover 73 percent of currently scheduled benefits.

The President appointed a bipartisan commission in May 2001 to develop recommendations to modernize and restore fiscal soundness to Social Security, based on the following principles:

- Modernization must not change Social Security benefits for retirees or near-retirees.
- The entire Social Security surplus must be dedicated to Social Security only.
- Social Security payroll taxes must not be increased.
- Government must not invest Social Security funds in the stock market.
- Modernization must preserve Social Security’s disability and survivor components.
- Modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net.

In December, the President’s Commission to Strengthen Social Security released its analysis of the financial problems confronting Social Security and its recommendations for addressing them. The Commission determined that reforming Social Security to include personal retirement accounts would lead to better long run outcomes for future beneficiaries, the Social Security program, and the economy as a whole.

### **Highlights of Commission Findings**

*Personal accounts would increase retirement security because they would facilitate wealth creation for all participants.* Establishing personal accounts in Social Security would advance a highly progressive principle: it would provide an opportunity for wealth creation to the approximately half of American households who save nothing in an average year after contributing 12.4 percent of their wages to support the Social Security system. In addition, personal accounts could add valuable protections for widows, divorced persons, low-income households and other Americans at risk of poverty in old age.

*Asset ownership would lead to improved financial security by diversifying risk.* Over the decades, lawmakers have changed the Social Security benefit formulas and payroll tax rates numerous times in response to fiscal conditions. Future Social Security benefit levels remain uncertain due to the

current projected funding shortfall in the program. Social Security participants could hedge against this political risk by holding some of their future retirement benefits in the form of personal accounts, to which they would have a legal right of ownership. Workers could invest their accounts as they saw fit, and those wishing to avoid market risk could invest exclusively in government securities.

#### **Commission to Strengthen Social Security: Models for Reform**

**Model 1.** Future retirees who remain wholly in the traditional Social Security system would potentially receive currently scheduled benefits, subject to future actions to restore solvency. Expected benefits for those who opt for personal accounts would be substantially higher. Option to redirect two percent of payroll taxes to personal account, in exchange for partial offset to defined benefit. No provision for additional revenues or other measures to maintain solvency, so future benefit levels are uncertain.

**Model 2.** Future retirees who remain wholly in the traditional Social Security system would receive defined benefits at least as high as today's retirees in real terms. Expected benefits for those who opt for personal accounts would be substantially higher. Higher benefits for survivors and lifelong low-wage workers. Option to redirect up to four percent of payroll taxes (capped at \$1,000) to personal account, in exchange for partial offset to defined benefit. Temporary transfers of general revenues to the trust funds to maintain solvency.

**Model 3.** Future retirees who remain wholly in the traditional Social Security system would receive defined benefits higher than today's retirees in real terms, but less than currently scheduled benefits. Expected benefits for those who opt for personal accounts would be substantially higher. Higher benefits for survivors and lifelong low-wage workers. Larger reductions for early retirement. Option to redirect up to 2.5 percent of payroll taxes to personal account (capped at \$1,000), conditional on 1 percent out-of-pocket contribution (subsidized for low-wage workers), in exchange for partial offset to defined benefit. Additional federal revenues dedicated to Social Security indefinitely to maintain solvency.

#### **Benefit and Cost Projections under the Three Models**

Under all three models, expected benefits would be substantially higher than those payable with current-law Social Security revenues. The accompanying table compares expected benefits and costs under the three models with currently scheduled Social Security defined benefits, which are slated to grow in real terms for future retirees because they are indexed to the average wage level. However, currently scheduled benefits are uncertain after 2038 because the system is underfunded. The cost of currently scheduled benefit obligations would exceed Social Security revenues by \$4.2 trillion over the next 75 years.

The model benefit projections are not directly comparable to one another. For example, while Model 1's total benefits are higher than Model 2, the Model 1 defined benefit is subject to considerable uncertainty because additional actions would be required to maintain solvency. Models 2 and 3 each fully fund the system. Model 2 provides an expected combined benefit higher than currently scheduled benefits for most workers, at significantly less cost to taxpayers than maintaining currently scheduled benefits under the existing system. Model 3 benefits are higher than Model 2, because Model 3 explicitly requires more federal revenues, as well as additional out-of-pocket account contributions from workers that are not captured in the measure of federal costs.

**Comparison of Costs and Benefits of Currently Scheduled  
Payments and Models for Reform**

	Low Earner	Medium Earner	High Earner	
<i>Currently scheduled benefits, 2052 (2001 dollars)</i>	\$986	\$1,628	\$2,151	<i>New revenues needed <sup>1</sup></i>
				\$4.2 trillion
<i>Change in expected benefits, with account proceeds, 2052 <sup>2</sup></i>				<i>Change in new revenues needed <sup>3</sup></i>
Model 1	+8.9%	+12.0%	+14.5%	+3.8%
Model 2	+15.0%	+2.4%	-4.4%	-45.0%
Model 3	+19.2%	+21.8%	+22.7%	-33.9% <sup>4</sup>

<sup>1</sup> Represents present value of the net cash flow required from the general fund over the next 75 years to pay currently scheduled benefits.

<sup>2</sup> Expected percent change from currently scheduled benefits for new retirees in 2052. Assumes accounts invested 50 percent equities, 50 percent bonds, purchase of variable annuity upon retirement.

<sup>3</sup> Represents difference from the additional revenues that would be needed in any year simply to meet currently scheduled benefits over the next 75 years.

<sup>4</sup> Excludes costs of out-of-pocket contributions and associated subsidy.

*Partial advance funding should be a goal of any effort to strengthen Social Security. Advance funding would increase the nation's capital stock and productive capacity. This would increase the total economic resources available to support a large population of retirees and would reduce Social Security's financial burden on future generations. Advance funding should occur through personal accounts rather than government investment in private securities. Government investment would likely lead to inappropriate political interference in the market, inefficiency, and conflicts of interest.*

*A Social Security system with personal accounts would offer higher total expected benefits to individuals than a system without accounts, regardless of what other steps are taken to balance the system's finances. Personal accounts improve total expected benefits by giving workers the opportunity to realize the gains that come from returns on capital. The Commission presented three models for balancing Social Security's finances and incorporating personal accounts. The models differed with respect to the extent to which they addressed Social Security's fiscal imbalance. Under each model, individuals with accounts invested in a standard portfolio could expect higher total benefits than individuals without accounts.*

*Personal accounts can reduce the long-term cost growth of Social Security, thus improving its fiscal sustainability. Each of the reform models developed by the Commission would allow individuals to redirect part of their payroll tax revenue toward a personal account. In exchange for the opportunity to pursue higher returns, individuals would agree to forego the defined benefit that would have been financed by these payroll taxes assuming a low interest rate. As long as the personal account earned a return higher than that interest rate, both the individual and the Social Security system would come out ahead.*

*Social Security could be made fiscally sustainable in a number of ways, all of which would require some combination of changing the rate of benefit growth and committing additional revenues to the system generated by taxation or by the proceeds of investment.* In the absence of personal accounts, the only choices are to increase taxes, slow the scheduled growth of benefits, or some combination of the two. Whatever measures are ultimately taken to produce a fiscally sustainable system, voluntary personal accounts improve the system by offering individuals the opportunity to pursue higher expected returns by investing in a low-cost, diversified portfolio.

Finally, the Commission recommended that the Congress and the President engage in a period of national discussion for at least one year to carefully consider the alternatives, as well as the consequences of inaction, and then take the appropriate steps to strengthen and modernize Social Security.

The full text of the Commission’s report is available at [www.csss.gov](http://www.csss.gov).

### Improving Performance

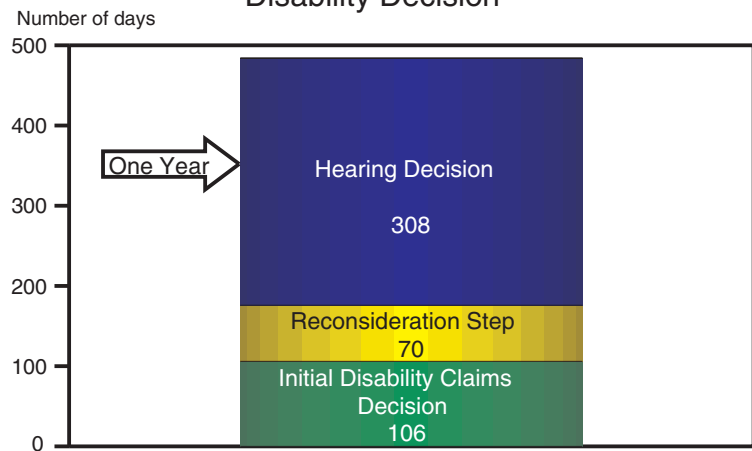
#### Service Delivery Assessment

The Commissioner of Social Security is committed to assessing the level of service that SSA should be providing Americans, relate that to current service levels, and determine the necessary action to reach service delivery goals.

#### Disability Process Improvements

A long-standing management challenge for SSA has been the time and expense involved in processing claims for disability benefits, particularly appeals of unfavorable initial determinations. Initial claims are processed by state employees at state disability determination service agencies fully funded by SSA. In 2001, the average processing time for initial claims was 106 days, or about three and a half months. For those whose claims are denied, hearings are conducted by SSA’s Office of Hearings and Appeals (OHA). Applicants requesting a hearing waited an average of another 10 months in 2001 for OHA to return with a decision (see accompanying chart).

Average Wait for an Applicant to Receive a Disability Decision



Note: Claimant may receive a favorable decision before the final step.  
Source: Social Security Administration.

The disability determination process is inherently complex. It involves the collection and evaluation of medical and other evidence from the claimant, physicians, and sometimes from employers or other individuals who may have information about the claimant’s impairments or ability to work. SSA is exploring ways to automate the transmission and storage of case files, but

the process remains largely paper driven. Fragmentation across SSA's field offices, state agencies, and OHA also contributes to long processing times.

SSA periodically has investigated ways to reduce disability processing times. The most recent effort began in the mid-1990s and has not achieved expected results. The number of disability claims is expected to rise substantially in coming years, as the Baby Boom generation reaches the ages at which the incidence of disability increases. It is imperative that SSA develop the capacity to efficiently manage these workloads. SSA will examine potential process reforms that would use administrative resources more efficiently and improve management controls. The budget commits to reducing processing times for initial disability claims by five days in 2003.

The budget also proposes a management improvement by establishing a standard for accuracy in SSI disability awards identical to that which applies to Social Security Disability Insurance.

### **Leveraging Technology**

SSA anticipates moderate increases in its workloads over the next five years and then considerable increases as the post-World War II Baby Boom generation enters retirement starting in 2008. Unless SSA improves upon its current business processes by investing in and making use of technology improvements, resources may not be able to meet workload demands over the next 10 years. When combined with procedural changes, exploiting the full potential of information technology will allow SSA to handle the workload increases and improve customer service without increases in staff.

**21st Century Communication.** SSA is developing a strategy to encourage citizens to interact with the agency in the most cost-effective manner possible, particularly through the Internet or SSA's 800-number. SSA has made progress in recent years, especially in its Internet presence. The agency has rapidly expanded the types of online interactions that customers can conduct, such as filing claims for retirement benefits over the Internet.




However, SSA remains a paper-driven agency. Only 3.5 percent of retirement claims are handled over the Internet at this time, and other online services also experience low utilization rates. SSA is developing aggressive outreach efforts to educate SSA customers about their options and encourage them to interact with the agency through electronic means when possible. Since there are situations which require an in-person visit to a local field office, and some customers prefer to conduct their business in person, the option to visit a field office will remain available. However, most routine transactions for those who have Internet access could be handled at lower cost to the agency and greater convenience to the public through electronic means. SSA will establish performance goals for the number of business transactions to be conducted via the Internet and through automated telephone service. This information will be included in performance and accountability reports as a performance indicator.



SSA's goal is to have 40 percent of customer-initiated services available either via the Internet or through automated telephone service in 2003, rising to 67 percent by 2005. The President's Budget provides \$688 million in 2003 for SSA information technology, which will allow the agency to maintain its existing technology infrastructure as well as expand its Internet services, improve security capabilities, support electronic wage reporting by employers, and make a variety of other improvements.



### Strengthening Management

SSA has made progress in implementing several components of the President’s Management Agenda. In the area of financial management, SSA has already eliminated many of the serious deficiencies seen in most government agencies. Specifically, SSA is one of only four agencies that has received unqualified opinions on its financial audits since the agency first began submitting them in 1996. The scorecard below establishes how SSA stood in 2001 against the standards for success in each initiative. While the agency received one of the best evaluations overall, there are areas for improvement. The plans to improve management are identified in each of the management agenda sections.

Initiative	2001 Status
<p><b>Human Capital</b>—SSA has reduced its supervisor to employee ratio from 1:8 in 1990 to its current level of 1:14, which is one of the lowest percentages of the 23 largest federal agencies. In addition, from 1990 to 2001, SSA increased the number of front-line workers by over 5,000 while its workforce shrank two percent. However, given the expected future workloads and the state of customer service, there is a compelling argument for additional redeployment of staff to front-line positions.</p>	
<p><b>Competitive Sourcing</b>—While SSA identifies 19 percent of its workforce as performing commercial tasks, there remain significant additional positions to be classified as commercial. SSA will implement a management plan for increasing competitive sourcing that identifies by function and location the competitions or direct conversions to be conducted as well as a time line for when and how they will take place. The management and competition plan will describe the strategies used to ensure that at least five percent of commercial positions will be competed or directly converted in 2002, and that SSA will compete or directly convert at least 15 percent of the commercial positions by 2003 to meet the Administration’s two-year goal in a broader effort to eventually compete at least 50 percent of all commercial activities.</p>	
<p><b>Financial Management</b>—In 2001, SSA received an unqualified audit opinion on its financial statements, and its accounting and internal control systems met federal standards. However, SSA does not have fully integrated financial and operating management systems, which support day to day decision making. SSA is on track to integrating its financial and performance management system, and will continue to integrate them through implementation of a new cost accounting system in 2002.</p> <p>Another key performance area is reducing erroneous payments. The problem plagues the agency’s Supplemental Security Income (SSI) program, which remains a high-risk program due to improper payments. In recent years, SSA has increased its funding for initiatives focused on identifying erroneous payments. The 2003 Budget will enable SSA to increase SSI non-disability redeterminations by nine percent and achieve a payment accuracy rate of 94.7 percent.</p>	

Initiative	2001 Status
<p><b>E-Government</b>—SSA has a broad strategic goal of attaining a paperless environment by 2010. SSA has taken constructive steps in the last two years by rapidly expanding online customer service options. These include retirement claims, Medicare replacement cards, online “account” status, access to change one’s address and telephone number, and direct deposit. Despite these new services, SSA remains a paper-driven agency that still relies on moving claims folders from one site to the next for processing. To address this issue, SSA will give high priority to E-Government projects that will result in large productivity increases by improving the business process, such as with the “e-dib” project. This is a paperless process centered on employees sharing an electronic folder in a secure environment to review disability beneficiaries’ files.</p> <p>SSA’s capital planning process has improved markedly over the last two years. However, SSA will improve its risk management assessment, set performance goals associated with specific information technology (IT) projects, and develop a cost-tracking system that consolidates cost information for IT projects.</p>	
<p><b>Budget/Performance Integration</b>—SSA has a wide range of performance measures for the various activities the agency conducts. However, SSA needs to strengthen the linkage between performance and funding. Currently, SSA’s budget relates funding to outputs, by calculating the workforce it needs to process all of the work it expects to receive at given production rates, taking account of planned efficiencies and other changes. Only in a few activities (Continuing Disability Reviews and SSI Redeterminations) does SSA have costs specifically aligned with outcome measures. SSA will improve its ability to present a performance budget that permits direct comparisons between incremental budgeted amounts and outcomes in specific activities.</p>	

**Social Security Administration**

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
<b>Spending:</b>			
Discretionary Budget Authority:			
Limitation on Administrative Expenses (LAE) <sup>1</sup> .....	7,448	7,907	8,283
Office of the Inspector General .....	72	79	87
Research and Development .....	23	30	23
Subtotal, Discretionary budget authority adjusted <sup>2</sup> .....	7,543	8,016	8,393
Remove contingent adjustments .....	-327	-343	-350
Total, Discretionary budget authority .....	7,216	7,673	8,043
Emergency Response Fund, Budgetary resources .....	—	8	—
Mandatory Outlays:			
Old-age, Survivors, and Disability Insurance .....	429,451	455,423	471,848
Supplemental Security Income .....	27,481	31,322	32,469
Special Benefits for Disabled Coal Miners			
Existing law .....	486	454	420
Legislative proposal .....	—	—	-420
Special Benefits for Certain World War II Veterans .....	7	9	9
Offsetting Collections .....	-1,692	-1,368	-1,880
Undistributed Offsetting Receipts .....	-7,910	-9,243	-9,564
Total, Mandatory outlays .....	447,823	476,597	492,882

<sup>1</sup> The LAE account includes funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for services that support the Medicare program.

<sup>2</sup> Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.