

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) is considered Required Supplementary Information for the audit of the financial statements and is designed to provide a high level overview of the Agency. It provides a description of who we are, what we do and how well we meet the goals we have set.

The Mission and Organizational Structure section highlights SSA's mission as set forth in the Agency's Strategic Plan. This section also discusses the major programs we administer: the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs (commonly known as Social Security) as well as the Supplemental Security Income (SSI) program.

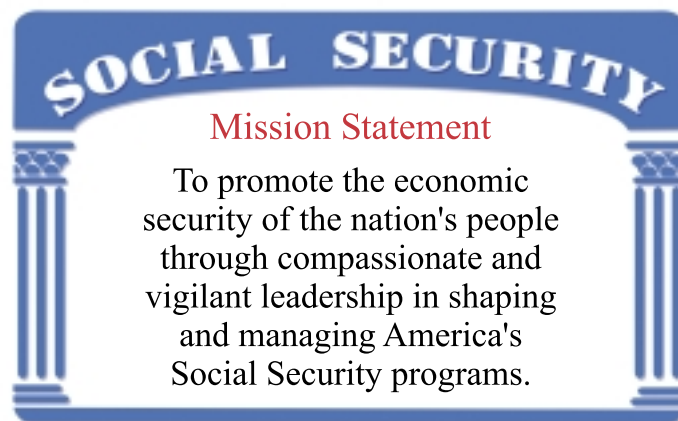
Following the Mission and Organizational Structure section is a discussion of the Major Issues that SSA will be facing in the future. We used the Performance and Accountability Report to provide a snapshot of the performance we achieved in FY 2000. However, the status of SSA would not be complete without providing a sense of the challenges tomorrow brings. These challenges include long-term solvency of the Social Security program and fulfilling our commitment to world-class service as well as topics that have a more immediate impact on our operations such as SSI and DI

management improvement and fraud prevention and detection. While these issues are challenging, we believe we have the policies and plans in place to help ensure they will be adequately addressed.

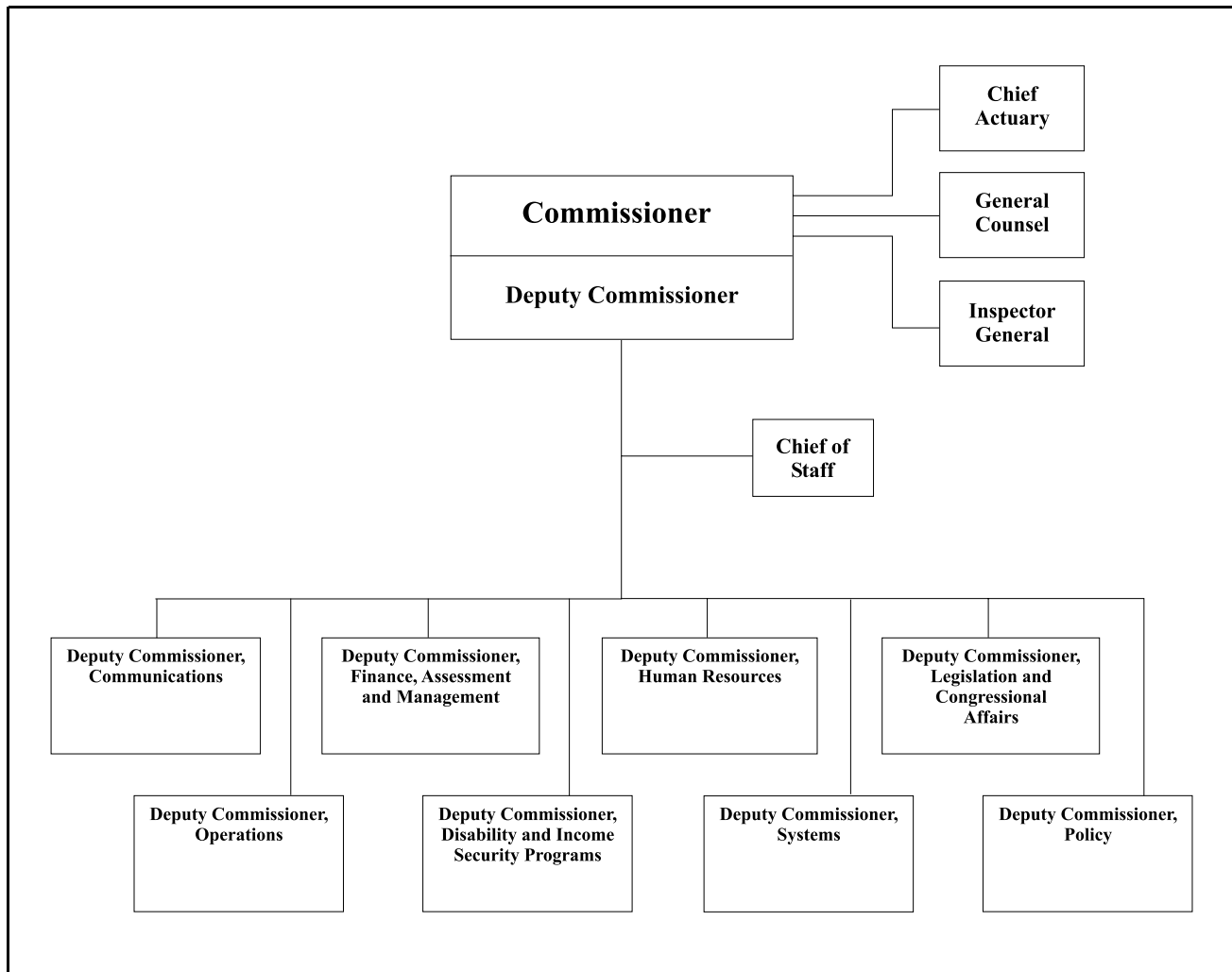
Next, the MD&A discusses SSA's ability to achieve the five strategic goals contained in our current strategic plan. In February 1999, we provided Congress with our FY 2000 Annual Performance Plan (APP) outlining the performance indicators we used to assess our ability to meet these five strategic goals. The Performance Goals and Results section displays selected indicators from the APP, targeted performance for FY 2000 and actual performance achieved.

In addition to discussing program performance, the MD&A also addresses our financial performance. The major sources and uses of SSA's funds as well as the use of these resources in terms of both program and function are explained. Finally, the Systems and Controls section of the MD&A provides the Commissioner's Federal Managers' Financial Integrity Act (FMFIA) assurance statement, the actions SSA has taken to address our management control responsibilities and a discussion of the Agency's FMFIA material weakness and plan to correct this weakness.

Mission, Organizational Structure and Programs



Agency Organization

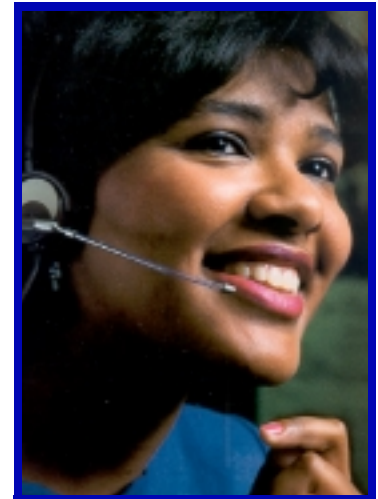
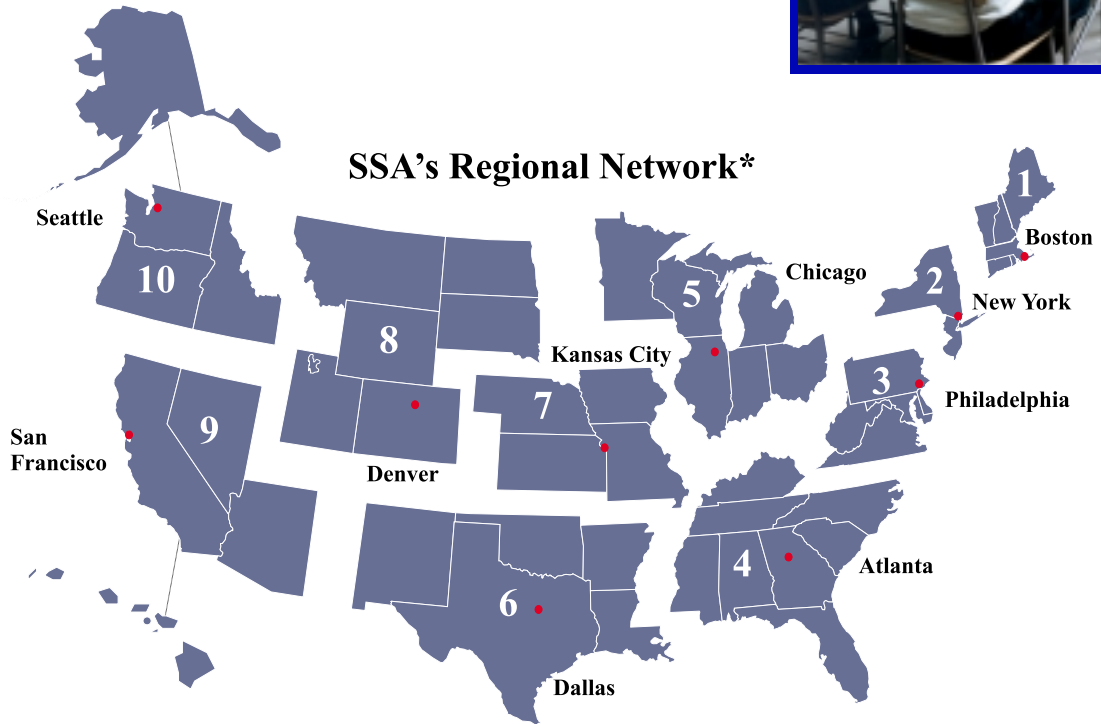


SSA's organization features centralized management of the national Social Security programs and a decentralized nationwide network of 10 Regional Offices overseeing 1,340 field offices (FO), 138 hearings offices, 36 teleservice centers, 7 processing centers and 1 data operations center.

SSA's unique organizational structure is designed to provide responsive, swift and accurate world-class service to the public. All components within SSA's central office perform a supporting role to SSA FOs by providing uniform directions, guidance and material resources needed by the FOs. By integrating services for all the programs we administer at the level of our customer, we are able to enhance efficiency, avoid duplication of effort and increase opportunities to provide one-stop service to our customers.

FOs are located in cities and rural communities across the nation and are the Agency's main physical point of contact with beneficiaries and the public. Additionally, the Social Security disability program depends on the services of 54 Disability Determination Services which include all 50 States, the District of Columbia, Guam and Puerto Rico.

To meet the needs of non-English-speaking customers, SSA recruits bilingual individuals to serve as a public contact for customers visiting SSA field offices and calling SSA's 800-number telephone service. During FY 2000, 15 percent of public contact employee new hires were bilingual. At year end, SSA had bilingual public contact employees who could provide service in English and at least one of 23 other languages.



* Puerto Rico and the Virgin Islands are serviced by Region 2; the District of Columbia is serviced by Region 3; and American Samoa, Guam and Trust Territory of the Pacific Islands by Region 9.

SSA Salutes America's Centenarians

As we celebrate the 65th anniversary of the establishment of the Social Security program and the new millennium, we are also celebrating the lives of all our beneficiaries. We are particularly celebrating those who have lived to be 100 years old or older, those whose lives have spanned the entire 20th century. Thirty-five years old-or older-when the law was enacted, these elder Americans remind us how Social Security has been there for them and the rest of the nation throughout all these years. They remember the two World Wars, President Roosevelt and the New Deal. They remember Model-T Fords, the Depression and the Big Band era. And when asked about what Social Security means to them, they remember that, above all, it has given them a margin of independence.



Rosa W. Allen
113



Walter B. Banks
100



Lorion Bassett
101



Chief Tecumseh
Deerfoot Cook
101



Frank Gerena
102



Ruth O. Bacon
100



Hagbard "Herbie"
Hansen
102



Corean Flennoy
102

Above pictures selected from those found in "Voices of America's Centenarians," celebrating SSA's 65th anniversary.

The Social Security Programs

The Social Security Act established a program to help protect aged Americans against the loss of income due to retirement. Protection for survivors of deceased retirees was added by the 1939 amendments, thus creating the OASI program. Social Security protection for workers was expanded again in 1956 to include the DI program. SSA's responsibilities were further expanded in 1972 to include the SSI program and again in 1999 to include Special Benefits for Certain World War II Veterans (title VIII).

The combined Old Age and Survivors and Disability Insurance (OASDI) programs, commonly referred to as Social Security, provide a comprehensive package of protection against the loss of earnings due to retirement, disability and death. Monthly cash benefits are financed through payroll taxes paid by workers and their employers and by self-employed people. Social Security is intended to replace a portion of these lost earnings, but people are encouraged to supplement Social Security with savings, pensions, investments and other insurance.

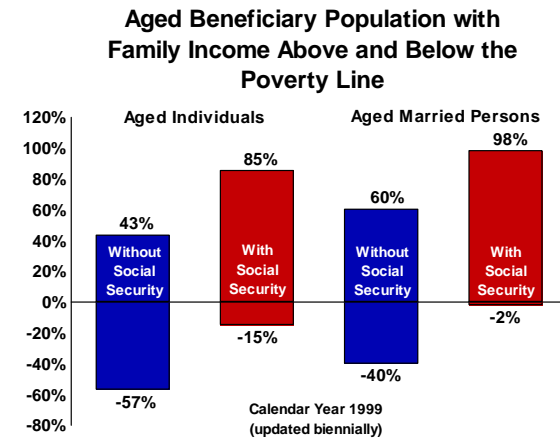
Social Security benefits have significantly improved the economic well being of the nation. Poverty among the elderly has been reduced by 62 percent over the past 30 years. In 1936, when Social Security numbers were first assigned to workers, most of the nation's elderly were living in poverty. Today, monthly benefits are an important part of the quality of life of elderly Americans and millions more who are protected in case of death or disability.

The monthly benefit amount to which an individual (or spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her lifetime. The maximum amount of earnings on which contributions were payable in 1999 was \$72,600 and increased to \$76,200 in 2000.

OASI Program: In 1999, the family income of 15 percent of aged, unmarried beneficiaries fell below the poverty line. Without Social Security benefits, 57 percent of those beneficiaries would have income below the poverty line - a difference of 42 percent due to receipt of Social Security.

Social Security also lifted many aged married beneficiaries out of poverty. In 1999, 2 percent of aged beneficiaries who were members of a married couple had income below the poverty line. Without Social Security benefits, 40 percent of these beneficiaries

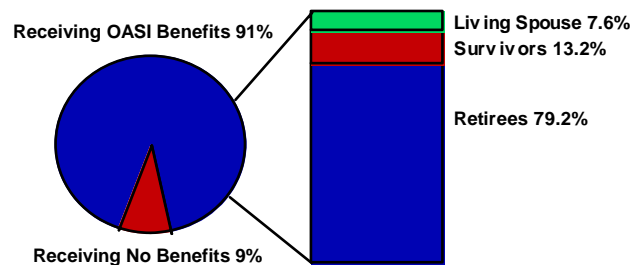
would have income below the poverty line - a difference of 38 percent.



To qualify for OASI benefits, a worker must have paid Social Security taxes (Federal Income Contributions Act and/or Self-Employment Contributions Act) for at least 10 years (or 40 quarters) over the course of his/her lifetime. Individuals born before 1929 need fewer quarters to qualify. Nine out of 10 working Americans can count on benefits when they retire, with reduced benefits payable as early as age 62. Benefits are also paid to certain members of retired workers' families and to survivors.

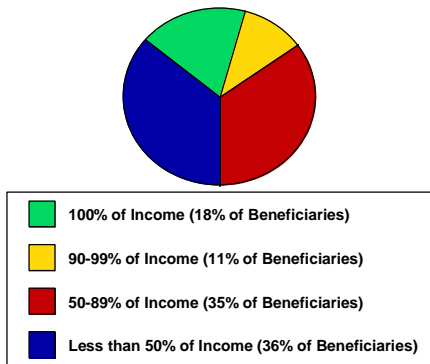
Ninety-one percent of people age 65 or over in calendar year 2000 were receiving benefits. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and spouses with children in their care under 16 can count on benefits if a working parent dies.

Population 65 or Over Receiving OASI Benefits (2000)



Social Security benefits comprised 38 percent of the aggregate share of all income to the aged population 65 and over of which 91 percent were Social Security beneficiaries. Other sources of income include assets (19 percent), earnings (21 percent), and pensions (19 percent) both Government and private.

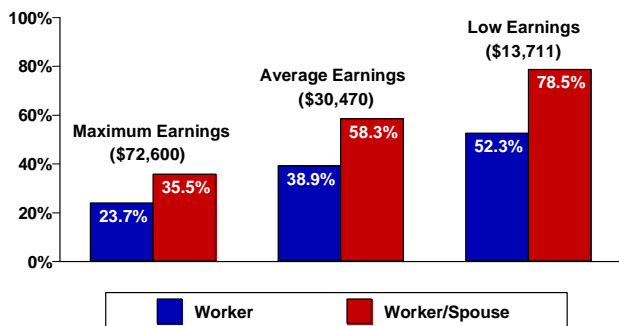
Portion of Beneficiaries That Rely Heavily on Social Security
(Calendar Year 1999)



While many of the nation's aged population have income from other sources, a portion of the beneficiary population relies heavily on Social Security. For 18 percent of beneficiaries, it is the only income; for 11 percent of the population, it contributes almost all of the income; and for another 35 percent of the beneficiaries, it is the major income source.

The level of preretirement earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted in favor of workers with low levels of earnings. The chart below shows the replacement rate in 2000 for individuals and couples (i.e., worker with a spouse who is not insured) at various earnings levels (1999 earnings levels are shown since that is the assumed last year of earnings).

Pre-Retirement Earnings Replaced
(Workers Age 65 Entitled in January 2000)

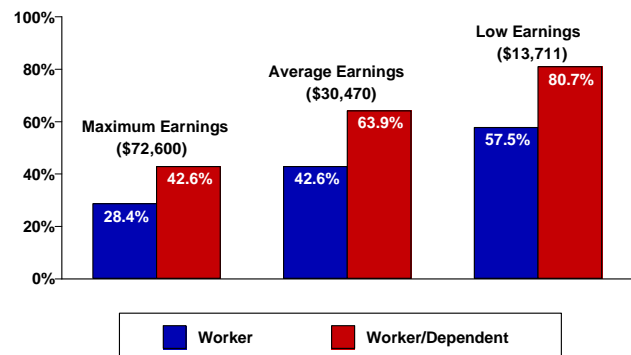


DI Program: To qualify for DI benefits, an individual must meet a test of substantial recent covered work. Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible



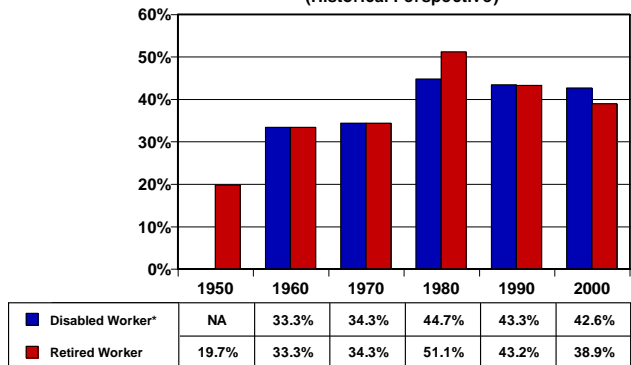
members of their families. Three of four working Americans age 21 through 64 can count on receiving benefits if they become disabled. Workers are considered disabled if they have a medically determinable physical or mental impairment that prevents them from engaging in substantial gainful activity. The condition must be expected to last for a continuous period of at least 12 months or to result in death. Once benefits begin, they continue for as long as the worker is disabled and does not perform substantial gainful work. There are provisions that provide incentives for work. Disability cases are reviewed periodically to determine if the worker continues to be disabled. The chart below shows the replacement rate in 2000 for disabled workers and their dependents at various earnings levels (1999 earnings levels are shown since that is the assumed last full year of earnings).

Disabled Worker's Earnings Replaced
(Workers Age 45 Entitled in Calendar Year 2000)



The following chart presents a historical perspective on average earnings replacement for both the OASI and DI programs.

Average Earnings Replaced (Historical Perspective)



* Data not available for disability benefit payments which began in 1957. Based on 45-year old disabled worker.

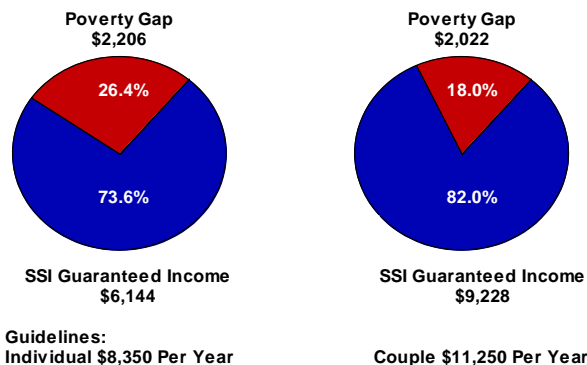
SSI Program: SSI is a means-tested program designed to provide or supplement the income of aged, blind or disabled individuals with limited income and resources. SSI payments and related administrative expenses are financed from general tax revenues, not the Social Security trust funds. Qualified recipients receive monthly cash payments from SSA sufficient to raise their income to the level guaranteed by the Federal SSI program. Children, as well as adults, can receive payments because of disability or blindness.



The definitions of disability for adults used in the SSI program, as well as continuing disability review procedures, are the same as those used in the DI program. There is a separate definition of disability for children seeking SSI benefits. There are general provisions to encourage working and special incentives to those beneficiaries who have disabilities or are blind. The Federal benefit rate and eligibility requirements are uniform nationwide. However, those with other income receive less since benefits may be reduced by the income they receive from other sources.

As shown in the following chart, SSI recipients with no other income receive the full SSI Federal benefit which is 73.6 percent of the poverty level for an individual and 82 percent for a couple.

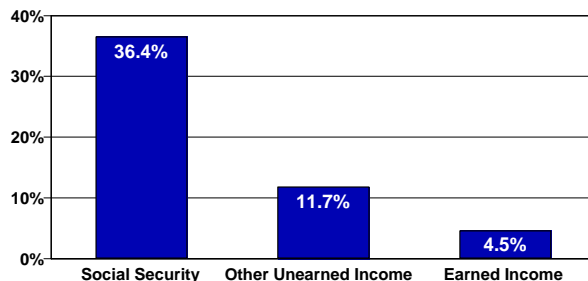
February 2000 Poverty Income Guidelines Poverty Gap Filled By SSI Federal Benefit



The portion of the poverty gap not filled by Federal SSI may be filled by State SSI supplementation payments. Also, SSI recipients may be eligible for food stamps, Medicaid and social services.

In June 2000, as shown by the following chart, 36.4 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.5 percent of the recipients, earnings were a source of additional income, and 11.7 percent had unearned income from other sources, such as Veterans' pensions.

Percent of SSI Recipients With Income From Other Sources (June 2000)

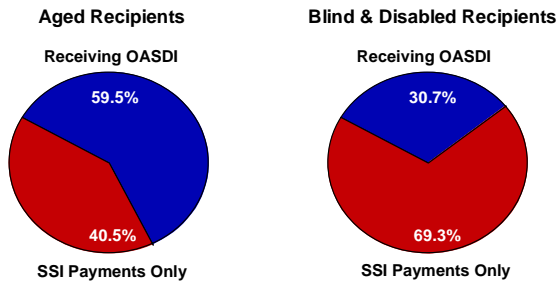


OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 36.4 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (59.5 percent) to be receiving Social

Security benefits than SSI blind and disabled recipients (30.7 percent).

SSI Recipients Also Receiving OASDI Benefits

(June 2000)



Special Benefits for Certain World War II Veterans:

Title VIII of the Social Security Act, enacted December 14, 1999 as part of the Foster Care Independence Act of 1999, provides a monthly cash payment to certain World War II veterans who are eligible for SSI in both December 1999 and the month in which he or she files an application for the special benefits and who resides outside of the 50 States, the District of Columbia and the Northern Mariana Islands. Payments began in May 2000.

Support to Other Programs

In addition to its basic programs, SSA also provides a significant measure of service delivery support to other programs, particularly Black Lung, Medicare, Medicaid, Food Stamps and Railroad Retirement.

Black Lung Program: The Black Lung (BL) program pays monthly cash benefits to coal mine workers and their dependents and survivors. SSA is responsible for administering Part B of the BL program under title IV of the Federal Coal Mine Health and Safety Act. Part B covers claims filed by miners before July 1973 and survivor claims filed before January 1974 or within 6 months of the death of a miner or widow on the SSA rolls, whichever is later. Any claims filed after these dates generally are the responsibility of the Department of Labor (DOL) covered under Part C of the program.

SSA is also responsible for taking claims for, and performing certain other services related to, Part C benefits. In FY 2000, SSA field offices took 429 claims for Part C benefits and transferred them to DOL for payment, as required by law. SSA received full reimbursement from DOL for these services. Beginning in FY 1998, DOL provided administrative services for the Part B program under an interagency agreement with SSA and certified for payment all Part B benefits

from funds appropriated to SSA. However, SSA retains responsibility for these payments.

Medicare: Being a primary public contact point for the Health Care Financing Administration (HCFA), SSA provides key services to the Medicare program. SSA staff determine and answer questions regarding Medicare eligibility, maintain the computerized records of Medicare eligibility, and collect Medicare premiums through withholdings from Social Security payments. Annually, SSA devotes about 1,494 workyears to supporting these workloads and funds for these services are drawn from the Medicare trust fund. In addition, Administrative Law Judges in SSA's Office of Hearings and Appeals provide hearings and adjudicate disputed appeals of Medicare reimbursements.

Medicaid: In 32 States and the District of Columbia, eligibility for SSI benefits confers automatic entitlement to Medicaid. Thus, the SSI eligibility determination made by SSA saves a significant amount of workyears for these States. SSA also provides information and referral services in support of Medicaid and is directly funded by the States and HCFA.

Railroad Retirement: SSA provides services in connection with entitlement to benefits from the Railroad Retirement Board (RRB). SSA takes the applications, determines jurisdiction and coordinates benefit payments with the RRB. The latter organization, as required by statute, issues a combined monthly benefit payment when a retiree is entitled to both Railroad and Social Security retirement benefits due to having worked for both the railroad and other industries prior to retirement. SSA reimburses the RRB for OASI and DI benefits paid on SSA's behalf. In addition, SSA arranges an annual financial interchange with the Railroad Retirement Trust Fund to place the Social Security trust funds in the same position they would have been in had railroad employment been covered by Social Security.

Food Stamps: SSA assists the Department of Agriculture by providing information about the food stamp program and taking food stamp applications for qualified OASI, DI and SSI claimants. In FY 2000, SSA processed 21,486 food stamp applications and recertifications.

State and Local Programs: SSA regularly provides information from Social Security records needed to make eligibility and payment decisions for a variety of State and local welfare programs, and provides automated data exchanges with over 100 State and Federal agencies.

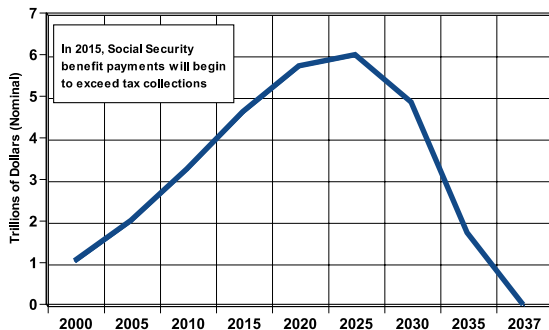
Major Issues Facing SSA

SSA's Performance and Accountability Report demonstrates the Agency's success in administering its programs and managing the resources entrusted to it. In addition to the retrospective information reported throughout the report, we believe that full disclosure necessitates that we discuss the prevailing issues that will affect our programs and our ability to administer these programs in the future. In addition to the long-term financing of the Social Security system and the human resource challenges that lie ahead, we will be required to continue to meet the challenge of our stewardship responsibilities while administering our programs in a fair and equitable manner.

Long-Term Program Financing

On August 14, 2000, the Social Security Program celebrated its 65th anniversary. Yet, even as we celebrate past achievements of this program, as a nation we must also look to the future and the preservation of Social Security. Americans are living longer, healthier lives. In addition, the baby-boom generation is nearing retirement. These demographic changes create long-term funding issues for the Social Security Programs. Currently, tax revenues to the Social Security system exceed benefit payments, and the system is building large reserves that are held in the trust funds. The March 2000 Board of Trustees Report extended projections for trust fund solvency by three years past the previous year's estimates. The Trustees credit the continuing strong economy and better prospects for future performance for the improvement in financial status. Under the current estimates, benefit payments will begin to exceed tax collections in 2015. After that time, interest on the trust funds, and ultimately the trust funds themselves, will be used to pay part of each monthly benefit check. Current estimates are that the trust fund reserves will be exhausted in 2037.

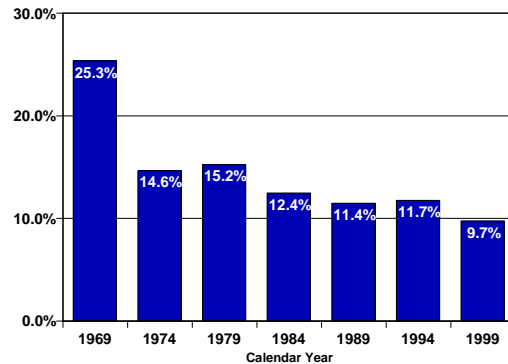
The Social Security Trust Fund Will Be Exhausted in 2037



Under current projections, Social Security tax receipts will provide sufficient funds after 2037 to meet approximately 72 percent of benefit obligations. To address the long-term imbalance in Social Security financing, the President has proposed locking away Social Security surpluses, paying down the national debt and dedicating interest savings to Social Security, which would extend solvency from 2037 to 2057. The President has called for further bipartisan action to extend Social Security solvency for 75 years. Other plans to ensure long-term program solvency also have been proposed.

The need to resolve the long-range financing issue is clear. Social Security has made an enormous difference in the lives of older Americans. More than nine in ten older Americans get Social Security retirement benefit payments each month. Only about 10 percent of America's senior citizens live below the poverty line, but, without Social Security, about 48 percent would be below the poverty line.

Poverty Rate Among the Elderly



For two-thirds of the elderly, Social Security is their major source of income, representing at least half of their total income. For nearly a third of the elderly, Social Security is virtually their only income. An in-depth discussion of the Social Security programs can be found on pages 11 through 14.

Social Security changed in the past year to help retirees to supplement their Social Security benefits with earnings. On April 7, 2000, President Clinton signed a bill eliminating the retirement earnings test for beneficiaries aged 65-69. Prior to the change, earnings above a certain limit would affect benefits. Although benefits withheld under the retirement earnings test were roughly offset by higher benefits later on, many people perceived the retirement earnings test as a tax on their

earnings. Eliminating this perceived disincentive is expected to lead to a modest increase in work activity among some retirees.

Social Security is more than a retirement program. In fact, about one in three Social Security beneficiaries are not retirees. They are disabled workers and their dependents, and children and spouses of deceased workers. Approximately seven million people get monthly survivors benefits, and more than six million workers and family members get disability benefits.

As an Agency, we are continuing our efforts to educate the American public about the value of the program and its role in family financial planning. For example, the agency sent out 133 million Social Security Statements last year to workers age 25 or older who were not already receiving benefits on their own earnings record. The Social Security Statement allows workers to review their earnings history and provides estimates of future Social Security benefits. In the upcoming year, Social Security will continue to provide workers and their families with information through public forums, the Social Security statement and other media. For example, the cover letter for the Social Security Statement explains the long-term financing challenges the programs face. The Social Security Statements sent to persons age 55 or older this year will also include an insert on retirement options.

We will help further the dialogue on critical long and short-term Social Security issues by—

- conducting in-house research;
- promoting research by others;
- framing policy discussions; and
- refining policies to meet the needs of society.

In addition to our efforts to educate the public about the value of Social Security, the Agency is also providing critical information on long-and short-term Social Security issues. The Agency is working to identify strengths and weaknesses in the programs' abilities to provide an adequate base of economic security for all Americans. The Agency is also providing policy makers with comprehensive analyses of the distributional and fiscal impact of specific proposals to alter Social Security programs. These analyses will help decision makers evaluate and refine proposals by informing them of the potential effects on workers and their families, the solvency of Social Security trust funds and the economy of the United States.

Leadership in shaping the programs cannot be achieved without expertise. SSA is enhancing its research, policy analysis and evaluation capabilities in recognition that these capabilities are essential to the development of creative and responsive policy solutions. In order to strengthen expertise on Social Security issues, we are both conducting in-house research and promoting research by others. We are also improving our ability to model Social Security programs and other sources of income and wealth, in order to more fully understand the implications of policy choices.

Disability Program Issues

Disability Process Management Improvement

SSA strives to deliver the highest levels of service by making fair, consistent and timely eligibility determinations and decisions at all adjudicative levels. However, applicants and beneficiaries sometimes find the current process complex, fragmented, confusing, impersonal and time consuming. Some also perceive the process as one in which different decisions are reached on similar cases at different levels of the administrative review process, thus applicants must maneuver through multiple appeals steps before they receive a final decision.

To remedy these concerns and perceptions, the Commissioner announced a plan to improve the disability eligibility determination process. The plan is a combination of initiatives that have demonstrated significant promise through testing and piloting over the last few years and includes all levels of eligibility determination beginning with State agencies and going all the way through the hearing and appeal processes.

The State agency initiatives include the following:

- Providing more complete development and improved explanations of how the disability determination was made in order to enhance the quality of determinations.
- Enhancing the role of the State agency medical or psychological consultant to function as a true consultant in the disability determination process by providing information and advice to the disability examiner deciding the case.
- Providing the claimant with an increased opportunity to interact with the disability decisionmaker earlier in the process and to submit further information.
- Eliminating the reconsideration step in order to streamline the process.

These initiatives were combined to form an improved disability process for which the Agency has developed a prototype in 10 States, representing 20 percent of the national disability workload, beginning October 1, 1999.

Through this prototype, the Agency will further analyze and refine its improvements to the disability process with an eye towards a phased national rollout.

Hearings Process Improvement

To improve our service to disability applicants, over the past few years SSA has been testing various process improvements to determine what changes would meet our goal of providing better customer service. After analyzing the results of these extensive tests, the most successful elements were implemented, first in 10 prototype States and then rolled out nationwide in October and November 2000. Along with changes at the initial level, SSA is implementing comprehensive hearing process improvements nationwide.

SSA has established the goal of 180 days or less for processing a typical case from request for hearing through final hearing disposition. We expect to achieve this goal by 2004.

Key elements of the Hearings Process Improvement (HPI) plan are:

- Implementing a national workflow model that combines pre-hearing activities so that fewer handoffs occur;
- Establishing processing time benchmarks which will contribute toward reducing processing times and, therefore, better serve the claimant;
- Implementing early case analysis and development to ensure that each case scheduled is ready for hearing;
- Implementing structural changes in the hearing office organization to ensure better accountability and control for the handling of each claim; and
- Automation that facilitates the monitoring and tracking of case processing and development steps, helps ensure completeness of case development and analysis, and increases efficiency.

These improvements translate into a process that, when fully implemented, is expected to result in an overall significant reduction in processing time and in increased productivity. In the last year, the Agency has moved aggressively to implement the initiative. By April 2000, 37 hearing offices had implemented HPI in the first phase of a three-phase rollout. Fifty-two hearing

offices implemented the new process in October 2000 and the remaining offices implemented in November 2000.

Appeals Council Process Improvement

The final step in the administrative appeals process rests with the Appeals Council and its Administrative Appeals Judges. The Appeals Council level of review represents an important link between the administrative appeals process and the judicial system. When a claimant requests the Appeals Council to review an unfavorable hearing decision, the Appeals Council considers the evidence of record, any additional evidence submitted by the claimant, and the Administrative Law Judge's findings and conclusions.

In recent years, SSA's Appeals Council has seen a dramatic growth in its workload. Although the Appeals Council and its staff instituted a variety of successful initiatives that streamlined case processing, the number of cases pending climbed by 500 percent between 1994 and 1999. The Appeals Council Process Improvement Plan was approved by the Commissioner and published in February 2000. The focus of this plan, in the near term, is to reduce the time claimants must wait for action from the Appeals Council. The near term initiatives also are intended to lay the foundation for more permanent change.

The Commissioner also agreed to deploy additional staff to assist with the processing of the pending request-for-review workload. The additional staff will be deployed in a reorganized Office of Appellate Operations.

In the first six months of implementation, the processing time declined by 98 days, and the number of requests-for-review pending declined by more than 23,000. During this six-month period 73,741 requests for review were processed, compared to 36,488 in the first five months of the fiscal year.

Ticket to Work and Work Incentives Improvement Act of 1999

The Ticket to Work and Work Incentives Improvement Act was enacted on December 17, 1999, with many of its important provisions effective January 1, 2001. The first provision of the law took effect in October and enables many disability beneficiaries to be eligible for expanded Medicare coverage. The coverage increases from 39 months to at least 93 months after the end of the trial work period. This is a great improvement for disability beneficiaries who otherwise would have to decide between working or keeping the health care coverage they need.

In 2001, we'll begin a three-year national rollout of the "Ticket to Work and Self-Sufficiency" program. Starting in a few States at a time, the program will give beneficiaries greater access to rehabilitation and employment services. Also, it will be easier for former beneficiaries who are working to receive benefits again if they can no longer work because of their disabilities. They will have five years to request reinstatement without having to file a new application.

The new law focuses on many of the barriers that have long kept people with disabilities out of the workforce. SSA stands ready, willing and able to help thousands of Americans with disabilities who, with appropriate services and support, can be successful in obtaining work. We expect to make great progress in the area of work incentives, so that those individuals with disabilities who want to work can do so.

Commitment to World-Class Service

Customers everywhere have come to expect continually improved service from SSA and other Federal sector organizations. To meet that expectation, SSA is committed to continuing to provide customer-responsive, world-class service to our customers. We have many initiatives underway that will improve service to the public. But we recognize that changes in customer preferences, emerging technologies and other factors will result in modifications to the way we deliver service in the future. The Agency began a planning effort designed to create a vision for service in 2010 that will provide a roadmap to the future.

SSA's *2010 Vision* was developed after a great deal of study and much talking and listening to those who have a stake in the Agency's future. The *Vision* illustrates the SSA of 2010 from three important perspectives: our customers, our employees and our work processes. The *Vision's* underpinnings include significant investments in human resources and technology.

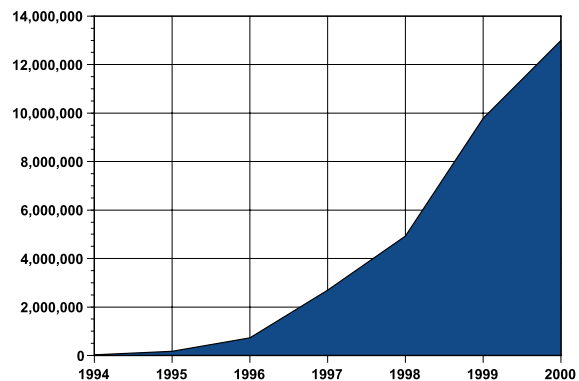
The following discussions are just some of the examples of the initiatives underway to improve our service to the public.

Electronic Service Delivery

SSA's website *Social Security Online* provides the American public with one stop shopping for information about the Social Security programs. It has been the recipient of numerous awards for its clarity, rich content and usefulness to the public. Internet applications included on the site have grown steadily since it was first

launched in 1994. Visits to SSA's website have increased substantially with each year.

SSA Home Page Visits



Social Security Online began by providing electronic access to pamphlets, program information, Actuary reports, research and statistical data. We then added downloadable versions of some of our most popular forms. We currently have 65 SSA forms and 4 Internal Revenue Service forms available for downloading.

From 1996 through 1999 we added four applications: Social Security Statement (formerly called PEBES); Social Security Benefit Statement (SSA-1099) Replacement; Benefit Verification Letter; and Field Office Locator.

The Social Security Statement, SSA-1099, and Benefit Verification Letter are online requests that are then mailed to the client. The Field Office Locator uses the ZIP code to provide the closest SSA office, its hours of operation, telephone number, directions to the office and information on other local resources such as Welfare agencies, the American Association of Retired Persons, Legal Aid, etc.

By the end of 2000, SSA expects to launch, test or pilot several additional applications:

- ENews (currently over 106,000 subscribers);
- Retirement Planner (currently an average 4,000 visits per day);
- Return to Work website;
- Medicare Replacement Card;
- Retirement Benefit application;
- Electronic Medical evidence; and
- Certificate of Coverage.

With the growth of online direct services as a “best” business practice, customers will look to SSA--like other world-class service providers--to offer an ever increasing range of services via the Internet.

800-Number Telephone Service

SSA’s national 800-number delivers outstanding service to the public and has fully achieved the purpose for which it was established--to provide all members of the public an inexpensive, convenient point of entry for conducting their business with SSA. The Agency has undertaken numerous initiatives over the past five years to achieve its world-class service goal. The initiatives fall under the three major categories of staffing, automation and technology.

Staffing:

In 1995, the Agency completed its remissioning of the Salinas and Albuquerque sites from data operations centers into teleservice centers. This added approximately 600 teleservice representatives (TSRs) to the national 800-number network and resulted in career enhancements for those employees. The Agency also adjusted staffing to maximize our call answering capacity during our peak calling periods. Over the past several years, the Agency has also focused on hiring bilingual (primarily Spanish-speaking) TSRs.

Automation:

Automation has played an increasingly important role over the past several years in terms of the Agency meeting the access goal and providing world-class service. In 1996, automated service options on the national 800-number became available to 100 percent of the nation. Since that time, many improvements have been made to the automated services; including implementing “voice recognition” capability to provide automated services to rotary callers, implementing Spanish automated services to approximately 50 percent of the nation and advising callers about the services available on SSA’s Internet site. The Agency plans to roll-out Spanish language automated services to the remainder of the country by the end of calendar year 2000.

Technology:

Technology helps us to provide more efficient and effective public service. In 1998, the Agency began a phased-in implementation of Immediate Claims Taking pilots, which allow callers to file their claim immediately over the telephone. The pilots have ended and the process is being rolled out nationally. In 1999, the Agency implemented “next available agent” call routing

software, which allows for more efficient routing of calls and utilization of staff resources. During the same year, a computer based “Customer Help and Information Program” was made available to assist agents in handling telephone calls more accurately and completely.

The Agency is working towards increasing the services available over the Internet and developing automated applications where callers will be able to access SSA’s mainframe databases to obtain information about their accounts. Privacy and authentication concerns are being addressed as we proceed toward implementing these initiatives.

Information Security

Recent highly publicized attacks on Internet web services have increased the public’s awareness of the importance of information security, as well as highlighted the interdependencies between the public and private sectors. As guardians for one of the largest stores of information about the American public, and as administrators of programs that are critical to the welfare of millions, SSA must remain a leader in the field of information security.

Our Changing Workplace Impacts on SSA’s Security Program

Over the past five years, SSA’s workplace has changed dramatically. These changes have increased the risks to our information resources, and have required that we adapt our security program to our new environment. Our resulting security program: 1) Emphasizes enterprise wide security planning and policy development to ensure that all resources are appropriately protected; 2) makes SSA’s employees partners in the security program through broadening security training and awareness; and 3) greatly increases the effectiveness of our programs that control and monitor the use of critical Agency resources.

Facing the Future

SSA has developed a security program that is both sound and adaptable. As we move forward into the 21st century, we will continue to ensure that we meet our fiduciary responsibilities by: 1) Evaluating new technologies and processes to ensure that their use supports the goals of our program; 2) communicating with our employees, other Agencies and with industry experts to maintain a proactive approach to future challenges; and 3) building the expertise of our security professionals so that they are prepared to deal with these new challenges and address security issues identified in audits.

Electronic Payment Services

SSA is the leader in electronic payment delivery throughout the Federal Government. Currently, 74 percent of benefit payments are made electronically. SSA programs have experienced considerable growth in electronic payment delivery in recent years. Specifically, in December 1995, 60 percent of all OASDI and 26 percent of SSI benefit payments were made by direct deposit. As of April 2000, the OASDI participation rate had risen to 78 percent and the SSI participation rate to 49 percent.

To achieve this success, SSA has aggressively pursued its direct deposit strategy to convey to beneficiaries the advantages of using direct deposit; i.e., direct deposit is safe, convenient, and reliable. SSA's direct deposit strategy includes the following initiatives:

- Each year SSA, in conjunction with the financial community, sponsors a direct deposit public information campaign including radio and television public service announcements to encourage current check receivers to switch to direct deposit. This year, Jackie Joyner-Kersey, former Olympic Gold Medalist, serves as the spokesperson for the campaign.

To promote the annual campaign, SSA distributes collateral printed literature and marketing materials to the financial community including a statement stuffer featuring the spokesperson.

- New beneficiaries are enrolled in direct deposit at the point they apply for benefits unless they allege using direct deposit would cause them a hardship. In these cases, they are exempted from the direct deposit requirement and may receive benefits by check.
- SSA has also partnered with the financial community to simplify the enrollment of beneficiaries for direct deposit. The "automated enrollment" feature, better known as Quickstart, allows financial institutions to send SSA direct deposit enrollment information electronically through the same system that delivers benefit payments. This innovation allows the financial institution to immediately enroll their customer for direct deposit and saves SSA resources that would be spent processing the enrollment action.

SSA was the first Federal agency to make cross-border payments to consumers with the start of its International Direct Deposit (IDD) service in 1987. Since 1987, SSA has expanded its IDD services to 36 countries providing fast and economical electronic payment delivery to over 120,000 beneficiaries living in foreign countries. In

response to the increasing popularity of its IDD program, SSA is accelerating the expansion of its international service to additional countries.

SSA has partnered with the Department of the Treasury to implement an Electronic Transfer Account (ETA) program for beneficiaries who do not have an account at a Federally insured financial institution or who cannot obtain one. The ETA program will ensure recipients an account at a reasonable cost and with consumer protections comparable to other accounts at the financial institution. The ETA program, which became operational in 1999, continues to expand its number of participating financial institutions nationwide.

As we look to the future, we expect to see continued expansion in the use of electronic payment services to meet the demands of a growing beneficiary population.



Human Resource Challenges

For many years, SSA has been known for the quality service provided by its knowledgeable, experienced and dedicated workforce. Our employees are truly our Agency's most important assets, and we must ensure that SSA's 21st century workforce is ready for the challenges we will face.

We do face serious long-term challenges. For example, Social Security and SSI disability claims can be expected to rise in the next 5 years as the 76 million members of the baby boom generation move into disability-prone years. And, beginning in about 2008, those baby boomers will begin to retire in unprecedented numbers. These, and other increasing workloads, will further strain our ability to continue to deliver the high quality of service expected of SSA.

Another challenge to delivering high-quality service is that our Agency's workforce is aging. Many of our employees will be eligible for retirement in the next few years, and many of these are in senior staff and

leadership positions. Approximately 3,000 employees per year are projected to leave the Agency in the 2006-2012 period.

How can we meet this challenge? We have already begun to plan for this eventuality, and our workforce planning efforts have been shaped to a considerable degree by a “Retirement Wave” study, which predicts the who, where and when of retirement losses. Based on projections, we have decided to take actions to mitigate the impact of the retirement wave. Over the past three years, we have replaced retirees with about 6,000 new employees. Our “early out” program has enabled us to adjust imbalances between workload and overhead functions and to hire additional new employees for customer service positions. These actions will allow us to have more experienced employees in place at a time when our greatest workload increases are expected. In addition, working with our union partners to ensure that we will retain our best employees and make the most of their skills, we are significantly expanding our efforts in ongoing employee training and career development, instituting executive development programs, and emphasizing workforce diversity, flexibility and skills for a changing environment.

This year we published an SSA Future Workforce Transition Plan, which includes:

- what we expect to happen over a 5-year period;
- what the effects will be on SSA’s workforce needs; and
- what actions will be taken to transition from the workforce we have today to the workforce we will need in the future.

But these actions alone will not be enough to address future demands. Along with explosive growth in workloads, we face a shift in the nature of our work, for example, toward helping disabled individuals return to independence. At the same time, in our surrounding environment, business practices and customer demands are changing so rapidly that it is very clear that incremental service improvements are unlikely to satisfy the needs of our customers for very long.

With all of this in mind, it is critically important to think much further into the future than we have before. As a result, we developed a long-term vision of service for the year 2010. Our “2010 Vision” is about the Agency of the future--what work we will be doing and how we will do it. This Vision and our new Agency Strategic Plan will guide our human resource plans for the longer term. Americans can be confident that we have credible plans for dealing

with what’s ahead, and that our 21st century SSA workforce will be equal to the nation’s highest expectations.

Stewardship

SSI Management Improvement

The SSI program provides benefits to approximately 6.6 million needy beneficiaries who are aged, blind or disabled. Like other means-tested programs that respond to changing circumstances of individuals’ lives, the SSI program presents challenges to ensure that it is administered efficiently, accurately and fairly.

In October 1998, the Social Security Administration issued the first management report on the SSI program, detailing the Agency’s aggressive plans to improve payment accuracy, increase continuing disability reviews (CDRs), combat fraud and collect overpayments. SSA executed several of the initiatives outlined in the report, such as new computer matches and processing more redeterminations.

The new computer matches are with wage and unemployment compensation data and nursing home admission data. Both are considerably more complete and timely than the matches they replaced. The wage and unemployment compensation matches cover all States, and are conducted every quarter. The nursing home admissions match covers all States and is conducted every month.

Also, SSA continues its highly successful matches with correctional facilities. In 1999 these matches resulted in the suspension of 57,000 prisoners who are ineligible for SSI benefits while in jail. In addition, the Agency continues to enhance existing computer matches and seek new ones.

In addition to computer matches, SSA is pursuing real time access to databases. This access will enable field offices to detect changes in income and resources even earlier than computer matches and will therefore increase our ability to detect payment errors. In April 2000, SSA began a pilot to assess the value of real time access to the wage, unemployment and “new hire” databases of the federal Office of Child Support Enforcement. The pilot has been completed and the initial assessment indicates that use of the query to detect and prevent overpayments is highly effective. While SSA must invest resources to use the query when the person has alleged no wages, the return on investment is positive and will prevent and reduce overpayments. SSA has decided to make the query available to all field offices nationwide, and will

use it before paying initial claims to help determine if people have understated their income.

The redetermination process of eligibility for benefits is one of the most powerful tools available to SSA for improving the accuracy of SSI payments. The total number of redeterminations processed in FY 2000 was 2.2 million, up from 1.9 million in FY 1998. In addition to increasing the number of redeterminations processed, SSA has increased the number of CDRs it is conducting. In FY 2000, SSA processed over 1.8 million CDRs (title II and title XVI), more than twice the number processed in 1996. SSA will continue with its 7-year plan to ensure that it is current in processing all SSI CDRs by 2002. There are also initiatives underway to improve the CDR process by improving the selection process.

SSA also implemented a series of training initiatives, wrote new procedures and, perhaps most importantly, maintained the focus of improving the accuracy of the SSI program as one of the Agency's highest priorities. In FY 1999, our initiatives to address the nondisability errors in the SSI program produced an additional \$597 million in overpayment savings compared to FY 1998.

SSA is implementing four major debt recovery projects that are expected to yield direct collections of at least \$115 million over 5 years. The projects are mandatory cross-program recovery, credit bureau reporting for delinquent title XVI debts, administrative offset for delinquent title XVI debts and administrative wage garnishment for delinquent titles II and XVI debts. Future plans are to implement the remaining debt collection tools for which SSA has been given authority. These additional projects include Federal salary offset, the use of private collection agencies and interest charging.

Zero Tolerance for Fraud

To achieve the goal of making SSA program management the best in the business, SSA established a policy of zero tolerance for fraud and abuse and initiated an aggressive program of anti-fraud efforts to: 1) Eliminate wasteful practices that erode public confidence in the Social Security system; 2) vigorously prosecute individuals or groups who damage the integrity of the programs; and 3) change programs, systems and operations to reduce instances of fraud.

SSA's National Anti-Fraud Committee, under the leadership of top SSA executives, continues to oversee



the implementation and coordination of SSA's strategies to eliminate fraud. To address fraud issues at the local level, each SSA region has in place an active Regional Anti-Fraud Committee which is the focal point for an aggressive and coordinated effort to combat fraud. Best practices are shared among the regional committees and with the national committee.

Recent Progress In Combating Fraud

As a result of our commitment to quality program management, we have major initiatives underway to address fraud. By moving forward with these agencywide initiatives, we will provide our employees with additional tools to reach our goal of zero tolerance for fraud and abuse.

- Essential to SSA's ultimate goal of preventing fraud is ending the Agency's dependence on documents that can be easily counterfeited or misused in an attempt to acquire a Social Security number (SSN). SSA has identified three basic types of fraud related to the SSN: when someone illegally obtains a number or uses someone else's number; when someone uses fraudulent documents to establish an entirely new identity; and when someone assumes another person's identity (identity theft).

Historically, we have tried to anticipate susceptibility to fraud and implement procedural changes and system enhancements to eliminate opportunities for fraud. Current initiatives are aimed at detecting fraudulent birth certificates, fraudulent immigration documents, fraud-prone situations and preventing identity theft. In addition, SSA is developing new software to interrupt the issuance of SSN cards in certain scenarios that have been determined to be fraud-prone.

SSA has many other initiatives underway which are aimed at maintaining the integrity of the enumeration process. These initiatives are designed to: decrease the potential for SSN misuse associated with illegally using the numbers for employment; protect the privacy of our customers; and prevent invalid SSNs from being used.

On September 28, 2000, the Ways and Means Committee of the House of Representatives favorably reported a bill, H.R. 4857, the "Social Security Number Privacy and Identity Theft Prevention Act of 2000." The bill includes a number of provisions governing permitted uses of the SSN by both the public and private sectors. Included in the bill are provisions that prohibit all governmental

entities (i.e., all executive, legislative, and judicial branches of Federal, State and local governments) from the sale or display of SSNs. The bill also prohibits States from displaying SSNs on drivers licenses or identity cards. In addition, the bill regulates the sale and purchase of SSNs by the private sector. If enacted into law, this bill would represent a significant strengthening of the laws protecting the use of SSNs and the public's privacy. At the time of the publication of this report, it was unclear whether the provisions of the bill would be enacted in the 106th Congress.

- The Office of the Inspector General has begun developing strategies to address the escalating problem of identity crime. Pilot projects were initiated in five cities to evaluate approaches to working with other law enforcement agencies on identity crime.
- SSA is working on improvements to our representative payee process to make it more reliable and useful to our field office employees. These improvements will allow SSA to produce better payee selections and decrease processing time associated with payee appointments. Additionally, we are making improvements to the education, support and recruitment of representative payees by publishing guides and pamphlets explaining the payees' rights and responsibilities.

To address instances of representative payees' abuse and misuse, SSA is considering several changes to the selection process. We have also expanded our monitoring program to include triennial onsite reviews, 6-month site visits and annual verification of bonding and licensing. We continue to conduct reviews of payees for whom we have received complaints or reports of misuse from third parties. And, SSA plans to conduct random compliance reviews of volume and fee for service payees.

- The number of Cooperative Disability Investigations units increased to 11 in FY 2000. These units, staffed by personnel from the Office of the Inspector General, State law enforcement agencies and experienced Disability Determination Service and SSA program analysts, provide investigative support during the initial decision-making process and help prosecute individuals who try to obtain benefits fraudulently. Special emphasis is placed on identifying third-party facilitators. Additional expansion is planned through 2003.

- On December 14, 1999, the President signed the "Foster Care Independence Act of 1999." Included in the bill was a number of provisions to strengthen the integrity of the Social Security and SSI programs. One provision adds a new penalty of nonpayment of OASDI benefits and ineligibility for SSI cash benefits for individuals who provide information for use in determining eligibility that the individual knew or should have known was false or misleading. This Act also makes a representative payee liable for an OASDI or SSI overpayment caused by a payment made to a payee after a beneficiary has died; bars representatives and health care providers from OASDI and SSI programs if they were found to have helped commit fraud; authorizes SSA to use all available debt collection authorities in recovering SSI debt, such as referring debtors to credit bureaus, using private collection agencies, and charging interest on outstanding debts; authorizes SSA to conduct matches with Medicare and Medicaid usage for SSI program administration purposes and simplifies procedures regarding access to records from financial institutions; and requires SSA to report annually on amounts necessary to combat fraud by applicants and beneficiaries.
- We are keeping Congress advised of our initiatives in an Anti-Fraud Study required by the Foster Care Independence Act of 1999. Initiatives were selected as a result of an agencywide examination of fraud prevention and income reporting measures. This study was prepared in consultation with the Office of the Inspector General and the Department of Justice.
- The Commissioner has forwarded to Congress for its consideration several legislative proposals that would help combat fraud (the first three items are included in H.R. 4857):
 - ▶ Establish civil monetary penalties for offenses involving representative payee misuse or fraudulent application for or misuse of Social Security numbers and cards.
 - ▶ Provide that any benefits misused by a representative payee would be subject to current SSA overpayment recovery authority (e.g., tax refund offset, administrative offset, etc.).
 - ▶ Preclude a fee-for-service representative payee from collecting a fee for months in which benefits were misused.
 - ▶ Require persons or companies that provide Social Security-related services for a fee include in their solicitations a statement that such services are available from SSA free of charge.