Financial

Section

A Message from the Chief Financial Officer

Fiscal year (FY) 2004 has been another successful year for the Social Security Administration in the area of financial management culminating with the Agency receiving an unqualified (clean) opinion on its consolidated financial statements for the eleventh consecutive year. I am also proud of our record in implementing the President's Management Agenda (PMA) Improved Financial Performance initiative and remaining "green" for both status and progress in that category. In addition, I believe the unprecedented recognition SSA received as awardees in the Association of Government Accountants' Certificate of Excellence in Accountability Reporting for the sixth consecutive year and the Presidential Award for Management Excellence competitions are evidence of the Agency's commitment to sound financial management practices.

The unqualified opinion on our FY 2004 financial statements attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. The auditor stated, however, that SSA has a reportable condition that requires the Agency to further strengthen controls to protect its information. They also indicated that SSA has made significant progress in addressing these information protection issues. SSA's "Systems and Controls" section provides information on SSA's plan to eliminate the reportable condition.

On October 1, 2003, SSA replaced its core accounting system with a commercial off-the-shelf Joint Financial Management Improvement Program certified financial accounting system. The new system is in compliance with all Office of Management and Budget requirements, incorporates commercial best practices and includes the Agency's core accounting functions. Within the next few months we will begin interfacing the new accounting system with additional administrative systems to further improve the Agency's ability to soundly manage assets and we will continue to invest in infrastructure needed to sustain superior performance into the future.

The Agency continues to meet all the standards for obtaining a "green" score in both status and progress for the PMA Improved Financial Performance. The Agency has new initiatives to "Get Beyond Green" that will improve the quality, consistency and access to information used by managers and analysts to manage work and account for resources. The lynchpin to these initiatives is a modernized cost accounting system which will consolidate workload count and human resource use consistently throughout the Agency, regardless of where the work is performed, and provide unit cost and productivity management information for the Agency's programs down to the office level to support strategic decisionmaking.

In the coming year, we will continue to focus on the initiatives related to the PMA, continue enhancements to our new accounting system and continue to develop a modernized cost accounting system. Our goal remains to provide timely, reliable and useful financial management information to Congress and to the American public.

Dale W. Sopper
Chief Financial Officer
November 10, 2004

Financial Statements and Additional Information

The Agency's financial statements and additional information for fiscal years (FY) 2004 and 2003 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2004 and 2003, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.

- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2004 and 2003. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.

- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2004 and 2003. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by major programs as additional information.

- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the periods ended September 30, 2004 and 2003. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.

- The **Consolidated Statements of Financing** reconcile the net cost of operations with the obligation of budgetary resources for the periods ended September 30, 2004 and 2003. A Schedule of Financing is provided to present the reconciliation by SSA's major programs as additional information.

- The required **Supplementary Stewardship Information: Statement of Social Insurance** discloses the 75-year projection of the Actuarial present value of the Old-Age Survivors and Disability Insurance gross and net future benefit obligations expected to arise from the formulas specified in current law for current and future program participants. This projection is considered to be important information regarding potential future cost of the program. These projected potential future obligations under current law are not included in the Consolidated Statements or their accompanying footnotes.

Consolidated Balance Sheets as of September 30, 2004 and September 30, 2003

	(Dollars in Millions)	
Assets	**2004**	2003
Intragovernmental:		
Fund Balance with Treasury (Note 4)	**$ 3,148**	$ 2,310
Investments (Note 5)	**1,635,398**	1,484,219
Interest Receivable, Net (Note 6)	**22,315**	$ 20,933
Accounts Receivable, Net (Note 6)	**624**	872
Total Intragovernmental	**1,661,485**	1,508,334
Accounts Receivable, Net (Notes 3 and 6)	**6,182**	5,830
Property, Plant and Equipment, Net (Note 7)	**1,231**	909
Other	**9**	6
Total Assets	**$ 1,668,907**	$ 1,515,079
Liabilities (Note 8)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	**$ 3,712**	$ 3,767
Accounts Payable	**4,993**	6,261
Other	**247**	259
Total Intragovernmental	**8,952**	10,287
Benefits Due and Payable	**51,569**	49,487
Accounts Payable	**489**	387
Other	**1,205**	1,133
Total	**62,215**	61,294
Net Position		
Unexpended Appropriations	**1,489**	705
Cumulative Results of Operations	**1,605,203**	1,453,080
Total Net Position	**1,606,692**	1,453,785
Total Liabilities and Net Position	**$ 1,668,907**	$ 1,515,079

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2004 and September 30, 2003

	(Dollars in Millions)	
	2004	2003
OASI Program		
Benefit Payments	**$ 412,474**	$ 397,654
Operating Expenses (Note 9)	**2,537**	2,481
Total Cost of OASI Program	**415,011**	400,135
Less: Exchange Revenues (Notes 10 and 11)	**16**	7
Net Cost of OASI Program	**414,995**	400,128
DI Program		
Benefit Payments	**75,169**	69,800
Operating Expenses (Note 9)	**2,221**	2,045
Total Cost of DI Program	**77,390**	71,845
Less: Exchange Revenues (Notes 10 and 11)	**15**	7
Net Cost of DI Program	**77,375**	71,838
SSI Program		
Benefit Payments	**35,216**	33,217
Operating Expenses (Note 9)	**2,872**	2,789
Total Cost of SSI Program	**38,088**	36,006
Less: Exchange Revenues (Notes 10 and 11)	**293**	265
Net Cost of SSI Program	**37,795**	35,741
Other		
Benefit Payments	**13**	429
Operating Expenses (Note 9)	**1,279**	1,292
Total Cost of Other	**1,292**	1,721
Less: Exchange Revenues (Notes 10 and 11)	**15**	9
Net Cost of Other	**1,277**	1,712
Total Net Cost		
Benefit Payments	**522,872**	501,100
Operating Expenses (Note 9)	**8,909**	8,607
Total Cost	**531,781**	509,707
Less: Exchange Revenues (Notes 10 and 11)	**339**	288
Total Net Cost	**$ 531,442**	$ 509,419

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2004 and September 30, 2003

(Dollars in Millions)

	2004		2003	
	Cumulative Results of Operations	**Unexpended Appropriations**	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning Balance	**$ 1,453,080**	**$ 705**	$ 1,297,567	$ 794
Budgetary Financing Sources (other than Exchange Revenues)				
Appropriations Received		**52,536**		48,822
Other Adjustments	**0**	**0**	0	(128)
Appropriations Used	**51,752**	**(51,752)**	48,783	(48,783)
Tax Revenues (Note 12)	**559,661**		546,808	
Interest Revenues	**87,616**		84,220	
Transfers-In/Out (Note 13)				
Trust Fund Draws and Other - In	**1,740**		1,244	
Trust Fund Draws and Other - Out	**(13,958)**		(12,814)	
Railroad Retirement Interchange	**(3,788)**		(3,802)	
Net Transfers-In/Out	**(16,006)**		(15,372)	
Other Budgetary Financing Sources	**85**		87	
Other Financing Sources				
Transfers In-Out	**5**		9	
Imputed Financing Sources (Note 14)	**452**		397	
Total Financing Sources	**683,565**	**784**	664,932	(89)
Net Cost of Operations	**531,442**		509,419	
Ending Balances	**$ 1,605,203**	**$ 1,489**	$ 1,453,080	$ 705

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2004 and September 30, 2003

	(Dollars in Millions)	
	2004	2003
Budgetary Resources Made Available (Note 15)		
Budget Authority		
Appropriations Received	**$ 699,908**	$ 679,191
Net transfers (+/-)	**(4)**	0
Unobligated Balances		
Beginning of Period	**930**	1,021
Net transfers (+/-)	**(2)**	0
Spending Authority from Offsetting Collections		
Earned		
Collected	**4,319**	3,902
Change in Receivable	**(77)**	85
Change in Unfilled Customer Orders		
Advance Received	**1**	0
Without Advance	**(1)**	1
Transfers from Trust Funds		
Collected	**8,410**	7,907
Anticipated	**449**	28
Subtotal	**13,101**	11,923
Recoveries of Prior Year Obligations	**222**	360
Temporarily Not Available Pursuant to Public Law	**(151,236)**	(153,686)
Permanently Not Available	**(7)**	(180)
Total Budgetary Resources	**$ 562,912**	$ 538,629
Status of Budgetary Resources: (Note 15)		
Obligations Incurred:		
Direct	**$ 556,563**	$ 533,748
Reimbursable	**4,231**	3,951
Subtotal	**560,794**	537,699
Unobligated Balances		
Apportioned	**1,509**	709
Unobligated Balances - Not Available	**609**	221
Total Status of Budgetary Resources	**$ 562,912**	$ 538,629
Relationship of Obligations to Outlays:		
Obligated Balances - Beginning of the Period	**$ 58,068**	$ 56,299
Obligated Balance - End of the Period		
Accounts Receivable	**(2,191)**	(1,820)
Unfilled Customer Orders	**0**	(1)
Undelivered Orders	**1,350**	1,150
Accounts Payable	**59,105**	58,739
Outlays:		
Disbursements	**560,013**	535,456
Collections	**(12,730)**	(11,809)
Subtotal	**547,283**	523,647
Less: Offsetting Receipts	**16,999**	15,626
Net Outlays	**$ 530,284**	$ 508,021

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

Consolidated Statements of Financing for the Years Ended September 30, 2004 and September 30, 2003

	(Dollars in Millions)	
	2004	2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	**$ 560,794**	$ 537,699
Less: Offsetting Collections	**(13,323)**	(12,283)
Obligations Net of Offsetting Collections	**547,471**	525,416
Less: Offsetting Receipts	**(16,999)**	(15,626)
Net Obligations	**530,472**	509,790
Other Resources		
Transfers In/Out Without Reimbursement (+/-)	**0**	9
Imputed Financing	**452**	397
Other	**(305)**	(256)
Net Other Resources Used to Finance Activities	**147**	150
Total Resources Used to Finance Activities	**530,619**	509,940
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**(201)**	(117)
Resources that Fund Expenses Recognized in Prior Periods	**1,277**	(337)
Budgetary Offsetting Collections and Receipts that Do Not affect Net Cost of Operations	**16,999**	15,627
Resources that Fund Capitalized Costs	**(498)**	(387)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(17,118)**	(15,631)
Total Resources Not Part of the Net Cost of Operations	**459**	(845)
Total Resources Used to Finance the Net Cost of Operations	**531,078**	509,095
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 16)		
Increase in Annual Leave	**15**	13
Other	**164**	162
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**179**	175
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**181**	158
Other	**4**	(9)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**185**	149
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**364**	324
Net Cost of Operations	**$ 531,442**	$ 509,419

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

Notes to the Principal Financial Statements
For the Years Ended September 30, 2004 and 2003
(Presented in Millions)

1. *Summary of Significant Accounting Policies*

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance programs (OASDI) and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources as required by the Chief Financial Officers Act of 1990.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board. These statements are different from the financial reports, also prepared by SSA, pursuant to OMB directives that are used to monitor and control SSA's use of budgetary resources. The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting of three trust funds, three deposit funds, and four general fund appropriations. The trust funds are the Old-Age and Survivors Insurance (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund and the Limitations on Administrative Expenses (LAE). The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of PTF appropriations but also contains non-material activities. The fund balance with the Department of the Treasury, shown on the Balance Sheet, represents the total of all SSA's account balances with the Department of the Treasury.

Medicare Reform Prescription Drug Program

On December 8, 2003, the President signed the Medicare Prescription Drug Improvement and Modernization Act of 2003 (Public Law 108-173). SSA will play a significant role in implementing this law which provides a $500 million appropriation for startup costs in FY 2004 and 2005. SSA will make low income subsidy determinations, calculate Part B premiums for high income beneficiaries and withhold premiums appropriate to beneficiaries' selected plans.

Black Lung Program

Title IV of the Federal Mine Safety and Health Act authorizes monthly benefits to coal miners disabled from coal workers' pneumoconiosis (black lung) and to their widows and certain other dependents. Between December 30, 1969 (when the program originated) and June 30, 1973, Part B of the Act assigned processing and paying of claims to SSA. Effective July 1, 1973, Part C of the Act required the Department of Labor (DOL) to process and pay new claims. Effective October 1, 2003, Public Law 107-275 transferred the processing and payment operations of Part B claims from SSA to DOL, which now consolidates the entire Black Lung (BL) program within DOL. SSA's financial statements only include residual BL activity.

Investments

Trust fund balances not required to meet current expenditures are invested on a daily basis in interest-bearing obligations of the U.S. Government. Trust fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issues and bonds. Special issues are special public debt obligations for purchase exclusively by the trust funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Balance Sheet. U.S. Treasury bonds are carried at amortized cost.

Property, Plant and Equipment

SSA's property, plant and equipment (PP&E) are recorded in the LAE program, but are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the trust funds for their use of trust fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. SSA capitalizes new PP&E costing over $100,000.

The change in PP&E from one reporting period to the next is presented on the Statement of Financing's Resources that Fund Capitalized Costs. This line item presents the effect on budgetary obligations for capital assets purchased by the OASI, DI and Health Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. However, HI/SMI's share of capital assets is presented on the Centers for Medicare and Medicaid Services' (CMS) financial statements.

Benefits Due and Payable

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

Administrative Expenses and Obligations

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

Obligations are incurred in the LAE accounts as activity is processed. As transfers are made from the appropriate trust or general funds into LAE, similar obligations are recorded in each of these financing sources. Since LAE is reported with its funding sources (other than the HI/SMI Trust Funds) on the Statement of Budgetary Resources

(SBR) and the SBR is a combined statement that does not allow eliminations, LAE’s obligations are recorded twice on the SBR. This is in compliance with OMB’s directive to have the SBR in agreement with the required Budget Execution Reports (SF-133’s).

Recognition of Financing Sources

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

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

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual FICA taxes payable, actual SECA taxes paid and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate), income taxation of Social Security benefits and interest on trust fund unnegotiated benefit payment checks are also included in tax revenues (See Note 12, Tax Revenues).

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits (See Note 10, Exchange Revenues). Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

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

Reclassifications

Certain FY 2003 balances have been reclassified to conform to FY 2004 financial statement presentations, the effect of which is immaterial.

2. Centralized Federal Financing Activities

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

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

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

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

One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to CSRS were $125 and $130 million for the years ended September 30, 2004 and 2003. SSA contributions to the basic FERS plan were $193 and $171 million for the years ended September 30, 2004 and 2003. In addition, SSA contributions to the FERS savings plan were $72 and $65 million for the years ended September 30, 2004 and 2003. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

3. Non-Entity Assets

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are $2,767 and $1,686 million as of September 30, 2004 and 2003. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable and (2) fees collected to administer SSI State Supplementation that are returned to the General Fund.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are $2,611 and $1,537 million as of September 30, 2004 and 2003. The SSI accounts receivable, net has been reduced by $2,609 and $4,936 million for FY 2004 and 2003 respectively as intra-agency elimination. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the General Fund of the Treasury. These funds, upon deposit, are assets of the General Fund of the Treasury and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable is recognized as a non-entity asset.

The amounts of fees collected to administer SSI State Supplementation are $273 and $256 million for the years ended September 30, 2004 and 2003. The fee collection is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. A portion of the fees collected, $156 and $149 million are deposited directly to a Treasury General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets as of September 30, 2004 and 2003. A corresponding accounts payable to the General Fund is presented so that net position is not affected by this activity. Refer to Note 10, Exchange Revenues, for a description of the SSI State Supplementation fees.

4. Fund Balance with Treasury

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes PTF, deposit funds, and receipt accounts.

Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. Trust fund budgetary accounts are not used in chart 4b since trust fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in chart 4b will not match corresponding activity on the Combined SBR.

Chart 4a - Fund Balances as of September 30:
($ in millions)

	2004	2003
Trust Funds		
OASI	$ 46	$ (24)
DI	(14)	359
LAE	102	(132)
Appropriated Funds		
SSI	2,940	1,999
Other	74	108
Total	$ 3,148	$ 2,310

Chart 4b - Status of Fund Balances as of September 30:
($ in millions)

	2004	2003
Unobligated Balance		
Available	$ 1,212	$ 486
Unavailable	132	102
Obligated Balance not yet Disbursed	1,115	988
Trust Funds	134	203
Deposit & Receipt Accounts	555	531
Total	$ 3,148	$ 2,310

In FY 2004 and 2003, the negative fund balances reported for the trust funds are the result of the policy to protect the trust fund investments by not liquidating the investments until the cash is needed. Transfers between the trust funds and Treasury are managed to favor the financial position of the trust funds. Therefore, investments held by the trust funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with Treasury year-end reporting requirements, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

5. Investments

Chart 5 displays SSA's investments in U.S. par-value Treasury special securities and U.S. Treasury bonds at amortized cost. Treasury specials are Treasury securities that are issued directly by the Treasury Secretary to a government investment account that are non-negotiable and non-transferable in the secondary market. Par-value Treasury specials are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. The interest rates on these investments range from 3 1/2 percent to 8 3/4 percent and are payable on September 30, December 31, and at maturity or redemption. Investments held for the trust funds mature at various dates ranging from the present to the year 2019.

Chart 5 - Investments as of September 30:
($ in millions)

	2004	2003
Special Issue U.S. Treasury Securities	$ 1,635,368	$ 1,484,189
U.S. Treasury Bonds - Carrying value	30	30
Total Investments	$ 1,635,398	$ 1,484,219

6. *Interest and Accounts Receivable*

Interest Receivable

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on trust fund investments with the U.S. Treasury. Interest amounts are $22,315 and $20,933 million for the years ended September 30, 2004 and 2003.

Accounts Receivable

Intragovernmental

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6a. FY 2003 OASI and DI amounts consist of military service wage credits that were collected in June 2004. The LAE net receivable amount represents amounts to be paid from the HI/SMI Trust Funds.

Chart 6a - Intragovernmental Accounts Receivable
by Major Program as of September 30:
($ in millions)

	2004 Gross/Net Receivable	2003 Gross/Net Receivable
OASI	$ 0	$ 531
DI	0	90
LAE	2,183	1,735
Sub-Total	2,183	2,356
Less:		
Elimination*	(1,559)	(1,484)
Total	$ 624	$ 872

* Intra-agency Eliminations

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

Chart 6a also shows that in FY 2004 and 2003, gross accounts receivable was reduced by $1,559 and $1,484 million as an intra-agency elimination. This elimination is to offset SSA's LAE receivable to be paid from the appropriate trust or general fund with corresponding trust or general fund payables set up for anticipated LAE disbursements.

With the Public

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

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

	2004			2003		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 1,948	$ (98)	$ 1,850	$ 2,088	$ (96)	$ 1,992
DI	3,199	(1,094)	2,105	3,011	(1,027)	1,984
SSI*	7,113	(1,823)	5,290	8,315	(1,702)	6,613
Other	0	0	0	7	0	7
LAE	228	0	228	170	0	170
Sub-Total	12,488	(3,015)	9,473	13,591	(2,825)	10,766
Less:						
Eliminations**	(3,291)	0	(3,291)	(4,936)	0	(4,936)
Total	$ 9,197	$ (3,015)	$ 6,182	$ 8,655	$ (2,825)	$ 5,830

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

In FY 2001, SSA detected an error which affected about 228,000 SSI recipients who were eligible to receive DI benefits, but were paid either SSI or OASI benefits. At that time, OASI and SSI receivables were established for $56 and $3,770 million. In FY 2004, these Special Disability Workload (SDW) cases decreased by the amount of the discharged liabilities for cases that have been adjudicated. In addition, estimates have decreased as a result of enhancements to the models and sample data used in the estimates.

Current estimates indicate that there are about 133,000 SDW cases remaining. For FY 2004, SDW receivables are included in Chart 6b. OASI SDW receivables are $682 and $851 million as of September 30, 2004 and 2003. DI SDW receivables are less than $1 and $11 million as of September 30, 2004 and 2003. SSI SDW net receivables are $2,437 and $3,902 million as of September 30, 2004 and 2003.

Chart 6b shows that in FY 2004 and 2003, gross accounts receivable was reduced by $3,291 and $4,936 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Since payment of the retroactive OASI and DI benefits results in an overpayment of SSI benefits, the overpaid SSI amounts are offset from the OASI and DI retroactive payments. Therefore, these offsets are presented as intra-agency elimination.

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

7. Property, Plant and Equipment

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

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

	2004			2003		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 5	$ 0	$ 5	$ 5	$ 0	$ 5
Buildings	386	(190)	196	383	(180)	203
Equipment (incl. ADP Hardware)	340	(268)	72	327	(241)	86
Internal Use Software	1,202	(262)	940	740	(158)	582
Leasehold Improvements	188	(170)	18	185	(152)	33
Total	$ 2,121	$ (890)	$ 1,231	$ 1,640	$ (731)	$ 909

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	7-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6 years	Straight Line

8. Liabilities

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

Chart 8a - Liabilities as of September 30:
($ in millions)

	2004			2003		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	$ 3,712	$ 0	$ 3,712	$ 3,767	$ 0	$ 3,767
Accounts Payable	3	4,990	4,993	0	6,261	6,261
Other	38	209	247	59	200	259
Total Intragovernmental	3,753	5,199	8,952	3,826	6,461	10,287
Benefits Due and Payable	50,318	1,251	51,569	48,391	1,096	49,487
Accounts Payable	182	307	489	120	267	387
Other	227	978	1,205	176	957	1,133
Total	$ 54,480	$ 7,735	$ 62,215	$ 52,513	$ 8,781	$ 61,294

Accrued Railroad Retirement Interchange

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. Refer to Note 13, Intra-Governmental Financing Sources, for a description of the RRB transfer.

Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable not covered by budgetary resources is SSI Receivables Owed to Treasury. This custodial liability is recorded for the collection of SSI benefit overpayments that are payable from SSA to the General Fund of the Treasury when overpayments are identified. It directly relates to the accounts receivable established in the asset portion of the Balance Sheet. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments.

Intragovernmental Other Liabilities

Intragovernmental Other Liabilities covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. Intragovernmental Other Liabilities not covered by budgetary resources includes $156 and $149 million as of September 30, 2004 and 2003 for SSI State Fees payable to the General Fund. It also includes amounts for the Federal Employees' Compensation Act (FECA), administered by DOL. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. Current fiscal year claim amounts to be paid by SSA within two years are the current portion. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability was $53 and $51 million as of September 30, 2004 and 2003.

Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2004 and 2003. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

Chart 8b - Benefits Due and Payable as of September 30:
($ in millions)

	2004	2003
OASI	$ 37,055	$ 35,878
DI	16,048	16,967
SSI	1,757	1,541
Other	0	37
Sub-Total	54,860	54,423
Less: Intra-agency eliminations	(3,291)	(4,936)
Total	$ 51,569	$ 49,487

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b include estimated payables related to SDW (See Note 6, Interest and Accounts Receivable). OASI payables are $327 and $773 million as of September 30, 2004 and 2003. DI payables are $4,516 and $6,652 million as of September 30, 2004 and 2003. In FY 2004, the DI payables have decreased due to SDW cases decreasing by the amount of the discharged liabilities for cases that have been adjudicated. In addition, estimates have decreased as a result of enhancements to the models and sample data used in the estimates.

Chart 8b also shows that as of FY 2004 and 2003, gross Benefits Due and Payable was reduced by $3,291 and $4,936 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases (See Note 6, Interest and Accounts Receivable). Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

Chart 8c shows the estimated net SDW liability due to the public as of September 30, 2004 and 2003.

Chart 8c - Net SDW Liability as of September 30: ($ in millions)		
	2004	2003
Net DI Liability	$ 4,516	$ 6,641
Net OASI Receivable	(355)	(78)
Net SSI Receivable	(2,437)	(3,902)
Net Liability Due to the Public	$ 1,724	$ 2,661

Accounts Payable

Accounts Payable not covered by budgetary resources consists of payments due to the states for their portion of SSI benefit payments made by SSA, underpayments due to SSI recipients, and the state portion of SSI windfall amounts. Since SSA receives payments from the states for their portion of SSI benefits, any excess payments are returned to the states and recognized as accounts payable.

Other Liabilities

SSA's Other Liabilities covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities not covered by budgetary resources includes the non-current portion of FECA actuarial liability. The non-current portion of $288 and $305 million as of September 30, 2004 and 2003 is comprised of claims that will be paid more than one year in the future. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities not covered by budgetary resources is leave earned but not taken.

Contingent Liabilities

SSA is a party to various class action lawsuits related to benefits paid or payable. These suits may be lost, in whole or in part, in lower courts and/or on appeal and may require a future implementation plan. Any final unfavorable court decisions will be funded from the appropriate trust fund or from the general funds for the SSI program. In the opinion of management and legal counsel, the resolution of the class actions and other claims and lawsuits will not materially affect the financial position or operations of SSA.

9. Operating Expenses

Classification of Operating Expenses by Major Program

Chart 9a displays SSA's operating expenses for each major program. The HI/SMI Trust Funds shares of SSA's operating expenses are recorded in Other. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statement of Net Cost. Trust Fund Operations include expenses of the Department of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries.

Chart 9a - SSA's Operating Expenses by Major Program as of September 30:
($ in millions)

	2004					
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Other	Total
OASI	$ 2,209	$ 29	$ 299	$ 0	$ 0	$ 2,537
DI	2,089	28	51	53	0	2,221
SSI	2,798	0	0	74	0	2,872
Other	1,257	22	0	0	0	1,279
	$ 8,353	$ 79	$ 350	$ 127	$ 0	$ 8,909

Chart 9a - SSA's Operating Expenses by Major Program as of September 30:

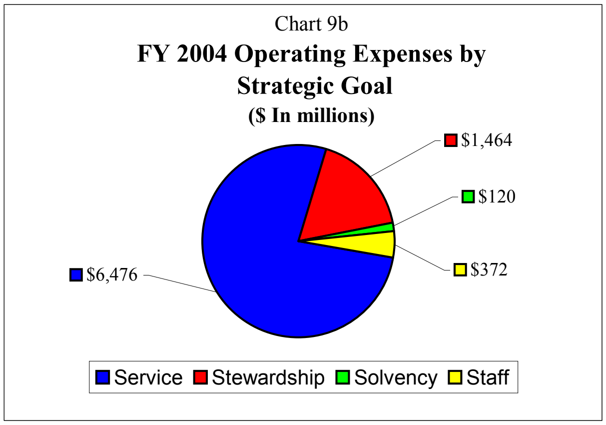
	2003					
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Other	Total
OASI	$ 2,162	$ 30	$ 289	$ 0	$ 0	$ 2,481
DI	1,917	26	54	48	0	2,045
SSI	2,747	0	0	42	0	2,789
Other	1,265	19	0	0	8	1,292
	$ 8,091	$ 75	$ 343	$ 90	$ 8	$ 8,607

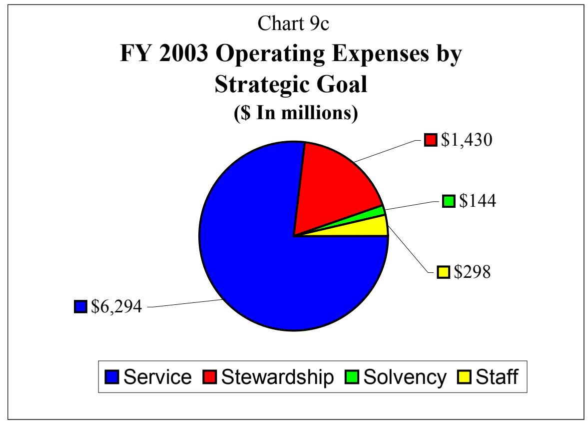
Classification of Operating Expenses by Strategic Goal

In FY 2003, SSA developed a new Agency Strategic Plan (ASP), a FY 2004 Annual Performance Plan (APP) and its budget submission at the same time by completing a full review of strategic goals, objectives, and performance indicators. Changes, additions and deletions were made in order to help improve performance and improve the way progress is measured. The strategic goals have remained broad and cover the full scope of SSA's work. The four new goals are:

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

Chart 9b and 9c exhibit distribution of FY 2004 and 2003 LAE operating expenses to APP Strategic goals.





10. Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the Agency's cost. Total exchange revenues are $339 and $288 million for the years ended September 30, 2004 and 2003. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 23 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. SSA earned administration fee revenue in the amount of $273 and $256 million for the years ended September 30, 2004 and 2003. A portion of the fees, $156 and $149 million for the years ended September 30, 2004 and 2003, is transferred to the Department of Treasury General Fund while the remainder is maintained in the SSA trust funds. In addition, SSA earned $66 and $32 million for the years ended September 30, 2004 and 2003 in other exchange revenue.

11. Gross Cost and Earned Revenue by Budget Functional Classification

Chart 11a displays gross cost and earned revenue by budget functional classification. Income Security for Veterans includes the costs and revenues to administer the Title VIII, Special Benefits for Certain World War II Veterans program. Other Income Security includes primarily the costs and revenues associated with the SSI program. The Other program reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Chart 11a - Gross Cost and Earned Revenue by Budget Functional Classification as of September 30:
($ in millions)

	2004			2003		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	$ (1)	$ 0	$ (1)	$ 421	$ 0	$ 421
Income Security for Veterans	14	(6)	8	9	0	9
Other Income Security	35,290	(273)	35,017	33,259	(256)	33,003
Social Security						
OASI	412,773	0	412,773	397,943	0	397,943
DI	75,273	0	75,273	69,902	0	69,902
Other	0	0	0	7	(5)	2
LAE	8,432	(60)	8,372	8,166	(27)	8,139
Subtotal	496,478	(60)	496,418	476,018	(32)	475,986
Total	$ 531,781	$ (339)	$ 531,442	$ 509,707	$ (288)	$ 509,419

Chart 11b displays Intragovernmental gross cost and earned revenue by budget functional classification.

Chart 11b - Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification as of September 30:
($ in millions)

	2004			2003		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
Other Income Security	$ 6	$ 0	$ 6	$ 7	$ 0	$ 7
Social Security						
OASI	291	0	291	286	0	286
DI	53	0	53	54	0	54
Other	0	0	0	0	0	0
LAE	2,073	(56)	2,017	2,097	(14)	2,083
Subtotal	2,417	(56)	2,361	2,437	(14)	2,423
Total	$ 2,423	$ (56)	$ 2,367	$ 2,444	$ (14)	$ 2,430

12. Tax Revenues

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

As required by current law, the Social Security trust funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service or SSA. Revenues to the trust funds are reduced for excess employment taxes, which are refunded by offset against income taxes. Other tax revenues include Taxation of Social Security Benefits and FICA/SECA tax credits. Chart 12 reflects the amounts for estimated employment taxes, adjustments for actual taxes payable and refunds, as well as other tax revenues.

Chart 12 - Tax Revenues as of September 30: ($ in millions)	2004	2003
Estimated Employment Taxes Credited to SSA	$ 553,647	$ 541,183
Adjustments	(8,302)	(5,952)
Refunds	0	(1,787)
Employment Tax Revenues	545,345	533,444
Other Tax Revenues	14,316	13,364
Total Tax Revenues	$ 559,661	$ 546,808

13. Intra-Governmental Financing Sources

SSA receives other intra-governmental financing sources that increase net results of operations during the reporting period. The most significant financing source received from another Federal entity is the drawdown of funds from the HI/SMI Trust Funds for the Medicare program, in the amounts of $1,368 and $1,214 million for the years ended September 30, 2004 and 2003. They reimburse SSA's operating expenses to administer a portion of the Medicare program. These amounts represent the majority of the Trust Fund Draws and Other-In line item as presented on the Statement of Changes in Net Position.

Financing outflows may result from transfers of the reporting entity's assets to other government entities. SSA financing outflows mainly consist of PTF transfers for taxation on benefits of $15,076 and $13,276 million for the years ended September 30, 2004 and 2003. It also includes a RRB transfer for the annual interchange required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June. The accrued liability of $3,712 and $3,767 million as of September 30, 2004 and 2003, on the Balance Sheet represents amounts due the RRB. Also, amounts for railroad workers, who have qualified for and are receiving OASI and DI benefit payments, are included in the benefit payment expenses on the Statement of Net Cost. However, the RRB makes the payments to the qualifying railroad workers on behalf of SSA. SSA compensated RRB in the amount of $1,165 and $1,163 million for the years ended September 30, 2004 and 2003.

In addition, a portion of the administrative fees charged to the States to administer the SSI benefits program is returned to the U.S. Treasury and amounted to $156 and $149 million for the years ended September 30, 2004 and 2003. The Supplemental SSI benefits paid by SSA on behalf of the States were $4,168 and $3,925 million for the years ended September 30, 2004 and 2003. These transfers, which negate each other, are received from the States and issued to SSI recipients.

14. Imputed Financing

The Statement of Net Cost recognizes post-employment benefit expenses of $782 and $706 million for the years ended September 30, 2004 and 2003 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The Statement of Changes in Net Position (SCNP) recognizes an imputed financing source of $452 and $397 million for the years ended September 30, 2004 and 2003 that represents annual service cost not paid by SSA.

15. Budgetary Resources

Appropriations Received

The SBR discloses Appropriations Received of $699,908 and $679,191 million for the years ended September 30, 2004 and 2003. Appropriations Received on the SCNP is $52,536 and $48,822 million for the same years. The differences of $647,372 and $630,369 million represent appropriated trust fund receipts in OASI and DI. The SCNP reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

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

Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as category A. Other apportionments such as activities, projects, objects or a combination of these categories are classified as category B. For FY 2004, SSA has not received any category A apportionments. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B and Exempt from Apportionment.

Chart 15a - Apportionment Categories of Obligations Incurred as of September 30:
($ in millions)

	2004			2003 Reclassified		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	$ 543,416	$ 4,231	$ 547,647	$ 525,561	3,951	$ 529,512
Exempt	13,147	0	13,147	8,187	0	8,187
Total	$ 556,563	$ 4,231	$ 560,794	$ 533,748	$ 3,951	$ 537,699

Legal Arrangements Affecting Use of Unobligated Balances

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

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

	2004	2003
Trust Fund Balance, Beginning	$ 1,426,913	$ 1,273,227
Receipts	647,363	630,322
Less Obligations	496,127	476,636
Excess of Receipts Over Obligations	151,236	153,686
Trust Fund Balance, Ending	$ 1,578,149	$ 1,426,913

Explanation of Material Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

There are no material differences between the Statement of Budgetary Resources and the Budget of the United States Government.

16. Statement of Financing Disclosures

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Liabilities Not Covered by Budgetary Resources of $7,735 and $8,781 million as of September 30, 2004 and 2003, represent SSI Receivables Owed to Treasury, non-current portion of FECA liability to DOL and employees, benefits due and payable for SSI adjudicated and unadjudicated cases, and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Statement of Financing, as Total Components of Net Cost of Operations, that will require or Generate Resources in Future Periods of $179 and $175 million for the years ended September 30, 2004 and 2003, represent the change in SSA expenses for adjudicated and unadjudicated SSI benefits due and payable, leave earned but not taken and FECA.

17. Incidental Custodial Collections

SSA's custodial collections primarily consist of recoveries for SSI Federal benefit overpayments. The FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI benefit overpayments be deposited in the General Fund of the Treasury. In addition, other negligible custodial collections occur for interest, fines and penalties. While these collections are considered custodial, they are not primary to the mission of SSA or material to the overall financial statements. In accordance with SFFAS Number 7, non-exchange custodial collections should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue; therefore, SSA's custodial collections are not recognized as revenue or presented in the financial statements. SSA's total custodial collections are $2,341 and $1,985 million for the years ended September 30, 2004 and 2003. As noted on Footnote 8, SSA records the amount of SSI Federal benefit overpayments identified but not yet collected as a custodial liability payable to the General Fund for the Treasury. The custodial liability recorded by SSA for SSI Federal benefit overpayments is $4,990 and $6,261 million as of September 30, 2004 and 2003.

18. Recovery of Medicare Premiums

SSA identified a systemic and recurring error in the process for recovering certain transfers to CMS of Medicare Part B premiums. Beneficiaries of OASDI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premium transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, has not generally had procedures to recover Medicare premiums transferred to CMS. SSA estimates that approximately $800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002, for periods after the death of a beneficiary. SSA intends to pursue the repayment from the Department of Health and Human Services (HHS). SSA and HHS are currently negotiating the resolution of this matter. Due to the uncertainty of the recovery, SSA has not recorded this in its financial statements as of September 30, 2004.

Other Accompanying Information: Balance Sheet by Major Program as of September 30, 2004

	Dollars in Millions						
Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ 46	$ (14)	$ 2,940	$ 74	$ 102	$ 0	$ 3,148
Investments	1,452,599	182,799	0	0	0	0	1,635,398
Interest Receivable, Net	19,822	2,493	0	0	0	0	22,315
Accounts Receivable, Net	0	0	0	0	2,183	(1,559)	624
Total Intragovernmental	1,472,467	185,278	2,940	74	2,285	(1,559)	1,661,485
Accounts Receivable, Net	1,850	2,105	5,290	0	228	(3,291)	6,182
Property, Plant and Equip., Net	0	0	0	0	1,231	0	1,231
Other	0	0	0	0	9	0	9
Total Assets	$ 1,474,317	$ 187,383	$ 8,230	$ 74	$ 3,753	$ (4,850)	$ 1,668,907
Liabilities							
Intragovernmental:							
Accrued RRI	$ 3,466	$ 246	$ 0	$ 0	$ 0	$ 0	$ 3,712
Accounts Payable	517	486	5,549	0	0	(1,559)	4,993
Other	0	0	156	3	88	0	247
Total Intragovernmental	3,983	732	5,705	3	88	(1,559)	8,952
Benefits Due and Payable	37,055	16,048	1,757	0	0	(3,291)	51,569
Accounts Payable	1	5	301	0	182	0	489
Other	0	0	378	12	815	0	1,205
Total	41,039	16,785	8,141	15	1,085	(4,850)	62,215
Net Position							
Unexpended Appropriations	0	0	1,414	59	16	0	1,489
Cumulative Results of Operations	1,433,278	170,598	(1,325)	0	2,652	0	1,605,203
Total Net Position	1,433,278	170,598	89	59	2,668	0	1,606,692
Total Liabilities and Net Position	$ 1,474,317	$ 187,383	$ 8,230	$ 74	$ 3,753	$ (4,850)	$ 1,668,907

Other Accompanying Information: Schedule of Net Cost for the Year Ended September 30, 2004

	Program	LAE	Total
OASI Program			
Benefit Payments	$ 412,474	$ 0	$ 412,474
Operating Expenses (Note 9)	299	2,238	2,537
Total Cost of OASI Program	412,773	2,238	415,011
Less: Exchange Revenues (Notes 10 and 11)	0	16	16
Net Cost of OASI Program	412,773	2,222	414,995
DI Program			
Benefit Payments	75,169	0	75,169
Operating Expenses (Note 9)	104	2,117	2,221
Total Cost of DI Program	75,273	2,117	77,390
Less: Exchange Revenues (Notes 10 and 11)	0	15	15
Net Cost of DI Program	75,273	2,102	77,375
SSI Program			
Benefit Payments	35,216	0	35,216
Operating Expenses (Note 9)	74	2,798	2,872
Total Cost of SSI Program	35,290	2,798	38,088
Less: Exchange Revenues (Notes 10 and 11)	273	20	293
Net Cost of SSI Program	35,017	2,778	37,795
Other			
Benefit Payments	13	0	13
Operating Expenses (Note 9)	0	1,279	1,279
Total Cost of Other	13	1,279	1,292
Less: Exchange Revenues (Notes 10 and 11)	6	9	15
Net Cost of Other	7	1,270	1,277
Total Net Cost			
Benefit Payments	522,872	0	522,872
Operating Expenses (Note 9)	477	8,432	8,909
Total Cost	523,349	8,432	531,781
Less: Exchange Revenues (Notes 10 and 11)	279	60	339
Total Net Cost	$ 523,070	$ 8,372	$ 531,442

Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2004

(Dollars in Millions)

	OASI	DI	SSI		Other		LAE		Intra-Agency Eliminations	Consolidated	
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning Balance	$ 1,294,528	$ 158,005	$ (1,142)	$ 633	$ 0	$ 60	$ 1,689	$ 12	$ 0	$ 1,453,080	$ 705
Budgetary Financing Sources (other than Exchange Revenues)											
Appropriations Received				37,429		15,082		25			52,536
Appropriations Used	0	0	36,648	(36,648)	15,083	(15,083)	21	(21)	0	51,752	(51,752)
Tax Revenues	479,450	80,211	0		0		0		0	559,661	
Interest Revenues	77,717	9,899	0		0		0		0	87,616	
Transfers-In/Out											
Trust Fund Draws and Other - In	107	21	0		0		8,857		(7,245)	1,740	
Trust Fund Draws and Other - Out	(2,214)	(2,099)	(1,814)		(15,076)		0		7,245	(13,958)	
Railroad Retirement Interchange	(3,549)	(239)	0		0		0		0	(3,788)	
Total Transfers-In/Out	(5,656)	(2,317)	(1,814)		(15,076)		8,857		0	(16,006)	
Other Budgetary Financing Sources	12	73	0		0		0		0	85	
Other Financing Sources											
Transfers-In/Out	0	0	0		0		5		0	5	
Imputed Financing Sources	0	0	0		0		452		0	452	
Total Financing Sources	551,523	87,866	34,834	781	7	(1)	9,335	4	0	683,565	784
Net Cost of Operations	412,773	75,273	35,017		7		8,372		0	531,442	
Ending Balances	$ 1,433,278	$ 170,598	$ (1,325)	$ 1,414	$ 0	$ 59	$ 2,652	$ 16	$ 0	$ 1,605,203	$ 1,489

Other Accompanying Information: Schedule of Financing for the Year Ended September 30, 2004

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
Resources Used to Finance Activities:						
Budgetary Resources Obligated						
Obligations Incurred	$ 418,394	$ 77,733	$ 40,952	$ 15,090	$ 8,625	$ 560,794
Less: Offsetting Collections	0	0	(4,273)	(10)	(9,040)	(13,323)
Obligations Net of Offsetting Collections	418,394	77,733	36,679	15,080	(415)	547,471
Less: Offsetting Receipts	(13,300)	(1,085)	(273)	(2,341)	0	(16,999)
Net Obligations	405,094	76,648	36,406	12,739	(415)	530,472
Other Resources						
Imputed Financing	0	0	0	0	452	452
Other	0	0	(273)	0	(32)	(305)
Net Other Resources Used to Finance Activities	0	0	(273)	0	420	147
Total Resources Used to Finance Activities	405,094	76,648	36,133	12,739	5	530,619
Resources Not Part of the Net Cost of Operations:						
Change in Budgetary Resources Obligated, Not Yet Provided	0	(1)	(18)	0	(182)	(201)
Resources That Fund Expenses Recognized In Prior Periods	143	(121)	1,270	3	(18)	1,277
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost of Operations	13,300	1,085	273	2,341	0	16,999
Resources That Fund Capitalized Costs	0	0	0	0	(498)	(498)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(5,764)	(2,338)	(2,799)	(15,076)	8,859	(17,118)
Total Resources Not Part of the Net Cost of Operations	7,679	(1,375)	(1,274)	(12,732)	8,161	459
Total Resources Used to Finance the Net Cost of Operations	412,773	75,273	34,859	7	8,166	531,078
Components of the Net Cost of Operations That Will Not Require of Generate Resources in the Current Period						
Components Requiring or Generating Resources in Future Periods						
Increase in Annual Leave	0	0	0	0	15	15
Other	0	0	161	0	3	164
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	0	0	161	0	18	179
Components Not Requiring or Generating Resources						
Depreciation and Amortization	0	0	0	0	181	181
Other	0	0	(3)	0	7	4
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	0	0	(3)	0	188	185
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Current Period	0	0	158	0	206	364
Net Cost of Operations	$ 412,773	$ 75,273	$ 35,017	$ 7	$ 8,372	$ 531,442

Required Supplementary Information: Schedule of Budgetary Resources as of September 30, 2004

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources Made Available						
Budget Authority						
Appropriations Received	$ 556,561	$ 90,802	$ 37,429	$ 15,091	$ 25	$ 699,908
Net transfers (+/-)	0	0	0	(4)	0	(4)
Unobligated Balances						
Beginning of Period	0	0	532	55	343	930
Net transfers (+/-)	0	0	0	(2)	0	(2)
Spending Authority from Offsetting Collections						
Earned						
Collected	0	0	4,255	5	59	4,319
Change in Receivable	0	0	(78)	0	1	(77)
Change in Unfilled Customer Orders						
Advance Received	0	0	0	0	1	1
Without Advance	0	0	0	0	(1)	(1)
Transfers from Trust Funds						
Collected	0	0	0	0	8,410	8,410
Anticipated	0	0	0	0	449	449
Subtotal	0	0	4,177	5	8,919	13,101
Recoveries of Prior Year Obligations	0	0	96	5	121	222
Temporarily Not Available Pursuant to Public Law	(138,167)	(13,069)	0	0	0	(151,236)
Permanently Not Available	0	0	0	(7)	0	(7)
Total Budgetary Resources	$ 418,394	$ 77,733	$ 42,234	$ 15,143	$ 9,408	$ 562,912
Status of Budgetary Resources:						
Obligations Incurred:						
Direct	$ 418,394	$ 77,733	$ 36,784	$ 15,090	$ 8,562	$ 556,563
Reimbursable	0	0	4,168	0	63	4,231
Subtotal	418,394	77,733	40,952	15,090	8,625	560,794
Unobligated Balances						
Apportioned	0	0	1,188	21	300	1,509
Unobligated Balances - Not Available	0	0	94	32	483	609
Total Status of Budgetary Resources	$ 418,394	$ 77,733	$ 42,234	$ 15,143	$ 9,408	$ 562,912
Relationship of Obligations to Outlays:						
Obligated Balances - Beginning of the Period	$ 39,949	$ 17,606	$ 954	$ 35	$ (476)	$ 58,068
Obligated Balance - End of the Period						
Accounts Receivable	0	0	(8)	0	(2,183)	(2,191)
Undelivered Orders	0	5	60	0	1,285	1,350
Accounts Payable	41,038	16,784	1,065	1	217	59,105
Outlays:						
Disbursements	417,306	78,550	40,772	15,124	8,261	560,013
Collections	0	0	(4,255)	(5)	(8,470)	(12,730)
Subtotal	417,306	78,550	36,517	15,119	(209)	547,283
Less: Offsetting Receipts	13,300	1,085	273	2,341	0	16,999
Net Outlays	$ 404,006	$ 77,465	$ 36,244	$ 12,778	$ (209)	$ 530,284

Required Supplementary Information: Intragovernmental Amounts as of September 30, 2004

(Dollars in Millions)

Intragovernmental Assets	Fund Balance with Treasury	Investments	Interest Receivable, Net	Accounts Receivable, Net
Department of Health and Human Services				$ 623
Department of the Treasury	$ 3,148	$ 1,635,398	$ 22,315	
Other				1
Total Intragovernmental Assets	$ 3,148	$ 1,635,398	$ 22,315	$ 624

Intragovernmental Liabilities	Accrued Railroad Retirement Interchange	Accounts Payable	Other Liabilities
Department of the Treasury, General Fund		$ 4,993	
Railroad Retirement Board	$ 3,712		
Other			$ 247
Total Intragovernmental Liabilities	$ 3,712	$ 4,993	$ 247

Intragovernmental Revenues:	Non-Exchange Revenue Transfers-In	Non-Exchange Revenue Transfers-Out
Department of the Treasury, General Fund		$ 13,958
Railroad Retirement Board		3,788
Department of Health and Human Services	$ 1,740	
Total Intragovernmental Revenues:	$ 1,740	$ 17,746

Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
75-Year Projection as of January 1, 2004

(In billions)

		Estimates from Prior Years			
	2004	**2003**	**2002**	**2001**	**2000**
Actuarial present value[1] for the 75-year projection period of estimated future income (excluding interest)[2] received from or on behalf of:					
Current participants[3] who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	$14,388	$13,576	$13,048	$12,349	$11,335
Have attained retirement eligibility age (Age 62 and over)	411	359	348	309	266
Those expected to become participants (Under age 15)[4]	12,900	12,213	11,893	11,035	10,088
All current and future participants	27,699	26,147	25,289	23,693	21,688
Actuarial present value[1] for the 75-year projection period of estimated future cost[5] for or on behalf of:					
Current participants[3] who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	22,418	21,015	20,210	18,944	17,217
Have attained retirement eligibility age (Age 62 and over)	4,933	4,662	4,402	4,255	4,020
Those expected to become participants (Under age 15)[4]	5,578	5,398	5,240	4,700	4,297
All current and future participants	32,928	31,075	29,851	27,899	25,534
Actuarial present value[1] for the 75-year projection period of estimated future excess of income (excluding interest) over cost	-$5,229	-$4,927	-$4,562	-$4,207	-$3,845
Trust fund assets[6] at start of period	1,531	1,378	1,213	1,049	896
Actuarial present value[1] for the 75-year projection period of estimated future excess[7] of income (excluding interest) and trust fund assets at start of period over cost	-$3,699	-$3,550	-$3,350	-$3,157	-$2,949

Footnotes to the Statement of Social Insurance

[1]Present values are computed on the basis of the intermediate economic and demographic assumptions specified in the Report of the Board of Trustees for the year shown and over the 75-year projection period beginning January 1 of that year. Totals do not necessarily equal the sum of the rounded components.

[2]Income (excluding interest) consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury.

[3]Current participants are the "closed group" of individuals age 15 and over at the start of the period. To calculate the actuarial present value of the excess of future income (excluding interest) from or on behalf of these individuals over future cost for them or on their behalf, subtract the actuarial present value of future cost for them or on their behalf from the actuarial present value of future income (excluding interest) from them or on their behalf. The projection period for the closed group would theoretically include all future working and retirement years, a period which may exceed 75 years in some instances. While the estimates are limited to the 75-year projection period, the net present value of future income and cost for the closed group participants beyond 75 years is not material.

[4]Includes births during the period.

[5]Cost includes scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

[6]Trust fund assets represent the accumulated excess of all past income, including interest on trust fund assets, over all past expenditures for the social insurance program. The assets are invested only in securities backed by the full faith and credit of the Federal Government.

[7]The negative value represents the magnitude of the unfunded obligation of the program over the 75-year projection period. The calculation of the actuarial balance used for analysis by the Social Security trustees differs from the calculation of the amount presented on this line. The trustees' actuarial balance is expressed as a percentage of the taxable payroll and includes the cost of attaining a target fund balance equal to the estimated next year's cost at the end of the period.

Assumptions Used for the Statement of Social Insurance

The estimates used in this presentation for the current year (2004) are based on the assumption that the programs will continue as presently constructed. They are also based on various economic and demographic assumptions, including those in the following table:

Table 1: Assumptions Used for the Statement of Social Insurance 2004

			Period Life Expectancy At Birth[3]				Average Annual Percentage Change In:				Average Annual Interest Rate[9]
	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000)	Male	Female	Net Annual Immigration (persons per year)[4]	Real-Wage Differential[5] (percentage points)	Average Annual Wage in Covered Employment	CPI[6]	Total Employment[7]	Real GDP[8]	
2004	2.02	862.6	74.5	79.6	1,175,000	2.4	3.6	1.2	1.7	4.4	4.4%
2005	2.01	858.4	74.7	79.6	1,150,000	2.8	4.3	1.5	1.7	3.6	4.8%
2010	2.00	831.0	75.3	80.0	1,025,000	1.3	4.1	2.8	0.8	2.6	5.9%
2020	1.97	766.8	76.3	80.8	950,000	1.1	3.9	2.8	0.3	1.9	5.8%
2030	1.95	706.9	77.4	81.7	900,000	1.0	3.8	2.8	0.2	1.8	5.8%
2040	1.95	654.1	78.3	82.5	900,000	1.0	3.8	2.8	0.3	1.9	5.8%
2050	1.95	607.6	79.2	83.3	900,000	1.0	3.8	2.8	0.2	1.8	5.8%
2060	1.95	566.5	80.0	84.0	900,000	1.1	3.9	2.8	0.2	1.8	5.8%
2070	1.95	529.9	80.8	84.6	900,000	1.1	3.9	2.8	0.2	1.8	5.8%

1. The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in 2028.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year.
5. The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index.
6. The Consumer Price Index (CPI) is the annual average value for the calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).
7. Total employment represents total of civilian and military employment in the U.S. economy.
8. The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 1996 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
9. The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.

These assumptions and the other values on which these displays are based reflect the intermediate assumptions of the 2004 Trustees Report. Estimates made in prior years differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Program Description

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as "Social Security," provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2003, OASDI benefits were paid to approximately 47 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers' lifetime earnings histories.

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

Program Finances and Sustainability

As discussed in Note 8 to the consolidated financial statements, a liability of $52 billion as of September 30, 2004 is included in "Benefits Due and Payable" on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date ($48 billion as of September 30, 2003). Virtually all of this amount was paid in October 2004. Also, an asset of $1,635 billion is recognized for the "investments in Treasury securities" as of September 30, 2004 ($1,484 billion as of September 30, 2003). These investments are referred to as "trust fund assets" or "balance" throughout the remainder of this disclosure. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government.

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2004. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and are not considered deferred compensation, as would employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

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

- **income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of OASDI benefits; interest income from Treasury securities held as assets of the trust funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **income excluding interest:** income, as defined above, excluding the interest income from Treasury securities held as assets of the trust funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;
- **present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the payments as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2004 Trustees Report) (see Table 1). The statement presented on page 174 and the supplementary stewardship information below are derived from estimates of future income and cost based on these assumptions and on the current Social Security Act, including future changes previously enacted. This information includes:

(1) actuarial present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;

(2) estimated annual income excluding interest and cost in nominal dollars and as percentages of taxable payroll and GDP;

(3) the ratio of estimated covered workers to estimated beneficiaries; and

(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

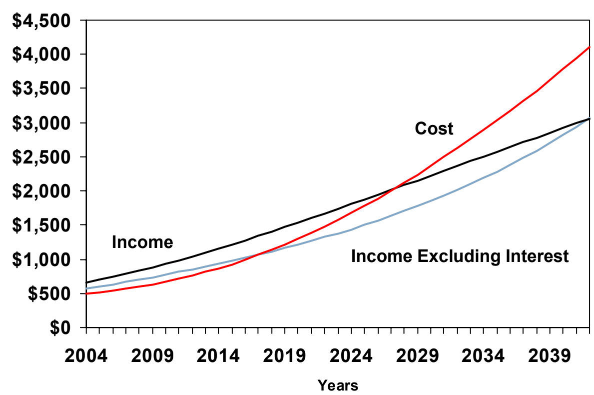
Cashflow Projections - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2004-2042 in nominal dollars. These estimates are only displayed through 2042, the year that the OASDI trust funds are projected to become exhausted. At the point of Trust Fund exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow significantly to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this table, which is intended to illustrate the source of revenue needed to meet the cost of the program, beyond the point of Trust Fund exhaustion, would be inappropriate.

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

As chart 1 shows, estimated cost starts to exceed income (including interest) in 2028. This occurs because of a variety of factors including the retirement of the "baby boom" generation, the relatively small number of people born during the subsequent period of low birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated cost starts to exceed income excluding interest even earlier, in 2018. At that time, to meet all OASDI cost on a timely basis, the trust funds would begin to redeem assets (Treasury securities). To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.

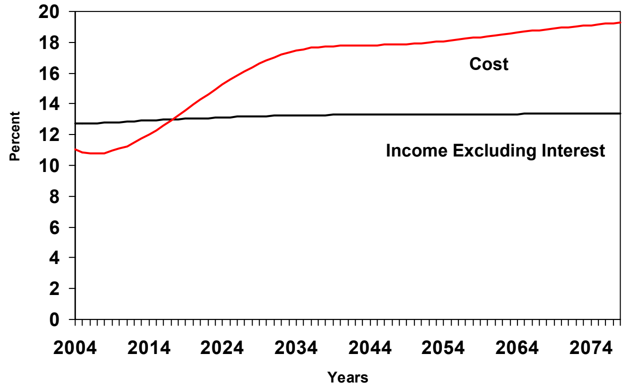
Chart 1 – Estimated OASDI Income and Cost, 2004-2042

(In billions of nominal dollars)



Percentage of Taxable Payroll - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2018, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2018, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover only 68 percent of the estimated cost.

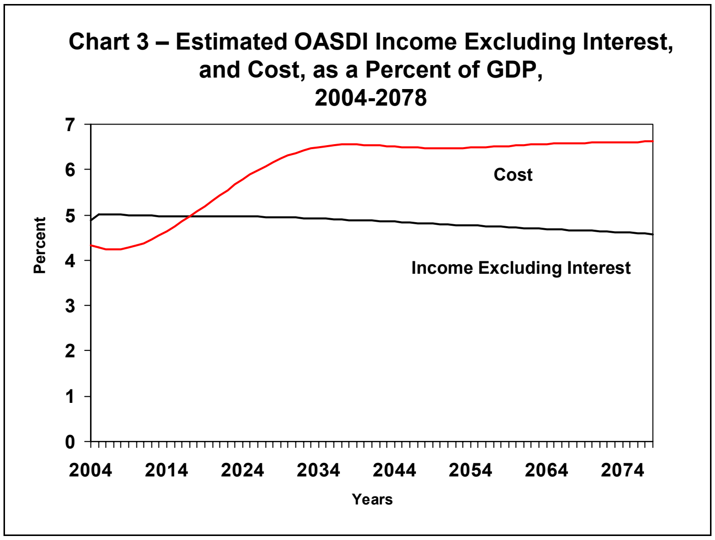
Chart 2 – Estimated OASDI Income Excluding Interest, and Cost, as a Percent of Taxable Payroll, 2004-2078



Actuarial Balance - The statement of social insurance on page 174 shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$5,229 billion. If augmented by the trust fund assets at the start of the period (January 1, 2004), it is -$3,699 billion. This excess does not equate to the actuarial balance in the Trustees Report of -1.89 percent of taxable payroll because the actuarial balance includes the cost of attaining a target Trust Fund balance by the end of the period.

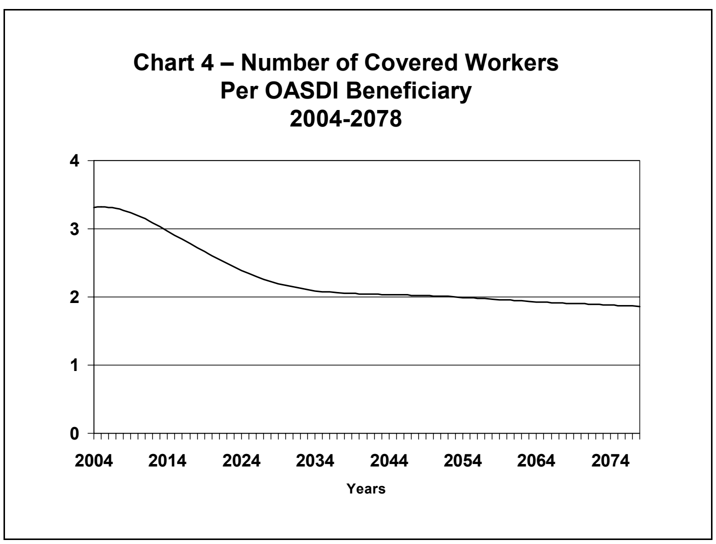
One interpretation of this negative actuarial balance (-1.89 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain at that level. An increase of 1.89 percentage points in this rate in each year of the 75-year projection period--about 0.95 percentage points for employees and employers each, resulting in a total rate of 14.29 percent or a rate of 7.15 percent for each--is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all current and future benefits could be reduced by about 12.6 percent (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

Percentage of Gross Domestic Product (GDP) - Chart 3 shows estimated annual income excluding interest and cost expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the GDP, which represents the total value of goods and services produced in the United States, provides a measure of the size of the OASDI program in relation to the capacity of the national economy to sustain it.



In 2003, OASDI cost was about $479 billion, which was about 4.4 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.3 percent of GDP in 2030 and then gradually increases to 6.6 percent of GDP in 2078. The increase will occur because baby boomers will become eligible for OASDI benefits, lower birth rates will result in fewer workers per beneficiary, and beneficiaries will continue to live longer.

Ratio of Workers to Beneficiaries - Chart 4 below shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2003 to 1.9 in 2078.



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

For this analysis, the intermediate assumptions in the 2004 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2004 and are based on estimates of income and cost during the 75-year projection period 2004-2078. In this section, for brevity, "income" means "income excluding interest."

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

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

Total Fertility Rate - Table 2 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 1.95 and 2.2 children per woman, where 1.95 is the intermediate assumption in the 2004 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2028.

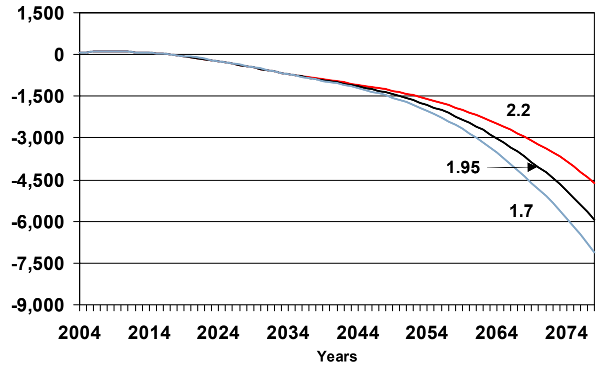
Table 2 demonstrates that, if the ultimate total fertility rate is changed from 1.95 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to $5,757 billion, from $5,229 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to $4,707 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Total Fertility Rate Assumptions
Valuation Period: 2004-2078

Ultimate Total Fertility Rate	1.7	1.95	2.2
Present Value of Estimated Excess (In billions)	-$5,757	-$5,229	-$4,707

Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 2. Chart 5 shows the estimated annual OASDI net cashflow.

Chart 5 – Estimated Annual OASDI Net Cashflow With Various Ultimate Total Fertility Rate Assumptions 2004-2078
(In billions of nominal dollars)

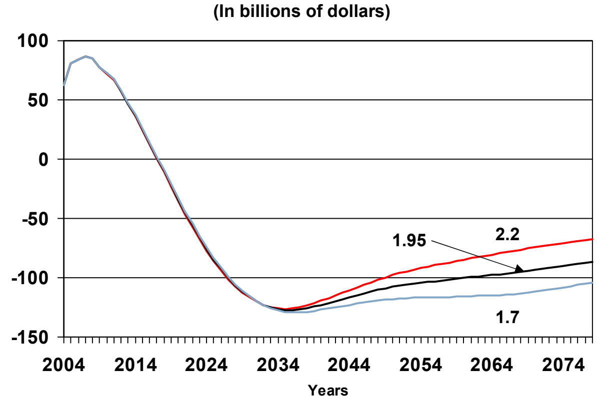


The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing slightly in the first four years, the net cashflow estimates decrease steadily through 2078. They remain positive through 2017 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 38 years before the OASDI trust funds are depleted.

In the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2033 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from that year on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

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

Chart 5A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Total Fertility Rate Assumptions 2004-2078
(In billions of dollars)



The three patterns of the present values shown in Chart 5A are similar. After increasing for three years, the present values decrease steadily through the mid 2030's. They remain positive through 2017 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2036 for 2.2 and 2037 for 1.7 and 1.95). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2037 than it would to cover the annual deficit in 2036.

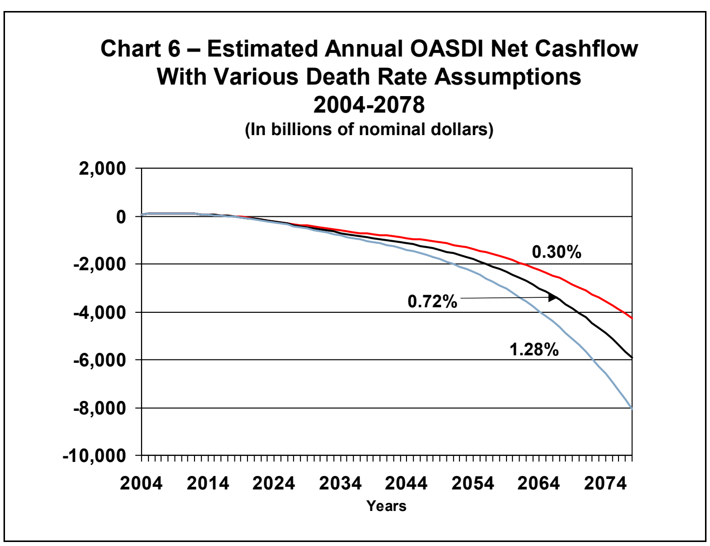
Death Rates - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2003-2078 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.30, 0.72 and 1.28 percent per year, where 0.72 percent is the intermediate assumption in the 2004 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 20, 42 and 62 percent, respectively.) Under these assumptions, the life expectancy at birth, on a unisex period life table basis, is projected to rise from 76.9 in 2003 to 80.0, 83.2, and 87.5, respectively, in 2078.

Table 3 demonstrates that, if the annual reduction in death rates is changed from 0.72 percent, the Trustees' intermediate assumption, to 0.30 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $3,983 billion, from $5,229 billion; if the annual reduction were changed to 1.28 percent, meaning that people live longer, the shortfall would increase to $6,738 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost
With Various Death Rate Assumptions
Valuation Period: 2004-2078

Average Annual Reduction in Death Rates (from 2003 to 2078)	0.30 Percent	0.72 Percent	1.28 Percent
Present Value of Estimated Excess (In billions)	-$3,983	-$5,229	-$6,738

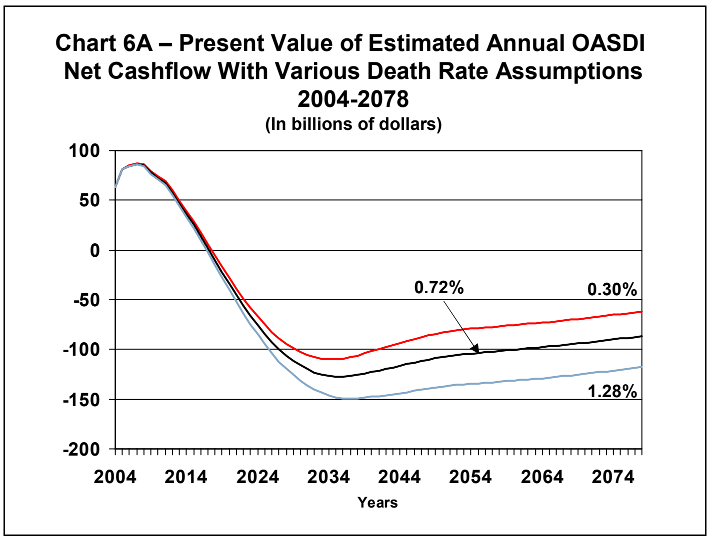
Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 3. Chart 6 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing slightly in the first several years, the net cashflow estimates decrease steadily through 2078. They remain positive through 2016 for an assumed average annual reduction of 1.28 percent and through 2017 for the other assumptions, after which the annual net cashflow estimates are negative. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). Although reductions at ages 50 to 62 add significantly to the number of covered workers, the increased payroll tax income is not large enough to offset the additional retirement and disability benefits resulting from the increased number of people surviving to age 50 and over. At ages under 50, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

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



The three patterns of the present values shown in Chart 6A are similar. After increasing for three years, the present values decrease steadily through the mid 2030's. They remain positive through 2016 for an assumed average annual reduction of 1.28 percent and through 2017 for the other assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2037 and 2038 for assumptions of reductions of 0.30, 0.72 and 1.28 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Net Annual Immigration - Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of net annual immigration. These assumptions are that the ultimate net annual immigration (legal and other) will be 672,500 persons, 900,000 persons and 1,300,000 persons, where 900,000 persons is the intermediate assumption in the 2004 Trustees Report.

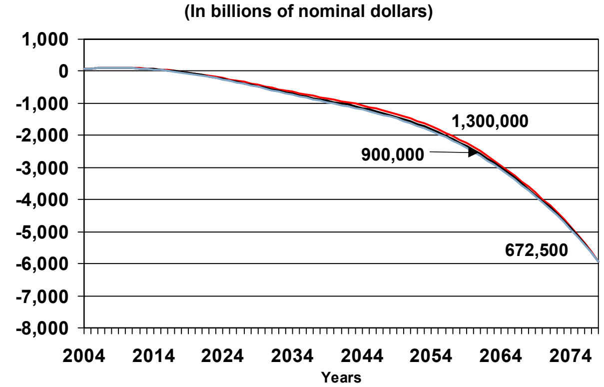
Table 4 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate ultimate assumption, to 672,500 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $5,526 billion, from $5,229 billion. If the net annual immigration were changed to 1,300,000 persons, the present value of the shortfall would decrease to $4,813 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Net Annual Immigration Assumptions
Valuation Period: 2004-2078

Ultimate Net Annual Immigration	672,500 Persons	900,000 Persons	1,300,000 Persons
Present Value of Estimated Excess (In billions)	-$5,526	-$5,229	-$4,813

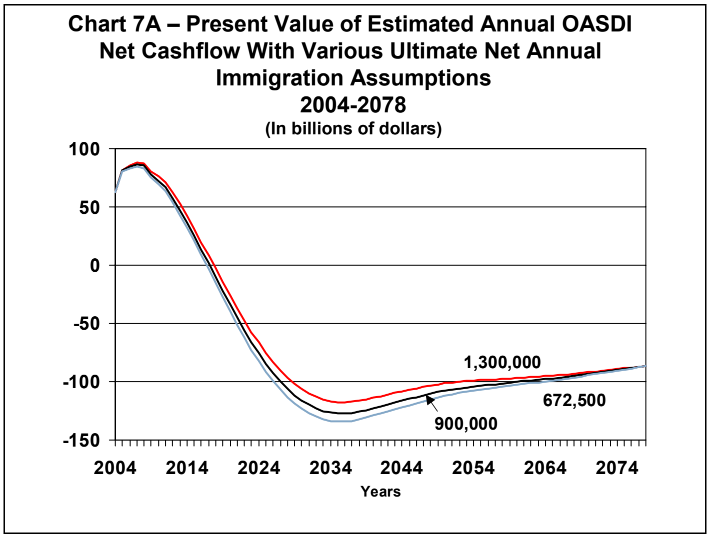
Charts 7 and 7A show estimates using the same assumptions about net annual immigration used for the estimates in Table 4. Chart 7 shows the estimated annual OASDI net cashflow.

Chart 7 – Estimated Annual OASDI Net Cashflow
With Various Ultimate Net Annual Immigration Assumptions
2004-2078
(In billions of nominal dollars)



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing slightly in the first four years, the net cashflow estimates decrease steadily through 2078. They remain positive through 2016 for an annual immigration of 672,500 and through 2017 for the other assumptions. Very little difference is discernible among the estimates of net cashflow based on the three assumptions about net annual immigration.

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



The three patterns of the present values shown in Chart 7A are similar. After increasing for three years, the present values decrease steadily through the mid 2030's. They remain positive through 2016 for an assumed ultimate net annual immigration of 672,500 persons and through 2017 for the other assumptions, after which the present values are negative. Present values based on all three assumptions about net annual immigration begin to increase (become less negative) in the 2030's (2036 for the ultimate assumption of 672,500 net annual immigration and 2037 for the other assumptions).

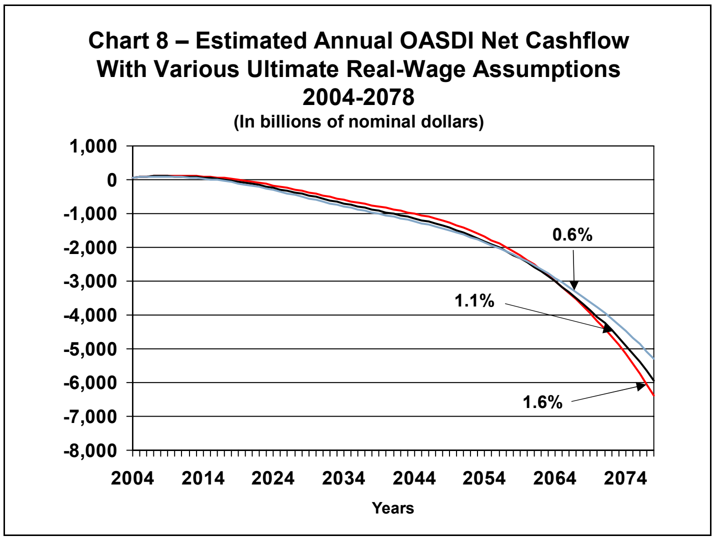
Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three assumptions about net annual immigration. However, as these three levels of net annual immigration accumulate, variations in present values become more apparent. Because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

Real-Wage Differential - The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1 and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2004 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 3.9 and 4.4 percent, respectively.

Table 5 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $5,795 billion from $5,229 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to $4,429 billion.

Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2004-2078			
Ultimate Annual Increase in Wages, CPI; **Real Wage Differential**	3.4% , 2.8%; **0.6%**	3.9% , 2.8%; **1.1%**	4.4% , 2.8%; **1.6%**
Present Value of Estimated Excess (In billions)	-$5,795	-$5,229	-$4,429

Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 5. Chart 8 shows the estimated annual OASDI net cashflow.

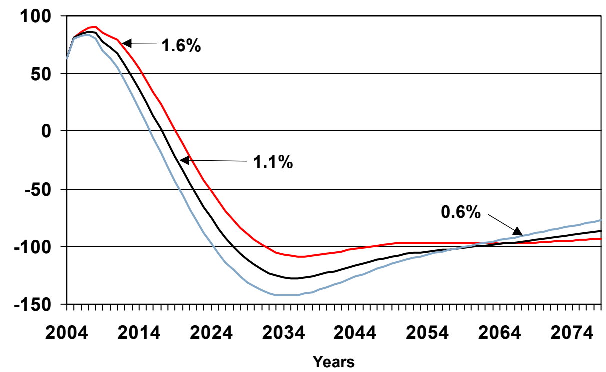


The three patterns of estimated net annual OASDI cashflow shown in Chart 8 increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2017 and 2019 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and is negative thereafter.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, around 2060, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

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

Chart 8A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2004-2078
(In billions of dollars)



The three patterns of the present values shown in Chart 8A increase for several years, and then, decrease steadily through the mid 2030's. They remain positive through 2015, 2017 and 2019 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2036, 2037 and 2037 for an assumed ultimate real-wage differential of 0.6, 1.1 and 1.6 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2054 when decreases temporarily begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

Consumer Price Index - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8 and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2004 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.9, 3.9 and 4.9 percent, respectively.

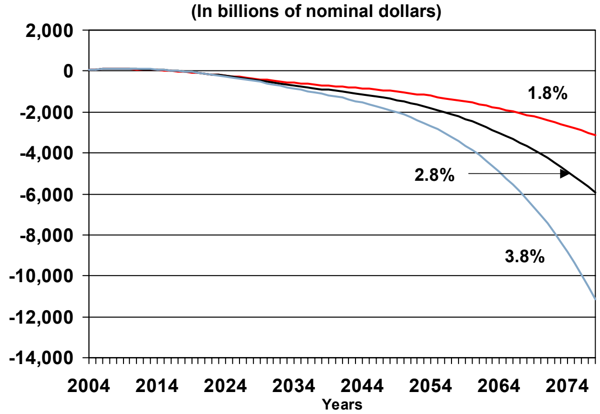
Table 6 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $5,612 billion, from $5,229 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to $4,839 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2004-2078

Ultimate Annual Increase in Wages, **CPI**; Real Wage Differential	2.9% , **1.8%**; 1.1%	3.9% , **2.8%**; 1.1%	4.9% , **3.8%**; 1.1%
Present Value of Estimated Excess (In billions)	-$5,612	-$5,229	-$4,839

Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 6. Chart 9 shows the estimated annual OASDI net cashflow.

Chart 9 – Estimated Annual OASDI Net Cashflow With Various Ultimate CPI-Increase Assumptions 2004-2078
(In billions of nominal dollars)

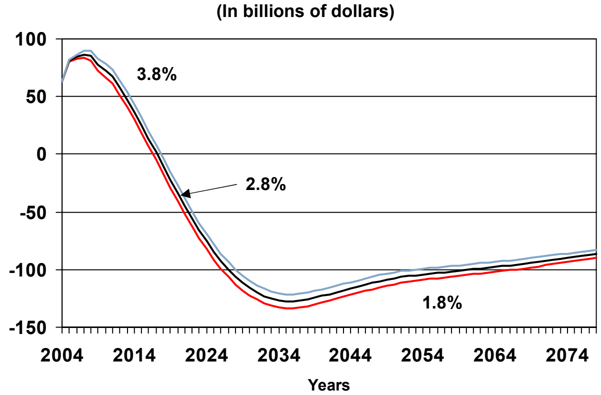


The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2078. Annual net cashflow remains positive through 2016 for an assumed ultimate annual increase in the CPI of 1.8 percent and 2017 for the other two assumptions, and is negative thereafter. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher initial benefits. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost.

Larger increases in the CPI cause income to increase sooner, and thus by more in each year, than cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. However, shortly after 2020, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because the effect of benefits becomes more fully realized.

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

Chart 9A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate CPI-Increase Assumptions 2004-2078
(In billions of dollars)



The three patterns of the present values shown in Chart 9A are similar. After increasing for three years, present values decrease steadily through the mid 2030's before beginning to increase once again. They remain positive through 2017 (2016 for an assumed ultimate annual increase in the CPI of 1.8 percent) and are negative thereafter. Present values begin to increase (become less negative) after 2035 (2036, 2037 and 2037 for assumed ultimate CPI-increases of 1.8, 2.8 and 3.8 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

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

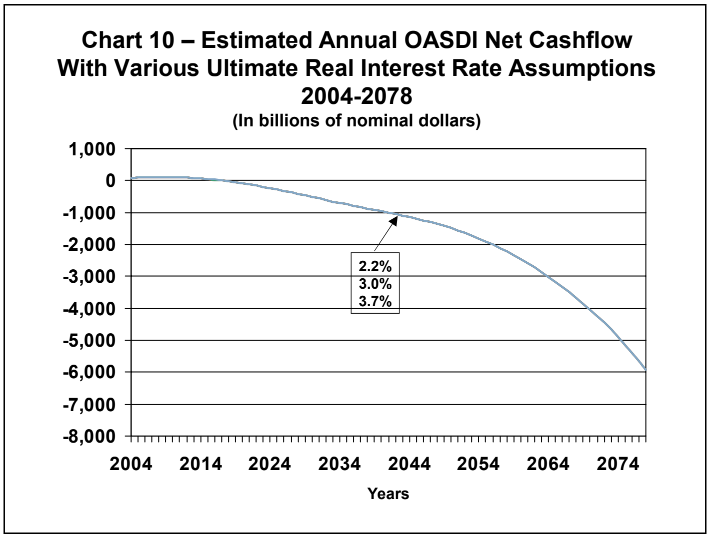
Real Interest Rate - Table 7 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold only to the trust funds. These assumptions are that the ultimate annual real interest rate will be 2.2, 3.0 and 3.7 percent, where 3.0 percent is the intermediate assumption in the 2004 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 7 demonstrates that, if the ultimate real interest rate is changed from 3.0 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to $7,509 billion, from $5,229 billion; if the ultimate annual real interest rate were changed to 3.7 percent, the present-value shortfall would decrease to $3,825 billion.

Table 7: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Real-Interest Assumptions
Valuation Period: 2004-2078

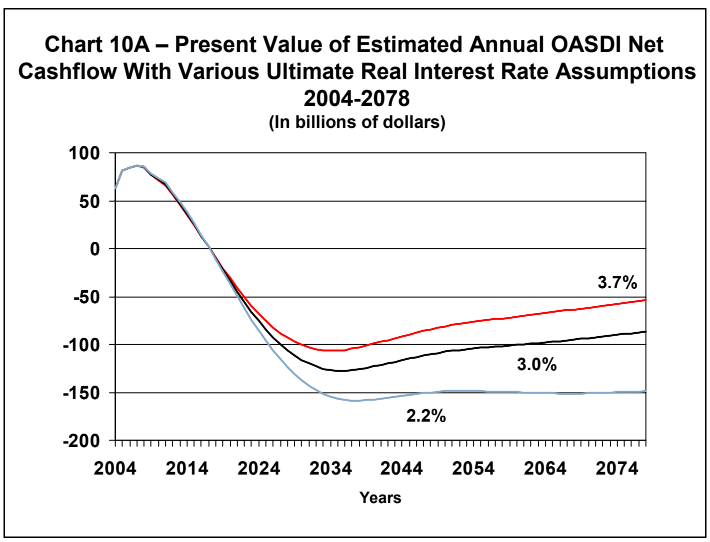
Ultimate Annual Real Interest Rate	2.2 Percent	3.0 Percent	3.7 Percent
Present Value of Estimated Excess (In billions)	-$7,509	-$5,229	-$3,825

Charts 10 and 10A show estimates using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 7. Chart 10 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow (which does not include interest) shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2008, the net cashflow estimates decrease steadily through 2078. They remain positive through 2017 and are negative thereafter.

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



The three patterns of the present values shown in Chart 10A are similar. After increasing for three years, the present values decrease steadily through the mid 2030's. They remain positive through 2017 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2038, 2037 and 2035 for assumed ultimate real interest rates of 2.2, 3.0 and 3.7 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real interest rate of 2.2 percent, the present values continue increasing temporarily, through 2052, then decrease until 2068, and increase thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Chart 10A shows a crossover in the patterns of the present values of the net cashflow. The crossover occurs at the time the net cashflow changes from positive to negative, which happens in 2018. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.

SOCIAL SECURITY

November 10, 2004

To: The Honorable Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration’s (SSA) Fiscal Year (FY) 2004 and 2003 financial statements. PwC's Report includes the firm’s *Opinion on the Financial Statements, Report on Management's Assertion About the Effectiveness of Internal Control,* and *Report on Compliance with Laws and Regulations.*

Objective of a Financial Statement Audit

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

PwC’s examination was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA’s programs and operations, especially within the Supplemental Security Income (SSI) program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2004 financial statements. PwC also audited the FY 2003 financial statements, presented in SSA's Performance and Accountability Report for FY 2004 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2004 and 2003 financial statements. PwC also reported that SSA's assertion that its systems of accounting and internal control are in compliance with the internal control objective in OMB Bulletin 01-02 is fairly stated in all material respects. However, the audit identified one reportable condition in SSA's internal control:

SSA Needs to Further Strengthen Controls to Protect Its Information

This same condition was found in prior year audits. It is PwC's opinion that SSA has made notable progress in addressing the information protection issues raised in prior years. Despite these accomplishments, SSA's systems environment remains threatened by security and integrity exposures to SSA operations.

OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2004 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin 01-02;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 8, 2004, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.

Patrick P. O'Carroll, Jr.
Acting Inspector General

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REPORT OF INDEPENDENT AUDITORS

To the Honorable Jo Anne B. Barnhart
Commissioner
Social Security Administration

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

- The consolidated balance sheets of SSA as of September 30, 2004 and 2003, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's systems of accounting and internal control in place as of September 30, 2004, are in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requiring that (1) transactions be properly recorded, processed and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or Required Supplemental Stewardship Information (RSSI) and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02;
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2004 and 2003, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above and appearing on pages 146 through 167 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2004 and 2003, and its net cost of operations, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

We have examined management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (1) transactions be properly recorded, processed and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02 as of September 30, 2004. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal controls. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

In our opinion, management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (1) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02, is fairly stated, in all material respects, as of September 30, 2004.

However, we noted certain matters involving the internal control and its operation, set forth below, that we consider to be a reportable condition under standards established by the AICPA and by OMB Bulletin No. 01-02. Reportable conditions are matters coming to our attention, that in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect SSA's ability to meet the internal control objectives in OMB Bulletin No. 01-02 previously noted. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the consolidated or combined financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition that follows is not a material weakness as defined by the AICPA and OMB Bulletin No. 01-02.

SSA Needs to Further Strengthen Controls to Protect Its Information:

During FY 2004, SSA management corrected many of the issues previously noted regarding physical security at the Disability Determination Service (DDS) sites and enhanced continuity of operations activities, including testing of newly developed continuity procedures for Regional Office (RO), Program Service Center (PSC) and DDS sites. Additionally, significant progress was made on the Standardized Security Profile Project (SSPP). During the year:

- Access assignments of operations personnel to access application transactions for all major SSA systems identified and defined by SSA management as critical to operations, were identified, reviewed, adjusted and confirmed;
- Datasets were identified for major systems defined by SSA management as critical to operations;
- New profiles and procedures were created to control access to the datasets within the critical applications identified and defined by SSA management;
- Many of the new profiles for granting update access to the datasets of the critical applications were established and vetted;
- New procedures were implemented to ensure new datasets were named in accordance with naming standards and that these datasets included descriptions to allow users to readily understand their contents; and,
- Procedures and plans were honed to continue the process to ensure controlled access to system datasets, including continuance of the SSPP.

Although significant progress has been made regarding logical security controls, we note the need for continued progress regarding the certification of security access assignments to system datasets within critical applications. Testing disclosed that systems employees still have direct update access to many of the datasets within the critical applications without consistent auditing. Further, at the time of our audit too many employees had been granted update access to allow reasonable review of their activities to be considered an effective control.

We also noted that security configurations had not been developed for all of the servers in use in SSA's distributed processing environment. Additionally, some server security configurations required update and enhancement. Distributed server security configurations represent a key control in ensuring security of the SSA network.

Specific disclosure of detailed information about these exposures might further compromise controls and are therefore not provided within this report. Rather, the specific details of weaknesses noted are presented in a separate, limited-distribution management letter.

The need for a strong security program to address threats to the security and integrity of SSA operations grows and transforms as the Agency continues to progress with plans to increase dependence on the Internet and Web-based applications to serve the American public. Clear, continued and measurable progress has been made towards the establishment of a strong overall security program. However, to more fully protect SSA from risks associated with the loss of data, loss of other resources or compromised privacy of information associated with SSA's enumeration, earnings, retirement and disability processes and programs, SSA must further strengthen its security program. Specifically, further progress is needed in the area of access assignments to application systems data and programs by systems personnel, including the continual review of systems access, and in the assurance that security configuration standards for distributed servers are established, kept current, and enforced.

Recommendations

We recommend that SSA continue its efforts to enhance information protection by continuing to implement the remaining portions of the SSPP and through the establishment, refinement and enforcement of procedures to ensure standard security configurations for distributed servers. More specific recommendations focused upon the individual exposures we identified are included in a separate, limited-distribution management letter.

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

INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS AND RSSI

With respect to internal control relevant to data that support reported performance measures on pages 42 to 65 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on the internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

In addition, we considered SSA's internal control over RSSI by obtaining an understanding of SSA's internal control, determined whether these internal controls had been place in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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

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

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OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 1 to 2 and 7 to 80, Required Supplementary Information (RSI) included on pages 172 to 173, and Required Supplementary Stewardship Information (RSSI) included on pages 174 to 192 of this performance and accountability report, are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements.* We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A, RSI and RSSI. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 172 of this performance and accountability report, is not a required part of the consolidated or combined financial statements but is supplementary information required by OMB Bulletin No. 01-09*, Form and Content of Agency Financial Statements*. This information and the consolidating and combining information included on pages 168 to 171 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the consolidated or combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

The other accompanying information included on pages 3 to 6, 81 to 145, 193 to 194 and 200 to the end of this performance and accountability report, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

* * * * *

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

PricewaterhouseCoopers LLP

November 8, 2004

SOCIAL SECURITY

The Commissioner

November 1, 2004

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

Ladies and Gentlemen:

We reviewed the draft combined report containing the Fiscal Year 2004 Report of Independent Auditors, Opinion on the Financial Statements, the Report on Management's Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations. We agree with all of the findings and recommendations contained in the report and our response and comments are enclosed.

We are pleased that the report states that the Social Security Administration (SSA) corrected many of the issues previously noted as part of a reportable condition regarding physical security at the Disability Determination Services (DDS) sites and enhanced continuity of operations activities, including testing of newly developed continuity procedures for regional office, program service center and DDS sites. We are also pleased that you recognized the significant progress made on reviewing and confirming systems access assignments during the year. Your findings confirm the continued improvement in SSA's systems security environment. Although significant progress has been made, we agree that further improvements are needed. As you recommended, we will continue to work with you to enhance information protection.

If members of your staff have any questions, they may contact Jeffrey C. Hild at (410) 965-0613.

Sincerely,

Jo Anne B. Barnhart

Jo Anne B. Barnhart

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Comments of the Social Security Administration (SSA) on PricewaterhouseCoopers' Draft Combined Report Containing the Fiscal Year (FY) 2004 Report of Independent Auditors, Opinion on the Financial Statements, the Report on Management's Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations

General Comments

Thank you for the opportunity to comment on your combined draft report containing the Report of Independent Auditors, Opinion on the Financial Statements, the Report on Management's Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations.

We welcome your opinion that management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in Office of Management and Budget Bulletin No. 01-02, is fairly stated in all material respects as of September 30, 2004 and your report that SSA has no reportable instances of noncompliance with the laws and regulations tested.

We are pleased that the report indicated that SSA has made significant progress in addressing the reportable condition concerning the need to further strengthen controls to protect its information and that no new major weaknesses were found. We are also pleased that you believe that SSA has made sufficient progress to support the removal of two of the three elements of the reportable condition from FY 2003. We worked very hard during the year to improve security controls.

As you recognized in the report, SSA corrected many of the issues previously noted as part of the reportable condition regarding physical security at the Disability Determination Services (DDS) sites and enhanced continuity of operations activities, including testing of newly developed continuity procedures for regional office, program service center and DDS sites. We are also pleased that you recognized the significant progress made on reviewing and confirming systems access assignments during the year. As noted, new profiles and procedures were created to control access to the datasets within the critical applications identified and defined by SSA management and many of the new profiles were established and vetted. The access assignments of operations personnel were also identified, reviewed, adjusted and confirmed. Datasets were identified for major systems defined by SSA management as critical to operations and new procedures were implemented to ensure new datasets were named in accordance with naming standards. The datasets included descriptions to allow users to readily understand their contents.

Your findings confirm the continued improvement of the security over SSA's systems security environment. Over the last year SSA continued to address the highest risk elements of our sensitive systems. Although significant progress has been made, we agree that further improvements are needed. As you recommended, we will continue to strengthen the Agency's security controls. We appreciate your evaluation of our controls and will continue to work with you to improve their effectiveness.

The following specific comments are provided.

Recommendations

We recommend that SSA continue its efforts to enhance information protection by continuing to implement the remaining portions of the Standardized Security Profile Project (SSPP) and through the establishment and refinement of procedures to ensure standard security configurations for distributed servers.

- **SSA Comment (Continuing to implement SSPP)**

  SSA will continue with its SSPP program to ensure proper access assignments. The objective is to ensure that users have only been granted access to transactions and data necessary to fulfill their job responsibilities and nothing more. We will continue to identify, review, adjust and confirm systems access assignments as we have done during the past year. SSA will also pilot processes to limit Office of Systems' programmer update access to an as needed basis that will expire within a severely limited time frame. Access activity will also be reviewed. We will keep you informed on the status of this pilot and, after an appropriate period, we will determine the procedures most advantageous to the Agency.

- **SSA Comment (Ensure standard security configurations for distributed servers)**

  We will continue to strengthen the security configurations already prepared by reviewing and updating them on a recurring basis and develop security configuration documents for the platforms mentioned in the review. We will also evaluate your recommendations to develop security configuration models for specific servers identified. We recognize that distributed server security configurations represent a key control in ensuring security of the SSA network and will do everything we can to improve in that area.

Inspector General Statement on SSA's Major Management Challenges

SOCIAL SECURITY

November 10, 2004

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the *Reports Consolidation Act of 2000 (Pub. L. No. 106-531)*, which requires that Inspectors General provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this statement in the S*ocial Security Administration's Fiscal Year 2004 Performance and Accountability Report*.

In September 2003, we identified six significant management issues facing the Social Security Administration for Fiscal Year 2004.

- **Social Security Number Integrity and Protection**
- **Management of the Disability Process**
- **Improper Payments**
- **Budget and Performance Integration**
- **Critical Infrastructure Protection and Systems Security**
- **Service Delivery**

I congratulate you on the progress you have made during Fiscal Year 2004 in addressing these challenges. I look forward to working with you in continuing to improve the Agency's ability to meet its mission efficiently and effectively. Our assessment of the status of these six management challenges is enclosed.

Sincerely,

Patrick P. O'Carroll, Jr.
Acting Inspector General

Enclosure

Inspector General Statement on the Social Security Administration's Major Management Challenges

A-02-05-15092

November 2004

Social Security Number Integrity and Protection

In FY 2004, the Social Security Administration (SSA) issued over 17.5 million original and replacement Social Security number (SSN) cards, and SSA received approximately $545 billion in employment taxes. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

The SSN has become a key to social, legal, and financial assimilation in this country. Because the SSN is so heavily relied on as an identifier, it is also valuable as an illegal commodity. Criminals improperly obtain SSNs by (1) presenting false documentation; (2) stealing another person's SSN; (3) purchasing an SSN on the black market; (4) using the SSN of a deceased individual; or (5) creating a nine-digit number out of thin air.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to lawful aliens only if they can provide evidence of a valid nonwork reason. Our audits have noted a number of issues related to nonwork SSNs, including (1) the type of evidence provided to obtain a nonwork SSN, (2) the reliability of nonwork SSN information in SSA's records, (3) the significant volume of wages reported under nonwork SSNs, and (4) the payment of benefits to noncitizens who qualified for their benefits while working in the country without proper authorization.

Another important part of ensuring SSN integrity is the proper posting of earnings reported under SSNs. Properly posting earnings ensures eligible individuals receive the full retirement, survivor and/or disability benefits due them. If earnings information is reported incorrectly or not reported at all, SSA cannot ensure all eligible individuals are receiving the correct payment amounts. In addition, SSA's disability programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments.

SSA spends scarce resources correcting earnings data when incorrect information is reported. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for which wage earners' names and/or SSNs fail to match SSA's records. As of October 2003, the ESF had accumulated over $421 billion in wages and 244 million wage items for Tax Years (TY) 1937 through 2001. SSA attempts to reduce the amount of items in the ESF through edits and correspondence with employees and employers.

While SSA has limited control over the factors that cause the volume of erroneous wage reports submitted each year, there are still areas where the Agency can improve its processes. SSA can improve wage reporting by educating employers on reporting criteria, identifying and resolving employer reporting problems, and encouraging greater use of the Agency's SSN verification programs. SSA also needs to further coordinate with other Federal agencies that have separate, yet related, mandates. For example, the Agency has collaborated with the Internal Revenue Service (IRS) to achieve more accurate wage reporting. In August 2002, SSA provided a list of all employers with more than 100 items in the ESF to the IRS. The IRS later visited a number of these employers to review their employee records.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to strengthen controls in its enumeration process, including establishing an Enumeration Response Team. As a result of the Team's efforts, SSA now performs full collateral verification of all immigration documents before assigning SSNs to noncitizens. SSA requires mandatory interviews for all applicants for original SSNs who are over age 12 (lowered from age 18) and requires evidence of identity for all children, regardless of age. In addition, SSA has established an enumeration center in Brooklyn, New York, that focuses exclusively on assigning SSNs and issuing SSN cards. In FY 2005, SSA will also implement new systems enhancements that will simplify the interpretation of and compliance with the Agency's complex enumeration policies. The system will determine what documents and proofs the SSN applicant must present and will prompt the employee to ask the applicant for mandatory information. SSA has also created an Identity Theft Workgroup in which we participate. Furthermore, the Agency has made enhancements to its Modernized Enumeration System that will interrupt the issuance of SSN cards when parents claim to have an improbably large number of children, and add an alert to an individual's record when the SSN has been used for the purpose of establishing a fictitious identity.

To address nonwork SSN misuse, SSA has placed greater restrictions on the issuance of nonwork SSNs. SSA also monitors noncitizens who have earnings posted under a nonwork SSN and reports this information to the Department of Homeland Security. Recent legislation should also help address this issue. In March 2004, *the Social Security Protection Act of 2004 (Pub. L. No. 108-203)* was signed into law. This act generally precludes the payment of benefits based on the earnings of noncitizens who have never been issued an SSN indicating authorization to work in the United States. This provision is effective with respect to SSNs issued after December 2003.

SSA has taken steps to reduce the size and growth of the ESF. For example, SSA has piloted the Social Security Number Verification Service, which allows employers to verify the names and SSNs of employees before reporting their wages to SSA. The Agency has also modified its automated processes to better identify the numberholder related to items in the ESF. SSA stated the new processes would use information stored on the earnings and benefits records whereas previous internal edits only used the names and SSNs related to the suspended wages. Through September 2004, SSA reduced the ESF by approximately 7.9 million items, short of its FY 2004 goal of 27.6 million items. SSA reported that the principal reason its goal was not met was due to underestimating the time needed to design and fully implement a new series of very complex matching software routines.

Finally, SSA is establishing an Earnings Data Warehouse (EDW) that can track employer-specific reporting trends. This facility will be able to determine the percent of an employer's payroll that contains name and SSN mismatches and should allow for better targeting of problem employers. The EDW should be able to produce a listing of employers showing their wage reporting accuracy by the end of Calendar Year 2004.

Management of the Disability Process

SSA needs to improve critical parts of the disability process – determining disabilities, the accuracy of disability payments, and the integrity of the disability programs. In January 2003, the Government Accountability Office (GAO) added modernizing Federal disability programs—including SSA's—to its 2003 high-risk list. GAO did this, in part, because of outmoded concepts of disability, lengthy processing times, and decisional inconsistencies.

SSA needs to continue its efforts to improve the process used to determine claimant disability by focusing on initiatives that will improve the timeliness and quality of its services. For example, the Office of Hearings and Appeals' (OHA) average processing time has increased significantly from 297 days in FY 2000 to 391 days in FY 2004. Further, the hearings pending workload for FY 2004 was 635,601 cases, whereas it was 346,756 cases in FY 2000. This represents an 83.3 percent increase in OHA's pending workload. SSA's efforts to address its pending workload did not meet the goals established for FY 2004. In FY 2004, SSA processed 497,379 hearings, well below its goal of 538,000.

Another area SSA needs to improve is ensuring the correct benefits are paid to the correct individuals. In a July 2004 report, we estimated that, although SSA identified and assessed about $1.8 billion in overpayments because of disabled beneficiaries' work activity, the Agency did not detect an additional $1.4 billion in improper payments. Our review showed that continuing disability reviews (CDR) are critical to determining whether a disabled beneficiary continues to be eligible for benefits.

Fraud is an inherent risk in SSA's disability programs. Some unscrupulous people view SSA's disability benefits as money waiting to be taken. Key risk factors in the disability program are individuals who feign or exaggerate symptoms to become eligible for disability benefits or who, after becoming eligible to receive benefits, knowingly fail to report medical improvements.

SSA Has Taken Steps to Address this Challenge

SSA continues to focus on improving the disability process. In September 2003, the Commissioner proposed a new approach for improving the disability determination process and making the right decision as early in the process as possible. The approach includes several initiatives that emphasize timely and accurate disability decisions. For example, a quick-decision step would initially sort claims based on information provided by claimants to identify people who are obviously disabled. The expedited claims would be processed by expert review units, allowing for both timely decisions and Disability Determination Services (DDS) to focus their resources on more complex claims. Additionally, the Commissioner proposed an in-line quality review process managed by the DDSs. A centralized quality control unit would replace the current SSA quality control system to quickly identify problem areas and implement corrective actions.

The Commissioner views her September 2003 proposal as the first step in a collaborative process eventually leading to a final plan for disability improvements. Concurrent with the new approach, the Commissioner plans to conduct several demonstration projects to help people with disabilities return to work.

In addition to her long-term proposal, the Commissioner has accelerated the Agency's transition to the electronic disability folder stating it is critical to improving SSA's disability process. The electronic disability folder will allow for disability claims information to be stored electronically and transmitted between field offices, hearing offices, and DDSs.

SSA is addressing the integrity of its disability programs through the Cooperative Disability Investigations (CDI) program. The CDI program's mission is to obtain evidence that can resolve questions of fraud in SSA's disability programs. SSA's Offices of Operations and Disability Programs, along with the Office of the Inspector General, manage the CDI program. There are 18 CDI units operating in 17 States. Since the program's inception in FY

1998, CDI efforts have resulted in over $410 million in projected savings to SSA's disability programs and over $266 million in projected savings to non-SSA programs. In FY 2004, the CDI units saved SSA over $132 million by identifying fraud and abuse related to initial and continuing claims within the disability program.

Improper Payments

SSA is responsible for issuing benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. In FY 2003, SSA issued about $499 billion in benefit payments to about 51 million people. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of people, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

Improper payments are defined as payments that should not have been made or were made for incorrect amounts. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, or payments to ineligible beneficiaries. Furthermore, the risk of improper payments increases in programs with

- a significant volume of transactions,
- complex criteria for computing payments, and
- an overemphasis on expediting payments.

The President and Congress have expressed interest in measuring the universe of improper payments within the Government. In August 2001, the Office of Management and Budget (OMB) published the FY 2002 President's Management Agenda (PMA), which included a Government-wide initiative for improving financial performance, including reducing improper payments. In November 2002, the *Improper Payments Information Act of 2002 (Pub. L. No. 107-300)* was enacted, and OMB issued guidance in May 2003 on implementing this law. Under the Act, SSA must estimate its annual amount of improper payments and report this information in the Agency's annual *Performance and Accountability Report*. OMB will then work with SSA to establish goals for reducing improper payments in its programs.

SSA and the Office of the Inspector General have discussed such issues as detected versus undetected improper payments and avoidable overpayments versus unavoidable overpayments that are outside the Agency's control and a cost of doing business. In August 2003, OMB issued specific guidance to SSA to only include avoidable overpayments in its improper payment estimate because those payments can be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate.

In FY 2004, our work in this area focused on improper payments related to disabled beneficiaries who work. As discussed in the preceding section of this report, we found that SSA identified and assessed about $1.8 billion in overpayments for about 117,320 beneficiaries. However, we estimated the Agency did not detect about $1.4 billion in overpayments to approximately 63,000 disabled beneficiaries.

SSA Has Taken Steps to Address this Challenge

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. For example, the Agency is continuing its efforts to prevent improper payments after a beneficiary dies through the use of Electronic Death Registration information. Also, the Agency's CDR process is in place to identify and prevent beneficiaries who are no longer disabled from receiving payments. Finally, SSA is implementing eWork—a new automated system to control and process work-related CDRs—which should strengthen SSA's ability to identify and prevent improper payments to disabled beneficiaries.

SSA is also taking action to recover improper payments. The Agency reported that approximately 42 percent of OASDI overpayments and about 54 percent of SSI overpayments were in a collection arrangement.

We have helped the Agency reduce improper payments to prisoners and improper SSI payments to fugitive felons. However, our work has shown that improper payments—such as those related to workers' compensation—continue to diminish the Social Security trust funds. Additionally, with the passage of the *Social Security Protection Act of 2004,* SSA has new opportunities and faces new challenges in preventing and recovering improper payments—such as OASDI benefits to fugitives.

Budget and Performance Integration

This area encompasses SSA's efforts to provide timely, useful, and reliable data to assist internal and external decisionmakers in effectively managing Agency programs, as well as evaluating performance and ensuring the validity and reliability of performance, budgeting, and financial data.

To effectively meet its mission, manage its programs, and report on its performance, SSA needs sound performance and financial data. Congress, the general public, and other interested parties also need sound and credible data to monitor and evaluate SSA's performance. The PMA has emphasized the management and performance integration of Federal agencies. SSA has demonstrated a commitment to the *Government Performance and Results Act of 1993* (Pub. L. No. 103-62) by developing strategic plans, annual performance plans and annual performance reports. However, we believe SSA can further strengthen its use of performance information by fully documenting the methods and data used to measure performance and by improving its data sources.

Our work has found that SSA has not consistently developed or documented detailed policies and procedures to collect, review, and report information for individual performance indicators. For the indicators we reviewed in FY 2004, SSA did not consistently document the data sources, data interfaces, data modifications, or controls used to ensure performance indicator data were complete, accurate, and valid. Considering the crucial role of the underlying data in all of SSA's performance, financial, and data-sharing activities, the Agency needs clear processes in place to ensure the reliability and integrity of its data.

We audited 16 performance measures in FY 2004 and found the data for 8 of the measures were reliable while the data for 6 of the measures were not reliable. We were unable to determine the reliability of the data used for two of the measures because SSA did not maintain archived copies of the data used to calculate indicator results.

SSA Has Taken Steps to Address this Challenge

Our audits and reviews of SSA's financial statements, annual performance plans and reports, and individual performance measures disclosed that SSA has demonstrated commitment to the production and use of reliable performance and financial management data. For example, SSA continues to work on its Managerial Cost Accountability System (MCAS) and expects some MCAS projects to go into production in FY 2005. SSA is the only Federal agency that has received the *Certificate of Excellence in Accountability Reporting* for its *Performance and Accountability Report* every year since the award program began in FY 1998. Additionally, OMB updated the PMA scorecard in FY 2004, continuing to rate SSA's status in Financial Management as green, and raising the Agency's rating for Budget and Performance Integration from yellow to green.

The Agency has taken steps to better align its ability to match resources to performance. The Commissioner has developed a multi-year Service Delivery Budget Plan, which aligns costs and work years with overarching performance goals in SSA's Strategic Plan. The Plan was developed to demonstrate the resources required to address core workloads; process special workloads; eliminate backlogs of disability claims, hearings and appeals and other operational workloads; and to improve productivity and fiscal stewardship. Additionally, SSA is developing an automated system that will build on the current financial, performance and management information systems and enable the Agency to better project how resource changes affect various workloads, outputs and outcomes. It has also demonstrated a macro budget formulation model which helps estimate what level of performance to expect at different levels of funding and productivity.

Critical Infrastructure Protection and Systems Security

The information technology revolution has changed the way governments and businesses operate. In today's world, every computer system is a potential target. Any disruptions in the operation of information systems that are critical to the nation's infrastructure should be infrequent, manageable, of minimal duration and cause the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures. Protection of these systems is essential to the operation of the telecommunications, energy, financial services, manufacturing, water, transportation, health care, and emergency services sectors.

SSA's information security challenge is to understand and mitigate system vulnerabilities. This means ensuring the security of its critical information infrastructure, such as access to the Internet and the Agency's networks. Since 1997, SSA has had an internal controls reportable condition concerning its protection of information based on weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations. Access to the information, or access control, is the most important of these factors. The reportable condition will not be resolved until SSA employees only have access to the data they need to do their jobs.

While protecting its critical information infrastructure, the Agency is tasked with offering more electronic services to the public. The Expanded Electronic Government, or e-Government, initiative of the PMA calls for the expanded use of the Internet to provide faster and better access to government services and information. Specifically, e-Government calls for the Agency to help citizens find information and obtain services organized according to their needs, and not according to the divisions created by the Agency's organizational chart. SSA needs to ensure that the expansion of its electronic services does not increase the risks to its systems.

SSA Has Taken Steps to Address this Challenge

SSA addresses the protection of its critical information infrastructure and systems security in a variety of ways. For example, it created a Critical Infrastructure Protection workgroup that continuously works toward compliance with various directives, such as the Homeland Security Presidential Directive and the *Federal Information Security Management Act of 2002* (Pub. L. No. 107-347). Further, SSA created the Office of Information Technology Security Policy within the Office of the Chief Information Officer. Additionally, SSA routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA has been working to comply with the security portion of the e-Government initiative of the PMA. Some of the specific steps the Agency has taken in attempt to move from an OMB rating of yellow to green on the e-Government initiative, while maintaining an effective overall security framework, include

- participating in *Forward Challenge 04*, the Government-wide disaster recovery exercise;
- assessing and adjusting the access of about 49,000 operations employees;
- implementing an automated tool to better track security weaknesses and help monitor their resolution;
- revising its Certification and Accreditation process to comply with new National Institute of Standards and Technology guidance; and
- progressing on the Standard Security Profile Project with the objective of eventually removing the reportable condition.

SSA needs to take additional steps to remove the reportable condition. Particularly, the Agency needs to do more to ensure the number of programmers who have access to production data is limited to only those who require the access to perform their jobs and no more, have security configuration models for all its servers and computers, and ensure compliance with the security configuration models. SSA also needs to ensure it continues to sustain and expand the steps taken to date to reach the OMB rating of green for e-Government.

Service Delivery

The Agency's goal of "service" encompasses traditional and electronic services provided to applicants for benefits, beneficiaries and the general public. It includes services to and from States, other agencies, third parties, employers, and other organizations including financial institutions and medical providers. SSA's service-related goal supports the delivery of "citizen-centered" services through the use of e-Government and therefore affords SSA opportunities to advance the level of its service. Given the complexity of the Agency's programs, the billions of dollars in payments at stake, and the millions of citizens who rely on SSA, the Agency is challenged to provide quality, timely, and appropriate services consistently to its clients and the public-at-large. E-Government, human capital, and the representative payee process pose significant challenges that impact service delivery.

The PMA calls for improved service delivery through the use of e-Government in creating more cost-effective and efficient ways to provide service to citizens. The increased use of e-Government will be vital as the Agency addresses rising workloads associated with the aging of the baby-boom generation.

Another challenge to service delivery is human capital. In January 2001, GAO found that human capital management was a pervasive problem Government-wide and added it to its list of high-risk Federal programs and operations. In addition, Strategic Management of Human Capital was designated as one of five Government-wide initiatives contained in the PMA. The Agency's critical loss of institutional skills and knowledge, combined with greatly increased workloads at a time when the baby-boom generation will require its services, must be addressed by succession planning, recruitment efforts, and the effective use of technology, as previously discussed.

The integrity of the representative payee process is another specific challenge in this area. When SSA determines a beneficiary cannot manage his or her benefits, SSA selects a representative payee who manages and solely uses the payments for the beneficiary's needs. SSA reported that there are about 5.4 million representative payees who manage about $44.8 billion in benefits for about 6.9 million beneficiaries. While representative payees provide a valuable service for beneficiaries, SSA must continue to ensure representative payees meet their responsibilities to the beneficiaries they serve.

In March 2004, the President signed into law the *Social Security Protection Act of 2004.* This Act provides several new safeguards for those individuals who need a representative payee, while presenting significant challenges to SSA to ensure representative payees meet beneficiaries' needs. For example, it requires that SSA conduct additional periodic, on-site reviews of representative payees. It also authorizes SSA to impose civil monetary penalties for offenses involving misuse of benefits received by a representative payee.

Our audits of representative payees have shown that improved SSA oversight and monitoring of representative payees are needed. We identified deficiencies with representative payees' financial management and accounting for benefit receipts and disbursements; vulnerabilities in safeguarding beneficiary payments; poor monitoring and reporting to SSA of changes in beneficiary circumstances; inappropriate handling of beneficiary conserved funds; and improper charging of fees.

SSA also needs to improve its selection of representative payees. For example, we estimated in one audit report that over 1,700 individuals who had representative payees themselves were selected as representative payees for others. These representative payees with representative payees were responsible for managing $7.6 million in OASDI and SSI payments over a 1-year period. We have also identified cases where SSA did not establish representative payees for individuals found to need them. We estimated that at least 17,000 beneficiaries were directly paid at least $342 million that should have been paid through representative payees.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to address its e-Government, human capital, and representative payee challenges. Within the next 5 years, the Agency expects to provide cost-effective e-Government services to citizens, businesses and other government agencies that will give them the ability to easily and securely transact most of their business with SSA electronically. In the past 5 years, the Agency has launched the Internet Social Security Benefit Application, and created on-line requests for Social Security Statements, replacement Medicare cards, proof of income letters (formerly known as Benefit Verification Statements) and change of address. Most recently, the Agency added the Adult Disability and Work History Report, the Childhood Disability Report and the Appeals Disability Report to its on-line services. Within 1 year, the recently launched electronic disability folder will be implemented nationwide.

The Agency has taken steps to meet its future workforce needs. Studies have been conducted to predict staff retirements and attritions for major job positions. Further, SSA planning documents comply with the PMA and achieve expected near-term results related to the strategic management of human capital. SSA's ongoing progress has resulted in the Agency obtaining a green rating for Human Capital on OMB's PMA Scorecard.

SSA has taken steps to address its representative payee process challenge. It has established workgroups to implement each section of the *Social Security Protection Act of 2004*. The Act calls for increased monitoring of representative payees. Accordingly, the Agency is modifying the system selection processes for its site review program so it can review fee-for-service representative payees, volume representative payees (serving 50 or more beneficiaries) who are subject to expanded monitoring, and individual representative payees serving 15 or more beneficiaries, as required by Section 102(b) of the *Social Security Protection Act of 2004*. SSA performs these reviews triennially.

Other Statutory Information

Anti-Fraud Activities

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

Entitlement Reviews

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

Disability Quality Assurance Reviews
SSA performs quality assurance reviews to measure the level of decisional accuracy for the State DDSs against standards mandated by regulations. These reviews are conducted prior to effectuation of the DDS determinations and cover initial claims, reconsiderations and determinations of continuing eligibility. The following table shows that the State DDSs have consistently made the correct decision to allow benefits.

Quality Assurance Review

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
% of accurate decisions to allow or continue benefits by State DDSs	96.7%	96.8%	96.3%	96.2%	96.4%
No. of cases reviewed	42,196	39,515	39,188	39,066	40,323
No. of cases returned to DDS due to error or inadequate documentation	1,381	1,281	1,455	1,499	1,454

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

Preeffectuation Reviews					
	FY 2000	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**
% of State DDS decisions not returned to DDS due to error or inadequate documentation	96.6%	96.8%	96.3%	96.2%	96.2%
No. of cases reviewed	259,784	298,466	310,683	318,505	334,793
No. of cases returned to DDS due to error or inadequate documentation	8,567	9,438	11,186	12,090	12,667

Continuing Disability Reviews (CDRs)
A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews through which SSA determines whether beneficiaries continue to be entitled to benefits because of their medical conditions. Once an individual becomes entitled to Social Security or SSI benefits, any changes in their circumstances may affect the amount or continuation of payment and thus must be reflected in SSA's records. The performance accuracy of these CDRs is displayed below.

CDR Performance Accuracy					
	FY 2000	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**
Overall Average	96.1%	96.1%	95.2%	94.2%	94.7%
Continuances	96.5%	96.4%	95.5%	94.4%	95.0%
Cessations	93.6%	93.8%	93.5%	93.5%	93.0%

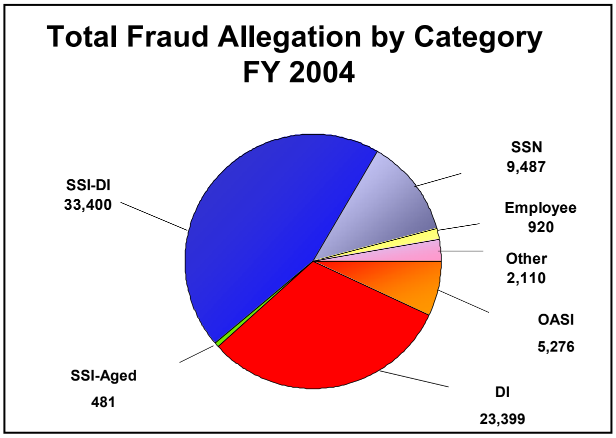
OASI and SSI Quality Assurance Reviews
One of SSA's four GPRA strategic goals is 'to ensure superior stewardship of Social Security programs and resources'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the GRPA Performance Results section of this report on pages 101 through 103.

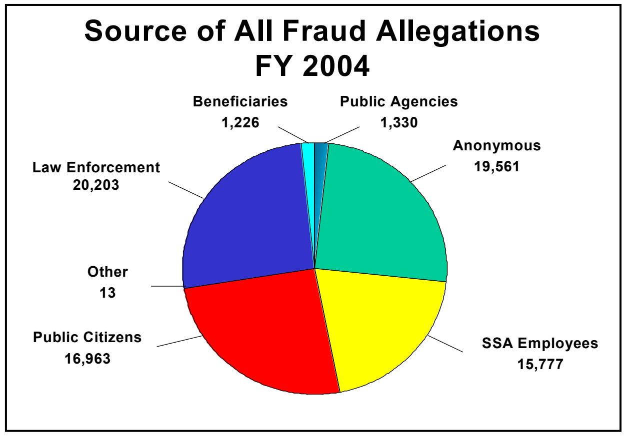
SSI Redeterminations
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA has set a goal for the number of SSI redeterminations to be processed in FY 2004. Detailed discussion on SSI redetermination performance can be found in the Performance Goals and Results section of this report on page 55 and 56.

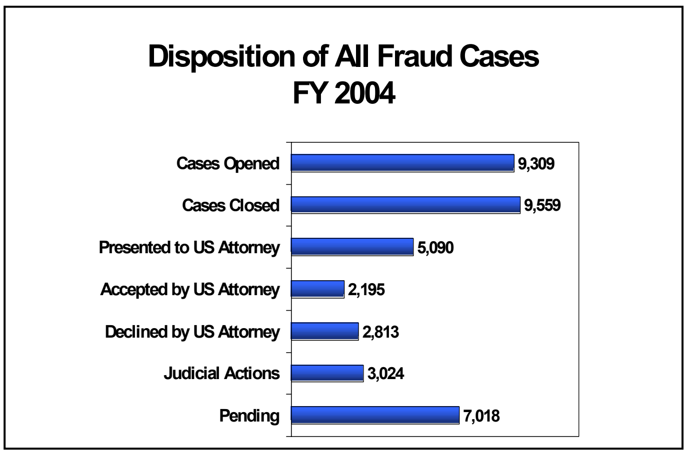
Payment Safeguards Activities
Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In continuing efforts to improve payment accuracy, SSA invested nearly $1.1 billion in processing over 8.2 million alerts in FY 2003. Current estimates indicate that these payment safeguard activities provided benefits to the trust funds of more than $7.5 billion in overpayments detected and/or prevented. The FY 2004 results of these payment safeguard activities were not available at the time of the PAR publication. These figures will be available sometime in early 2005.

OIG's Anti-Fraud Activities

In FY 2004, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts below summarize OIG's involvement in fraud activities throughout the FY.







Biennial Review of User Fee Charges

Summary of Fees

User fee revenues of $265 and $285 million in FY 2003 and FY 2004, respectively, accounted for less than .1 percent of SSA's total financing sources. Over 95 percent of user fee revenues are derived from agreements with 23 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2004, SSA charged a fee of $8.77 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $9.06 for FY 2005. The user fee will be adjusted annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. SSA charges full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

Biennial Review

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal Agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law and periodically adjust these fees to reflect current costs or market value. SSA's review of fees during FY 2004 did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed.

Debt Management

During FY 2004, SSA continued to use its own internal debt collection methods, as well as the more aggressive methods authorized by law. SSA uses benefit withholding to collect overpayments from monthly benefits when the person is still on the rolls. In FY 2004, SSA collected $1.3 billion in overpayments by this method. When the person is no longer on the rolls, SSA uses its own billing and follow-up system to collect overpayments. That system enables SSA to send a series of progressively stronger notices requesting repayment and to make telephone calls to negotiate repayment. The Agency collects several hundred million dollars a year by this method. In addition, SSA continued to use the aggressive debt collection tools available to the Agency. These authorized recovery mechanisms include:

- Tax Refund Offset which is the collection of a delinquent debt from a Federal tax refund.
- Administrative Offset that enables collection of a delinquent debt from a Federal payment other than a tax refund.
- Mandatory Cross-Program Recovery which is the collection of a former SSI recipient's debt from any OASDI benefits due that person.
- The use of Credit Bureau Reporting to encourage repayment of delinquent debts.

These tools continue to demonstrate their significance in the collection of delinquent program debt. Since SSA began using the aggressive collection tools of tax refund offset, administrative offset and credit bureau reporting, the Agency has collected over $900 million as a result of those methods. Most recently in FY 2004, SSA collected over $117 million from tax refunds and other Federal payments. Since implementation of mandatory cross program recovery in February 2002, SSA has collected over $138 million.

In FY 2004, SSA continued its development of administrative wage garnishment (AWG), or the collection of OASDI and SSI debts from wages of people working in the private sector. The Agency published regulations in January 2004 and has completed most of the systems development required to conduct AWG. This collection technique promises to be a significant addition to SSA's debt collection program.

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

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

FY 2004 Quarterly Debt Management Activities (In Millions)				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables (cumulative)	$12,295.2	$12,292.9	12,340.1	$12,260.2
Total collections (cumulative)	(507.0)	(1,114.3)	(1,664.7)	(2,248.8)
Total write-offs (cumulative)	(229.2)	(442.5)	(661.6)	(892.7)
TOP collections (cumulative)	(2.0)	(44.4)	(71.1)	(51.8)
Aging schedule of delinquent debts:				
- 180 days or less	805.0	667.4	721.6	751.1
- 181 days to 10 years	1,645.5	1,676.6	1,639.2	1,681.8
- Over 10 years	35.8	35.6	36.3	37.2
- Total delinquent debt	$2,486.3	$2,379.6	$2,397.1	$2,470.1

SSA Debt Management Activities					
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Total debt outstanding end of FY (millions)	$7,107.7	$11,437.1	$12,531.0	$13,418.4	$12,260.2
% of outstanding debt					
- Delinquent	15.5%	9.3%	16.5%	18.9%	20.3%
- Estimated to be uncollectible	33.9%	25.3%	18.9%	21.1%	24.6%
New debt as a % of benefit outlays	0.9%	1.7%	0.9%	0.8%	0.8%
% of debt collected	33.5%	19.9%	18.5%	17.2%	18.3%
Cost to collect $1	$0.10	$0.11	$0.11	$0.10	$.09
% change in collections from prior FY	7.6%	(4.4%)	1.5%	(0.3%)	(2.5%)
% change in delinquencies from prior FY	25.6%	(3.5%)	94.4%[1]	22.4%	(2.1%)
Collections & write-offs as a % of Total Debt	31.0%	21.5%	21.0%	19.4%	18.0%
Collections as a % of clearances	73.7%	70.8%	70.8%	71.5%	71.6%
Total write-offs of debt (in millions)	$850.8	$941.3	$954.0	$918.7	$892.7
Average number of months to clear receivables:					
- OASI	12	14	14	18	22
- DI	26	32	34	33	38
- SSI	27	4	26	52	47

1. In September 2001, SSA implemented a new process FY 2002 that identifies, ages, and reports delinquent debt on an individual debt basis in the SSI program. This new process increased the amount of delinquent SSI debt reported from about $61 million at the close of FY 2001 to about $1.1 billion at the close of FY 2002.