

Management's Discussion and Analysis

Introduction

The Management's Discussion and Analysis (MD&A) is designed to provide a high level overview of the Agency—in short, it provides a description of who we are, what we do and how well we meet the goals we have set.

The Mission and Organizational Structure section highlights the Agency's mission as refreshed in our September 1997 Strategic Plan. This section also discusses the major programs we administer: the Old Age and Survivors Insurance (OASI) Program and the Disability Insurance (DI) Program (commonly known as Social Security) as well as the Supplemental Security Income (SSI) Program.

Following the Mission and Organizational Structure section is a discussion of the Major Issues that SSA will be facing in the future. We use the Accountability Report to provide a snapshot of the performance we were able to achieve in FY 1998. However, the status of SSA would not be complete without providing a sense of the challenges tomorrow brings. These challenges include long-term solvency of the Social Security program as well as topics that have a more immediate impact on our operations such as year 2000 computer readiness, SSI management improvement and fraud prevention and detection. While these issues are challenging, we believe we have the policies and plans in place to help ensure they are adequately addressed.

Next, the MD&A discusses SSA's ability to achieve the five strategic goals contained in our current strategic plan. In February 1998, we provided Congress with our FY 1999 Annual Performance Plan outlining the measures we used to assess our ability to meet these five strategic goals. This plan also included performance targets for both FYs 1998 and 1999. The Performance Goals and Results section displays selected measures, targeted performance for FY 1998 and the actual performance achieved. We are not required to submit an Annual Performance Report until March 2000; however, we believe this information is both important and relevant and needs to be shared with the public immediately. Our complete Annual Performance Report is located on pages 60 through 69.

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

Mission and Organizational Structure

In 1935, when the United States was just moving out of the depths of the economic depression, President Franklin D. Roosevelt led his fellow citizens in making a promise to themselves, to their families and to future generations—to promote the economic security of the nation through the creation of what has been the most successful domestic program of all time—Social Security. That promise is a critical part of our social fabric today.

Mission Statement

To promote the economic security of the nation's people through compassionate and vigilant leadership in shaping and managing America's social security programs

The Social Security Programs

The Social Security Act established a program to help protect aged Americans against the loss of income due to retirement. Protection for survivors of deceased retirees was added by the 1939 amendments, thus creating the Old Age and Survivors Insurance (OASI) program. Social Security protection for workers was expanded again in 1956 to include the Disability Insurance (DI) program. SSA's responsibilities were further expanded in 1972 to include the Supplemental Security Income (SSI) program. SSA's responsibilities in 1998 focused on administration of these three entitlement programs that deliver cash benefits to about 50 million beneficiaries every month.

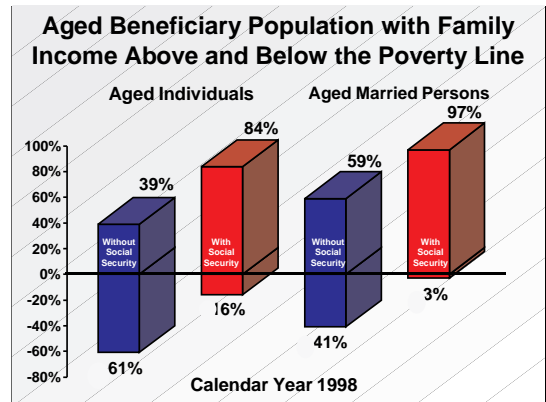
The OASI and DI programs, commonly referred to as Social Security, provide a comprehensive package of protection against the loss of earnings due to retirement, disability and death. Monthly cash benefits are financed through payroll taxes paid by workers and their employers and by self-employed people.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

Social Security benefits have significantly improved the economic well being of the nation. Poverty among the elderly has been reduced by 64 percent over the past 30 years. In 1936, when Social Security numbers were first assigned to workers, many of the nation's elderly were living in poverty. The monthly benefit amount to which an individual (or spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her

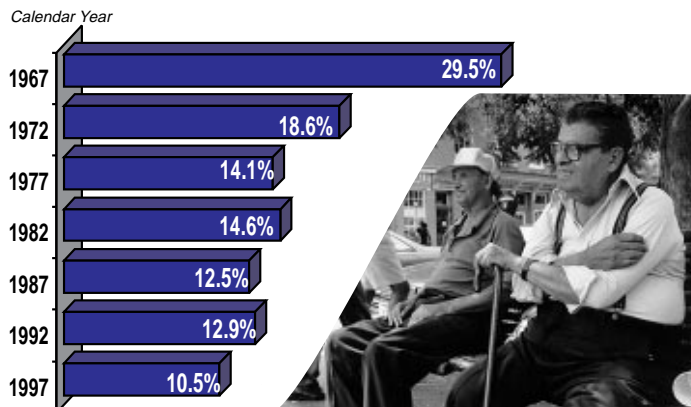
lifetime. The maximum amount of earnings on which contributions were payable in 1997 was \$65,400 and increased to \$68,400 in 1998.

OASI Program - In 1998, the family income of 16 percent of aged, unmarried beneficiaries fell below the poverty line. Without Social Security benefits, 60 percent of those beneficiaries would have income below the poverty line, a difference of 44 percent due to receipt of Social Security. Social Security also lifted many aged married beneficiaries out of poverty.

In 1998, 3 percent of aged beneficiaries who were members of a married couple had income below the poverty line. Without Social Security benefits, 41 percent of these beneficiaries would have income below the poverty line, a difference of 38 percent.

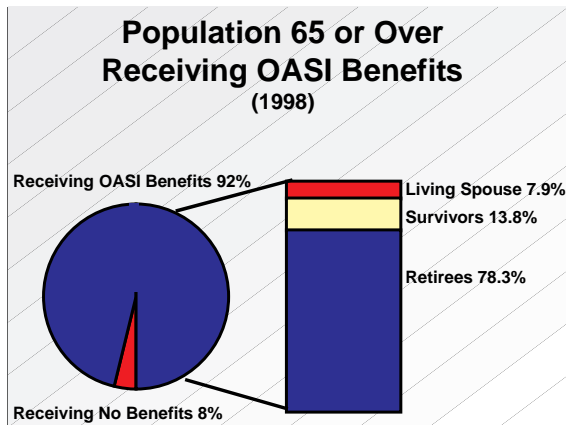


Poverty Rate Among the Elderly

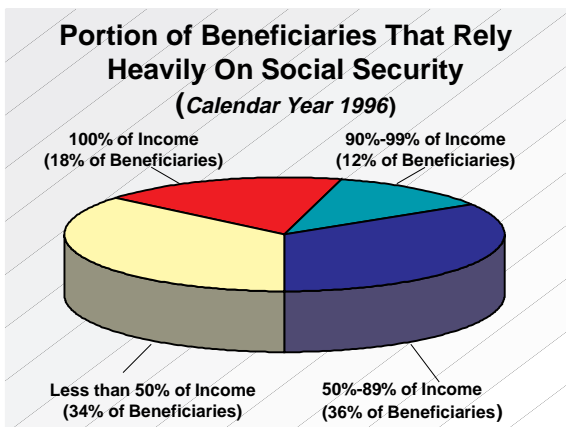


To qualify for OASI benefits, a worker must have paid Social Security taxes (FICA and/or SECA) for at least 10 years (or 40 quarters) over the course of his/her lifetime. Individuals born before 1929 need fewer quarters to qualify. Nine out of 10 working Americans can count on benefits when they retire,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

Ninety-two percent of people age 65 or over in calendar year 1998 were receiving benefits. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and spouses with children in their care under 16 can count on benefits if a working parent dies.

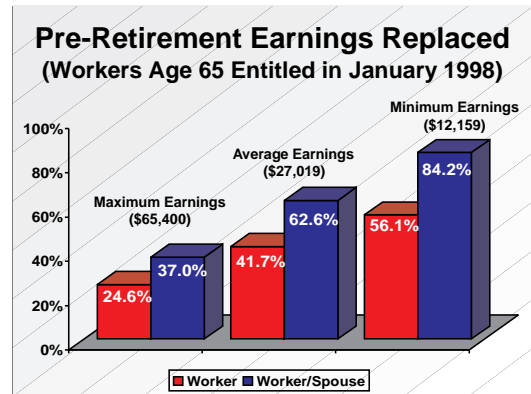


Social Security benefits comprised 40 percent of the aggregate share of all income to the aged population 65 and over. Other sources of income include assets (18 percent), earnings (20 percent), and pensions (18 percent) both Government and private.



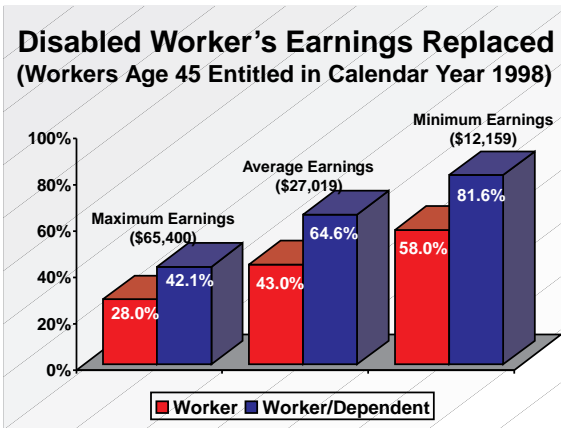
While many of the nation's aged population have income from other sources, a portion of the beneficiary population relies heavily on Social Security. For 18 percent of beneficiaries, it is the only income; for another 12 percent of the population, it contributes almost all of the income; and for another 36 percent, it is the major income source.

The level of pre-retirement earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted to give more credit to workers with low levels of earnings. The following chart shows the replacement rate for individuals and couples at various earnings levels (calendar year 1998).

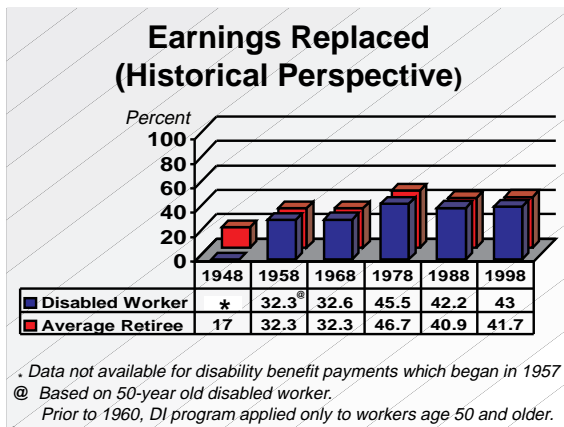


DI Program - To qualify for DI benefits, an individual must meet a test of substantial recent covered work. Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. Three of four working Americans age 21 through 64 can count on receiving benefits if they become disabled. Workers are considered disabled if they have severe physical or mental conditions that prevent them from engaging in substantial gainful activity. The condition must be expected to last for a continuous period of at least 12 months or to result in death.

Once benefits begin, they continue for as long as the worker is disabled and does not perform substantial gainful work. There are provisions that provide incentives for work. Disability cases are reviewed periodically to determine if the worker continues to be disabled. The chart below shows the replacement rate for disabled workers and their dependents at various earnings levels (calendar year 1998).



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

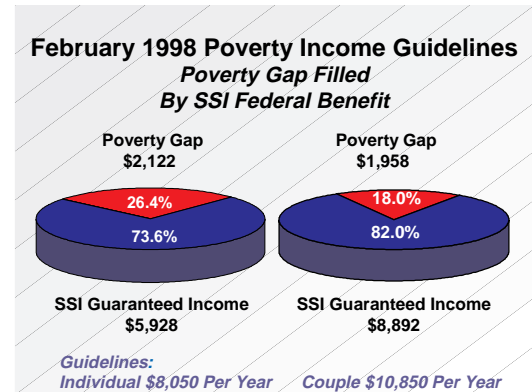


SSI Program

SSI is a means-tested program designed to provide or supplement the income of aged, blind or disabled individuals with limited income and resources. SSI payments and related administrative expenses are financed from general tax revenues, not the Social Security trust funds. Qualified recipients receive monthly cash payments from

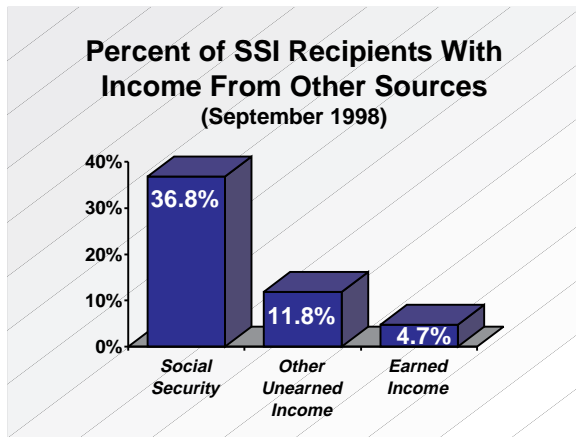
SSA sufficient to raise their income to the level guaranteed by the Federal SSI Program. Children, as well as adults, can receive payments because of disability or blindness. The definitions of disability and blindness used in the SSI program, as well as continuing disability review procedures are the same as those used in the DI program. There are provisions to provide incentives for work including special incentives to those beneficiaries who have disabilities or are blind. The Federal benefit rate and eligibility requirements are uniform nationwide.

As shown in the chart below, SSI recipients with no other income receive the full SSI Federal benefit which is 73.6 percent of the poverty level for an individual and 82 percent for a couple. Those with other income receive less since the SSI Federal and State benefits may be reduced by the income they receive from other sources.

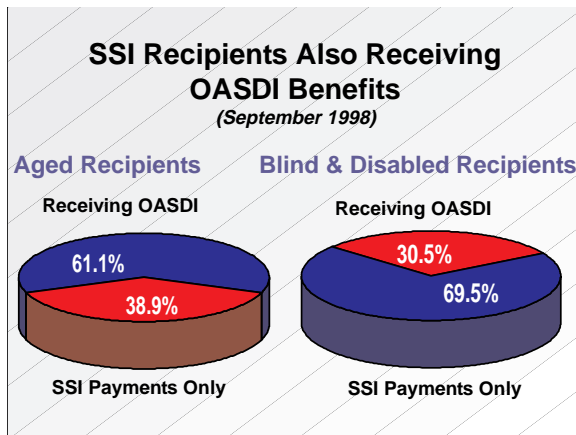


The portion of the poverty gap not filled by Federal SSI may be supplemented by State SSI payments. Also, SSI recipients may be eligible for food stamps, Medicaid and social services.

In September 1998, as shown by the chart at the top of page 5, 36.8 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.7 percent of the recipients, earnings were a source of additional income, and 11.8 percent had unearned income from other sources, such as Veterans' pensions.



OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 36.8 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (61.1 percent) to be receiving Social Security benefits than SSI blind and disabled recipients (30.5 percent).



Support to Other Programs

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

Black Lung (BL) Program - - The BL Program pays monthly cash benefits to coal mine workers and their dependents and survivors. SSA is

responsible for administering Part B of the BL program under title IV of the Federal Coal Mine Health and Safety Act. Part B covers claims filed by miners before July 1973 and survivor claims filed before January 1974 or within 6 months of the death of a miner or widow on the SSA rolls, whichever is later. Any claims filed after these dates generally are the responsibility of the Department of Labor (DOL) covered under Part C of the program.

SSA is also responsible for taking claims for, and performing certain other services related to Part C benefits. In FY 1998, SSA field offices took 330 claims for Part C benefits and transferred them to DOL for payment, as required by law. SSA received full reimbursement from DOL for these services. Beginning in FY 1998, DOL certified for payment all Part B benefits from funds appropriated to SSA. However, SSA retains responsibility for these payments.

Medicare - - Being a primary public-contact point for the Health Care Financing Administration (HCFA), SSA provides key services to the Medicare program. SSA staff determine Medicare eligibility, maintain the computerized records of Medicare eligibility, and collect Medicare premiums through withholdings from Social Security payments. Annually, SSA devotes about 1,536 workyears to supporting these workloads and is reimbursed by the Medicare trust fund for these services.

Medicaid - - In 31 States and the District of Columbia, eligibility for SSI benefits confers automatic entitlement to Medicaid. Thus, the SSI eligibility determination made by SSA saves a significant amount of workyears for these States. SSA also provides information and referral services in support of Medicaid and is directly funded by the States and HCFA.

Railroad Retirement - - SSA provides services in connection with entitlement to benefits from the Railroad Retirement Board (RRB). SSA takes the applications, determines jurisdiction and coordinates benefit payments with the RRB. The latter organization, as required by statute, issues a combined monthly benefit payment when a retiree is entitled to both railroad and Social Security retirement benefits due to having worked for both the railroad and other

industries prior to retirement. SSA reimburses the RRB for OASI benefits paid on SSA's behalf. In addition, SSA arranges an annual financial interchange with the Railroad Retirement Trust Fund to place the Social Security trust funds in the same position they would have been in had railroad employment been covered by Social Security.

Food Stamps - - SSA assists the Department of Agriculture by providing information about the food stamp program and taking food stamp

applications for qualified OASI, DI and SSI claimants. In FY 1998, SSA processed 25,231 food stamp applications and recertifications.

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

Agency Organization

SSA's unique organizational structure is designed to provide responsive and accurate world-class service to the public. SSA's organization features centralized management of the national Social Security programs and a decentralized nationwide network of 10 Regional Offices overseeing 6 Program Service Centers, 1,348 Field Offices, 1 Data Operations Center, 36 Teleservice Centers and 132 Hearings Offices.

Field offices are located in cities and rural communities across the nation and are the Agency's main physical point of contact with beneficiaries and the public. Additionally, the Social Security disability program depends on

the services of 54 Disability Determination Services (DDS) which include all 50 States, the District of Columbia, Guam and Puerto Rico.

To meet the needs of non-English-speaking customers, SSA recruits bilingual individuals to serve as a public contact for customers visiting SSA field offices and calling SSA's 800-number telephone service. During FY 1998, 6 percent of new hires were certified bilingual. At year end, 2,556 employees were certified bilingual in at least one of 22 different languages.

SSA's Service Delivery Network

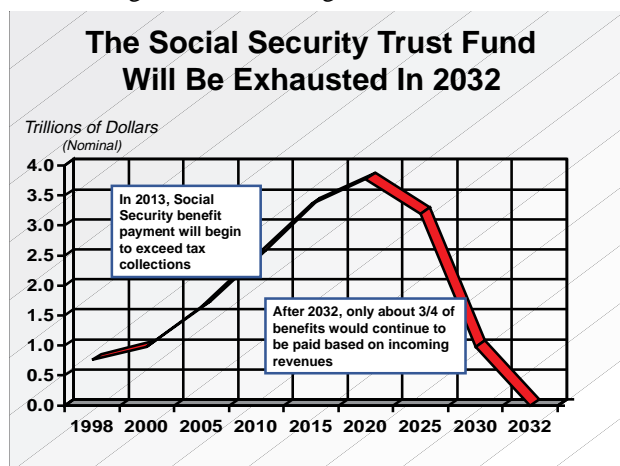


Major Issues Facing SSA

The major goal of SSA's Accountability Report is to demonstrate the Agency's success in administering our programs and managing the resources entrusted to us. In addition to the retrospective information reported throughout the Accountability Report, we believe that full disclosure necessitates that we discuss the prevailing issues that will affect our programs and our ability to administer these programs in the future. In addition to the long term financing of the Social Security system and Year 2000 computer compliance, we will be required to continue to meet the challenge of our stewardship responsibilities while administering our programs in a fair and equitable manner.

Trust Fund Solvency

While the Social Security trust funds are currently building large reserves, long-range projections are that in 2013, Social Security benefit payments will begin to exceed tax collections and that by 2032, the trust funds will be exhausted. If these projections hold true, income to the system in 2032 will only be enough to meet $\frac{3}{4}$ of benefit obligations—if nothing is done.

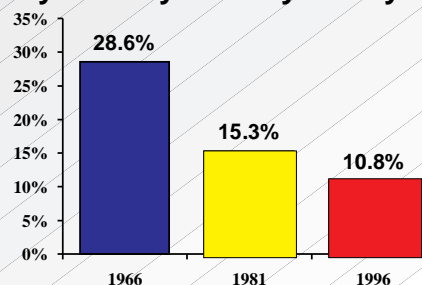


To correct the long-term imbalance in Social Security financing, the President has called for a year-long participatory process that involved the American public in discussions about the future of the program. Following the discussions, a White House conference on Social Security will be held in December 1998. Early next year, the President plans to begin bipartisan discussions that address the long-range solvency of the Social Security programs.

Only through the wide participation by a knowledgeable public can the process of reform be reflective of America's wants and needs. To educate the American public about the current program, SSA has undertaken an educational effort designed to make the public aware of several basic points about the current program.

First, it is important that all Americans understand that Social Security has made an enormous difference in the lives of older Americans. More than 9 in 10 older Americans get Social Security retirement benefit payments each month. Eleven percent of American senior citizens live below the poverty line; without Social Security, it would be over half. For two-thirds of the elderly, Social Security is their major source of income, representing at least half of their total income. For about a third of the elderly, Social Security is virtually their only income.

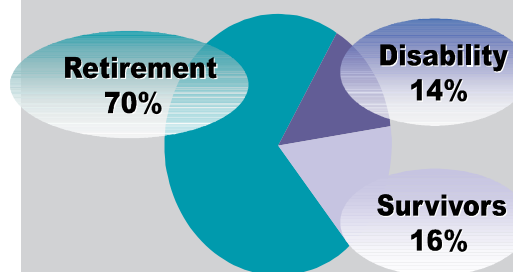
Social Security Has Helped Cut The Elderly Poverty Rate By Nearly 2/3



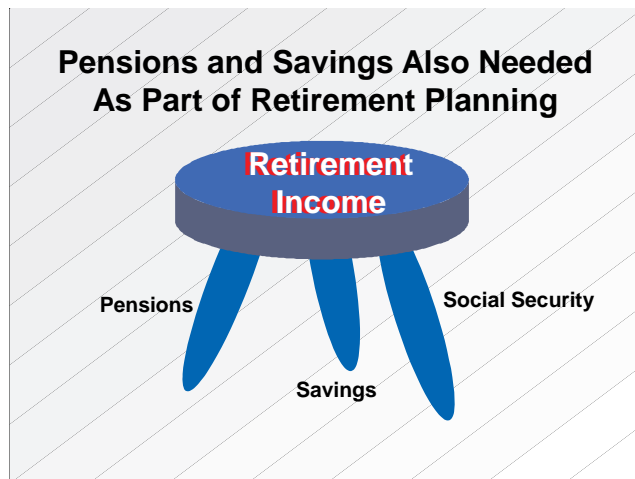
Second, Social Security is more than a retirement program—it is America's family protection plan. Younger workers and their families receive valuable disability and survivors insurance protection. In fact, about 1 in 3 Social Security beneficiaries are not retirees. They are disabled workers and their dependents, and survivors of deceased workers. Approximately 7.5 million people get monthly survivors benefits, and more than 6 million workers and family members get disability benefits.

SOCIAL SECURITY IS MORE THAN A RETIREMENT PROGRAM

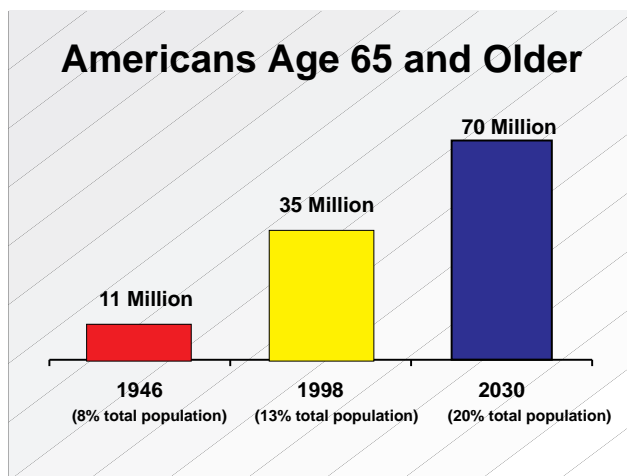
(Beneficiary Profile)



Third, Social Security provides a foundation on which to build retirement security. Even with Social Security, pensions and private savings need to be a part of retirement planning for workers. A comfortable retirement has always rested on a three-legged stool—Social Security, pensions and private savings or investments. Today, only a little more than half of all workers have employer-sponsored pensions and people are not saving as much as they should. While Social Security will replace about 42 percent of the average worker's pre-retirement income, most financial advisors say that people will need about 70 percent of pre-retirement earnings to live comfortably.



Fourth, people need to understand that changing demographics are driving the need for change. We're living longer and healthier lives...and this is good news. When Social Security was created in 1935, a 65-year-old had an average life expectancy of 12 ½ more years; today, it's 17 ½ years—and rising. About 76 million baby boomers will begin retiring in about 2010, and in about 30 years, there will be nearly twice as many older Americans as there are today.

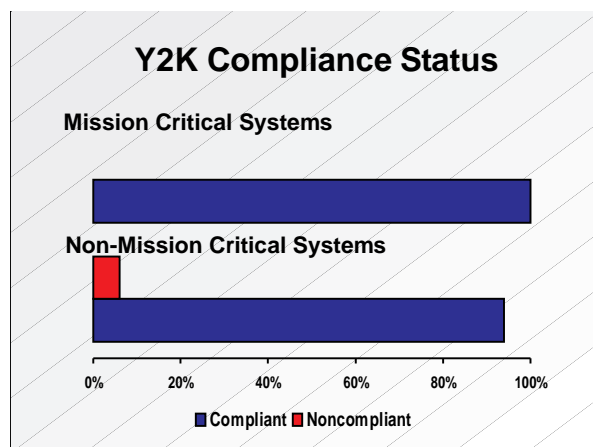


Fifth, it's important that people know that Social Security is an economic compact among generations. Social Security is an intergenerational compact, in which the Social Security taxes of today's workers fund benefit payments for today's retirees.

Finally, there are choices to be made that involve difficult tradeoffs that need to be discussed. Regardless of the outcome of the discussions on Social Security reform, SSA is playing a major role in helping to educate the public about how the program works and other information they need to participate in discussions about the future shape of the Social Security program.

Year 2000 Compliance

SSA has made significant progress in its efforts to address the Year 2000 problem. We have completed renovation of all mission-critical systems targeted for renovation. Detailed forward year, integration testing and formal certification procedures have been developed to certify Year 2000 compliance. To ensure the integrity of our production environment, SSA established a separate Year 2000 Test Facility to test the operating systems, vendor products and all of SSA's main frame applications that run in SSA's National Computer Center and distributed applications that run on the Intelligent Work Station/Local Area Network environment. Year 2000 compliance testing of SSA's applications began in September 1997 and will be completed in January 1999.



We are pleased to report that all of the software that produces the Social Security Income Payment files has been forward-date tested and certified. In addition, testing with Treasury's Financial Management Service has been completed, and the

October 1998 payments for both Social Security and the SSI programs were produced using Year 2000 compliant systems. The Federal Reserve (Automated Clearing House) has also successfully tested Social Security direct deposit payments.

SSA also has made significant progress in addressing non-mission critical systems. Thus far, 94 percent of the non-mission critical systems are Year 2000 compliant. With regard to data exchanges, SSA has been in contact with all of its trading partners regarding the format and schedule for making data exchanges compliant, and 84 percent have been made Year 2000 compliant and implemented. In the area of telecommunications, SSA has inventoried all of its telecommunications systems and is working with the vendor community to obtain upgrades and fixes to make all systems Year 2000 compliant. Numerous acquisitions have been made that will result in the installation of telecommunications software and hardware upgrades to make systems Year 2000 compliant.

As of October 31, 1998, 41 State DDS systems have been made Year 2000 compliant, and SSA is working closely with all of the states in this area to accomplish our goal of making all state systems compliant by December 1998.

On March 31, 1998, SSA issued its Y2K Business Continuity and Contingency Plan (version 1). On June 30, 1998, the first update (version 2) was issued. On September 30, 1998 the second update (version 3) was issued. The plan was developed to assure that SSA's core business functions could be performed if unforeseen Year 2000 related disruptions occur.

The plan is consistent with General Accounting Office guidelines for contingency planning. It identifies potential risks to business processes, ways to mitigate each risk and strategies for ensuring continuity of operations if planned corrections are not completed or if systems fail to operate as intended. The plan also identifies milestones, target dates and responsible components for developing local contingency plans and procedures throughout all of SSA's operating components. The plan addresses all five core business processes of SSA —enumeration, earnings, claims, postentitlement and informing the public — as well as disability claims processing functions supported by the State DDSs.

As with all other businesses and government agencies, SSA is critically dependent on infrastructure services, such as the power grid and telecommunications industry. Since SSA delivers 50 million payments at the beginning of each month, the Agency is also dependent on financial institutions. SSA's Business Continuity and Contingency Plan addresses how the Agency can

mitigate risks in these areas and if problems occur, where contingencies will be implemented. In addition, SSA chairs the Benefit Payments work group and participates in the Financial Institutions work group of the President's Council on Year 2000 Conversion.

SSA estimates the cost of its Year 2000 Program will be approximately \$42 million.

Stewardship

Zero Tolerance for Fraud

SSA has an aggressive, ongoing program to deter, detect, investigate and prosecute fraud involving Agency programs.

As a linchpin, SSA established the National Anti-Fraud Committee, comprised of SSA's executive leadership, to oversee the implementation and coordination of SSA's strategies to eliminate fraud. The national committee is supported by 10 regional committees, comprised of SSA and OIG staff, which have the primary duty to oversee local policies and strategies.



Based upon concerns initially raised by SSA staff in field offices along U.S. borders, several pilot programs were established to address the issue of residency verification within the SSI program. The purpose of the pilots was to determine whether individuals were fraudulently receiving SSI payments while living outside the United States. These pilots proved to be very successful and have now been expanded to other border areas as part of SSA's day to day operations.

SSA funds were used to initiate successful pilots using multi-agency resources to increase the number of fraud cases that could be investigated. These pilots have been expanded and incorporated as part of SSA's ongoing activities. These units investigate suspected fraud and identify SSI disability recipients and individuals that conspire to obtain benefits fraudulently. Of particular interest are third party facilitators such as physicians, lawyers and interpreters.

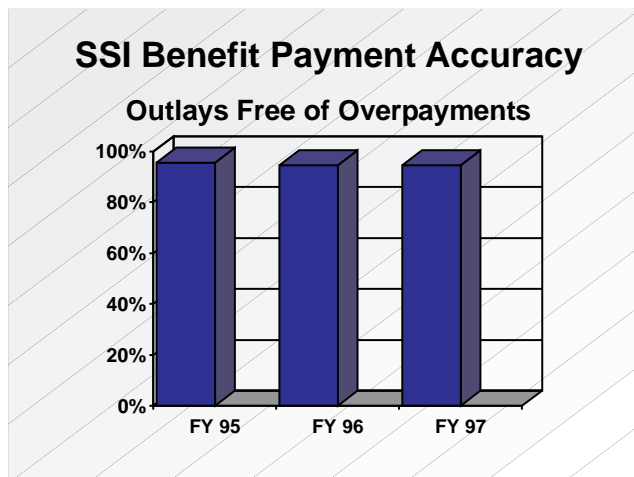
Another initiative which is part of this program includes the expansion of a more selective and targeted integrity review process (the Comprehensive Integrity Review Process system) to identify cases across all program applications that are more susceptible to fraud and abuse. In addition, the Agency implemented a key initiative to combat fraud.

Lastly, SSA developed a legislative proposal to impose administrative sanctions on certain individuals who misstate or withhold facts material to eligibility or payment amount. This proposal is awaiting congressional action.

SSI Management Improvement

The SSI program has provided for the basic needs of millions of people since its inception in 1974. It has also grown in size and complexity over those same years, increasing the scope and type of potential problem areas. In an effort to improve management of the program, the Commissioner initiated a series of reviews to determine where corrective actions needed to be taken and which areas of the program may require legislative action.

The Commissioner issued a report on October 9, 1998 detailing the actions the Agency will be taking to improve oversight and stewardship in the SSI program. The report makes it clear that SSA is committed to the effective and accurate administration of the SSI program and strives to administer the program in a way that balances its responsibilities of service to SSI recipients and stewardship of the SSI funds. SSA is committed to protecting the rights of the millions of SSI beneficiaries and delivering world-class service.

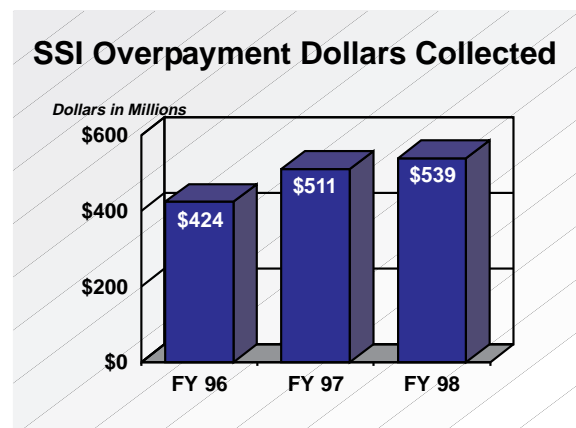


Equally important to SSA is our responsibility to safeguard and administer the SSI program funds in a manner which ensures integrity and public confidence. Discussed below are several initiatives SSA has underway to strengthen the integrity of the SSI program.

Improving payment accuracy is one of SSA's highest priorities. Despite SSA's many efforts and a relatively low payment error rate, payment errors will inevitably occur due to the complexity of the program. Most of these overpayments result from beneficiaries' failure to report changes in income, resources or living arrangements (i.e., institutionalization). SSA employs many techniques to prevent debts where possible and to improve collection, such as computer matching with Federal and State agencies to obtain information about income, resources and institutionalization and prisoner reporting agreements. SSA is also pursuing several new initiatives, such as new computer matches, to enhance the techniques used to detect and prevent payment errors. Legislation has also been developed which would help strengthen payment accuracy by increasing the Agency's ability to obtain eligibility information in a more timely and economical basis.

In addition, SSA is increasing the number of redeterminations of eligibility and continuing disability reviews (CDR) conducted. This will enable the Agency to ensure that only those entitled to benefits continue to receive benefits. SSA will continue to pursue the funds necessary to conduct both redeterminations and CDR workloads.

The Agency has also concentrated efforts on the issue of fraud. The majority of payment error cases do not involve fraud. However, SSA is engaged in an aggressive program to deter, detect, investigate and prosecute fraud as discussed in the previous section. Lastly, SSA has a debt management program in place that makes use of all collection tools available under existing statutes. Improvements are continually being made to increase the ability to detect and prevent debts. SSA has sent legislation to Congress that would enhance the ability to recover those debts that occur.



Furthermore, the program improvements being pursued as part of SSA's stewardship and service objectives will have a residual positive impact on SSA's debt management. These initiatives to correct known problem areas and continued attention to management improvement of the SSI program will strengthen public confidence in SSA's administration of this program.

Return to Work Initiatives

Among SSA's beneficiaries with disabilities, there are many who would like to return to work. And, despite their impairments, they can work if they receive the supports they need. They and their caregivers and advocates tell SSA this in surveys, letters, meetings and in numerous other ways. However, a very small number of SSA's beneficiaries with disabilities actually leave the benefit rolls because of work activity. In response to these concerns, SSA is striving to better fulfill the needs of its customers with disabilities, particularly in terms of their need to be independent, work, and maintain a sense of financial security.

SSA has developed and is implementing a cost-effective and comprehensive strategy to increase the number of beneficiaries with disabilities who work, despite their impairment, and thereby lessen their dependence on the benefit rolls. Key concepts of this employment strategy are:

- Enhancing the financial security and smoothing the transition away from income support programs of those who choose to work despite their impairments;
- Providing greater incentives for public and private sector providers of employment and rehabilitation services to serve SSA's beneficiaries;
- Maximizing the employment potential of young people with disabilities; and
- Simplifying program policies for people who want to work.

This strategy involves a number of initiatives, including some that require legislation and others that can be pursued using existing legislative authorities. Some of the major initiatives are:

1. Ticket to Independence Program

The President proposed the Ticket to Independence Program in 1997 as an alternative to the current SSA

vocational rehabilitation (VR) program. Under the proposal, a beneficiary with a long-term impairment would be issued a "ticket" which would provide access to a broad range of employment and VR services. Approved private and public service providers, who receive a ticket from a beneficiary, would be rewarded when they are successful in helping the beneficiary achieve independence from SSA's benefit rolls. In each case where SSA realizes a cash benefit savings due to a beneficiary's work activity, the provider would be paid a proportion of the savings.

In June 1998, the House passed H.R. 3433, called the "Ticket to Work and Self-Sufficiency Act of 1998," which included a ticket program for SSA's beneficiaries with disabilities and had many of the elements of the President's proposal.

2. Enhancements to SSA's VR Program

Using existing legislative authority, SSA recently implemented the Alternate Participant (AP) program, as a supplement to the traditional SSA VR program, to expand opportunities for beneficiaries to receive VR services. In the past, SSA has paid only State VR agencies to provide services to beneficiaries with disabilities.

However, because the State VR agencies serve many other client groups and have limited funding, they do not have the capacity to serve all disabled beneficiaries who may need services. To expand the opportunity for beneficiaries with disabilities to receive VR services, SSA recently began contracting for services from the private sector.

Under both the traditional SSA VR program and the AP program, which began in 1997, State VR agencies or APs are reimbursed for the costs of the services they provide to any beneficiary, if that beneficiary becomes employed and earns at least \$500 per month for nine or more months. Almost 400 APs are under contract to SSA thus far.

In addition to implementing the AP Program, SSA is working with the State VR agencies to improve the process for referral of beneficiaries for services and the process for reimbursing the State VR agencies. These and other process improvements are being implemented in an attempt to increase the number of SSA's beneficiaries with disabilities who are served by the State VR agencies.



3. State Partnership Initiatives

We have heard from consumers and advocates many times that earnings from working affect much more than just Social Security DI and SSI benefits. Increases in income can also cause the loss of Section 8 housing, food stamps, public assistance payments, etc. Many individuals who may not fear the loss of cash benefits, do fear the loss of housing subsidies, etc.

In April 1998, SSA announced the availability of cooperative agreements to States to conduct projects that will determine the degree of interaction of State and Federal systems and benefits, and seek ways to integrate services to overcome barriers to employment. We intend to initiate powerful, well-researched, and comprehensive initiatives that are designed to facilitate services and benefits at the State or local level, will increase income through earnings, and will be cost neutral. At each site, the State will implement a team-based, comprehensive package which coordinates vocational planning and

support, employer and employee coaching, financial planning, risk management, health and long-term care, job search, job placement and ongoing job support, transportation, training and other necessary supports. The cooperative agreements were awarded by September 30, 1998. We also awarded a contract for the project office to provide oversight to the State cooperative agreements.

Additional areas of the employment strategy that are being investigated by SSA include expanded health insurance for workers with disabilities; projects to integrate CDRs and return-to-work processes; improvements to SSA's service delivery in terms of the work incentives and employment and rehabilitation programs; and use of research to expand SSA's knowledge regarding employment and rehabilitation.