Performance and Accountability Report

Fiscal Year 2002

SOCIAL SECURITY ADMINISTRATION
USA

A Message from the Commissioner

"Accountability provided the foundation for our achievements in financial management during FY 2002."

I am pleased to present the Social Security Administration's (SSA) Performance and Accountability Report (PAR) for Fiscal Year (FY) 2002. The report shows how SSA managed its finances and how we performed in administering our programs during the past year.

During FY 2002, we made solid progress in addressing the priorities I established as Commissioner: Giving the American people the service they deserve; improving program integrity through sound fiscal stewardship; ensuring the program's financial solvency for future generations; and maintaining the quality staff SSA needs to meet these goals. During the past year, SSA diligently worked toward finding solutions to address the challenges we face in those areas, particularly as the number of beneficiaries is increasing each year with the aging of the baby boomers. We are conducting a service delivery assessment to examine all business processes and develop innovative ways to manage our growing workloads. Our investigations have identified large and small changes, which we are implementing, to improve our service to both beneficiaries and taxpayers, our future beneficiaries. With the support of SSA's corps of talented and dedicated employees and maximum use of rapidly developing technology, we have begun to build an SSA for the future in which we maintain and exceed the levels of service we provide today.

SSA has demonstrated its continuing commitment to responsible stewardship of the Social Security programs as reflected by the ninth consecutive unqualified opinion on SSA's financial statements. SSA is fully committed to providing results-driven Government. As our disability and retirement workloads continue to grow, our dedication to providing the highest quality service must balance the elements of accuracy, timeliness, and productivity.

SSA is committed to providing data that is complete and reliable to those who use it for decisionmaking. The performance and financial data presented in this report is fundamentally complete and reliable as outlined in the guidance available from the Office of Management and Budget (OMB). We have identified no material inadequacies and this report describes our continuing efforts to provide timely and useful performance information to SSA managers, OMB and Congress.

SSA is rightly one of the most scrutinized agencies and this year once again earned recognition as a premier Federal agency. SSA received a "B", the highest grade in the Federal Government, for its financial management practices from the U.S. House of Representatives Committee on Reform, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations. SSA was also the only agency of 24 rated to see its grade improve. More recently, SSA was awarded the Association of Government Accountants "Certificate of Excellence in Accountability Reporting" for its FY 2001 PAR. SSA is the only Federal agency to have received this award for 4 consecutive years.

Social Security has been there since its inception, providing a measure of economic security and financial stability for America's citizens. As we face the years ahead, we will continue to fulfill our mission and to remain steadfast in our commitment to provide the best quality service to the American public while ensuring program integrity through sound fiscal stewardship.

JoAnne B. Barnhart

Jo Anne B. Barnhart
November 19, 2002

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SSA's FY 2002 Performance and Accountability Report is available on the Internet at: www.ssa.gov/finance

Ten-Year Summary of Financial Highlights

(Data for the FYs ended September 30, unless otherwise noted. Dollars in billions, except for unit costs.)

Assets

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Investments	$365.7	$419.5	$483.2	$549.5	$631.0	$730.3	$854.9	$1,007.2	$1,170.0	$1,329.0
Total Assets[1]	376.4	450.1	499.1	565.9	648.6	748.4	874.9	1,029.2	1,198.7	1,358.5

1. See balance sheet on page 51 for breakout of Total Assets.

Financing Sources

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Tax Revenues	$316.5	$340.8	$356.2	$381.2	$405.3	$432.0	$462.7	$501.7	$528.2	$537.7
Interest Income	27.4	30.1	34.2	37.6	42.5	48.0	53.7	62.2	70.9	78.6
Total Exchange Revenue and Financing Sources	378.0	407.9	427.4	449.5	477.4	510.9	548.2	599.1	627.2	648.3

Expenses

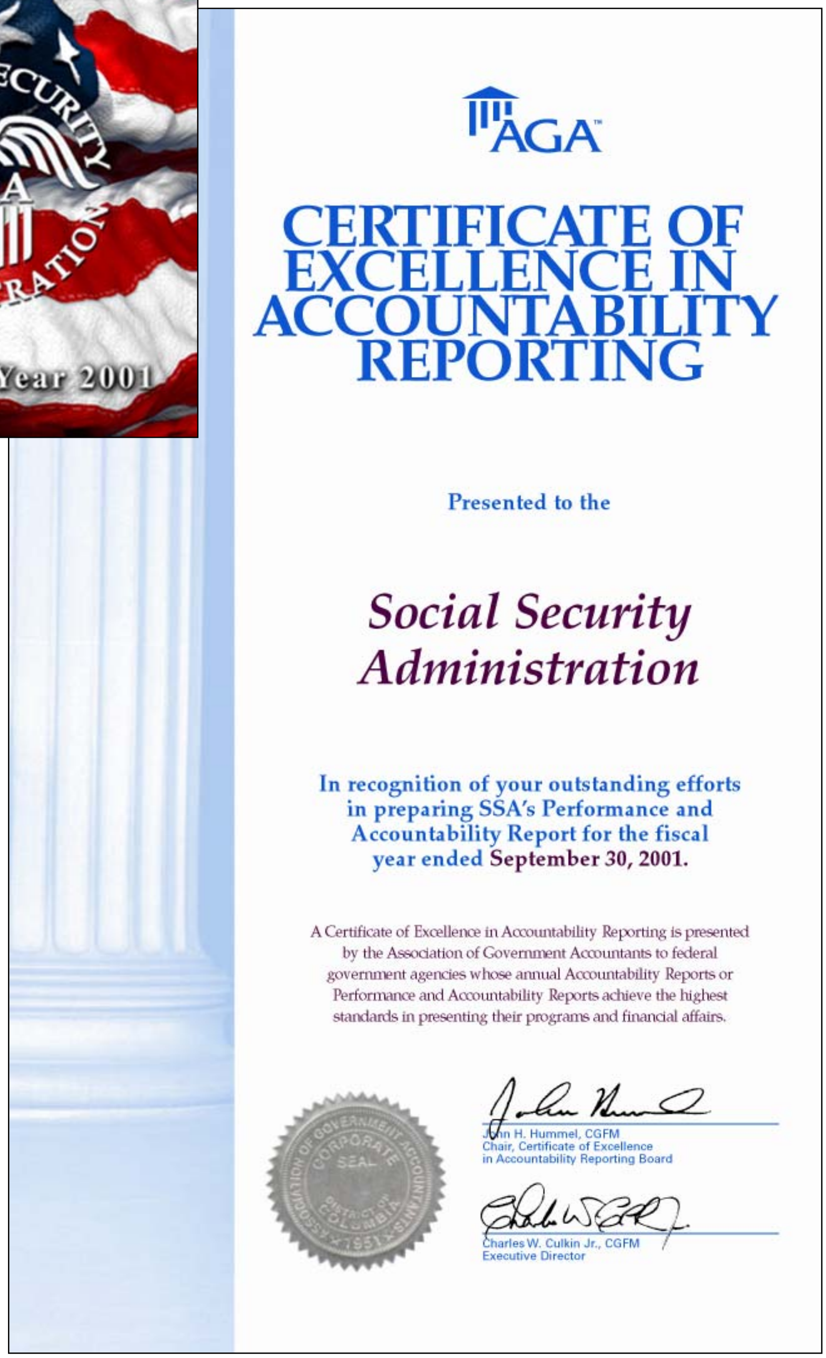
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Benefit:										
OASI	$265.9	$277.3	$290.0	$300.6	$313.7	$325.0	$332.3	$349.9	$369.1	$385.8
DI	34.1	37.9	40.4	43.4	44.5	47.7	50.4	54.7	59.2	67.0
SSI	20.4	24.2	24.5	24.9	26.6	27.5	28.2	30.5	27.7	30.2
Administrative	5.3	5.4	5.6	6.0	6.9	7.5	7.4	7.5	7.3	8.3

Ratios

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Return on Trust Fund Investment[2]	8.3%	8.0%	7.8%	7.6%	7.5%	7.2%	6.9%	6.9%	6.6%	NA
Long Range OASDI Actuarial Deficit as % of Taxable Payroll by Year of Trustees Report	1.46%	2.13%	2.17%	2.19%	2.23%	2.19%	2.07%	1.89%	1.86%	1.87%
Administrative Expenses as % of Benefit Expenses	1.6%	1.6%	1.6%	1.6%	1.8%	1.9%	1.8%	1.7%	1.6%	1.7%

2. Data shown are for calendar year; see http://www.ssa.gov/OACT/ProgData/effectiveRates.html for earlier data.

Business Process Information										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Enumeration Process:										
SSNs Issued (in millions)	16.7	16.1	16.8	15.9	15.6	16.2	16.4	17.1	18.1	17.7
Workyears	2,487	2,534	2,560	2,577	2,811	2,902	2,692	2,909	3,036	2,994
Production Per Workyear (PPWY)	6,703	6,370	6,575	6,187	5,539	5,584	6,063	5,888	5,988	5,905
Unit Costs (Current $)	$14.54	$15.02	$14.84	$16.17	$17.47	$16.59	$16.27	$16.84	$17.01	$16.77
Earnings Process:										
Earnings Processed (in millions)	222.0	221.9	235.3	240.0	249.1	266.0	249.9	277.1	274.4	266.8
Workyears	1,375	1,556	1,595	1,540	1,303	1,223	1,007	904	809	803
PPWY	161,475	142,641	147,515	155,842	191,210	217,440	248,131	306,577	339,218	332,225
Unit Costs (Current $)	$0.66	$0.73	$0.67	$0.58	$0.49	$0.41	$0.34	$0.27	$0.25	$0.26
Claims Process:										
Total Initial Claims Processed (in millions)	7.5	7.4	7.2	6.7	6.4	6.1	6.2	6.6	6.6	7.2
Workyears	23,362	23,338	21,022	19,436	19,560	17,263	16,714	17,236	17,101	17,249
PPWY	319	315	345	344	328	355	370	385	384	419
Unit Costs (Current $)	$491.46	$494.74	$460.72	$456.47	$471.59	$435.09	$434.63	$409.77	$417.56	$392.07
Postentitlement Process:										
Workloads Processed (in millions)	87.9	90.0	95.6	99.3	100.9	100.9	91.9	98.4	99.9	102.8
Workyears	17,522	17,560	18,240	18,449	20,289	20,175	20,420	20,236	20,832	21,191
PPWY	5,018	5,127	5,238	5,381	4,976	4,999	4,501	4,864	4,796	4,849
Unit Costs (Current $)	$19.98	$19.33	$19.53	$20.29	$22.70	$23.52	$26.69	$24.14	$24.23	$23.06



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CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

Presented to the

Social Security Administration

In recognition of your outstanding efforts in preparing SSA's Performance and Accountability Report for the fiscal year ended September 30, 2001.

A Certificate of Excellence in Accountability Reporting is presented by the Association of Government Accountants to federal government agencies whose annual Accountability Reports or Performance and Accountability Reports achieve the highest standards in presenting their programs and financial affairs.

ASSOCIATION OF GOVERNMENT ACCOUNTANTS CORPORATE SEAL DISTRICT OF COLUMBIA 1951

John H. Hummel, CGFM
Chair, Certificate of Excellence
in Accountability Reporting Board

Charles W. Culkin Jr., CGFM
Executive Director

Management's Discussion and Analysis

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

The Overview of SSA section highlights SSA's mission as set forth in the Agency's Strategic Plan. This section also discusses the major programs we administer: the Old Age and Survivors Insurance and the Disability Insurance programs (commonly known as Social Security) as well as the Supplemental Security Income program and provides a discussion of the Agency organization.

Following the Overview of SSA section is a discussion of the Major Issues that SSA will be facing in the future. We used the Performance and Accountability Report to provide a snapshot of the performance we achieved in FY 2002. However, the status of SSA would not be complete without providing a sense of the challenges tomorrow brings. These challenges include long-term solvency of the Social Security program and fulfilling our commitment to quality service as well as topics that have a more immediate impact on our operations such as SSI and DI management improvement and fraud prevention and detection. While these issues are challenging, we believe we have the policies and plans in place to help ensure they will be adequately addressed.

Next, the MD&A discusses SSA's ability to achieve the five strategic goals contained in our current strategic plan. In April 2001, we provided Congress with our FY 2002 Annual Performance Plan (APP) outlining the performance indicators we used to assess our ability to meet these five strategic goals. In April 2002, we provided Congress with our FY 2003 APP and Revised Final FY 2002 APP, which revised several FY 2002 Government Performance and Results Act (GPRA) performance indicators. The Performance Goals and Results section provides a discussion of SSA's GPRA strategy and includes a summary of FY 2002 performance. It also includes selected key indicators from the APP, targeted performance for FY 2002 and actual performance achieved. The remaining FY 2002 GPRA performance indicators and their targeted performance and results may be found in the GPRA Performance Results section of the report.

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

Overview of SSA

Mission

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

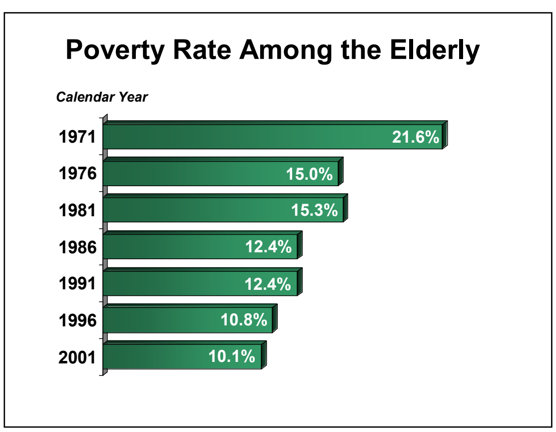
The Social Security Act established a program to help protect aged Americans against the loss of income due to retirement. Protection for survivors of deceased retirees was added by the 1939 amendments, thus creating the Old Age and Survivors Insurance (OASI) program. Social Security protection for workers 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 and again in 1999 to include Special Benefits for Certain World War II Veterans (title VIII). The following table provides the number of beneficiaries for the OASI, DI and SSI programs.

Number of Beneficiaries (*In Millions*)[1]

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
OASI	36.9	37.2	37.5	37.6	37.8	37.9	38.0	38.7	38.9	39.2
DI	5.2	5.5	5.8	6.0	6.1	6.3	6.5	6.6	6.8	7.1
SSI	5.9	6.2	6.5	6.6	6.6	6.6	6.6	6.6	6.7	6.8

1. Includes individuals receiving benefits from more than one program.

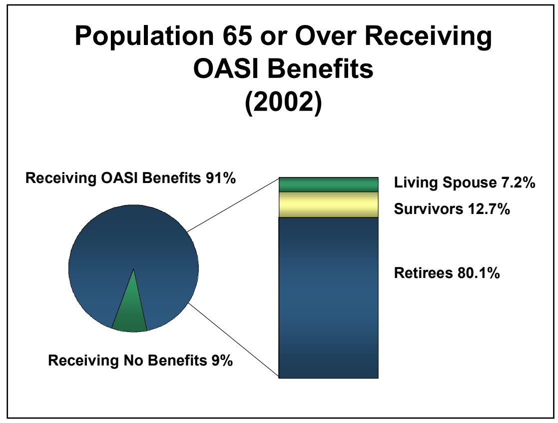
The combined Old-Age, Survivors and Disability Insurance (OASDI) programs, commonly referred to as Social Security, provide a comprehensive package of protection against the loss of earnings due to retirement, disability and death. Monthly cash benefits are financed through payroll taxes paid by workers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



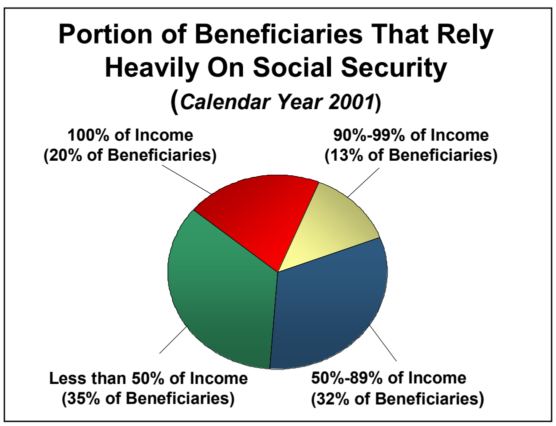
Social Security benefits have significantly improved the economic well being of the nation. Poverty among the elderly has been reduced by 54 percent over the past 30 years, decreasing from 21.6 percent in 1971 to 10.1 percent in 2001. In 1936, when Social Security numbers were first assigned to workers, most of the nation's elderly were living in poverty. Today, monthly benefits are an important part of the quality of life of elderly Americans and millions more who are protected in case of death or disability. In 2001, the family income of only 16 percent of aged, unmarried beneficiaries fell below the poverty line. In addition, in 2001, only 3 percent of aged beneficiaries who were members of a married couple had income below the poverty line.

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 2001 was $80,400 and increased to $84,900 in 2002.

OASI Program: To qualify for OASI benefits, a worker must have paid Social Security taxes (Federal Income Contributions Act and/or Self-Employment Contributions Act) for at least 10 years (or 40 credits) over the course of his/her lifetime. Individuals born before 1929 need fewer credits 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.



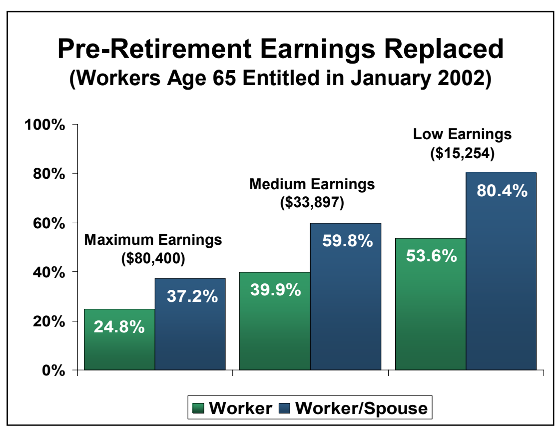
As shown in the chart to the right, 91 percent of people age 65 or over in calendar year 2002 were receiving benefits. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and their mothers or fathers with children in their care under 16 can count on monthly cash benefits if a working parent dies.



In 2001, Social Security benefits comprised 39 percent of the aggregate share of all income to the aged population 65 and over. Other sources of income include assets (16 percent), earnings (24 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 a third of beneficiaries, it contributes all or almost all of the income; and for almost two thirds of the beneficiaries, it is the major income source.

The level of preretirement (career-average) earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted in favor of workers with low levels of earnings. The chart to the right shows the replacement rate in 2002 for individuals and couples (i.e., worker with a spouse who is not insured) at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed to 2001.

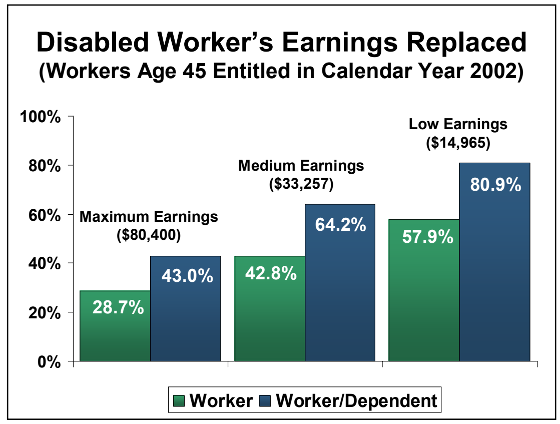


DI Program: To qualify for DI benefits, an individual must meet a test of substantial recent covered work before becoming disabled. Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. About 9 out of 10 persons age 21 through 64 who worked in covered employment in 2001 can count on receiving benefits if they become disabled. Workers are considered disabled if they have a medically determinable physical or mental impairment that prevents them from engaging in substantial gainful activity. The disability 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 to the right shows the replacement rate in 2002 for disabled workers and their dependents at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed to 2001.

The table below presents a historical perspective on medium earnings replacement for both the OASI and DI programs.

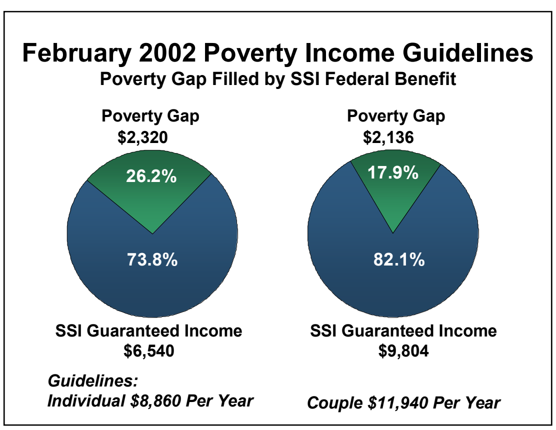


Medium Earnings Replaced Historical Perspective						
	1952	1962	1972	1982	1992	2002
Disabled Worker[1]	NA	34.5%	39.1%	42.7%	43.5%	42.8%
Retired Worker	26.2%	32.0%	37.7%	48.7%	43.8%	39.9%

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

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

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

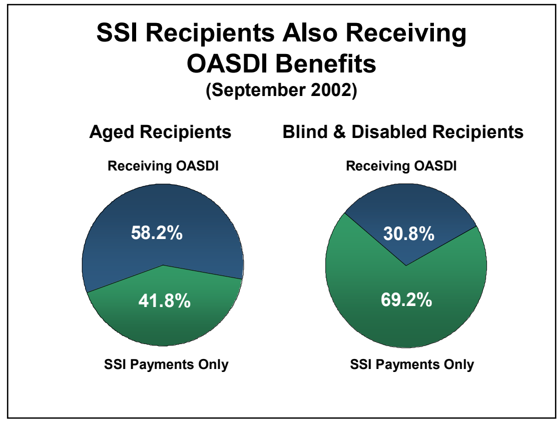


As shown in the chart to the left, SSI recipients with no other income receive the full SSI Federal benefit which is 73.8 percent of the poverty level for an individual and 82.1 percent for a couple.

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

In September 2002, 35.9 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.3 percent of the recipients, earnings were a source of additional income.

OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 35.9 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (58.2 percent) to be receiving Social Security benefits than SSI blind and disabled recipients (30.8 percent).



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

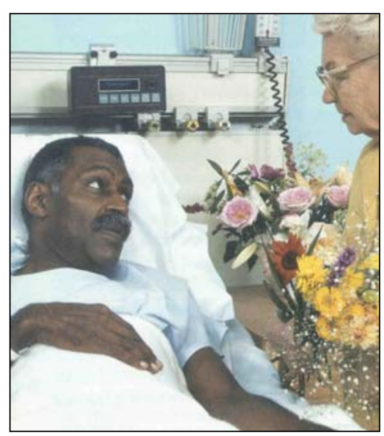
Support to Other Programs

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

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

SSA is also responsible for taking claims for, and performing certain other services related to, Part C benefits. In FY 2002, SSA field offices took 467 claims for Part C benefits and transferred them to DOL for payment, as required by law. SSA received full reimbursement from DOL for these services. Beginning in FY 1998, DOL provided administrative services for the Part B program under an interagency agreement with SSA and certified for payment all Part B benefits from funds appropriated to SSA. However, SSA retained responsibility for these payments. On November 2, 2002, the President signed Public Law 107-275, the Black Lung Consolidation of Administrative Responsibilities Act, which transfers responsibility for administration of Part B benefits from the Commissioner of Social Security to the Secretary of Labor, thereby consolidating all BL benefits responsibility under the Secretary.

Medicare: Being a primary public contact point for the Centers for Medicare and Medicaid Services (CMS), SSA provides key services to the Medicare program. SSA staff determine and answer questions regarding Medicare eligibility, maintain the computerized records of Medicare eligibility, and collect Medicare premiums through withholdings from Social Security payments. Annually, SSA devotes about 1,488 workyears to supporting these workloads and funds for these services are drawn from the Medicare trust fund. In addition, Administrative Law Judges in SSA's Office of Hearings and Appeals provide hearings and adjudicate disputed appeals of Medicare reimbursements.



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

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

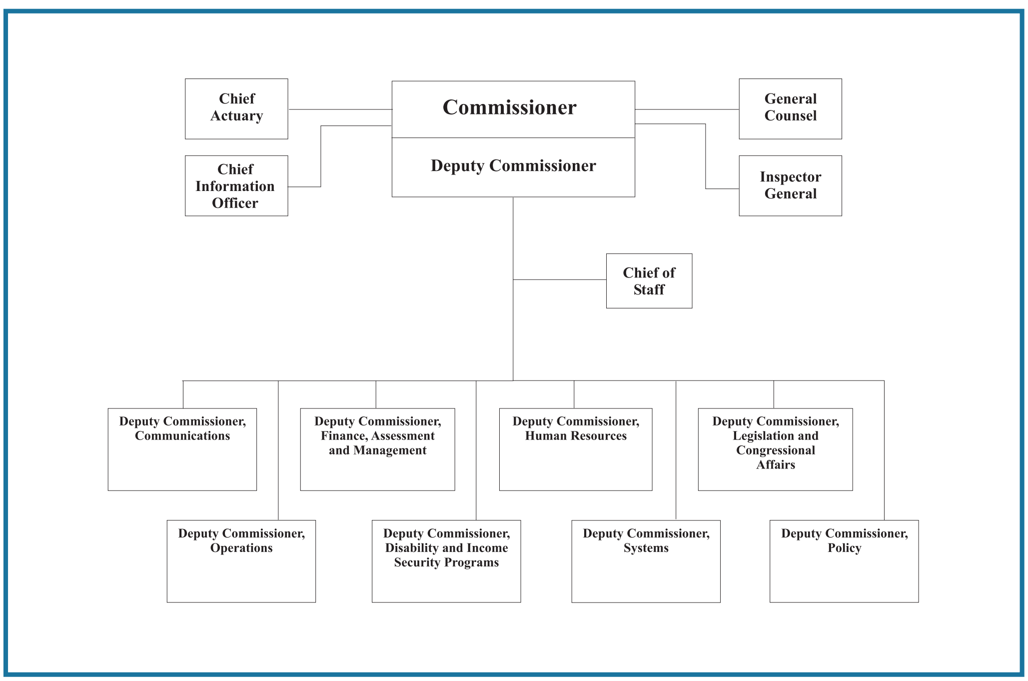
Food Stamps: SSA assists the Department of Agriculture by providing information about the food stamp program and taking food stamp applications for qualified OASI, DI and SSI claimants. In FY 2002, SSA processed 39,775 food stamp applications and recertifications.

Child Support: The Office of Child Support Enforcement, working with State and local agencies, locates absent parents in order to ensure that parents provide financial support to their children. SSA routinely provides electronic information from Social Security records that improves the efficiency of the program and greatly enhances the ability to locate parents and collect child support, collections which totaled almost $19 billion in 2001.

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.

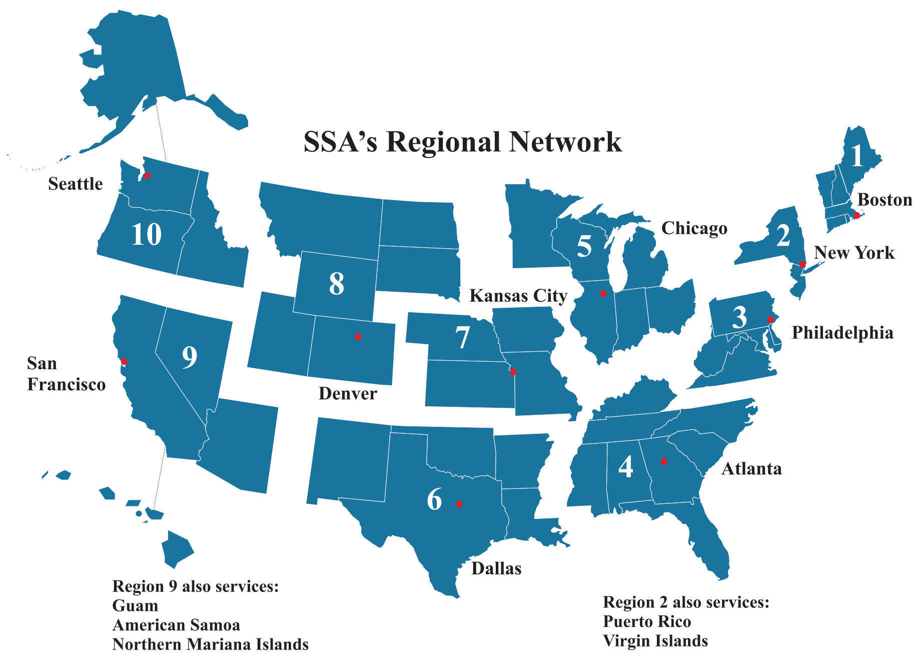
Agency Organization

SSA's organization features centralized management of the national Social Security programs and a decentralized nationwide network of 10 Regional Offices overseeing 1,336 field offices (FO), 138 hearings offices, 36 teleservice centers, 7 processing centers and 1 data operations center. SSA's organizational structure is designed to provide responsive, swift and quality service to the public. All components within SSA's central office perform a supporting role to SSA FOs by providing uniform directions, guidance and material resources needed by the FOs. By integrating services for all the programs we administer, we are able to enhance efficiency, avoid duplication of effort and increase opportunities to provide one-stop service to the public.



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

To meet the needs of non-English-speaking persons, SSA recruits bilingual individuals to serve as a public contact for persons visiting SSA field offices and calling SSA's 800-number telephone service. During FY 2002, 15 percent of the Agency's new hires were bilingual. At year end, SSA had public contact employees who could provide service in English and at least one of 23 other languages.



Major Issues Facing SSA

SSA's Performance and Accountability Report summarizes the Agency's achievements in administering its programs and managing the resources entrusted to it. In addition to the retrospective information provided by the report, we believe a full picture of the Agency's and the program's status must also consist of a discussion of those current issues with possible major impact on future operations. This section is organized by the Commissioner's four goals, which encompass the President's Management Agenda (PMA) initiatives of Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and Budget and Performance Integration. These initiatives are discussed in more detail in this section and throughout the report.

Service

Service Delivery Assessment

The Agency decided to address the many challenges and issues it faces through the framework of a comprehensive Service Delivery Assessment. This assessment is a granular-level examination of each of SSA's programs, delivery channels and processes to ensure that the Agency is providing quality service and stewardship to the American public. From this detailed evaluation, SSA is identifying issues and problems and ways to address them.

SSA began its Service Delivery Assessment with the disability process because, while the Agency devotes two-thirds of its administrative budget to it, the timeliness of the service delivered is unacceptable. The information gathered from, and the analytical tools developed in, this detailed examination are being used in our efforts to accelerate implementation of an electronic business process for the disability program.

Accelerated eDIB (AeDib)

SSA has embarked on a major Agency initiative consisting of a series of projects designed to move its disability claims adjudication/review to an electronic business process through the use of an electronic disability folder. This initiative is known as AeDib (accelerated electronic disability system). In order to reap the benefits as early as possible, the Commissioner decided to implement the electronic business process by calendar year 2004, which was significantly faster than previously planned.

The scope of the AeDib plan encompasses disability cases from the initial intake process through the appeals process and includes Continuing Disability Reviews (CDR). Case processing systems throughout SSA and the state Disability Determination Services will interface with an electronic case record and be enhanced to support a paperless business process. This new process will enable all case processing components to electronically share information, exchange data with the electronic folder and manage and control workloads. The AeDib plan includes:

- developing an electronic folder and infrastructure;
- creating interfaces and enhancing existing systems to work with the electronic folder;
- developing a case processing system for the Office of Hearings and Appeals (OHA);
- automating the disability interview process and providing an Internet filing option to the public; and
- incorporating electronic medical evidence and scanning/imaging processes.

Over time, the AeDib will significantly reduce the time and costs currently required to process a disability case.

Disability Program Improvements

Over the years, SSA has explored initiatives intended to improve service in the disability program. At the State disability determination services (DDS) level where the initial disability determinations are performed, the most recent effort has been testing in 10 States a disability prototype process that combined several features that had shown promise during earlier testing. SSA has decided to pursue only the effective features of the prototype, such as the single decisionmaker.

The single decisionmaker feature of the prototype provides authority for disability examiners to make many disability determinations more quickly by not requiring the participation of a medical or psychological consultant when the disability is obvious. Testing demonstrated that examiners can make accurate determinations using single decisionmaker authority, and they make good judgments about when to seek medical or psychological consultant advice. Single decisionmaker authority enables the Agency to make the most effective use of available resources, and enables medical and psychological consultants to devote most of their time to the most complex cases. Regulations providing for national implementation of single decisionmaker authority are being developed.

SSA also is developing proposals for broader changes to the disability claims and appeals processes. In the meantime, SSA is implementing several near-term changes to improve service and efficiency, such as electronic service initiatives and updating the medical Listing of Impairments.

SSA continues to improve the processing of cases that go to the Appeals Council, the final step in the administrative appeals process. The streamlined process at the Appeals Council has resulted in decreased processing time and a reduction in the backlog of pending cases.

Hearings and Appeals Process

Although in 2002 we made significant progress managing the Hearings and Appeals workload to ensure that it delivers fair, equitable and timely service to the public, it remains a great challenge. Under Accelerated eDib, OHA will implement the Case Processing and Management System (CPMS) which is both a case tracking system and a case processing system. Data will be propagated from and to other SSA systems, which will eliminate the redundant keying of data into multiple systems. CPMS will also insure data consistency throughout SSA. In addition, OHA has initiated several changes to address ongoing challenges in FY 2003 and beyond:

Hearings Process

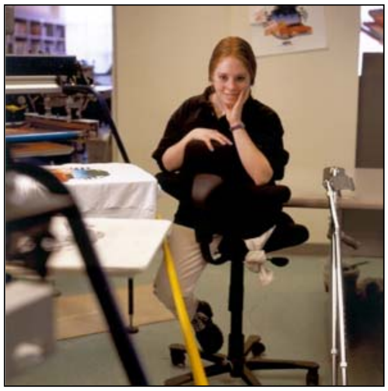
- Eliminated the requirement that cases be certified as ready for hearing and eliminated the mandatory rotation of staff among various duties.
- Enhanced early case screening and analysis to add efficiencies in case workflow.
- Developed initiatives that have the potential for reducing processing times and pending levels including: using a short-form fully favorable decision format; issuing bench decisions; expanding videoteleconferencing capability; implementing digital recording of hearings; and using service contracts to supplement folder assembly efforts.

Appeals Council

- Established an Aged Case Task Force to concentrate efforts on the review and clearance of the oldest cases.
- Used differential case management initiatives (i.e., working a mix of cases, including older and newer requests for review cases) to maintain and improve service delivery.
- Expedited the process of pre-development actions in an effort to reduce processing time.

We expect the combination of these changes to yield steady improvements in performance through the next three years.

Return to Work



When the disability provisions were first added to the Social Security Act, there was little expectation that severely disabled individuals would ever be able to perform substantial work. Since then, changes in the American economy and workplace may make it possible for many beneficiaries with disabilities to be able to work with proper support. However, few disability beneficiaries now leave the disability roles and return to work (RTW).

The Ticket to Work and Work Incentives Improvement Act of 1999 increased beneficiaries' access to vocational services and assigned SSA a major role in bringing beneficiaries and support services together. With the Ticket to Work law now a part of the President's New Freedom Initiative, SSA has stepped up beneficiary reemployment efforts.

SSA is also planning new initiatives to establish or test innovative approaches to early intervention with beneficiaries with disabilities and to better integrate SSA's work support programs with those of other federal agencies, including:

- Testing early intervention initiatives including a demonstration with applicants for disability benefits to assist their attempts to RTW before a decision on their disability benefits has been made;
- Testing increased support through school-to-work programs for young beneficiaries with disabilities to better prepare them for transition to adult life and increased self-sufficiency;
- Collaborating with the Departments of Labor (DOL); Health and Human Services; Education; Housing and Urban Development; and Transportation to improve the coordination of programs that support work efforts among people with disabilities across these agencies. SSA will attempt to increase use of DOL's One-Stop system to help individuals with disabilities receive accurate information. SSA is jointly working with these agencies in the planning of a comprehensive employment demonstration that will attempt to use waiver authorities to build and test a seamless set of work supports for people with disabilities.

The results of these research efforts will lead to recommendations for RTW program improvements for SSA and these other agencies.

Expanded Electronic Government

SSA recognizes that to better serve the "baby boom" and younger generations, the Agency must provide service to satisfy the ever-increasing demands for convenient access to SSA information and services by enhancing and expanding our electronic service delivery. SSA's initiatives include:

- Improving tools and integrating services, including benefit planners and calculators to permit citizens to estimate their benefits, a robust system of Frequently Asked Questions (in English and Spanish) on www.ssa.gov, our Internet newsletter (eNews), and participation in FirstGov for Seniors, a portal that provides one-stop shopping for government services on the Internet;
- Conducting a program of continuous website enhancement to improve interfaces, navigation and the accessibility of the site to disabled customers;
- Expanding our online applications, including the Internet Social Security Benefit Application to fully support filing for disability benefits in addition to retirement and spouse benefits and processing such events as direct deposit and change of address;

- Enhancing our automated 800-number response system to match the Internet offerings for "Check Your Benefits." Beneficiaries with passwords may now check the amount and date of next payment, type of benefit or non-payment reason, telephone number and date of birth, direct deposit information, Medicare entitlement dates, and overpayment amounts; and
- Adding "Check Your Benefits" for Supplemental Security Income (SSI) recipients.

SSA is also developing new ways to meet the needs of users who want multiple service channels. SSA is evaluating its Multimedia Customer Contact Center pilots for expanding this multiple delivery channel into SSA's production environment.

Privacy and security are major concerns when using electronic services. SSA is consulting with privacy experts to develop ways to incorporate appropriate authentication for identifying electronic users. Each new application must pass a rigorous risk assessment process. The Agency is developing a strategic approach for Public Key Infrastructure technology to provide the underpinnings for scalable authentication, access control, confidentiality, integrity, and non-repudiation services for Internet applications.

SSA is a key participant in the President's eGovernment initiative. SSA is the managing partner for the eVital initiative, which will build an infrastructure to handle all requests for vital records data as well as disbursement of vital records data to all federal and other interested parties. Besides eVital, SSA is participating in 15 of the other 24 initiatives, including eAuthentication, eTravel, GovBenefits, Consolidated Healthcare Informatics, Recruitment One Stop and ePayroll.

Additionally, by leveraging partnerships and looking outside the agency, SSA is sharing best practices and solutions to global problems.

Maintaining Systems

All of SSA's programmatic and administrative workloads, and most of SSA's service delivery channels, rely on a complex information technology (IT) infrastructure. To ensure that the Agency can meet its aggressive service goals, we have a number of integrated IT initiatives which will provide for upgrading hardware and software, refreshing obsolete technology and improving economies of scale within that infrastructure. The foundation for these initiatives rests on the following 3 priority tenets of operation:

- ***Availability*** – SSA's front-line employees must have access to all IT infrastructure services whenever field offices are open and/or telephone access is available to the public. Direct access on the web is required 24 hours-per-day, 7 days-per-week.
- ***Stability*** - The IT infrastructure must be highly available overall without patterns of even brief periods of outage.
- ***Maintainability*** – SSA's highly distributed, multi-platform and multi-vendor architecture requires that IT hardware and software must be maintained at near-current vendor release levels. This ensures continued and quality support services from vendor suppliers.

To provide support across the many disparate workloads and activities within SSA, multiple "processing platforms" must be maintained. These platforms include SSA's 110,000+ desktop and laptop infrastructure and the network of site and enterprise services supporting it, the telecommunications network infrastructure which links all SSA sites and connects SSA to the public and its business partners, the mainframe capacity infrastructure hosting all of SSA's mission critical applications and resources, the electronic messaging infrastructure of eMail, fax and collaboration services, and finally, the SSAWeb infrastructure supporting www.ssa.gov and the Agency's intranet applications.

Stewardship

Improved Financial Performance

The Administration has set aggressive criteria to measure department and agency success towards meeting the PMA initiatives relating to Improved Financial Performance. Although SSA received one of the best evaluations overall, the Agency has several ongoing initiatives to address areas for improvement. SSA is replacing its core financial accounting system and is substantially enhancing its existing agency-wide cost accounting system and several related management information and financial management information systems. The Replacement Financial Accounting System and Managerial Cost Accounting System (MCAS) projects will expand the validity, depth, range and coverage of SSA management and financial management information. SSA's MCAS is being developed in close partnership with other SSA data management projects, the SSA Unified Measurement System (SUMS) and Management Information Infrastructure, will provide the data base for all SSA management and financial management reporting.

In addition, SSA has developed a corrective action plan for reducing erroneous payments and initiatives to remove the SSI program from the General Accounting Office's “High Risk” list. The action plan is discussed in this section under the heading of SSI Management Improvement. Lastly, SSA will continue to work with its auditors to receive an unqualified and timely audit opinion on SSA's FY 2003 annual financial statements to prepare to meet the accelerated Office of Management and Budget requirement for delivery of FY 2004 Performance and Accountability Reports to the President and Congress.

Budget and Performance Integration

Budget and Performance Integration plays a central role in all of the PMA initiatives. SSA recognizes this and is committed to improving its budget and performance integration by making effective use of current processes and systems, while developing new systems and methods and strengthening communication between planning, budget and evaluation staffs.

A significant challenge for SSA is clearly relating funding to key strategic and performance plan outcomes. Success is dependent on having the right information in modernized, upgraded SSA financial accounting, cost accounting and management information systems. While SSA is modernizing these systems, it is designing and developing a new budget formulation system which will build on them and strengthen the budget, accounting and performance linkage. It will enable SSA to more clearly align resources with outputs and outcomes.

To strengthen accountability, tracking reports of actual performance results against commitments are now available online to SSA executives and staff via the SSA Intranet. In addition, SSA’s new Senior Executive Service performance management system will relate performance appraisals to results.

Competitive Sourcing

Competitive sourcing is one of the PMA initiatives. It is intended to improve the efficiency and effectiveness of services provided by the government. SSA has developed a competitive sourcing plan to address the goal of competing 15 percent of commercial activities by the end of FY 2003 in a broader effort to ultimately compete 50 percent of the commercial activities in the Federal government. There is regular, close executive oversight of the program. A centralized team was formed to manage and coordinate the competitive sourcing initiative. A workgroup representing each SSA component meets regularly to monitor progress, address pertinent issues and maintain consistency across the agency. A comprehensive training program is underway to ensure those involved in the competitive sourcing process have the necessary tools to successfully implement the initiative. In addition, SSA is obtaining outside support and advice from an organization experienced in the competitive sourcing process.

Critical Infrastructure Protection

Recognizing that the information that the SSA collects and uses to complete its mission is one of the Agency's most valuable assets, SSA has taken a number of steps to assure the security of that information both physically and electronically. SSA is conducting ongoing system and security reviews to ensure physical and cyber security throughout the infrastructure.

Presidential Decision Directive 63, issued in 1998, requires Federal agencies to identify and protect their critical infrastructure and assets. SSA established a Critical Infrastructure Protection workgroup with executive leadership, which reports regularly to the Executive Internal Control Committee which oversees the Agency's management control program and addresses management control issues, audit and review findings, and corrective actions. Closely associated with this workgroup are the Security Response Team, Intrusion Protection Team and Electronic Crimes Team.

SSI Management Improvement

The SSI program provides benefits to approximately 6.7 million needy beneficiaries who are aged, blind or disabled. Like other means-tested programs that respond to changing circumstances of individuals' lives, the SSI program presents challenges to ensure that it is administered efficiently, accurately and fairly. SSI is designated a major management challenge by GAO. To improve the administration of the SSI program and to get it removed from the High Risk list, the Agency developed the SSI Corrective Action Plan. Key components of the plan include:

Preventing overpayments

- Testing an innovative wage reporting method for workers at higher risk for wage-related overpayments using touchtone telephone technology, thereby prevent errors due to unreported wages.
- Electronically accessing the records of financial institutions to determine if an applicant or recipient owns unreported assets, thereby prevent errors due to unreported bank accounts.
- Testing the use of credit bureaus and other public databases to detect unreported income or resources.
- Continuing commitment to timely processing of Continuing Disability Reviews.

Detecting overpayments

- Increasing the number of redeterminations conducted, which are periodic reviews of the financial factors of eligibility for SSI.
- Increasing the frequency with which we use online access to data to improve our ability to verify documents and claimant allegations, which reduces the administrative costs and decreasing processing time, as compared to manual, paper-bound verifications.

Collecting debt created by overpayments

- Using a new debt collection measurement tool that we will employ that will enable us to better target those portions of our debt portfolio that can be collected from debtors.
- Continuing to use cross-program recovery of SSI debt from Social Security benefits.
- Developing regulations to institute administrative wage garnishment for public-and private-sector employees who have outstanding SSI overpayments.

Fraud Prevention, Detection and Resolution

SSA remains committed to its program to deter, detect, investigate and prosecute fraud. During fiscal year 2002, the National Anti-Fraud Committee established a workgroup to develop a more comprehensive, Agency anti-fraud strategy. The results of this intercomponent effort confirmed that the Agency is already working on those projects considered critical. These critical projects include Cooperative Disability Investigations (CDI) units and the Fugitive Felon project.

The mission of CDI units is to obtain evidence of material fact sufficient to resolve questions of fraud in SSA's disability programs. These units rely on the combined skills of SSA's Offices of the Inspector General, Operations, Disability, the State's Disability Determination Services, and State and local law enforcement. The first CDI units began operation in 1998. There are currently 17 units. SSA is targeting 20 CDI units in place by the end of FY 2003.

The Fugitive Felon project focuses on identifying fugitive felons who are also SSI recipients, to apprehend the fugitive and suspend his/her benefits. SSA has matching agreements for obtaining fugitive felon warrants in place with the Federal Bureau of Investigation (FBI), the FBI's National Crime Information Center, the U. S. Marshal's Service, 38 State agencies and four metropolitan police departments.

Strengthening the Integrity of the SSN

SSA is committed to provide Social Security numbers (SSNs) only to individuals who are eligible to receive them. The unofficial use of the SSN as a universal identifier has led to increased incidences of SSN fraud and misuse, including the use of stolen SSNs to commit identity fraud. Since SSNs are needed primarily to record an individual's work and earnings, SSA is limiting assignment of SSNs to those authorized to work in the U.S. or who need an SSN to receive a federally funded benefit or a state or local public assistance benefit.

Individuals seeking an SSN must provide proof of identity, age and U.S. citizenship or legal alien status. To eliminate counterfeits, SSA is verifying such proofs with the entity that issued the documents. SSA is also developing protocols for sharing information with other Federal and State agencies to decrease reliance on documents presented by SSN applicants. SSA is working with the Immigration and Naturalization Service and the Department of State to enumerate non-citizens at entry.

SSA is also developing additional automated checks to detect situations that may indicate misuse or potential fraud and methods of validating SSNs for other authorized users of SSNs.

Earnings Suspense File

Each year SSA receives annual wage reports (266 million in FY 2002) from employers and self-employment income from the Internal Revenue Service. These earnings records are used to determine eligibility and benefit amounts for OASDI. Once received, the reports are matched with SSA's Numident File (the repository for all issued SSNs) to verify an individual's name and SSN.

Some annual wage reports have invalid name and SSN combinations. SSA performs multiple routines to try to match the names/SSNs. The invalid combinations are placed in the Earnings Suspense File (ESF). Once the item is placed on the ESF, an annual series of processes are used in an attempt to determine the correct identity (name/SSN) so the reported earnings can be posted to the correct individual's Master Earnings File. We also mail annually to workers over age 25, a report of their qualifying lifetime earnings.

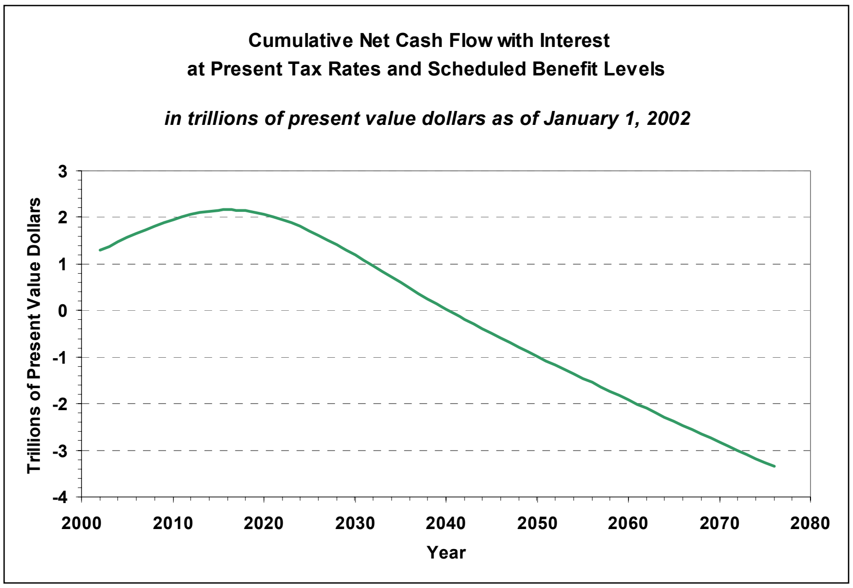
Productivity

Continuing tight budget constraints will mean that SSA will have to manage itself more effectively to increase productivity. Advances in automation, many of which have already been identified, will be key to SSA's productivity improvement. Process and regulation changes will also contribute positively.

Solvency

Long-Term Program Reforms

Without reforms, Social Security is financially unsustainable in the long term. When the first baby boomers reach retirement age in 6 years, the number of retirees will grow rapidly. Life expectancy is also increasing. As a result, the ratio of workers paying taxes to the people drawing benefits is projected to decline from 3.3 to 1 today to 2.1 to 1 by 2030. Social Security's outgo will begin to exceed its tax income in 2017, and the Social Security trust funds will be exhausted by 2041. Cumulative taxes through 2076 fall short of cumulative scheduled benefits by $3.3 trillion.



Long-term Social Security reform is critical to ensure the viability of Social Security for today's retirees' children and grandchildren. The issue has wide repercussions for the nation and economy. Reform alternatives include increasing payroll taxes, decreasing benefits, using general revenues or prefunding future benefits through either personal savings accounts or direct investments of the trust funds. By identifying long-term sustainable solvency as one of the agency's key goals, SSA has made a commitment to address this key national issue.

Education

Through SSA's ongoing communications program, we will continue to educate the public about financing challenges facing the Social Security programs. SSA's Regional Communications Directors, public affairs specialists, and managers throughout the country will be available to discuss the solvency issue in public appearances and community relations activities. Relevant publications will continue to include a basic message about the financing structure of the programs and why Social Security needs to be strengthened. We are working with members of the financial community to sponsor a "National Save for Your Future" campaign that will include the importance of personal savings as a component of a secure financial future. SSA's website (www.ssa.gov) will provide an important venue for educating the public on the financial challenges facing Social Security.

Research Capability

As policymakers consider changes to reform the Social Security program, they need timely information about the effects of proposed policy changes. To that end, SSA is creating a dedicated in-house capacity to strengthen its capability to respond to decisionmakers' questions about the fiscal, benefit distribution, and administrative effects of such proposals. In addition, the Agency is working on how to better explain the current financing outlook for the program. SSA will prepare analyses of the current Social Security system and the three plans put forth by the President's Commission to Strengthen Social Security. SSA will also assist the Administration and the Congress in developing reform proposals, supported by the development of data and models as required.

Staff

Strategic Management of Human Capital

SSA faces significant workload growth as the baby boom generation ages, becomes more prone to disabilities and retires. At the same time, SSA faces its own internal retirement wave, with the projected loss of more than 38,000 SSA employees over the next decade, due to retirement and other attrition. This represents approximately 59 percent of our current workforce. Following is a discussion of some of the challenges the Agency faces.

Performance Management

It is crucial for SSA to have a culture that motivates its employees to perform their duties with professionalism, skill and integrity; distinguishes between levels of performance for recognition of contributions and deals appropriately with poor performers. An effective performance management system can be the catalyst that supports these outcomes.

SSA currently uses a performance management process based on a pass/fail appraisal system which does not effectively evaluate and reward employees based on their contribution to organizational performance. In October 2002, SSA implemented a five-level performance system for senior executives that will strengthen their accountability as they work toward achieving the President's and the Agency's goals. The Commissioner has also convened an executive-level workgroup to explore options for strengthening the performance management approach for the rest of the workforce.

Moving Staff to the Front Lines

Our greatest challenge in the human resource area is to manage our workforce to maintain the level and efficiency of service the American public has the right to expect. SSA will use the competitive sourcing results of the Most Efficient Organization's analysis to create highly efficient components. As a result, SSA will have the opportunity to divert personnel from staff and support positions into the critical, understaffed occupations involved in direct service to our recipients and beneficiaries. Toward this end, the Agency is developing strategies to reallocate resources to the front-line workforce functions and become even more efficient and citizen-centered in the delivery of crucial Social Security services.

Recruitment and Retention

In April 2002, SSA launched the centerpiece of the agency's new recruitment strategy - a national marketing campaign - designed to attract applicants with an interest in public service. Using the theme, "Make a difference in people's lives and your own," new tabletop exhibits, posters, electronic images, CD-ROM "business cards" and professional signage were developed for the Agency's recruiters. In addition, SSA is working to implement other elements of the Agency's recruitment strategy; including maximizing the use of the Internet and Intranet, advertising in print media and using SSA's public information officers across the Agency to promote our hiring efforts.

While recruitment is critical, retaining a larger percentage of our employees is no less important to the ongoing success of the Agency. SSA must be able to identify why employees leave, and to utilize management flexibilities to provide them the incentive to stay. SSA needs to continue making the Agency an attractive, family friendly environment that inspires lasting careers.

Career Development

SSA administers a number of national development programs aimed at helping people grow and develop into key agency leaders. Based upon careful succession planning we have prepared and developed high-potential employees to assume positions of greater leadership responsibility at all levels. SSA's programs include the Leadership Development Program (advancement to GS 11-13), Advanced Leadership Program (advancement to GS 14 -15) and the Senior Executive Service Candidate Development Program (advancement to Senior Executive). They provide participants with 12-18 months of developmental assignments in other SSA components and agencies, classroom experiences and intense interactions with a senior mentor.

SSA has accelerated its announcement of these programs along with increasing the number of participants within them. SSA's programs will continue to provide high performers with an incentive to stay in SSA and accelerate their advancement. The end result will be to ensure that we have sufficient qualified candidates to promptly fill managerial and executive vacancies--a key reason why SSA's career development programs have been recognized as being the "best in government."

Management Challenges Identified by Others

The Reports Consolidation Act of 2000 requires that, annually, the Inspector General (IG) prepare a statement that summarizes what he considers to be the most serious management and performance challenges facing the Agency and his assessment of the Agency's progress in addressing those challenges. SSA then reviews that list of "major management challenges" and works with the IG to address our mutual concerns. All topics on the IG's list are discussed in this Major Issues Facing SSA section of the MD&A. In addition, the General Accounting Office has identified similar major management challenges which SSA addresses each year in the Annual Performance Plan. The complete list of the IG's Major Management Challenges may be found in this report following the auditor's report on the FY 2002 financial statements.

Performance Goals and Results

Social Security is fundamental to the economic security of the American public. As the largest and most successful domestic program in our nation's history, Social Security contributes to the basic well-being, health and quality of life of the American people. For the beneficiary, family member, neighbor or taxpayer, the presence of Social Security is assurance of a certain economic standard of living for the community and the nation.

As the agency charged with managing and delivering these important programs, for over sixty years SSA has ranked among the premier agencies in government for our service. In many communities across the country and to many people, SSA has been the primary face of the federal government, and Americans have generally viewed the Agency's performance and service favorably. The Agency's pride and flagship, the front line workforce, continues to strive to provide excellent service to the public.

Today, SSA faces great challenges: giving the American people the service they deserve, particularly as the number of beneficiaries increase each year with the aging of the Baby Boomers; improving program integrity through sound fiscal stewardship; ensuring the program's solvency for future generations; and maintaining the quality staff that SSA needs to meet these challenges. As SSA prepares itself for a vastly different future, we must, at the same time, keep performance and service at its traditional best. While we must invest in tomorrow, we are committed to providing the service the American public has come to expect from us today.

To effectively address these challenges, SSA is developing a new Agency Strategic Plan (ASP) which will be published in early 2003. The new plan will reflect the priorities and direction of SSA's Commissioner and the Administration. It will set SSA's course through FY 2008 so that we can achieve measurable results that improve the lives of the American public by achieving four strategic goals:

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

A key force in shaping our strategic direction is the President's Management Agenda (PMA), which is integrated into our new strategic plan. The PMA identifies five government-wide initiatives intended to work together as a mutually reinforcing set of reforms to improve federal management and deliver results that matter to the American people. These five initiatives—Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government and Budget and Performance Integration—will be interwoven into the means and strategies for achieving our strategic goals.

Along with available funding, the new Agency Strategic Plan will provide a long-term performance context and strategy for making decisions on needed improvements in service delivery, fiscal stewardship and the required staffing. It will guide the technology and capital investments for the next five years that support the execution of our strategic goals. It will set the stage for new legislative and policy changes that will re-shape our programs to be more responsive to the needs of today's taxpayers and beneficiaries.

The strategic plan in effect for *this FY 2002* Performance Report is *"Mastering the Challenge,"* which was published in 2000 and covers the period FY 2000 through FY 2005. This strategic plan states SSA's mission and establishes five broad strategic goals and seventeen supporting objectives that encompass all our program activities. The five strategic goals are:

- To deliver responsive, world-class service,
- To ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse,

- To strengthen public understanding of the Social Security programs,
- To be an employer that values and invests in each employee, and
- To promote valued, strong and responsive social security programs and conduct effective policy development, research and program evaluation.

"Mastering the Challenge" charted a course for SSA to realize by 2005 concrete results in improved service to the public, strengthened program integrity, and increased public knowledge of our programs. At the same time, with investments in technology, the workforce and an expanded base of policy analysis, we worked to position the Agency to meet tomorrow's service needs.

In FY 2002, we made major strides toward achieving those long-term, concrete results. This FY 2002 performance report is our opportunity to describe that progress. We present that progress in the context of the requirements of the Government Performance and Results Act of 1993 (GPRA). The GPRA statute requires Federal agencies to develop and institutionalize processes to plan for and measure mission performance.

Strategic plans, annual performance plans and annual performance reports comprise the main elements of GPRA. Together, these elements create a recurring cycle of planning, program execution, measurement, and reporting. By forging a strong link between resources and performance, these plans and reports show what is being accomplished and reinforce accountability for the money that is being spent.

At SSA, agency officials and staff use these plans and reports to manage and administer Social Security programs. They are also used by the President and Congress when forming programmatic and policy decisions, for oversight, and by the public for information on the purpose and effectiveness of Social Security programs and activities.

For each of the supporting objectives the FY 2002 Annual Performance Plan (APP), which was submitted to Congress in April 2001, sets forth the performance indicators and annual targets that serve as the measures of our performance in FY 2002. The Revised Final FY 2002 Performance Plan was published in April 2002. It revised several performance indicators and annual targets based on factors including but not limited to subsequent SSA consideration of actual, full-year performance data for FY 2001and reductions to SSA's FY 2002 budget request. This FY 2002 performance report reflects that revised plan.

Beginning in FY 2003 and in accordance with our new Agency Strategic Plan, we will reduce the number of performance indicators used to measure our performance. These improved indicators will be more meaningful to our external audiences and more outcome-oriented than previous years' measures. Beginning with our FY 2003 Annual Performance Report, we will report on the results SSA achieves in the context of the long-term outcomes envisioned in our new strategic plan.

Summary of FY 2002 Performance

In FY 2002 as in every other year, the largest usage of SSA's administrative resources went to processing our substantial day-to-day workloads. These workloads include:

- Paying benefits to 50 million people every month;
- Taking over 5 million claims, evaluating evidence, and making determinations of eligibility for benefits;
- Issuing 17 million new and replacement Social Security Number (SSN) cards;
- Processing 266 million earnings items for crediting to workers' earnings records;
- Handling 51 million calls to SSA's 800-number;
- Issuing 138 million Social Security Statements;
- Processing 1.5 million continuing disability reviews; and
- Processing over 2.3 million SSI redeterminations.

At the same time that we met these considerable day-to-day challenges, we made considerable progress in working to achieve our strategic performance commitments and to prepare to meet the future challenges of projected significant workload increases and employee retirements. We also continued to take action to address the several long-term management challenges identified to us by the General Accounting Office, SSA's Office of Inspector General, and the Social Security Advisory Board.

We also made significant progress in supporting the President's Management Agenda (PMA). Our progress included implementing specific improvements and working toward establishing the needed infrastructure for future improved performance. We incorporated the President's Management Agenda initiatives into our strategies for achieving SSA's mission and strategic goals. We developed multiyear plans for achieving the goals of the PMA. In the Administration's PMA Scorecard issued in June 2002, SSA's progress in implementing the initiatives was recognized with one of the best evaluations overall, as compared with other departments and major agencies.

During FY 2002, we made considerable progress in meeting our long-term performance goals. For example:

- We increased overall public satisfaction, reflecting improved perceptions of access to, and quality of, telephone and other services.
- In addition to making available new and enhanced automated and electronic services, we began to focus on increasing actual usage. We continued to support the President's Management Agenda "Expanded Electronic Government" initiative as well as address the many challenges, including privacy and security, that will enable people and employers to do business with us in an electronic environment.
- We continued to make progress in obtaining online eligibility data from Federal and State agencies, financial institutions, and medical providers. This online access produces the benefits of reducing the burden on the public to provide information, reduces processing time, improves payment accuracy, and promotes one-stop government service.
- We completed our 7-year plan to become current with processing all continuing disability reviews (CDRs) by FY 2002 and established a base from which to remain current in processing that critical workload. CDRs are a key factor in maintaining the integrity of the disability program.
- We continued to build on improvements in SSA's management of the Supplemental Security Income, such as improving our identification and collection of SSI debt. We issued a comprehensive "SSI Corrective Action Plan" to remove the SSI program from the GAO's "high risk" list.
- We realized some benefits in terms of processing times and productivity in the processing of disability claims, hearings and appeals from the success of several short-term initiatives. However, our attempts to significantly reduce backlogs was hindered due to primarily increased receipts and substantial backlogs from prior years.

- We continued to implement the Ticket to Work and Self-Sufficiency program that will help beneficiaries return to work.
- We continued to obtain significant results in our battle against fraud from Office of the Inspector General investigations and other anti-fraud activities.
- We continued to increase public levels of understanding of Social Security programs.
- We continued to provide our current employees with the support they need to continue to be the highly skilled, high performing and highly motivated workforce that is critical to achievement of our core mission. We also continued to address our long term human resource needs as we prepare for the challenges of the next decade.
- We continued to enhance, update, and share information about the value of the Social Security programs and the effects of proposals for change.

During FY 2002, SSA used 69 distinct GPRA performance indicators to manage and track our progress in meeting our long-term strategic plan goals. These measures were established in our FY 2002 Annual Performance Plan and/or, as appropriate, Revised Final FY 2002 Performance Plan. Our performance related to all of the 69 indicators is reported in the "GPRA Performance Results/Individual Performance Indicator Results" section, or in this section as Key Performance Indicators.

For a limited number of performance measures, actual levels of full year performance data are not available as of the publication of this report. For those measures, actual performance for FY 2002 will be reported in the FY 2003 Annual Performance Report.

In addition to GPRA performance indicators, we also tracked a number of budgeted workloads which were processed in FY 2002 in support of our strategic goals. Our performance is reported and discussed for those workloads in the "GPRA Performance Results/Selected Budgeted Workloads in Support of Strategic Goals" section.

Finally, beginning on page 149, we report on two non-GPRA performance commitments, which we established to track our progress in implementing the President's Management Agenda initiatives.

FY 2002 Performance by Strategic Goal

This section presents a summary discussion of FY 2002 performance for each of SSA's five strategic goals. We discuss our FY 2002 results and the actions we took during FY 2002 to accomplish the results. We also discuss the impact of actual FY 2002 performance on expected FY 2003 strategies and performance, as well as its contribution to achieving longer-range results.

This section also presents our FY 2002 performance related to selected "key performance indicators". For each key performance indicator, we compare the target level of performance with the actual level of performance we attained. We describe the activities we undertook in FY 2002 to achieve the results, any relevant factors that affected performance, and the impact on future strategies.

Strategic Goal: To deliver citizen-centered, world-class service

Virtually everyone in the nation has or will interact with SSA at some point in their lives. We provide service to individuals at critical junctures in their lives, be it the onset of an unexpected disability, the untimely loss of a spouse or a parent, the inability to meet basic needs as a senior citizen, or exiting the workforce due to retirement. This goal is directed specifically toward the way we deliver service to the people who conduct business with SSA.

SSA's intent is to provide quality, easily-accessible service regardless of contact mode. In defining our performance goals, we look first to the American public to determine what they desire most from our service. We then balance their feedback with necessary resource considerations and other competing mission responsibilities to set our service objectives. We express our outcomes for this goal both in terms of overall public satisfaction and the business results we aim to achieve in response to their needs and preferences. Our efforts in FY 2002 in support of this goal paid off in higher overall public satisfaction and improved access to most of our services.

Our FY 2002 administrative expenses in support of this goal were $5,930 million, and include our return-to-work efforts as we continued to implement SSA's new Ticket to Work and Self-Sufficiency program.

We strive to develop and use state-of-the art tools for our electronic and automated services to meet the broad range of needs of the public. Using the power of the Internet, we are providing citizens with better access to SSA, improving service, and meeting increasing service demands. In FY 2002, there were almost 40 million visits to our website, which is 40 percent higher than in FY 2001. Most of our major forms and applications are now available online, including the Internet Social Security Application which is the flagship service that SSA offers and one that has the potential for higher usage and greater return to the Agency.

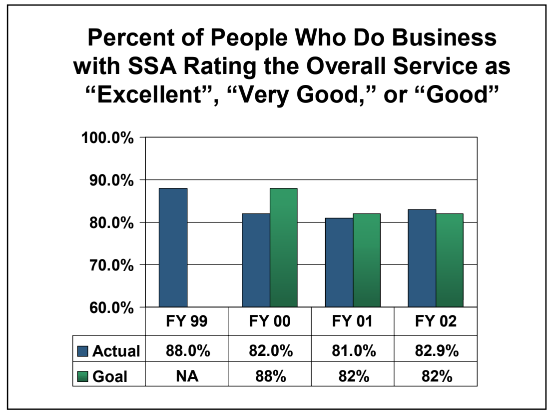
Through expanding electronic services, SSA continued in FY 2002 to support the President's Management Agenda "Expanded Electronic Government" initiative, as well as address service delivery challenges identified by the General Accounting Office, SSA's Office of Inspector General and the Social Security Advisory Board. With these challenges in mind, our strategy is focused on increased use of our Internet and automated 800 number services by the public. We will make current applications easier for the public to use and will encourage increased usage through a comprehensive plan to market online services. A major challenge is developing the proper level and means of authentication to provide a safe and secure environment for the public to conduct their transactions.

Improving the service we provide in processing of disability claims, hearings and appeals continues to be a challenge. In FY 2002, the timeliness of disability claims improved. Even as hearings productivity improved, processing times increased. At the appeals level, initiatives resulted in an appreciable decrease in the backlog along with a smaller improvement in processing time. However, receipts continue to climb, and the minor improvements we have been able to achieve are not sufficient.

We know that disability receipts will remain high, and that without focusing on taking steps to significantly reduce the backlogs, we cannot reduce processing time and increase productivity to acceptable levels. SSA's new Agency Strategic Plan will spell out the means and strategies to reduce processing time and backlogs.

SSA is currently in a transition period. As we acquire and use new technologies expected to make significant service improvements in the long term, we strive to maintain and even improve service levels in the current budget environment, even as public demands and expectations continue to rise. We are confident however, that with the availability of sufficient resources, our efforts will result in improvements in all aspects of our service, both in the near-term and long term.

Key Performance Indicator 1:



FY 2002 Goal: 82 percent

Our FY 2002 Performance: 82.9 percent

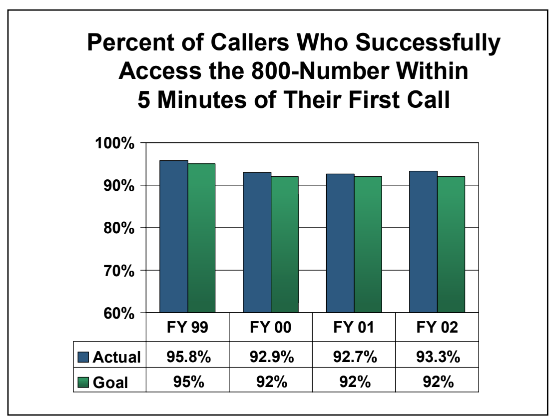
We exceeded our goal. The overall public satisfaction rate increased in FY 2002, primarily due to the 800 number service and secondarily field office telephone service. In both instances, the improvement in the overall service rating was accompanied by improvements in the public's perception of access to services and in employee attribute ratings. We believe that the new call routing system contributed to the improved access perception and influenced this outcome.

As we continue to pursue service improvements to address evolving public expectations, we expect satisfaction levels to remain relatively constant through FY 2003 and 2004.

Data Definition: This is the percent of people who call or visit SSA surveyed by SSA's Office of Quality Assurance and Performance Assessment who rate overall service as "good", "very good", or "excellent" on a 6-point scale ranging from "excellent" to "very poor", divided by the total number of respondents to that question.

Data Source: For FY 1999, the SSA Annual Customer Satisfaction Survey. For FY 2000 and beyond, the Interaction Tracking Surveys that capture public satisfaction shortly after service contacts (either by telephone or in-person) take place.

Key Performance Indicator 2:



FY 2002 Goal: 92 percent

Our FY 2002 Performance: 93.3 percent

We exceeded our goal. A key predictor of overall public satisfaction with SSA's service is how quickly and efficiently the public gets through to us by telephone. Our ability to provide prompt and hassle-free 800-number access is a challenge in these times of evolving demands and preferences and limited staffing.

In FY 2002, we were able to exceed the 5-minute access goal because of actions taken to improve the efficiency of the 800 number network, including:

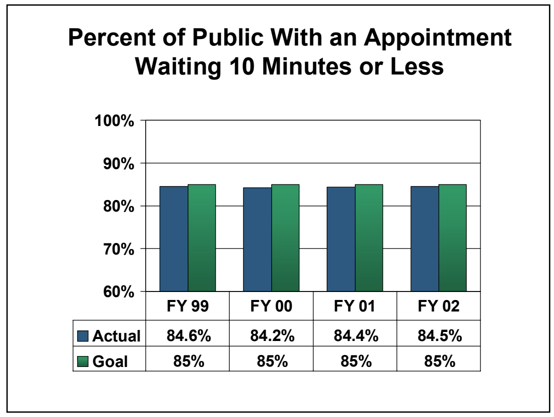
- Shifting staff to expand call-answering capacity during times when call volumes are heavier;
- Installing 1,035 additional lines between WorldCom's equipment and the 800 number answering sites to expand capacity on both inbound and outbound calls;
- Enhancing the availability of services at ssa.gov, causing a reduction in 800 number calls;
- Making adjustments that allowed more callers to go into queue, significantly improving access rates; and
- Balancing queues across the network, so callers are routed to the site with the shortest wait time.

We improved the access rate, using fewer resources, without sacrificing the quality of service provided to citizens. Along with recent improvements in automation, these actions will help the Agency meet the higher FY 2003 5-minute access goal of 94 percent.

Data Definition: This is the percent of unique call attempts that successfully "connect" within 5 minutes of the first attempt within a 24-hour period. A successful "connection" occurs when a caller selects either an automated or live agent and is connected with that option within 5 minutes of the first dialing of the 800-number.

Data Source: Automatic Number ID records provided by WorldCom.

Key Performance Indicator 3:



FY 2002 Goal: 85 percent

Our FY 2002 Performance: 84.5 percent

We narrowly missed this goal. SSA tracks and manages the waiting times the public experiences in our field offices because waiting times are a key factor in overall satisfaction ratings.

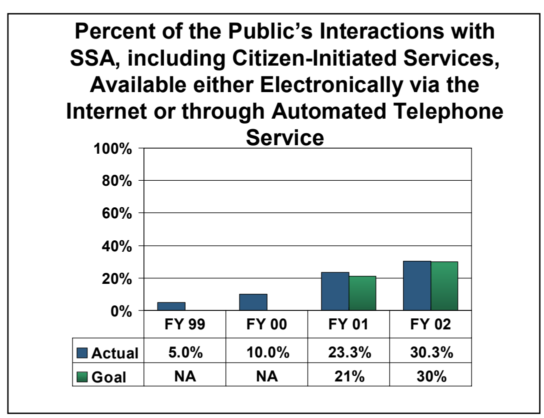
We focus on reasonable field office waiting times by providing alternative service delivery options. By giving the public more choices in how they access SSA's services, we can focus field office resources on providing face-to-face service for those with more complex service issues. In addition, field office managers and staff pay attention to assuring that people with appointments are interviewed close to their appointment time.

Data Definition: This percent is the number of visitors with an appointment who wait 10 minutes or less, divided by the total number of visitors with an appointment during the study time. Waiting time data are collected from a representative sample of field offices during a 1-hour window, once a quarter.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-oriented.

Data Source: SSA Waiting Time Study. The waiting time study is conducted quarterly in local field offices.

Key Performance Indicator 4:



FY 2002 Goal: 30 percent

Our FY 2002 Performance: 30.3 percent

We met our goal. Using the power of the Internet, SSA is providing citizens with better access to SSA, improving service, and meeting increased service demands. We have already placed most of our major forms and applications online. In FY 2002:

- We added application for disability benefits to our existing Internet application for retirement and spouse's benefits;
- We added an Internet application to gather medical and work history information;

- We made enhancements to include SSI information for individuals who are entitled to both OASDI and SSI and who have a password;
- We enhanced 800 Number service to enable retirement, survivor, and disability beneficiaries with a password to get the date and amount of their next check; and
- We provided the same password protected services via the phone as are available on the Internet so that OASDI beneficiaries can check their date of birth and telephone number on our records, direct deposit information, Medicare information, overpayment information, and additional information about their benefit type or non-payment reason.

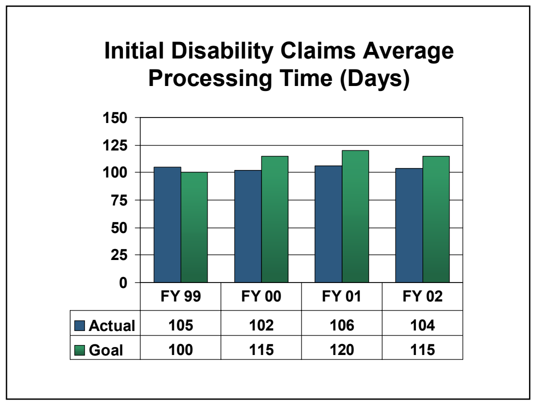
This indicator will be discontinued in FY 2003 as our performance indicators related to electronic service in support of our new strategic plan will be outcome-oriented. Specifically, our measures will focus on use of electronic services, not just availability of them.

Data Definition: This is the percent of the public's interactions with SSA that will be available electronically via the Internet or through automated telephone service.

Data Source: List of the public's interactions with SSA, Internet schedule, Internet Site: ssa.gov

Key Performance Indicator 5:

FY 2002 Goal: 115 days



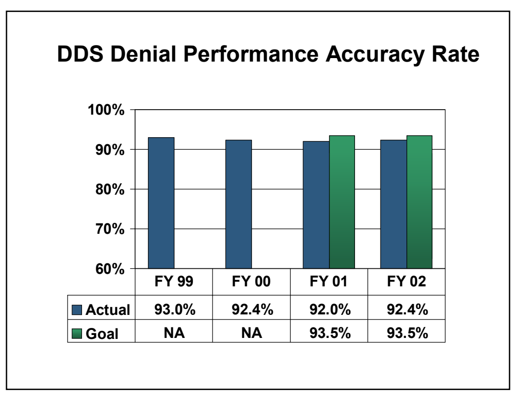
Our FY 2002 Performance: 104 days. We exceeded our goal. We provided additional funding to the State Disability Determination Services (DDSs) for processing claims, which enabled the DDSs to increase case processing capacity. Also, receipts remained high, providing a ready supply of relatively easier, quick-turnaround cases.

Data Definition: This is the fiscal year average processing time for DI and SSI claims combined. Processing time is measured from the application date (or protective filing date) to either the date of the denial notice or the date the system completes processing of an award.

Data Source: Title II MIICR Processing Time and Title XVI SSICR Processing Time Systems

Key Performance Indicator 6:

FY 2002 Goal: 93.5 percent



Our FY 2002 Performance: 92.4 percent. Although quality did improve from last year, we did not meet this goal. We achieved this improvement as SSA and the DDSs continue to focus on ongoing training that fosters consistent application of laws, regulations and rulings at all stages of the disability adjudication process. The DDSs were under considerable pressure to keep cases moving, and this resulted in less than the required level of development, which impacted accuracy rates. This particularly affected denial accuracy because of the additional documentation requirements that must be met.

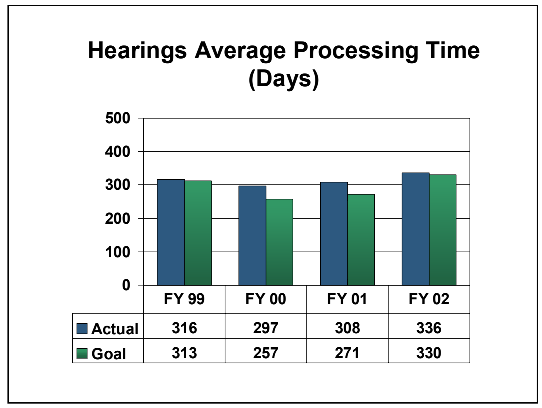
This performance indicator will be discontinued in FY 2003 and will be incorporated into a more meaningful performance indicator "DDS net accuracy rate (allowances and denials combined)." Net accuracy is a truer measure of the correctness of DDS decision-making and therefore, provides the public with a more accurate picture of the correctness of initial disability claims decisions. We expect to maintain high levels of adjudication quality.

Data Definition: The denial accuracy rate is the estimated percentage of initial disability denials that do not have to be returned to the DDSs for development of additional documentation or correction of the disability determination.

Data Source: Annual Disability Quality Assurance Reports

Key Performance Indicator 7:

FY 2002 Goal: 330 days



Our FY 2002 Performance: 336 days. We marginally missed this goal because hearing receipts continue to grow increasing already substantial backlogs. We implemented several short-term initiatives this year to improve efficiency and increase productivity. This has allowed us to exceed our target number of dispositions for FY 2002. Despite these improvements processing times have continued to climb. Assuming projected receipts, we expect that FY 2003 processing times will remain high.

Data Definition: Beginning FY 2000, this indicator was redefined (from the one included in the FY 1999 APP) to represent the average elapsed time from the hearing request date until the date of the notice of decision, for the hearings level cases processed during all months of the year. The FY 1998 data reflects the average elapsed time of hearings level cases processed only in the last month of the FY (September). The data shown for FY 1999 is a yearly average.

Data Source: OHA Monthly Activity Reports and the HOTS

Strategic Goal: To ensure the integrity of social security programs, with zero tolerance for fraud and abuse

Ensuring program stewardship is a critical Agency duty to both our beneficiaries and all taxpayers. The people of America who fund the Social Security program through payroll tax contributions and Supplemental Security Income through income tax payments expect and deserve well-managed programs. Taxpayers must be confident that their tax dollars are accurately collected and expended, and beneficiaries must believe that their benefits are correctly paid. This goal reflects SSA's responsibility to protect taxpayer dollars from losses associated with fraud, abuse and payment error and to otherwise be a good steward of the programs we administer. Our FY 2002 administrative expenses in support of this goal were $1,789 million.

The overall outcome of this goal is accurate payment of benefits, that is, the right people getting the right payment at the right time. The size and complexity of Social Security programs make it inevitable that some error will occur, so we are committed to preventing, detecting, and collecting, if an overpayment is made. And, while there is no indication of widespread fraud associated with our programs, if and when individuals attempt to obtain benefits fraudulently, we must be vigilant in our efforts to combat such fraud.

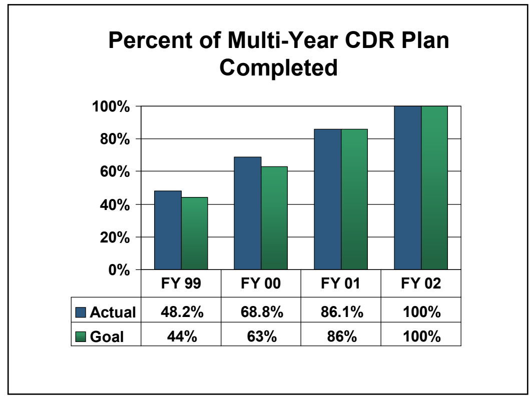
In FY 2002, the Agency performed well in this area, meeting or exceeding all of the goals for which we have actual data. For example,

- We worked off our backlog of continuing disability reviews (CDRs), a key factor in maintaining the integrity of the disability program, and established a base from which to remain current.
- Technological advances, continuing encouragement of employers to report wages electronically, and improved services and employer support, contributed to our success this year in achieving and exceeding the goals related to posting earnings and wage items.
- Investigative efforts of our Office of the Inspector General (OIG), and the OIG's cooperation in homeland security projects under the coordination of the Department of Justice resulted in significant increases in the recovery of dollars belonging to SSA's trust funds and in prosecutions of those who defraud the Social Security programs.

In FY 2002, we continued to build on improvements in SSA's management of the Supplemental Security Income (SSI) program. SSI eligibility and payment amounts are determined by complex and often difficult to verify financial factors that change from month to month. This makes the SSI program particularly vulnerable to erroneous payments and difficult to administer. In 1997, the GAO designated the SSI program as "high risk," citing that "SSA lacked an effective plan to address the level of debt that results from overpayments." SSA has taken many actions over the last several years that have yielded measurable success in detecting and collecting SSI overpayments. In June 2002, SSA issued a comprehensive "SSI Corrective Action Plan" to remove the SSI program from the GAO's "high risk" list. This plan is a roadmap for targeting future efforts to initiatives that have the most potential to yield further improvements across three fronts – improved prevention of overpayments, increased overpayment detection, and increased collection of debt. It outlines the initiatives we intend to pursue, describes the new tools we will provide, and pledges explicit executive accountability for results.

Beyond ensuring that tax dollars are accurately collected and spent, good stewardship demands the effective and efficient use of the resources SSA receives to administer the programs and the protection of information that SSA holds. This goal addresses sound financial management, which is a focus of three areas of the President's Management Agenda "Competitive Sourcing," "Improved Financial Performance" and "Budget and Performance Integration." SSA worked in FY 2002 to support these PMA initiatives, as well as address the challenges identified by the General Accounting Office, SSA's OIG and the Social Security Advisory Board. With these challenges in mind, we are now expanding the focus of this goal to include finding ways to achieve efficiencies that will help to offset the increasing costs of keeping up with our enormous workloads. We are also sharpening our focus on ensuring the security of SSA's information systems and the integrity and privacy of the personal information that SSA maintains.

Key Performance Indicator 8:



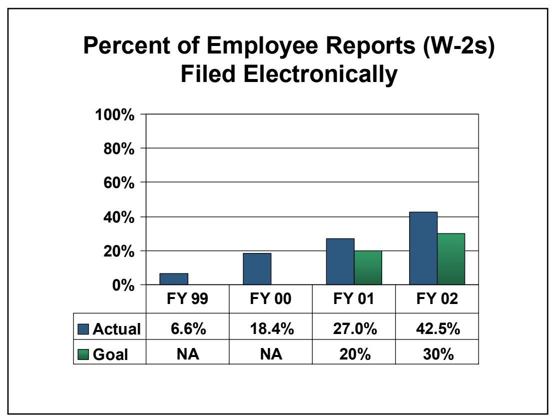
FY 2002 Goal: 100 percent

Our FY 2002 Performance: 100 percent. We met our goal. SSA conducts very effective periodic reviews called continuing disability reviews to determine whether individuals receiving disability have medically improved and no longer meet the statutory definition of disability, and therefore should have their disability benefits terminated. SSA's annual targets for FY 1996 through FY 2002 were set in accordance with our seven- year CDR plan. The goal of that plan was for SSA to process its entire backlog of CDRs by FY 2002, and then to keep current with processing this critical workload. Congress provided special funding to SSA to process our seven-year plan workload. With the seven-year plan's goal successfully completed, this indicator will be discontinued in FY 2003. Effective FY 2003, SSA's new indicator and goal will be to complete 100 percent of the CDRs released annually for processing, provided sufficient funding is received.

Data Definition: This measure is derived by dividing the cumulative number of CDRs SSA processed from FY 1996, the first year of the CDR multi-year plan, through the current fiscal year, by the total number of CDRs SSA has committed to processing through FY 2002 according to its most recent multi-year CDR plan.

Data Source: National DDS System: SSR, MBR, CDR Control File

Key Performance Indicator 9:



FY 2002 Goal: 30 percent

Our FY 2002 Performance: 42.5 percent

We significantly exceeded our goal. SSA has been promoting electronic filing during the past several years in many ways. We have built the systems architecture, which allows both large and small employers to send their wage reports to SSA securely via the Internet. We continue to place emphasis on acquainting employers and software developers with SSA's electronic filing through outreach activities. These activities are necessary because the conversion to electronic filing is voluntary and not mandatory.

Because we are performing so well this year, we expect to remain on target to meet the 2003 goal of 48 percent of employee reports filed electronically.

For reporting purposes, we use the percentage of actual Forms W-2 received electronically as of the last Friday of September 2002, divided by the actuarial estimate of all Tax Year 2001 Forms W-2s expected. SSA continues to receive and process Forms W-2 for Tax Year 2001 through the end of calendar year 2002.

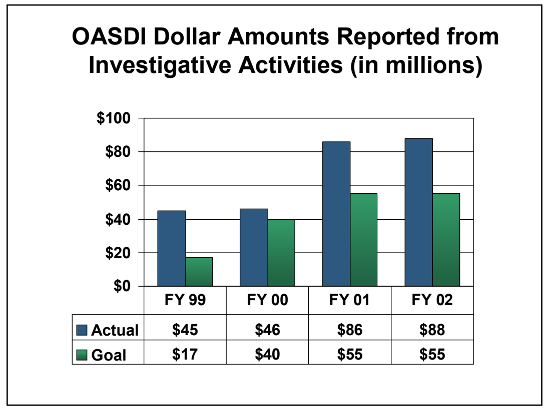
Data Definition: This percent is the number of W-2s filed electronically and processed to completion for a tax year, divided by the total number of W-2s for that tax year processed to completion by the end of the processing year (mid-January).

Data Source: Earnings Management Information Operational Data Store (EMODS) reports

Key Performance Indicator 10:

FY 2002 Goal: $55 million

Our FY 2002 Performance: $88 million



We substantially exceeded the goal. This performance is largely due to the continued success of some national investigative efforts such as the Office of the Inspector General's (OIG's) special project on deceased auxiliary beneficiaries. This project focused on deceased widow and widowers of Social Security beneficiaries, who were in current payment status even though a date of death was on SSA records. This cyclical project will end in FY 2002 and will be reinstituted every 3 to 4 years.

This indicator will be discontinued in FY 2003.

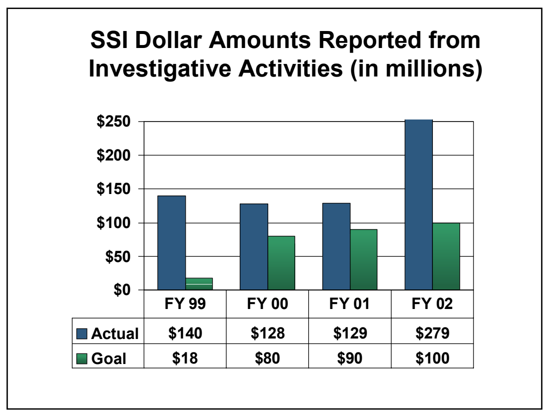
Data Definition: These amounts are OASDI dollars from penalties, assessments, savings, recoveries and restitutions related to investigative activities that are reported by OIG field divisions and included in the OIG semi-annual reports. Beginning in FY 1999, dollar amounts reported are segregated by program.

Data Source: Allegation and Case Investigative System (ACIS)

Key Performance Indicator 11:

FY 2002 Goal: $100 million

Our FY 2002 Performance: $279 million



We substantially exceeded this goal largely due to the expansion of some national investigative efforts such as those associated with the OIG's fugitive felon program. By working with other Federal, state, and local law enforcement agencies to locate and apprehend wanted felons, the OIG can notify SSA to suspend SSI payments illegally being received by fugitives. In addition, the OIG continues to increase the number of Cooperative Disability Investigation teams in operation each year. These annual increases have contributed to annual rises in dollars reported.

This indicator will be discontinued in FY 2003.

Data Definition: These amounts are SSI dollars from penalties, assessments, savings, recoveries and restitutions related to investigative activities that are reported by OIG field divisions and included in the OIG semi-annual reports. Beginning FY 1999, dollar amounts reported are segregated by program.

Data Source: Allegation and Case Investigative System (ACIS)

Strategic Goal: To strengthen public understanding of Social Security programs

We have a responsibility to the American people to ensure that they understand the benefits available to them under the Social Security programs. An understanding of our programs, the financial value of those programs, and basic financing issues regarding Social Security can help people plan more effectively for their own financial future.

Educating the public about our programs has been, and will continue to be, a priority for this Agency. While facts about the programs are important, the public also needs to better understand the issues, including long-range financing, that Social Security faces. They also need to know practical information about when and how to take advantage of the services that Social Security offers.

Public understanding of Social Security's programs also is a key factor in how satisfied the public is with our service and may actually improve that service. It may lead to increased timely filings for benefits and more complete applications. Increased knowledge could also reduce unnecessary contacts with SSA and increase electronic filings.

Annual surveys continue to show increasing levels of public knowledge of Social Security programs, with FY 2002 continuing that positive trend. Our tools for surveying public knowledge and our plans for increasing public knowledge continue to evolve. In FY 2002, we used an improved, one-time survey tool which gave us not only national knowledge levels, but also local knowledge levels which help SSA managers better serve the needs of the people who live in the area they serve. Beginning in FY 2003, our survey will test public knowledge about basic facts as well as the issues Social Security faces and other important information. We expect the new survey to provide us better information with which to plan and target our public information programs.

Our FY 2002 administrative expenses in support of this goal were $116 million.

Strategic Goal: To be an employer that values and invests in each employee

This strategic goal addresses the Agency's most important asset – the employees of SSA and the State Disability Determination Services. The focus of this goal is to ensure that SSA continues to have the highly skilled, high performing and highly motivated workforce that is critical to achievement of our mission. It also reflects SSA's conviction that employees deserve a professional environment in which their dedication to the SSA mission and to their own goals can flourish together.

SSA's employee retirement wave, already underway, not only will affect our ability to deliver service to the American public, but also will result in a significant drain of SSA's institutional knowledge. SSA and the State Disability Determination Services will be faced with the continuing challenge of hiring and retaining a highly skilled and diverse workforce in what is expected to be a very competitive job market. As SSA deals with explosive workload growth and its own increasing numbers of retirements, we will strive to maintain a high-performing workforce and enhance productivity through automation, training, redistribution of staff to direct service positions, and other service enhancements.

In FY 2002, we continued to provide our current employees with the support they need to continue to be the highly skilled, high performing and highly motivated workforce that is critical to achievement of our core mission. We also continued to address our long term human resource needs as we prepare for the challenges of the next decade. While not all FY 2002 goals were met, we achieved many important milestones. The Agency performed well in the areas of recruitment, training, management development programs and staff development programs. Some initiatives were discontinued due to reallocation of funding to other priorities. In one case, completion of a goal is pending resolution of labor-management concerns.

In FY 2003 and beyond, SSA is continuing to address its human capital challenges in the context of the Agency's new strategic plan and the President's Management Agenda, which directs agencies to make government citizen-centered through the strategic management of human capital. SSA will continue to improve its retention rate for new hires, increase the number of employees in front-line positions, make ongoing job enrichment opportunities and training available to SSA employees, and implement a new performance management system to assure accountability at all levels.

Key Performance Indicator 12: Continue to implement the SSA Future Workforce Plan

FY 2002 Goal: Implement actions by target dates specified in the Agency's Future Workforce Plan, including the following significant actions:

- **Establish and implement procedures for repaying student loans as a means to recruit and retain employees in hard-to-fill positions;**
- **Develop and produce new recruitment materials; and**
- **Enhance leadership competencies for one-third of SSA supervisors and managers.**

Our FY 2002 Performance: This goal was partially met.

SSA has a Future Workforce Transition Plan that states SSA's plan for meeting our workforce needs for the future. The plan includes what we expect to happen in the future, what the effects will be on SSA's workforce needs, and what actions will be taken, including milestones and dates for measuring our progress. For FY 2002, we met two of the significant FY 2002 goals, and made progress but were not able to complete the third goal.

- We developed a Personnel Policy Manual chapter for SSA's Student Loan Repayment Program. Notice was provided to the Union. Bargaining concluded in August without a signed agreement. The parties continue to exchange language. If we cannot reach agreement, we will ask the mediator to declare us at impasse.
- A marketing and recruitment packaged was developed, tested, and implemented in headquarters and across the ten SSA regions.
- SSA held 35 training seminars nationwide and trained one third of SSA's supervisors and managers on leadership competencies in FY 2002.

This "milestone-oriented" performance indicator will be discontinued beginning in FY 2003, as our performance indicators related to human capital will be more outcome-oriented.

Data Definition:
Goal 1: Self-explanatory.
Goal 2: This goal will be met if we develop and produce new recruitment materials for 3 major SSA occupations.
Goal 3: This goal will be met if we provide training on leadership competencies to one-third of SSA's supervisors and managers.

Strategic Goal: To promote valued, strong and responsive social security programs and conduct effective policy development, research and program evaluation

This strategic goal reflects SSA's responsibility for helping shape the Social Security and Supplemental Security Income programs to adapt to the changing needs of wage earners and beneficiaries. We fulfill this responsibility by preparing statistical information about our programs, evaluating their performance, conducting research and policy analysis, and providing findings and options to individuals and entities that are involved in policy development. These users include the Administration, the Congress, and policy analysts inside and outside government.

In FY 2002, SSA continued to provide timely and useful research and analysis in support of our mission to promote the economic security of the nation's people. Notably, the Agency updated its barometer measures and provided analyses of options for modernizing and strengthening Social Security to meet future economic and demographic challenges.

SSA met all targets under this goal in FY 2002. In support of this goal, the Agency devoted $25 million of its FY 2002 administrative budget to research, evaluation, statistical activities, and policy analysis and another $30 million to extramural research.

Beginning FY 2003, and in accordance with our new strategic plan, nine of the ten performance indicators under the current goal to promote valued, strong, and responsive social security programs will be discontinued. Most of the work under these indicators will continue and will be tracked through internal reporting systems.

Key Performance Indicator 13: **Identification, development and utilization of appropriate barometer measures for assessing the effectiveness of Old-Age, Survivors and Disability Insurance (OASDI) programs**

FY 2002 Goal: Update the barometer measures and prepare analysis

Our FY 2002 Performance: We met our goal.

SSA has developed a set of barometer measures that provide valuable information on program coverage and eligibility, benefit adequacy and equity, reliance on Social Security benefits, return to work among beneficiaries with disabilities, and private provision for retirement. These measures and accompanying analysis are published in the section on GPRA Performance Results in this report beginning on page 150.

The FY 2000 and FY 2001 reports presented the barometer measures for the current year only. This year we have begun to present the barometers as a time series. We have made a number of modifications to the measures to accommodate the time-series format, and to improve the accuracy and consistency of the measures.

We are using the barometer measures to help identify areas where our programs may be strengthened. For example, the barometers confirm the need to strengthen work opportunities for disabled beneficiaries, and return-to-work will continue to be a major focus of our research, demonstration projects and policy development activities.

As this indicator is process-oriented, it will be discontinued in FY 2003. However, we will continue to update and publish the barometer measures.

Data Definition: Self-explanatory.

Data Source: Master Beneficiary Record, Supplemental Security Record, Continuous Work History Sample, Current Population Survey, Survey of Income and Program Participation, Survey of Consumer Finances

Key Performance Indicator 14: Preparation of research and policy analyses necessary to assist the Administration and Congress in developing proposals to reform and modernize the OASDI programs

FY 2002 Goal: Prepare analyses on the distributional and fiscal effects of reform proposals developed by policymakers

Our FY 2002 Performance: We met our goal.

We met our goal by providing data and analyses related to Social Security reform. For example:

- We evaluated the distributional impact of increasing the widow's benefit option in combination with various reductions in spousal benefits.
- We analyzed the effects of changing the computation years in the social security benefit formula from 35 to 38 years.

In FY 2003, we will continue to provide research and develop analytical papers to support the Administration and Congress in developing legislative proposals to ensure sustainable solvency for Social Security and disability programs.

Data Definition: We will consider this goal to be achieved if we prepare analyses providing information about the effect of specific reform proposals on various populations, the long-term actuarial balance of OASDI programs, and the economy of the United States.

Data Quality

General Discussion: SSA is committed to providing data that is valid and reliable to those who use it for decisionmaking. We continuously improve the data clarity and credibility of performance data for all our mission-critical areas. We do this through effective, internal SSA management and by being responsive to insights provided by external entities such as the General Accounting Office (GAO) and SSA's Office of the Inspector General (OIG).

Program Performance Report: This Annual Performance Report (APR) displays the data definitions and data sources for each of our performance measures and discloses identified data weaknesses and SSA's efforts to correct/address such weaknesses. Where we could not define performance goals for indicators in an objective/quantifiable form, we established descriptive statements to tell how we considered the goal to be achieved. While the majority of our data sources are internal to SSA, the OIG and the GAO audit and evaluate the validity and credibility of our data. Such reviews and assessments ensure that our systems are secure and not vulnerable to manipulation by intruders, and confirm our confidence in the reliability of our performance data. Highlights from these reviews, as well as other security reviews are discussed below.

SSA Data Integrity Systems and Controls: Performance data for our Annual Performance Plan's (APP) quantifiable measures, including the budgeted output measures, are generated by automated management information and workload measurement systems, as a by-product of routine operations. The performance data for several process accuracy and public satisfaction indicators comes from surveys and workload samples designed to achieve very high levels (usually 95 percent confidence level) of statistical validity. Our Office of Quality Assurance and Performance Assessment reviews a stratified sample of recently completed actions and of ongoing entitlement rolls to determine the accuracy of SSA payments and service transactions. These reviews are initiated just after the close of each fiscal year. Quality assessment reviews require that each selected case be redeveloped. Assessment results are entered into a database, validated, analyzed, and a final report is then prepared. This process generally takes about 9 – 12 months to complete, so availability of actual data on accuracy measures is delayed and is generally reported in a subsequent year's Annual Performance Report.

Audit of the Social Security Administration's FY 2001 Financial Statements: In accordance with the Chief Financial Officer's Act of 1990, SSA's financial statements were independently audited by PricewaterhouseCoopers LLP (PwC). The objective of this audit was 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 statement. PwC reported that SSA's assertion that its systems of accounting and internal control are in compliance with the statutory internal control objectives is fairly stated in all material respects. In addition, PwC also reported that, with respect to internal controls related to those performance measures determined by management to be key and included in the FY 2001 Performance and Accountability Report, PwC obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02.

Role of the Office of the Inspector General (OIG): The OIG plays a key role in assuring that our data systems for measuring performance are reliable. They evaluate the processes and systems being used to measure progress in each measured area, so as to assure that they provide reasonable assessments of performance. In FY 2001, the OIG reviewed the performance measures in our FY 2000 APR and FY 2001 APP. They reported that "SSA's FY 2001 APP represents SSA's strong commitment and evolving progress to meet the objectives of "Government Performance and Results Act (GPRA). The APP responds to many of the criticisms about previous plans."

We take appropriate action to correct any performance measure deficiencies reported in OIG audit findings. These actions may include disclosure of data limitations or weaknesses, changes in performance measures, improvements to or additions of data collection systems, or some combination thereof.

The OIG uses a four-point approach to reviewing our performance measures. They are:

1. Assess SSA's system capacity to produce performance data;
2. Assess whether reported performance measure data is valid;
3. Ensure that SSA has the appropriate measures to indicate the vitality of its programs; and
4. Ensure that the performance measures fully capture the program segments that they are intended to capture.

We enjoy a collaborative relationship with the OIG and are able to assist the OIG in developing audit plans covering SSA's GPRA measures that are mutually beneficial.

General Accounting Office (GAO) Reviews: The "Social Security Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges" document is the GAO's assessment of our FY 2002 APP and FY 2000 APR. This report focused on our progress in achieving five key outcomes:

1. Providing timely, accurate, and useful information and services to the public;
2. Making disability determinations more timely and accurately;
3. Reducing long-term disability benefits because people return to work;
4. Providing timely information to decisionmakers to address program policy issues such as long-term trust fund solvency; and
5. Reducing fraud, waste, and error in the Supplemental Security Income program.

The GAO found that: "SSA's current strategies generally provide a clear picture of its future plans to achieve the five key outcomes". Additionally, the GAO noted that we added baseline data, definitions, and data sources for our major budgeted workloads, and an appendix that illustrated planned program evaluations for Strategic Goals.

One of the Commissioner's priorities is to improve our responsiveness to recommendations from the OIG and the GAO. SSA is currently performing a comprehensive review of all audit recommendations and will either implement them or provide a rationale for not implementing them.

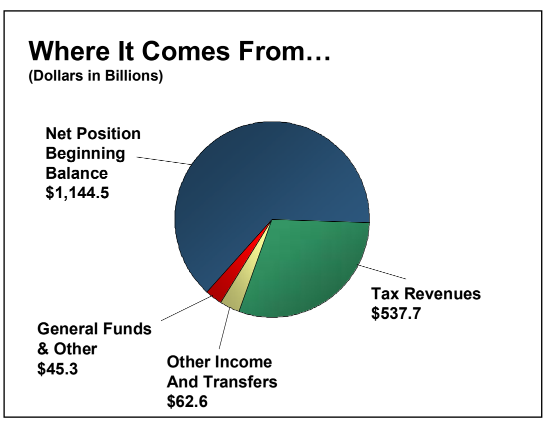
Highlights of SSA's Financial Position

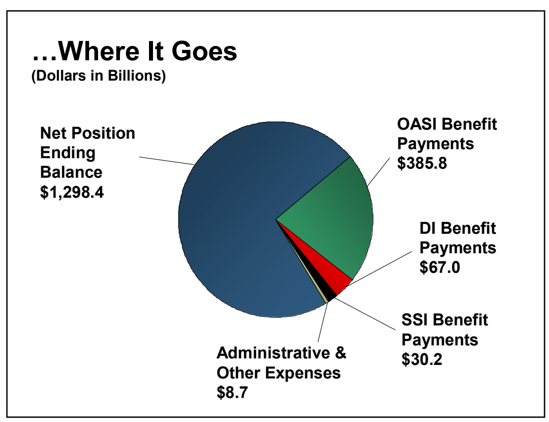
Overview of Financial Data

SSA's financial statements and footnotes appear on pages 51 through 71. The results for FY 2001 were restated to incorporate an FY 2002 change in accounting principles and to maintain comparability between two years. The financial statements presented in this report can be considered complete and reliable as evidenced by the unqualified opinion the financial statements received from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the program administered by SSA. The 2 key programs are OASDI and SSI. OASDI is composed of the OASI and DI programs. OASI and DI have separate trust funds which are financed by payroll taxes, interest on trust fund investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.

Balance Sheet: The Balance Sheet displayed on page 51 reflects total assets of $1,358.5 billion, a 13 percent increase over the previous year. Approximately 98 percent of assets are investments. These investments are commonly known as the Social Security Trust Funds. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The $159.1 billion growth (13.6 percent) in investments from 2001 is primarily due to tax revenues of $537.7 billion and interest on those investments of $78.6 billion, exceeding cost of operations of $491.4 billion. The majority of our liabilities, 79 percent, consist of benefits that have accrued as of the end of the fiscal year but have not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Liabilities grew in 2002 by $5.9 billion (10.9 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew $153.9 billion or 13.4 percent to $1,298.4 billion.

Statements of Net Cost and Changes in Net Position: The following charts summarize the activity on SSA's Statement of Net Cost and Statement of Changes in Net Position by showing the funds SSA was provided in FY 2002 and how these funds were used. These statements are displayed on pages 52 and 53, respectively. Most resources available to SSA were used to finance current OASDI benefits and to accumulate reserves to pay future benefits. When funds are needed to pay administrative expenses or benefit entitlements, investments are redeemed to supply cash to cover the outlays. Administrative expenses shown, as a percent of benefit expenses, is 1.7 percent.





Total financing sources grew by $21.1 billion or 3.4 percent from $626.9 billion in 2001 to $648.0 billion in 2002. The primary sources for this growth were a tax revenue increase of $9.5 billion (1.8 percent) from 2001 and investment income of $7.7 billion (10.8 percent) from 2001. Increasing investments more than compensated for the drop in average returns of 6.76 percent in 2001 to 6.52 percent in 2002.

Net cost of operations increased $27.8 billion or 6.0 percent from $463.6 billion in 2001 to $491.4 billion in 2002. Net cost of the OASI program grew 4.5 percent, DI program 13.1 percent and SSI program 10.1 percent. The large growth in cost of the DI and SSI programs in 2002 was primarily the result of growth of new beneficiaries due to more individuals becoming eligible for benefits. Included in these 2002 costs were $8.3 billion in operating costs, a 13.1 percent increase, reflecting the significant growth in the SSI and DI programs.

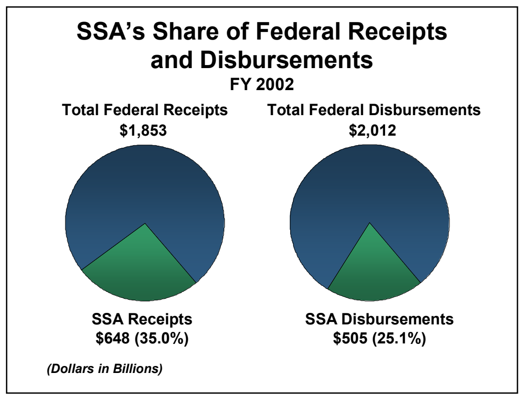
Statement of Budgetary Resources: This statement provides information about the provision of budgetary resources and their status as of the end of the period. This statement displayed on page 54 shows that SSA had $522.1 billion in budgetary resources of which $0.8 billion remained unobligated at year-end. SSA recorded total outlays of $488.6 billion by the end of the year. Budgetary resources grew $21.9 billion, or 4.4 percent from 2001, while outlays increased $26.1 billion, or 5.7 percent.

Statement of Financing: This statement demonstrates the relationship between an entity's budgetary and proprietary accounting information. It reconciles "Total resources used to finance activities," an expression of budgetary spending, with the "Net cost of operations," the proprietary expenses of the Agency.

The statement displayed on page 55 identifies $493.5 billion in budgetary spending for FY 2002, an increase of $21.1 billion over last year. This total is offset by $2 billion in resources not part of the net cost of operations, and $0.1 billion in components of net cost of operations that will not require or generate resources in the current period. The resulting balance reflects a $491.4 billion net cost of operations for the year, an increase of $27.8 billion over FY 2001.

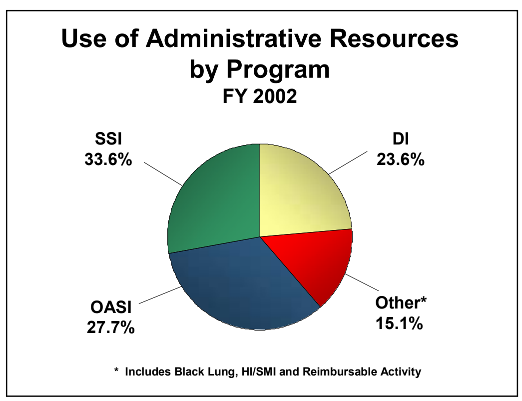
SSA's Share of Federal Operations

The programs administered by SSA constitute a large share of the total receipts and disbursements of the Federal Government as shown in the chart to the right. Receipts for our programs represented 35.0 percent of the $1.9 trillion in total Federal receipts, an increase of 3.9 percent over last year. Disbursements decreased by 1.4 percent to 25.1 percent of Federal disbursements. However, this still accounted for 5.3 percent of the nation's estimated FY 2002 $9.5 trillion gross domestic product.

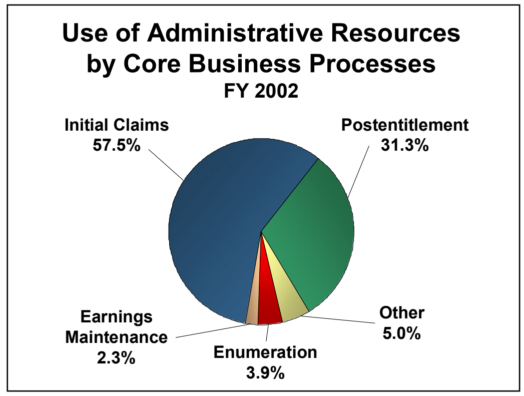


Use of Administrative Resources

The chart to the right displays the use of administrative resources for FY 2002 in terms of the programs SSA administers or supports. Although the DI and SSI programs comprise only 20 percent of the total benefit payments made by SSA, they consume over 57 percent of annual administrative resources. Claims for DI and SSI disability benefits are processed through State Disability Determination Services where a decision is rendered on whether the claimant is disabled. In addition, the Agency is required to perform continuing disability reviews on many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2001 use of administrative resources by program was 29.6 percent for the OASI program, 23.9 percent for the DI program, 30.8 percent for the SSI program and 15.7 percent for Other.



The Agency's administrative resources can also be discussed in terms of the work functions being performed in support of our programs. The chart to the right shows the percentage of resources consumed by SSA's five core business processes for FY 2002. The FY 2001 use of administrative resources by core business processes was 56.7 percent for Initial Claims, 32.2 percent for Postentitlement, 2.4 percent for Earnings Maintenance, 4.1 percent for Enumeration and 4.6 percent for Other.



Trust Fund Solvency

Pay-as-you-go-Financing

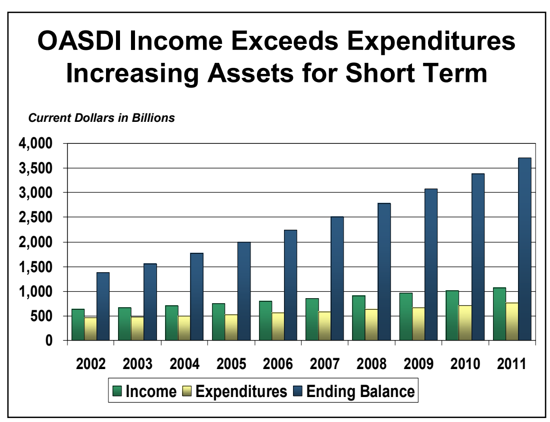
The Social Security Trust Funds are deemed to be adequately financed on a pay-as-you-go basis if assets for each year (including current income and Trust Fund holdings) are sufficient to finance outlays. Such adequacy is reflected in the maintenance of a positive Trust Fund balance. The following table shows that the number of months of expenditures that combined year end OASDI assets can pay has grown from 22.5 months at the end of FY 1998 to 33.6 months at the end of FY 2002, a 49 percent increase.

Number of Months of Expenditures Year End Assets Can Pay (End of FY)					
	1998	**1999**	**2000**	**2001**	**2002[1]**
OASI	23.2	25.9	28.7	31.8	35.0
DI	17.7	19.9	22.8	23.6	25.6
Combined	22.5	25.1	27.9	30.6	33.6

1. Estimates are based on 2002 Trustees Report intermediate assumptions.

Short Term Financing

The Social Security Trust Fund is deemed adequately financed for the short term when actuarial estimates of assets meet or exceed outlay estimates in each year of the next decade. Estimates in the 2002 Trustees Report indicate that the Social Security Trust Fund is adequately financed over the next 10 years. The graph shows that while combined OASDI expenditures and income are expected to increase by 63 and 72 percent, respectively, over the 10-year period, Trust Fund assets are expected to grow by 170 percent to $3.7 trillion.



Long Term Financing

Social Security's financing is not sustainable over the long term, which is defined as the 75 years' projections in the Trustees Report. By 2017, benefit payments will exceed tax revenues, and, by 2041, the Trust Fund will be exhausted according to the projections by Social Security's Chief Actuary. The primary reason for this unsustainable solvency is the changing demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth below population replacement rates. In present value terms, the 75 year shortfall is $3.3 trillion, which is a $193 billion increase from the 2001 estimate. Possible reform alternatives being discussed -- singularly or in combination with each other -- are (1) increasing payroll taxes, (2) decreasing benefits, (3) using general revenues or (4) prefunding future benefits through either personal savings accounts or direct investments of the trust funds.

Pages 22 and 23 provide additional discussion of the long term solvency of the OASDI Trust Fund. Pages 77 through 94 include the disclosures required by Federal Accounting Standards Advisory Board Statement 17, Accounting for Social Insurance.

Limitation on Financial Statements

The principal financial statements beginning on page 51 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from the books and records of SSA in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Systems and Controls

Federal Managers' Financial Integrity Act (FMFIA)

FMFIA Assurance Statement
Fiscal Year 2002

On the basis of SSA's comprehensive management control program, I am pleased to certify, with reasonable assurance, that SSA's systems of accounting and internal controls are in compliance with the internal control objectives in Office of Management and Budget Bulletin Number 01-02. I also believe these same systems of accounting and internal controls provide reasonable assurance that the Agency is in compliance with the provisions of the Federal Managers' Financial Integrity Act.

JoAnne B. Barnhart

Commissioner

Federal Managers' Financial Integrity Act (FMFIA) Program

The Social Security Administration (SSA) has a well established agencywide management control and financial management systems program as required by FMFIA. The Agency accomplishes the objectives of the program by:

- Integrating management controls into its business processes and financial management systems at all organizational levels;
- Reviewing its management controls and financial management systems controls on a regularly recurring basis; and,
- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

Agency managers are responsible for ensuring that effective controls are implemented in their areas of responsibilities. At the senior manager level, the Agency's Executive Internal Control (EIC) Committee ensures SSA compliance with the requirements of FMFIA and other related legislative and regulatory requirements. The Committee provides executive oversight of the management control program, addresses management control issues that have a substantial impact upon the Agency's mission, monitors the progress of actions to correct management control weaknesses, ensures SSA's critical infrastructure is protected and ensures the Agency has a viable continuity of operations plan.

Effective internal controls are incorporated into the Agency's business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls and the new or changed processes and systems are reviewed by management to certify that the controls are in place. The controls are then tested prior to full implementation to ensure they are effective.

The controls of the new or changed processes or systems are monitored to ensure they remain effective. Management control issues and weaknesses are identified through audits, reviews, studies and observation of daily operations. SSA conducts internal reviews of management and systems security controls in its administrative and programmatic processes and financial management systems. The reviews are conducted to evaluate the adequacy and efficiency of the Agency's operations and systems to provide an overall assurance that the Agency's business processes are functioning as intended. The reviews also ensure that management controls and financial management systems comply with the standards established by FMFIA, the Computer Security Act and Office of Management and Budget (OMB) Circulars A-123, A-127 and A-130. The reviews encompass SSA's business processes such as enumeration, earnings, claims and postentitlement events, debt management and SSA's financial management systems. SSA develops and implements corrective action plans for weaknesses found through the reviews and audits and tracks the corrective actions until the weaknesses are corrected.

Management Control Review Program

SSA has an agencywide review program for management controls in its administrative and programmatic processes. The Agency requires that a minimum of 10 percent of field offices (FO) be reviewed each FY. The FOs are chosen for review by considering performance measures in selected critical processes and by using the experience and judgement of the regional security personnel. During FY 2002, SSA's managers and contractors conducted reviews of over 1,700 management control areas in 200 FOs and staff components.

SSA contracted with an independent public accounting firm to review the Agency's management control program, evaluate the effectiveness of the program and make recommendations for improvement. During FYs 1999-2002, the contractor reviewed operations at SSA's central office, processing centers, all 10 Regional Offices (RO), 130 FOs and 5 Program Service Center (PSC). The contractor's efforts to date have indicated that SSA's management control review program appears to be effective in meeting management's expectations for compliance with Federal requirements. The contractor did not find any significant weaknesses during that 4-year period.

Financial Management Systems (FMS) Review Program

OMB Circular A-127 requires agencies to maintain an FMS inventory and to conduct reviews to ensure FMS requirements are met. In addition to financial systems, SSA also includes all major programmatic systems in this FMS inventory. Within a 5-year period, SSA conducts both a detailed review and a limited review of each system. An independent contractor conducts the detailed review at audit level standards including transaction testing and the system manager conducts the limited review.

During FY 2002, SSA's contractor conducted detailed reviews of the Supplemental Security Income Record Maintenance System and the SSA Streamlined Acquisition System. The contractor also did a management study of requirements for the planned Modernized Cost Analysis System. The systems managers conducted limited reviews of the Retirement, Survivors and Disability Income Accounting System, the Cost Analysis System and the Property Accountability System. The results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with law, Federal regulations or Federal standards.

FMFIA Material Weakness

During FY 2002, SSA completed the last in a series of projects necessary to clear an FMFIA material weakness relating to the accuracy of accounting records for Supplemental Security Income (SSI) program overpayments and underpayments. SSA did not declare any new material weaknesses under FMFIA during FY 2002.

During FY 2002, SSA validated a third release of the SSI Modernized Overpayment and Underpayment Reporting System (MOURS) to verify the software's effectiveness and subsequently implemented the release. MOURS Release 3 reports debts referred to the Department of Treasury (DT) for offset and allows SSA to furnish DT a complete SF 220.9, Report on Receivables Due from the Public, for SSI accounts receivable.

SSA also completed a corrective action review (CAR) of two projects previously implemented to address the material weakness. These projects involved (1) establishing new online screens to accurately input overpayment and underpayment transactions to records and (2) implementing MOURS Release 2, which provided most of the information for the SF 220.9 report. An independent public accounting firm conducted this review and concluded that, in relation to SSA systems requirements, SSA implemented these projects as intended. SSA is conducting a final CAR in FY 2003 on MOURS Release 3. Based on a series of seven key projects implemented over the last five years, two CAR reports issued on five completed projects, SSA's validation work on MOURS Release 3, and the recommendation of SSA's EIC Committee, the Commissioner declared the material weakness corrected.

Federal Financial Management Improvement Act (FFMIA)

On June 14, 2002, the Commissioner of Social Security determined that SSA's financial management systems were in substantial compliance with FFMIA for FY 2001. In making this determination, she considered all the information available, including the auditor's opinion on the Agency's FY 2001 financial statements, the report on management's assertion about the effectiveness of internal controls and the report on compliance with laws and regulations. She also considered the results of the financial management systems reviews and management control reviews conducted by the Agency and its independent contractor and the progress made in addressing the weaknesses identified in the audit and review reports. That progress is discussed in the section below entitled "Financial Statement Audit."

Under Section 803(c)(2) of FFMIA, the determination for FY 2002 shall be made no later than 120 days after the earlier of (A) the date of receipt of an agencywide audited financial statement or (B) the last day of the fiscal year following the year covered by such statement. We expect to receive the management letter report(s) for FY 2002 in March 2003.

Government Information Security Reform Act (GISRA)

SSA has completed its annual review of its Information Security Program for FY 2002 as required by GISRA. This report is based on an annual program review completed by SSA and an independent evaluation by the Office of the Inspector General (OIG). For its GISRA assessment, SSA used the National Institute of Standards and Technology (NIST) Self-Assessment Guide for Information Technology Systems. SSA used in-house staff as well as an independent public accounting firm to complete its independent program review. The contract task involved review of the assessment instrument completed by SSA, review of supporting documents provided, and interviews with SSA staff responsible for respective portions of the questionnaire.

In its report, the contractor concurred with the results of SSA's self-assessment and stated that "the team continues to be quite impressed with the administrative quality, organizational integration, and technical strength of SSA's security program." They also said: "The SSA security program is well conceived, designed with an appreciation for risk management, and fully integrated into daily business processes."

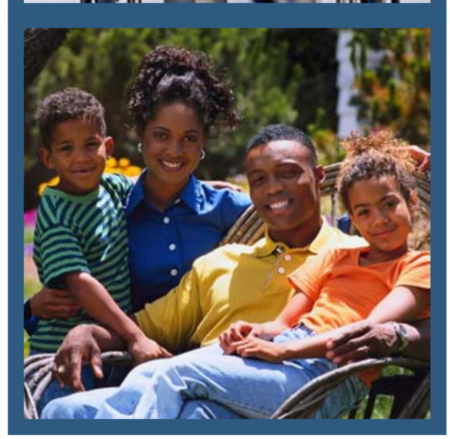
The independent review by the SSA Inspector General (IG) noted that "while SSA met the general Security Act requirements and has made improvements over the past year, there are still opportunities for the Agency to strengthen its information security framework to ensure full compliance with the Security Act." The IG stated that "SSA continues to demonstrate its commitment as a leader in the area of Federal information protection". The auditor also offered suggestions for improvement and SSA will continue to work with the auditors to strengthen its security program.

Financial Statement Audit

The OIG contracted for the audit of SSA's financial statements for the last 6 years. Each year the auditor found that the principal financial statements were fairly stated in all material respects and issued an unqualified opinion. The auditor also found management's assertion that SSA's systems of accounting and internal controls were in compliance with OMB's internal control objectives to be fairly stated in all material respects. Although the auditor identified a reportable condition involving internal controls in FY 2002, it was not identified as material weakness as defined by the American Institute of Certified Public Accountants and OMB Bulletin No. 01-02.

The reportable condition read "SSA needs to further strengthen controls to protect its information." The auditor indicated that SSA had made notable progress in addressing information protection issues raised in prior years and particularly noted that SSA had issued risk models to standardize platform security configurations, established monitoring tools for enforcement of standards, improved firewall controls, implemented a program to monitor and control system user access requirements, established procedures for enhanced review of security violations on the mainframe and strengthened physical security controls in SSA's field activities. The auditor acknowledged that SSA had implemented policies and procedures to strengthen its security program and that the emphasis on the next year's audit would be to ensure that the program was adequately monitored to ensure compliance. SSA will continue to strengthen the protection of data by implementing the auditor's recommendations on a timely basis.

Financial Statements



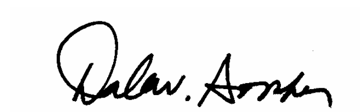
A Message from the Chief Financial Officer

The Social Security Administration (SSA) continued its high quality of financial management and reporting during fiscal year (FY) 2002. It has been a successful year for the Agency's financial operations. During the year, SSA:

- Published its FY 2002 Performance and Accountability Report over 2 months ahead of the required date thus supporting the Government's goal to accelerate its financial reporting;
- Prepared quarterly financial statements at the end of the second and third quarters in FY 2002 and submitted unaudited interim statements by May 31, 2002 as required;
- Received an unqualified opinion on its financial statements for the ninth consecutive year;
- Received a "yellow" light for status and a "green" light for progress in implementing the President's Management Agenda in both financial performance and budget and performance integration;
- Received the prestigious "Certificate of Excellence in Accountability Reporting" from the Association of Government Accountants for the fourth year in a row; and
- Corrected a material weakness previously declared under the Federal Managers' Financial Integrity Act (FMFIA) pertaining to properly accounting for title XVI debt management information leaving the Agency with no open material weaknesses.

The unqualified opinion on our 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 had a reportable condition that required the Agency to further strengthen controls to protect its information. They also indicated that SSA had made notable progress in strengthening those controls by implementing a comprehensive security framework. During the next year, SSA will monitor those security improvements to ensure compliance throughout the Agency. SSA's plans to correct this reportable condition and a description of the Agency's FMFIA program are addressed in the "Systems and Controls" section of this report.

Our goals in the coming year will include continuing this same high level of quality financial services that resulted in the successes mentioned above and to improve those services. We will focus on the initiatives outlined in the President's Management Agenda and in the financial area will continue to work toward developing a modernized cost accounting system and implementing an improved financial accounting system. Through these efforts, we will strive to continue to produce timely, reliable and useful data.



Dale W. Sopper
Acting Chief Financial Officer

Consolidated Balance Sheets as of September 30, 2002 and 2001

		(Dollars in Millions)		
Assets		**2002**		2001
				RESTATED
Intragovernmental:				
Fund Balance with Treasury (Note 4)	**$**	**2,098**	$	4,058
Investments (Note 5)		**1,329,045**		1,169,956
Interest Receivable, Net (Note 6)		**20,262**		18,476
Accounts Receivable, Net (Note 6)		**751**		1,218
Total Intragovernmental		**1,352,156**		1,193,708
Accounts Receivable, Net (Notes 3 and 6)		**5,692**		4,464
Property, Plant and Equipment, Net (Note 7)		**690**		565
Other		**4**		2
Total Assets		**1,358,542**		1,198,739
Liabilities (Note 8)				
Intragovernmental:				
Accrued Railroad Retirement Interchange		**3,713**		3,673
Other		**7,148**		5,984
Total Intragovernmental		**10,861**		9,657
Benefits Due and Payable		**47,684**		43,187
Accounts Payable		**494**		289
Other		**1,142**		1,112
Total		**60,181**		54,245
Net Position				
Unexpended Appropriations		**794**		3,528
Cumulative Results of Operations		**1,297,567**		1,140,966
Total Net Position		**1,298,361**		1,144,494
Total Liabilities and Net Position	**$**	**1,358,542**	$	1,198,739

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2002 and 2001

	(Dollars in Millions)	
	2002	2001
OASI Program		
Benefit Payments	**$ 385,777**	$ 369,142
Operating Expenses (Note 9)	**2,299**	2,169
Total Cost of OASI Program	**388,076**	371,311
Less: Exchange Revenues (Notes 10 and 11)	**8**	7
Net Cost of OASI Program	**388,068**	371,304
DI Program		
Benefit Payments	**66,964**	59,207
Operating Expenses (Note 9)	**1,953**	1,749
Total Cost of DI Program	**68,917**	60,956
Less: Exchange Revenues (Notes 10 and 11)	**7**	6
Net Cost of DI Program	**68,910**	60,950
SSI Program		
Benefit Payments	**30,239**	27,733
Operating Expenses (Note 9)	**2,788**	2,261
Total Cost of SSI Program	**33,027**	29,994
Less: Exchange Revenues (Notes 10 and 11)	**278**	253
Net Cost of SSI Program	**32,749**	29,741
Other		
Benefit Payments	**458**	484
Operating Expenses (Note 9)	**1,251**	1,151
Total Cost of Other	**1,709**	1,635
Less: Exchange Revenues (Notes 10 and 11)	**10**	13
Net Cost of Other	**1,699**	1,622
Total Costs	**491,729**	463,896
Less: Total Exchange Revenue	**303**	279
Net Cost of Operations	**491,426**	463,617

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2002 and 2001

(Dollars in Millions)

	2002		2001 RESTATED	
	Cumulative Results of Operations	**Unexpended Appropriations**	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning Balance	**$ 1,140,966**	**$ 3,528**	$ 982,733	$ 399
Prior Period Adjustments	**0**	**0**	(5,083)	0
Beginning Balances, As Adjusted	**1,140,966**	**3,528**	977,650	399
Budgetary Financing Sources (other than Exchange Revenues)				
Appropriations Received		**46,400**		46,191
Other Adjustments	**(8)**	**(12)**		(5)
Appropriations Used	**49,122**	**(49,122)**	43,057	(43,057)
Tax Revenues (Note 12)	**537,733**		528,194	
Interest Revenues	**78,614**		70,922	
Transfers-In/Out (Note 13)				
Trust Fund Draws and Other - In	**1,138**		1,747	
Trust Fund Draws and Other - Out	**(15,323)**		(13,520)	
Railroad Retirement Interchange	**(3,686)**		(3,859)	
Net Transfers-In/Out	**(17,871)**		(15,632)	
Other Budgetary Financing Sources	**81**		77	
Other Financing Sources				
Other Revenue	**5**		0	
Imputed Financing Sources (Note 14)	**351**		315	
Total Financing Sources	**648,027**	**(2,734)**	626,933	3,129
Net Cost of Operations	**491,426**		$ 463,617	
Ending Balances	**$ 1,297,567**	**$ 794**	$ 1,140,966	$ 3,528

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2002 and 2001

	(Dollars in Millions)	
	2002	2001
Budgetary Resources Made Available (Note 15)		RESTATED
Budget Authority		
Appropriations Received	**$ 661,470**	$ 643,047
Net transfers (+/-)	**(0)**	109
Unobligated Balances		
Beginning of Period	**2,842**	456
Spending Authority from Offsetting Collections		
Earned		
Collected	**3,866**	3,509
Change in Receivable	**1**	(236)
Change in Obligations		
Advance Received	**0**	(2)
Without Advance	**0**	(3)
Transfers from Trust Funds		
Collected	**7,581**	7,166
Anticipated	**139**	(51)
Subtotal	**11,587**	10,383
Recoveries of Prior Year Obligations	**229**	214
Temporarily Not Available Pursuant to Public Law	**(154,054)**	(154,003)
Permanently Not Available	**(11)**	(22)
Total Budgetary Resources	**522,063**	500,184
Status of Budgetary Resources: (Note 15)		
Obligations Incurred:		
Direct	**517,284**	493,987
Reimbursable	**3,758**	3,186
Subtotal	**521,042**	497,173
Unobligated Balances		
Apportioned	**846**	2,856
Unobligated Balances - Not Available	**175**	155
Total Status of Budgetary Resources	**522,063**	500,184
Relationship of Obligations to Outlays:		
Obligated Balances - Beginning of the Period	**51,442**	43,073
Obligated Balance - End of the Period		
Accounts Receivable	**(1,707)**	(1,566)
Undelivered Orders	**1,031**	1,476
Accounts Payable	**56,975**	51,532
Outlays:		
Disbursements	**515,815**	487,484
Collections	**(11,446)**	(10,675)
Subtotal	**504,369**	476,809
Less: Offsetting Receipts	**15,761**	14,310
Net Outlays	**$ 488,608**	$ 462,499

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

Consolidated Statements of Financing for the Years Ended September 30, 2002 and 2001

	(Dollars in Millions)	
	2002	2001
Resources Used to Finance Activities:		RESTATED
Budgetary Resources Obligated		
Obligations Incurred	**$ 521,042**	$ 497,173
Less: Offsetting Collections	**(11,816)**	(10,597)
Obligations Net of Offsetting Collections	**509,226**	486,576
Less: Offsetting Receipts	**(15,761)**	(14,310)
Net Obligations	**493,465**	472,266
Other Resources		
Imputed Financing	**351**	315
Other	**(267)**	(160)
Net Other Resources used to finance activities	**84**	155
Total Resources Used to Finance Activities	**$ 493,549**	$ 472,421
Resources Not Part of the Net Cost of Operations:		
Change in Undelivered Orders	**$ 445**	$ (361)
Resources that Fund Capitalized Costs	**(120)**	(220)
Resources that Fund Expenses Recognized in Prior Periods	**(1,649)**	(283)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	**15,761**	14,310
Other Resources or Adjustments to Net Obligated Resources that do not affect net cost of operations	**(16,444)**	(22,585)
Total Resources Not Part of the Net Cost of Operations	**$ (2,007)**	$ (9,139)
Total Resources Used to Finance the Net Cost of Operations	**$ 491,542**	$ 463,282
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	**18**	11
Other	**71**	39
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**$ 89**	$ 50
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**141**	138
Other	**(346)**	147
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**$ (205)**	$ 285
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**$ (116)**	$ 335
Net Cost of Operations	**$ 491,426**	$ 463,617

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

Notes to the Principal Financial Statements

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), the Supplemental Security Income (SSI) program and Part B of the Black Lung (BL) 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 (FASAB). 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 financial statements include the accounts of all funds under SSA control, consisting of three trust funds, three deposit funds, and five 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 the Social Security Administration. The five general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds, SSI Program, Special Benefits for Disabled Coal Miners, 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 and Other. Other consists primarily of Payments to the Trust Fund (PTF) appropriations and BL. 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.

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 and for which 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 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. SSA capitalizes new property, plant and equipment costing over $100,000.

The change in PP&E from one reporting period to the next is presented on the Statement of Financing's (SOF) 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' financial statements.

Benefits Due and Payable

Liabilities are accrued for OASI, DI and BL benefits to which recipients are entitled 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, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases which were not paid at the close of the fiscal year (See Note 8, Liabilities).

Administrative Expenses

SSA initially charges administrative expenses to the Limitation on Administrative Expenses (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.

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. 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 and BL programs and funding from Treasury's General Fund for the OIG and PTF appropriations.

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), credits for military service, 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 SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Reimbursements are recognized as the services are performed (See Note 10, Exchange Revenues). These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as property, plant and equipment 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.

Restatements

Certain amounts within the FY 2001 financial statements have been restated to reflect reporting changes for the LAE and PTF as required by OMB guidance.

LAE comprises non-benefit payment expenses incurred by SSA. Fund sources for LAE include, but are not limited to the OASI, DI, HI/SMI Trust Funds, as well as the SSI and Benefits for Certain WWII Veterans Appropriations. Prior to FY 2002, the sources of funding for LAE and the related obligations were reflected within the trust funds, general funds and LAE accounts on a fund expenditure basis. For financial reporting purposes, LAE's budgetary activity was eliminated in the Statement of Budgetary Resources, and accordingly, LAE's separate budgetary resources and obligations were not combined in the FY 2001 presentation of the Statement of Budgetary Resources.

In July 2001, OMB informed SSA that LAE had been established as a separate budget account in the MAX System, a computer system used to collect and process most of the information required for preparing the Federal Budget. In addition, OMB directed SSA to recognize LAE's funding sources as offsetting collections. SSA acknowledged the receipt of this directive from OMB, and implemented this methodology October 1, 2001. Following OMB's accounting guidance for budget accounts, SSA now recognizes LAE's funding sources as offsetting collections and combines the LAE activity within the Statement of Budgetary Resources.

The recognition of LAE as a separate budget account represents a change in SSA's reporting entity, as the FY 2002 reporting entity consists of a different set of budget accounts than did the FY 2001 reporting entity.

FASAB Standard No. 21, Reporting Corrections of Errors and Changes in Accounting Principles, provides guidance to Federal Government entities related to restatements. However, this standard does not address the issue of a change in reporting entity. In accordance with the accounting hierarchy for Federal Government entities, SSA has deferred to Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, to ensure that the treatment of this issue complies with GAAP. Following the guidance of APB No. 20, and the determination that a change in SSA's reporting entity has occurred, SSA has restated FY 2001 balances in the Consolidated Balance Sheet, Consolidated Statement of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Financing to appropriately reflect the changes in SSA's reporting entity.

PTF represents taxes paid by certain SSA recipients on SSA benefit payments. These taxes are ultimately returned to the SSA trust funds. On a quarterly basis, SSA receives a general fund warrant for PTF, which is recorded in a designated receipt account. The funds are then transferred from the receipt account to the SSA trust funds.

Prior to FY 2002, SSA reported the cash entries regarding the PTF transactions within the SSA financial statements. However, for financial reporting purposes PTF's budgetary activity was eliminated within the Statement of Budgetary Resources, and accordingly PTF's separate budgetary resources and obligations were not combined in the presentation.

Subsequent to the issuance of the FY 2001 financial statements, OMB directed SSA to change the manner in which PTF's budgetary activity should be treated. Specifically, SSA was directed to combine PTF's budgetary activity within the Statement of Budgetary Resources. This new accounting treatment was applied during FY 2002. SSA believes that the new accounting treatment represents a change in SSA's reporting entity similar to LAE. Therefore, in accordance with APB No. 20 the FY 2001 balances in the Statement of Budgetary Resources have been restated to appropriately reflect the changes in SSA's budgetary reporting entity.

Reclassifications

Certain FY 2001 balances have been reclassified to conform to FY 2002 financial statement presentations, the effect of which is immaterial.

Prior Period Adjustment and Change in Accounting Estimate

During FY 2001 SSA recorded a prior period adjustment for $5,083 million for a correction of an error that was identified through SSA's internal quality assurance process. The correction related to an estimated population of SSI beneficiaries who were eligible to receive Old-Age and Survivors Insurance (OASI) or Disability Insurance (DI) benefits because they had earned sufficient work credits to qualify for the OASI or DI program; and an estimated population of OASI beneficiaries who were eligible to receive DI benefits because they had earned sufficient work credits to qualify for the DI program. The prior period adjustment was based on an estimate and made in accordance with the Federal Accounting Standards Advisory Board Statement No. 7, Accounting for Revenue and Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

Since September 30, 2001 SSA has continued to study this complex issue and updated the estimation models used to calculate the Special Disability Workload liability. The estimates prepared in FY 2001 focused primarily on SSI recipients who were in payment status. The estimates prepared for FY 2002 have been expanded to include all persons ever on the SSI rolls who would be entitled to a worker benefit under OASI and/or DI programs. Changes in the resulting liabilities have been treated as a change in estimate within the financial statements.

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 $159.5 and $156.9 million for FY 2002 and 2001, respectively. SSA contributions to FERS were $157.6 and $137.8 million for FY 2002 and 2001, respectively. In addition, SSA contributions to the FERS savings plan were $59.0 and $39.2 million for FY 2002 and 2001, respectively. 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

SSA's Non-Entity Assets consist of SSI Federal benefit overpayments classified as accounts receivable, net in the amounts of $6,871 and $5,666 million as of September 30, 2002 and 2001. However, the accounts receivable has been reduced by $4,679 and $4,026 million for FY 2002 and 2001, respectively as an intra agency elimination. Refer to Note 6, Interest and Accounts Receivable. 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. These funds, upon deposit, are assets of the General Fund of the Treasury and shall not used by SSA as an SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, they are classified as non-entity assets. Cash collections for these overpayments are deposited directly to a Treasury General Fund receipt account and qualify as custodial activity; however, these collections are not primary to the mission of SSA or material to the overall financial statements. Consequently, SSI Federal benefit overpayment collections are not reported on a Statement of Custodial Activity, but are disclosed in Note 17, Incidental Custodial Collections.

Also included in SSA's non-entity assets are a portion of the fees collected to administer SSI State Supplementation that are returned to the General Fund. This portion is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. 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 Balance Sheet, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Other fund types consist of deposit funds and receipt accounts.

Fund Balances:	*(In Millions)* 2002	Restated 2001
Trust Funds		
OASI	$ (31)	$ (71)
DI	(148)	(49)
Appropriated Funds		
SSI	2,171	4,048
Other	106	130
Total	$ 2,098	$ 4,058

Status of Fund Balances:	*(In Millions)* 2002	Restated 2001
Unobligated Balance		
Available	$ 667	$ 2,875
Unavailable	75	30
Obligated Balance not yet Disbursed	956	724
Expended	(179)	(119)
Deposit & Receipt Accounts	579	548
Total	$ 2,098	$ 4,058

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 payment checks. In FY 2002 and FY 2001, 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. To maintain consistency with Treasury year-end reporting requirements, the trust fund balances were not reclassified as liabilities on the Balance Sheet.

5. *Investments*

Treasury uses an average market yield to calculate interest rates for non-marketable Treasury securities, including those held by the Social Security Trust Funds. Investments held for the trust funds mature at various dates ranging from the present to the year 2017. The interest rates on these investments range from 4 3/8 percent to 9 1/4 percent; the effective rate for FY 2002 was 6.52 percent, a decrease from the FY 2001 rate of 6.76 percent.

	(In Millions) 2002	2001
Special Issue U.S. Treasury Securities	$ 1,329,015	$ 1,169,916
U.S. Treasury Bonds - Carrying value	30	40
Total Investments	$ 1,329,045	$ 1,169,956

6. *Interest and Accounts Receivable*

Interest Receivable

Intragovernmental receivables consist primarily of accrued interest receivable on investments. These were $20,262 and $18,476 million on trust fund investments with the U.S. Treasury for the period June 30 through September 30, 2002 and 2001, respectively.

Accounts Receivable

Intragovernmental

Intragovernmental accounts receivable for fiscal years 2002 and 2001 consist primarily of $517 million to be transferred to the OASI and DI Trust Funds from the Department of Defense (DOD) for military service wage credits. It also includes LAE receivables of $224 million for FY 2002 and $297 million for FY 2001 to be paid from the HI/SMI Trust Funds. The FY 2002 military wage service credits represent the FY 2001 and FY 2000 balances still unpaid from DOD.

Intragovernmental Accounts Receivable by Major Program:
(In Millions)

	2002			Restated 2001		
	Gross Rec.	Allowance for Doubtful Accts.	Net Rec.	Gross Rec.	Allowance for Doubtful Accts.	Net Rec.
OASI	$ 448	$ 0	$ 448	$ 842	$ 0	$ 842
DI	79	0	79	79	0	79
SSI	0	0	0	0	0	0
Other	224	0	224	297	0	297
Total	$ 751	$ 0	$ 751	$ 1,218	$ 0	$ 1,218

Accounts Receivable net of intra-agency eliminations.

With the Public

Accounts receivable with the public consists mainly of monies due to SSA from individuals who received benefits in excess of their entitlement under the OASI, DI, SSI and BL programs. All SSI overpayment amounts are presented under SSI. The BL receivable is presented as Other. See Note 3, Non-Entity Assets, for a discussion of the SSI Federal overpayments.

In FY 2001, SSA detected an error which affects about 228,000 SSI recipients who were eligible to receive DI benefits but were paid either SSI or OASI benefits. Therefore, OASI and Other accounts receivable amounts were established for $56 and $3,770 million respectively. For FY 2002, the SSI accounts receivable amount increased to $4,401 million and the number of SSI recipients increased to 250,000. Estimates of these special liabilities were last provided as of September 30, 2001. Since that time, the liabilities have grown due to continued benefit accrual for the cases not yet adjudicated and decreased by the amount of the discharged liabilities for cases that have been adjudicated.

Accounts Receivable with the Public by Major Program:

(In Millions)

	2002			Restated 2001		
	Gross Rec.	Allowance for Doubtful Accts.	Net Rec.	Gross Rec.	Allowance for Doubtful Accts.	Net Rec.
OASI	$ 1,332	$ (92)	$ 1,240	$ 1,340	$ (96)	$ 1,244
DI	2,786	(887)	1,899	2,498	(1,169)	1,329
SSI*	3,910	(1,393)	2,517	3,501	(1,624)	1,877
Other	36	0	36	14	0	14
Total	$ 8,064	$ (2,372)	$ 5,692	$ 7,353	$ (2,889)	$ 4,464

*See Note 3, Non-Entity Assets   Accounts Receivable net of intra-agency eliminations.

Also in FY 2002 and FY 2001, total accounts receivable was reduced by $4,679 and $4,080 million, respectively as an intra-agency elimination. This activity consists of individuals receiving SSI benefits that were also eligible but not receiving OASI or DI benefits. 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 an intra-agency elimination.

The estimated allowance for doubtful accounts is determined using a 5-year average of write-offs divided by clearances comprised of write-offs, waivers and collections. That percentage is then applied to outstanding receivables.

7. Property, Plant and Equipment

The Statement of Federal Financial Accounting Standards No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf software (COTS). SSA's capitalized internal use software for FY 2002 and FY 2001 is $365 and $311 million, respectively. Full costs for internally-developed software and actual costs for contractor-developed software and COTS greater than $100,000 are capitalized. These internal software costs are amortized using a 3-10 year useful life, modified straight-line methodology that divides costs among SSA's components.

	(In Millions)					
	2002			2001		
Major Classes:	Cost	Accum. Deprec	Net Book Value	Cost	Accum. Deprec	Net Book Value
Land	$ 5	$ 0	$ 5	$ 5	$ 0	$ 5
Buildings	362	(171)	191	354	(163)	191
Equipment (incl. ADP Hardware and Software)	741	(274)	467	646	(316)	330
Leasehold Improvements	130	(103)	27	123	(84)	39
Total	$ 1,238	$ (548)	$ 690	$ 1,128	$ (563)	$ 565

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	--
Buildings	over 20 years	Straight Line
Equipment (incl. ADP Hardware and Software)	3 to 10 years	Modified Straight Line
Leasehold Improvements	over 20 years	Straight Line

8. *Liabilities*

Liabilities Covered by Budgetary Resources

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.

Accounts Payable

Intragovernmental Accounts Payable consist of amounts due Federal agencies for goods or services received.

Benefits Due and Payable

Benefits Due and Payable for SSA's major programs as of September 30, 2002 and 2001 are shown in the following table. 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.

Due to the public includes amounts related to the Special Disability Workload. The estimated liabilities due from DI are $7,629 million and $5,083 million for FY 2002 and FY 2001. The amounts due from OASI are $1,077 million and $45 million for FY 2002 and FY 2001.

Inter-agency payables in the amount of $4,679 million for FY 2002 and $4,080 million for FY 2001 exist for individuals receiving SSI benefits who were eligible for, but not receiving OASI or DI benefits; and for individuals receiving OASI benefits who were eligible for, but not receiving DI benefits. The payment of the retroactive OASI and DI benefits will offset against receivables from SSI or OASI. Therefore, the retroactive payments and the offsets are presented as intra-agency eliminations and not included within the consolidated balance sheet. The estimated collections ultimately received by SSI from the public will be remitted to the General Fund.

	(In Millions)	
	2002	2001
OASI	$ 34,087	$ 32,368
DI	12,195	9,481
SSI	1,364	1,297
Other	38	41
Total	$ 47,684	$ 43,187
Benefits Due and Payable net of intra-agency eliminations.		

Other Liabilities

SSA's Other Liabilities is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds.

Liabilities Not Covered by Budgetary Resources

Other Intragovernmental Liabilities

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.

Other Liabilities

The Federal Employees' Compensation Act (FECA), administered by the Department of Labor (DOL), 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; these are included in the Intragovernmental, Other Liabilities line item. SSA's current portion of FECA liability was $47 and $46 million as of September 30, 2002 and 2001, respectively. The non-current portion of FECA actuarial liability is comprised of claims that will be paid more than two years in the future. The non-current portion, of $281 and $278 million as of September 30, 2002 and 2001, respectively, is recorded in the Other Liabilities line item. This actuarial liability was calculated using historical payment data to project future costs.

Intragovernmental Liabilities as Reported on the Balance Sheet:

			(In Millions)			
		2002			Restated 2001	
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RR Retirement Interchange	$ 3,713	$ 0	$ 3,713	$ 3,673	$ 0	$ 3,673
Other	229	6,919	7,148	272	5,712	5,984
Total Intragovernmental	3,942	6,919	10,861	3,945	5,712	9,657
Benefits Due and Payable	46,320	1,364	47,684	41,890	1,297	43,187
Accounts Payable	494	0	494	289	0	289
Other	592	550	1,142	582	530	1,112
Total	$ 51,348	$ 8,833	$ 60,181	$ 46,706	$ 7,539	$ 54,245

The remaining portion of Other Liabilities Not Covered by Budgetary Resources is leave earned but not taken.

Contingent Liabilities

There is a potential non-material retroactive liability associated with the Federal Court case *Thomas v. Barnhart* which was decided against SSA in the 3rd Circuit on June 21, 2002. As of this time, no final decision has been reached as to whether this decision will be appealed to the United States Supreme Court. If the 3rd Circuit Court decision stands, then certain denials in the 3rd Circuit States of Delaware, New Jersey, Pennsylvania, and the U.S. Virgin Islands may be readjudicated; resulting in retroactive OASI, DI, and SSI payments for months prior to October 2002. There is only limited data available at this time, but it is estimated that a potential liability will exist for OASDI and SSI. In the opinion of management and legal counsel, the resolution of this case and other claims and lawsuits will not materially affect the financial position or operations of SSA.

9. Classification of Operating Expenses by Strategic Goal

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

- To promote valued, strong and responsive social security programs and conduct effective policy development, research and program evaluation;
- To deliver customer-responsive, world-class service;
- To ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse;
- To be an employer that values and invests in each employee; and
- To strengthen public understanding of the Social Security programs.

These goals are also complementary, pursuit of one tends to support and advance the others. This reflects the highly integrated nature of SSA's programs, workloads and organizational components.

SSA has aligned its strategic goals with its request for new budget authority as part of its annual budget request. Costs associated with each major goal represent a combination of several administrative funding limitations contained in SSA's budget, including the LAE, the SSI research budget and separate funding for SSA's OIG.

SSA's Operating Costs Reported on the Statement of Net Cost:	*(In Millions)* 2002	2001
LAE	$ 7,890	$ $6,939
Trust Fund Operations	266	269
Vocational Rehabilitation	130	117
BL	5	5
	$ 8,291	$ $7,330

SSA programs incur additional administrative expenses that are not part of LAE, but are reported on the Statement of Net Cost. These include expenses of the Department of Treasury to assist in managing the OASI and DI Trust Funds, expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries and SSA's operational costs to administer the Black Lung, Part B program, which is performed for SSA on a reimbursable basis by the DOL.

By applying the same methodology used to allocate SSA's budget request by performance goal to SSA's corresponding actual total administrative costs (taken primarily from SSA's administrative cost accounting system), it is possible to allocate SSA's operating expenses to its strategic goals. SSA's primary administrative expenses, funded through LAE are aligned to strategic goals.

Applying this basic methodology results in the following cost allocations that drive the distributions:

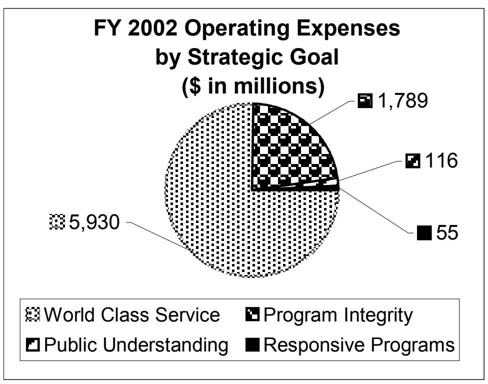
- The costs of SSA's Office of the Chief Actuary (OCACT) and Office of the Deputy Commissioner for Policy (ODCP), together with the costs of the SSI appropriation's extramural research budget are assigned to the "Responsive Programs" goal.

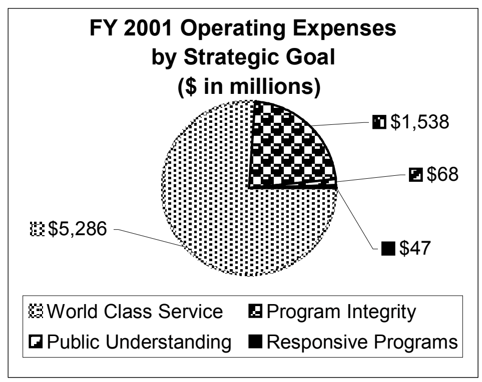
- The costs of SSA's Office of the Deputy Commissioner for Communications (OComm) and issuing Social Security Statements are assigned to the "Public Understanding" goal.

- The costs of SSA's OIG and for its "Overpayments", "Annual Reports of Earnings", "School Attendance", Representative Payees", "Continuing Disability Reviews", "Redeterminations", "Annual Earnings", "Employer Identification Number", and "Earnings Corrections" workloads (except for costs assigned to those workloads in OCACT, ODCP and OComm, as noted above) are assigned to the "Program Integrity" goal.

- All other SSA administrative costs are assigned to the "World-Class Service" goal.

- Because SSA's fifth strategic goal, "Valued Employees", supports the accomplishment of all our basic functions, SSA resources are inherently included in the other four goals in its APP.





10. Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. Total exchange revenue was $303 and $279 million for FY 2002 and 2001, respectively. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 25 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. SSA is reimbursed by the States in full for earned administration fee revenue, in the amount of $267 and $243 million for FY 2002 and 2001, respectively. A portion of the fees, $152 million for both FY 2002 and 2001, is transferred to the Department of Treasury General Fund while the remainder is maintained in the SSA trust funds. In addition, SSA earned $36 and $36 million in other exchange revenue in both FY 2002 and 2001. The goods and services provided in these transactions are priced so that charges do not exceed the Agency's cost.

11. Gross Cost and Earned Revenue by Budget Functional Classification

Shown below are SSA's Gross Cost and Earned Revenue by Budget Functional Classification and SSA's Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification. General Retirement and Disability Insurance, classification code 601, includes the costs and revenues associated with the BL program.

Income Security for Veterans, classification code 701, includes the costs and revenues to administer the Title VIII, Special Benefits for Certain World War II Veterans program. Other Income Security, classification code 609, includes the costs and revenues associated with the SSI program. And finally, Social Security, classification code 651, includes the costs and revenues associated with the OASI, DI and Other programs. The Other program reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Gross Cost and Earned Revenue by Budget Functional Classification

(In Millions)

	2002			2001		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	$ 449	$ 0	$ 449	$ 484	$ 0	$ 484
Income Security for Veterans	14	(5)	9	5	0	5
Other Income Security	33,027	(278)	32,749	29,994	(253)	29,741
Social Security						
OASI	388,076	(8)	388,068	371,311	(7)	371,304
DI	68,917	(7)	68,910	60,956	(6)	60,950
Other	1,246	(5)	1,241	1,146	(13)	1,133
Subtotal	458,239	(20)	458,219	433,413	(26)	433,387
Total	$ 491,729	$ (303)	$ 491,426	$ 463,896	$ (279)	$ 463,617

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

(In Millions)

	2002			Restated 2001		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	$ 3	$ 0	$ 3	$ 3	$ 0	$ 3
Other Income Security	669	(7)	662	698	(6)	692
Social Security						
OASI	736	(5)	731	722	(5)	717
DI	497	(5)	492	492	(4)	488
Other	308	(3)	305	293	(3)	290
Subtotal	1,541	(13)	1,528	1,507	(12)	1,495
Total	$ 2,213	$ (20)	$ 2,193	$ 2,208	$ (18)	$ 2,190

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 but not both. Revenues to the trust funds are reduced for excess employment taxes, which are refunded by offset against income taxes.

Other tax revenues include certain military wage credits, Taxation of Social Security Benefits and FICA/SECA tax credits. The amounts for estimated employment taxes, adjustments for actual taxes payable and refunds, as well as other tax revenues, are contained in the following table.

	(In Millions)	
	2002	2001
Estimated Employment Taxes Credited to SSA	$ 529,538	$ 512,276
Adjustments	(4,248)	6,345
Refunds	(1,091)	(3,201)
Employment Tax Revenues	524,199	515,420
Other Tax Revenues	13,534	12,774
Total Tax Revenues	$ 537,733	$ 528,194

13. Intra-Governmental Financing Sources

SSA receives other 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. For FY 2002 and 2001, respectively, $1,182 and $1,046 million were drawn down to cover 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 $14.0 and $12.5 billion for FY 2002 and 2001. 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 $3.7 and $3.7 billion for both FY 2002 and 2001, on the Balance Sheet represents amounts due RRB for the period. 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 $1.2 and $1.2 billion for both FY 2002 and 2001.

In addition, a portion of the administrative fees charged to the States to administer the Supplemental SSI benefits program is returned to the U.S. Treasury and amounted to $152 million for both FY 2002 and 2001. The Supplemental SSI benefits paid by SSA on behalf of the States, $3,736 and $3,160 million for FY 2002 and 2001, respectively. 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, as a portion of operating expenses, of $662 and $610 million for FY 2002 and 2001, respectively. 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 recognizes an imputed financing source of $351 and $315 million for FY 2002 and 2001, respectively. The imputed financing source represents annual service cost not paid by SSA.

15. Status of Budgetary Resources

Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories. Apportionments by fiscal quarters are classified as category A. All other apportionments are classified as category B. For FY 2002, SSA has not received any category A apportionments. The amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B and Exempt from Apportionment are displayed in the following chart.

(In Millions)

	2002			Restated 2001		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	$ 504,876	$ 3,758	$ 508,634	$ 489,023	$ 3,186	$ 492,209
Exempt	12,408	0	12,408	4,964	0	4,964
Total	$ 517,284	$ 3,758	$ 521,042	$ 493,987	$ 3,186	$ 497,173

Legal Arrangements Affecting Use of Unobligated Balances

All trust fund receipts collected in the FY are reported as new budget authority in the Statement of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the Social Security Act, benefit payments and other outlays are obligated in the 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 Statement of Budgetary Resources; 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. The entire trust fund balances of $1,273,228 and 1,119,173 million as of September 30, 2002 and 2001, respectively, are included in Investments on the Balance Sheet. The following table presents trust fund activities and balances for FYs 2002 and 2001:

	(In Millions) 2002	Restated 2001
Trust Fund Balance, Beginning	$ 1,119,173	$ 965,170
Receipts	619,208	600,768
Less Obligations	464,978	446,553
Less LAE Unobligated Balances	176	212
Excess of Receipts Over Obligations	154,054	154,003
Trust Fund Balance, Ending	$ 1,273,227	$ 1,119,173

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

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Combined Statement of Budgetary Resources (SBR), to amounts included in the Budget of the United States Government for the year ended September 30, 2001 is shown below. Budgetary resources and obligations incurred reconcile to Program and Financing Schedules while outlays reconcile to the Analytical Perspectives of the Budget. A reconciliation is not presented for the period ended September 30, 2002 since SSA's FY 2002 Performance and Accountability Report is published in November 2002 and Treasury's MAX system will not have actual budget data until mid-December 2002.

FY 2001 Restated	(In Millions) Budgetary Resources	Obligations Incurred	Outlays
Combined Statement of Budgetary Resources	$ 500,184	$ 497,173	$ 462,499
Allocation of LAE (Includes Transfers-In)	(7,735)	(7,488)	23
Adjustments to unobligated balances (Includes RRI Accrual and Payables to LAE)	(1,588)	(1,886)	0
Offsetting receipts reported as outlays in the budget	0	0	14,310
Other	166	304	232
Budget of the United States Government	$ 491,027	$ 488,103	$ 477,064

The allocation of LAE includes the trust fund amounts payable to LAE for administrative obligations. Due to the restatement discussed in Note 1, Summary of Significant Accounting Policies, the SBR contains these transfers; however, the budget does not. Adjustments to unobligated balances include changes to beginning balances for the payables the trust funds owe LAE that are not in the budget. Offsetting receipts reported in the budget as outlays mainly consist of Payments to the Trust Fund activity captured as trust fund receipts on the SBR, but removed from Budgetary Resources as part of unobligated balances. (See discussion above in Legal Arrangements Affecting Use of Unobligated Balances.) Offsetting Receipts is the total amount of distributed offsetting receipts that affect outlays. Other differences mainly consist of proposed legislation for full funding for Federal Retiree costs contained in the budget, but not in the SBR.

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 $8,833 and $7,539 million for FY 2002 and 2001, respectively, represent SSI Receivables Owed to Treasury, FECA liability to DOL and employees, benefits due and payable for SSI 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 $89 and $50 million for FY 2002 and 2001, respectively, represent the change in SSA expenses for unfunded liabilities for FECA, SSI benefits due and payable and leave earned but not taken. For FY 2001, SSI Receivables Owed to Treasury is not represented on this line, but is reported on the Statement of Custodial Activity. Effective FY 2002, the Statement of Custodial Activity is no longer prepared. See Note 3, Non-Entity Assets, and Note 17, Incidental Custodial Collections, for a discussion of SSI.

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. While these collections are considered custodial, they are not primary to the mission of SSA or material to the overall financial statements. In addition, other negligible custodial collections occur for interest, fines and penalties. For FY 2002 and 2001, SSA's total custodial revenue is $1,883 million and $1,454 million, respectively.

Balance Sheet by Major Program as of September 30, 2002

	Dollars in Millions					
Assets	OASI	DI	SSI	Other	Intra-Agency Eliminations	Consolidated
Intragovernmental:						
Fund Balance with Treasury	$ (31)	$ (148)	$ 2,171	$ 106		$ 2,098
Investments	1,173,759	155,286	0	0		1,329,045
Interest Receivable, Net	17,942	2,320	0	0		20,262
Accounts Receivable, Net	448	79	0	224		751
Other	0	363	220	0	$ (583)	0
Total Intragovernmental	1,192,118	157,900	2,391	330	(583)	1,352,156
Accounts Receivable, Net	1,240	1,900	7,195	36	(4,679)	5,692
Property, Plant and Equip., Net	364	326	0	0		690
Other	2	2	0	0		4
Total Assets	1,193,724	160,128	9,586	366	(5,262)	1,358,542
Liabilities						
Intragovernmental:						
Accrued RRI	3,514	199	0	0		3,713
Other	618	35	7,047	31	(583)	7,148
Total Intragovernmental	4,132	234	7,047	31	(583)	10,861
Benefits Due and Payable	34,140	16,821	1,364	38	(4,679)	47,684
Accounts Payable	53	61	348	32		494
Other	204	183	620	135		1,142
Total	38,529	17,299	9,379	236	(5,262)	60,181
Net Position						
Unexpended Appropriations	0	0	722	72		794
Cumulative Results of Operations	1,155,195	142,829	(515)	58		1,297,567
Total Net Position	1,155,195	142,829	207	130		1,298,361
Total Liabilities and Net Position	$ 1,193,724	$ 160,128	$ 9,586	$ 366	$ (5,262)	$ 1,358,542

Schedule of Changes in Net Position for the Year Ended September 30, 2002

(Dollars in Millions)

	OASI	DI	SSI		Other		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
Net Position, Beginning Balance	$ 1,016,248	$ 125,806	$ (1,209)	$ 3,455	$ 121	$ 73	$ 1,140,966	$ 3,528
Prior Period Adjustments	0	0	0	0	0	0	0	0
Beginning Balances, As Adjusted	1,016,248	125,806	(1,209)	3,455	121	73	1,140,966	3,528
Budgetary Financing Sources (other than Exchange Revenues)								
Appropriations Received				31,947		14,453		46,400
Other Adjustments	0	0	0	0	(8)	(12)	(8)	(12)
Appropriations Used	0	0	34,680	(34,680)	14,442	(14,442)	49,122	(49,122)
Tax Revenues	460,730	77,003	0		0		537,733	
Interest Revenues	69,659	8,955	0		0		78,614	
Transfers-In/Out								
Trust Fund Draws and Other - In	26	4	0		1,108		1,138	
Trust Fund Draws and Other - Out	0	0	(1,357)		(13,966)		(15,323)	
Railroad Retirement Interchange	(3,510)	(176)	0		0		(3,686)	
Net Transfers-In/Out	(3,484)	(172)	(1,357)		(12,858)		(17,871)	
Other Budgetary Financing Sources	16	65	0		0		81	
Other Financing Sources								
Other Revenue	0	0	0		5		5	
Imputed Financing Sources	94	82	120		55		351	
Total Financing Sources	527,015	85,933	33,443	(2,733)	1,636	(1)	648,027	(2,734)
Net Cost of Operations	388,068	68,910	32,749		1,699		491,426	
Ending Balances	$ 1,155,195	$ 142,829	$ (515)	$ 722	$ 58	$ 72	$ 1,297,567	$ 794

Schedule of Financing for the Year Ended September 30, 2002

	(Dollars in Millions)				
	OASI	DI	SSI	Other	Consolidated
Resources Used to Finance Activities:					
Budgetary Resources Obligated					
Obligations Incurred	$ 393,360	$ 71,618	$ 40,385	$ 15,679	$ 521,042
Less: Offsetting Collections	(2,001)	(1,840)	(6,759)	(1,216)	(11,816)
Obligations Net of Offsetting Collections	391,359	69,778	33,626	14,463	509,226
Less: Offsetting Receipts	(12,627)	(1,007)	(246)	(1,881)	(15,761)
Net Obligations	378,732	68,771	33,380	12,582	493,465
Other Resources					
Imputed Financing	94	82	120	55	351
Other	0	0	(267)	0	(267)
Net Other Resources used to finance activities	94	82	(147)	55	84
Total Resources Used to Finance Activities	$ 378,826	$ 68,853	$ 33,233	$ 12,637	$ 493,549
Resources Not Part of the Net Cost of Operations:					
Change in Undelivered Orders	$ 46	$ 21	$ 354	$ 24	$ 445
Resources that Fund Capitalized Costs	(32)	(28)	(41)	(19)	(120)
Resources that Fund Expenses Recognized in Prior Periods	93	(538)	(1,204)	0	(1,649)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	12,627	1,007	246	1,881	15,761
Other Resources or Adjustments to Net Obligated Resources that do not affect net cost of operations	(3,347)	(293)	(44)	(12,760)	(16,444)
Total Resources Not Part of the Net Cost of Operations	$ 9,387	$ 169	$ (689)	$ (10,874)	$ (2,007)
Total Resources Used to Finance the Net Cost of Operation	$ 388,213	$ 69,022	$ 32,544	$ 1,763	$ 491,542
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					
Increase in Annual Leave	5	4	6	3	18
Other	1	1	69	0	71
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 6	$ 5	$ 75	$ 3	$ 89
Components Not Requiring or Generating Resources					
Depreciation and Amortization	37	33	49	22	141
Other	(188)	(150)	81	(89)	(346)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$ (151)	$ (117)	$ 130	$ (67)	$ (205)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ (145)	$ (112)	$ 205	$ (64)	$ (116)
Net Cost of Operations	$ 388,068	$ 68,910	$ 32,749	$ 1,699	$ 491,426

Required Supplementary Information: Schedule of Budgetary Resources as of September 30, 2002

	(Dollars in Millions)				
	OASI	DI	SSI	Other	Combined
Budgetary Resources Made Available					
Budget Authority					
Appropriations Received	$ 529,287	$ 85,795	$ 31,949	$ 14,439	$ 661,470
Unobligated Balances					
Beginning of Period	153	135	2,410	144	2,842
Spending Authority from Offsetting Collections					
Earned					
Collected	33	30	3,778	25	3,866
Change in Receivable	0	0	1	0	1
Transfers from Trust Funds					
Collected	1,993	1,785	2,607	1,196	7,581
Anticipated	(69)	(41)	282	(33)	139
Subtotal	1,957	1,774	6,668	1,188	11,587
Recoveries of Prior Year Obligations	44	66	91	28	229
Temporarily Not Available Pursuant to Public Law	(137,986)	(16,068)	0	0	(154,054)
Permanently Not Available	(2)	(1)	(2)	(6)	(11)
Total Budgetary Resources	393,453	71,701	41,116	15,793	522,063
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	393,354	71,613	36,642	15,675	517,284
Reimbursable	6	5	3,743	4	3,758
Subtotal	393,360	71,618	40,385	15,679	521,042
Unobligated Balances					
Apportioned	62	56	658	70	846
Unobligated Balances - Not Available	31	27	73	44	175
Total Status of Budgetary Resources	393,453	71,701	41,116	15,793	522,063
Relationship of Obligations to Outlays:					
Obligated Balances - Beginning of the Period	36,278	14,038	1,166	(40)	51,442
Obligated Balance - End of the Period					
Accounts Receivable	(452)	(405)	(578)	(272)	(1,707)
Undelivered Orders	256	236	385	154	1,031
Accounts Payable	38,233	17,534	1,112	96	56,975
Outlays:					
Disbursements	391,627	68,265	40,258	15,665	515,815
Collections	(2,026)	(1,814)	(6,385)	(1,221)	(11,446)
Subtotal	389,601	66,451	33,873	14,444	504,369
Less: Offsetting Receipts	12,627	1,007	246	1,881	15,761
Net Outlays	$ 376,974	$ 65,444	$ 33,627	$ 12,563	$ 488,608

Required Supplementary Information: Intragovernmental Amounts as of September 30, 2002

(Dollars in Millions)

	Fund Balance with Treasury	Investments	Interest Receivable, Net	Accounts Receivable, Net
Intragovernmental Assets				
Department of the Air Force				$136
Department of the Army				178
Department of Health and Human Services				229
Department of the Navy				203
Department of the Treasury	$2,098	$1,329,045	$20,262	
Other				5
Total Intragovernmental Assets	$2,098	$1,329,045	$20,262	$751

	Accrued Railroad Retirement Interchange	Other Liabilities
Intragovernmental Liabilities		
Department of the Treasury, General Fund		$7,026
Railroad Retirement Board	$3,713	
Other		122
Total Intragovernmental Liabilities	$3,713	$7,148

	Non-Exchange Revenue	
	Transfers-In	Transfers-Out
Intragovernmental Revenues:		
Department of the Treasury	$30	
Department of the Treasury, General Fund		$15,323
Railroad Retirement Board		3,686
Department of Health and Human Services	1,108	
Total Intragovernmental Revenues:	$1,138	$19,009

Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
75-Year Projection as of January 1, 2002
(In billions)

		Estimates from Prior Years			
	2002	2001	2000	1999	1998
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)	$13,048	$12,349	$11,335	$10,325	$9,482
Have attained retirement eligibility age (Age 62 and over)	348	309	266	235	204
Those expected to become participants (Under Age 15)[4]	11,893	11,035	10,088	9,033	8,727
All participants	25,289	23,693	21,688	19,593	18,413
Actuarial present value[1] for the 75-year projection period of estimated future expenditures[5] paid to or on behalf of:					
Current participants[3] who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	20,210	18,944	17,217	15,676	14,605
Have attained retirement eligibility age (Age 62 and over)	4,402	4,255	4,020	3,856	3,659
Those expected to become participants (Under Age 15)[4]	5,240	4,700	4,297	3,758	3,719
All participants	29,851	27,899	25,534	23,291	21,983
Actuarial present value[1] for the 75-year projection period of estimated future excess of income (excluding interest) over expenditures	-$4,562	-$4,207	-$3,845	-$3,698	-$3,570
Trust fund assets[6] at start of period	1,213	1,049	896	763	656
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 expenditures	-$3,350	-$3,157	-$2,949	-$2,935	-$2,914

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 expenditures for them or on their behalf, subtract the actuarial present value of future expenditures 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 expenditures for the closed group participants beyond 75 years is not material.

[4]Includes births during the period.

[5]Expenditures include 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]If this excess is positive, it represents the estimated trust fund assets (expressed in present value dollars) at the end of the 75-year projection period; if negative, the absolute value of the excess 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 expenditures at the end of the period.

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 2001, OASDI benefits were paid to approximately 46 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 $46 billion as of September 30, 2002 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 ($42 billion as of September 30, 2001). Virtually all of this amount was paid in October 2002. Also, an asset of $1,329 billion is recognized for the "investments in Treasury securities" as of September 30, 2002 ($1,170 billion as of September 30, 2001). 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, 2002. 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;
- **expenditures:** 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 expenditures, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less expenditures, expressed in nominal dollars.

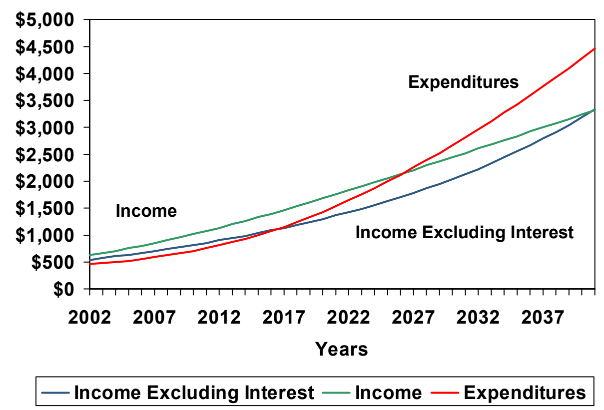
All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2002 Trustees Report) (see Table 7). The statement presented on page 77 and the supplementary stewardship information below are derived from estimates of future income and expenditures 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 expenditures for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
(2) estimated annual income excluding interest and expenditures 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 expenditures for 2002-2041 in nominal dollars. These estimates are only displayed through 2041, the year that the OASDI trust funds are projected to become exhausted. 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 expenditures made to, and on behalf of, such workers during that period.

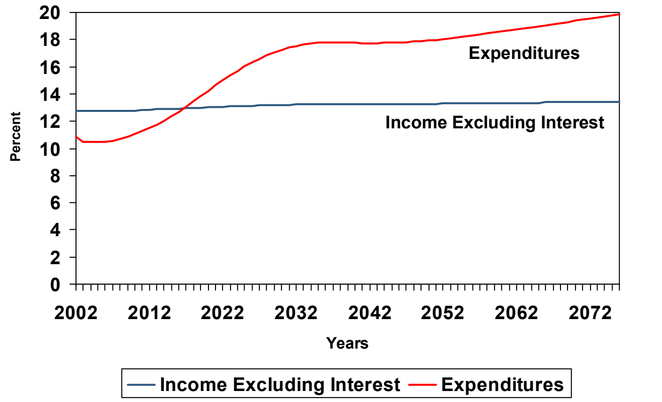
As chart 1 shows, estimated expenditures start to exceed income (including interest) in 2027. This occurs because of a variety of factors including the retirement of the "baby boom" generation, the relatively small number of people born during the subsequent period of low birth rates, and the projected 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 expenditures start to exceed income excluding interest even earlier, in 2017. At that time, to meet all OASDI expenditures 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 expenditures). 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 Expenditures, 2002-2041
(In billions of nominal dollars)



Percentage of Taxable Payroll - Chart 2 shows estimated annual income excluding interest and expenditures 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 of taxable payroll), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2017, estimated annual expenditures are less than estimated annual income, excluding interest, whereas thereafter they are more. After 2017, estimated expenditures, expressed as a percentage of taxable payroll, increase rapidly through 2030 and are rising steadily at the end of the 75-year period. Estimated expenditures at the end of the 75-year period are about 50 percent higher than estimated income.

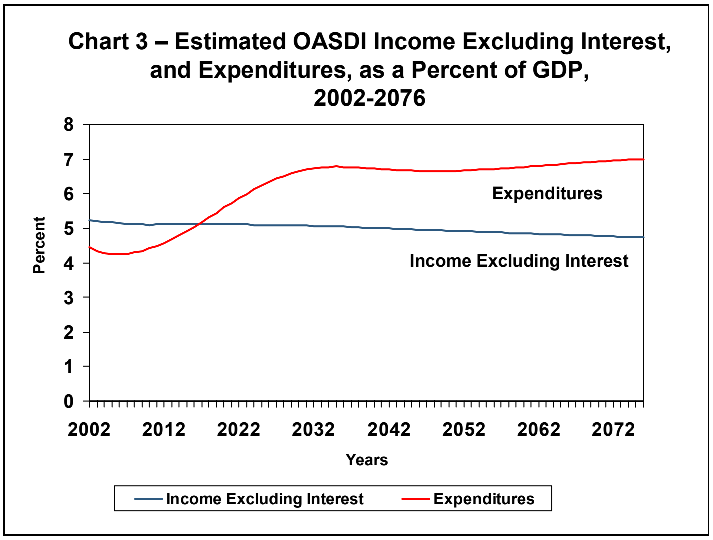
Chart 2 – Estimated OASDI Income Excluding Interest, and Expenditures, as a Percent of Taxable Payroll, 2002-2076



Actuarial Balance - The statement of social insurance on page 77 shows that the present value of the excess of income (excluding interest) over expenditures for the 75-year period is -$4,562 billion. If augmented by the trust fund assets at the start of the period (January 1, 2002), it is -$3,350 billion. This excess does not equate to the actuarial balance in the Trustees Report. To reconcile these values, the excess (including the starting trust fund assets) would need to consider the cost of attaining a target Trust Fund balance by the end of the period. The present value of this cost is $270 billion, which reduces the excess to -$3,619 billion. This reduced (more negative) excess, when expressed as a percent of taxable payroll, is defined by the Trustees in their annual reports to be the actuarial balance. Thus, the excess of -$3,619 billion equates to the actuarial balance of -1.87 percent of taxable payroll reported in the 2002 Trustees Report.

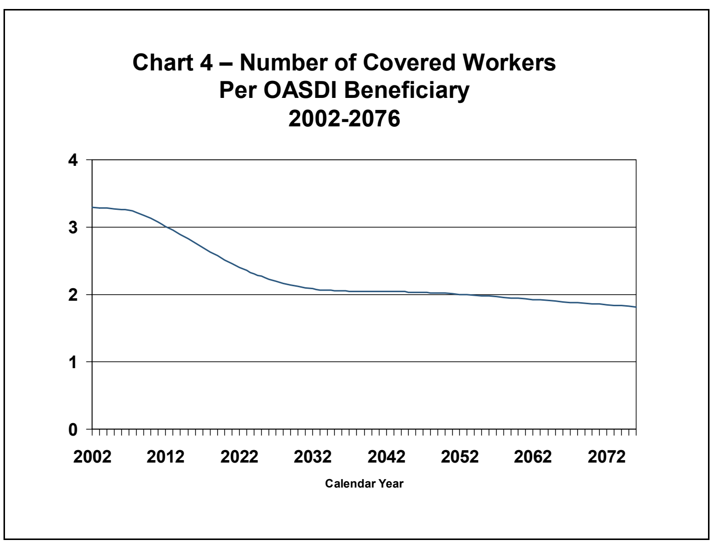
One interpretation of this negative actuarial balance (-1.87 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain at that level. An increase of 1.87 percentage points in this rate in each year of the 75-year projection period--about 0.94 percentage points for employees and employers each, resulting in a total rate for each of 7.14 percent--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 13 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 expenditures, 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 2001, OASDI expenditures were about $439 billion, which was about 4.3 percent of GDP. The cost of the program (based on current law) in 2076 is estimated to be about 7.0 percent of GDP, which is significantly more than it is today. 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 3.4 in 2001 to 1.8 in 2076.



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 expenditures 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.

For this analysis, the intermediate assumptions in the 2002 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2002 and are based on estimates of income and expenditures during the 75-year projection period 2002-2076. 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 expenditures 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.

Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over expenditures for the 75-year period, using various assumptions about the ultimate total fertility rate[1]. These assumptions are 1.7, 1.95 and 2.2 children per woman, where 1.95 is the intermediate assumption in the 2002 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2026.

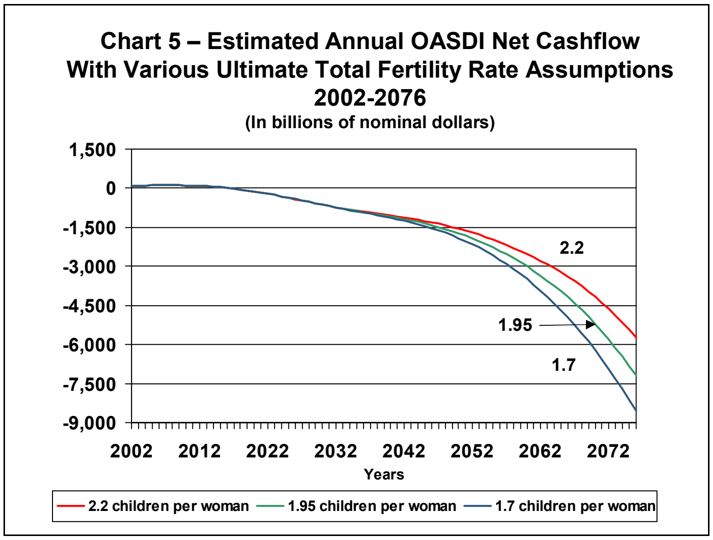
Table 1 demonstrates that, if the ultimate total fertility rate is changed from 1.95 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to expenditures would increase to $5,041 billion, from $4,562 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to $4,102 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Expenditures
With Various Ultimate Total Fertility Rate Assumptions
Valuation Period: 2002-2076

Ultimate Total Fertility Rate	1.7	1.95	2.2
Present Value of Estimated Excess (In billions)	-$5,041	-$4,562	-$4,102

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

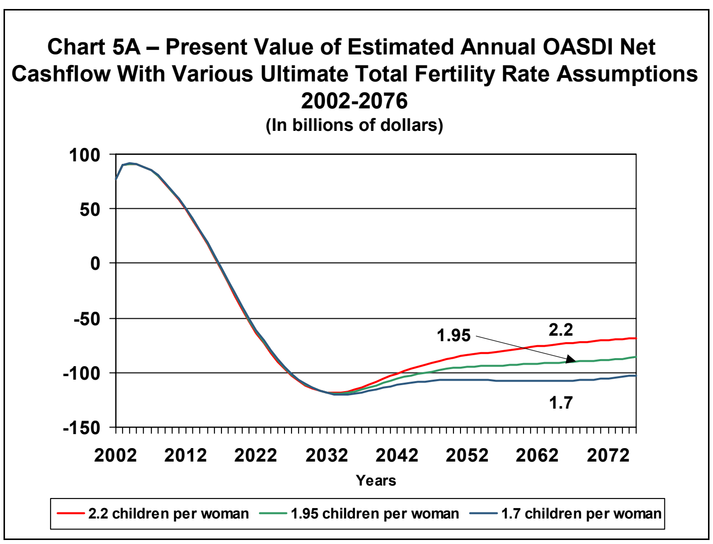
1 The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.



The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing slightly in the first few years, the net cashflow estimates decrease steadily through 2076. They remain positive through 2016 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 39 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 2032 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.



The three patterns of the present values shown in Chart 5A are similar. After increasing for two years, the present values decrease steadily through the early 2030's. They remain positive through 2016 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2035 for 1.7 and 1.95, 2034 for 2.2). 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 2035 than it would to cover the annual deficit in 2034.

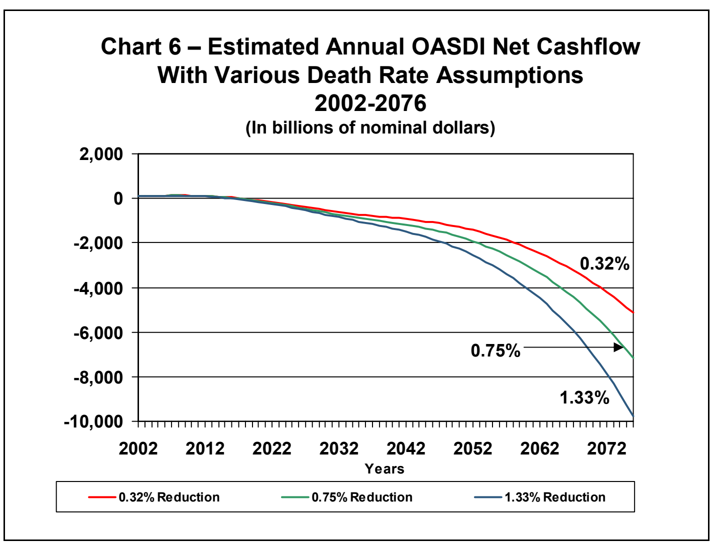
Death Rates - Table 2 shows the present values of the estimated excess of OASDI income over expenditures for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2001-2076 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.32, 0.75 and 1.33 percent per year, where 0.75 percent is the intermediate assumption in the 2002 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 21, 43 and 63 percent, respectively.)

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.75 percent, the Trustees' intermediate assumption, to 0.32 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to expenditures would decrease to $3,300 billion, from $4,562 billion; if the annual reduction were changed to 1.33 percent, meaning that people live longer, the shortfall would increase to $6,092 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Expenditures With Various Death Rate Assumptions Valuation Period: 2002-2076

Average Annual Reduction in Death Rates (from 2001 to 2076)	0.32 Percent	0.75 Percent	1.33 Percent
Present Value of Estimated Excess (In billions)	-$3,300	-$4,562	-$6,092

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

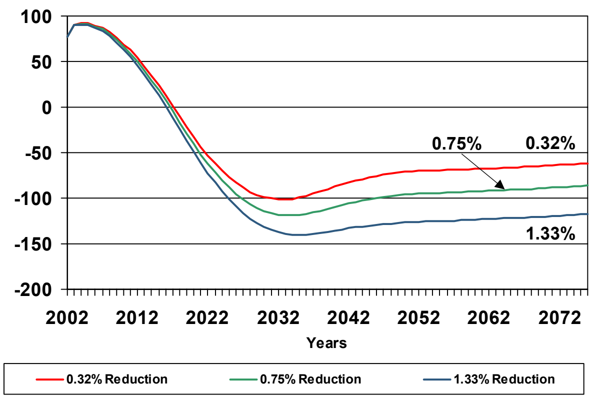


The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing slightly in the first few years, the net cashflow estimates decrease steadily through 2076. They remain positive through 2017 for an assumed average annual reduction of 0.32 percent and through 2016 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 expenditures, expenditures increase 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 age 50 to retirement eligibility age 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.

Chart 6A – Present Value of Estimated Annual OASDI Net Cashflow With Various Death Rate Assumptions 2002-2076
(In billions of dollars)



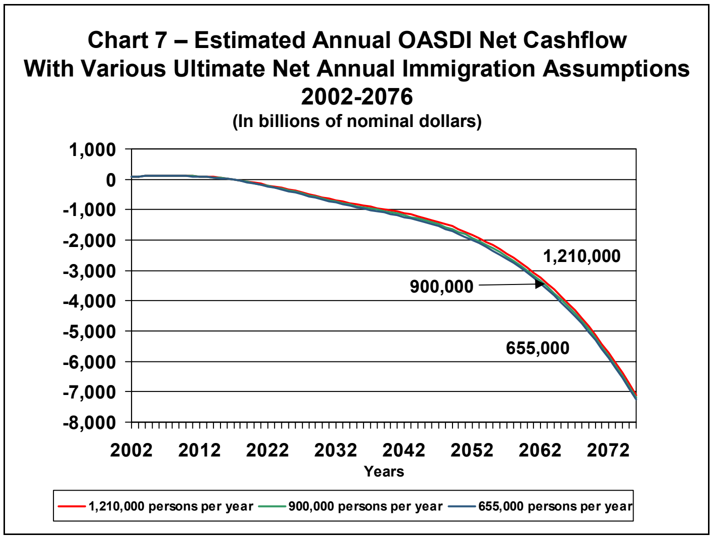
The three patterns of the present values shown in Chart 6A are similar. After increasing for two to three years, the present values decrease steadily through the early 2030's. They remain positive through 2017 for an assumed average annual reduction of 0.32 percent and through 2016 for the other assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2034, 2035 and 2036 for assumptions of reductions of 0.32, 0.75 and 1.33 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over expenditures 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-than-legal) will be 655,000 persons, 900,000 persons and 1,210,000 persons, where 900,000 persons is the intermediate assumption in the 2002 Trustees Report.

Table 3 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate assumption, to 655,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,828 billion, from $4,562 billion. If the net annual immigration were changed to 1,210,000 persons, the present value of the shortfall would decrease to $4,229 billion.

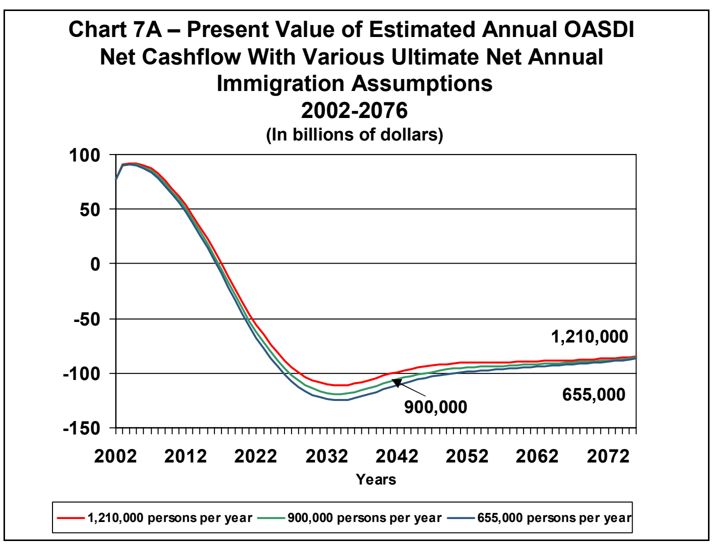
Table 3: Present Value of Estimated Excess of OASDI Income over Expenditures With Various Ultimate Net Annual Immigration Assumptions Valuation Period: 2002-2076			
Ultimate Net Annual Immigration	655,000 Persons	900,000 Persons	1,210,000 Persons
Present Value of Estimated Excess (In billions)	-$4,828	-$4,562	-$4,229

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



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing slightly in the first few years, the net cashflow estimates decrease steadily through 2076. They remain positive through 2016 for all three sets of 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 two to three years, the present values decrease steadily through 2034. They remain positive through 2017 for assumed ultimate net annual immigration of 1,210,000 persons and through 2016 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 2035.

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 4 shows the present values of the estimated excess of OASDI income over expenditures 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 2002 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 3.0 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.6, 4.1 and 4.6 percent, respectively.

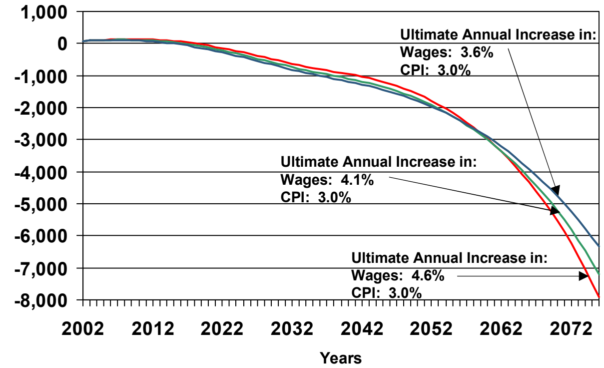
Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to expenditures would increase to $5,028 billion from $4,562 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to $3,873 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Expenditures
With Various Ultimate Real-Wage Assumptions
Valuation Period: 2002-2076

Ultimate Percentage Change in Wages - CPI	3.6 – 3.0	4.1 – 3.0	4.6 – 3.0
Present Value of Estimated Excess (In billions)	-$5,028	-$4,562	-$3,873

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

Chart 8 – Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2002-2076
(In billions of nominal dollars)

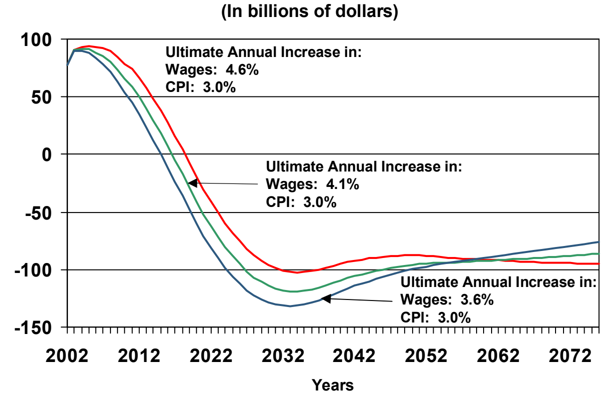


The three patterns of estimated net annual OASDI cashflow shown in Chart 8 increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively,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

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, around 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 expenditures substantially exceed 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 2002-2076
(In billions of dollars)



The three patterns of the present values shown in Chart 8A increase for two to three years, and then, decrease steadily through the early 2030's. They remain positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2034 for an assumed ultimate real-wage differential of 0.6 percentage points and 2035 for the other two assumptions). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2051 when decreases begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

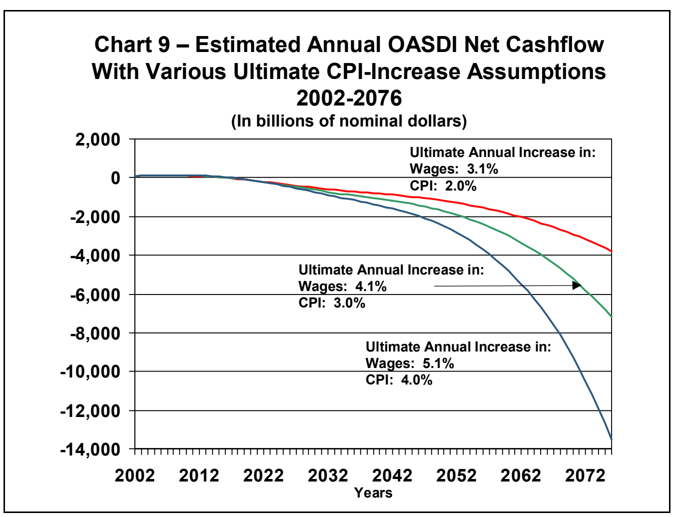
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over expenditures for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.0, 3.0 and 4.0 percent, where 3.0 percent is the intermediate assumption in the 2002 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 3.1, 4.1 and 5.1 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 3.0 percent, the Trustees' intermediate assumption, to 2.0 percent, the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,907 billion, from $4,562 billion; if the ultimate annual increase in the CPI were changed to 4.0 percent, the shortfall would decrease to $4,191 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--occurs because varying CPI-increases while retaining the same annual real-wage differentials affects earnings (and, therefore, taxes) sooner than benefits (and, therefore, expenditures). See the discussion below for a more complete explanation.

Table 5: Present Value of Estimated Excess of OASDI Income over Expenditures
With Various Ultimate CPI-Increase Assumptions
Valuation Period: 2002-2076

Ultimate Percentage Change in Wages - CPI	3.1 – 2.0	4.1 – 3.0	5.1 – 4.0
Present Value of Estimated Excess (In billions)	-$4,907	-$4,562	-$4,191

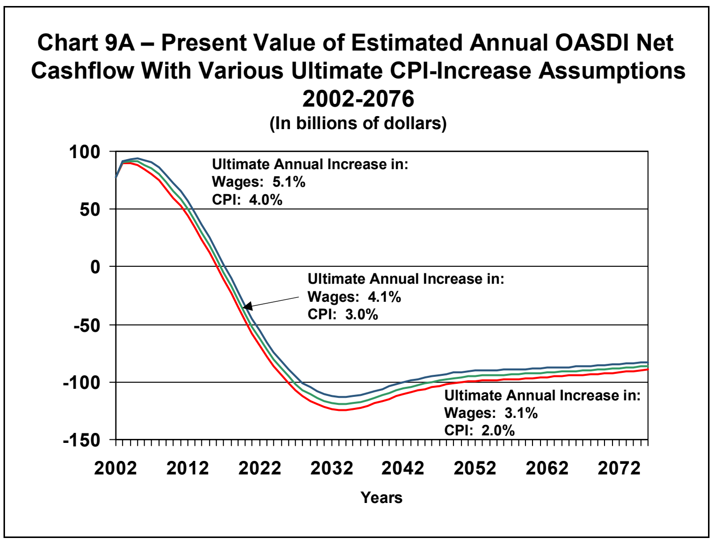
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2076. 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 expenditures.

Larger increases in the CPI cause income to increase sooner, and thus by more in each year, than expenditures. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Thus, the theoretical results described above are shifted by the relatively large effect on income--positive annual net cashflow is even more positive, and negative annual net cashflow is less negative or becomes positive. Chart 9 shows that annual net cashflow remains positive through 2017 for an assumed ultimate annual increase in the CPI of 4.0 percent and 2016 for the other two assumptions, and is negative thereafter. In addition, because of the shift described above, the patterns cross each other about 2020 or 2021 rather than when the annual net cashflow is zero.

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



The three patterns of the present values shown in Chart 9A are similar. After increasing for two to three years, present values decrease steadily through 2033 before beginning to increase once again. They remain positive through 2016 (2017 for assumed ultimate annual increase in the CPI of 4.0 percent) and are negative thereafter. Present values begin to increase (become less negative) in 2034 based on the 2.0 percent ultimate CPI-increase assumption and in 2035 based on the other CPI-increase assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

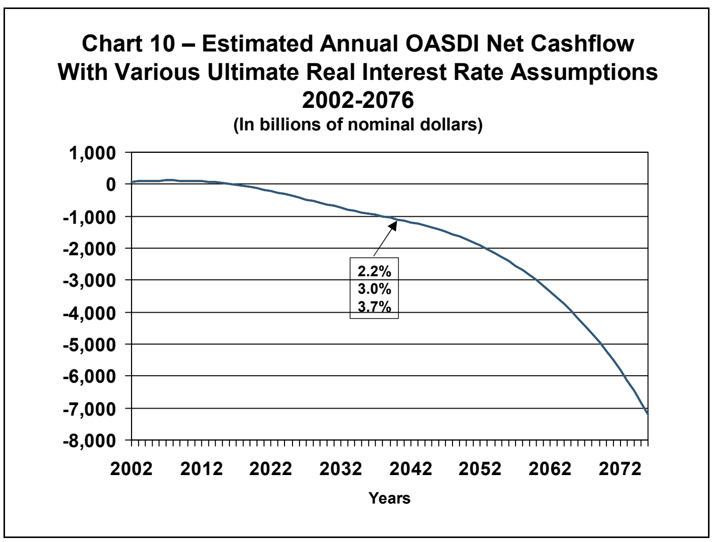
The magnitudes of the present values in Chart 9A are lower, year by year, than the amounts in Chart 9 because of the discounting process used for computing present values. This would be the case even if the nominal interest rates on which the present values are based were assumed to be the same for all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

Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over expenditures 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 2002 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change. Table 6 demonstrates that, if the ultimate real interest rate is changed from 3.0 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to expenditures, when measured in present-value terms, would increase to $6,681 billion, from $4,562 billion; if the ultimate annual real interest rate were changed to 3.7 percent, the present-value shortfall would decrease to $3,264 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Expenditures
With Various Ultimate Real-Interest Assumptions
Valuation Period: 2002-2076

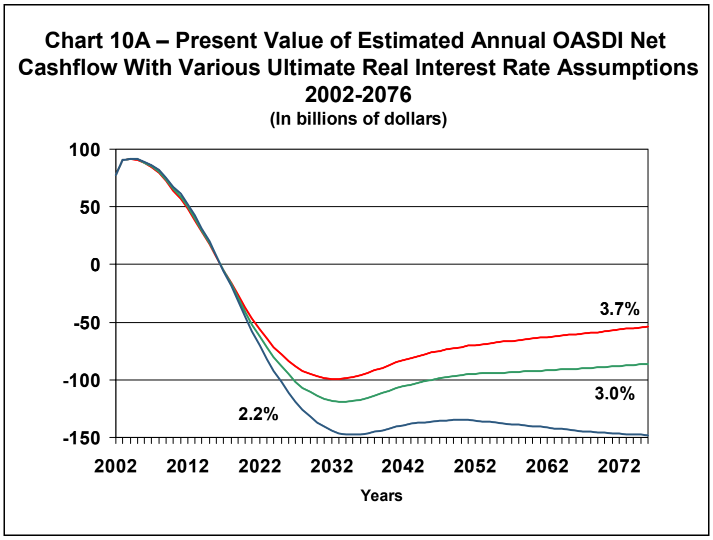
Ultimate Annual Real Interest Rate	2.2	3.0	3.7
Present Value of Estimated Excess (In billions)	-$6,681	-$4,562	-$3,264

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



The three patterns of estimated annual OASDI net cashflow shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2007, the net cashflow estimates decrease steadily through 2076. They remain positive through 2016 and are negative thereafter.

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



The three patterns of the present values shown in Chart 10A are similar. After increasing for two years, the present values decrease steadily through the early 2030's. They remain positive through 2016 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2036, 2035 and 2034 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 2050, and then decrease 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 2017. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.

Social Security Assumptions

The estimates used in this presentation 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 7: Social Security Assumptions

	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000)	Period Life Expectancy At Birth[3]		Net Annual Immigration (persons per year)	Real-Wage Differential[4] (percentage points	Average Annual Percentage Change In:			Average Annual Interest Rate[7]
			Male	Female			Average Annual Wage in Covered Employment	CPI[5]	Real GDP[6]	
2002	2.12	804.3	73.9	79.5	900,000	1.8	3.1	1.3	0.7	4.9%
2005	2.10	789.6	74.3	79.7	900,000	1.2	4.1	2.9	3.2	6.4%
2010	2.07	759.8	74.9	80.1	900,000	1.0	4.1	3.0	2.2	6.0%
2020	1.99	698.1	76.0	81.0	900,000	1.1	4.1	3.0	1.8	6.0%
2030	1.95	642.2	77.1	81.9	900,000	1.1	4.1	3.0	1.8	6.0%
2040	1.95	593.2	78.0	82.8	900,000	1.1	4.1	3.0	1.8	6.0%
2050	1.95	550.0	79.0	83.5	900,000	1.1	4.1	3.0	1.7	6.0%
2060	1.95	511.9	79.8	84.3	900,000	1.1	4.1	3.0	1.7	6.0%
2070	1.95	478.1	80.7	85.0	900,000	1.1	4.1	3.0	1.7	6.0%

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 2026.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1990, 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. 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.
5. 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).
6. 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.
7. 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 2002 Trustees Report. Estimates made in certain prior years have changed 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.

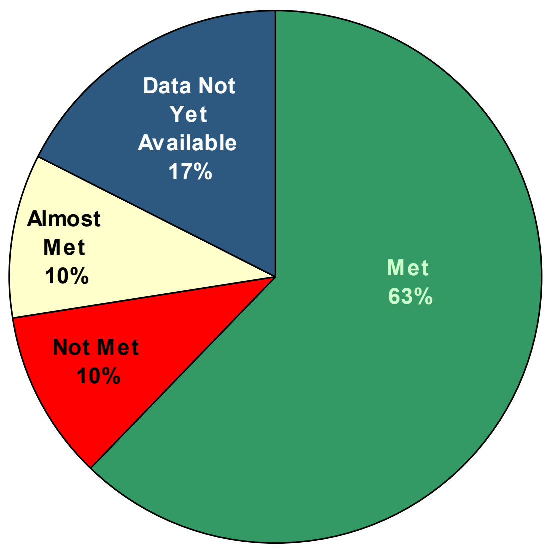
Other Accompanying Information

GPRA Performance Results

Summary of Achievement - FY 2002 Performance Goals

The performance data presented in this report are fundamentally complete and reliable as outlined in the guidance available from the Office of Management and Budget. While we have identified no material inadequacies, the Data Quality discussion in the Performance Goals and Results section of Management's Discussion and Analysis describes our continuing efforts to strengthen the quality and timeliness of SSA's performance information to increase its value to both SSA's management and stakeholders. The results achieved for each FY 2002 goal are either discussed in this report or will be included in a future annual report. SSA's managers routinely use this performance data to improve the quality of program management and to demonstrate accountability in achieving program results.

The below chart describes the results for the 69 Government Performance and Results Act (GPRA) performance goals. We met 43 of the 69 goals.



On the next page, a summary chart displays all 69 GPRA measured performance indicators, plus 1 non-GPRA key performance indicator for SSI redeterminations. This chart displays each target as "met," "not met by slim margin or strong positive trend toward target," "not met," and "data not yet available." The indicators are organized under the objectives they support; each objective has one or more performance indicator. We include a summary of performance for each objective, which rolls up the performance for the indicators that support it.

Following the summary chart are individual discussions for each of our performance indicators. If we did not have final FY 2001 performance data in time for the FY 2001 Annual Performance Report, we include it here along with the FY 2002 discussion. We also include data definitions and data sources (if available) for each indicator.

OUR ACHIEVEMENT OF FY 2002 PERFORMANCE TARGETS BY GOAL AND OBJECTIVE

Strategic Goal A: To deliver citizen-centered, world-class service

Performance Indicators (PI)

Key Performance Indicators (KPI)

- ⬆ ***Target Met or Exceeded***
- ⇩ ***Target Not Met by Slim Margin or Strong Positive Trend Toward Target***
- ⬇ ***Target Not Met***
- ➡ ***Target Not Yet Available***

Performance Indicators (PI) / Key Performance Indicators (KPI)		Performance Summary
Objective 1: By 2004 and beyond, have 9 out of 10 people who do business with SSA rate the `overall service as "good", very good", or "excellent", with most rating it "excellent"		
KPI #1: People rating service as "excellent", "very good", or "good".	⬆	**Our results for this Objective were very positive.** We met or exceeded the targets for all but one item reported for FY 2002, and that was missed by a slim margin.
People rating service as "excellent."	⬆	
KPI #2: Callers who access the 800-number within 5 minutes of their first call.	⬆	
Caller 800-number access on their first attempt.	⬆	
800-number call payment accuracy	➡	
800-number call service accuracy	➡	
KPI #3: Appointment waiting time 10 minutes or less.	⇩	
Objective 2: By 2005, make 67% of the public's interactions with SSA, including citizen-initiated services, available either electronically via the Internet or through automated telephone service, and provide the public interacting with SSA on the Internet with the option of communicating with an SSA employee while online		
KPI #4: Electronic services available to the public via the Internet or through automated telephone service.	⬆	**Our results for this Objective were positive.** We continued our enhancement of Internet applications and other automation tools that can provide citizens with better access to SSA, improve service, and help SSA meet increased service demands.
Public's ability to communicate with an SSA employee while online.	⬆	

<table>
<tr><th colspan="2">Objective 3: Increase electronic access to information needed to serve the public.</th></tr>
<tr><td>Electronic access to States’ human services (HS) and unemployment (UI) information.</td><td rowspan="3">Our results for this Objective fell short of our expectations, but still showed promise. While we made progress in all areas, we failed to fully meet any individual target by the end of FY 2002. We gained access to additional States’ information, but not as many as projected for FY 2002. We are pursuing a national solution for obtaining UI information, which is more efficient and effective than continuing to pursue a state-by-state solution. Connections to 8 states for VS data that were not completed in FY 2002 are targeted for completion by December 2002, which effectively meets that goal. We made progress in obtaining electronic access to information held by other federal agencies and financial institutions.</td></tr>
<tr><td>Electronic access to States’ vital statistics (VS) and other material information.</td></tr>
<tr><td>Electronic access to information held by other federal agencies, financial institutions, and medical providers.</td></tr>
<tr><th colspan="2">Objective 4: Maintain the accuracy, timeless, and efficiency of service to people applying for OASI and SSI Aged benefits.</th></tr>
<tr><td>Retirement and Survivors (OASI) claims processed timely.</td><td rowspan="3">Our results for this Objective were outstanding. We exceeded our processing time targets for OASI and SSI aged claims and all systems enhancements were completed as planned.</td></tr>
<tr><td>Supplemental Security Income (SSI) aged claims processed timely.</td></tr>
<tr><td>Software and infrastructure for paperless processing of RSI and SSI Aged claims.</td></tr>
<tr><th colspan="2">Objective 5: Improve the accuracy, timeliness, and efficiency of service to people applying for DI and SSI disability benefits.</th></tr>
<tr><td>Initial disability claims decisions issued within 120 days.</td><td rowspan="7">Our results for this Objective were mixed. We met or exceeded 3 out of the 7 targets, including processing time targets. Although we missed the denial accuracy rates by slim margins, we did improve over FY 2001 performance due to ongoing training efforts that foster consistent application of laws, regulations and rulings. DDSs were under considerable pressure to keep cases moving and this resulted in less than the desired level of development. This pressure particularly affected denial accuracy because of the additional documentation requirements to be met. We completed critical milestones toward delivery of AeDib on time.</td></tr>
<tr><td>KPI #5: Initial disability claims average processing time.</td></tr>
<tr><td>DDS allowance performance accuracy rate.</td></tr>
<tr><td>DDS net allowance accuracy rate.</td></tr>
<tr><td>KPI #6: DDS denial performance accuracy rate.</td></tr>
<tr><td>DDS net denial accuracy rate.</td></tr>
<tr><td>Software and infrastructure for electronic processing of disability claims.</td></tr>
</table>

Objective 6: Improve the accuracy, timeliness, and efficiency of service to people requesting hearings or appeals.

Hearings decisions issued within 180 days.	↓
KPI #7: Hearings average processing time.	↓
OHA decisional accuracy rate.	→
Software and infrastructure for electronic processing of hearings and appeals.	↑
Hearings cases processed per workyear.	↑
Appeals of hearings (Appeals Council) decisions issued within 105 days.	↓
Appeals of hearings (Appeals Council) decisions average processing time.	↓
Appeals of hearings (Appeals Council) decisions issued per workyear.	↓

Our results for this Objective were disappointing. We met 2 of the 8 targets, did not meet 5, and are waiting for data on 1. Our attempts to substantially improve our performance in processing hearings and appeals were hindered primarily by continued increased receipts, substantial backlogs from prior years, and delays in realizing benefits from hearings process and Appeals Council improvements. In addition, litigation prevented us from hiring Administrative Law Judges (ALJs) to replace those lost through attrition, although we received temporary relief by being able to conduct a one-time hiring of ALJs. With the one-time hiring of some replacement ALJs and positive experience going forward with our process improvement initiatives, we are committed to moving toward our long-range improvement targets.

Objective 7: By 2005, increase by 100 percent from 1999 levels, the number of SSDI and SSI disability beneficiaries who achieve steady employment and no longer receive cash benefits.

Increase in the number of DI adult worker beneficiaries who began a trial work period.	→
Increase in the number of SSI disabled beneficiaries, aged 18-64, participating in 1619(a) status.	→
Activities to implement provisions of the Ticket-to-Work and Self-Sufficiency Program (TWSSP) and other employment strategies.	↑

Our results for this Objective were mixed. We do not yet have the actual data for disabled beneficiaries who began a TWP and the number of working SSI disabled beneficiaries. We met our milestones for implementation of the Ticket to Work program. We continue to promote SSA's work incentives and, particularly, the Ticket program, in an effort to encourage and support the work activity of disability beneficiaries.

Objective 8: Improve or maintain the accuracy, timeliness and efficiency of processing postentitlement events.

OASDI postentitlement automation rate	↑
SSI postentitlement automation rate	↑

Our results for this Objective were outstanding. We met the targets for both items, significantly increasing usage of available software to electronically process postentitlement actions.

Objective 9: Maintain through 2005 the accuracy, timeliness and efficiency of service to people applying for Social Security numbers and replacement cards.		
Social Security Number (SSN) replacement cards issued within 5 days of receiving all necessary documentation.	⬆	**Our results for this Objective were positive.** We exceeded our target for timely issuance of SSN cards. The actual data for SSN issuance accuracy will be reported in the FY 2003 PAR.
SSN issuance accuracy.	➡	

Strategic Goal B: To ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse		
Objective 1: Maintain at 99.8% the overpayment and underpayment accuracy based on non-medical factors of eligibility of OASDI payment outlays.		
Retirement, survivors and disability (OASDI) (non-medical) payment accuracy.	➡	**Results for this Objective are not available.** They will be reported in the FY 2003 Performance and Accountability Report (PAR).
Objective 2: By 2005, raise to 96% the overpayment accuracy based on non-medical factors of eligibility and SSI disabled and aged payment outlays.		
SSI non-medical payment accuracy (including both preventable and unpreventable errors).	➡	**Results for this Objective are not available.** They will be reported in the FY 2003 Performance and Accountability Report (PAR).
SSI non-medical payment accuracy (excluding unpreventable errors).	➡	
Objective 3: To become current with DI and SSI CDR requirements by FY 2002 and remain current thereafter.		
KPI #8: Percent of multi-year CDR plan completed.	⬆	**Our results for this Objective were outstanding.** With special funding provided by Congress, we successfully complete our 7-Year CDR plan to eliminate the CDR backlog.
Objective 4: Maintain timeliness and improve accuracy and efficiency in posting earnings data to Agency records.		
Percent of wage items (worker's earnings) posted by Sept 30.	⬆	**Our results for this Objective were outstanding.** Increased use of technology, improved services and employer support contributed to our success in achieving or exceeding all our goals for posting earnings and wage items.
Percent of earnings posted correctly.	⬆	
KPI #9: Percent of employee reports (W-2s) filed electronically.	⬆	

Objective 5: Maintain a level of outstanding debt that is either in a repayment agreement, under appeal or newly detected.		
Outstanding OASDI debt not in a collection arrangement (excluding due process).	↑	**Our results for this Objective were outstanding.** Our recovery of a substantial amount of OASDI and SSI debt was due to our effective use of available debt recovery tools.
Outstanding SSI debt not in a collection arrangement (excluding due process).	↑	

Objective 6: Aggressively deter, identify and resolve fraud.		
Number of investigations conducted (i.e., closed).	↑	**Our results for this Objective were outstanding. We exceeded all 4 targets** largely because of expansion of national investigative efforts, including the Office of the Inspector General's fugitive felon program and Cooperative Disability Investigative teams.
KPI #10: OASDI dollar amounts reported from investigative activities.	↑	
KPI #11: SSI dollar amounts reported from investigative activities.	↑	
Number of judicial actions reported.	↑	

Strategic Goal C: To strengthen public understanding of Social Security programs		
Objective 1: By 2005, 9 out of 10 Americans will be knowledgeable about Social Security programs.		
Percent of public knowledgeable about Social Security issues	→	**Our results for this Objective were positive.** The most recent survey we conducted of the American public was completed in December 2001. This one-time survey of 20,000 respondents showed that 80 percent of adult Americans were knowledgeable about Social Security, as we have previously defined "knowledgeable." We did not conduct a national "knowledge" survey at the end of FY 2002, as we have done in previous years, because we are revising our public education programs and "knowledge measure" to align with the Agency's new strategic plan.
Percent of individuals issued Social Security Statements as required by law.	↑	

Strategic Goal D: To be an employer that values and invests in each employee

Objective 1: To recruit, develop, and retain a diverse, well-qualified workforce.

Increase the retention rate of new hires	**Our results for this Objective were positive.** We established a baseline retention rate, developed new recruitment materials, and provided leadership training as planned. We established procedures for repaying student loans, but were unable to implement those procedures because we are at impasse with the union at present.
KPI #12: Continue to implement the SSA Future Workforce Plan	

Objective 2: To maintain a highly skilled and high-performing workforce.

Develop, test, and implement desktop video nationally	**Our results for this Objective were positive.** We implemented desktop video in 5 sites nationally and installed IVT in 221 offices. We exceeded projections by 10 percent in providing management development programs, and defined competencies for 2 of 4 field positions targeted. We are continuing to investigate competency-based tools for employee use.
Percent offices with direct access to Interactive Video Teletraining (IVT).	
Formal management development programs.	
Define competencies for technical training and career development and make them available for employee use.	

Objective 3: Physical environment that promotes the health and well-being of every employee.

Percent of employees who are satisfied with overall physical environment.	**We did not achieve the intended results of this Objective.** Although we continue to implement the security and environmental programs, we were unable to meet the goal of establishing a baseline because the instrument we planned to use did not meet our needs. We continue to use security reviews and safety surveys to identify and remediate problems areas.

Strategic Goal E: To promote valued, strong, and responsive social security programs and conduct effect policy development, research, and program evaluation

Objective 1: Promote policy changes that shape the OASI and DI programs

KPI #13: Barometer measures for assessing the effectiveness of the OASDI program.	**Our results for this Objective were very positive. We met all 3 performance targets** and thus advanced our research and analysis of the OASI and DI programs, helping us develop appropriate policy proposals for the future.
Analyses and reports on demographic, economic, and international trends and their effects on OASDI programs.	
KPI #14: Research and policy analyses to assist the Administration and Congress in developing proposals to reform and modernize OASDI programs.	

Objective 2: Promote policy changes that shape the SSI program.	
Barometer measures for assessing the effectiveness of the SSI program.	**Our results for this Objective were outstanding. We met both of the targets** and thus advanced our research and analysis of the SSI program, helping us develop appropriate policy proposals for the future.
Completion of data collection and report on the National Survey of SSI Children and Families.	
Objective 3: Promote policy changes that shape the disability program.	
Research design for validating medical listings.	**Our results for this Objective were outstanding. We met all 3 targets** and thus advanced our research and analysis of the disability program, helping us develop appropriate policy proposals for the future.
Reports on results of the National Study of Health and Activity (NSHA).	
Alternative return-to-work strategies.	
Objective 4: Provide information for decisionmakers and others on the Social Security and SSI programs.	
User rating of SSA's research and analysis products.	**Our results for this Objective were outstanding. We met both targets.** We assessed the user satisfaction measurement system, analyzed baseline measures and identified steps to improve satisfaction with research and analysis products, and produced all major statistical products on time.
Timeliness of major statistical products.	

Individual Performance Indicator Results

The following section reports and discusses our FY 2002 performance for each individual GPRA performance indicator. In addition, for those performance indicators for which we did not have final data when the FY 2001 Performance and Accountability Report was issued in December 2001, we also report final FY 2001 performance. The full information for the Key Performance Indicators is not included here, but rather in the "Performance Goals and Results/FY2002 Performance by Strategic Goal" section, which begins on page 25.

For each GPRA performance indicator, we also show the definition and data source.

Indicators are organized under the Strategic Goal and Strategic Objective that they support.

Strategic Goal A: To deliver citizen-centered, world class service

Strategic Objective 1: By 2004 and beyond, have 9 out of 10 people who do business with SSA rate the overall service as "good", "very good", or "excellent", with most rating it "excellent"

Performance Indicator 1: Percent of people who do business with SSA rating the overall service as "excellent", "very good", or "good". **We exceeded our goal. This indicator is Key Performance Indicator 1 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 30 for a detailed discussion.**

Performance Indicator 2: Percent of people who do business with SSA rating the overall service as "excellent".

FY 2002 Performance Discussion: We met our goal. The improvement in this rate is attributable to a significant increase in satisfaction with 800 number service and a rise in satisfaction with field office telephone service that was not statistically significant in itself, but was sufficient to influence the combined rating. In both instances, the improvement in the overall service rating was accompanied by improvements in the perception of service access and in employee attribute ratings. We believe that the new call routing system contributed to the improved access perception and influenced this outcome. As we continue to pursue service improvements to address evolving public expectations, we expect satisfaction levels to remain relatively constant through FY 2003 and 2004.

Year	Goal	Actual
1999	N/A	44%
2000	37%	29%
2001	30%	28%
2002	30%	30%

Data Definition: This is the percent of people who call or visit SSA surveyed by SSA's Office of Quality Assurance and Performance Assessment who rate overall service as "excellent" on a 6-point scale ranging from "excellent" to "very poor", divided by the total number of respondents to that question.

Data Source: For FY 1999 and earlier, the SSA Annual Satisfaction Survey. For FY 2000 and beyond, the Interaction Tracking Systems that capture satisfaction shortly after service contacts (either by telephone or in-person) take place.

Performance Indicator 3: Percent of callers who successfully access the 800-number within 5-minutes of their first call. **We exceeded our goal. This indicator is Key Performance Indicator 2 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 30 for a detailed discussion.**

Performance Indicator 4: Percent of callers who get through to the 800-number on their first attempt.

FY 2002 Performance Discussion: We exceeded our goal. We were able to exceed the access goal because of actions taken during the fiscal year to improve the efficiency of the 800 number network, including:

- Shifting staff to expand call-answering capacity during times when call volumes are heavier;
- Installing 1,035 additional lines between WorldCom's equipment and the 800 number answering sites to expand capacity on both inbound and outbound calls;
- Making adjustments that allowed more callers to go into queue, significantly improving access rates; and
- Balancing queues across the network, so callers are routed to the site with the shortest wait time.

We improved the access rate, using fewer resources, without sacrificing the quality of service provided to citizens. Along with recent improvements in automation, these actions will help the Agency meet the higher FY 2003 access goal of 87 percent.

Year	Goal	Actual
1999	**90%**	**92.9%**
2000	**86%**	**88.4%**
2001	**86%**	**89.2%**
2002	**86%**	**91.3%**

Data Definition: This percent is the number of individuals who reach the 800-number (either live or automated service) on their first attempt, divided by the number of unique telephone numbers dialed to the 800-number. An "attempt" is defined as the first attempted call of the day, or a subsequent attempt after a previously successful call.

Data Source: Automatic Number ID records provided by WorldCom.

Performance Indicator 5: Percent of 800-number calls handled accurately - Payment.

FY 2001 Performance Discussion: We did not meet our goal. We evaluate 800 number service on an ongoing basis, routinely using data from quality review reports to identify areas where refresher training and/or updates to policy and operational instructions are needed to improve payment accuracy levels. We implemented several quality initiatives beginning in late FY 2001 and FY 2002, which were not in effect long enough to improve 800 number payment and service accuracy rates for FY 2001. These initiatives include:

- Refresher training in deficient areas identified in quality assurance reviews for 800 number agents and in areas highly prone to errors;
- Implementation of mandatory use of the expert systems for all 800 number agents;
- Customer service training for all 800 number agents; and
- Collection and sharing of quality "best practices" from 800 number call-answering sites.

We do expect these initiatives to result in improved performance levels in both service and payment accuracy levels in FY 2002 and FY 2003.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused.

FY 2002 Performance Discussion: Data not yet available. Actual FY 2002 performance for this indicator will be reported in the FY 2003 APR.

Year	Goal	Actual
1999	95%	95.4%
2000	95%	94.5%
2001	95%	94.3%
2002	95%	NA

Data Definition: Payment accuracy is a measure of whether 800-number representatives respond correctly to inquiries related to eligibility and payment of benefits.

Data Source: 800-number Service Evaluation Findings.

Note: Generally, there is about a one year lag before quality data are available due to the review and validation of study data input in the database, allowing time for rebuttals of errors, obtaining universe counts and running/validating report tables.

Performance Indicator 6: Percent of 800-number calls handled accurately - Service.

FY 2001 Performance Discussion: We did not meet our goal. See discussion immediately above.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused.

FY 2002 Performance Discussion: Data not yet available. Actual FY 2002 performance for this indicator will be reported in the FY 2003 APR.

Year	Goal	Actual
1999	90%	81.8%
2000	90%	84.9%
2001	90%	83.1%
2002	90%	N/A

Data Definition: Service accuracy is a measure of whether 800-number representatives respond correctly to inquiries related to issues other than payment and eligibility. Service errors include major service delivery failures that do not have a reasonable potential to improperly affect payment or eligibility.

Data Source: 800-number Service Evaluation Findings.

Note: Generally, there is about a one year lag before quality data are available due to the review and validation of study data input in the database, allowing time for rebuttals of errors, obtaining universe counts and running/validating report tables.

Performance Indicator 7: Percent of public with an appointment waiting 10 minutes or less. **We did not meet our goal. This indicator is Key Performance Indicator 3 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 31 for a detailed discussion.**

Strategic Objective 2: By 2005, make 67 percent of the public's interaction with SSA, including citizen-initiated services, available either electronically via the Internet or through automated telephone service, and provide the public interacting with SSA on the Internet with the option of communicating with an SSA employee while online

Performance Indicator 1: Percent of the public's interactions with SSA, including citizen-initiated services, available either electronically via the Internet or through automated telephone service. **We met our goal. This indicator is Key Performance Indicator 4 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 31 for a detailed discussion.**

Performance Indicator 2: Activities to establish the capability for the public interacting with SSA on the Internet to communicate with an SSA employee while online.

FY 2002 Goal: Test Internet and 800 number convergence technologies in a proof of concept initiative and begin to implement technologies.

FY 2002 Performance Discussion: We met our goal. We successfully launched a Multi-Channel Contact Center (MC3) Initiative in FY 2002. MC3 will test new communication technologies to provide complete service to the public at their first point of contact with SSA. We will eventually test Internet and 800 number convergence technologies. These technologies will support our growing Internet workloads, and serve individuals contacting us through our 800 number, e-mail, or Social Security Online.

In FY 2002 SSA successfully electronically linked 12 SSA offices of different types across the country. Two program service centers, three field offices, five teleservice centers, and two central operations offices were linked together in the first MC3 pilot. The pilot tested the transfer of 800 number calls from among offices. Not only did this increase the number of callers served at their initial call to SSA, but it also electronically linked the various offices and laid the foundation to test other communication technologies in FY 2003 and beyond. Plans are now in the early developmental stages to test e-mail, web callback, web chat/collaboration, and voice web portal.

Our ability to test additional communication technologies in FY 2003 requires that we address issues such as labor/management obligations and security/authentication. The most significant challenge to this initiative is securing funding for IT security. To date, the MC3 initiative has not been rated highly in the context of other SSA IT priorities. Testing of additional communications technologies, including Internet convergence technologies, is contingent upon securing sufficient funding.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Data Definition: Internet and 800 number convergence technologies are real time text-based collaboration, e.g., web chat; real time web page collaboration (push/pull technology); call back features; Voice Over Internet Protocol (VOIP); secure e-mail; authentication (smart cards, biometrics, PINS and passwords); and public relationship management tools. Our plan is to move successful technologies to the proposed Multi-Channel Contact

Center (MC3). As we gain experience from the MC3 we will develop recommendations and plan for national implementation of the various technologies.

Data Source: Data will be obtained from the individual vendors who supply the hardware and/or software features for the various applications.

Strategic Objective 3: Increase electronic access to information needed to serve the public. Specifically by 2005:

- ***Establish electronic access to human services and unemployment information with 90% of States;***
- ***Establish electronic access to vital statistics and other material information with 50% of States; and***
- ***Increase electronic access to information held by other Federal agencies, financial institutions and medical providers***

Performance Indicator 1: Percent of States with which SSA has electronic access to human services and unemployment information.

FY 2002 Performance Discussion: We continued to make progress but did not meet our goal. The goal was not completely achieved because a few states ran into delays due to local programming problems that did not involve SSA. We continue to pursue individual connections with the states for human services information. However, we have since determined a national solution for access to unemployment data. We are working with the Department of Labor to connect with their existing system and thereby gain access to all state unemployment information; this solution will be more efficient and effective than continuing to pursue the state-by-state solution for unemployment information. SSA is in the process of implementing this project.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Year	Goal	Actual
1999	N/A	41%
2000	N/A	50%
2001	59%	55%
2002	68%	64%

Data Definition: This is the percent of State HS and UI agencies from which data are available online out of a total of 100 agencies (i.e., 50 HS and 50 UI agencies).

Data Source: Office of Automation Support website listing of State agency connections.

Performance Indicator 2: Percent of States with which SSA has electronic access to vital statistics and other material information.

FY 2002 Performance Discussion: We continued to make progress but did not meet our goal. In early FY 2002, we contracted with the State Vital Records Association to develop software to pilot online access. We also negotiated with states with the expectation that we would pilot online access in 8 states in the summer of 2002. States had been hesitant to pursue individual vital statistics connections in anticipation of the pilot. This is a complicated endeavor and the negotiations and other preparations took longer than expected. As a result, the pilot was only implemented in one state. We are now back on track. The remaining seven states are scheduled for the end of December 2002; our FY 2002 goals will be exceeded at that point.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Year	Goal	Actual
1999	N/A	10%
2000	N/A	10%
2001	12%	10%
2002	14%	12%

Data Definition: This is the percent of State Vital Statistics agencies from which data are available online out of a total of 50 agencies.

Data Source: Office of Automation Support website listing of State agency connections.

Performance Indicator 3: Milestones/deliverables demonstrating progress in increasing electronic access to information held by other Federal Agencies, financial institutions and medical providers.

FY 2002 Goal:

1. **Evaluation of the California Electronic Medical Evidence (EME)/Public Key Infrastructure (PKI) pilot; the expansion of the Mississippi (MS) Veterans Administration pilot, and Kentucky (KY) SMART pilot; preliminary analysis of electronic transmission of medical information; and preliminary implementation plan developed; and**
2. **Begin project to have third-party vendor work with financial institutions nationwide to check records concerning applicants'/recipients' eligibility for benefits**

FY 2002 Performance Discussion: We did not meet the goal.

Part 1 of the goal was completed with the exception of the expansion of the MS Veterans Administration pilot. We successfully completed our evaluation of three alternatives for securely transferring medical evidence over the Internet. A final report was accepted that discusses the three alternatives and made recommendations for implementation.

One of the alternatives, secure e-mail, is now in use with a government-to-government pilot project (with Veterans Administration in Mississippi) and a government-to-business pilot (Fresno, California Disability Determination Service (DDS) with MDSI, a provider of consultative examinations). A second alternative, File Transfer Protocol, is currently in use by the Agency for non-medical file transfers over the Internet. The KY SMART pilot has been expanded to North Carolina. Smart Corp. captures medical evidence of record in an electronic file and then notifies the appropriate DDS of its availability through a secure website maintained by Smart. Then, the DDS accesses the secure website through a secure Internet connection to download the medical evidence and print it at the DDS. Another secure web-based application, Integrated Messaging Environment, was also evaluated.

Part 2 of the goal was not completed. Prior to beginning the project to check financial institutions' records for applicants and recipients of benefits, regulations must be published permitting it. Publication of the regulation was delayed and is now expected in the December 2002. In addition, we are pursuing a vendor to perform a prototype which will determine the extent to which we can obtain financial resource information from financial institutions.

We expect to perform the prototype and have evaluation results in FY 2003. If the prototype is deemed successful, we will proceed with fully developing the project.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Data Definition: The FY 2002 goal will be considered met upon the completion of the California pilot and analysis of 3 alternatives for Internet transmission of medical information, and development of an implementation plan. Additionally we will begin the project with financial institutions to check their records to determine applicants/recipients eligibility for benefits by publishing final regulations, preparing a statement of work for vendor services, and developing a schedule for the pilot.

Data Source: Private healthcare providers and the Veteran's Administration.

Strategic Objective 4: Maintain the accuracy, timeliness, and efficiency of service to people applying for OASI and SSI aged benefits. Specifically by 2005:

- ***Have the capacity to take and process 99% of OASI and SSI aged claims in a paperless environment.***

Performance Indicator 1: Percent of OASI claims processed by the time the first regular payment is due or within 14 days from the effective filing date, if later.

FY 2002 Performance Discussion: We exceeded our goal. Our performance in adjudicating OASI benefits decreased slightly over that for last year, but our FY 2002 goal was still exceeded. The goal was raised this fiscal year from 83 percent to 85 percent in recognition of the fact that we have demonstrated increased performance over the past four fiscal years. Our performance reflects our continuing commitment to make timely and accurate payments to our beneficiaries.

Year	Goal	Actual
1999	83%	84.3%
2000	83%	86.9%
2001	83%	89.2%
2002	85%	88.3%

Data Definition: This percent is the number of OASI applications completed through the SSA operational system (i.e., award or denial notices are triggered) before the first regular continuing payment is due or not more than 14 calendar days from the effective filing date, if later, divided by the total number of OASI applications processed. The first regular payment due date is based on the appropriate payment cycling date which may be the 3rd of the month, or the 2nd or 3rd, or 4th Wednesday of the month.

Certain conditions must exist for a case to be included in the computation for this indicator. The case must be completed as an award or disallowance. Cases completed as Office of Earnings Operations (OEO) deletions, miscellaneous clearances, withdrawals, no payment awards, no applications, systems purges, manual clearances, re-established reconsiderations or miscellaneous deletions are not included in the computation.

Data Source: The MIICR System

Performance Indicator 2: Percent of SSI aged claims processed by the time the first payment is due or within 14 days of the effective filing date, if later.

FY 2002 Performance Discussion: We exceeded our goal. We have been steadily improving the timeliness of our SSI Aged claims processing for a number of years. The goal was raised for FY 2002 from 66 percent to 70 percent in recognition of the fact that we have demonstrated increased performance over the past four fiscal years. Our exceeding of the FY 2002 goal reflects our continuing commitment to make timely and accurate payments to our SSI Aged beneficiaries.

Year	Goal	Actual
1999	**66%**	**63.5%**
2000	**66%**	**74.4%**
2001	**66%**	**79.9%**
2002	**70%**	**82.6%**

Data Definition: (FY 2001 on) This percent is the number of SSI Aged applications completed through the SSA operational system (i.e., award or denial notices are triggered) before the first regular continuing payment is due or not more than 14 days from the effective filing date, if later, divided by the total number of SSI Aged applications processed. The first regular continuing payment due date is based on the first day of the month that all eligibility factors are met and payment is due. This definition is in effect beginning FY 2001.

Prior to FY 2001, the indicator was: Percent of initial SSI Aged claims processed within 14 days of filing date. The rate reflected the number of SSI Aged applications completed through the SSA operational system (i.e., award or denial notices triggered) within 14 days of filing date, divided by the total number of SSI Aged applications processed. This definition and measurement system were in effect for years prior to FY 2001.

Data Source: The Title XVI Operational Data Store System

Performance Indicator 3: Implement activities necessary to have the software and infrastructure in place for paperless processing of RSI and SSI aged claims.

FY 2002 Goals:

1. **Accommodate dual entitlement advance file cases; automate determination of need to develop military service allegations; update the workers' compensation file; and control certain exceptions via a Processing Center Action Control System (PCACS) interface; and**
2. **Implement Phase 2 of Attorney Fee/Windfall Offset project. Begin analysis of additional windfall offset enhancements**

FY 2002 Performance Discussion: We met our goal. All systems enhancements were completed as planned. Additional Attorney Fee/Windfall Offset enhancements are expected in FY 2003. These enhancements will remove many automated processing limitations, resulting in faster and more accurate benefit payments to the public. This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Data Definition: 1) This goal will have been met if we develop, test, validate and implement release 3.8 of MCS. 2) This goal will have been met if we develop, test, validate and implement a future release of MSSICS.

Data Source: Office of Systems 5-Year Plans

Strategic Objective 5: Improve the accuracy, timeliness and efficiency of service to people applying for DI and SSI disability benefits. Specifically by 2005:

- ***Increase the accuracy of initial disability claims decisions to deny benefits to 95%;***
- ***Maintain the accuracy of initial disability claims decisions to allow benefits at 96.5%;***
- ***Issue initial disability claims decisions in an average of 105 days, with at least 70% issued within 120 days; and***
- ***Have the capacity to process 99% of disability claims in an electronic environment***

Performance Indicator 1: Percent of initial disability claims decisions issued within 120 days.

FY 2002 Goal: Establish a baseline for this indicator.

FY 2002 Performance Discussion: We met this goal. The percentage of initial disability claims decisions issued within 120 days for FY 2002 was 65.3. Beginning FY 2003, this baseline performance will be used to establish and track performance targets which will be used internally for SSA and Disability Determination Services (DDS) management of the initial disability claims process.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Data Definition: We will consider this goal met if we establish baseline data for this indicator.

Data Source: Office of Information Management.

Performance Indicator 2: Initial disability claims average processing time (days). **We exceeded our goal. This indicator is Key Performance Indicator 5 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 32 for a detailed discussion.**

Performance Indicator 3: DDS allowance performance accuracy rate.

FY 2002 Performance Discussion: We exceeded this goal because SSA and the DDSs continue to focus on achieving a high level of quality on both allowance and denial decisions. Ongoing training initiatives that foster consistent application of laws, regulations and rulings at all stages of the disability adjudication process have been particularly effective in keeping the allowance accuracy rates high.

This performance indicator will be discontinued in FY 2003 and will be incorporated into a more meaningful performance indicator "DDS net accuracy rate (allowances and denials combined)". Net accuracy is a truer measure of the correctness of DDS decision-making and, therefore, provides the public with a more accurate picture of the correctness of initial disability claims decisions. We expect to maintain high levels of adjudication quality.

Year	Goal	Actual
1999	N/A	96.5%
2000	N/A	97%
2001	96.5%	96.8%
2002	96.5%	97.1%

Data Definition: The allowance accuracy rate is the estimated percentage of initial disability allowances that do not have to be returned to the DDSs for development of additional documentation or correction of the disability determination.

Data Source: Annual Disability Quality Assurance Reports.

Performance Indicator 4: DDS net allowance accuracy rate.

FY 2002 Performance Discussion: Data not yet available. Actual FY 2002 performance for this indicator will not be available until January 2003 and will be reported in the FY 2003 APR. We expect to meet this goal because SSA and the DDSs continue to focus on achieving a high level of quality on both allowance and denial decisions. Ongoing training initiatives that foster consistent application of laws, regulations and rulings at all stages of the disability adjudication process have been particularly effective in keeping the allowance accuracy rates high.

This performance indicator will be discontinued in FY 2003 and will be incorporated into a more meaningful performance indicator "DDS net accuracy rate (allowances and denials combined)". Net accuracy is a truer measure of the correctness of DDS decision-making and, therefore, provides the public with a more accurate picture of the correctness of initial disability claims decisions. We expect to maintain high levels of adjudication quality.

Year	Goal	Actual
1999	N/A	98.0%
2000	N/A	98.4%
2001	N/A	98.3%
2002	98%	N/A

Data Definition: The net allowance accuracy rate is the estimated percentage of initial disability allowances that 1) do not have to be returned to the DDSs for development of additional documentation or correction of the disability determination, or 2) after having been returned to the DDSs for additional documentation are still allowances.

Data Source: Annual Disability Quality Assurance Reports.

Performance Indicator 5: DDS denial performance accuracy rate. **We did not meet our goal. This indicator is Key Performance Indicator 6 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 32 for a detailed discussion.**

Performance Indicator 6: DDS net denial accuracy rate.

FY 2002 Performance Discussion: Data not yet available. Actual FY 2002 performance for this indicator will not be available until January 2003 and will be reported in the FY 2003 APR. We do not expect to meet this goal even though SSA and the DDSs continue to focus on achieving a high level of quality on both allowance and denial decisions, through ongoing training that fosters consistent application of laws, regulations and rulings at all stages of the disability adjudication process. The DDSs were under considerable pressure to keep cases moving, and this resulted in less than the desired level of development, which impacted accuracy rates over the past several years. This pressure particularly affected denial accuracy because of the additional documentation requirements that must be met.

This performance indicator will be discontinued in FY 2003 and will be incorporated into a more meaningful performance indicator “DDS net accuracy rate (allowances and denials combined). Net accuracy is a truer measure of the correctness of DDS decision-making and, therefore, provides the public with a more accurate picture of the correctness of initial disability claims decisions. We expect to maintain high levels of adjudication quality.

Year	Goal	Actual
1999	N/A	95.8%
2000	N/A	95.2%
2001	N/A	94.7%
2002	96.2%	N/A

Data Definition: The net denial accuracy rate is the estimated percentage of initial disability denials that: 1) do not have to be returned to the DDSs for development of additional documentation or correction of the disability decision, or 2) after having been returned to the DDSs for additional documentation are still denials.

Data Source: Annual Disability Quality Assurance Reports.

Performance Indicator 7: Implement activities necessary to have the software and infrastructure in place for electronic processing of disability claims.

FY 2002 Goals:

1. **Develop rules for a paperless business process, requirements/infrastructure for the electronic folder (EF) and requirements to interface the EF with the legacy systems used to process disability claims;**
2. **Develop requirements and a systems solution for the Office of Hearings and Appeals (OHA) case processing system;**
3. **Develop a strategy for electronic forms and integration with the EF and procure a tool;**
4. **Establish policies/procedures for electronic signatures (internal and external requirements) and the policies necessary to make the EF the official Agency record; and**
5. **Develop infrastructure for electronic medical evidence and integration with the EF.**

FY 2002 Performance Discussion: We partially met this multi-part goal. In March 2002, SSA made a decision to accelerate the Electronic Disability Claims Process Project, now called Accelerated eDib (AeDib). The Agency has gone from a 7-year schedule to a 22-month schedule. By January 2004, the Agency has committed to have in place a foundational infrastructure for electronic initiation and processing of a disability claim, from the point of filing through adjudication. That will then allow us to roll out the application to field and hearing offices, Disability Determination Services, and other support organizations over an eighteen-month period.

In the Agency's acceleration of this effort, we revised our strategy in relation to our FY 2002 performance goals. With the revised strategy, the sequencing of developmental tasks changed, thus leaving some of the FY 2002 performance goals, as established in our Revised Final FY 2002 Annual Performance Plan (APP), partially met. However, we achieved all our FY 2002 milestones in our revised strategy which will enable us to meet our January 2004 implementation target.

Following is a summary of our FY 2002 performance relative to the Revised Final FY 2002 APP performance goals.

Goal 1: We completed the business process description in FY 2002. As the electronic folder requirements are finalized, we will document the legacy system interface requirements. Since the electronic folder requirements and design have not been finalized, we were unable to document the legacy system interface requirements. We do expect to complete those activities in FY 2003. We are on target to complete the remaining two pieces of this goal in early FY 2003.

Goal 2: We met the goal by documenting the hearings and appeals business process and completing the Project Scope Agreement for the hearings and appeals Case Processing and Management System.

Goal 3: We developed a strategy for electronic forms. We procured an electronic forms (eForms) development tool and are in the process of training systems developers to use the tool. As the requirements/infrastructure for the electronic folder are finalized (Milestone 1) we will complete the documentation of the eForms interface requirements. We are on target to accomplish this milestone in early FY 2003.

Goal 4: We developed and published policies and procedures for using electronic signatures in the disability process. We are working with the National Archives and Records Administration (NARA) to prepare documentation (SF-115) to establish the electronic folder as the Agency's official record. However, the documentation cannot be completed until the systems requirements and specifications for the electronic folder have been established (Milestone 1), which will happen in FY 2003. In the interim, we have verified that SSA does have the authority under existing records schedules (NARA 47-88-2, NARA 47-00-02 and the General Records schedule GRS-20) to use the new electronic disability folder as the Agency's official record until the documentation is formally submitted. This interim authority keeps us on track to deliver AeDib on time.

Goal 5: We documented that business process and policy requirements of the secure transport of medical evidence and have several pilots underway that are testing various methodologies. The final design elements for the infrastructure are being developed and we expect to incorporate them into the AeDib plans early in FY 2003. We will also design an infrastructure that will accommodate multiple entry mechanisms for the transportation of medical evidence in a security environment. A secure infrastrustructure is critical to achieving benefits from the electronic transmission of medical information, a key component of AeDib.

Data Definition: Develop the requirements and strategy for implementing a paperless disability process, with an electronic folder.

Data Source: Office of Systems 5-Year Plans.

Performance Indicator 8: DDS net decisional accuracy rate. (Note: This indicator was used in FY 2001, but data was not available for the FY 2001 PAR, so it is being reported here. As explained in the FY 2001 PAR, the indicator was discontinued in FY 2002.)

FY 2001 Performance Discussion: We did not meet this FY 2001 goal even though SSA and the DDSs continue to focus on achieving a high level of quality on both allowance and denial decisions, through ongoing training that fosters consistent application of laws, regulations and rulings at all stages of the disability adjudication process. The DDSs were under considerable pressure to keep cases moving, and this resulted in less than the desired level of development, which impacted accuracy rates. This pressure particularly affected denial accuracy because of the additional documentation requirements that must be met.

Year	Goal	Actual
1998	N/A	96.2%
1999	N/A	96.7%
2000	97%	96.4%
2001	97%	96.2%

Data Definition: This indicator measures the percentage of correct decisions issued by the State DDSs, both allowances and denials. The DDS net decisional accuracy of disability claims – both DI and SSI – reflect the percentage of correct initial determinations – both allowances and denials – issued by the State.

Data Source: Annual Disability Quality Assurance Reports.

Strategic Objective 6: Improve the accuracy, timeliness, and efficiency of service to people requesting hearings or appeals. Specifically by 2005:

- ***Increase current levels of accuracy of hearings decisions to 90%;***
- ***Issue hearings decisions in an average of 166 days, with at least 70% issued within 180 days;***
- ***Increase productivity to 122 hearings decisions issued per WY;***
- ***Have the capacity to take 99% of hearings requests in an electronic environment;***
- ***Issue decisions on appeals of hearings within an average of 90 days, with at least 70% issued within 105 days; and***
- ***Increase productivity to 323 Appeals Council reviews per WY***

Performance Indicator 1: Percent of hearing decisions issued within 180 days from the date the request is filed.

FY 2002 Performance Discussion: This goal was not met. The steady rise in the overall number of cases pending and the number of cases pending with each Administrative Law Judge (ALJ) has hindered efforts to achieve both the overall processing time and the 180-day targets. With the number of cases pending at the hearing level increased almost 65,000 cases this FY, our progress may not improve in the near-term despite a focused effort to achieve these targets. Nevertheless, it is noteworthy that our level of service has not declined in the sense that the number of hearing decisions issued within 180 days has not declined. Through September 2002, OHA processed almost 94,000 cases (17.4 percent), within 180 days, an increase of 3,500 cases over FY 2001.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Year	Goal	Actual
1999	N/A	26%
2000	N/A	28.4%
2001	20%	19.4%
2002	20%	17.6%

Data Definition: Beginning FY 2001, this performance indicator represents the actual percent of Medicare and SSA case dispositions issued during the particular report period in which the elapsed time from the date of the request for hearing to the disposition date was 180 days or less. (This measure does not include the time required by field offices, program service centers, or the Office of Central Operations to process favorable decisions).

Data Source: Actual performance is reported in the OHA Monthly Activity Report (MAR), derived from the Hearings Office Tracking System (HOTS).

Performance Indicator 2: Hearings average processing time (days). **We did not meet our goal. This indicator is Key Performance Indicator 7 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 33 for a detailed discussion.**

Performance Indicator 3: OHA decisional accuracy rate.

FY 2001 Performance Discussion: Data not yet available. However, we expect to meet our FY 2001 hearings decisional accuracy goal of 88 percent due to the steps we undertook in FY 2001 to enhance the quality of our adjudication. These steps include continuing ALJ participation with quality reviews of hearings decisions, ALJ involvement in the preeffectuation reviews of allowances, and ongoing training activities. Actual FY 2001 data will not be available until September 2003, as we report biennially. We will report actual FY 2001 data in the FY 2003 PAR.

FY 2002 Performance Discussion: Data not yet available. However, we expect to meet our FY 2002 hearings decisional accuracy goal of 89 percent due to our continuing efforts to enhance the quality of our adjudication. These steps include continuing ALJ participation with quality reviews of hearings decisions, ALJ involvement in the preeffectuation reviews of allowances, and ongoing training activities. We will continue to work toward improving our OHA decisional accuracy rate. Actual FY 2002 data will not be available until September 2003. We will report actual FY 2002 data in the FY 2003 PAR.

Year	Goal	Actual
1999	85%	88%
2000	87%	88%
2001	88%	N/A
2002	89%	N/A

Data Definition: The decisional accuracy of hearings is the percent of disability hearing decisions—both favorable and unfavorable—supported by "substantial evidence." This is the standard used by the Federal Courts to evaluate accuracy of decisions, and by the Appeals Council in determining which hearing decisions to review.

Data Source: Annual Disability Hearings Quality Review Process Peer Review Reports.

Performance Indicator 4: Implement activities necessary to have the software and infrastructure in place for electronic processing of hearings and appeals.

FY 2002 Goals: Implement the following software, 1) Modernized Supplemental Security Income Claims System (MSSICS) will support field-office entry of requests for Hearings and Appeals; and 2) Provide Web-based query access to consolidated Hearing Office Tracking System (HOTS) database, which includes the request for hearing.

FY 2002 Performance Discussion: SSA is currently working to enhance disability processing by moving claims adjudication, from initial intake through the appeals process, to a fully electronic business process through the use of an electronic disability folder. At SSA, this initiative is known as Accelerated eDIB (AeDIB). In FY 2002, we aimed to achieve critical milestones to support the electronic processing of hearings and appeals.

We met goal 1. Achievement of this goal is a key step toward enabling appeals of Supplemental Security Income claims, which were filed electronically via SSA's Modernized Supplemental Security Income Claims System (MSSICS), to be available for electronic processing of hearings and appeals. When AeDib is implemented in CY 2004, the additional components needed for electronic processing of hearings and appeals will be available.

We met goal 2 in July 2001, allowing requests for hearings and appeals to be entered electronically on SSA records**.**

Data Definition: Goal 1 will be met if we develop, test, validate and implement Title XVI Appeals. Goal 2 will be met if we develop, test, validate, and implement access to the Consolidated HOTS Query.

Data Source: Office of Systems 5-Year Plans.

Performance Indicator 5: Number of hearing cases processed per workyear.

FY 2002 Performance Discussion: We met and exceeded this goal because we made several workflow and hearings process changes, such as, including Administrative Law Judges (ALJs) in early case screening to more quickly identify cases for dismissal and on-the-record decisions; developing a short form for fully favorable decisions from the bench; and expanding the use of technology. Additionally, we received a one-time exemption from pending litigation and were permitted to hire 127 ALJs in early FY 2002. The workflow/process changes and the hiring of ALJs allowed us to improve productivity and process more hearings than originally expected. We expect hearings productivity to continue to improve in FY 2003.

This performance indicator will be discontinued in FY 2003 and will be incorporated into a more comprehensive Agency measure of improved productivity.

Year	Goal	Actual
1999	**N/A**	**98**
2000	**N/A**	**97**
2001	**103**	**87**
2002	**91**	**97**

Data Definition: This indicator was revised effective FY 2001 to represent the average number of hearings cases processed per "direct" workyear expended. A direct workyear represents actual time spent processing cases. It does not include time spent on training, ALJ travel, leave, holiday, etc.

Data Source: OHA Monthly Activity Reports and the HOTS.

Performance Indicator 6: Percent of decisions on appeals of hearings issued by the Appeals Council within 105 days of the appeals filing date.

FY 2002 Performance Discussion: We did not meet this goal. We have been working to reduce the time required by the Appeals Council to process requests for review of hearings decisions. Although we saw improvement in our performance in FY 2002, we did not meet this goal due to several factors primarily due to a lower than anticipated volume of receipts. Receipts include relatively easier, quick turnaround cases, which contribute to the total number of decisions processed within 105 days of the appeals filing date. Insufficient new receipts were not available to counterbalance the aged and pre-development cases to meet the goal.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused and outcome-based.

Year	Goal	Actual
1999	N/A	N/A
2000	N/A	N/A
2001	20%	12.2%
2002	35%	27%

Data Definition: Effective FY 2001, this performance indicator represents the actual percent of case dispositions issued during the report period in which the elapsed time from the date of the request for review to the disposition date was 105 days or less.

Data Source: Actual processing time for each case is maintained by the Appeals Council Automated Processing System (ACAPS). Percentages will be calculated from information extrapolated from ACAPS.

Performance Indicator 7: Average processing time for decisions on appeals of hearings issued (days).

FY 2002 Performance Discussion: We did not meet this goal for several reasons. We have been working to reduce the time required by the Appeals Council to process requests for review of hearings decisions. Although we saw improvement in average processing time in FY 2002, we did not meet this goal due to several factors:

- The number of receipts by the Council was considerably less than anticipated, and these new receipts include significant numbers of relatively easier, quick turnaround cases, which take fewer days to process.
- The number of new cases ready to work upon receipt is not yet at a level to counterbalance the impact of already existing large numbers of aged cases and those requiring pre-development actions in order to reach the targeted goal.
- The Council is working to work down its backlog of aged cases; these cases take more days to process.

The Council has partnered with other components to reduce internal delays in receiving request for reviews and files. Instructions have been issued to expeditiously retrieve missing files and process cases involving subsequent applications. We streamlined pre-developmental work by: obtaining temporary help to assist with processing exhibit requests; developing the HFAX form, which eliminates the need to provide representatives with copies of exhibits and tapes in some cases and convening a task force to process aged cases. These initiatives should better position us to attain the FY 2003 goal.

Year	Goal	Actual
1999	N/A	458
2000	N/A	505
2001	285	447
2002	285	412

Data Definition: Effective FY 2001, this performance indicator represents the 12-month average processing time for dispositions issued during the report period. Processing time begins with the date of the request and ends with the disposition date.

Data Source: Actual processing time for each case is maintained by the ACAPS. Percentages will be calculated from information extrapolated from ACAPS.

Performance Indicator 8: Number of decisions on appeals of hearings issued per workyear.

FY 2002 Performance Discussion: We did not meet our goal. In FY 2002, our challenge was to increase productivity in spite of lower than anticipated receipts and the continued Appeals Council emphasis on processing of time-consuming, complex, aged cases. The Council took action to increase the pool of ready to work cases, by emphasizing the processing of pre-developmental actions, but this initiative did not have sufficient effect to improve productivity. We anticipate, however, that our efforts will position us to improve productivity in FY 2003.

This performance indicator will be discontinued in FY 2003 and will be incorporated into a more comprehensive Agency measure of improved productivity.

Year	Goal	Actual
1999	N/A	231
2000	N/A	284
2001	262	241
2002	279	219

Data Definition: Effective FY 2001, this indicator represents the average number of decisions on appeals of hearings processed per "direct" workyear expended. A direct workyear represents actual time spent processing cases. It does not include time spent on training, leave, holiday, etc. Decisions on appeals of hearings exclude decisions on new court cases, court remands, and quality assurance reviews.

Data Source: Appeals Council Case Control System and Appeals Council Automated Processing System

Strategic Objective 7: By 2007, increase by 100% from 1999 levels, the number of SSDI and SSI disability beneficiaries who achieve steady employment and no longer receive cash benefits.

Performance Indicator 1: Percent increase in the number of DI adult worker beneficiaries who begin a trial work period (TWP).

FY 2001 Performance Discussion: We did not meet this goal. In fact, the number of disabled (DI) adult worker beneficiaries who began a trial work period declined by 52.2 percent in calendar year (CY) 2001. (Note: This measure is a count of increased work activity during a CY, not a fiscal year.) Our CY 2001 goal was to increase the number of individuals working at this level by 5 percent over the FY 2000 level. For 2001, this equated to 15,528 trial work period (TWP) starts. We fell short of that target, with actual trial work period starts at 7,713 in CY 2001. Several factors may have a role in causing the numbers to fall from CY 2000 to CY 2001. First, disabled beneficiaries face many barriers to employment, many of which are not affected by SSA's programs, such as insufficient education and training or lack of full understanding of the productive capacity of people with disabilities by employers. Also, while we hope that the Ticket to Work program eventually has a significant impact on return-to-work among beneficiaries, the Congress clearly understood that it would take several years for the comprehensive program of policy changes and new job support services contained in the Ticket to Work and Work Incentives Improvement Act to achieve their full impact. Most of the policy changes and new structures were in start-up or development phases during 2001.

FY 2002 Performance Discussion: Data not yet available. We measure the number of disabled adult beneficiaries who begin a TWP in a calendar year, as opposed to fiscal year basis. The data is an output of a routine annual computer run of data conducted in January-February of each year. Accordingly, the actual performance numbers for 2002 will not be available until February 2003, and we will report them in the FY 2003 PAR. We expect a shortfall for the reasons stated above regarding 2001 performance and because of external factors that make it difficult for disability beneficiaries to find jobs. Quarterly data on employment of SSI beneficiaries show declines in jobs throughout this fiscal year. We expect similar experience will apply to DI beneficiaries. We continue to promote SSA's work incentives and, particularly, the Ticket to Work program, in an effort to encourage and support the work activity of disability beneficiaries.

In FY 2003, we are evolving from this indicator to measure "the number of DI beneficiaries who start an Extended Period of Eligibility". This indicator focuses on work activity that results in benefit savings to the DI trust fund and is more consistent with the outcome that will generate Ticket program savings and payments to Employment Networks.

Year	Goal	Actual
1999	**N/A**	**14,525**
2000	**10%** **17,600**	**1.8%** **14,789**
2001	**5%** **15,528**	**-52.2%** **7,713**
2002	**5%** **8,099**	**N/A**

Data Definition: For FY 2000, this indicator represented the annual percentage increase in the number of DI adult worker beneficiaries who begin a trial work period (TWP) during CY 2000, as compared to the base year 1997, in which there were 16,000 TWP starts. Our CY 2000 goal was for a 10 percent increase over the base year performance. Effective FY 2001, this indicator represents the annual percentage increase over the *prior* CY actual level of 14, 789, equivalent to 15, 528 TWP starts. Our CY 2002 goal is a 5 percent increase over CY 2001 actual performance.

Data Source: Master Beneficiary Record.

Performance Indicator 2: Percent increase in the number of SSI disabled beneficiaries, aged 18-64, whose payments are reduced because of work (i.e. participating in 1619(a) status)**.**

FY 2002 Performance Discussion: Data not yet available. The actual performance numbers for 2002 will not be available until last November 2002, and we will report them in the FY 2003 PAR. We expect not to meet this goal for the reasons stated above for FY 2001 performance and because of external factors that make it difficult for disability beneficiaries to find jobs. We continue to promote SSA's work incentives and, particularly, the Ticket to Work program, in an effort to encourage and support the work activity of disability beneficiaries.

In FY 2003, we are evolving from this indicator to measure "Percent increase in the number of SSI disabled beneficiaries earning at least $700 per month, whose payments are eliminated because of work (1619(b) status". This measure focuses on work activity that results in benefit savings to the general revenues and is more consistent with the outcome that will generate Ticket program savings and payments to Employment Networks.

Year	Goal	Actual
1999	N/A	N/A
2000	10% 21,744	25,772
2001	5% 27,061	24,816
2002	5% 26,057	N/A

Data Definition: Effective 2001, our goal is a 5 percent annual increase over the prior year's performance in the number of SSI disabled beneficiaries aged 18-64 who are participating in 1619(a), i.e., working at the Substantial Gainful Activity level but still receiving benefits; for FY 2001 the equivalent of 27,061. Our FY 2002 goal is for a 5 percent increase over FY 2001, the equivalent of 28,414. Beginning FY 2003, our goal will be for 10 percent annual increases. In years prior to FY 2001, the indicator represented the annual percentage increase relative to the base year 1997. This Performance Indicator is an interim measure that will be replaced with the long-term Indicator: "Percent increase in the number of SSI disabled beneficiaries who no longer receive benefits due to work (1619(b) status) and have earnings of at least $700 per month." This new long-term Indicator will be in our FY 2003 Final APP (issued in Spring 2002) and will be effective FY 2003.

Data Source: SSI Disabled Recipients Who Work report.

Performance Indicator 3: Activities to implement provisions of the Ticket-to-Work and Self-Sufficiency Program (TWSSP) and other employment strategies.

FY 2002 Goals: 1) Begin payments to Employment Networks, and 2) Distribute Tickets to beneficiaries in Phase 1 States.

FY 2002 Performance Discussion: We met both goals. Payments to employment networks began. Distribution of tickets to beneficiaries in Phase 1 States started in February 2002 and continued through the remainder of the fiscal year. Tickets were issued in the 13 Phase 1 States on a graduated basis month by month over 5 months, starting in February 2002. Early claims for outcome and milestone payments by employment networks started arriving in June and the first several have been allowed and paid. We expect that our experience with Phase 1 states will make the process with Phase 2 and Phase 3 States more smooth and efficient. We continue to implement the Ticket to Work program in an effort to encourage and support the work activity of disability beneficiaries.

Data Definition: This indicator represents the milestones in implementing provisions of the TWSSP and other employment strategies.

Data Source: New data system being developed to allow SSA to administer the Ticket-to-Work program.

Strategic Objective 8: Improve or maintain the accuracy, timeliness and efficiency of processing postentitlement events. Specifically by 2005:

- ***Have the capacity to take and process 99% of PE actions in a paperless environment***

Performance Indicator 1: OASDI postentitlement automation rate.

FY 2002 Performance Discussion: We exceeded our goal. This goal reflects the actual usage of software by SSA employees to process OASDI postentitlement transactions. The goal was accomplished largely due to the successful implementation of Release 2.1 of Title II Redesign software in September 2001. This release improves workers compensation processing, provides a means for field office employees to input reinstatement actions into the system, and eliminates labor intensive and time-consuming processing by making available on-line, interactive screens that provide immediate editing and feedback to the users and use the new software to process the actions.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused.

Year	Goal	Actual
1999	**N/A**	**N/A**
2000	**N/A**	**N/A**
2001	**N/A**	**N/A**
2002	**89%**	**90.9%**

Data Definition: The OASDI PE automation rate is the percentage of total OASDI PE transactions that do not create an exception or alert.

Data Source: Office of Systems Information Technology Plans, Office of Systems Management Information.

Performance Indicator 2: SSI postentitlement automation rate.

FY 2002 Performance Discussion: We met our goal. This goal reflects the actual usage of software by SSA employees to process SSI postentitlement transactions. Increasing the usage of software to process requires training, transition of existing records into the new system, and increased management attention. In addition, processing almost all new SSI claims via the automated MSSCIS system increases the number of records available for automated postentitlement transactions. In FY 2002, we succeeded in increasing usage from 55 percent to 68.4 percent through all these means.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused.

Year	Goal	Actual
1999	N/A	N/A
2000	N/A	N/A
2001	N/A	N/A
2002	68%	68.4%

Data Definition: The SSI PE automation usage is the percentage of SSI PE transactions completed using modernized software compared to all SSI transactions.

Data Source: Office of Systems Information Technology Plans, Office of Systems Management Information.

Strategic Objective 9: Maintain through 2005 the accuracy, timeliness and efficiency of service to people applying for Social Security numbers and replacement cards.

Performance Indicator 1: Percent of original and replacement SSN cards issued within 5 days of receiving all necessary documentation.

FY 2002 Performance Discussion: We exceeded our goal. We have exceeded our goal for the past four fiscal years. Field office employees are acutely aware that the timely issuance of a Social Security number constitutes good service because applicants need the SSN for employment, for other Federal, State and local benefits, or because of name changes. We will continue to provide this consistently high level of performance as an indication of our commitment to outstanding service in the issuance of SSN cards.

This indicator will be discontinued in FY 2003 as our performance indicators related to service in support of our new strategic plan will be more focused.

Year	Goal	Actual
1999	97%	99%
2000	97%	99.7%
2001	97%	99.1%
2002	97%	98.4%

Data Definition: This percent is the number of original and replacement SSNs issued within 5 days of the date the field office receives all required documentation, divided by the total number of requests. The issuance date is defined as the date of the systems run that assigns the SSN. The data excludes SSNs assigned via the Enumeration-at-Birth process.

Data Source: Field Office Social Security Number Enumeration Report.

Performance Indicator 2: Percent of SSNs issued accurately.

FY 2001 Performance Discussion: We did not meet our goal. We issued 99.6 percent of SSNs accurately. The difference between the 99.8 percent goal and the 99.6 percent accuracy is not statistically significant. To help improve accuracy of the enumeration process, we will continue to issue reminder items and provide Interactive Video Teletraining focused on deficiencies identified in quality review and enumerations studies. We are also considering ways to improve systems processing that will help us prevent SSN applications errors.

FY 2002 Performance Discussion: Data not available until the end of September 2003. Actual FY 2002 performance for this indicator will be reported in the FY 2003 PAR.

Year	Goal	Actual
1999	99.8%	99.8%
2000	99.8%	99.7%
2001	99.8%	99.6%
2002	99.8%	N/A

Data Definition: The percent of SSNs issued accurately is based on an annual review of a sample of approximately 2,000 SSN applications to verify that the applicant has not been issued an SSN that belongs to someone else, or that multiple SSNs assigned to the same applicant have been cross-referred. The data excludes SSNs assigned via the Enumeration-at-Birth process and major errors identified by the Office of Quality Assurance that do not result in an SSN card being issued erroneously.

Data Source: Enumeration Process Quality Review Report.

Strategic Goal B: To ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse

Strategic Objective 1: Beginning 2002 and through 2005, maintain at 99.8% the overpayment and underpayment accuracy based on non-medical factors of eligibility of OASDI payment outlays

Performance Indicator 1: Percent of OASDI payment outlays “free” of overpayments and underpayments (based on non-medical factors of eligibility).

FY 2001 Performance Discussion: **We met and exceeded our goals for payment outlays without overpayments and without underpayments.** For several years, we have continued to maintain this high level of dollar accuracy of OASDI payment outlays.

FY 2002 Performance Discussion: FY 2002 data is not available at this time and will be reported in the FY 2003 PAR. We have in place an action plan to continuously improve disability payment accuracy and expect to meet our FY 2002 goals of 99.8 percent for OASDI payments without overpayments and underpayments.

Percent Free of Overpayments		
Year	**Goal**	**Actual**
1999	**99.8%**	**99.8%**
2000	**99.8%**	**99.9%**
2001	**99.7%**	**99.8%**
2002	**99.8%**	**N/A**

Percent Free of Underpayments		
Year	**Goal**	**Actual**
1999	**99.8%**	**99.9%**
2000	**99.8%**	**99.9%**
2001	**99.8%**	**99.8%**
2002	**99.8%**	**N/A**

Data Definition: Stewardship accuracy is divided into accuracy for payment dollars without overpayments and accuracy for payment dollars without underpayments. The overpayment accuracy is computed by subtracting the overpayment dollars paid for the FY from the dollars paid and dividing the remainder by the dollars paid ((dollars paid – o/p dollars)/dollars paid). This error rate is subtracted from 100 percent to attain the accuracy rate. Similarly, the underpayment accuracy is computed by subtracting the underpayment dollars paid for the FY from the dollars paid and dividing the remainder by the dollars paid ((dollars paid – u/p dollars)/dollars paid). This error rate is subtracted from 100 percent to attain the accuracy rate. Prior to FY 2001, the accuracy of only OASI outlays was included. Effective FY 2001, the non-medical accuracy of DI outlays was added to the measure. The General Accounting Office raised a concern that combining payment accuracy data from the OASI and the DI programs may affect SSA's ability to sufficiently monitor and manage performance. While the Annual Performance Report combines data from these two programs, stewardship reports continue to include the accuracy of OASI and DI payment outlays separately. We still have data available to discretely monitor and manage performance in both the OASI and the DI programs. For our monitoring and management purposes, there is no danger that the accuracy of each of these programs will be obscured by the GPRA reporting of the combined goal.

Data Source: OASDI Stewardship Report. Neither actual nor estimated data are available for FY 2001. The FY 2003 actual performance data will not be available for reporting in the FY 2003 Annual Performance Report (APR) because of the length of time required to gather, validate and analyze the data, and then prepare the final report. These data will be reported in the FY 2004 APR.

Strategic Objective 2: By 2005, raise to 96% the overpayment accuracy based on non-medical factors of eligibility of SSI disabled and aged payment outlays.

Performance Indicator 1: SSI overpayment and underpayment accuracy rate (including both preventable and unpreventable errors (based on non-medical factors of eligibility).

FY 2001 Performance Discussion: We did not meet the overpayment goal and met the underpayment goal. While the Agency has focused on initiatives over the past few years to reduce erroneous payments, payment accuracy has not improved. This is because the initiatives have been more effective at detecting error after it has occurred than preventing it. Preventing error is a much more difficult task. This difficulty is due to a number of factors that affect payment accuracy and the interaction among those factors. Prominent among those factors are the complexity of the program and the short timeframes during which the Agency has to obtain accurate information and to take responsive action. The initiatives now being pursued as a part of the Agency's SSI corrective action plan address the major causes of errors and, in the case of wages, the short timeframes available.

FY 2002 Performance Discussion: Data not yet available. The actual performance numbers for 2002 will not be available until fall of 2003, and we will report them in the FY 2003 PAR.

Overpayment Accuracy Rate		
Year	**Goal**	**Actual**
1999	N/A	94.3%
2000	95%	93.6%
2001	94.7%	92.8%
2002	94.0%	N/A

Underpayment Accuracy Rate		
Year	**Goal**	**Actual**
1999	N/A	98.3%
2000	98.8%	98.6%
2001	98.8%	98.6%
2002	98.8%	N/A

Performance Indicator 2: SSI overpayment and underpayment accuracy rate (excluding unpreventable errors (based on non-medical factors of eligibility)

FY 2002 Performance Discussion: FY 2002 data is not available at this time and will be reported in the FY 2003 PAR.

Overpayment Accuracy Rate		
Year	**Goal**	**Actual**
1999	**N/A**	**94.9%**
2000	**N/A**	**94.7%**
2001	**N/A**	**93.3%**
2002	**94.7%**	**NA**

Underpayment Accuracy Rate		
Year	**Goal**	**Actual**
1999	**N/A**	**98.4%**
2000	**N/A**	**98.6%**
2001	**N/A**	**98.8%**
2002	**98.8%**	**NA**

Data Definition: The SSI payment accuracy rate *including both preventable and unpreventable* errors is determined by an annual review of a statistically valid sample of the beneficiary rolls. Separate rates are determined for the accuracy of payments with overpayment dollars and the accuracy of payments with underpayment dollars. The rates are computed by first subtracting the total amount of incorrect payments from the dollars overpaid or underpaid in a fiscal year, and then dividing these dollars by the total dollars paid for the fiscal year. This percentage is subtracted from 100 percent to attain the accuracy rate. The current measuring system captures the accuracy rate of the non-medical aspects of eligibility for SSI payment outlays.

The SSI payment accuracy rate *excluding unpreventable errors* is determined by an annual review of a statistically valid sample of the beneficiary rolls. Separate rates are determined for the accuracy of payments with overpayment dollars and the accuracy of payments with underpayment dollars. The rates are computed by first subtracting the amount of "unpreventable" incorrect payments from the dollars overpaid or underpaid in a fiscal year, and then dividing these dollars by the total dollars paid for the fiscal year. This percentage is subtracted from 100 percent to attain the accuracy rate. The current measuring system captures the accuracy rate of the non-medical aspects of eligibility for SSI payment outlays.

Data Source: SSI Stewardship report. Neither actual nor estimated data are available for FY 2001. The FY 2003 actual performance data will not be available for reporting in the FY 2003 Annual Performance Report (APR) because of the length of time required to gather, validate and analyze the data, and then prepare the final report. These data will be reported in the FY 2004 APR.

Strategic Objective 3: To become current with DI and SSI CDR requirements by FY 2002 and remain current thereafter.

Performance Indicator 1: Percent of multi-year CDR plan completed through FY 2002. **We met our goal. This indicator is Key Performance Indicator 8 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 35 for a detailed discussion.**

Strategic Objective 4: Maintain timeliness and improve accuracy and efficiency in posting earnings data to Agency records. Specifically by 2005:

- ***Increase to 70% the number of employee reports (W-2s) filed electronically***

Performance Indicator 1: Percent of wage items posted to individuals' records by September 30.

FY 2002 Performance Discussion: We met our goal. The Actuary provides an estimate of the number of wage reports SSA expects to receive for the tax year. As we near the end of the fiscal year and all received wage reports have been processed or accounted for, the Actuary will usually adjust the estimate accordingly. For Tax Year 2001, the economy slowed and many companies reported fewer wage items to SSA for processing during 2002. We have accounted for everything we received and expect the Actuary will lower the estimate. We fully expect to have achieved our FY 2002 goal. Final actual data will be available for Tax Year 2001 processing in January 2003.

We attribute our achievement in FY 2002 to our effective management, including:

- Improved management information that tracks wage item report submittals;
- Targeting of large submitters to ensure their submittals were processed timely and provide assistance;
- Follow-up on magnetic media returns and corrections earlier in the process; and
- Monitoring of processing problems internally within SSA and between SSA and the employer community.

This indicator will be discontinued in FY 2003 as our performance indicators will emphasize the stewardship aspect of enumeration.

Year	Goal	Actual
1999	98%	92.9%
2000	98%	98.9%
2001	98%	99%
2002	98%	98.6%

Data Definition: The percent is the number of prior tax year wage items posted by the end of September, divided by the number of prior tax year wage items posted by the end of the processing year (mid-January). Wage items include W-2s, tips, earnings in excess of taxable maximum wages, etc.

Note: Tracking throughout the year is based on estimates of potential receipts, compared to actual items processed by the posting system. The actual performance reported in SSA's Annual Performance and Accountability Report is based on the updated estimates compared to the actual items processed. Each year, once all known earnings reports have been received, performance is recalculated based on actual data and shown in the subsequent Annual

Performance Plan. For this reason, the actual FY 2001 performance for this measure has now been updated based on the recalculation using actual data.

Data Source: Earnings Posted Overall Cross Total/Year-to-Date System (EPOXY).

Performance Indicator 2: Percent of earnings posted correctly.

FY 2002 Performance Discussion: We met our goal. SSA works on an ongoing basis, through its Employer Reporting Service Center (1-800-772-6270) and through its Employer Service Liaison Officers located throughout the country, to respond to questions from employers and third-party filers. These services, combined with SSA's continued efforts to expand electronic wage reporting, should ensure that SSA continues to meet its 99 percent performance goal for the accuracy of posted earnings. Nevertheless, we are not satisfied with the number of W-2 forms that we receive with incorrect Social Security numbers and names, and which cannot be posted to individuals' earnings records. In 2003, we will replace the current indictor with new measures that track our success in reducing the size of the suspense file. Final data on the current indicator will be available for Tax Year 2001 processing in January 2003.

Year	Goal	Actual
1999	**99%**	**99%**
2000	**99%**	**99%**
2001	**99%**	**99%**
2002	**99%**	**99%**

Data Definition: This is the percent of earnings that SSA is able to post to individuals' records based on a match to a valid name/SSN and the Agency's records. In addition, it reflects the results of a quality assurance review of the accuracy of earnings posted.   The computation of this rate is the total earnings processed correctly to individuals' earnings records and Agency records for a tax year, divided by the total earnings reported to SSA for that tax year.

Data Source: Earnings Posted Overall Cross Total/Year-to-Date System (EPOXY) and a quality assurance review of the accuracy of posting received reports

Performance Indicator 3: Percent of employee reports (W-2s) filed electronically. **We significantly exceeded our goal. This indicator is Key Performance Indicator 9 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 35 for a detailed discussion.**

Strategic Objective 5: Through 2005, maintain a level of outstanding debt that is either in a repayment agreement, under appeal or newly detected.

Performance Indicator 1: Outstanding OASDI debt not in a collection arrangement (excluding due process).

FY 2002 Performance Discussion: We exceeded our goal. While SSA's objective in managing the OASDI program is to achieve the highest accuracy rate possible, it is inevitable that some debt will be created because of the dynamics of the programs. Our stewardship responsibilities require that we recover as much of this debt as possible. In FY 2002, 44.4 percent of outstanding OASDI debt was not in a collection arrangement. Our recovery of a substantial amount of OASDI debt was due to our effective use of available debt recovery tools.

Beginning FY 2003, we will restate this indicator as the percent of outstanding OASDI debt in a collection arrangement.

Year	Goal	Actual
1999	**N/A**	**47%**
2000	**N/A**	**47%**
2001	**N/A**	**46%**
2002	**47%**	**44%**

Data Definition: There are four categories of debt: debts in repayment agreement, debts under appeal, newly detected debts, and debts not being collected. This indicator measures the percent of OASDI debt not being collected out of the universe of all OASDI debt.

Data Source: The Recovery of Overpayments, Accounting and Reporting (ROAR) system.

Performance Indicator 2: Outstanding SSI debt not in a collection arrangement (excluding due process).

FY 2002 Goal: 43 percent

FY 2002 Performance Discussion: We exceeded our goal. While SSA's objective in managing the SSI program is to achieve the highest accuracy rate possible, it is inevitable that some debt will be created because of the dynamics of the program. Our stewardship responsibilities require that we recover as much of this debt as possible. In FY 2002, 37 percent of outstanding SSI debt was not in a collection arrangement. Our recovery of a substantial amount of SSI debt was due to our effective use of available debt recovery tools. For example, we implemented a new, mandatory, cross-program recovery initiative. Phase I of this project selected over 255,000 delinquent SSI debts for mandatory cross-program recovery. The value of the delinquent debts exceeded $224 million. This money was previously not in a collection arrangement but is currently being collected from the former SSI debtors' OASDI benefits (i.e., in a repayment agreement). In FY 2002, SSA began referring SSI debts to the Treasury Offset Program (TOP) for collection by administrative offset from other Federal payments and tax refunds, and reporting delinquent SSI debtors to credit bureaus.

Fiscal year 2002 was the first year in which we used this indicator and as such, no historical data is available for the percent of outstanding SSI debt not in a collection arrangement. Beginning FY 2003, we will restate this indicator as the percent of outstanding SSI debt in a collection arrangement.

Data Definition: There are four categories of debt: debts in repayment agreement, debts under appeal, newly detected debts, and debts not being collected. This indicator measures the percent of SSI debt not being collected out of the universe of all SSI debt.

Note: Unlike OASDI, we have not yet developed a historical baseline. Accordingly, the goal has been established based upon limited baseline information.

Data Source: The Supplemental Security Record (SSR)

Strategic Objective 6: Aggressively deter, identify and resolve fraud.

Performance Indicator 1: Number of investigations conducted (i.e., closed).

FY 2002 Performance Discussion: We substantially exceeded our goal. In FY 2002, we showed a significant increase in the number of Office of the Inspector General's (OIG) investigations conducted and closed. This increase was attributable to two activities. First is the success of the fugitive felon program, through which the OIG is able to identify fugitive felons for apprehension and payment suspension. Second, the OIG's participation in homeland security projects under the coordination of the Department of Justice, Offices of the United States Attorney throughout this country resulted in increases in cases opened related to the investigation of the misuse of Social Security numbers by individuals working at airports across the country.

This performance indicator will be discontinued for FY 2003.

Year	Goal	Actual
1999	**5,700**	**7,308**
2000	**7,600**	**8,051**
2001	**8,000**	**9,636**
2002	**8,000**	**11,719**

Data Definition: Investigations result from allegations that have sufficient information or potential risk to warrant further review or action by a criminal investigator. Investigations are counted as "conducted" when all OIG actions have been completed, i.e., the investigator has presented the facts of the case to a prosecutor or has determined that further action is not warranted due to lack of investigative leads.

Data Source: Allegation and Case Investigative System (ACIS).

Performance Indicator 2: OASDI dollar amounts reported from investigative activities. **We substantially exceeded our goal. This indicator is Key Performance Indicator 10 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 36 for a detailed discussion.**

Performance Indicator 3: SSI dollar amounts reported from investigative activities. **We met and substantially exceeded our goal. This indicator is Key Performance Indicator 11 in the Performance Goals and Results section of the Management's Discussion and Analysis. Please see page 36 for a detailed discussion.**

Performance Indicator 4: Number of judicial actions reported.

FY 2002 Performance Discussion: We substantially exceed our goal. The increase in the number of judicial actions can be attributed to our homeland security projects and the fugitive felon program. Working with the Offices of United States Attorney Task Forces, OIG agents have brought charges of Social Security number misuse against 729 individuals. Added to the increased success of fugitive felons apprehended this year, our judicial actions have greatly exceeded expectations.

This performance indicator will be discontinued for FY 2003.

Year	Goal	Actual
1999	1,800	3,139
2000	2,000	2,603
2001	2,500	4,300
2002	2,500	7,315

Data Definition: Effective with FY 2002, this performance indicator language was changed from "number of criminal convictions conducted" to "number of judicial actions reported". The reason for the change is that the actions actually counted in this universe included actions that were broader than the legal definition of a criminal conviction. The change in performance indicator language is a change to clarify the performance measure. Data previously reported remain unchanged. A judicial action is any event during the criminal justice process that causes an individual suspected of committing a crime to be arrested for the crime, or to appear before a judge to enter a plea of guilty, or to face trial before a judge or jury.

Data Source: Allegation and Case Investigative System (ACIS).

Strategic Goal C: To strengthen public understanding of Social Security programs

Strategic Objective 1: By 2005, 9 out of 10 Americans (adults age 18 and over) will be knowledgeable about Social Security programs in three important areas:

- ***Basic program facts;***
- ***Value of Social Security programs; and***
- ***Financing Social Security programs***

Performance Indicator 1: Percent of public who are knowledgeable about Social Security issues.

FY 2002 Performance Discussion: No actual performance, comparable to prior year's data, was measured for FY 2002. Annual data for FY 1999 through FY 2001 had been measured in the annual PUMS Survey conducted by the Gallup Organization under contract with SSA. PUMS I through III used a 4,000-person sample size to obtain data valid at the national level. In FY 2002, we opted to not conduct that 4,000-personal sample. Instead, in late FY 2001 through early FY 2002, the Gallup Organization, under contract with SSA, conducted a national, one-time survey of 20,000 persons. The results were that 80 percent of those surveyed were knowledgeable about Social Security issues. "Knowledgeable" was defined as responding correctly to 10 out of 14 questions related to basic program facts and the benefits they provide. This larger, one-time national survey provided us with similar, but more useful data than the previous PUMS surveys. The latest survey data showed the variance in knowledge among the 52 areas in which SSA divides the country for service, enabling local SSA managers to understand the educational needs of the people who live in the area they serve and plan better to meet those needs.

We are pleased that 80 percent of adult Americans today know important basic information about the programs and the benefits they provide. Having seen the effectiveness of our public information strategies and with planning for improvements under way, we are certain we will continue to increase public knowledge of Social Security programs. As part of this effort, we are revising our national public education program to align with the Agency's new strategic plan, and we will be developing a new "knowledge" measure. We will collect baseline data using this new measure in FY 2003.

Year	Goal	Actual
1999	**N/A**	**55%**
2000	**65%**	**75%**
2001	**75%**	**78%**
2002	**78%**	**N/A**

Data Definition: This is the percent of Americans (adults age 18 and over) determined as "knowledgeable" in the annual PUMS Survey.

Data Source: Annual public survey of adults age 18 and over.

Performance Indicator 2: Percent of individuals issued SSA initiated Social Security Statements as required by law.

FY 2002 Performance Discussion: We met our goal of 100 percent. Social Security Statements are produced and mailed every workday except Federal holidays. Recipients are Social Security number holders age 25 and older who are not yet receiving Social Security benefits and for whom we can obtain a current address. Unless there is unanticipated legislative or other required change that would affect either the content or the format and design of the current *Statement,* we would expect to continue issuing 100 percent of SSA-initiated *Statements* as required by law. SSA will continue to monitor internally issuance of the *Statement* so that we can identify and correct operational issues and ensure ongoing excellent performance. However, because we have never achieved less than 100 percent of our objective in any fiscal year since we began reporting, this indicator has lost its usefulness for external monitoring. Beginning in FY 2003, SSA will no longer report performance on this indicator.

Year	Goal	Actual
1999	**100%**	**100%**
2000	**100%**	**100%**
2001	**100%**	**100%**
2002	**100%**	**100%**

Data Definition: Self-explanatory. As required by law, in FY 2000 SSA began to issue annual Social Security Statements to all eligible workers age 25 and over. We estimate that we will issue 136 million statements in FY 2003 to meet this requirement, including statements issued upon request.

Data Source: Social Security Statement Weekly Summary Report found on the Executive and Management Information System (EMIS).

Strategic Goal D: To be an employer that values and invests in each employee

Strategic Objective 1: To recruit, develop, and retain a diverse, well-qualified workforce with the capacity to perform effectively in a changing future environment. Specifically by 2005:

- ***Develop and implement innovative tools and techniques for recruitment and hiring;***
- ***Use authorized flexibilities to attract and retain a highly qualified and diverse workforce; and***
- ***Continue to enhance quality of work life opportunities for all employees***

Performance Indicator 1: Increase the retention rate of new hires.

FY 2002 Goal: Establish a baseline retention rate of new hires by September 2002.

FY 2002 Performance Discussion: We met the goal. A baseline retention rate of 84.3 percent was established in the Office of Human Resources/Office of Workforce Analysis' study. Using this baseline data, we will set annual goals, starting in FY 2003, for percent increases in the retention rate. We will aim to increase the retention rate of new hires using competency-based recruitment tools.

Data Definition: This percent is the number of employees hired in a specific year and who then leave SSA within 3-years, divided by the total number of employees hired during that same year.

Data Source: Human Resources Management Information System. The study began in FY 2001 and entails identifying new hires, surveying those who left during the first 3 years, and also surveying their supervisors. We will ask them about their reasons for leaving SSA. The new hires that stayed with SSA will also be surveyed. This study will be completed in FY 2002.

Performance Indicator 2: Continue to implement the SSA Future Workforce Plan. **This goal was partially met. This indicator is Key Performance Indicator 12 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 38 for a detailed discussion.**

Strategic Objective 2: To provide the necessary tools, training and continuous learning opportunities to maintain a highly skilled and high-performing workforce. Specifically by 2005:

- ***Provide online training electronically at the desktop to all employees;***
- ***Have 1/3 of all employees participating in job enrichment opportunities during each year***
- ***Provide 70% of employees the necessary competency-based training needed to maintain technical skills each year; and***
- ***Provide 70% of employees the competency-based tools needed to obtain training and skills needed to enhance their job performance and develop their career.***

Performance Indicator 1: Develop, test, and implement desktop video nationally.

FY 2002 Goal: Develop, test and implement a prototype desktop video in 5 field offices.

FY 2002 Performance Discussion: We met the goal. Desktop video would assist us to address growing individual training needs while concurrently meeting increased workload demands. In FY 2002, SSA developed, tested, and implemented a prototype for desktop video in 5 field office sites across the country. SSA is now evaluating data from the pilot and will complete its business case for desktop video in FY 2003 to determine whether and how to proceed with this initiative to provide employees with desktop access to training.

This "milestone-oriented" performance indicator will be discontinued beginning in FY 2003, as our performance indicators related to human capital in support of our new strategic plan will be more outcome-oriented.

Data Definition: We will meet this goal if we successfully develop, test and implement a prototype for desktop video in 5 of our field offices in FY 2002; and if we implement desktop video and necessary training in 33 percent of field offices in FY 2003.

Data Source: Office of Training records.

Performance Indicator 2: Percent of offices with direct access to Interactive Video Teletraining (IVT).

FY 2002 Performance Discussion: We met the goal. SSA has installed IVT in 1176 offices/facilities. That means 78.4 percent of our 1,500 offices have direct access to IVT. We will continue increasing the number of IVT installations in FY 2003. No formal, specific goal has been set for the number of installations but we plan to continue to track IVT installations. Our aim is to enable all our employees to receive training they need without having to travel to other locations. This will allow us to address growing individual training needs while concurrently meeting increased workload demands.

This performance indicator will be discontinued beginning in FY 2003, as our performance indicators related to human capital in support of our new strategic plan will be more outcome-oriented.

Year	Goal	Actual
1999	N/A	N/A
2000	N/A	N/A
2001	67%	57.7%
2002	76%	78.4%

Data Definition: This goal for equipping SSA's offices with IVT has been redefined effective FY 2001. The prior goal was defined as access to IVT in offices within a 30-minute commute. The new indicator is defined as direct access to IVT in each office. Employees will receive the training they need without having to travel to other locations. The net result will be the ability to address growing individual training needs while concurrently meeting increased workload demands.

Data Source: Office of Training records.

Performance Indicator 3: Number of job enrichment opportunities in formal management development programs.

FY 2002 Goal: Increase the number of openings for job enrichment opportunities in the national Advanced Leadership Program (ALP) and Leadership Development Program (LDP) to 192.

FY 2002 Performance Discussion: We met the goal. To maintain a highly skilled, high performing, and highly motivated workforce to achieve our mission, we are providing career development opportunities to our best employees to prepare them for management, leadership and other positions. In FY 2002, we provided 217 job enrichment opportunities in headquarters-based formal management development programs, exceeding the goal by more than 10 percent. In FY 2003, we will continue management and leadership development programs in each SSA region and major headquarters component.

This performance indicator will evolve beginning in FY 2003 to accommodate the training and development needs of all staff in headquarters, component, and regional development programs.

Data Definition: The FY 2001 goal focused on ensuring that SSA implemented formal management development programs. The FY 2002 goal is to increase to 192 the number of opportunities that these programs provide.

Data Source: Office of Training records.

Performance Indicator 4: Define competencies for technical training and career development and make them available for employee use.

FY 2002 Goals: 1) Define competencies for the Claims Representative, Service Representative, Benefit Authorizer, and Teleservice Representative positions; and 2) Develop a competency-based tool to enable employees to identify and obtain information they need about their training and skills development and make it available to 25,000 users.

FY 2002 Performance Discussion: We partially met the goal. SSA's initiative is to identify the core knowledge and skill requirements of our key positions, especially those that provide direct service to the public. Once defined, these "competencies" will help employees assess their current level of proficiency and determine their training and development needs. In FY 2002, we completed defining competencies for two key positions: Claims Representative and Service Representative. We are slightly behind schedule for FY 2002 because we have been working concurrently to practically integrate the newly defined competencies into the agency's training courses and materials. We expect to fully complete the definitions of two of our remaining direct service positions, Teleservice Representative and Benefit Authorizer, in FY 2003.

A competency-based tool would enable employees to identify and obtain information they need about their training and skills development. We are investigating available alternatives for SSA use, such as implementing the Office of Personnel Management's online training system that has a built in learning management system component, and benchmarking other similar systems to determine if modifications can be made.

This performance indicator will be discontinued beginning in FY 2003, as our performance indicators related to human capital in support of our new strategic plan will be more outcome-oriented.

Data Definition: This goal will be met if we define competencies for specific positions and provide a tool to employees to use to identify and obtain the skills they need.

Data Source: Office of Training records.

Strategic Objective 3: To provide a physical environment that promotes the health and well-being of every employee.

Performance Indicator 1: Percent of employees who are satisfied with overall physical environment, i.e., it is professional, accessible, safe, and secure.

FY 2002 Goal: Establish a baseline.

FY 2002 Performance Discussion: We did not meet our goal. Although we continue to implement the security and environmental programs, we were unable to meet our goal of establishing a baseline because we determined the instrument we had planned to use would not meet the agency's needs.

To ensure the work environment remains professional, accessible, safe and secure, we maintain our program of regular Environmental Health and Safety Comprehensive Assessments, air and water quality sampling and asbestos inspections, all with timely remediation. We are also committed to providing immediate responses to emergencies. We perform security reviews for offices that relocate as well as contact stations and other sites with no prior reviews. In addition we conduct physical security reviews of offices that have not been reviewed during the last three years and implement accepted physical security recommendations.

This performance indicator will be discontinued in FY 2003.

Data Definition: Results of an employee survey will determine the level of satisfaction employees have with their overall physical environment. The computation of the satisfaction rate is the number of employees who rate SSA as a satisfactory or very satisfactory place to work, divided by the number of employees responding.

Data Source: Biennial Market Measurement Program (MMP) Employee Survey – The MMP Employee Survey pilots continue in FY 2002. Following the pilots, the full-scale MMP Employee Survey will be done in FY 2002. Its results will be used as a baseline that should be available in FY 2002 and targets will be set biennially.

Strategic Goal E: To promote valued, strong, and responsive social security programs and conduct effective policy development, research, and program evaluation

Strategic Objective 1: Promote policy changes, based on research, evaluation and analysis, that shape the OASI and DI programs in a manner that takes account of future demographic and economic challenges, provides an adequate base of economic security for workers and their dependents, and protects vulnerable populations.

Performance Indicator 1: Identification, development, and utilization of appropriate barometer measures for assessing the effectiveness of OASDI programs. **We met our goal. This indicator is Key Performance Indicator 13 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 39 for a detailed discussion.**

Performance Indicator 2: Preparation of analyses and reports on demographic, economic, and international trends and their effects on OASDI programs.

FY 2002 Goals: Prepare analyses on the following topics:

1. **The relationship between Social Security and the economy;**
2. **Work and earnings as they relate to Social Security;**
3. **Role of pensions and wealth in providing retirement security; and**
4. **Social Security reforms in other countries.**

FY 2002 Performance Discussion: We met our goals. In FY 2002 we completed the following analyses:

(1)--We completed a paper, "Productivity Growth: the Past, the Present, and the Future from a Social Security Perspective." Our Retirement Research Consortium (RRC) also completed a project, "Modeling the Dynamic Macroeconomic Consequences of Social Security Reform."

(2)--We completed a paper, "Labor Force Trends and Future Social Security Benefits," that was presented at a conference sponsored by the Society of Actuaries in June 2002. Researchers at the RRC completed two papers, "Job Search Behavior at the End of the Life Cycle" and "Retirement Expectations Formation Using the Health and Retirement Study."

(3)--We completed a paper, "Lump Sum Pension Distributions: Evidence from the 1991-1993 Panels of the SIPP," that was published in the May 2002 issue of the *Monthly Labor Review.* Researchers at the RRC completed three projects, "Are Americans Saving Enough?", "The Impact of the Growth of Defined Contribution Plans on Bequests," and "The Impact of the Shift from Defined Benefit to Defined Contribution Plans for the Lifetime Allocation of Resources: How Important are Private Pensions for Workers' Retirement Income?"

(4)--SSA supported research by the International Social Security Association on an initiative to assess the coverage gap. In FY 2002, the national reports of the 15 participating countries and the final report were completed. Researchers at the RRC completed two projects, "Reforming Public Pensions: Lessons from Abroad" and "Opting Out from Public Pensions: Lessons from the British Experience."

This indicator will be discontinued in FY 2003.

Data Definition: We will consider this goal to be achieved if we prepare analyses and reports as indicated under the goal.

Performance Indicator 3: Preparation of research and policy analyses necessary to assist the Administration and Congress in developing proposals to reform and modernize the OASDI programs. **We met our goal. This indicator is Key Performance Indicator 14 in the Performance Goals and Results section of the Management's Discussion and Analysis.** **Please see page 40 for a detailed discussion.**

Strategic Objective 2: Promote policy changes, based on research, evaluation and analyses, that shape the SSI program in a manner that protects vulnerable populations, anticipates the evolving needs of SSI populations, and integrates SSI benefits with other benefit programs to provide a safety net for aged, blind, and disabled individuals.

Performance Indicator 1: Identification, development, and utilization of barometer measures for assessing the effectiveness of the SSI program.

FY 2002 Goal: Update barometer measures and prepare analysis.

FY 2002 Performance Discussion: We met our goal. A summary and analysis of barometer measures for the SSI program have been combined with that for the OASDI program. The updated measures and analysis can be found beginning on page 150 of this report.

Although this indicator will be discontinued in FY 2003, we will continue to update and publish the barometer measures.

Data Definition: We will consider this goal to be achieved if the Agency issues updated barometer measures with the latest available data and provides analysis of the data. These barometers will be used to help formulate and evaluate options for strengthening the programs.

Performance Indicator 2: Preparation of a report and completion of data collection on the National Survey of SSI Children and Families.

FY 2002 Goal: Prepare data files for analysis.

FY 2002 Performance Discussion: We met our goal. The purpose of the Childhood Disability Study is to evaluate the effect of the loss of SSI benefits, stemming from provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, on children and their families. It will provide estimates of the number of children who would have been eligible under previous program rules but are not eligible under current rules. It will also provide information on the characteristics of the children affected by the law, including information on family income, the cost of caring for disabled children, the use of SSI benefits, and the availability of other income. We met our FY 2002 goal when we received an edited and weighted data file from our contractor.

This indicator will be discontinued in FY 2003.

Data Definition: We will consider this goal to be achieved if the Agency prepares the data files for analysis.

Strategic Objective 3: Promote policy changes, based on research, evaluation and analyses, that shape the disability program in a manner that increases self-sufficiency and takes account of changing needs, based on medical, technological, demographic, job market, and societal trends.

Performance Indicator 1: Preparation of a research design to develop techniques for validating medical listings.

FY 2002 Goal: Report on the status of developing a validation methodology.

FY 2002 Performance Discussion: We met our goal. Our current system for determining eligibility for disability benefits presumes that persons who meet medical listings are severely disabled and unable to work. SSA will develop a methodology to monitor and evaluate our medial listings. SSA has conducted work toward this goal under a cooperative agreement with the Disability Research Institute (DRI). In FY 2001, the DRI produced preliminary reports reviewing the literature on validation, criteria by which the medical listings could be validated and development of methods by which the criteria may be assessed. In FY 2002, the DRI proposed several alternative conceptual designs for a validation study and prepared a proposal to develop a detailed protocol for assessing whether individuals who meet the listings can or cannot engage in substantial gainful activity for at least one year.

This indicator will be discontinued in FY 2003.

Data Definition: Self-explanatory.

Performance Indicator 2: Preparation of reports on results of the National Study on Health Activity.

FY 2002 Goal: Report on the status of the main study data collection.

FY 2002 Performance Discussion: We met our goal. In FY 2001, analysis of the outcome of a pilot study showed that significant revisions were needed in the study instruments and in the medical examination component. In FY 2002, we made these revisions and conducted a second pilot study under an outside contract. A report of the pilot test results was completed in August.

This study is being discontinued in FY 2003. Although extensive testing of the National Study of Health and Activity developed a workable methodology, we have concluded that the benefits of the survey would not justify the substantial projected costs. Conducting in-person screening in order to ensure an adequate response rate, combined with increasing the sample size to ensure that the findings would be representative, would have resulted in a doubling of costs compared to the original estimate.

This indicator will be discontinued in FY 2003.

Data Definition: Self-explanatory.

Performance Indicator 3: Preparation of analyses of alternative return-to-work strategies.

FY 2002 Goal: Report on the design and implementation of evaluations and demonstration projects.

FY 2002 Performance Discussion: We met our goal. We are evaluating several strategies to encourage return-to-work among persons with disabilities, including a $1-for-$2 benefit offset demonstration, an early intervention demonstration, a state partnership initiative and the Ticket-to-Work program. In FY 2002, we conducted work in these areas as follows:

$1-for-$2 Benefit Offset Demonstration—In August 2002, SSA received an advice report from the Ticket to Work and Work Incentives Advisory Panel. Plans for a national demonstration are currently underway.

Early Intervention Demonstration—The DRI, under a cooperative agreement, completed a final report on a design for an early intervention demonstration, and SSA began to develop process pilot projects that will be implemented in FY 2003.

State Partnership Initiative (SPI)—In FY 2002, the focus of the SPI was on delivery of services to beneficiaries and on reporting results. The contractor completed an evaluation design and preliminary analysis with available data from the State Partnership projects.

Evaluation of the Ticket-to-Work Program—In FY 2001, SSA awarded a design contract for the evaluation of the Ticket-to-Work Program. In FY 2002, SSA received a final draft from the design contract and prepared a request for proposals to conduct the evaluation.

SSA is developing a structured package of demonstration projects to facilitate the employment of persons with disabilities, including the above demonstrations as well as an employment strategy for youth with disabilities and a demonstration in the mental health area.

This indicator will be discontinued in FY 2003.

Data Definition: Self-explanatory.

Strategic Objective 4: Provide information for decisionmakers and others on the Social Security and Supplemental Security Income programs through objective and responsive research, evaluation, and policy development.

Performance Indicator 1: Percent of users assigning a high rating to the quality of SSA's research and analysis products in terms of accuracy, reliability, comprehensiveness, and responsiveness.

FY 2002 Goal: Assess user satisfaction measurement system, and analyze baseline measures and identify steps to be taken to improve satisfaction with research and analysis products.

FY 2002 Performance Discussion: We met our goal. Four papers have been prepared. One paper evaluated the user satisfaction measurement system. The response rate of 60 percent was very good for this type of survey. The major weakness is the inability to fully identify the universe of users for SSA's research and analysis products. Missing groups include Internet and library users. The methods used by SSA for identifying users were supported as reasonable by an outside audit and by an outside statistical review. Nevertheless, the audit recommended that the data not be used as a performance measure.

Two papers analyzed baseline results--the final report of the contractor who conducted the survey, and a more detailed study that will be published in a forthcoming issue of the *Social Security Bulletin*. A fourth paper analyzed recommendations for improvement. The largest number of recommendations related to producing more analytical or statistical products, with the most frequent responses being in the areas of disability and disability-related work incentives. Additionally, there were recommendations for improving the website.

This indicator will be discontinued in FY 2003.

Data Definition: This goal will be considered achieved if the agency prepares an analysis of the customer satisfaction measurement system and of the baseline measures and identifies steps to be taken to improve satisfaction with SSA's research and analysis products.

Performance Indicator 2: Percent of major statistical products that are timely.

FY 2002 Goal: Produce major statistical products on schedule.

FY 2002 Performance Discussion: We met our goal.

Each year, we identify major statistical products and establish a production schedule, with the goal of producing all products on time. In 2002, we identified five products and issued a schedule for release of these publications. *Fast Facts and Figures About Social Security, Income of the Aged Chartbook, Income of the Population 55 or Older,* and

SSI Annual Statistical Report were posted on the Internet and published on time. The *Annual Statistical Supplement* was published on time in January 2002. A waiver was obtained to post this publication in PDF format on the Internet while we work to make the tables conform to requirements for accessibility by the visually impaired.

This indicator will be discontinued in FY 2003.

Data Definition: This goal will be considered achieved if the Agency identifies major statistical products, issues a schedule for the release of these publications, and produces them on schedule.

Selected Budgeted Workloads in Support of Strategic Goals

The selected budgeted workloads, shown below, are major categories of our work that provide service to the public and/or ensure the integrity of our programs. These substantial day-to-day base workloads are the largest factor driving overall SSA administrative resource needs. Displayed below are the workloads we expected to process in FY 2002, and what we actually processed in FY 2002.

Workload 1: RSI Claims Processed

FY 2002 Performance Plan: 3,107,000

FY 2002 Actual: 3,265,473. We processed more then the projected workload of Retirement and Survivors Insurance (RSI) claims.

Performance Discussion: One of SSA's key ongoing operational responsibilities is to process the RSI claims it receives. Each year we estimate the RSI claims workload that we expect to receive based on actuarial estimates, prior years' claims receipts, legislative or policy changes, and other factors. The projected workload for FY 2002 was very close to the actual number of RSI claims processed.

The number of RSI claims received and processed in FY 2003 and subsequent years will depend in large part on the number of people who are ready to retire and file, and the number of wages earners who die and leave eligible survivors. For FY 2003, we currently estimate our RSI claims workload at 3,229,000.

Workload 2: SSI Aged Claims Processed

FY 2002 Performance Plan: 155,400

FY 2002 Actual: 167,900. We processed more than the projected workload of Supplemental Security Income (SSI) aged claims.

Performance Discussion: One of SSA's key ongoing operational responsibilities is to process the SSI claims it receives. Each year we estimate the SSI claims workload we expect to receive based on actuarial estimates, prior years' claims receipts, legislative or policy changes, and other factors. The projected workload for FY 2002 was somewhat less than the actual number of SSI aged claims processed.

In the absence of new legislation, the number of SSI aged claims is entirely dependent on the number of people who file a claim and who meet citizenship, income and resource requirements. For FY 2003, we currently estimate our SSI aged claims workload at 157,100.

Workload 3: Initial Disability Claims Processed

FY 2002 Performance Plan: 2,191,000

FY 2002 Actual: 2,376,572. We processed more initial disability claims than projected.

Performance Discussion: We were able to process more than the estimated number of initial disability claims because we reallocated funds to the State DDS budget to enable the DDSs to increase case processing capacity to address the higher receipts. By processing more initial disability claims with the help of additional funding, the growth of backlogged disability claims has slowed and the DDSs are better positioned to meet future processing targets. Future disability claims processing targets are based on past performance and future actuarial projections and, with sufficient funding, should be met.

Workload 4: Initial Disability Claims Pending

FY 2002 Performance Plan: 695,000

FY 2002 Actual: 592,692. Fewer claims were pending than projected.

Performance Discussion: More initial disability claims were processed than projected, which allowed the DDSs to make substantial progress in reducing the volume of claims pending. By reducing the pending more than had been estimated in FY 2002 through additional funding, the growth of backlogged disability claims was slowed and the DDSs are better positioned to meet future processing targets. Future disability claims processing projections are based on past performance and future actuarial projections and, with sufficient funding should be met.

Workload 5: Hearings Processed

FY 2002 Performance Plan: 490,000

FY 2002 Actual: 532,106. We processed more hearings than projected.

Performance Discussion: Two major factors contributed to our processing more hearings than projected in FY 2002. First, we instituted several hearings workflow and process changes, including 1) elimination of the requirement that cases be certified for hearing; 2) elimination of the mandatory rotation of staff among various duties; 3) enhanced early case screening and analysis; 4) the creation of two new positions to improve the front-line service in hearing offices; and 5) implementing a short form fully-favorable decision format. Second, we received a one-time exemption from pending litigation and were able to hire 127 Administrative Law Judges (ALJs) in October 2001.

Workload 6: Hearings Pending

FY 2002 Performance Plan: 537,000

FY 2002 Actual: 500,757. Fewer hearings were pending at the end of FY 2002 than projected.

Performance Discussion: Fewer hearings were pending at the end of FY 2002 because more hearings were processed than projected. See “Workload 5”, Hearings Processed, directly above for a full explanation of hearings processed in FY 2002.

Workload 7: SSN Requests Processed

FY 2002 Performance Plan: 17,132,400

FY 2002 Actual: 17,679,490. We processed more SSN requests than projected.

Performance Discussion: One of SSA's key ongoing operational responsibilities is to process the requests it receives for original or duplicate Social Security numbers (SSNs). Each year we estimate the SSN request workload that we expect to receive. The number of SSNs processed in a year is entirely dependent on the number of people who need a new or replacement SSN, and who meet citizenship or residency requirements.

We processed SSNs in excess of the budgeted number. We allotted sufficient administrative resources in FY 2002 to process the workload. In FY 2003, we expect to process 16,000,000 SSN requests.

Workload 8: 800-Number Calls Handled

FY 2002 Performance Plan: 61,100,000

FY 2002 Actual: 51,800,000. We handled fewer calls than projected.

Performance Discussion: In FY 2002, we handled fewer 800-number calls because we received fewer than the expected number of 800-number calls. This was due to several factors:

- Increased usage of the Internet by potential callers has resulted in fewer calls;
- Calls resulting from the ongoing mailings of the Social Security Statement have diminished; and
- Enhancements to the 800-number make it unnecessary for citizens to redial, including automated menu features that enable citizens to select another service (including agents), and improvements to the network that allow us to answer more calls on the initial attempt and increase the access rate.

Our ability to handle the 800-number calls we receive each year is a key factor in our continued ability to process our work in these times of increasing workloads, evolving customer demands and preferences, and limited staffing. Processing this day-to-day workload requires a major portion of our annual administrative resources and continued enhancements of services available on our 800-number. In FY 2003, we expect to receive and handle 55,000,000 800-number calls.

Workload 9: Other Appellate Actions[1]

FY 2002 Performance Plan: 979,900

FY 2002 Actual: 923,636. We processed fewer appellate actions than projected.

Performance Discussion: We processed the receipts we received. Since receipts were lower than projected we processed fewer items than estimated.

[1] Includes reconsiderations, reviews before council, court cases, and court remands.

Workload 10: Periodic Continuing Disability Reviews (CDRs) Processed

FY 2002 Performance Plan: 1,397,000

FY 2002 Actual: 1,586,091. We processed more CDRs than projected.

Performance Discussion: SSA conducts very effective periodic reviews called continuing disability reviews to determine whether individuals receiving disability have medically improved and no longer meet the statutory definition of disability, and therefore should have their disability benefits terminated. SSA's annual targets for FY 1996 through FY 2002 were set in accordance with our 7-year CDR plan. The goal of that 7-year plan was for SSA to process its entire backlog of CDRs by FY 2002, and then to keep current with processing this critical workload. Congress provided special funding to SSA to process our 7-year plan workload.

In FY 2002 we processed more than the projected number of CDRs with the special funding and by undertaking initiatives to enhance the efficiency and integrity of CDR processing. These initiatives included improving our ability to identify factors that may indicate that a beneficiary has medially improved. We use these factors in a profiling process to determine the type of CDR path a case should follow: either a full medical review or an abbreviated process using a CDR mailer questionnaire. In FY 2003 we expect to process 1,380,000 CDRs and remain current, provided sufficient funding is received.

Workload 11: SSI Non-Disability Redeterminations Processed

FY 2002 Performance Plan: 2,255,000

FY 2002 Actual: 2,311,499. We processed more redeterminations than projected.

Performance Discussion: Supplemental Security Income (SSI) non-disability redeterminations are periodic reviews of eligibility conducted to ensure that a recipient is still eligible and that the recipient is receiving the correct amount of SSI benefits. Redeterminations focus on the income and resource factors affecting eligibility and payment amounts. This is a cyclical workload with most cases released for processing early in the fiscal year, followed by smaller monthly releases. SSA controls the number of scheduled redeterminations to be released each year, but recipients may also initiate unscheduled redeterminations when they report changes in income, resources and living arrangements.

SSA has increased the number of budgeted redeterminations to be released in FY 2003 to 2,455,000 as they have been shown to cut the incidence of improper payments substantially.

Workload 12: Annual Earnings Items Processed

FY 2002 Performance Plan: 271,800,000

FY 2002 Actual: 266,777,009. We processed fewer earnings items than projected because companies reported fewer wage items to SSA in FY 2002.

Performance Discussion: Annual earnings items reflect the total number of paper annual wage items processed through the balancing operation plus the total number of magnetic media and self-employment items posted for a given fiscal year. We attribute our achievement in FY 2002 to our continued pursuit of several effective initiatives, including:

- Improved management information that tracks wage item report submittals;
- Targeting of large submitters to ensure their submittals are processed timely and provide assistance as needed;

- Follow-up on magnetic media returns and corrections earlier in the process; and
- Monitoring of processing problems internally within SSA and between SSA and the employer community.

In FY 2003, we expect to process approximately 260,000,000 earnings items.

Workload 13: Representative Payee Actions

FY 2002 Performance Plan: 7,006,500

FY 2002 Actual: 7,117,014 We processed slightly more representative payee actions than projected.

Performance Discussion: The number of representative payee actions consists of two workloads: the number of representative payee applications and the number of representative payee accountings processed. SSA has little control over the number of applications received, and therefore needing to be processed, because we cannot accurately predict the number of beneficiaries that will need representative payees in any given year. This also impacts the number of payee accountings released for processing.

SSA's continued intention is to process all the applications received and accountings released for processing in a given year. In FY 2003, we expect to process approximately 6,551,400 representative payee actions.

Workload 14: Overpayment Actions

FY 2002 Performance Plan: 3,064,900

FY 2002 Actual: 3,619,392. We processed more overpayment actions than projected.

Performance Discussion: Overpayments generally occur because some recipients fail to report changes in their circumstances, such as increased earnings, that makes them ineligible for payments they have already received. The number of overpayment actions cleared in a year depends upon how many people are overpaid. In FY 2003, we expect to process approximately 2,433,500 overpayment actions.

President's Management Agenda

The President's Management Agenda (PMA), announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal government. It identifies and focuses on government-wide initiatives that are intended to work together as a mutually reinforcing set of reforms. The initiatives are:

1. Strategic Management of Human Capital;
2. Competitive Sourcing;
3. Improved Financial Performance;
4. Expanded Electronic Government; and
5. Budget and Performance Integration.

In FY 2002, we made progress in supporting the PMA initiatives by implementing specific improvements and by working toward establishing the needed infrastructure for future improved performance. We developed multiyear plans for achieving the goals of the PMA. We also began to incorporate the PMA initiatives into our strategies for achieving SSA's mission and strategic goals.

The Administration uses a PMA scorecard to rate agencies on each initiative using a "score" of red, yellow, or green. In the PMA scorecard issued in June 2002, SSA's progress in implementing the initiatives was recognized with one of the best evaluations overall, as compared with other departments and major agencies.

SSA's next Agency Strategic Plan and our *"Performance Plan for Fiscal Year 2004 and Revised Fiscal Year 2003 Performance Plan"* will discuss SSA's strategies for achieving success for each of the PMA initiatives as well as how the five initiatives are interwoven into the strategies for achieving our long-term strategic objectives. Following is a short summary of the PMA initiatives:

Expanded Electronic Government — Status: (yellow) — Progress: (yellow)

This initiative aims to make simpler for people to receive high-quality service from the federal government, while reducing the cost of delivering those services. SSA will continue to increase the range of services we offer electronically to the public (including citizens and corporations) and to partner with other Federal, State and local entities to promote consolidated service delivery. We have invested substantially in electronic service delivery as a critical means of providing service to millions of Baby Boomers, and we will encourage the use of the SSA Internet web site, http://www.ssa.gov/ by the public to carry out their business with us.

Competitive Sourcing — Status: (red) — Progress: (yellow)

This initiative seeks to achieve greater efficiencies in program administration, effective competition between public and private sources, and promotion of innovation. SSA is building the infrastructure needed to institutionalize public-private competition on an ongoing basis within the Agency.

Improved Financial Performance — Status: (yellow) — Progress: (green)

This initiative focuses on the reduction of erroneous payments and ensuring that federal financial systems produce accurate and timely information to support operating, budget and policy decisions. SSA is building upon its aggressive efforts at reducing erroneous payments and collecting related debt by increasing cost-effective program integrity initiatives.

Budget and Performance Integration — Status: (yellow) — Progress: (green)

This initiative calls for linking resources to performance, using program evaluation in planning and budget decisionmaking, and improving accountability for performance. Our budget clearly defines performance commitments, both in terms of quantifiable public service and program integrity workloads that SSA will handle, and key outcomes it will achieve. At SSA, accountability is clearly defined for major initiatives and workloads, and productivity and/or process improvements are built into the most problematic areas identified in evaluations.

Strategic Management of Human Capital Status: Progress:

This initiative calls for reducing the distance between citizens and decisionmakers. At SSA, we are providing more front-line employees, using technology to capture the skills and knowledge of retiring employees, making better use of existing flexibilities to recruit, hire, develop, and reward employees, determining employee core competencies, and improving our performance systems to promote accountability and to encourage and reward high performance.

Our FY 2003 Annual Performance Plan and Revised Final FY 2002 Annual Performance Plan contained two specific FY 2002 performance commitments in support of SSA's PMA initiatives. Those results are described below.

PMA Initiative: Competitive Sourcing

FY 2002 Commitment: Compete 5 percent of SSA positions appropriate for public-private competition or direct conversion to the private sector.

FY 2002 Results: We did not achieve the 5 percent commitment but are on target to meet our 15 percent commitment by FY 2003. We are moving forward with our first public-private competitions and direct conversions in order to meet our combined FY 2002 –2003 goal of competing 15 percent of SSA positions appropriate for public-private competition or direct conversion to the private sector.

In March 2002, we submitted a competitive sourcing plan to OMB outlining how we would meet the 15 percent goal by the end of FY 2003. This plan reflects SSA's strategic decisions to ensure competitive sourcing is used to improve the efficiency and effectiveness of Agency processes and provide the greatest benefit to the taxpayer. It also describes our plans to build the necessary infrastructure. The Agency competitive sourcing plan was updated in July 2002.

In FY 2002, we created a team to serve as the Agency experts of the FAIR Act of 1998, OMB Circular A-76 and its supplement and all other guidelines and processes governing the study of commercial activities. A SSA-wide workgroup was convened to address policy, human resource, labor relations and communications issues related to conducting competitive sourcing studies. We initiated training efforts for management and employees involved in conducting competitive sourcing studies. In August 2002, we acquired competitive sourcing support through a Blanket Purchase Agreement with Management Analysis Inc. (MAI), a consulting firm specializing in studies conducted under OMB Circular A-76. MAI will provide expert guidance and fully support SSA in conducting each phase of the competitive sourcing process. Work began to address direct conversion activities and public-private competitions listed on SSA's combined FY 2002/2003 competitive sourcing plan.

PMA Initiative: Expanded Electronic Government

FY 2002 Commitment: We will have completed market research for a fully automated grants award system and will have made the purchase decision on such a system. Based on our research, we will know whether the available state-of-the-art automated grants systems meet our needs.

FY 2002 Results: We achieved our commitment. Expanding electronic government is part of SSA's strategy to make it simpler for people to receive high-quality service from the Federal government while reducing the cost of delivering those services. One aspect of that strategy is to provide the public with an electronic business environment that includes building e-government infrastructures including e-procurement and e-grants. In FY 2002, SSA completed its market research for a fully automated grants award system and concluded that no suitable eGrants Off-the-Shelf product exists. SSA is now focusing on the feasibility of obtaining and customizing a specific Federally owned eGrants system, to the extent necessary to satisfy our Agency specific eGrants requirements.

Barometer Measures

An agency's strategic and performance plans are used to assess its performance in terms of outcomes achieved and outputs produced. The Social Security Administration's (SSA's) mission is to promote the economic security of the nation's people. SSA's programs, however, are not the only factors that affect the economic status of the aged, disabled, and survivor populations. Personal choices, social attitudes, and the economic climate also play important roles. Thus, it is not feasible for the agency to establish numerical goals for such measures as levels of income or rates of poverty.

No single measure can capture the effectiveness of a social program. Therefore, SSA has developed a number of barometer measures for both the Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. Each barometer contains multiple data measures that reflect the different bases and objectives of each program: earnings-based for OASDI and needs-based for SSI. Barometer measures should be considered both within the context of each other and in relation to external economic, social, and other factors. Although SSA cannot set goals for these measures, the agency has committed to identifying and defining quantitative indicators to assess the outcomes of the agency's programs.

This is the third year that SSA has published barometer measures. The first two reports presented data only for the current year. Beginning this year, we have changed the format of the report to a time-series that monitors trends in barometer measures over time. A number of changes have been made, including:

- Discontinuing three measures--Historical Labor Force Participation Rates, Percent of OASDI Beneficiaries in Poverty Without Social Security and Average Primary Insurance Amounts (PIA) and Benefits Paid for Newly Retired Workers, by PIA Quintiles;
- Modifying the data source for calculating quarters of coverage, years with zero earnings, and actual earnings replacement rates;
- Replacing Annual Poverty Gap With and Without SSI with Percent Reduction in Poverty Gap Due to SSI; and
- Adding measures on work among DI beneficiaries.

The five barometer categories are:

I. Program Coverage and Eligibility
II. Benefit Adequacy and Equity
III. Reliance on Social Security Programs
IV. Return-to-Work Among Persons with Disabilities
V. Private Provision for Retirement

This report provides a brief summary and analysis of the five areas followed by the measures related to each one.

I. Measures of Program Coverage and Eligibility

OASDI benefits are based on lifetime labor force participation. Participation rates vary greatly by age and sex and have been changing over time, especially for women. Newly retired male workers typically have earned more quarters of credit for Social Security coverage than newly retired female workers and have experienced fewer years with no earnings[2]. Men retiring in 2001, on average, had covered earnings in 83 percent of the quarters from age 22 to the year before first collecting retired-worker benefits, compared with 65 percent for women (Barometer IA). And men had, on average, 6 years with no earnings from age 22 to retirement compared with over 13 years for women (Barometer IB).

[2] Forty quarters of coverage are required to establish eligibility for retirement benefits.

Approximately 95 percent of individuals aged 62 or older were eligible (either insured for benefits or could receive benefits based on the work record of an insured worker) for OASDI benefits in 2001 (Barometer IC). About 80 percent of persons aged 20 to the normal retirement age were insured for disability (Barometer ID).[3] Although fewer women were insured for disability benefits than men (75 percent compared with 85 percent), their insured status is gradually increasing. And more individuals under age 62 than between age 62 and the normal retirement age were eligible for disability benefits. This is especially true of women (76 percent for women aged 20-49, for example, compared with 61 percent for those aged 62 to the normal retirement age).

Social Security provides benefits not only to workers but also to spouses and survivors. More women receive OASDI benefits based on their own work record than as a spouse. In 2001, about 37 percent of the female beneficiaries aged 65 or older were receiving only retired-worker benefits, 29 percent were dually entitled to their worker benefit and a higher spouse benefit, and 34 percent were receiving a wife or widow benefit only (Barometer IE). The proportion of aged women who were receiving only retired-worker benefits or who were dually entitled increased by 1.2 percentage points between 1999 and 2001.

IA. Average Percentage of Quarters of Coverage of New Retired-Worker Beneficiaries [a]

Year	Total	Men	Women
1999	73.7	81.2	64.4
2000	74.1	81.7	64.5
2001	75.0	82.9	65.2

a. The average percentage of quarters of coverage earned is the number of quarters actually earned divided by the total number of quarters from age 22 to the year before first collecting retired-worker benefits.

Source: 1% Continuous Work History Sample supplemented with information from the Master Earnings File for persons retiring in 1999-2001.

IB. Average Number of Years with Zero Earnings of New Retired-Worker Beneficiaries [a]

Year	Total	Men	Women
1999	9.5	6.1	13.7
2000	9.6	6.2	13.8
2001	9.4	6.1	13.5

a. Years of zero earnings are measured from age 22 to the year before first collecting retired-worker benefits. This calculation does not subtract out the lowest 5 years as is done in the benefit calculation.

Source: 1% Continuous Work History Sample supplemented with information from the Master Earnings File for persons retiring in 1999-2001.

[3] Persons not eligible for Social Security include those without enough work credits and those who work in non-Social Security-covered employment, such as some state and local governments.

IC. Percentage of Population Aged 62 or Older Eligible for OASDI Benefits [a]

Year	Total	Men	Women
1999	95.1	93.5	96.2
2000	95.0	93.4	96.1
2001	95.2	93.6	96.4

a. Insured for OASDI benefits or could receive benefits based on the work record of an insured worker. Figures for 1999 have been revised to correct an earlier error.

Source: Estimate of SSA Office of the Chief Actuary, December 1999 - December 2001.

ID. Percentage of the Population Meeting Work Requirements to Be Insured for Disability Benefits, by Age and Sex

	Men			
Year	Total	20-49	50-61	62-NRA
1999	84.2	84.3	84.6	78.5
2000	84.5	84.7	85.1	78.0
2001	84.7	84.7	85.3	79.6

	Women			
Year	Total	20-49	50-61	62-NRA
1999	73.4	74.8	71.0	59.2
2000	74.0	75.4	72.1	59.8
2001	74.6	75.8	73.0	61.2

Note: NRA = normal retirement age

Source: Estimate of the SSA Office of the Chief Actuary, December 1999 - December 2001

IE. Percentage of Women Aged 65 or Older Receiving OASDI Benefits, by Type of Benefit

Year	Total	Retired Worker Only	Dually Entitled	Wife or Widow Only
1999	100.0	36.2	28.6	35.3
2000	100.0	36.4	28.9	34.7
2001	100.0	36.8	29.2	34.0

Source: Master Beneficiary Record (MBR), December 1999 - December 2001.

II. Measures of Benefit Adequacy and Equity

Because of Social Security's progressive benefit formula, low-wage workers experience higher replacement rates in retirement than other workers. Replacement rates measure the adequacy of OASDI benefits in retirement relative to prior earnings. In 2001, OASDI benefits replaced 53 percent of earnings for hypothetical life-time low-wage workers (defined as those earning 45 percent of the average wage), 39 percent for average-wage workers, and 24 percent for workers with maximum taxable earnings (Barometer IIA).

We have also calculated replacement rates based on actual lifetime earnings for retired workers. We define actual replacement rates as the ratio of the retired worker's benefit based on his or her own earnings to his AIME. The median replacement rate in 2001 was about 43 percent (Barometer IIB.1). Median replacement rates ranged from 71 percent for those in the lowest earnings group to 30 percent for those in the highest earnings group (Barometer IIB.2). Because women tend to have lower earnings than men, their median replacement rate is higher than that of men. In 2001, it was 52 percent for women compared with 37 percent for men.

Measures of poverty provide a broader assessment of the adequacy of income of those who receive OASDI benefits and SSI benefits, including other sources of income of beneficiaries and income of other family members. In 2000, the most recent year for which data are available, 8.5 percent of OASDI beneficiaries aged 65 or older (2.5 million individuals) were below poverty, about the same as in 1998 (Barometer IIC). The poverty rate for beneficiaries aged 18-64 declined from about 18 percent in 1998 to about 16 percent in 2000, and the poverty rate for children in families reporting Social Security declined from about 25 percent to 19 percent. These changes over time in poverty among beneficiaries are similar to changes for all persons[4]. Although the poverty rate is much lower for aged beneficiaries than for younger beneficiaries, more aged beneficiaries are poor than are working aged beneficiaries or children living in families receiving OASDI benefits.

One measure of the effectiveness of SSI in providing adequate income is the extent to which it reduces the gap between the income of SSI recipients and the poverty line. In 1999, the most recent year for which data are available, SSI reduced the annual poverty gap by 65 percent, on average (Barometer IID). The reduction in the poverty gap was approximately the same for all age groups. SSI beneficiaries residing in states with only a federal benefit received payments that raised them to 69 percent of the poverty level in 2001. Those living in states that supplemented SSI payments were raised to levels ranging from 71 percent of the poverty threshold in Michigan to 93 percent in California (Barometer IIE).

Although low-income workers receive proportionately higher OASDI benefits relative to past earnings, high-earning workers receive higher OASDI benefits in absolute terms. As shown in Barometer IIB.2, the replacement rate for the lowest quintile in 2001 was 71 percent; however, individuals in this quintile received only 12 percent of OASDI dollars paid in 2000 (Barometer IIF). Conversely, individuals in the highest quintile had a replacement rate of 30.4 percent, but they received 24 percent of OASDI dollars paid.

Although historical data show that the poverty rate for the aged overall has declined greatly, poverty rates vary substantially for subgroups of beneficiaries. Younger beneficiaries, women, and minorities have much higher poverty rates. On the other hand, replacement rates are lower at high incomes.

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[4] Bureau of the Census, "Poverty in the United States: 2000," *Current Population Reports*, Series P-60, No. 214 (September 2001), Washington, D.C, U.S. Government Printing Office.

IIA. Hypothetical Earnings Replacement Rates of Retirees at NRA

Benefits at Normal Retirement Age as a Percentage of Last Year's Earnings Assuming Wages for All Years Were:			
Year	45% of Average Wages	Average Wages	Maximum Taxable Earnings
1999	53.4	39.7	24.1
2000	52.5	39.0	23.8
2001	52.9	39.3	24.3

Note: Low-wage workers in the published barometer measures for 1999 and 2000 were defined as those earning the minimum wage. We have changed the definition of a low-wage worker to one who earns 45 percent of average wages because it is consistent with the definition used by the Office of the Chief Actuary in calculating estimated future replacement rates. For comparative purposes, we have calculated 45% of average wages for 1999 through 2001.

Source: Calculation by SSA Office of Research, Evaluation, and Statistics, 1999 - 2001.

IIB.1. Actual Earnings Replacement Rates of Retired Workers at First Benefit Receipt, by Sex

Year	Total	Male	Female
1999	42.8	37.0	52.0
2000	42.9	37.5	52.4
2001	42.6	36.7	51.8

Note: Includes all retirees entitled to retired-worker benefits in that year, excluding retirees who had a prior entitlement to disability benefits. The replacement rates are calculated by dividing the retired worker's benefit based on his or her own earnings (i.e., excluding any dual entitlement) by his or her own average indexed monthly earnings (AIME). The AIME is the measure of prior earnings upon which the social security benefit is calculated. It is calculated from the worker's highest 35 years of earnings, which have been adjusted for changes in the average wage index to the year of attainment of age 62.

Source: 1% Continuous Work History Sample supplemented with information from the Master Earnings File for persons retiring in 1999-2001.

IIB.2. Actual Earnings Replacement Rates of Retired Workers at First Benefit Receipt, by AIME Quintile

Year	Lowest	Second	Third	Fourth	Highest
1999	72.5	51.6	41.5	35.9	31.2
2000	71.6	52.2	41.5	36.8	31.5
2001	70.9	51.8	41.5	35.6	30.4

Note: See note in IIB.1 above. AIME quintile limits for 2001 are: $802.5 (lowest), $1,565.0 (second), $2,492.0 (third), $3,602.5 (fourth).

Source: 1% Continuous Work History Sample supplemented with information from the Master Earnings File for persons retiring in 1999-2001.

IIC. OASDI Beneficiaries in Poverty

	Percentage in Poverty			Number in Poverty (millions)		
Year	65 or older	18-64	Under 18	65 or older	18-64	Under 18
1998	8.5	18.3	24.9	2.5	1.5	1.3
1999	8.1	16.6	20.2	2.4	1.4	1.0
2000	8.5	16.3	18.7	2.5	1.4	0.7

Note: Beneficiaries aged 65 or older and 18-64 are individuals who report receiving Social Security. Beneficiaries under age 18 are children in families who report receiving Social Security. Poverty is based on family money income, which does not include non-money transfers such as food stamps.

Source: Current Population Survey (CPS), 1998 - 2000.

IID. Percentage Reduction in Poverty Gap Due to SSI

Year	Total	65 or older	18-64	Under 18
1998	67	68	66	71
1999	65	69	64	67

Note: The poverty gap is the dollar amount needed to bring income of SSI recipients (and spouses) to the poverty level. Poverty is based on family money income, not including non-money transfers such as food stamps. SSI amounts from SIPP have been replaced with SSI federal payments and federally administered state supplemental payments from SSA's program records that have been matched to the SIPP. There are no statistically significant differences between 1998 and 1999 with respect to SSI beneficiaries overall, or for any of the three age groups shown above.

Source: SIPP and SSA program records, 1998 - 1999.

IIE. SSI as a Percentage of the Poverty Threshold in States with "Broad Coverage" State Supplement Groups

Federal Benefit with State Supplement [a]		1999	2000	2001
	California	94	93	93
	Massachusetts	84	84	84
	Michigan	71	71	71
	New Jersey	74	73	73
	New York	81	80	80
	Pennsylvania	73	72	73
Federal Benefit only		69	69	69

a. Federal SSI plus federally administered state supplements for one person.

Note: A broad coverage group includes persons with the most common type of living arrangement within each state, which varies from state to state. Individuals in such living arrangements receive an SSI federally administered state supplement together with the federal payment that moves them closer to the poverty threshold than the federal payment alone. The methodology for calculating these data has been modified, and the figures for 1999-2000 have been revised to reflect the same methodology as the 2001 data.

Source: Supplemental Security Record (SSR) and data from states, 1999 - 2001.

IIF. Percentage of OASDI Dollars Paid, by Income Quintiles and Age

	65 or older					
Year	Total	Lowest	Second	Third	Fourth	Highest
1998	100	12	18	22	23	26
1999	100	12	19	22	23	24
2000	100	12	18	22	24	24

	18-64					
Year	Total	Lowest	Second	Third	Fourth	Highest
1998	100	12	18	22	23	24
1999	100	12	19	23	23	22
2000	100	11	19	22	24	24

Note: The family income quintile limits for 2000 for those aged 65 or older are $13,194 (lowest), $21,546 (second), $31,954 (third), $53,433 (fourth). The family income quintile limits for those 18-64 are $12,426 (lowest), $21,634 (second), $35,163 (third), $58,855 (fourth).

Source: CPS, 1998 – 2000.

III. Measures of Reliance on Social Security Programs

Over half of beneficiaries aged 65 or older and over two-fifths of beneficiaries aged 18 to 64 rely on OASDI for half or more of their family income, and about 15 percent of both age groups rely on OASDI for all of their income (Barometer IIIA). Reliance is much higher for low-income groups. For example, OASDI provides 89 percent of the family income of beneficiaries 65 or older in the lowest income quintile compared with 18 percent for those in the highest income quintile (Barometer IIIB).

Reliance on SSI is measured based on the income of individual beneficiaries rather than on family income. On that basis, SSI constituted over half of total income for 61 percent of SSI recipients aged 18 to 64 in 1999 (the most recent year for which data are available) and was the only income for 28 percent of that group (Barometer IIIC). Aged SSI beneficiaries are the least reliant on their benefits (because of OASI receipt). Children are the most reliant.

OASDI was designed to be a partial replacement of income lost because of retirement, disability or death of a worker. SSI was enacted as a means-tested program for the aged and disabled poor. The barometer measures in this section show both the extent to which individuals have other sources of the income they need to ensure economic security and the comparative role that OASDI, SSI, and other sources play in economic security. The measures also indicate which groups would be most affected, by virtue of their heavy reliance on these programs, by changes to the program.

IIIA. Relative Importance of Family OASDI Income to Beneficiaries' Total Family Income, by Age

	50% or More of Total Income		90% or More of Total Income		100% of Total Income	
Year	65 or older	18-64	65 or older	18-64	65 or older	18-64
1998	56	44	22	20	14	15
1999	56	43	22	20	14	14
2000	56	44	24	20	15	15

Note: A regular SSA data series presents somewhat different figures for those 65 or older counting individuals and married couples based on their own benefits as a percentage of their own income. The most recent numbers under that calculation are 64 percent (50% or more of total income), 31 percent (90% or more) and 20 percent (100%). We use a different method here so that age groups are measured similarly and because the method used for the aged is not appropriate for younger groups.

Source: CPS, 1998 - 2000.

IIIB. Family OASDI Income as a Percentage of Beneficiaries' Total Family Income, by Quintiles of Family Money Income and Age

	65 or older				
Year	**Lowest**	**Second**	**Third**	**Fourth**	**Highest**
1998	**89**	**74**	**59**	**39**	**18**
1999	**88**	**74**	**58**	**40**	**17**
2000	**89**	**75**	**59**	**40**	**18**

	18-64				
Year	**Lowest**	**Second**	**Third**	**Fourth**	**Highest**
1998	**83**	**67**	**46**	**30**	**15**
1999	**83**	**66**	**45**	**29**	**14**
2000	**84**	**67**	**45**	**30**	**14**

Note: A regular SSA data series presents somewhat different figures for those 65 or older, counting individuals and married couples on the basis of their own income quintiles and their own reliance on benefits. The most recent numbers under that calculation by family income quintile are 82, 82, 64, 46, and 19 percent. We use a different method here so that age groups are measured similarly and because the method used for the aged is not appropriate for younger groups. The 2000 family income quintile limits for those aged 65 or older are $13,194 (lowest), $21,546 (second), $31,954 (third), $53,433 (fourth); the family income quintiles for those aged 18 to 64 are $12,426 (lowest), $21,634 (second), $35,163 (third), $58,855 (fourth).

Source: CPS, 1998 - 2000.

IIIC. Relative Importance of SSI Income to Beneficiaries' Total Income, by Age

	50% or More of Total Income			90% or More of Total Income			100% of Total Income		
Year	**65 or older**	**18-64**	**Under 18**	**65 or older**	**18-64**	**Under 18**	**65 or older**	**18-64**	**Under 18**
1998	**42**	**63**	**99**	**19**	**38**	**99**	**14**	**30**	**95**
1999	**43**	**61**	**100**	**23**	**36**	**96**	**16**	**28**	**90**

Note: SSI amounts from SIPP have been replaced with SSI federal payments and federally administered state supplemental payments from SSA's program records that have been matched to the SIPP. Total income does not include non-money transfers such as food stamps. There are no statistically significant differences between levels of importance of SSI in 1998 and 1999 for any of the age groups shown above.

Source: SIPP and SSA program records, 1998 - 1999.

IV. Measures of Return-to-Work Among Persons with Disabilities

Since their inception, the Disability Insurance (DI) and SSI programs have emphasized the importance of beneficiaries returning to work when possible. However, moving DI and SSI beneficiaries into employment has proved to be a substantial challenge.

DI beneficiaries are entitled to receive full benefits throughout a 9-month trial work period (TWP) during which they may work and have earnings above a level, which constitutes substantial gainful activity (SGA)—currently $740 per month. If, after completing the TWP, a beneficiary continues to have a disabling impairment and has earnings above SGA, his or her benefits are suspended. The beneficiary is also entitled to a 36-month extended period of eligibility (EPE). During the EPE, if earnings fall below the SGA level, benefit payments resume without the beneficiary's having to file a new application. After completing the EPE, if earnings continue to be above the SGA level, benefits are terminated.

In 1999 (the most recent year for which data are available), 16 percent of DI worker beneficiaries were working, earning an average of $8,477 for the year. The median earnings level--$3,519 for DI beneficiaries who worked--was less than half of average earnings; thus, the majority had relatively low earnings. In 2001, only 0.2 percent (12,100) of all DI beneficiaries, had their benefits suspended after completing a TWP because they had earnings above the SGA level ($740 a month). Also in 2001, 0.55 percent of DI beneficiaries (29,000) had their benefits terminated because their earnings exceeded the SGA level (Barometer IVA)[5].

About 7 percent of disabled SSI beneficiaries aged 18 to 64 work, with most working at or below SGA (Barometer IVB)[6]. Average monthly earnings in 2001 were $320 ($1,005 for those working above SGA and $256 for those working at or below SGA). Of those who worked, about 5 percent (16,000 annually) stopped receiving cash SSI benefits because of their earnings. That group constituted less than half a percent of all SSI beneficiaries (Barometer IVC).

SSA is developing a structured package of demonstration projects to facilitate the employment of persons with disabilities, including a comprehensive employment opportunities demonstration for current DI and disabled SSI recipients, an early intervention demonstration for DI applicants, a youth employment strategy for young disabled individuals, and a demonstration targeted toward people with mental illness.

IVA. Work Among DI Beneficiaries

	Working and Receiving Benefits		Benefits Suspended Due to Work Above SGA		Benefits Terminated Due to Work Above SGA	
Year	Number	Percent	Number	Percent	Number	Percent
1998	694,000	16.0	N/A	N/A	N/A	N/A
1999	649,000	16.0	10,000	0.2	N/A	N/A
2000	N/A	N/A	10,700	0.2	N/A	N/A
2001	N/A	N/A	12,100	0.2	29,000	0.55

5 The figure on benefit terminations includes beneficiaries who completed the EPE in 2001 as well as beneficiaries who did not report that they were working whose earnings were not detected by SSA until after they completed the EPE.

6 Through section 1619(a) of the Social Security Act, SSI recipients who earn more than SGA can continue to receive cash benefits.

Note: SGA = substantial gainful activity ($740 per month in 2001); TWP = trial work period; N/A=not available.

Source: Data for working and receiving benefits are from SIPP and SSA program records,1998 - 1999. Data for benefits suspended or terminated because of work above SGA after a trial work period are from MBR, 1999 - 2001.

IVB. Work Among Disabled SSI Beneficiaries Aged 18-64 (as a Percentage of All Disabled SSI Beneficiaries)

Year	Working Above SGA	Working At or Below SGA	Total Working [a]
1999	0.7	6.3	7.0
2000	0.7	6.4	7.1
2001	0.6	6.1	6.7

a. Does not include 76,000 persons whose earnings preclude a cash payment. They remain SSI beneficiaries for Medicaid purposes.

Source: SSR, December 1999 - December 2001.

IVC. Disabled SSI Beneficiaries Aged 18 to 64 Whose Benefits Ceased Because of Work

Year	Number	Percentage of All SSI Beneficiaries	Percentage of All SSI Beneficiaries Who Work
1999	15,700	0.4	4.8
2000	16,100	0.4	4.7
2001	15,800	0.4	4.8

Note: Number whose benefits (cash, Medicaid, or both) ceased during the quarter ending December 31. These data are reported quarterly. Quarterly numbers cannot be added together because doing so would produce an over-count of people who start and stop work multiple times during a year. Figures for 1999 and 2000 have been revised to correct an earlier error in calculation.

Source: SSR, December 1999 – December 2001.

V. Measures of Private Provision for Retirement

OASDI was intended to be a floor of protection in retirement that would be supplemented by employer-sponsored pensions and individual savings. Adequacy of income in retirement is highly dependent on having sources of income other than OASDI. In 1998, the most recent year for which data are available, slightly more than half (51 percent) of the working population had coverage in an employer-sponsored pension plan (Barometer VA). Plan participation was highest--57 percent--among workers aged 40 to 54. Plan participation was substantially lower for the total population than for the working population (37 percent compared with 51 percent). Plan participation remained stable among the total population between 1995 and 1998 but declined by 3 percentage points over the same period for the working population. The reduction was approximately the same for all age groups.

Participation in employer pension plans is far from universal. Historical data show that pension coverage leveled off in the 1970s at roughly half the work force covered and has remained at that level since that time. Also, pension plan participation is shifting from largely defined benefit plans toward defined contribution plans, which add more personal choice but also add risk in accumulating a pension.

Assets can provide income, such as interest or dividends. Income from assets comes largely from financial assets, but the most important component of most people's assets is the value of their home. Measures of both financial assets and net worth, which includes the value of the principal residence and other property and businesses, are shown here. In 1998, median family financial assets for married individuals aged 65 or older were $63,300 and median net worth was $217,600. Nonmarried individuals aged 65 or older had median financial assets of $15,800 and a median net worth of $87,600 (Barometer VB). As these figures indicate, asset amounts vary greatly by marital status and age with some groups having very little accumulated in old age.

VA. Percentage Participating in an Employer-Sponsored Pension Plan

	Total Population				Working Population			
Year	**Total**	**25-39**	**40-54**	**55-64**	**Total**	**25-39**	**40-54**	**55-64**
1995	**37**	**36**	**43**	**25**	**54**	**48**	**60**	**55**
1998	**37**	**35**	**42**	**27**	**51**	**46**	**57**	**53**

Note: Includes private pensions, federal employee pensions, military retirement, and state and local pensions. Does not include individual retirement accounts or Keoghs.

Source: SIPP, Pension Plan Coverage and Retirement Expectations Topical Module, 1995 and 1998.

VB. Median Family Financial Assets and Median Total Net Worth (in 1998 dollars)

		Financial Assets					
		Married			Nonmarried		
Year	**Total**	**25-54**	**55-64**	**65 or older**	**25-54**	**55-64**	**65 or older**
1998	**19,700**	**22,000**	**59,000**	**63,300**	**4,790**	**17,500**	**15,800**

		Net Worth					
		Married			Nonmarried		
Year	**Total**	**25-54**	**55-64**	**65 or older**	**25-54**	**55-64**	**65 or older**
1998	**78,850**	**81,870**	**203,300**	**217,600**	**17,280**	**71,500**	**87,600**

Note: Financial assets in the Survey of Consumer Finances include transaction accounts, certificates of deposit, bonds, stocks, mutual funds, tax-deferred retirement accounts (IRAs, Keoghs, and certain employer-sponsored accounts from which withdrawals can be made), the cash value of life insurance, and other assets such as personal annuities, trusts, and royalties. Net worth, in addition to financial assets, includes the equity in homes, nonresidential property, businesses, vehicles, and other tangible items. Asset levels vary greatly, depending on the survey and the definition used. For example, SIPP does not include tax-deferred retirement accounts or the cash value of life insurance in assets. SSA is sponsoring a study of these differences.

Source: Survey of Consumer Finances, 1998.

In summary, the barometers help us understand the impact of SSA programs, individual work choices, and other factors on income security.

I. Program Coverage and Eligibility

- Labor force participation is the foundation of economic security for most Americans.
- Coverage for disability is lower for women than men.
- One-third of women receive benefits only as wives or widows.
- Another 29 percent of women receive both worker and benefits as wives or widows.

II. Adequacy and Equity of Benefits

- Poverty rates have declined but still vary greatly.
- Children and adults between ages 18 and 64 are more likely to be poor than are persons 65 and older.
- The current benefit formula provides higher replacement rates to low earners but higher benefits to those with higher incomes.

III. Reliance on Social Security and SSI

- About half of beneficiary families receive 50 percent or more of their income from Social Security.
- Reliance on Social Security is higher for older and lower-income beneficiaries.
- For more than 60 percent of SSI beneficiaries, SSI payments provide 50 percent or more of their income.

IV. Return-to-Work Opportunities Among Persons With Disabilities

- About 16 percent of DI beneficiaries and 7 percent of SSI disabled beneficiaries work.
- Less than 1 percent of DI and SSI disabled beneficiaries lost benefits because of work.

V. Private Provision for Retirement

- About half of today's workers have pension coverage.
- Increasingly, these plans are defined contribution plans, which provide the potential of higher returns together with individual risk.
- Levels of financial assets and net worth indicate that many people have little private savings to supplement Social Security.

Program Evaluation

SSA continues to build upon its body of program data, research and analysis to identify strengths and weaknesses in its programs and processes as well as to evaluate the potential impact of proposals for change and the actual effects of proposals after they are implemented. We prepare an annual Agency coordinated evaluation plan that covers our Agency's goals, objectives, and business processes, and ensures that there are no overlaps, duplications or gaps. In addition to ongoing, recurring periodic evaluations of accuracy, service, etc., targeted evaluation activities are conducted each year. The findings from many of these activities are woven throughout this report.

In addition to the evaluations summarized below, beginning in FY 2002 and continuing into FYs 2003-2004, SSA is undertaking, with the Office of Management and Budget (OMB), assessments of the Disability Insurance and SSI Aged programs using the OMB Program Assessment Rating Tool.

Following are brief summaries of the evaluations completed during FY 2002, which directly related to strategic goals as described in the FY 2002 Annual Performance Plan. Copies of the complete results can be obtained by writing to:

Social Security Administration
Office of Strategic Management
436 Altmeyer Building
6401 Security Boulevard
Baltimore, MD 21235

Strategic Goal: To Deliver citizen-centered, world-class service

Program Evaluations:

- Interaction Tracking Survey
  The Interaction Tracking survey, conducted semiannually, surveys of the core groups of people who do business with SSA. The surveys measure how satisfied people are with various aspects of service from our 800-number, field offices, and hearings offices. The combined report provides two performance indicators: 1) The percent of people who do business with SSA rating overall service as excellent (E), very good (VG), or good (G) on SSA's six-point rating scale; and 2) Percent rating service as excellent. The FY 2002 results for overall satisfaction were 83 percent E/VG/G and 30 percent excellent. Both measures met their FY 2002 respective goals of 82 and 30 percent. These results represent statistically significant improvement over the FY 2001 results of 81 percent and 28 percent respectively. These improvements are largely due to increased satisfaction with telephone service. Annual performance targets for FY 2003 and FY 2004 are set taking into account the actual satisfaction rates measured in this survey.

- Annual Employer Interaction Survey
  This survey measures business caller satisfaction with services such as Social Security number verification and assistance with wage reporting issues. Because of difficulties encountered in sample identification, the FY 2002 survey results cannot be generalized to the universe of employer callers. However, despite this shortcoming, the survey results provide useful information. Overall satisfaction with employer services provided was very high, with 94 percent rating services excellent, very good or good. The excellent rating was 34 percent.

Strategic Goal: To ensure the integrity of social security programs, with zero tolerance for fraud and abuse

Program Evaluations:

- Annual CDR Report to Congress
  SSA conducts very cost-effective continuing disability reviews to determine whether individuals receiving disability benefits have medically improved and no longer meet the statutory definition of disability, and therefore should have their benefits terminated. SSA established a seven-year plan, covering FY 1996 through FY 2002, to process its entire backlog of CDRs, and then to keep current with processing this critical workload. Congress provided special funding to SSA to process the seven-year plan workload.

  SSA is required to file an annual report to Congress on the number of CDRs conducted and the results of those reviews. Our report covering FY 2001, issued in September 2002, reported that SSA conducted more than 1.7 million CDRs. Based on those reviews, SSA made initial determinations that benefits should be ceased due to medical improvement and the ability to work in 106,914 cases. After all appeals, benefits to an estimated 63,600 individuals will be ceased.

Strategic Goal: To strengthen public understanding of Social Security Programs

Program Evaluations:

- Annual Public Understanding Measurement System
  The Public Understanding Measurement System, called "PUMS," measures how much the public knows about Social Security. Its core measurement tool is a national telephone survey administered to members of the adult American public. Since 1998, when PUMS began, the survey has been conducted annually by the Gallup Organization, under contract to SSA. For the first two years of the survey, SSA identified 19 "facts" about the Social Security programs that we believed were important for members of the public to know. Anyone answering correctly 70 percent of the questions related to these "knowledge indicators" (12 correct of 19) was considered knowledgeable about SSA. During the most recent two years of the PUMS, changes in the knowledge indicators were made and the survey contained questions related to 14 knowledge indicators (10 correct of 14 yielded a "knowledgeable" designation).

  In early FY 2002, the national survey was administered to a much larger sample size (20,000 respondents) to yield statistically valid data down to the level of the SSA service area. The results from this one-time survey, which are reported in this document, provided us with a national knowledge level that had very little margin of error, and they also enabled us to see the variance in knowledge among the 52 areas in which SSA divides the country for service. These detailed data have helped Area Directors understand the educational needs of the people who live in the area they serve and plan better to meet those needs.

  We are planning the next PUMS survey to be fielded in the spring of 2003. The new survey will test public knowledge about basic facts as well as the issues Social Security faces and other important information. The new survey will also be redesigned to use more open-ended questions and rely less on responses to "agree-disagree" questions. We expect the new survey to provide us better information with which to plan and target our public information programs.

- Move the Needle Study
  A year-long knowledge-tracking study, known as the "Move the Needle" study, was initiated in FY 2000. The general conclusion of the study was that respondents in the treatment sites consistently had higher overall knowledge levels than did those in the control sites. Our experience with the study and its results led us to change the plans we had made for additional large-scale tracking studies, and no "Move the Needle" study was conducted in FY 2002.

Strategic Goal: To be an employer that values and invests in each employee

Program Evaluations:

- Water and Air Quality Surveys
  SSA performs water and air quality surveys to provide early identification of potential and existing problems in the workplaces of our employees and to enable us to implement timely corrective actions and preventive measures. In FY 2002,
  - 84 comprehensive indoor air quality surveys and 128 indoor air quality screenings were completed with 75 percent of the recommended corrections made; and
  - 70 facilities were tested for lead and copper in drinking water and 100 percent of the water testing recommendations were completed.

  Typical findings and recommendations generated from the indoor air quality surveys and screenings include the following simple and complex actions:
  - modifying temperatures and airflow;
  - remediation of odors caused during carpet installations;
  - cleaning and file recovery in flooded offices; and
  - abatement of mold, chemicals, or hazardous materials.

  Testing to determine the lead and copper content of drinking water has been completed in all occupied SSA field and hearings offices to date, with all remediations completed timely. Currently, routine water testing is conducted only when an office relocates with sampling and remediation as appropriate at individual sites.

- New Hire Selection Process/Competencies
  SSA has, through the use of a contractor, identified seven key competencies for the claims representative position and has developed a draft interview assessment and scoring tool. The tool was tested. A final assessment and training package will be provided by the contractor in early FY 2003. A three-region pilot will be conducted in FY 2003 with an evaluation report due in January 2004.

- Organizational Culture Study
  The study was completed and a workgroup synthesized the results into a final report. The report contained 27 recommendations, which were presented to the Agency leadership. Implementation decisions remain pending. There are no plans to do a follow up study.

- Retirement Wave Study
  Initially issued in 1998 and updated in December 2000, the report focuses on predicting the who, where and when of retirements both SSA-wide and by major occupations. The data-driven projections are the foundation of Agency-level succession planning efforts. Updates are done on a tri-annual basis.

- Survey of Training Effectiveness
  We conducted a survey of headquarters and field employees to assess general skills training needs. The results are used to ensure we provide employees with access to the training needed to maintain technical skills and to enhance their job performance and develop their careers.

Strategic Goal: To promote valued, strong and responsive social security programs and conduct effective policy development, research and program evaluation

Program Evaluations:

- Evaluation of Changing Benefit Structures
  We prepared a number of analyses of the distributional effects of changing OASDI benefits. These analyses have been used to formulate legislation and will be used by policymakers to understand the effects of legislative changes and to assist in developing proposals to reform the OASDI program.

  An analysis of the removal of the retirement earnings test in 2000 found increased earnings for higher earners and more benefit applications. An analysis of raising the early retirement age found that over half of retirees take benefits at age 62, 10-20 percent of those taking benefits at 62 have a health condition that limits work and half with a health condition had been in physically demanding jobs. An analysis of restoring student benefits for full-time college students found that about two-thirds of potential beneficiaries have incomes more than twice the poverty level.

  We also estimated the effects of several policy options, including modifying the government pension offset, the windfall elimination provision, the special minimum, the number of years of earnings used to determine benefits, and benefits of various groups, such as disabled widow(er)s, divorced spouses, and aged widows. The House of Representatives passed H.R. 4069, the Social Security Benefit Enhancements for Women Act of 2002, which included some of these policy options. Bills have also been introduced to modify the government pension offset (H.R. 664 and H.R. 3297) that would improve benefits for persons with low noncovered government pensions.

- Welfare Reform and Children with Disabilities
  An analysis of the effect on SSI disabled children of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 estimated that after 10 years there would be 13 percent fewer new cases, 17 percent fewer children on the SSI rolls, and a 19 percent reduction in program costs. These results, combined with future analyses of data from SSA's National Survey of SSI Children and Families, will be used to assess the need for further program modifications.

- State Partnership Evaluation
  State Partnership Initiatives (SPI) assist states in developing alternative program structures and delivery systems to increase employment among SSI and SSDI beneficiaries. SSA has funded 12 cooperative agreements, beginning in FY 1999 with annual funding through FY 2003. Enrollments in SPI projects are still on-going and currently evaluation results are available only for the early participants. Thus far, there have been no statistically significant changes in the outcomes of interest--participant employment, earnings, participation in SSI and SSDI and disability benefit amounts. SSA will continue to collect and analyze data from the projects and SSA's administrative files.

Supplemental Information

Additional OASDI Information

Calendar Year	1952	1962	1972	1982	1992	2002
Trends in factors affecting revenues						
- Taxable wage base for coverage						
Social Security	$3,600	$4,800	$9,000	$32,400	$55,500	$84,900
Medicare (HI)	NA	NA	$9,000	$32,400	$130,200	No Limit
- Tax contribution and distribution rates:						
- FICA tax rate (employers & employees each)						
OASI (initiated 1937)	1.50%	2.875%	4.05%	4.575%	5.60%	5.30%
DI (initiated 1957)	NA	.25%	.55%	.825%	.60%	.90%
HI (initiated 1966)	NA	NA	.60%	1.30%	1.45%	1.45%
Combined	1.5%	3.125%	5.20%	6.70%	7.65%	7.65%
- SECA Tax Rate						
OASI (initiated 1951)	2.25%	4.325%	6.075%	6.813%	11.20%	10.60%
DI (initiated 1957)	NA	.375%	.825%	1.238%	1.20%	1.80%
HI (initiated 1966)	NA	NA	.60%	1.30%	2.90%	2.90%
Combined	2.25%	4.70%	7.50%	9.35%	15.30%	15.30%
- Percent of benefits taxed	NA	NA	NA	NA	50.0%[1]	85.0%[2]
Trends in factors affecting outlays						
- No. of beneficiaries (in millions)[3]	5.0	18.1	28.1	35.8	41.5	46.5[4]
Retirees/dependents	3.5	12.7	17.9	24.4	24.3	32.3
Survivors of deceased workers	1.6	4.1	6.9	7.4	7.3	6.9
Disabled workers/dependents	NA	1.3	3.3	4.0	4.9	7.3
- Benefit payment COLA increase[5]	NA	NA	NA	7.4%	3.7%	2.6%
- No. of workers per beneficiary[6]	12.7	4.3	3.5	3.2	3.3	3.3
- Retirement Age						
Highest Benefits[7]	65 yrs.	65 yrs.	70 yrs.	70 yrs.	70 yrs.	70 yrs.
Full Benefits[8]	65 yrs.	65 yrs.	65 yrs.	65 yrs.	65 yrs.	65 yrs.
Reduced Benefits	NA[9]	62 yrs.	62 yrs.	62 yrs.	62 yrs.	62 yrs.

1. Income over $25,000 for an individual or $32,000 for a couple.
2. Income over $34,000 for an individual and $44,000 for a couple; income between $25,000 and $34,000 for an individual and between $32,000 and $44,000 for a couple are taxed at 50%.
3. The first old-age and survivors benefit checks were issued in 1940 and the first disability checks in 1957. Number of beneficiaries are those in current-payment status for December 31. Excludes special age 1972 beneficiaries.
4. Estimated, based on the intermediate economic and demographic assumptions in the 2002 Trustees Report. Totals may not add due to rounding.
5. Prior to 1975, benefit increases were at the discretion of Congress. Data represents the increase in the benefit check received during the calendar year.
6. Per OASI beneficiary in 1952; per OASDI beneficiary in 1962, 1972, 1982, 1992 and 2002.
7. Delayed retirement credits, increasing benefits up to age 70, became available in 1971.
8. Age at which there is neither a reduction in benefits for early retirement nor an increase for delayed retirement.
9. Reduced benefits were not offered until 1956 for women and 1961 for men.

Anti-Fraud Activities

SSA is committed to a policy of zero tolerance for fraud, waste and abuse (see Major Issues Facing SSA 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 1999	**FY 2000**	**FY 2001**	**FY 2002**
% of accurate decisions to allow or continue benefits by State DDSs	96.1%	96.7%	96.8%	96.3%
No. of cases reviewed	43,863	42,196	39,515	39,188
No. of cases returned to DDS due to error or inadequate documentation	1,705	1,381	1,281	1,455

SSA also performs preeffectuation reviews of DDS determinations of continuing eligibility 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. The table below shows that over 96% of the decisions made on preeffectuation reviews are accurate.

Preeffecutation Reviews				
	FY 1999	**FY 2000**	**FY 2001**	**FY 2002**
% of State DDS decisions not returned to DDS due to error or inadequate documentation	96.4%	96.6%	96.8%	96.3%
No. of cases reviewed	254,134	259,785	298,150	310,414
No. of cases returned to DDS due to error or inadequate documentation	9,082	8,748	9,602	11,376

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 1999	**FY 2000**	**FY 2001**	**FY 2002**
Overall Average	95.3%	96.1%	96.1%	95.2%
Continuances	95.8%	96.5%	96.4%	95.5%
Cessations	93.3%	93.6%	93.8%	93.5%

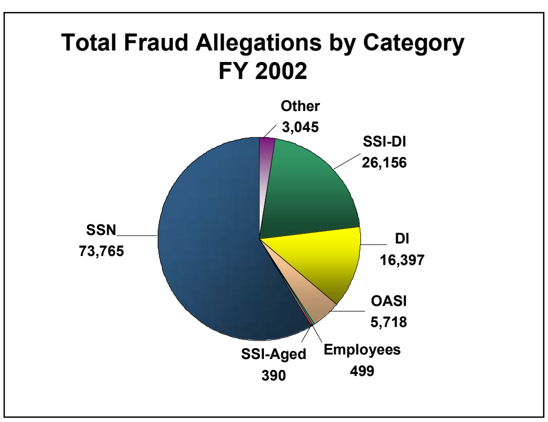
OASI and SSI Quality Assurance Reviews
One of SSA's five GPRA strategic goals is 'to ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the GPRA Performance Results section of this report on pages 125 through 128.

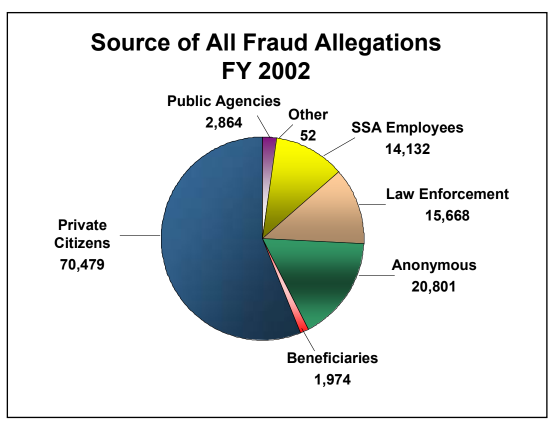
SSI Redeterminations
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA has set a goal for the number of SSI redeterminations to be processed in FY 2002. Detailed discussion on SSI redetermination performance can be found in the GPRA Performance Results section of this report on page 146.

Payment Safeguarding 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 more than $1.1 billion in processing over 10 million alerts in FY 2002. Current estimates indicate that these payment safeguard activities provided benefits to the trust funds of $7.2 billion in overpayments detected and/or prevented.

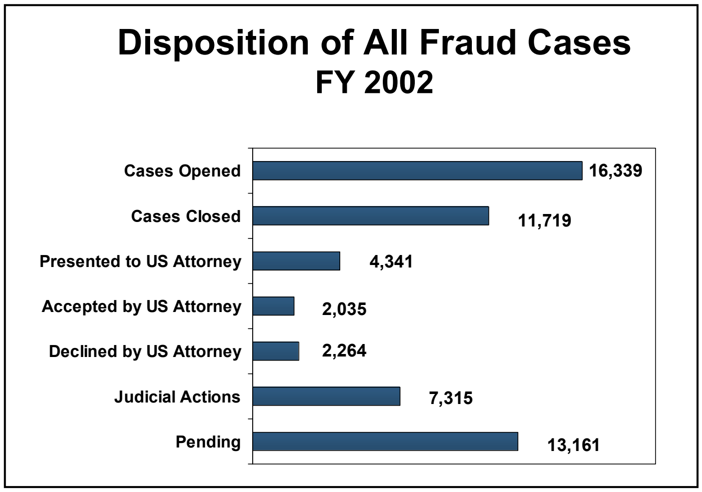
OIG's Anti-Fraud Activities

In FY 2002, 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 following charts summarize OIG's involvement in fraud activities throughout the FY.





The integrity of SSA's records and payments is maintained through an overall security program which controls access to SSA databases and refers suspected fraud and abuse cases to OIG for investigation and, if indicated, prosecution by the Department of Justice. Protection of data security violations continues to remain excellent with 99.9 percent of business transactions occurring without incident.



Biennial Review of User Fee Charges

Summary of Fees

User fee revenues of $253 and $269 million in FY 2001 and FY 2002, respectively, accounted for less than .1 percent of SSA's total financing sources. Over 95 percent user fee revenues are derived from agreements with 25 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2002, SSA charged a fee of $8.50 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $8.59 for FY 2003. 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 2002 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 2002, SSA continued to strengthen its debt management program. In February 2002, SSA's developmental efforts culminated in the addition of three new debt collection tools to its existing debt management program to improve the Agency's ability to collect SSI program debts. The Agency implemented mandatory cross program recovery, administrative offset and credit bureau reporting for title XVI overpayments.

- Mandatory cross program recovery is the collection of an SSI overpayment from any title II benefits due the person. In the past, SSA was able to use this collection technique only if the person consented to its use. As a result of a legislative proposal by SSA, Congress gave the Agency the authority to impose this collection method on the SSI debtor without that person's consent (per P.L. 105-306, Noncitizen Benefit Clarification and Other Technical Amendments Act). Mandatory cross program recovery began in February 2002 and will enable SSA to collect an estimated $115 million in SSI debts over a 5-year period.

- Administrative offset for SSI debts enables SSA to collect the overpayments from Federal payments in addition to tax refunds; e.g., vendor/miscellaneous payments and annuities paid by the Office of Personnel Management. Congress gave SSA the authority to use administrative offset as well as credit bureau reporting for SSI debts when it passed the Foster Care Independence Act. In FY 2002, SSA began referring SSI debts to the Treasury Offset Program (TOP) for collection by administrative offset. At the same time, SSA began reporting delinquent SSI debtors to credit bureaus. Throughout FY 2002, the Agency also used TOP to collect delinquent SSI debts from tax refunds and delinquent title II overpayments from tax refunds and other Federal payments. As of October 2002, SSA has collected over $535 million from tax refunds and other Federal payments since January 1992.

- The Agency continued its credit bureau reporting program, in place since June 1998, for title II debts. All of the foregoing debt collection tools have been assimilated into SSA's existing debt collection program, which makes use of benefit withholding from people receiving Social Security payments and billing and follow-up for people no longer on the rolls.

In addition to the development and use of aggressive debt collection tools in FY 2002, SSA developed a new system for monitoring and analyzing its programmatic debt portfolio. This powerful new system enables SSA to take regular "snapshots" of its debt and ultimately determine where to focus its debt resolution efforts; e.g., on overpayments that are not in a collection arrangement. The Agency is using this new system to help develop special projects to resolve that problem debt. The end result will be a debt management program that puts maximum emphasis on achieving collection arrangements.

In FY 2002, SSA also continued its development of administrative wage garnishment (AWG), or the collection of SSI and title II debts from the wages of people working in the private sector. The Agency wrote draft regulations, which will published as a Notice of Proposed Rulemaking. AWG promises to be a significant addition to SSA's debt collection program.

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.

SSA Debt Management Activities	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Total debt outstanding end of FY (millions)	$5,727.3	$6,524.4	$7,107.7	$11,437.1	$12,531.0
% of outstanding debt					
- Delinquent	14.6%	13.5%	15.5%	9.3%	16.5%
- Estimated to be uncollectable	29.0%	30.2%	33.9%	25.3%	18.9%
New debt as a % of benefit outlays	0.8%	1.0%	0.9%	1.7%	0.9%
% of debt collected	33.2%	34.0%	33.5%	19.9%	18.5%
Cost to collect $1	$0.11	$0.11	$0.10	$0.11	$0.11
% change in collections from prior FY	(11.9%)	16.5%	7.6%	(4.4%)	1.5%
% change in delinquencies from prior FY	12.1%	5.4%	25.6%	(3.5%)	94.4%[1]
Debt clearance rate	30.1%	30.8%	31.0%	21.5%	21.0%
Collections as a % of clearances	76.2%	73.3%	73.7%	70.8%	70.8%
Total write-offs of debt (in millions)	$595.1	$807.6	$850.8	$941.3	$954.0
Average number of months to clear receivables:					
- OASI	13	12	12	14	14
- DI	29	25	26	32	34
- SSI	23	20	27	4	26

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.

FY 2002 Quarterly Data (In Millions)				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables (cumulative)	$11,645.2	$11,845.7	$12,241.0	$12,531.0
Total collections (cumulative)	515.3	1,141.0	1,726.3	2,313.8
Total write-offs (cumulative)	213.5	434.1	688.2	954.0
TOP collections (cumulative)	3.8	50.6	84.5	86.2
Aging schedule of delinquent debts:				
- 180 days or less	$865.0	$700.8	$768.5	$790.8
- 181 to 10 years	1,378.8	1,291.5	1,212.3	1,251.6
- Over 10 years	37.9	37.2	30.7	31.1
- Total delinquent debt	$2,281.7	$2,029.5	$2,011.5	$2,073.5

AUDIT OF THE SOCIAL SECURITY ADMINISTRATION'S FISCAL YEAR 2002 FINANCIAL STATEMENTS

November 19, 2002

To: Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Accountants* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2002 and 2001 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 SSA's 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 2002 financial statements. PwC also audited the FY 2001 financial statements, presented in SSA's Performance and Accountability Report for FY 2002 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2002 and 2001 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 is a repeat finding from prior years. 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 2002 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 14, 2002, 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.

James G. Huse, Jr.
Inspector General

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1301 K Street, NW
Washington, DC 20005
Telephone (202)414-1000

REPORT OF INDEPENDENT ACCOUNTANTS

To Ms. Jo Anne B. Barnhart
Commissioner

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

- The consolidated balance sheets of SSA as of September 30, 2002 and 2001, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the fiscal 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, 2002 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 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 that assets be safeguarded against loss from unauthorized acquisition, use or disposal; and
- No reportable instances of noncompliance with the laws and regulations we 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, 2002 and 2001, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the fiscal 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 51 through 71 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2002 and 2001, and its net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. The consolidated and combined financial statements referred to above give retroactive effect to the change in entity, as described in Note 1 to the consolidated and combined financial statements.

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 management to establish internal accounting and administrative controls to provide reasonable assurance that 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 that assets be safeguarded against loss from unauthorized acquisition, use or disposal. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 and, accordingly, included obtaining an understanding of the internal control over financial reporting, 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. Our examination was of the internal control in place as of September 30, 2002.

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 over financial reporting 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 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 that assets be safeguarded against loss from unauthorized acquisition, use or disposal, is fairly stated, in all material respects, as of September 30, 2002.

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. A reportable condition is a matter coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agency's ability to meet the internal control objectives described above.

A material weakness, as defined by the AICPA and OMB Bulletin No. 01-02, is a reportable condition 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 misstatements in amounts that would be material in relation to the principal financial statements being audited or 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 duties. 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:

Over the past year SSA has made notable progress in addressing the information protection issues raised in prior years. Specifically, in fiscal year 2002 SSA has:

- Issued final "risk models" to standardize platform security configuration settings for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Established and implemented ongoing monitoring tools and procedures to ensure the consistency of platform security configuration standards for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Established and implemented access based rule settings and standardized monitoring and logging procedures for firewalls;
- Continued progress on the Standard Security Profile Project (SSPP - the project consists of a full scale comparison of system user access assignments to job responsibilities to ensure propriety) and expanded the SSPP to include non-IT employees;
- Continued progress on the Dataset Naming Standards project, including setting naming conventions, determining tools for compliance and enforcement, and establishing data ownership;
- Strengthened physical security controls over Regional Office and Program Service Center offices; and
- Established and implemented procedures for enhanced review of security violations on the mainframe.

These enhancements have greatly improved the security over SSA's systems environment. However, continued effort is needed to complete the implementation of platform security configuration settings for NT, Windows 2000, AS 400, Unix and WANG platforms. Continued effort is also needed to review security access assignments (SSPP), including (1) the full establishment of dataset naming conventions, (2) the establishment of a dataset dictionary for existing datasets and transactions, (3) the identification of system and data owners and (4) the enforcement of the new dataset naming rules and standards for sensitive systems. 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.

Management has made and continues to make concerted efforts to address these issues; however, the full rollout of the risk models and the completion of the SSPP are time consuming tasks that will require substantial resources to complete. Further, the physical controls over the state Disability Determination Services sites continue to be a challenge because many of the sites are co-located with other state agencies or are housed in buildings with inherent physical security issues. Progress on the issue regarding monitoring of security violations on the mainframe has already been made, but full use of the new procedures needs to be demonstrated during fiscal year 2003.

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 move ahead with plans to increase dependence on the Internet and Web-based applications to serve the American public. To more fully protect SSA from risks associated with the loss of data, loss of other resources and/or compromised privacy of information associated with SSA's enumeration, earnings, retirement, and disability processes and programs, SSA must complete the strengthening of its security program.

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Recommendations

We recommend that SSA explore methods to accelerate and continue to build on its progress to enhance information protection by continuing to implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:

- Continue to follow established processes to conduct and enhance periodic risk assessments to identify inherent vulnerabilities from emerging technologies across mainframe, midrange and distributed systems;
- Implement cost-effective countermeasures to mitigate risk to an acceptable level, including effective monitoring of systems to ensure currency of security configuration settings for all platforms;
- Continue to implement risk models to achieve compliance with SSA standard platform security configuration settings;
- Accelerate the SSPP program to ensure that sensitive systems, as defined by SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, data ownership assignments and inclusion in the dataset dictionary;
- Ensure use of the new procedures for reviewing security violations on the mainframe;
- Ensure that employees with access to sensitive SSA data (soft or hardcopy) and equipment are properly assessed to determine their eligibility for access to such resources;
- Coordinate contingency planning between program services center/regional office sites, disability determination service sites and SSA central office functions and the national computer center; and,
- Continue to enhance the overall security policy for DDS sites and improve physical security controls for the disability determination service sites.

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.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit 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.

The management of SSA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of SSA's compliance with certain provisions of applicable 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.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA 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.

The objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions of laws and regulations and, accordingly, we do not express such an opinion.

INTERNAL CONTROL RELATED TO KEY PERFORMANCE MEASURES

With respect to internal control related to those performance measures determined by management to be key and included on pages 28 to 40 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, and we determined that they have been placed in operation 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.

OTHER INFORMATION

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 other accompanying information included on pages 1 to 6, and 95 to the end of this performance and accountability report, is presented for purposes of additional analysis and is not a required part of the consolidated and combined 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.

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 required supplementary information included on pages 7 to 48, and 76 of this performance and accountability report and the required supplementary stewardship information included on pages 77 to 94 of this performance and accountability report, is not a required part of the consolidated and combined financial statements but is supplementary information required by OMB Bulletin No. 01-09 and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 consolidating and combining information included on pages 72 to 74 of this performance and accountability report, is presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the financial position, changes in net position, and reconciliation of net cost to budgetary resources of the individuals SSA programs. The consolidating and combining information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

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 required supplementary information, Schedule of Budgetary Resources, included on page 75 of this performance and accountability report, is not a required part of the consolidated and combined financial statements but is supplementary information required by OMB Bulletin No. 01-09. This information is also presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the budgetary resources of the individual SSA programs. This information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

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

PricewaterhouseCoopers LLP

Washington, DC
November 14, 2002

APPENDIX

SOCIAL SECURITY

The Commissioner

November 8, 2002

PricewaterhouseCoopers LLP
1301 K. Street, N.W.
Washington, D.C. 20005

Ladies and Gentlemen:

We have reviewed the draft combined report containing the Fiscal Year 2002 Report of Independent Accountants, 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 the findings and recommendations contained in the report, and our response and comments are enclosed.

We are pleased that the report indicates that the Social Security Administration (SSA) has made notable progress in addressing the reportable condition concerning the need to further strengthen controls to protect its information and that no new reportable condition was found. We are also pleased that you recognize that the enhancements made by SSA have greatly improved the security over SSA's systems environment. As you recommend, we will continue with the improved programs implemented during the past year and monitor the programs to ensure compliance.

Please direct any questions on our comments to Anthony DiNoto, Acting Associate Commissioner for Financial Policy and Operations at (410) 965-3839.

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) 2002 Report of Independent Accountants 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 Accountants, 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, 2002.

We are pleased that the report indicated that SSA has made notable progress in addressing the reportable condition concerning the need to further strengthen controls to protect its information and that no new reportable condition was found. We are also pleased that you recognized the enhancements made by SSA have greatly improved the security over SSA's systems environment. SSA will continue with the improved programs implemented during the past year and monitor the programs to ensure compliance. We will also continue to work with you to find ways to further strengthen the security program.

SSA agrees with all of the recommendations and has the following comments to offer.

Recommendations

We recommend that SSA explore methods to accelerate and continue to build on its progress to enhance information protection by continuing to implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:

- **Continue to follow established processes to conduct and enhance periodic risk assessments to identify inherent vulnerabilities from emerging technologies across mainframe, mid-range and distributed systems.**

  SSA Comment

  We will continue to monitor the risk models issued in the past 2 years to standardize platform security configuration settings to ensure their currency and will issue new models as needed for emerging technologies.

- **Implement cost-effective counter measures to mitigate risk to an acceptable level, including effective monitoring of systems to ensure currency of security configuration settings for all platforms.**

SSA Comment

SSA will continue to develop and monitor automated and manual monitoring tools and procedures established in FY 2002 to ensure the approved platform configuration settings are implemented and effective. We will also continually review the monitoring process for possible improvements.

- **Continue to implement risk models to achieve full or near full compliance with SSA standard platform security configuration settings.**

  SSA Comment

  We will continue to implement risk models to ensure compliance with standard platform configurations and/or process requests for exceptions to standard settings. In particular, we will continue to identify and ensure entity-wide changes are made.

- **Accelerate the Standardized Security Profile Project (SSPP) program to ensure that sensitive systems, as defined by SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, data ownership assignments and inclusion in the dataset dictionary.**

  SSA Comment

  SSA has already taken steps to accelerate the SSPP program to ensure proper access assignments. Action to set dataset naming standards is nearly complete and implementation is scheduled for February 2003. Plans for assigning data ownership and creation of a dataset dictionary are well underway. Focus will remain on these initiatives to ensure their completion as fast as resources permit.

- **Ensure full use of the new procedures for reviewing security violations on the mainframe.**

  SSA Comment

  As indicated in the auditor's report, SSA implemented new procedures for reviewing security violations towards the end of FY 2002. We will ensure the full use of the new procedures in the coming year.

- **Ensure that all employees with access to sensitive SSA data (soft or hardcopy) and equipment are properly assessed to determine their eligibility for access to such resources.**

  SSA Comment

  We will continue to work to ensure that accesses are provided using the principles of "least privilege" and "need to know."

- **Coordinate contingency planning between Program Service Center/Regional Office sites, Disability Determination Services (DDS) sites and SSA central office functions and the National Computer Center.**

  SSA Comment

  The Executive Internal Control committee at SSA oversees contingency planning at the Agency level and ensures coordinated planning at all levels. The Agency also identifies critical functions and priorities upon which all Agency contingency planning is based. We will look for ways to better integrate contingency plans at the lower levels mentioned above.

- **Continue to enhance the overall security policy for DDS sites and improve physical security controls for DDS sites.**

  SSA Comment

  SSA will continue to enhance overall security policy for DDS sites by making improvements to the security policy found in the DDS Security Document that was issued in FY 2001. SSA's physical security program requires periodic, recurring reviews of DDS sites by DDS managers and SSA personnel. SSA will continue to help its DDS partners correct any problems found during these reviews, or through audits, and to fully implement physical security policies to ensure the integrity of physical resources and data.

SOCIAL SECURITY

Inspector General

November 15, 2002

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the Reports Consolidation Act of 2000 (Public Law No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this statement in the Fiscal Year (FY) 2002 *Social Security Administration's Performance and Accountability Report*.

In October 2001, we identified the following 10 significant management issues facing the Social Security Administration (SSA) for FY 2002.

Fraud Risk	**Performance, Management and Data Reliability**
Improper Payments	**Management of the Disability Process**
Systems Security	**Integrity of the Earnings Reporting Process**
Service Delivery	**Social Security Number Misuse and Privacy Concerns (Identity Theft)**
Human Capital	**Integrity of the Representative Payee Process**

In FY 2002, SSA continued its efforts to address these issues, many of which are of a long-term nature and do not lend themselves to quick fixes. Our assessment of the status of these 10 management challenges is enclosed.

Sincerely,

James G. Huse, Jr.

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

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

A-02-03-13034

NOVEMBER 2002

Fraud Risk

Fraud is an inherent risk in all of the Social Security Administration's (SSA) core business processes: enumeration, earnings, claims, and post-entitlement. All of these processes include vulnerabilities that provide individuals the opportunity to defraud third parties, SSA, or its beneficiaries and recipients. As SSA payments to beneficiaries approach half a trillion dollars annually, its exposure to fraud increases proportionately. Our focus on fraud risk is based on program eligibility factors that individuals misrepresent to attain or maintain eligibility.

SSA's difficulties in monitoring eligibility factors for Supplemental Security Income (SSI) recipients is a key reason the SSI program has remained on the General Accounting Office's (GAO) list of high-risk Federal programs since 1997.[1] Because the SSI program is means-based, it includes eligibility factors that tend to be more difficult for SSA to verify and monitor, including income, resources, living arrangements, residency, and deemed income. While SSA is addressing the factors affecting the complexity of the SSI program, the Agency still relies on self-reporting of income, living arrangements, and medical improvement in determining whether an individual is eligible for SSI payments. Examples of the eligibility factors susceptible to fraud under the Old-Age, Survivors and Disability Insurance (OASDI) program include family relationships (for dependents and survivors), school attendance (for children age 18 and older), and child in-care (for surviving spouses under age 60). Other key risk factors common to both programs are the reporting of beneficiary and recipient deaths and monitoring of medical improvements for disabled individuals.

SSA Has Taken Steps to Address this Challenge

SSA has taken an active role to address the integrity of the OASDI and SSI programs through its "zero tolerance for fraud" initiative. This initiative involves various activities. In addition to increasing resources for the Office of the Inspector General (OIG), SSA's Offices of Operations and Disability, in conjunction with the OIG, formed 17 Cooperative Disability Investigation (CDI) teams by Fiscal Year (FY) 2002. These teams rely on the combined skills and specialized knowledge of OIG investigators, State and local law enforcement officials, and SSA and Disability Determination Services (DDS) personnel to combat disability fraud. During FY 2002, CDI teams prevented over $62.9 million in improper payments.

SSA continues to identify and terminate payments to incarcerated beneficiaries. SSA has agreements with 5,559 correctional facilities that encompass over 99 percent of the inmate population. SSA estimates the suspension of payments to prisoners saved the OASDI and SSI programs $500 million in FY 2002.

[1] In 1997, GAO designated the SSI program as high-risk since SSA lacked an effective plan to address the level of debt that results from overpayments. As a result, SSA developed a corrective action plan, which was updated in June 2002, to remove the SSI program from GAO's high-risk list.

In addition, SSA has taken steps to improve the SSI program, including a corrective action plan with the goal of removing the SSI program from GAO's high-risk list. As part of this effort, SSA has initiated computer matches to identify unreported wage and unemployment compensation, and real time access to external databases. For instance, SSA has obtained on-line query access to selected records in 68 agencies in 40 States. SSA estimated these efforts would save $5 million in FY 2002. SSA has also implemented new computer matches by field office staff to identify recipient income before awarding SSI payments. This program provides direct access to Office of Child Support Enforcement (OCSE) databases related to wages, new hires, and unemployment insurance.

SSA Needs to Continue to Address this Challenge

SSA needs to further address the risk of fraud in the areas of detecting beneficiary deaths, fugitive felons, and unreported income. A significant tool against fraud risk is the detection of unreported beneficiary and recipient deaths. However, our audit work has disclosed that SSA needs to strengthen the effectiveness of this detection tool. SSA relies on its Death Alert, Control, and Update System (DACUS) to identify and terminate payments after a beneficiary's death. Our June 2001 audit report, *Old-Aged, Survivors and Disability Insurance Benefits Paid to Deceased Auxiliary Beneficiaries* (A-01-00-20043), disclosed that 881 auxiliary beneficiaries were paid about $31 million after their dates of death through December 2000 because DACUS could not properly match their records. Another audit issued in September 2002, *Effectiveness of the Social Security Administration's Death Termination Process* (A-09-02-22023), disclosed that, based on a random sample of 200 DACUS alerts, SSA disbursed about $142.4 million in payments after death during Calendar Year 1999. Of this amount, SSA had not recovered about $5.4 million as of March 2002.

Another area that is susceptible to fraud risk is payments to unidentified fugitive felons. Our investigative efforts under the Fugitive Felon Program have identified 65,857 fugitives who were overpaid more than $137.4 million from August 1,1996 through March 31, 2002. Of the 65,857 fugitives, 6,984 were arrested, and we estimated the related savings to be about $213 million for the SSI program. While SSA has made progress in obtaining fugitive data, more work remains in this area. We have recommended that SSA pursue legislation to prohibit the payment of OASDI benefits to fugitives. We estimate that fugitives continue to receive at least $39 million annually in OASDI benefits.

As GAO noted in its September 2002 report, *Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, but Management Attention Should Continue* (GAO-02-849), it is too soon to tell what impact a number of SSA's initiatives to strengthen the integrity of the SSI program will have. GAO also made several recommendations aimed at further strengthening SSA's ability to deter, detect and recover SSI overpayments, including reexamining policies and procedures for SSI overpayment waivers.

Improper Payments

Improper payments are a major management challenge since even the slightest error in SSA's overall process can result in millions of dollars of OASDI and SSI over- or under-payments. Allegations of individuals obtaining improper payments from SSA programs have recently been the subject of media reports, congressional hearings, and legislative actions. Also, in August 2001, the Office of Management and Budget (OMB) published *The President's Management Agenda, FY 2002*, which includes a Government-wide initiative for improving financial performance and reducing improper payments. Improper payments are defined as payments that should not have been made or that were made for incorrect amounts. Examples of improper payments include payments with inadvertent errors, for unsupported or inadequately supported claims, for services not rendered, to ineligible beneficiaries, and resulting from fraud and abuse by program participants and/or Federal employees.

The risk of improper payments increases in programs with (1) a significant volume of transactions, (2) complex criteria for computing payments, and/or (3) an emphasis on expediting payments. SSA faces all three of these risks. Specifically, the Agency is responsible for issuing timely benefit payments for complex entitlement programs to 50 million individuals. Also, SSA's purpose—providing Social Security benefits to retired and disabled workers; as well as providing SSI payments to financially needy individuals who are aged, blind, or disabled—emphasizes expediting payments.

SSA Has Taken Steps to Address this Challenge

SSA has actively sought to identify actions to reduce improper payments and/or recover amounts overpaid. Specifically, SSA has been working to improve its ability to prevent overpayments by obtaining beneficiary information from independent sources sooner and/or using technology more effectively. For instance, SSA has initiated new computer matching agreements, obtained on-line access to wage and income data, and implemented improvements in its debt recovery program.

According to SSA's June 2002 Corrective Action Plan for the SSI program, "…SSI overpayment collections are 33 percent higher since FY 1998, and detections are 32 percent higher." Additionally, SSA is focusing on initiatives that have proven potential in preventing overpayments, rather than merely detecting additional overpayments. For example, for FY 2002 SSA estimates that matching wage data from OCSE would result in an estimated $110 million in improper payment savings, and identifying nursing home admissions would result in estimated savings of $20 million. Further, SSA planned to perform SSI redeterminations on one of every three SSI recipients in FY 2002, and was requesting funds to increase the number of redeterminations in FY 2003.

SSA Needs to Continue to Address this Challenge

Some improper payments are inevitable because SSA is not permitted to stop or adjust payments until due process related to the beneficiary's right to appeal an action is completed.[2] Also, SSI payments are paid at the beginning of the month under the assumption that the recipient's circumstances (such as income and asset levels) will remain the same during the month for which payment is rendered. However, SSA needs to continue pursuing all cost-effective avenues to identify, recover, and prevent those improper payments that are not inevitable.

Improper payments, including those to deceased beneficiaries, students, and individuals receiving State workers' compensation benefits, continue to drain the Social Security Trust Fund and general Federal funds. For example, based on SSA's own study after our 1998 and 1999 audits on benefits involving workers' compensation, the Agency estimated that the total past and future errors for two subsets of our workers' compensation population could reach $1.3 billion in under- and overpayments. Another example of continued attention in this area pertains to our October 2002 report[3] on benefit payments after death—where we estimated $12 million in Social Security funds were improperly paid.

In addition to our own work, both the Social Security Advisory Board (SSAB) and GAO continue to recognize improper payments as a management challenge for SSA. The SSAB's March 2002 report, *SSA's Obligation to Ensure that the Public's Funds are Responsibly Collected and Expended*, concluded that SSA should be moving much more effectively and aggressively to collect overpayments if it is to properly discharge its stewardship responsibilities. Also, GAO has testified before Congress and issued a number of reports in FY 2002 on the need for improvement in the SSI program in relation to improper payments.[4]

[2] 42 USC 423(g).

[3] *Old-Age, Survivors and Disability Insurance and Supplemental Security Income Payments to Deceased Beneficiaries and Recipients* (A-06-02-12012), October 30, 2002.

[4] GAO Testimony, *Supplemental Security Income: Status of Efforts to Improve Overpayment Detection and Recovery* (GA-02-962T), July 25, 2002. GAO Report, *Financial Management: Coordinated Approach Needed to Address the Governments Improper Payments Problems* (GAO-02-749), August 2002. GAO Report, *Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, But Management Attention Should Continue* (GAO-02-849), September 2002.

Systems Security

As technology advances and our reliance on technology increases, the need for a strong information infrastructure becomes even more important. Along with the explosive growth in computer interconnectivity comes the ability to disrupt or sabotage critical operations, read or copy sensitive data, and tamper with critical processes. Those who wish to disrupt or sabotage critical operations have more tools than ever.

Presidential Decision Directive 63, issued in 1998, requires Federal agencies to identify and protect their critical infrastructure and assets. One of SSA's most valuable assets is the information it has been assigned to use to complete its mission. SSA is relying on technology to meet the challenges of ever-increasing workloads with fewer resources and rising customer expectations. A physically and technologically secure Agency information infrastructure is a fundamental requirement.

SSA Has Taken Steps to Address this Challenge

SSA's current information security challenge is to understand system vulnerabilities and how to mitigate them. SSA must ensure its critical information infrastructures, such as the Internet and access to the networks, is secure. By improving systems security and controls, SSA will be able to use current and future technology more effectively to fulfill its customers' needs.

SSA has addressed critical information infrastructure and systems security in a variety of ways. It created a Critical Infrastructure Protection work group that continually works toward compliance with Presidential Decision Directive 63. The work group has created several components Agency-wide to handle systems security, and has begun vulnerability analyses of what have been identified as its most critical assets. SSA also routinely sends out security advisories to its staff and has hired outside contractors to provide expertise in this area—including benchmarking the strength of its security program relative to other organizations.

SSA Needs to Continue to Address this Challenge

To further strengthen its controls to protect SSA information and systems and prepare for further challenges, SSA needs to address the following issues.

- Weaknesses in SSA's overall information protection control structure identified by PricewaterhouseCoopers, including (1) improving physical access controls at non-Headquarters locations, including SSA's regional offices, program service centers, and selected DDSs; (2) implementing and monitoring of technical security configuration standards governing systems housed in the National Computer Center and off-site house systems; and (3) monitoring security violations and periodic review of user access.

- Need to more clearly define and report on all systems and subsystems to improve Agency-wide coordination and implementation of systems security.
- Internal control weaknesses that provide opportunity for unauthorized access to sensitive information.
- Limited review and analysis of system intrusion data performed at SSA facilities.
- Risks associated with providing customer service over the Internet that include authenticating individuals when receiving their information.

Service Delivery

SSA is faced with increased workloads brought about by an aging Baby-boom generation, a projected retirement wave and other attrition through 2010 of over half of its workforce, and technological advances that affect both citizens' expectations and SSA's ability to meet them. While SSA is committed to providing, world-class service and has an established reputation for quality service, maintaining this service will be a major management issue facing SSA as workloads continue to increase, large numbers of employees retire, and service expectations rise.

SSA Has Taken Steps to Address this Challenge

SSA has recognized the challenges it faces in maintaining quality service delivery and has developed a long-term *Service Vision.* This 10-year plan is based on the premise that the convergence of the forecasted trends will provide SSA with the opportunity to (1) reshape its business processes, (2) reform its management of technology, and (3) deliver the service the American public demands. SSA will rely on electronic government (E-government) solutions to increase its productivity and allow it to bridge the resource gap that will be created by the expected explosive growth in its workloads. Key activities SSA is implementing to support these goals are providing (1) individuals access to one-stop shopping with single-points-of-entry, such as via the Internet or automated telephone service; (2) business partners the opportunity to switch from paper and magnetic tape to the Internet for the earnings reporting process; and (3) information sharing with Federal and State government partners to serve the American public better. Additionally, SSA continues to implement its Future Workforce Plan, as we discuss under the Human Capital Management Challenge.

SSA Needs to Continue to Address this Challenge

While SSA met most of its goals related to service in FY 2002, it should continually explore innovative ways to address service delivery problems to maintain existing service levels. As the SSAB reported, SSA has already—and should expect to continue to provide —uneven service. While those filing for retirement or survivor benefits are likely to be satisfied with the service provided, individuals with complicated cases—such as Disability Insurance (DI) or SSI—may encounter problems. As workloads increase, the dimensions of SSA's problems can be expected to grow. If these challenges are left unattended, the public will be faced with crowded reception areas, long waiting times, inadequate telephone service, and reduced quality of work.

SSA is facing some daunting challenges to provide world-class service that it must immediately address. One is an incredible swell in workload volumes. Beginning around 2008, the 76 million "baby boomers" will begin to move into their disability-prone years and begin to retire. SSA anticipates that by 2010, applications for DI will increase by as much as 32 percent over 2000 levels and applications for retirement benefits by 31 percent over 2000 levels. Along with this workload increase, demands for the way services will be delivered are also expected to change, with citizens wanting different modes of accessibility. For example, the public will want to use the Internet and "one-stop shopping" for access to services and programs through one interaction with the Government. Future service delivery challenges include providing customers electronic services over the Internet and telephone, 24 hours a day, 7 days a week. It will be the norm for business transactions to be processed electronically at the first point of contact. Due to the critical importance of this issue, *Expanded E-government* was included as a Government-wide initiative in *The President's Management Agenda* issued August 2001. The Agenda stated that "The federal government can secure greater services at lower cost through E-government, and can meet high public demand for E-government services".

Further, in May 2002, GAO testified[5] that SSA's future success in managing workloads and meeting customer demands is linked to effectively managing information technology initiatives. While SSA's vision is to rely heavily on technology, GAO noted weaknesses in how SSA would successfully manage and meet the goals it has established. Some of the weaknesses included the following.

- *Investment proposals may not provide the most cost-effective solutions and achieve measurable and specific program-related benefits*—ensuring high-quality service delivered on time, within cost, and to the customer's satisfaction.

- *Internet and web-based customer environments are not aligned with the Agency's information technology environment*—ensuring key elements to deliver service are aligned with SSA's information technology environment.

- *Improvements in customer service dependent on software-intensive systems*—ensuring that SSA delivers quality software on schedule and within cost estimates.

To address these challenges, the Commissioner initiated a new emphasis on quality that seeks to balance five elements: accuracy, timeliness, productivity, cost, and customer service. To accomplish these challenges, the Commissioner is taking action to place the resources where they are needed to do the job right the first time. SSA also plans to rely heavily on information technology. However, both GAO and we have reported that some of the Agency's past experiences have shown mixed success. SSA will need to continually focus on these important challenges.

[5] GAO Testimony, *Social Security Administration: Agency Must Position Itself Now to Meet Profound Challenges* (GAO-02-289T), May 2, 2002.

Human Capital

Strategic Management of Human Capital is a Government-wide management reform included in the *President's Management Agenda* and has been designated by GAO[6] as a Government-wide high-risk area. SSA has recognized the importance of this issue because of both anticipated increased workloads and employee retirements. SSA reported that it faces explosive workload growth as the baby boom generation ages, becomes more prone to disabilities, and retires. At the same time, SSA will experience a "retirement wave" that projects the loss of more than 38,000 employees over the next decade.

SSA Has Taken Steps to Address this Challenge

SSA has established a multi-faceted response to the human capital challenge focused on (1) replenishing the workforce, (2) broadening the capabilities of current employees, (3) continuing strong management and executive development programs, and (4) improving workforce retention. SSA developed a Future Workforce Transition Plan, which is a 5-year effort to guide SSA from the workforce of today to the workforce of tomorrow. The Agency has identified positions that will incur the most serious losses due to retirement and has developed a succession plan. Additionally, the Agency has established a wide range of action items and target dates intended to meet SSA's future workforce needs by expanding its employees' capabilities and improving employee retention and recruitment. For instance, SSA's plan contains initiatives to implement and test new training technologies, develop a marketing plan for recruiting new employees, initiate actions to increase employee retention, and hire in advance of losses to ensure institutional knowledge of experienced employees is transferred to new employees. SSA further reports it will continually assess its workloads and other responsibilities to ensure its critical staffing needs are met.

SSA Needs to Continue to Address this Challenge

The combined effect of employee attrition and increased demand for services will impose a significant challenge to SSA's management of its human capital. SSA estimates its workforce retirements will peak between 2007 and 2010—when about 2,500 employees will retire annually. Further, between 2000 and 2010, about 72 percent of SSA's managers and senior executives, about 60 percent of its supervisors, about 34 percent of claims representatives, and about 29 percent of the Agency's computer specialists are projected to retire.

To provide the kind of service that has been the Agency's hallmark, SSA recognizes it must maintain a highly skilled, high performing, and highly motivated workforce. A key requirement is also to have the right number of staff with the correct skills. According to the SSAB in its March 2002 report *SSA's Obligation to Ensure That the Public's Funds are Responsibly Collected and Expended,* many SSA employees believed there were not enough staff to accomplish all mandated tasks. The report further noted that SSA had appointed a work group to identify workloads in field offices that are underfunded. The objective was to develop short-term tools for identifying these workloads so they would be considered when the budget is

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[6] GAO Report, *High-Risk Series: An Update* (GAO-01-263), January 2001.

formulated. SSAB also noted that this type of analysis was important to the credibility and usefulness of the Agency's budget submissions.

Although SSA has taken initiatives to address its human capital challenge, many actions still need to be refined and then successfully carried out. For instance, as part of its effort to increase new hire retention, SSA began a study of why new hires leave. This study will need to be analyzed to determine options SSA can take to meet its goals of increasing retention rates. Similarly, SSA is relying on desktop video training as an important aspect of its program to maintain a skilled workforce; however, this initiative is still in prototype stage, and its success will depend on future funding. SSA will need to continually monitor the effects of these actions and be able to quickly respond to changing employee and client service needs.

Performance, Management and Data Reliability

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 *President's Management Agenda* has placed great emphasis on the management and performance of Federal agencies, including the integration of budget and performance. SSA has demonstrated a strong commitment to the Government Performance and Results Act of 1993 (Public Law 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 the data sources that appear to be unreliable.

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. SSA is the only Federal agency to receive *the Certificate of Excellence in Accountability Reporting* for its *Performance and Accountability Report* every year since the award program began for FY 1998.

SSA has continually refined its annual performance plans to develop performance measures that more accurately reflect performance and are more outcome-based. In FY 2002, SSA revamped its Tracking Report used by Agency executives to manage key workloads at the national level and made it available to all employees on-line. The revised report tracks key FY 2002 performance measures and provides alerts as to whether performance is significantly different from the goals established. SSA describes its progress in meeting annual performance goals in its performance and accountability reports. SSA took action to address some of the issues we noted could be improved or for which the reliability of the data was questionable. For instance, SSA agreed to review the hearings process from initial in-take through input into the Hearing Office Tracking System after we reported the data from this system were unreliable.

SSA Needs to Continue to Address this Challenge

Our audits of 21 performance measures in FY 2002 found the data for 16 of the measures reviewed were reliable. We were unable to issue an opinion for five of the measures because the data or documentation of the methods used to measure SSA's performance was not available. We have generally found, even for the performance measures found to be reliable, that SSA lacks documentation of the methods and data used to measure its performance.

SSA needs to have performance goals and measures that address the major management challenges facing the Agency. While the FY 2002 annual performance plan discussed SSA's approach to addressing its major management challenges, performance measures were not established for all the challenges, such as the Earnings Suspense File and the integrity of the representative payee process.

SSA could also improve the extent to which performance measurement is outcome (results) based. The continual reliance on multiple output performance measures makes it difficult to judge the performance of some of SSA's program and key activities. SSA needs to continue focusing its efforts on developing high-quality, outcome-based performance indicators and goals for each of its programs and activities.

SSA also needs to further develop a cost accounting system to better link costs with performance. Since most goals are not aligned by budget account, the resource, human capital, and technology necessary to achieve many performance goals are not adequately described. SSA began to implement a cost accounting system in FY 2002, which will be phased in over the next 3 to 4 years.

Management of the Disability Process

Management of the disability process is a major management challenge for which SSA has established various initiatives to improve processing times and productivity; however, its success has been mixed. SSA administers two programs providing benefits based on disability: DI and SSI. Most disability claims are initially processed through SSA field offices (FO) and DDS offices. SSA's FO staff are responsible for obtaining applications for disability benefits and verifying non-medical eligibility requirements, which may include age, employment, or marital status information. The FO sends the case for a disability evaluation to a DDS, which is a State agency or other responsible jurisdiction funded by SSA to develop medical evidence and render the initial determination on whether the claimant is legally disabled or blind. In FY 2002, 2,376,572 initial disability claims were processed, with an average processing time of 104 days. SSA's goal was to process 2,191,000 initial disability claims, with an average processing time of 115 days.

If a claimant is not satisfied with a DDS' decision, the individual may file an appeal. The Office of Hearings and Appeals is responsible for holding hearings and issuing decisions at two distinct stages in SSA's appeals process—in hearing offices and at the Appeals Council. Administrative law judges hold hearings and issue decisions in hearing offices nationwide. In FY 2002, hearing offices processed 532,106 cases, and the average time a claimant waited for a decision on an appeal was 336 days. SSA's goal was to process 490,000 cases, with an average processing time of 330 days. The Appeals Council is the final level of administrative review for claims filed under SSA's disability programs. The Appeals Council reviews administrative law judges' decisions and dismissals upon the claimant's request for review. In FY 2002, SSA's goal was to process Appeals Council cases with an average processing time of 285 days; actual average processing time was 412 days.

SSA Has Taken Steps to Address this Challenge

SSA has tested several improvements to the disability claims process as a result of concerns about the timeliness and quality of its service. These improvement initiatives have been piloted over the last few years and include all levels of eligibility determinations beginning with DDSs and continuing through the hearings and appeals processes.

Recognizing the lack of significant improvements to the disability determination process time, the Commissioner in FY 2002 announced several decisions on the future of SSA's disability process. The Commissioner's decisions included expanding the Single-Decision Maker nationwide, ending the requirements for the claimant conference, evaluating the elimination of the reconsideration level of the claims process nationwide, making additional improvements to the hearings process, and implementing an e-Dib (electronic disability initiative) by 2003.

SSA Needs to Continue to Address this Challenge

SSA needs to continue its focus on improving the disability process. SSA met three, partially met one, and failed to meet one of its seven disability-related performance goals contained in its FY 2002 performance report. Further, data was not available to measure performance for two other goals. Particularly troublesome is the hearings and appeals process. SSA met two of its eight goals related to the hearings and appeals process, failed to meet five, and the data was not available for one. The disability process continues to be a serious concern given the level of resources SSA has devoted to its disability process improvement initiatives and the lack of substantial improvement to date.

During FY 2002, we reviewed the status of five of SSA's Disability Process Improvement Initiatives: Prototype, Quality Assurance, Disability Claims Manager, Process Unification, and Hearings Process Improvement. We found that Prototype DDSs, DDSs that implemented one or more improvement initiatives, were falling behind in providing timely customer service as processing time at the initial level increased, productivity decreased, and the backlog of cases grew at the DDSs and Office of Hearings and Appeals. In addition, preliminary data from the Prototype raised questions about the program costs of national implementation. We also found that the Hearings Process Improvement initiative did not result in significant improvements in processing times and resulted in decreased productivity. Furthermore, SSA has not fully developed a plan for a more comprehensive and uniform quality assurance system, which is critical to disability claim adjudication.

Integrity of the Earnings Reporting Process

SSA's Earnings Suspense File (ESF) represents a major management challenge because its size and rate of growth may impact the calculations of beneficiaries' benefits, results in higher administrative costs, and represents a sizeable portion of Social Security number (SSN) misuse.

The integrity of SSA's process for posting workers' earnings is critical to ensuring eligible individuals receive the full retirement, survivor, and/or disability benefits due them. The ESF primarily consists of reported earnings for which the name and SSN combination does not match validation criteria within SSA's systems. Each year, SSA receives about 21 million wage items that have invalid name and SSN combinations. Through extensive computer matches and manual efforts, this number is reduced to about 6.5 million items, annually. However, about 1 percent of the earnings reported annually cannot be posted to earners' accounts and accumulates in the ESF. Between Tax Years (TY) 1937 and 2000, the ESF grew to about $374 billion in wages, representing approximately 236 million wage items.

The ESF is further indicative of a nation-wide problem of potential fraud and misuse that not only affects SSA's programs, but also that of other Federal agencies—such as the Internal Revenue Service (IRS) and the Immigration and Naturalization Service (INS). The IRS uses wage data to enforce tax laws and can penalize employers and employees for providing incorrect information. The INS has oversight responsibility for unauthorized noncitizens. The Immigration Reform and Control Act of 1986 (Public Law No. 99-603) made it illegal for employers to knowingly hire or continue to employ unauthorized noncitizens. Employers must request that newly hired employees present documents that establish their identities and eligibility to work.

SSA Has Taken Steps to Address this Challenge

SSA has several initiatives to reduce the ESF's size and rate of growth. For example, SSA is piloting an on-line system called the SSN Verification System—a project designed to assist employers in verifying new hire names and SSNs. This pilot expands the current Employee Verification Service (EVS) for registered employers—a paper and magnetic media process. In addition, in TY 2001 SSA expanded its correspondence with employers when the name and/or SSN submitted did not match SSA's records. Employers were asked to obtain and provide corrected wage information. Finally, SSA is evaluating the results of two other pilot projects that used the databases of other Federal agencies to assist employers in verifying employees' names and SSNs. However, the success of many of these projects and pilots depends on the collaboration with and support from other agencies—such as the IRS, INS, and OCSE.

SSA has also developed other processes to validate the earnings data in the Master Earnings File. SSA recently started mailing Social Security statements to individuals who had earnings and were age 25 or older. In FY 2002, SSA mailed almost 138 million of these statements. However, over 12 million were returned to SSA as undeliverable. If an individual contacts SSA about missing earnings, these amounts are either reinstated from the ESF to the Master Earnings File—if they are in the ESF—or added as new earnings to the Master Earnings File.

SSA Needs to Continue to Address this Challenge

We commend SSA for its efforts, but several factors—both internal and external to SSA—hinder the efforts with the most potential to reduce the ESF's size and growth. Some of the internal factors include a higher priority placed on other automated system developments and the fact that SSA has not linked available information in its database to identify chronic "problem" employers who continually submit annual wage reports with multiple errors. External factors include other Federal agencies with separate yet related mandates, such as the IRS's failure to sanction employers for submitting invalid wage data[7] and the INS' complicated employer procedures for verification of eligible employees. Further, SSA acknowledges the suspense file most likely will grow as transient workers in certain industries increase.

Recent OIG reviews have found SSA needs to improve communications with employers if it expects to improve the accuracy of reported wages. For example, our August 2002 review, *Effectiveness of the Social Security Administration's Earnings after Death Process,* found that SSA's earnings after death edit was not effective in resolving TY 1998 suspended earnings items. While SSA reinstated approximately 6 percent of the suspended items in our sample, another 22 percent of the suspended items could also have been reinstated. In addition, 33 percent of the sample items contained instances where it appears someone else was using the deceased individual's name and/or SSN. Our review of the earnings after death suspended items for TY 1998 also indicated that 7 of the top 10 contributors to the ESF were from the entertainment industry. Better communication with this industry could reduce the number of suspended items going into the ESF.

Our September 2002 report, *The Social Security Administration's Employee Verification Service for Registered Employers*, found that very few employers were using SSA's voluntary EVS for registered users, with only 392 employers out of a potential 6.5 million employers using this service during the last 3 years. In addition, we noted that SSA did not disclose pertinent information that could have assisted registered employers, such as whether the submitted SSN belonged to a deceased individual or the SSN was issued to the individual for nonwork purposes. SSA agreed with our recommendations designed to assist employers and improve the EVS.

[7] Internal Revenue Code section 6721 authorizes IRS to levy penalties for failure to file properly completed information returns, including Form W-2s.

Social Security Number Misuse and Privacy Concerns (Identity Theft)

In FY 2002, SSA issued over 18 million original and replacement SSN cards. As use of the SSN has grown, so has its misuse. Because the SSN is so heavily relied upon as an identifier, it is a valuable commodity for criminals. It can be obtained illegally in many ways: presenting false documentation to SSA, stealing another person's SSN, purchasing an SSN card on the black market, using the SSN of a deceased individual, and simply creating a nine-digit number. As we have learned through numerous investigations, even a legally obtained SSN can be used to facilitate an unlawful act. Failure to protect the SSN's integrity can have enormous consequences for our Nation and its citizens. Given the magnitude of SSN misuse, we believe SSA must employ effective front-end controls in its enumeration process. Likewise, additional techniques, such as data mining, biometrics, and enhanced systems controls are critical in the fight against SSN misuse.

SSA Has Taken Steps to Address this Challenge

In response to the terrorist events of September 11, 2001, SSA formed an executive level Enumeration Task Force to explore and track the Agency's progress toward completing policy and procedural initiatives to further enhance the SSN's integrity. Among the Task Force initiatives are:

- provide refresher training on enumeration policy and procedures, with emphasis on enumerating noncitizens, for all involved staff;
- convene a joint task force between SSA, INS, Department of State and Department of Health and Human Services' Office of Refugee Resettlement to resolve issues involving enumeration of non-citizens, including procedures for verifying INS documents before SSN issuance; and
- eliminate driver's licenses as a reason for a nonwork number.

Of eight Task Force initiatives, SSA has implemented three, and five are ongoing. Other Agency initiatives include (1) agreements to enable INS and Department of State to collect enumeration data from aliens entering the United States, (2) a work-group to study the feasibility of limiting the number of replacement SSN cards, (3) obtaining on-line access to State vital records so FOs can verify all United States birth certificates presented in support of SSN applications, (4) verifying INS documents submitted by noncitizens who apply for an SSN, (5) a workgroup to identify enhancements in the Modernized Enumeration System to address certain fraud-prone situations, and (6) partnering with INS and OIG to open Enumeration Centers in large metropolitan areas to ensure that only qualified individuals with valid documents will receive SSNs.

SSA Needs to Continue to Address this Challenge

To ensure SSN integrity in a post September 11th environment, we believe SSA must focus on three stages of protection: (1) upon issuance of the SSN card, (2) during the life of the SSN holder, and (3) upon that individual's death. For example, all birth records, immigration records, and other identification documents presented to SSA must be independently verified as authentic before SSA issues an SSN. We continue to encourage full and expedited implementation of a joint Enumeration at Entry program. While this may subject the enumeration process to delays, such delays in service may be necessary to ensure the integrity of the SSN.

Once SSA issues an SSN and it becomes an integral part of the number-holder's life, it becomes difficult to give the SSN the degree of privacy it requires. Businesses and government agencies nationwide rely on the SSN as a convenient means of record keeping. By doing so, these entities collect, store, and, sometimes share a lifetime of personal information associated with the number. With this information, a criminal can commit financial fraud, and, in some cases, camouflage other crimes. The challenge for SSA and the Congress is to find a balance between ensuring the SSN's privacy and ensuring that businesses and Federal and State agencies are not unduly limited in the process. Despite this challenge, the following are important steps SSA can take:

- limit the SSN's public availability to the greatest extent practicable, without unduly limiting commerce;

- prohibit the sale of SSNs, prohibit their display on public records, and limit their use to valid transactions; and

- enact strong enforcement mechanisms and stiff penalties to further discourage SSN misuse.

Finally, SSA must do more to protect the SSN after the SSN holder's death. SSA receives death information from a wide variety of sources and compiles a Death Master File, which is updated monthly, transmitted to various Federal agencies, offered for sale to the public, and available for access over the Internet. Accuracy in this area is critical to SSA in the administration of its programs, to the financial services industry, and to the American people.

Full implementation of ongoing and planned initiatives and continued vigilance in this area is necessary to ensure the SSN's integrity. We understand the Agency has a difficult task in balancing service and security. However, SSA must continuously review its systems and processes for opportunities to prevent the possibility that individuals misuse SSNs to commit or camouflage criminal activities.

Integrity of the Representative Payee Process

Congress granted SSA the authority to appoint representative payees to receive and manage OASDI and SSI payments for beneficiaries deemed incapable of managing or directing the management of their finances. A representative payee may be an individual or an organization. Representative payees are responsible for managing these payments in the recipients' best interest, and organizational representative payees may receive a monthly fee from beneficiaries for their service. There are about 5.4 million representative payees who manage the benefits of about 7.6 million beneficiaries. SSA has experienced problems with representative payees who have misused beneficiary funds, and we have identified weaknesses in the selection, monitoring and accountability of representative payees.

SSA Has Taken Steps to Address this Challenge

SSA has recognized the vulnerabilities and weakness with the integrity of the representative payee process. In FY 2000, SSA established a Representative Payee Task Force to address them. The Task Force performed a comprehensive review of the features and vulnerabilities of the Representative Payment Program. The Task Force is comprised of three subgroups: (1) monitoring representative payees; (2) systems support for the Representative Payment Program, and (3) bonding and licensing of representative payees. As a result, SSA developed a representative payee monitoring program, consisting of site reviews of all representative payees receiving a fee, all volume organizational representative payees (serving over 100 beneficiaries), and all individual representative payees serving 20 or more beneficiaries. This routine monitoring system is on a 3-year cycle. In addition, SSA will conduct random reviews of a sample of volume organizational and representative payees receiving a fee. Further, in response to certain "trigger" events, SSA will review organizational representative payees as needed. Such "trigger" events include third-party reports of misuse, complaints from vendors for failure to receive payment, or failure to complete the annual Representative Payee Report. Additionally, SSA annually verifies the required license or bond for all representative payees receiving a fee, and visits payees receiving a fee 6 months after their initial appointment to ensure they fully understand their duties and responsibilities.

In March 2001, we alerted SSA to a condition whereby individuals were serving as representative payees who also had representative payees to manage their own Social Security benefits. SSA subsequently implemented a program to identify and investigate these situations. We also identified 121 representative payees whose own benefit payments were stopped by SSA because they were fugitive felons or parole or probation violators, but who managed over $1.4 million in Social Security funds for 161 beneficiaries. In response to our audit, SSA agreed to review these cases and reevaluate whether these fugitives are suitable payees. SSA also established a workgroup to develop processing instructions for handling this workload. SSA is also working to make the Representative Payee System—which SSA uses to appoint and monitor representative payees—more reliable.

SSA Needs to Continue to Address this Challenge

Although SSA has recognized the need to strengthen its selection and oversight of representative payees, we continue to identify problems with SSA's oversight of representative payees. Since FY 2001, we have performed 13 financial-related audits of representative payees. Our audits identified deficiencies with representative payees' financial management and accounting for benefit receipts and disbursements; vulnerabilities in the safeguarding of beneficiary payments; poor monitoring and reporting to SSA of changes in beneficiary circumstances; inappropriate handling of beneficiary-conserved funds; and improper charging of fees. Some of the areas in which SSA needs to take action are.

- *Selection of representative payees* – SSA is exploring ways to strengthen the selection process. SSA awarded a contract to research the feasibility of conducting criminal and/or credit background checks for the corporate officers and fiduciaries in potential fee-for-service representative payees and is considering a contract to investigate the financial soundness of prospective and existing fee-for-service representative payee organizations. However, SSA has not issued any policy changes on the selection of representative payees.

- *Representative Payee System* – We have noted the following weaknesses in the Representative Payee System: (1) system alerts were not always worked because they were given low priority; (2) ineffective tracking of representative payees who do not complete annual Representative Payee Reports; (3) inability of SSA to locate and retrieve completed Representative Payee Reports when needed; and (4) information lacking for some representative payees, and beneficiaries who have representative payees, as required by law.[8] SSA has said that it is working to correct these deficiencies.

- *Bonding and Licensing of representative payees* – SSA's policy specifies neither the amount of bond necessary to adequately protect beneficiaries nor the type or nature of licenses that are required. To date, SSA has not revised its policy to address these vulnerabilities.

We have also recommended that SSA explore the use of Stored Value Cards[9] to help address systemic weaknesses in it's Representative Payment Program. SSA believes that Stored Value Cards would be time-consuming and labor intensive for representative payees, and that they would not allow SSA to better monitor representative payees. However, SSA is committed to improving the Representative Payment Program and is exploring other innovative approaches for monitoring representative payees.

[8] The Omnibus Budget Reconciliation Act of 1990 required the development of a system to store data about all representative payees and the beneficiaries for whom they serve.

[9] A Stored Value Card is a prepaid spending card that can be used everywhere a credit card is accepted. Stored Value Cards do not have a line of credit and can be used to make automated teller machine withdrawals.

Appendices

Glossary of Acronyms

A

ACAPS	Appeals Council Automated Processing System
ACIS	Allegation and Case Investigation System
ADP	Automated Data Processing
AeDIB	Accelerated Electronic Disability
AICPA	American Institute of Certified Public Accountants
AIME	Average Indexed Monthly Earnings
ALJ	Administrative Law Judge
ALP	Advanced Leadership Program
APB	Accounting Principles Board
APP	Annual Performance Plan
APR	Annual Performance Report
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment

B

BL	Black Lung

C

CAR	Corrective Action Review
CDI	Cooperative Disability Investigations
CDR	Continuing Disability Review
CMS	Centers for Medicare and Medicaid Services
COTS	Commercial Off-The-Shelf Software
CPI	Consumer Price Index
CPMS	Case Processing and Management Systems
CPS	Current Population Survey
CSRS	Civil Service Retirement System
CY	Calendar Year

D

DDS	Disability Determination Service
DI	Disability Insurance
DOD	Department of Defense
DOL	Department of Labor
DOS	Department of State
DRI	Disability Research Institute

DT	Department of Treasury

E

eDIB	Electronic Disability
EF	Electronic Folder
EIC	Executive Internal Control
EME	Electronic Medical Evidence
EMIS	Executive Management Information System
EMODS	Earnings Management Information Operations Data Store
EPE	Extended Period of Eligibility
EPOXY	Earnings Posted Overall Cross Total/Year-to-Date System
ESF	Earnings Suspense File

F

FASAB	Federal Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Systems
FO	Field Office
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GDP	Gross Domestic Product
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GRS	General Record Schedule
GSA	General Services Administration

H

HI/SMI	Hospital Insurance/Supplemental Medical Insurance
HOTS	Hearing Office Tracking System
HS	Human Services

I

ID	Identification
IG	Inspector General
IRA	Individual Retirement Account

IT	Information Technology
IVT	Interactive Video Training

K

KPI	Key Performance Indicator
KY	Kentucky

L

LAE	Limitation on Administrative Expenses
LDP	Leadership Development Program

M

MAI	Management Analysis Inc.
MAR	Monthly Activity Report
MBR	Master Beneficiary Record
MCAS	Managerial Cost Accounting System
MC3	Multimedia Customer Contact Center
MCS	Modernized Claims System
MD&A	Management's Discussion and Analysis
MDSI	
MIICR	Management Information Initial Claims Report
MMP	Market Measurement Program
MOURS	Modernized Overpayment and Underpayment Reporting System
MS	Mississippi
MSSICS	Modernized Supplemental Security Income Claims System

N

NA	Not Available
NCC	National Computer Center
NIST	National Institute of Standards and Technology
NRA	Normal Retirement Age
NSHA	National Study of Health and Activity

O

OASDI	Old-Age, Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCACT	Office of the Chief Actuary
OCOMM	Office of the Deputy Commissioner for Communications
ODCP	Office of the Deputy Commissioner for Policy
OEO	Office of Earnings Operations
OHA	Office of Hearings and Appeals
OIG	Office of the Inspector General

OIG/OA	Office of the Inspector General/Office of Audit
OMB	Office of Management and Budget

P

PAR	Performance and Accountability Report
PCASC	Processing Center Action Control System
PDF	Portable Document File
PE	Postentitlement
PIA	Primary Insurance Amount
PIN	Personal Identification Number
PKI	Public Key Infrastructure
PMA	President's Management Agenda
PP&E	Property, Plant and Equipment
PPWY	Production Per Workyear
PSC	Program Service Center
PTF	Payments to the Trust Funds
PUMS	Public Understanding Measurement System
PwC	PricewaterhouseCoopers LLP

Q

QC	Quarters of Coverage

R

RO	Regional Office
ROAR	Recovery of Overpayments, Accounting and Reporting System
RRB	Railroad Retirement Board
RRC	Retirement Research Consortium
RRI	Railroad Retirement Interchange
RSI	Retirement and Survivors Insurance
RTW	Return to Work

S

SBR	Statement of Budgetary Resources
SECA	Self-Employment Contributions Act
SF	Standard Form
SGA	Substantial Gainful Activity
SIPP	Survey of Income and Program Participation
SOF	Status of Funds
SPI	State Partnership Initiative
SSA	Social Security Administration
SSDI	Social Security Disability Income
SSI	Supplemental Security Income
SSN	Social Security Number

SSR	Supplemental Security Record
SSPP	Standardized Security Profile Project
SUMS	SSA Unified Measurement System

T

TOP	Treasury Offset Program
TWP	Trial Work Period
TWSSP	Ticket-to-Work and Self-Sufficiency Program

U

UI	Unemployment Information

V

VOIP	Voice Over Internet Protocol
VS	Vital Statistics

W

WC	Workers' Compensation
WY	Workyear

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