

HIGHLIGHTS OF FINANCIAL POSITION

OVERVIEW OF FINANCIAL DATA

SSA's financial statements and footnotes appear on pages 103 through 156. The financial statements presented in this report received an unqualified opinion from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the programs administered by SSA. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination) and the Supplemental Security Income (SSI) program. OASI and DI have separate funds which are financed by payroll taxes, interest on investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.

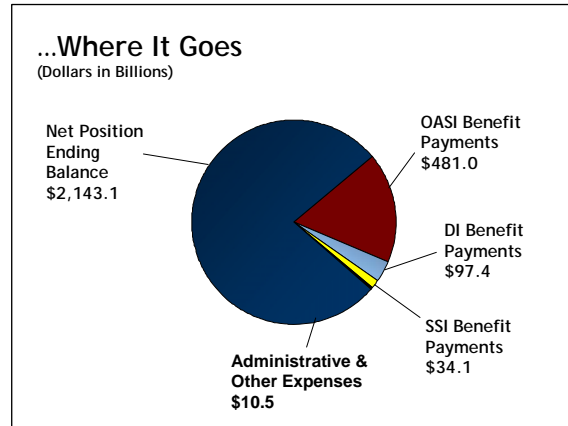
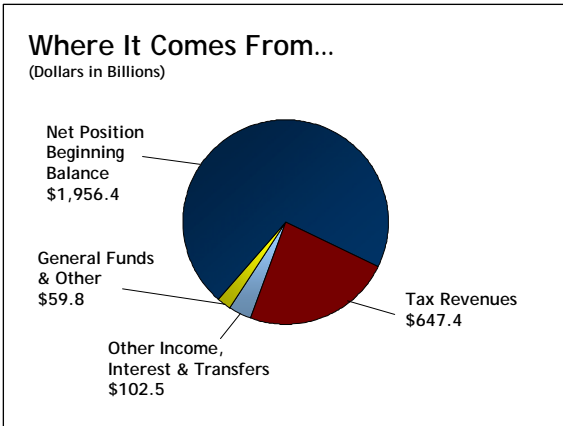
BALANCE SHEET: The Balance Sheet displayed on page 104 reflects total assets of \$2,226.3 billion, a 9.4 percent increase over the previous year. Approximately 98.0 percent of assets are investments. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The \$186.8 billion growth (9.4 percent) in investments from 2006 is primarily due to tax revenues of \$647.4 billion and interest on those investments of \$108.5 billion, exceeding the cost of operations of \$622.8 billion. The majority of our liabilities, 84.0 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 2007 by \$4.1 billion (5.2 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew \$186.6 billion or 9.5 percent to \$2,143.1 billion. Interest on Investments, which is paid in the form of Treasury securities, represents 58.1 percent of the growth of the investments, up from 53.7 percent in 2006.

STATEMENT OF NET COST: Net cost of operations increased 5.9 percent or \$34.8 billion from \$588.0 billion in 2006 to \$622.8 billion in 2007. This increase in the net cost of operations is primarily due to the first wave of baby boomers attaining retirement age. Of this increase, \$34.9 billion (6.0 percent growth) resulted from increased benefit payments and \$92.0 million (0.9 percent decline) resulted from decreased operating expenses. The net cost and benefit payments of the OASI program both grew 6.5 percent, while operating expenses grew by 0.5 percent. The number of OASI beneficiaries grew 1.1 percent to 40.9 million while average benefit payments grew by 4.4 percent to \$990 per month. The net cost and benefit payments of the DI program grew 6.9 percent and 7.1 percent, respectively. Operating expenses decreased by 0.5 percent. The number of DI beneficiaries grew by 3.1 percent while average benefits increased 4.2 percent to \$839 per month.

The net cost and benefit payments of the SSI program decreased 2.9 percent and 3.1 percent, respectively. The decrease is primarily due to SSI having 12 months of benefit payment activity in FY 2006, versus 11 months of activity in FY 2007. There were only 11 months of activity in FY 2007 because October 1, 2006 was on a Sunday so the benefit payment for October was accelerated into September 2006. Operating expenses decreased by 1.0 percent. The number of SSI beneficiaries grew by 1.8 percent while maximum benefits increased by 3.3 percent to \$623 per month. The operating expenses of the Other program, which consists primarily of administrative expenses charged to the Health Insurance and Supplemental Medical Insurance Trust Funds, grew by 3.7 percent.

STATEMENT OF CHANGES IN NET POSITION: The Statement of Changes in Net Position reflects an increase of \$186.6 billion in the net position of SSA. This increase is primarily attributable to a \$186.8 billion increase in investments. At this time tax revenues continue to exceed benefit payments. 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 2007 and how these funds were used. These statements are displayed on pages 105 and 106, respectively. Most resources available to SSA were used to finance current OASDI benefits and to accumulate investments 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, as a percent of

benefit expenses, is 1.7 percent. In 2007, total financing sources grew by \$37.4 billion or 4.8 percent from \$772.0 billion in 2006 to \$809.4 billion in 2007. The primary sources for this growth were a payroll and income tax revenue increase of \$27.4 billion (4.4 percent) from 2006 due to a continuing improvement in the United States' economy and investment income of \$8.6 billion (8.6 percent) from 2006. The growth in investment income was due to increasing assets of the combined OASI and DI Trust Funds and an increase in the average interest yield from 6.43 percent to 6.59 percent.

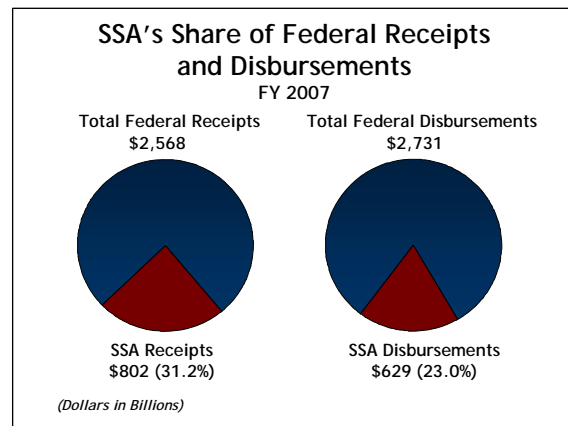


STATEMENT OF BUDGETARY RESOURCES: This statement displayed on page 107 shows that SSA had \$665.0 billion in budgetary resources of which \$3.1 billion remained unobligated at year-end. SSA recorded total net outlays of \$621.8 billion by the end of the year. Budgetary resources grew \$34.0 billion, or 5.4 percent from 2006, while net outlays increased \$36.3 billion, or 6.2 percent.

STATEMENT OF SOCIAL INSURANCE: Effective for FY 2006 and thereafter, Federal Accounting Standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or on behalf of existing and future participants of social insurance programs, the present value of the cost of providing scheduled benefits to those same individuals and the difference between the income and cost. The Statement of Social Insurance displayed on page 108 for the Social Security program covers a period of 75 years in the future and the information and disclosures presented are deemed essential to fair presentation of our financial information.

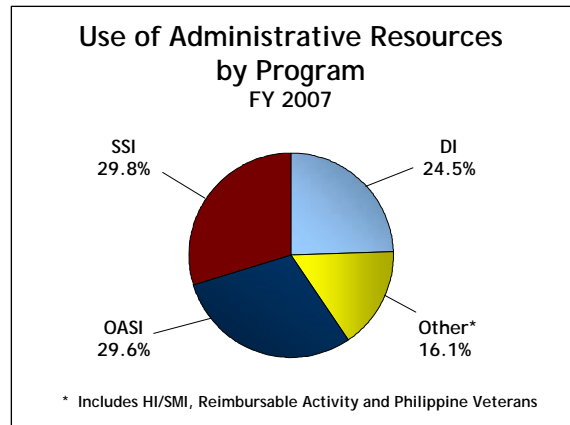
SSA'S SHARE OF FEDERAL OPERATIONS

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 31.2 percent of the \$2.6 trillion in total Federal receipts, a decrease of 1.1 percent over last year as Federal income tax collections grew more rapidly than payroll taxes. Disbursements increased by 0.6 percent to 23.0 percent of Federal disbursements.



USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2007 in terms of the programs SSA administers or supports. Although the DI program comprises only 15.9 percent of the total benefit payments made by SSA, it consumes 24.5 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.6 percent of the total benefit payments made by SSA, it consumes 29.8 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 2006 use of administrative resources by program was 29.2 percent for the OASI program, 24.4 percent for the DI program, 29.8 percent for the SSI program and 16.6 percent for Other.



OASI AND DI TRUST FUND SOLVENCY

PAY-AS-YOU-GO FINANCING

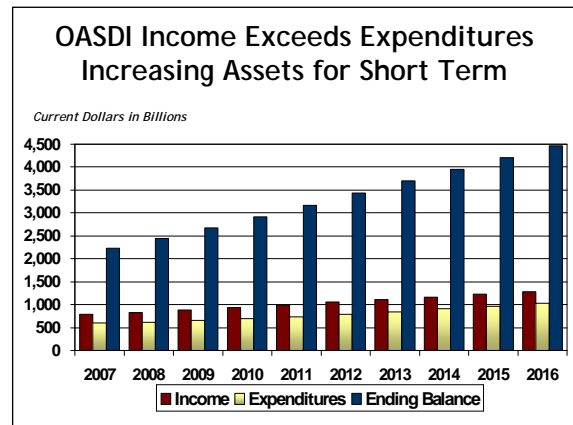
The OASI and DI Trust Funds are deemed to be solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund assets. In recent years, current income has exceeded program obligations for the OASDI program, and thus the combined OASI and DI Trust Fund assets have been growing. The following table shows that OASI and DI Trust Fund assets, expressed in terms of the number of months of program obligations that these assets could finance has grown from 35.9 months at the end of FY 2003 to an estimated 42.8 months at the end of FY 2007, an increase of 19 percent.

Number of Months of Expenditures Fiscal-Year-End Assets Can Pay ¹					
	2003	2004	2005	2006	2007
OASI	37.8	39.9	42.6	44.4	46.8
DI	26.2	25.4	25.0	24.2	23.7
Combined	35.9	37.5	39.6	40.9	42.8

¹ Computed as 12 times the ratio of end-of-year assets to outgo in the following fiscal year.
 Note: Values for 2006 and 2007 are estimates that are based on 2007 Trustees Report intermediate assumptions.

SHORT TERM FINANCING

The OASI and DI Trust Funds are deemed adequately financed for the short term when actuarial estimates of OASI and DI Trust Fund assets for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2007 Trustees Report indicate that the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2007 Trustees Report, OASDI estimated expenditures and income for 2016 are 86 percent and 72 percent higher than the corresponding amounts in 2006 (\$555 billion and \$745 billion, respectively). From the end of 2006 to the end of 2016, assets are expected to grow by 118 percent, from \$2.0 trillion to \$4.5 trillion.



LONG TERM FINANCING

Social Security’s financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. In 2017, program cost will exceed tax revenues, and, in 2041, the combined OASI and DI Trust Funds will be exhausted according to the projections by Social Security’s Chief Actuary. The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth rates well below historical levels. In present value terms, the 75 year shortfall is \$4.7 trillion, which is 1.8 percent of taxable payroll and about 0.7 percent of Gross Domestic Product (GDP) over the same period. Possible reform alternatives being discussed – singularly or in combination with each other – are (1) increasing payroll taxes, (2) slowing the growth in benefits, (3) using general revenues or (4) increasing expected returns by investing, at least in part, in private securities through either personal accounts or direct investment of OASI and DI Trust Fund assets.

For more information, pages 141 through 156 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

LIMITATION ON FINANCIAL STATEMENTS

The principal financial statements beginning on page 104 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.