HIGHLIGHTS OF FINANCIAL POSITION

OVERVIEW OF FINANCIAL DATA

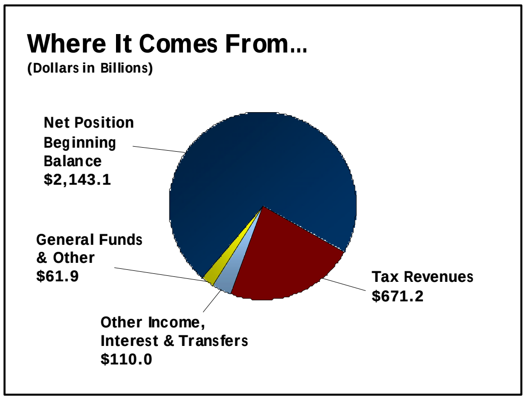
We received an unqualified opinion on our financial statements from the independent audit firm PricewaterhouseCoopers, LLP. These statements combined the results from the programs we administer. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred 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. Our financial statements, notes, and additional information appear on pages 89 through 142 of this report.

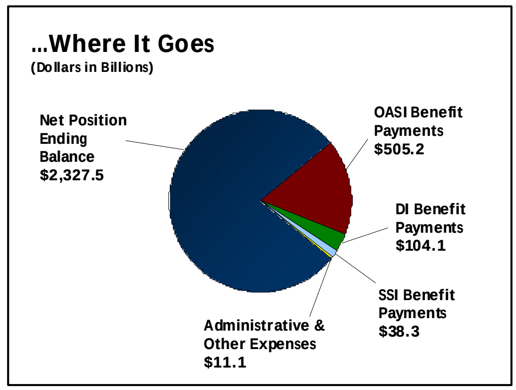
BALANCE SHEET: The Balance Sheet displayed on page 90 reflects total assets of $2,414.7 billion, an 8.5 percent increase over the previous year. Of the $2,414.7 billion in assets, $2,325.3 billion primarily relates to earmarked funds for the OASI and DI programs. Approximately 98.0 percent of assets are investments. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The $185.0 billion growth (8.5 percent) in investments from 2007 is primarily due to tax revenues of $671.2 billion and interest on those investments of $115.1 billion, exceeding the cost of operations of $658.4 billion. The majority of our liabilities, 83.9 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 2008 by $3.9 billion (4.7 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew $184.4 billion or 8.6 percent to $2,327.5 billion. Interest on Investments, which is paid in the form of Treasury securities, represents 62.2 percent of the growth of the investments, up from 58.1 percent in 2007.

STATEMENT OF NET COST: Net cost of operations increased 5.7 percent or $35.6 billion from $622.8 billion in 2007 to $658.4 billion in 2008. This increase in the net cost of operations is primarily due to the first wave of baby boomers attaining retirement age. Of this increase, $35.1 billion (5.7 percent growth) resulted from increased benefit payments and $590 million (5.6 percent increase) resulted from increased operating expenses. The net cost and benefit payments of the OASI program grew 5.1 and 5.0 percent, respectively, while operating expenses grew by 9.0 percent. The number of OASI beneficiaries grew 1.5 percent to 41.5 million while average benefit payments grew by 3.5 percent to $1,023.88 per month. The net cost and benefit payments of the DI program grew 6.8 percent and 6.9 percent, respectively. Operating expenses increased by 5.5 percent. The number of DI beneficiaries grew by 3.5 percent while average benefits increased 2.9 percent to $863.67 per month.

The net cost and benefit payments of the SSI program increased 11.3 percent and 12.3 percent, respectively. The increase is primarily due to SSI having 12 months of benefit payment activity in FY 2008, 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 increased by 0.5 percent. The number of SSI beneficiaries grew by 2.1 percent while maximum benefits increased by 2.3 percent to $637 per month. The operating expenses of the Other program, which consists primarily of administrative expenses charged to the Hospital Insurance and Supplemental Medical Insurance Trust Funds, grew by 9.2 percent.

STATEMENT OF CHANGES IN NET POSITION: The Statement of Changes in Net Position reflects an increase of $184.4 billion in the net position of the agency. This increase is primarily attributable to a $185.0 billion increase in investments. At this time, tax revenues continue to exceed benefit payments. The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the funds we were provided in FY 2008 and how these funds were used. These statements are displayed on pages 91 and 92, respectively. Most resources available to us 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, we redeem investments to supply cash to cover the outlays. Administrative expenses as a percent of benefit expenses is 1.7 percent. In 2008, total financing sources grew by $33.4 billion or 4.1 percent from $809.4 billion in 2007 to $842.8 billion in 2008. The primary sources for this growth were a payroll and income tax revenue increase of $23.8 billion (3.7 percent) from 2007 and an investment income increase of $6.6 billion (6.1 percent) from 2007. 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 6.59 percent to 7.85 percent.



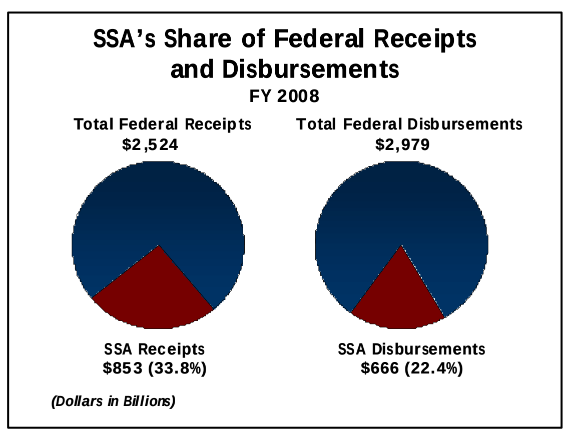


STATEMENT OF BUDGETARY RESOURCES: This statement displayed on page 93 shows that we had $699.7 billion in budgetary resources of which $2.9 billion remained unobligated at year-end. We recorded total net outlays of $657.8 billion by the end of the year. Budgetary resources grew $34.8 billion, or 5.2 percent from 2007, while net outlays increased $36.0 billion, or 5.8 percent.

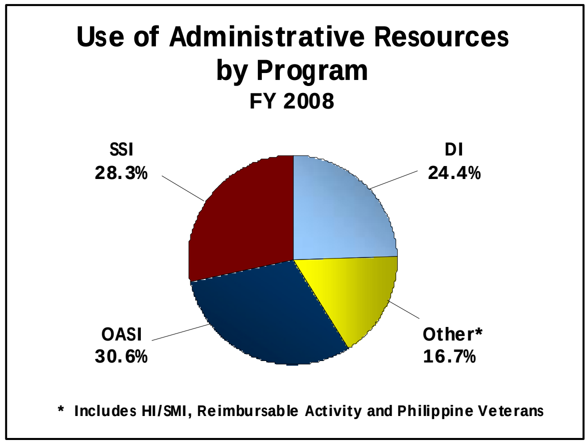
STATEMENT OF SOCIAL INSURANCE: Effective for FY 2006 and thereafter, Federal Accounting Standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or 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 94 for the Social Security programs 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 we administer 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 33.8 percent of the $2.5 trillion in total Federal receipts, an increase of 2.6 percent over last year as Federal income tax collections grew more rapidly than payroll taxes. Disbursements decreased by 0.6 percent to 22.4 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 2008 in terms of the programs we administer or support. Although the DI program comprises only 16.1 percent of the total benefit payments we make, it consumes 24.4 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.9 percent of the total benefit payments we make, it consumes 28.3 percent of annual administrative resources. State Disability Determination Services process claims for DI and SSI disability benefits and render decisions on whether the claimant is disabled. In addition, we are required to perform continuing disability reviews of many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2007 use of administrative resources by program was 29.6 percent for the OASI program, 24.5 percent for the DI program, 29.8 percent for the SSI program, and 16.1 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 37.5 months at the end of FY 2004 to an estimated 43.8 months at the end of FY 2008, an increase of 17 percent.

Number of Months of Expenditures Fiscal-Year-End Assets Can Pay[1]

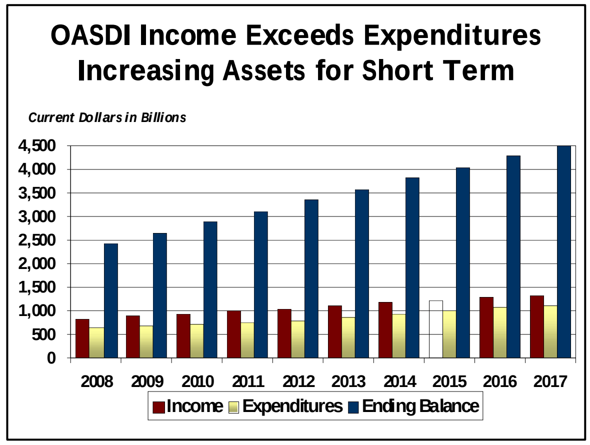
	2004	2005	2006	2007	2008
OASI	39.9	42.6	44.0	46.3	48.2
DI	25.4	25.0	25.0	24.1	23.1
Combined	37.5	39.6	40.9	42.5	43.8

[1] Computed as 12 times the ratio of end-of-year assets to outgo in the following fiscal year.

Note: Values for 2007 and 2008 are estimates that are based on 2008 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 2008 Trustees Report indicate that the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2008 Trustees Report, OASDI estimated expenditures and income for 2017 are 87 percent and 69 percent higher than the corresponding amounts in 2007 ($595 billion and $785 billion, respectively). From the end of 2007 to the end of 2017, assets are expected to grow by 100 percent, from $2.2 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 $4.3 trillion, which is 1.6 percent of taxable payroll and about 0.6 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 127 through 142 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements beginning on page 90 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles 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.