FINANCIAL SECTION

A Message from the Chief Financial Officer

The Social Security Administration (SSA) had many successes in Fiscal Year 2006 and we are proud to be given this opportunity to share our accomplishments in the area of financial management. For the 13th consecutive year, Social Security received an unqualified opinion from the independent auditors on our consolidated financial statements, including the Statement of Social Insurance which was subject to audit for the first time this year. The unqualified (clean) opinion 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 American taxpayers' dollars. We were also the proud recipient of our 8th Association of Government Accountant's Certificate of Excellence in Accountability Reporting for our FY 2005 Performance and Accountability Report, clearly portraying our high standards in demonstrating accountability and communicating results. Social Security is the only Agency to have received this prestigious award each year since its inception.

SSA also received an unqualified opinion concerning SSA's assertion about the effectiveness of the Agency's systems of accounting and internal control with no material weaknesses or reportable conditions reported by the auditors. Throughout FY 2006, SSA worked diligently across all components to ensure compliance with the requirements found in OMB A-123 Appendix A, *Management's Responsibility for Internal Controls*. For each financial reporting process, we identified and extensively documented the key controls and through testing ascertained if the key controls were operating effectively and were designed to mitigate risk. We are proud that we were successful in our endeavors to meet the stringent deadlines of this new requirement and that our SSA management assurance statement could state with reasonable assurance that internal control over financial reporting was operating effectively as of year end.

In FY 2003, SSA implemented SSOARS, a federally certified accounting system. During FY 2006, a user-friendly "front end" for accessing the Agency's financial accounting system data and integrating budget allocations with expenditure data was developed. This functionality makes financial data easily available to all managers throughout the Agency.

I am proud that the Agency continues to meet all the standards for obtaining a "green" score in both status and progress for the President's Management Agenda Improved Financial Performance initiative. The Agency has initiatives to "Get Beyond Green" through the implementation and use of a modernized cost accounting system that will improve the quality, consistency and access to information used by managers and analysts to manage work and account for resources.

This Agency is strongly committed to excellence in financial reporting and to responsibly managing the assets, resources, and programs entrusted to us. In the coming year, our goal remains to provide timely, reliable and useful financial management information to Congress and to the American public.

Dale W. Sopper
Chief Financial Officer
November 7, 2006

Financial Statements and Additional Information

The Agency's financial statements and additional information for fiscal years (FY) 2006 and 2005 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2006 and 2005, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.

- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2006 and 2005. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.

- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2006 and 2005. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by major programs as additional information.

- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2006 and 2005. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.

- The **Consolidated Statements of Financing** reconcile the net cost of operations with the obligation of budgetary resources for the years ended September 30, 2006 and 2005. A Schedule of Financing is provided to present the reconciliation by SSA's major programs as additional information.

- The **Statement of Social Insurance** presents the actuarial present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future income and cost expected to arise from the formulas specified in current law for current and future program participants. The difference between these values is presented, both including and excluding the value of the combined OASI and DI Trust Fund assets at the beginning of the period, in order to provide an indication of the program's financial status.

- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated and an interpretive analysis of trends revealed by the data.

Consolidated Balance Sheets as of September 30, 2006 and September 30, 2005

	(Dollars in Millions)	
Assets	**2006**	2005
Intragovernmental:		
Fund Balance with Treasury (Note 4)	**$ 4,778**	$ 5,370
Investments (Note 5)	**1,995,307**	1,809,422
Interest Receivable, Net (Note 6)	**25,631**	23,472
Accounts Receivable, Net (Note 6)	**536**	307
Total Intragovernmental	**2,026,252**	1,838,571
Accounts Receivable, Net (Notes 3 and 6)	**7,654**	6,982
Property, Plant and Equipment, Net (Note 7)	**1,641**	1,419
Other	**5**	9
Total Assets	**$ 2,035,552**	$ 1,846,981
Liabilities (Note 8)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	**$ 3,754**	$ 3,642
Accounts Payable	**8,033**	8,309
Other	**93**	108
Total Intragovernmental	**11,880**	12,059
Benefits Due and Payable	**66,104**	61,272
Accounts Payable	**264**	394
Other	**873**	894
Total Liabilities	**79,121**	74,619
Net Position		
Unexpended Appropriations		1,446
Unexpended Appropriations-Earmarked Funds (Note 9)	**57**	
Unexpended Appropriations-Other Funds	**1,614**	
Cumulative Results		1,770,916
Cumulative Results of Operations-Earmarked Funds (Note 9)	**1,954,921**	
Cumulative Results of Operations-Other Funds	**(161)**	
Total Net Position	**1,956,431**	1,772,362
Total Liabilities and Net Position	**$ 2,035,552**	$ 1,846,981

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2006 and September 30, 2005

	(Dollars in Millions)	
	2006	2005
OASI Program		
Benefit Payments	**$ 451,516**	$ 432,438
Operating Expenses (Note 10)	**3,083**	2,970
Total Cost of OASI Program	**454,599**	435,408
Less: Exchange Revenues (Notes 11 and 12)	**8**	22
Net Cost of OASI Program	**454,591**	435,386
DI Program		
Benefit Payments	**90,944**	89,731
Operating Expenses (Note 10)	**2,574**	2,419
Total Cost of DI Program	**93,518**	92,150
Less: Exchange Revenues (Notes 11 and 12)	**9**	20
Net Cost of DI Program	**93,509**	92,130
SSI Program		
Benefit Payments	**35,237**	36,224
Operating Expenses (Note 10)	**3,147**	3,083
Total Cost of SSI Program	**38,384**	39,307
Less: Exchange Revenues (Notes 11 and 12)	**268**	303
Net Cost of SSI Program	**38,116**	39,004
Other		
Benefit Payments	**15**	16
Operating Expenses (Note 10)	**1,753**	1,729
Total Cost of Other Program	**1,768**	1,745
Less: Exchange Revenues (Notes 11 and 12)	**11**	17
Net Cost of Other	**1,757**	1,728
Total Net Cost		
Benefit Payments	**577,712**	558,409
Operating Expenses (Note 10)	**10,557**	10,201
Total Cost	**588,269**	568,610
Less: Exchange Revenues (Notes 11 and 12)	**296**	362
Total Net Cost	**$ 587,973**	$ 568,248

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2006 and September 30, 2005

(Dollars in Millions)

	2006		2005	
	Cumulative Results of Operations	**Unexpended Appropriations**	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances			$ 1,605,203	$ 1,489
Earmarked Funds	**$ 1,770,660**	**$ 53**		
All Other Funds	**256**	**1,393**		
Total All Funds	**$ 1,770,916**	**$ 1,446**	$ 1,605,203	$ 1,489
Budgetary Financing Sources				
Appropriations Received				57,874
Earmarked Funds		**16,378**		
All Other Funds		**40,454**		
Appropriations Transferred In/Out				0
Earmarked Funds		**38**		
Other Adjustments			0	(13)
Earmarked Funds	**0**	**(6)**		
Appropriations Used			57,904	(57,904)
Earmarked Funds	**16,406**	**(16,406)**		
All Other Funds	**40,233**	**(40,233)**		
Tax Revenues (Note 13)			588,416	
Earmarked Funds	**620,007**			
Interest Revenues			92,994	
Earmarked Funds	**99,880**			
Transfers In/Out Without Reimbursement			784	
Earmarked Funds	**(4,868)**			
All Other Funds	**6,538**			
Railroad Retirement Interchange			(3,846)	
Earmarked Funds	**(3,959)**			
Net Transfers In/Out			(3,062)	
Earmarked Funds	**(8,827)**			
All Other Funds	**6,538**			
Other Budgetary Financing Sources-			63	
Earmarked Funds	**(50)**			
Other Financing Sources (Non-Exchange)				
Transfers In/Out			(2,818)	
All Other Funds	**(2,907)**			
Imputed Financing Sources (Note 14)			464	
All Other Funds	**537**			
Total Financing Sources			733,961	(43)
Earmarked Funds	**727,416**	**4**		
All Other Funds	**44,401**	**221**		
Net Cost of Operations			568,248	
Earmarked Funds	**543,155**			
All Other Funds	**44,818**			
Net Change			165,713	
Earmarked Funds	**184,261**			
All Other Funds	**(417)**			
Ending Balances			1,770,916	1,446
Earmarked Funds	**1,954,921**	**57**		
All Other Funds	**(161)**	**1,614**		
Total All Funds	**$ 1,954,760**	**$ 1,671**	$ 1,770,916	$ 1,446

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2006 and September 30, 2005

	(Dollars in Millions) 2006	2005
Budgetary Resources (Note 15)		
Unobligated Balances, Brought Forward, October 1	**$ 1,832**	$ 2,118
Recoveries of Prior Year Unpaid Obligations	**539**	337
Budget Authority		
Appropriation	**796,683**	754,724
Spending Authority from Offsetting Collections		
Earned		
Collected	**4,224**	4,596
Change in Receivable	**(16)**	9
Change in Unfilled Customer Orders		
Advance Received	**1**	0
Expenditure Transfers from Trust Funds	**9,204**	8,779
Subtotal	**810,096**	768,108
Nonexpenditure Transfers Net	**122**	0
Temporarily Not Available Pursuant to Public Law	**(181,621)**	(165,150)
Permanently Not Available	**(40)**	(7)
Total Budgetary Resources	**$ 630,928**	$ 605,406
Status of Budgetary Resources (Note 15)		
Obligations Incurred		
Direct	**$ 624,951**	$ 599,028
Reimbursable	**4,186**	4,546
Subtotal	**629,137**	603,574
Unobligated Balances		
Apportioned	**1,475**	1,566
Unobligated Balances - Not Available	**316**	266
Total Status of Budgetary Resources	**$ 630,928**	$ 605,406
Change in Obligated Balances		
Obligated Balances, Net		
Unpaid Obligations, Brought Forward, October 1	**$ 69,215**	$ 60,455
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	**(2,091)**	(2,191)
Total Unpaid Obligated Balance	**67,124**	58,264
Obligations Incurred, Net	**629,137**	603,574
Less: Gross Outlays	**(624,755)**	(594,477)
Less: Recoveries of Prior Year Unpaid Obligations	**(539)**	(337)
Change in Uncollected Payments from Federal Sources	**22**	100
Obligated Balance - End of Period		
Unpaid Obligations	**73,058**	69,215
Less: Uncollected Payments from Federal Sources	**(2,069)**	(2,091)
Total Unpaid Obligated Balance, End of Period	**70,989**	67,124
Net Outlays		
Gross Outlays	**624,755**	594,477
Less: Offsetting Collections	**(13,434)**	(13,484)
Less: Offsetting Receipts	**(25,809)**	(19,653)
Net Outlays	**$ 585,512**	$ 561,340

The accompanying notes are integral part of these financial statements.

Consolidated Statements of Financing for the Years Ended September 30, 2006 and September 30, 2005

	(Dollars in Millions)	
	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	**$ 629,137**	$ 603,574
Less: Offsetting Collections and Recoveries	**(13,952)**	(13,721)
Obligations Net of Offsetting Collections	**615,185**	589,853
Less: Offsetting Receipts	**(25,809)**	(19,653)
Net Obligations	**589,376**	570,200
Imputed Financing	**537**	464
Other	**(253)**	(276)
Net Other Resources Used to Finance Activities	**284**	188
Total Resources Used to Finance Activities	**589,660**	570,388
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**(16)**	(4)
Resources that Fund Expenses Recognized in Prior Periods	**(10)**	(714)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	**20,158**	19,653
Resources that Fund Capitalized Costs	**(458)**	(399)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(21,633)**	(21,900)
Total Resources Not Part of the Net Cost of Operations	**(1,959)**	(3,364)
Total Resources Used to Finance the Net Cost of Operations	**587,701**	567,024
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	**3**	6
Other	**361**	1,019
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**364**	1,025
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**234**	211
Other	**(326)**	(12)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**(92)**	199
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**272**	1,224
Net Cost of Operations	**$ 587,973**	$ 568,248

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

Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
as of January 1, 2006

(In billions)

		Estimates from Prior Years			
	2006	**2005** unaudited	**2004** unaudited	**2003** unaudited	**2002** unaudited
Actuarial present value for the 75-year projection period of estimated future income (excluding interest) received from or on behalf of: (Note 17)					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	$16,568	$15,290	$14,388	$13,576	$13,048
Have attained retirement eligibility age (Age 62 and over)	533	464	411	359	348
Those expected to become participants (Under age 15)	15,006	13,696	12,900	12,213	11,893
All current and future participants	32,107	29,450	27,699	26,147	25,289
Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of: (Note 17)					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	26,211	23,942	22,418	21,015	20,210
Have attained retirement eligibility age (Age 62 and over)	5,866	5,395	4,933	4,662	4,402
Those expected to become participants (Under age 15)	6,480	5,816	5,578	5,398	5,240
All current and future participants	38,557	35,154	32,928	31,075	29,851
Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost (Note 17)	-$6,449	-$5,704	-$5,229	-$4,927	-$4,562

Additional Information

	2006	2005	2004	2003	2002
Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost (Note 17)	-$6,449	-$5,704	-$5,229	-$4,927	-$4,562
Combined OASI and DI Trust Fund assets at start of period	1,859	1,687	1,531	1,378	1,213
Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) and combined OASI and DI Trust Fund assets at start of period over cost (Note 17)	-$4,591	-$4,017	-$3,699	-$3,550	-$3,350

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.

Notes to the Basic Financial Statements
For the Years Ended September 30, 2006 and 2005
(Presented in Millions)

1. Summary of Significant Accounting Policies

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources and the actuarial present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular A-136 *Financial Reporting Requirements*.

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 OMB in Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds and four general fund appropriations. LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of PTF appropriations but also contains non-material activities.

Fund Balance with Treasury

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with the Department of the Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 4, Fund Balance with Treasury.

Investments

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI 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 issue bonds. Special issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets.

Property, Plant and Equipment

SSA's property, plant and equipment (PP&E) are recorded in the LAE program, but are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. The capitalization threshold for most PP&E categories is $100,000. Automated Data Processing and Telecommunications Site Preparation, buildings and other structures are capitalized with no threshold.

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

Benefits Due and Payable

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

Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a Federally recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

Administrative Expenses and Obligations

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

Obligations are incurred in the LAE accounts as activity is processed. As transfers are made from the appropriate funds into LAE, similar obligations are recorded in each of these financing sources. Since LAE is reported with its funding sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE's obligations are recorded twice. This is in compliance with OMB's directive to have the Combined Statement of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

Recognition of Financing Sources

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

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

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 13, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Refer to Note 11, Exchange Revenues. Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

Capitalized expenditures are recognized in the Combined Statements 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.

Earmarked Funds

In fiscal year 2006, SSA adopted SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, which requires separate presentation and disclosure of earmarked funds balances in the financial statements. The standard is effective beginning October 1, 2005. Restatement of prior periods is not permitted. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

SSA’s earmarked funds are the OASI and DI Trust Funds, PTF and fees collected to cover a portion of SSA’s administrative costs for SSI State Supplementation. Refer to Note 9, Earmarked Funds, for additional information.

Reclassifications

Certain FY 2005 balances have been reclassified to conform to FY 2006 financial statement presentations, the effect of which is immaterial. The primary change occurs in the Combined Statement of Budgetary Resources. This change was made in compliance with the revisions required by OMB Circular A-136.

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. However, 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 Statements 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.

SSA contributions to CSRS were $115 and $121 million for the years ended September 30, 2006 and 2005. SSA contributions to the basic FERS plan were $247 and $226 million for the years ended September 30, 2006 and 2005. 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 the FERS savings plan were $89 and $79 million for the years ended September 30, 2006 and 2005. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

3. Non-Entity Assets

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA’s Non-Entity Assets are $6,331 and $6,122 million as of September 30, 2006 and 2005. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable, (2) SSI overpayments collected, (3) fees collected to administer SSI State Supplementation and (4) Attorney fees that are returned to the Department of the Treasury General Fund. In FY 2005, the SSI Federal overpayments collected were inadvertently omitted from the total Non-Entity assets amount reported; in addition, the SSI receivable amount was understated in this note disclosure. Adjustments to total Non-Entity Assets and SSI receivable have been included in the FY 2005 figures as reported.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are $3,285 and $3,025 million as of September 30, 2006 and 2005. The SSI accounts receivable, net has been reduced by $1,955 and $2,433 million for FY 2006 and 2005 respectively as intra-agency elimination. SSI Federal overpayment collections included as a part of the Fund Balance with Treasury on the Consolidated Balance Sheets are $2,905 and $2,821 million as of September 30, 2006 and 2005. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the Department of the Treasury General Fund. These funds, upon deposit, are assets of the Department of the Treasury General Fund and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets. SSI State overpayment collections are used to offset reimbursements due from the States to SSA.

The Fund Balance with Treasury includes fees collected to administer SSI State Supplementation in the amount of $141 and $276 million for the years ended September 30, 2006 and 2005. The fee collection is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative fees.

4. Fund Balance with Treasury

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI and DI Trust Fund budgetary accounts are not used in chart 4b since OASI and DI Trust Fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in chart 4b will not match corresponding activity on the combined SBR.

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

	2006	2005
Trust Funds*		
OASI	$ (795)	$ (384)
DI	(348)	(73)
LAE	71	32
Appropriated Funds		
SSI	2,880	2,915
Other	2,970	2,880
Total	$ 4,778	$ 5,370

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

	2006	2005
Unobligated Balance		
Available	$ 1,226	$ 1,160
Unavailable	64	134
Obligated Balance Not Yet Disbursed	1,495	1,391
OASI, DI and LAE	(1,072)	(425)
Deposit & Receipt Accounts	3,065	3,110
Total	$ 4,778	$ 5,370

*The phrase "Trust Funds" is being used as the fund type as defined by OMB.

The negative fund balances reported for the OASI and DI Trust Funds as of September 30, 2006 and 2005 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

5. Investments

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest bearing securities backed by the full faith and credit of the Federal government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Treasury Secretary to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. The interest rates on these investments range from 3 1/2 percent to 7 3/8 percent and are payable on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the present to the year 2021. SSA's investments in Special Issue U.S. Treasury Securities are $1,995,307 and $1,809,422 million as of September 30, 2006 and 2005 respectively.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the U.S. Treasury. Because the OASI and DI Trust Funds and the U.S. Treasury are both part of the Government, these assets and liabilities are eliminated for consolidation purposes in the U.S. Government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. Government-wide financial statements.

The U.S. Treasury does not set aside assets to pay future expenditures associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the U.S. Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

6. Interest and Accounts Receivable

Interest Receivable

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury. Interest amounts are $25,631 and $23,472 million as of September 30, 2006 and 2005.

Accounts Receivable

Intragovernmental

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets in the amounts of $536 and $307 million as of September 30, 2006 and 2005 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The LAE gross accounts receivable has been reduced by $1,538 and $1,775 million as of September 30, 2006 and 2005 as an intra-agency elimination. This elimination is to offset SSA's LAE receivable to be paid from the appropriate fund with corresponding payables set up for anticipated LAE disbursements.

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

With the Public

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

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

	2006			2005		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 2,238	$ (126)	$ 2,112	$ 2,077	$ (112)	$ 1,965
DI	4,378	(1,492)	2,886	3,771	(1,291)	2,480
SSI*	7,032	(1,722)	5,310	7,307	(1,777)	5,530
LAE	15	0	15	159	0	159
Subtotal	13,663	(3,340)	10,323	13,314	(3,180)	10,134
Less:						
Eliminations**	(2,669)	0	(2,669)	(3,152)	0	(3,152)
Total	$ 10,994	$ (3,340)	$ 7,654	$ 10,162	$ (3,180)	$ 6,982

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

Chart 6 shows that in FY 2006 and 2005, gross accounts receivable was reduced by $2,669 and $3,152 million as an intra-agency elimination. This intra-agency activity results primarily from Special Disability Workloads (SDW) cases. In a prior period, SSA determined that a group of 228,000 SSI recipients who were eligible to receive DI benefits were paid either SSI or OASI benefits. At that time, the agency recognized and established receivables from both the OASI and SSI programs with an offsetting payable in the DI program.

SSA continues to identify and settle SDW cases and current estimates indicate that there are about 95,000 SDW cases remaining. OASI SDW receivables are $714 and $719 million as of September 30, 2006 and 2005. DI SDW receivables are less than $1 million as of September 30, 2006 and 2005. SSI SDW net receivables are $1,688 and $2,138 million as of September 30, 2006 and 2005.

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

7. Property, Plant and Equipment

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

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

	2006			2005		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 4	$ 0	$ 4	$ 5	$ 0	$ 5
Buildings	388	(200)	188	381	(195)	186
Equipment (incl. ADP Hardware)	433	(356)	77	378	(314)	64
Internal Use Software	1,951	(590)	1,361	1,561	(408)	1,153
Leasehold Improvements	189	(178)	11	189	(178)	11
Total	$ 2,965	$ (1,324)	$ 1,641	$ 2,514	$ (1,095)	$ 1,419

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	3-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6 years	Straight Line

8. Liabilities

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

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

	2006			2005		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	$ 3,754	$ 0	$ 3,754	$ 3,642	$ 0	$ 3,642
Accounts Payable	1	8,032	8,033	1	8,308	8,309
Other	39	54	93	55	53	108
Total Intragovernmental	3,794	8,086	11,880	3,698	8,361	12,059
Benefits Due and Payable	63,475	2,629	66,104	59,003	2,269	61,272
Accounts Payable	(62)	326	264	94	300	394
Other	278	595	873	291	603	894
Total	$ 67,485	$ 11,636	$ 79,121	$ 63,086	$ 11,533	$ 74,619

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. This annual interchange is 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.

Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to the Department of the Treasury General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. Refer to Note 3, Non-Entity Assets for a description of the SSI receivables established for the repayment of SSI benefit overpayments. Also included in the Not Covered Intragovernmental Accounts Payable amount are $141 and $276 million as of September 30, 2006 and 2005 for SSI State Fees payable to the Department of the Treasury General Fund. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative Fees.

Intragovernmental Other Liabilities

Intragovernmental Other Liabilities Covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts for the Federal Employees' Compensation Act (FECA), administered by DOL. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. Current fiscal year claim amounts to be paid by SSA within two years are the current portion. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is $54 and $53 million as of September 30, 2006 and 2005. See Note 3, Non-Entity Assets and Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2006 and 2005. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

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

	2006	2005
OASI	$ 41,677	$ 39,213
DI	23,611	22,375
SSI	3,485	2,836
Subtotal	68,773	64,424
Less: Intra-agency eliminations	(2,669)	(3,152)
Total	$ 66,104	$ 61,272

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b also includes estimated payables related to SDW. Refer to Note 6, Interest and Accounts Receivable. OASI payables are $329 and $331 million as of September 30, 2006 and 2005. DI payables are $3,500 and $4,139 million as of September 30, 2006 and 2005. In FY 2006, the DI payables have decreased due to SDW cases decreasing by the amount of the discharged liabilities for cases that have been adjudicated. In addition, estimates have decreased as a result of enhancements to the models and sample data used in the estimates.

Chart 8b also shows that as of FY 2006 and 2005, gross Benefits Due and Payable was reduced by $2,669 and $3,152 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Refer to Note 6, Interest and Accounts Receivable. Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

Chart 8c shows the estimated net SDW liability due to the public as of September 30, 2006 and 2005.

Chart 8c - Net SDW Liability as of September 30: ($ in millions)		
	2006	2005
Net DI Liability	$ 3,500	$ 4,139
Net OASI Receivable	(385)	(388)
Net SSI Receivable	(1,688)	(2,138)
Net Liability Due to the Public	$ 1,427	$ 1,613

Accounts Payable

Accounts Payable Not Covered by budgetary resources consists of SSI overpayments due to States and the SSI windfall amounts. States are entitled to any overpayment that SSA expects to collect since they make the actual payments to the beneficiaries. SSI windfall amounts are generated when a SSI recipient is found to be eligible for OASI or DI benefits. Any overlapping payments to the beneficiary made by OASI or DI are paid back to the SSI program, creating the windfall amount. This windfall amount, like the state overpayment is set up as an accounts payable until payment is made to the states.

Other Liabilities

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities Not Covered by budgetary resources includes the non-current portion of FECA actuarial liability. The non-current portion of $275 and $285 million as of September 30, 2006 and 2005 is comprised of claims that will be paid more than one year in the future. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

Contingent Liabilities

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

9. Earmarked Funds

The OASI and DI Trust Funds, PTF and SSI State Administrative Fees are classified as earmarked funds. These funds obtain revenues primarily through earmarked receipts, such as Social Security payroll taxes, and, to a lesser extent, offsetting collections.

OASI and DI Trust Funds

The OASI Trust Fund provides assistance and protection against loss of earnings due to retirement or death and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner’s disability in the form of monetary payments.

The OASI and DI Trust Funds are primarily funded by payroll and self-employment taxes. Additional income is provided to these funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 13, Tax Revenues for a discussion on employment taxes credited to the OASI and DI Trust Funds and Note 6, Interest and Accounts Receivable for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments for a discussion on Treasury securities.

PTF

PTF consist of transfers authorized by law between the Department of Treasury General Fund and the OASI and DI Trust Funds. PTF activity includes Income tax on Social Security Benefits, Reimbursable Union Activity, Coal Industry Retiree Health Benefits, Pension Reform, Special Age 72 Benefits, Income Tax Credit Reimbursement and Unnegotiated Check Reimbursement. PTF funds are warranted from the general fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, PTF is considered earmarked from the point that it is transferred into SSA and reported as Appropriations Received on the Statement of Changes in Net Position.

SSI State Administrative Fees

Administrative Fees collected from state SSI are also classified as earmarked funds. Section 1616.42 U.S.C authorizes the Commissioner of Social Security to assess each state an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the state for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See chart 9a for balances of earmarked funds as reported in the Consolidated Financial Statements for the year ended September 30, 2006.

Chart 9a - Earmarked Funds as of September 30:
Consolidating Schedule
($ in millions)

	2006				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (795)	$ (348)	$ 66	$ 0	$ (1,077)
Investments	1,793,129	202,178	0	0	1,995,307
Interest Receivable	23,004	2,627	0	0	25,631
Accounts Receivables	2,114	2,887	0	(714)	4,287
Total Assets	$ 1,817,452	$ 207,344	$ 66	$ (714)	$ 2,024,148
LIABILITIES and NET POSITION					
Liabilities	$ 45,544	$ 24,337	$ 3	$ (714)	$ 69,170
Total Liabilities	45,544	24,337	3	(714)	69,170
Unexpended Appropriations	0	0	57	0	57
Cumulative Results of Operations	1,771,908	183,007	6	0	1,954,921
Total Liabilities and Net Position	$ 1,817,452	$ 207,344	$ 66	$ (714)	$ 2,024,148
Statement of Net Cost					
Program Costs	$ 452,144	$ 91,128	$ 0	$ 0	$ 543,272
Less Earned Revenue	0	0	117	0	117
Net Cost of Operations	$ 452,144	$ 91,128	$ (117)	$ 0	$ 543,155
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 1,595,523	$ 175,137	$ 53	$ 0	$ 1,770,713
Non-Exchange Revenue	9,138	(1,498)	(107)	0	7,533
Net Cost of Operations	(452,144)	(91,128)	117	0	(543,155)
Taxes and Interest Revenue	619,391	100,496	0	0	719,887
Change in Net Position	176,385	7,870	10	0	184,265
Net Position End of Period	$ 1,771,908	$ 183,007	$ 63	$ 0	$ 1,954,978

Chart 9a includes eliminations between SSA's earmarked funds which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, $2,792 million of liabilities in the earmarked funds for the year ended September 30, 2006 need to be eliminated against LAE and SSI, which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in chart 9a.

Near the close of FY 2005, SSA determined that the DI Trust Fund had not been reimbursed for certain expenses initially incurred by the DI Trust Fund on behalf of the OASI Trust Fund. SSA's General Counsel and Counsel from the Department of the Treasury are working to determine if current law supports the reimbursement of principal and interest from the OASI Trust Fund to the DI Trust Fund. Concurrently, SSA continues to develop its methodology to estimate the reimbursement amount. The ultimate reimbursement, if any, will not impact the basic consolidated financial statements.

Chart 9b presents the Statement of Changes in Net Position in columnar format. Eliminations have no effect on columnar totals presented.

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30:
Consolidated Schedule
($ in millions)

	2006		
	Cumulative Results of Operations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	$ 1,770,660	$ 256	$ 1,770,916
Budgetary Financing Sources			
Appropriations Used	16,406	40,233	56,639
Tax Revenues (Note 13)	620,007	0	620,007
Interest Revenues	99,880	0	99,880
Transfers In/Out Without Reimbursement	(4,868)	6,538	1,670
Railroad Retirement Interchange	(3,959)	0	(3,959)
Net Transfers In/Out	(8,827)	6,538	(2,289)
Other Budgetary Financing Sources	(50)	0	(50)
Other Financing Sources (Non-Exchange)			
Transfers-In/Out	0	(2,907)	(2,907)
Imputed Financing Sources (Note 14)	0	537	537
Total Financing Sources	727,416	44,401	771,817
Net Cost of Operations	543,155	44,818	587,973
Net Change	184,261	(417)	183,844
Cumulative Results of Operations	$ 1,954,921	$ (161)	$ 1,954,760

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30:
($ in millions)

	2006		
	Unexpended Appropriations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	$ 53	$ 1,393	$ 1,446
Budgetary Financing Sources			
Appropriations Received	16,378	40,454	56,832
Appropriations Transferred In/Out	38	0	38
Other Adjustments	(6)	0	(6)
Appropriations Used	(16,406)	(40,233)	(56,639)
Total Budgetary Financing Sources	4	221	225
Total Unexpended Appropriations	57	1,614	1,671
Net Position	$ 1,954,978	$ 1,453	$ 1,956,431

10. Operating Expenses

Classification of Operating Expenses by Major Program

Chart 10a displays SSA's operating expenses for each major program. The HI/SMI Trust Funds' shares of SSA's operating expenses, which include the Medicare Prescription Drug Program, are recorded in Other. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statements of Net Cost. OASI and DI Trust Fund Operations include expenses of the Department of the Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries.

Chart 10a - SSA's Operating Expenses by Major Program as of September 30:
($ in millions)

	2006				
	LAE SSA	OIG	OASI and DI Trust Fund Operations	Vocational Rehabilitation	Total
OASI	$ 2,420	$ 35	$ 628	$ 0	$ 3,083
DI	2,356	34	176	8	2,574
SSI	3,044	0	0	103	3,147
Other	1,730	23	0	0	1,753
	$ 9,550	$ 92	$ 804	$ 111	$ 10,557

Chart 10a - SSA's Operating Expenses by Major Program as of September 30:

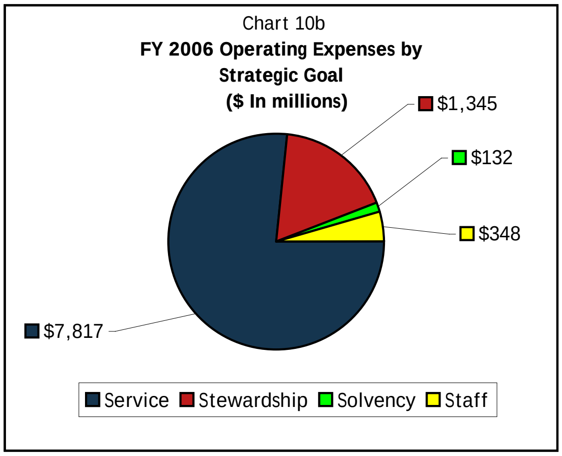
	2005				
	LAE SSA	OIG	OASI and DI Trust Fund Operations	Vocational Rehabilitation	Total
OASI	$ 2,368	$ 34	$ 568	$ 0	$ 2,970
DI	2,239	33	99	48	2,419
SSI	2,999	0	0	84	3,083
Other	1,703	26	0	0	1,729
	$ 9,309	$ 93	$ 667	$ 132	$ 10,201

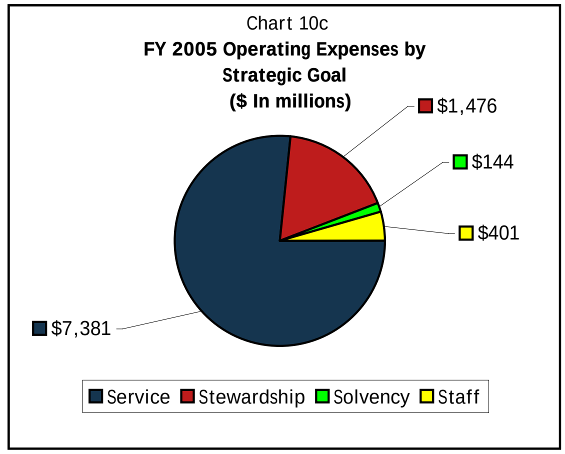
Classification of Operating Expenses by Strategic Goal

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

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

Charts 10b and 10c exhibit distribution of FY 2006 and 2005 SSA and OIG LAE operating expenses to the four APP Strategic goals which agree to the Agency's LAE budget appropriation. OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see chart 10a) are not included in LAE by strategic goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.





11. Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the Agency's cost. Total exchange revenues are $296 and $362 million for the years ended September 30, 2006 and 2005. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 23 States and the District of Columbia to administer some or all, of the States' supplement to Federal SSI benefits. SSA earned administrative fee revenue in the amount of $253 and $276 million for the years ended September 30, 2006 and 2005.

A portion of the administrative fees earned by SSA are non-entity assets, which are included within Fund Balance with Treasury in the amount of $141 and $276 million for the years ended September 30, 2006 and 2005. The fees are deposited directly to the Department of the Treasury General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to the Department of the Treasury General Fund is presented so that net position is not affected by this activity. The remainder of the administrative fees, which meet the criteria of an earmarked fund, in the amount of $117 and $123 million for the years ended September 30, 2006 and 2005 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned $43 and $86 million for the years ended September 30, 2006 and 2005 in other exchange revenue.

12. Costs and Exchange Revenue Classifications

Chart 12 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks, employee benefits and imputed financing costs. Refer to Note 14, Imputed Financing for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments, SSI payments, and payroll and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided which includes reimbursements from the United States Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided which includes fees for administering the states portion of SSI payments. The Other program, primarily reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Chart 12- Costs and Exchange Revenue Classifications as of September 30:
($ in millions)

	2006			2005		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	$ 1,309	$ (3)	$ 1,306	$ 1,220	$ (18)	$ 1,202
Public	453,290	(5)	453,285	434,188	(4)	434,184
OASI Subtotal	454,599	(8)	454,591	435,408	(22)	435,386
DI Program						
Intragovernmental	776	(4)	772	718	(17)	701
Public	92,742	(5)	92,737	91,432	(3)	91,429
DI Subtotal	93,518	(9)	93,509	92,150	(20)	92,130
SSI Program						
Intragovernmental	856	(8)	848	821	(24)	797
Public	37,528	(260)	37,268	38,486	(279)	38,207
SSI Subtotal	38,384	(268)	38,116	39,307	(303)	39,004
Other Program						
Intragovernmental	459	(2)	457	374	(10)	364
Public	1,309	(9)	1,300	1,371	(7)	1,364
Other Subtotal	1,768	(11)	1,757	1,745	(17)	1,728
Total	$ 588,269	$ (296)	$ 587,973	$ 568,610	$ (362)	$ 568,248

13. 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 OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI 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 (IRS) or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of $620,007 and $588,416 million for the years ended September 30, 2006 and 2005.

14. Imputed Financing

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of $937 and $829 million for the years ended September 30, 2006 and 2005 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The Consolidated Statements of Changes in Net Position recognizes an imputed financing source of $537 and $464 million for the years ended September 30, 2006 and 2005 that represents annual service cost not paid by SSA.

15. Budgetary Resources

Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of $796,683 and $754,724 million for the years ended September 30, 2006 and 2005. Appropriations Received on the Consolidated Statements of Changes in Net Position are $56,832 and $57,874 million for the same years. The primary differences of $739,851 and $696,850 million represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

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

Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as Category A. Other apportionments such as activities, projects, objects or a combination of these categories are classified as Category B. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from Apportionment. The addition of Category A consists of Medicare Reform and Medicare Appeals distributed quarterly in the FY 2005 Budget. The variance between FY 2006 and FY 2005 concerning Category B and Exempt from Apportionment is due to a reclassification of certain activities. During FY 2006, it was determined that certain activities, consisting primarily of the OASI and DI Trust Fund transfer accounts and the Taxation of Social Security Benefits, should be classified as Exempt from Apportionment since these activities do not receive an apportionment from OMB.

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

	2006			2005		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 0	$ 0	$ 0	$ 427	$ 0	$ 427
Category B	50,227	4,181	54,408	589,611	4,546	594,157
Exempt	574,724	5	574,729	8,990	0	8,990
Total	$ 624,951	$ 4,186	$ 629,137	$ 599,028	$ 4,546	$ 603,574

Permanent Indefinite Appropriation

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides monetary assistance and protection against the loss of earnings due to retirement or death. The DI Trust Fund provides monetary assistance and protection against the loss of earnings due to a wage earner's disability. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, Foster Care Independence Act of 1999. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of PL 106-169, their SSI benefits would terminate the month after the veterans leave the U.S. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

Legal Arrangements Affecting Use of Unobligated Balances

All OASI and DI Trust Fund receipts collected in the FY are reported as new budget authority on the Combined Statements 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 OASI and DI Trust Funds. The portion of OASI and DI Trust Fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the SBR; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the OASI and DI Trust Funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 15b displays OASI and DI Trust Fund activities and balances. The OASI and DI Trust Fund Balances, Ending totals are included in Investments on the Consolidated Balance Sheets.

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

	2006	2005
Beginning Balance	$ 1,743,299	$ 1,578,149
Receipts	739,961	696,858
Less Obligations	558,340	531,708
Excess of Receipts Over Obligations	181,621	165,150
Ending Balance	$ 1,924,920	$ 1,743,299

Undelivered Orders at the End of the Period

Undelivered orders consist of unpaid orders of goods and/or services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are $1,373 and $1,352 million for the years ended September 30, 2006 and 2005.

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, to amounts included in the Budget of the United States Government for the year ended September 30, 2005 has been conducted. There are no material differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.

A reconciliation has not been presented for the year ended September 30, 2006 since this report is published in November 2006 but the actual budget data for FY 2006 will not be available until December 2006 by the Department of Treasury.

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 $11,636 and $11,533 million as of September 30, 2006 and 2005, represent SSI receivables and collections owed to Treasury, non-current portion of FECA liability to DOL and employees, benefits due and payable for SSI adjudicated and unadjudicated cases, and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Consolidated Statements of Financing, as Total Components of Net Cost of Operations, that will Require or Generate Resources in Future Periods of $364 and $1,025 million for the years ended September 30, 2006 and 2005, represent the change in SSA expenses for adjudicated and unadjudicated SSI benefits due and payable and leave earned but not taken and FECA.

17. Social Insurance Disclosures

Effective for FY 2006, SSA adopted SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, which require that the Statement of Social Insurance be presented as an integral part of SSA's basic financial statements. This statement discloses the actuarial present value for the 75-year projection period of the estimated future income (excluding interest), estimated future cost, and the excess of income over cost for the "open group" of participants. The "open group" of participants includes all current and future participants (including births during the projection period) who are or who will eventually participate in the OASI and or DI Social Insurance programs.

Actuarial present values are computed on the basis of the intermediate economic and demographic assumptions specified in the 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Trustees Report) and over the 75-year projection period beginning January 1 of that year. Similar estimates are shown in the statement based on the prior four Trustees Reports.

Estimated future income (excluding interest) consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

In addition to the actuarial present value of estimated future excess of income over cost, shown in the basic statement, for the open group of participants, it is possible to make an analogous calculation for the "closed group" of participants. The "closed group" of participants consists of those who, in the starting year of the projection period, have attained retirement eligibility age or have attained age 15 through 61. In order to calculate the actuarial net present value of the excess of future income over future costs for the closed group, one could subtract the actuarial present value of estimated future costs for or on behalf of current participants from the actuarial present value of future income (excluding interest) for current participants.

Also included on the face of the statement as "additional information" for the open group are (1) the actuarial present value of the excess of estimated future income over the estimated future cost, (2) the combined OASI and DI Trust Fund assets at the start of each period, and (3) the actuarial present value of estimated future excess of income over future cost plus the combined OASI and DI Trust Fund assets, over future cost. While this additional information is not required by the applicable accounting standards, SSA believes the inclusion enhances evaluation of the financial status of the program.

Combined OASI and DI Trust Fund assets represent the accumulated excess of all past income, including interest on combined OASI and DI Trust Fund assets, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund assets as of January 1, 2006 totaled $1,859 billion and were comprised almost entirely of investment securities which are backed by the full faith and credit of the Federal government.

The actuarial present value, for a 75-year projection period, of estimated future excess of income, and combined OASI and DI Trust Fund assets at the start of the period, over cost is shown as a negative value which represents the magnitude of what is commonly referred to as the "open group unfunded obligation" of the program over the 75-year projection period. This value is included in the corresponding Trustees Report and is also shown in the report as percentages of taxable payroll and gross domestic product over the period.

Assumptions Used for the Statement of Social Insurance

The estimates used in this presentation for the current year (2006) are based on the assumption that the programs will continue as specified under current law. They are also based on various economic and demographic assumptions, including those in the following table:

Table 1: Assumptions Used for the Statement of Social Insurance 2006

	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)[4]	Real-Wage Differential[5] (percentage points)	Average Annual Percentage Change In:				Average Annual Interest Rate[10]
			Male	Female			Average Annual Wage in Covered Employment[6]	CPI[7]	Total Employment[8]	Real GDP[9]	
2006	2.03	848.9	75.0	79.7	1,075,000	1.2	4.1	2.9	1.7	3.4	4.9%
2010	2.03	829.2	75.5	79.9	1,000,000	1.5	4.3	2.8	0.7	2.6	5.9%
2020	2.01	767.1	76.6	80.7	950,000	0.9	3.7	2.8	0.4	2.1	5.7%
2030	2.00	707.4	77.6	81.6	900,000	1.1	3.9	2.8	0.3	1.9	5.7%
2040	2.00	654.5	78.5	82.4	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2050	2.00	608.0	79.4	83.1	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2060	2.00	566.9	80.3	83.9	900,000	1.1	3.9	2.8	0.3	1.9	5.7%
2070	2.00	530.3	81.0	84.5	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2080	2.00	497.6	81.8	85.1	900,000	1.1	3.9	2.8	0.3	1.9	5.7%

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 2030. For the 2006 estimates, the ultimate total fertility rate was increased from 1.95 to 2.00.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year.

5. The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI).
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year.
7. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment represents total of civilian and military employment in the U.S. economy.
9. The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. 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 OASI and DI Trust Funds in each of the 12 months of the year. For the 2006 estimates, the ultimate average annual interest rate was reduced from 5.8% to 5.7% due to a 0.1% decline in the underlying real interest rate assumption.

These assumptions and the other values on which these displays are based reflect the intermediate assumptions of the 2006 Trustees Report. Estimates made in prior years differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Additional information on Social Insurance is contained in the *Required Supplementary Information: Social Insurance* of this report.

18. Recovery of Medicare Premiums

SSA identified a systemic and recurring error in the process for recovering certain transfers to the Centers for Medicare and Medicaid Services (CMS) of Medicare Part B premiums. Beneficiaries of OASDI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premiums transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, had not generally had procedures to recover Medicare premiums transferred to CMS. SSA estimates that approximately $800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002, for periods after the death of a beneficiary. SSA and HHS are currently conducting research to determine the most appropriate legal resolution to this issue.

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Other Accompanying Information: Balance Sheet by Major Program as of September 30, 2006

Dollars in Millions

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (795)	$ (348)	$ 2,880	$ 2,970	$ 71	$ 0	$ 4,778
Investments	1,793,129	202,178	0	0	0	0	1,995,307
Interest Receivable, Net	23,004	2,627	0	0	0	0	25,631
Accounts Receivable, Net	2	1	0	0	2,071	(1,538)	536
Total Intragovernmental	1,815,340	204,458	2,880	2,970	2,142	(1,538)	2,026,252
Accounts Receivable, Net	2,112	2,886	5,310	0	15	(2,669)	7,654
Property, Plant and Equipment, Net	0	0	0	0	1,641	0	1,641
Other	0	0	0	0	5	0	5
Total Assets	$ 1,817,452	$ 207,344	$ 8,190	$ 2,970	$ 3,803	$ (4,207)	$ 2,035,552
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 3,411	$ 343	$ 0	$ 0	$ 0	$ 0	$ 3,754
Accounts Payable	456	377	5,828	2,909	1	(1,538)	8,033
Other	0	0	0	0	93	0	93
Total Intragovernmental	3,867	720	5,828	2,909	94	(1,538)	11,880
Benefits Due and Payable	41,677	23,611	3,485	0	0	(2,669)	66,104
Accounts Payable	0	6	183	1	74	0	264
Other	0	0	10	3	860	0	873
Total Liabilities	45,544	24,337	9,506	2,913	1,028	(4,207)	79,121
Net Position							
Unexpended Appropriations							
Unexpended Appropriations-Earmarked Funds	0	0	0	57	0	0	57
Unexpended Appropriations-Other Funds	0	0	1,596	0	18	0	1,614
Cumulative Results							
Cumulative Results of Operations-Earmarked Funds	1,771,908	183,007	6	0	0	0	1,954,921
Cumulative Results of Operations-Other Funds	0	0	(2,918)	0	2,757	0	(161)
Total Net Position	1,771,908	183,007	(1,316)	57	2,775	0	1,956,431
Total Liabilities and Net Position	$ 1,817,452	$ 207,344	$ 8,190	$ 2,970	$ 3,803	$ (4,207)	$ 2,035,552

Other Accompanying Information: Schedule of Net Cost for the Year Ended September 30, 2006

	Program	LAE	Total
OASI Program			
Benefit Payments	$ 451,516	$ 0	$ 451,516
Operating Expenses	628	2,455	3,083
Total Cost of OASI Program	452,144	2,455	454,599
Less: Exchange Revenues	0	8	8
Net Cost of OASI Program	452,144	2,447	454,591
DI Program			
Benefit Payments	90,944	0	90,944
Operating Expenses	184	2,390	2,574
Total Cost of DI Program	91,128	2,390	93,518
Less: Exchange Revenues	0	9	9
Net Cost of DI Program	91,128	2,381	93,509
SSI Program			
Benefit Payments	35,237	0	35,237
Operating Expenses	103	3,044	3,147
Total Cost of SSI Program	35,340	3,044	38,384
Less: Exchange Revenues	257	11	268
Net Cost of SSI Program	35,083	3,033	38,116
Other			
Benefit Payments	15	0	15
Operating Expenses	0	1,753	1,753
Total Cost of Other	15	1,753	1,768
Less: Exchange Revenues	5	6	11
Net Cost of Other	10	1,747	1,757
Total Net Cost			
Benefit Payments	577,712	0	577,712
Operating Expenses	915	9,642	10,557
Total Cost	578,627	9,642	588,269
Less: Exchange Revenues	262	34	296
Total Net Cost	$ 578,365	$ 9,608	$ 587,973

Other Accompanying Information: Schedule of Changes in Net Position for the

(Dollars in Millions)

	OASI	DI	SSI	
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances				
Earmarked Funds	$ 1,595,523	$ 175,137	$ 0	$ 0
All Other Funds	0	0	(2,345)	1,376
Total All Funds	1,595,523	175,137	(2,345)	1,376
Budgetary Financing Sources				
Appropriations Received				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	0	40,418
Appropriations Transferred In/Out				
Earmarked Funds	0	0		0
Other Adjustments				
Earmarked Funds	0	0	0	0
Appropriations Used				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	40,198	(40,198)
Tax Revenues				
Earmarked Funds	530,006	90,001	0	
Interest Revenues				
Earmarked Funds	89,385	10,495	0	
Transfers In/Out Without Reimbursement				
Earmarked Funds	12,648	(1,110)	0	
All Other Funds	0	0	(5,571)	
Railroad Retirement Interchange				
Earmarked Funds	(3,521)	(438)	0	
Net Transfers In/Out				
Earmarked Funds	9,127	(1,548)		
All Other Funds			(5,571)	
Other Budgetary Financing Sources				
Earmarked Funds	11	50	(111)	
Other Financing Sources (Non-Exchange)				
Transfers In/Out				
All Other Funds	0	0	0	
Imputed Financing Sources				
All Other Funds	0	0	0	
Total Financing Sources				
Earmarked Funds	628,529	98,998	(111)	0
All Other Funds	0	0	34,627	220
Net Cost of Operations				
Earmarked Funds	452,144	91,128	(117)	
All Other Funds	0	0	35,200	
Net Change				
Earmarked Funds	176,385	7,870	6	
All Other Funds	0	0	(573)	
Ending Balances				
Earmarked Funds	1,771,908	183,007	6	0
All Other Funds	0	0	(2,918)	1,596
Total All Funds	$ 1,771,908	$ 183,007	$ (2,912)	$ 1,596

Year Ended September 30, 2006

Other		LAE		Consolidated	
Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
$ 0	$ 53	$ 0	$ 0	$ 1,770,660	$ 53
0	0	2,601	17	256	1,393
0	53	2,601	17	1,770,916	1,446
0	16,378	0	0	0	16,378
0	10	0	26	0	40,454
	38		0		38
0	(6)	0	0	0	(6)
16,406	(16,406)	0	0	16,406	(16,406)
10	(10)	25	(25)	40,233	(40,233)
0		0		620,007	0
0		0		99,880	0
(16,406)		0		(4,868)	
2,905		9,204		6,538	
0		0		(3,959)	
(16,406)				(8,827)	
2,905		9,204		6,538	
0		0		(50)	
(2,905)		(2)		(2,907)	
0		537		537	
0	4	0	0	727,416	4
10	0	9,764	1	44,401	221
0		0		543,155	
10		9,608		44,818	
0		0		184,261	
0		156		(417)	
0	57	0	0	1,954,921	57
0	0	2,757	18	(161)	1,614
$ 0	$ 57	$ 2,757	$ 18	$ 1,954,760	$ 1,671

Other Accompanying Information: Schedule of Financing for the Year Ended September 30, 2006

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
Resources Used to Finance Activities:						
Budgetary Resources Obligated						
Obligations Incurred	$ 463,475	$ 94,865	$ 44,868	$ 16,422	$ 9,507	$ 629,137
Less: Offsetting Collections and Recoveries	(59)	(2)	(4,443)	(5)	(9,443)	(13,952)
Obligations Net of Offsetting Collections	463,416	94,863	40,425	16,417	64	615,185
Less: Offsetting Receipts	(20,769)	(1,877)	(257)	(2,906)	0	(25,809)
Net Obligations	442,647	92,986	40,168	13,511	64	589,376
Other Resources						
Imputed Financing	0	0	0	0	537	537
Other	0	0	(257)	0	4	(253)
Net Other Resources Used to Finance Activities	0	0	(257)	0	541	284
Total Resources Used to Finance Activities	442,647	92,986	39,911	13,511	605	589,660
Resources Not Part of the Net Cost of Operations:						
Change in Budgetary Resources Obligated, Not Yet Provided	0	(25)	(15)	0	24	(16)
Resources that Fund Expenses Recognized in Prior Periods	0	0	0	0	(10)	(10)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	15,706	1,289	257	2,906	0	20,158
Resources that Fund Capitalized Costs	0	0	0	0	(458)	(458)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(6,062)	(2,715)	(5,654)	(16,407)	9,205	(21,633)
Total Resources Not Part of the Net Cost of Operations	9,644	(1,451)	(5,412)	(13,501)	8,761	(1,959)
Total Resources Used to Finance the Net Cost of Operations	452,291	91,535	34,499	10	9,366	587,701
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	0	0	0	0	3	3
Other	0	0	360	0	1	361
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	0	0	360	0	4	364
Components Not Requiring or Generating Resources						
Depreciation and Amortization	0	0	0	0	234	234
Other	(147)	(407)	224	0	4	(326)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(147)	(407)	224	0	238	(92)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in Current Period	(147)	(407)	584	0	242	272
Net Cost of Operations	$ 452,144	$ 91,128	$ 35,083	$ 10	$ 9,608	$ 587,973

Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2006

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources Made Available						
Unobligated Balances, Brought Forward, October 1	$ 0	$ 0	$ 1,243	$ 53	$ 536	$ 1,832
Recoveries of Prior Year Unpaid Obligations	59	2	287	0	191	539
Budget Authority						
Appropriations Received	637,613	102,238	40,418	16,388	26	796,683
Spending Authority from Offsetting Collections						
Earned						
Collected	0	0	4,177	5	42	4,224
Change in Receivable	0	0	(21)	0	5	(16)
Change in Unfilled Customer Orders						
Advance Received	0	0	0	0	1	1
Expenditure Transfers from Trust Funds	0	0	0	0	9,204	9,204
Subtotal	637,613	102,238	44,574	16,393	9,278	810,096
Nonexpenditure Transfers	(17)	101	0	38	0	122
Temporary Not Available Pursuant to Public Law	(174,139)	(7,482)	0	0	0	(181,621)
Permanently Not Available	(41)	6	0	(5)	0	(40)
Total Budgetary Resources	$ 463,475	$ 94,865	$ 46,104	$ 16,479	$ 10,005	$ 630,928
Status of Budgetary Resources						
Obligations Incurred						
Direct	$ 463,475	$ 94,865	$ 40,724	$ 16,417	$ 9,470	$ 624,951
Reimbursable	0	0	4,144	5	37	4,186
Subtotal	463,475	94,865	44,868	16,422	9,507	629,137
Unobligated Balances						
Apportioned	0	0	1,205	23	247	1,475
Unobligated Balances - Not Available	0	0	31	34	251	316
Total Status of Budgetary Resources	$ 463,475	$ 94,865	$ 46,104	$ 16,479	$ 10,005	$ 630,928
Change in Obligated Balances						
Obligated Balances, Net						
Unpaid Obligations, Brought Forward, October 1	$ 43,153	$ 23,084	$ 1,400	$ 3	$ 1,575	$ 69,215
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	0	(12)	0	(2,079)	(2,091)
Total Unpaid Obligated Balance	43,153	23,084	1,388	3	(504)	67,124
Obligations Incurred, Net	463,475	94,865	44,868	16,422	9,507	629,137
Less: Gross Outlays	(461,025)	(93,572)	(44,498)	(16,421)	(9,239)	(624,755)
Less: Recoveries of Prior Year Unpaid Obligations	(59)	(2)	(287)	0	(191)	(539)
Change in Uncollected Payments from Federal Sources	0	0	21	0	1	22
Obligated Balance - End of Period						
Unpaid Obligations	45,544	24,375	1,483	4	1,652	73,058
Less: Uncollected Payments from Federal Sources	0	0	9	0	(2,078)	(2,069)
Total Unpaid Obligated Balance, End of Period	45,544	24,375	1,492	4	(426)	70,989
Net Outlays						
Gross Outlays	461,025	93,572	44,498	16,421	9,239	624,755
Less: Offsetting Collections	0	0	(4,177)	(5)	(9,252)	(13,434)
Less: Offsetting Receipts	(20,769)	(1,877)	(257)	(2,906)	0	(25,809)
Net Outlays	$ 440,256	$ 91,695	$ 40,064	$ 13,510	$ (13)	$ 585,512

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 2005, OASDI benefits were paid to more than 48 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 $63 billion as of September 30, 2006 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 ($58 billion as of September 30, 2005). Virtually all of this amount was paid in October 2006. Also, an asset of $1,995 billion is recognized for the “investments in Treasury securities” as of September 30, 2006 ($1,809 billion as of September 30, 2005). These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. 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 (see Investment Note 5).

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, 2006. 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.

Required Supplementary 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 scheduled OASDI benefits; interest income from Treasury securities held as assets of the OASI and DI 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 OASI and DI Trust Funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;

- **present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the payments as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2006 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current Social Security Act, including future changes previously enacted. This information includes:

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

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

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

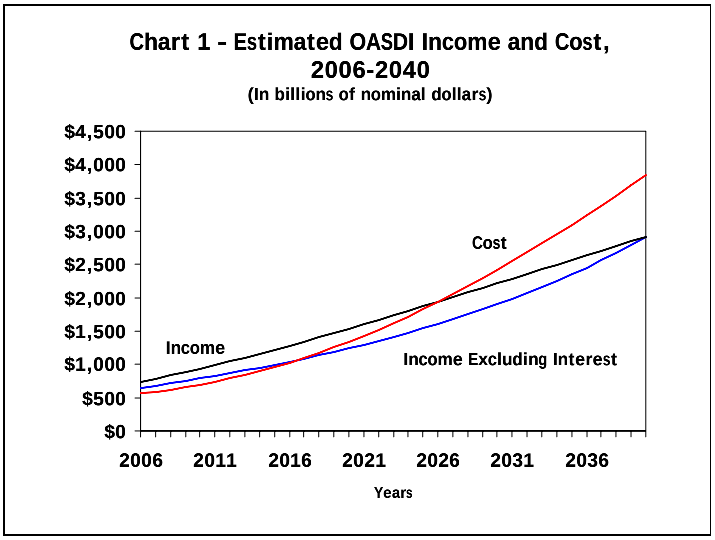
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

Sustainable Solvency - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to maintain assets in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the assets in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

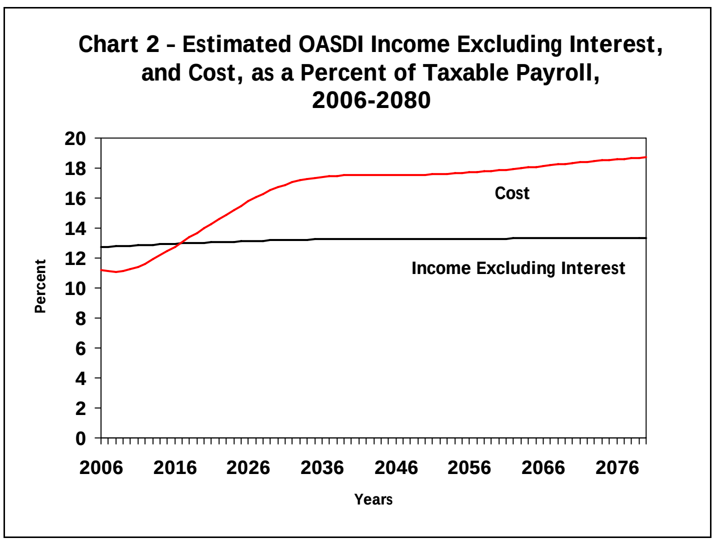
Cashflow Projections - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2006-2040 in nominal dollars. These estimates are only displayed through 2040, the year that the combined OASI and DI Trust Funds are projected to become exhausted. At the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this chart, which is intended to illustrate the source of revenue needed to meet the cost of the program, beyond the point of combined OASI and DI Trust Fund exhaustion, would be inappropriate.

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

As chart 1 shows, estimated cost starts to exceed income (including interest) in 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 cost starts to exceed income excluding interest even earlier, in 2017. At that time, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds would begin to redeem Treasury securities. To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.



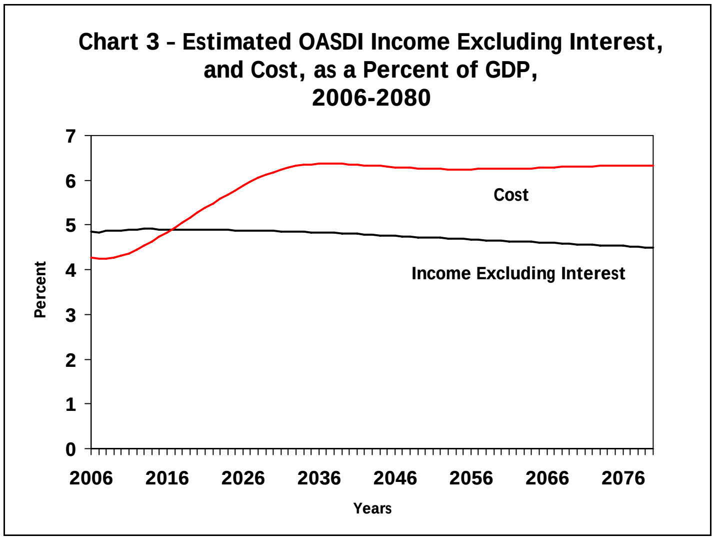
Percentage of Taxable Payroll - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2017, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 70 percent of the estimated cost.



Actuarial Balance - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$6,449 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2006), it is -$4,591 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.02 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level by the end of the period.

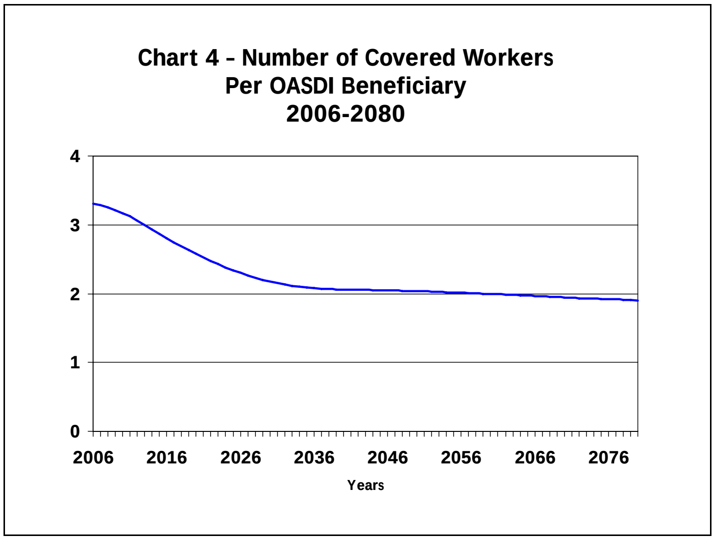
One interpretation of this negative actuarial balance (-2.02 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain at that level. An increase of 2.02 percentage points in this rate in each year of the 75-year projection period (1.01 percentage points for employees and employers each, resulting in a total rate of 14.42 percent or a rate of 7.21 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all current and future benefits could be reduced by about 13.3 percent (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

Percentage of Gross Domestic Product (GDP) - Chart 3 shows estimated annual income excluding interest and cost expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated 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 2005, OASDI cost was about $530 billion, which was about 4.3 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.2 percent of GDP in 2030 and then gradually increases to 6.3 percent of GDP in 2080. 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 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2005 to 1.9 in 2080.



Sensitivity Analysis

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

For this analysis, the intermediate assumptions in the 2006 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2006 and are based on estimates of income and cost during the 75-year projection period 2006-2080. In this section, for brevity, “income” means “income excluding interest.”

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

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

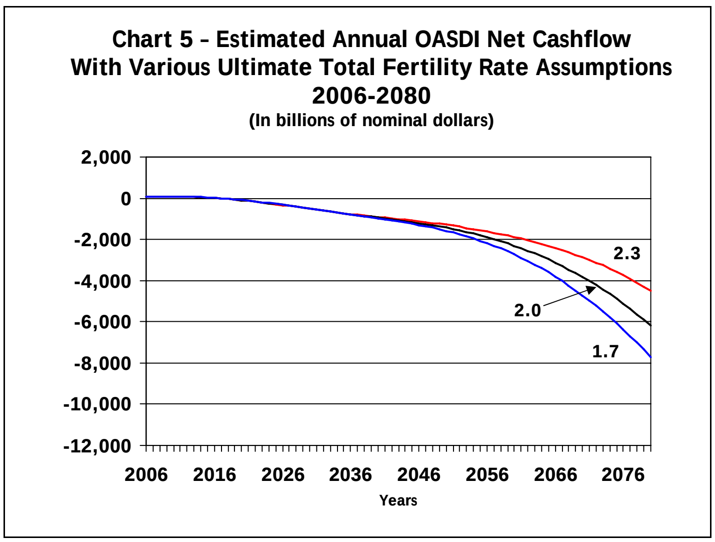
Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0 and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2006 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2030.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to $7,189 billion, from $6,449 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to $5,699 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Total Fertility Rate Assumptions
Valuation Period: 2006-2080

Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-$7,189	-$6,449	-$5,699

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.

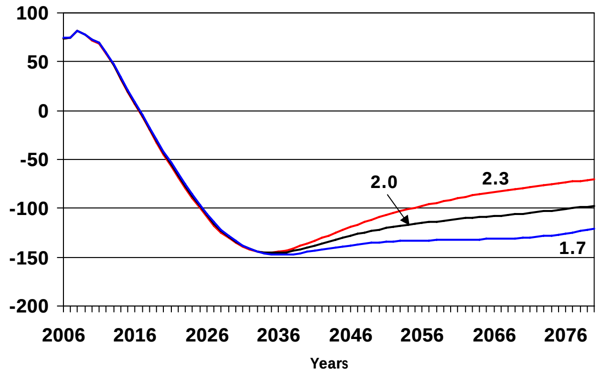


The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing slightly in the first two years, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 34 years before the combined OASI and DI Trust Funds are projected to become depleted under each of these fertility assumptions.

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 2034 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from 2034 on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

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

Chart 5A - Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Total Fertility Rate Assumptions 2006-2080
(In billions of dollars)



The three patterns of the present values shown in Chart 5A are similar. After increasing for 2 years, the present values decrease rapidly until around 2030. 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 a total fertility rate of 2.3, 2036 for a total fertility rate of 2.0, and 2038 for a total fertility rate of 1.7). 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 2038 than it would to cover the annual deficit in 2037.

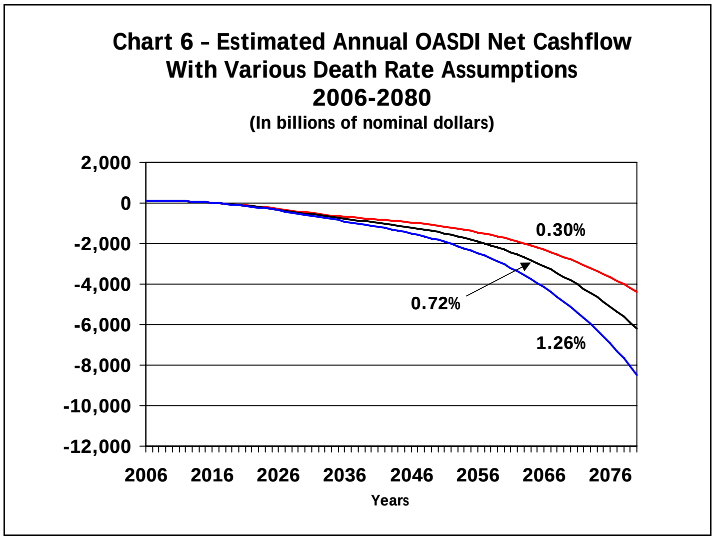
Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2005-2080 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.30, 0.72 and 1.26 percent per year, where 0.72 percent is the intermediate assumption in the 2006 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 20, 42 and 61 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 77.2 in 2005 to 80.2, 83.4, and 87.6 in 2080 for average annual reductions in the age-sex-adjusted death rate of 0.30, 0.72 and 1.26 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.72 percent, the Trustees' intermediate assumption, to 0.30 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $5,000 billion, from $6,449 billion; if the annual reduction were changed to 1.26 percent, meaning that people live longer, the shortfall would increase to $8,195 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2006-2080

Average Annual Reduction in Death Rates (from 2005 to 2080)	0.30 Percent	0.72 Percent	1.26 Percent
Present Value of Estimated Excess (In billions)	-$5,000	-$6,449	-$8,195

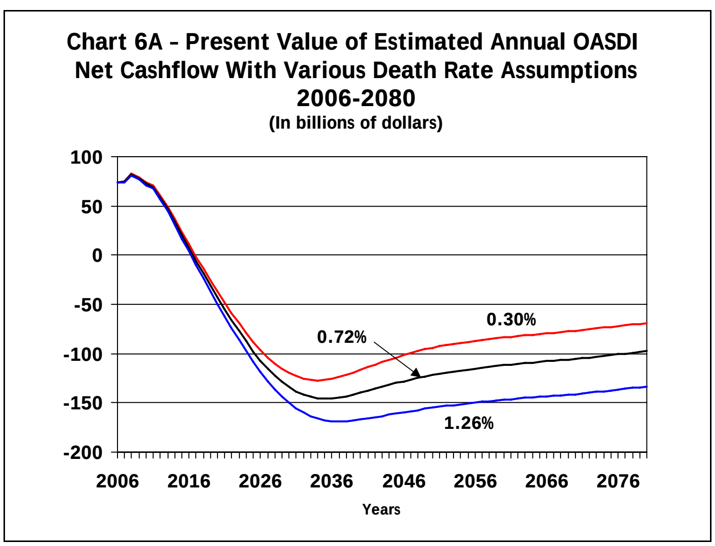
Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 2. Chart 6 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing slightly in the first several years, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 for all three assumptions, after which the annual net cashflow estimates are negative. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). At young ages, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

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



The three patterns of the present values shown in Chart 6A are similar. After increasing for 2 years, the present values decrease rapidly until around 2030. They remain positive through 2016 under all three assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2038 for assumptions of reductions of 0.30, 0.72 and 1.26 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.

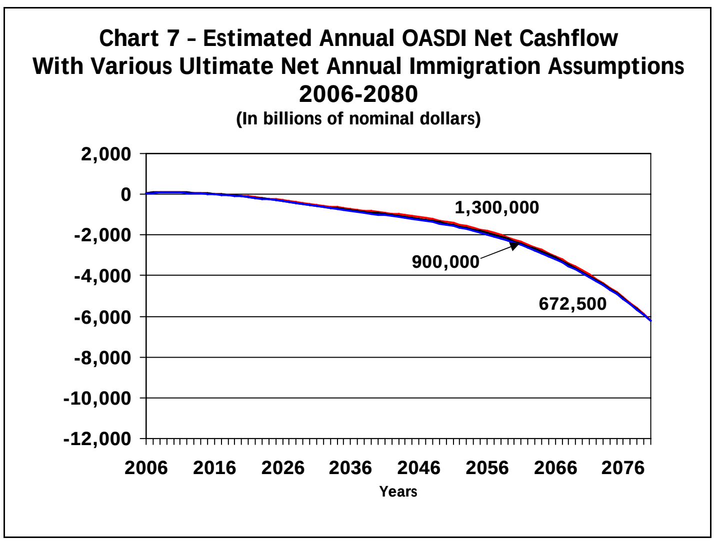
Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of net annual immigration. These assumptions are that the ultimate net annual immigration (legal and other) will be 672,500 persons, 900,000 persons and 1,300,000 persons, where 900,000 persons is the intermediate assumption in the 2006 Trustees Report.

Table 3 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate ultimate assumption, to 672,500 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $6,782 billion, from $6,449 billion. If the ultimate net annual immigration assumption were changed to 1,300,000 persons, the present value of the shortfall would decrease to $5,982 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Net Annual Immigration Assumptions
Valuation Period: 2006-2080

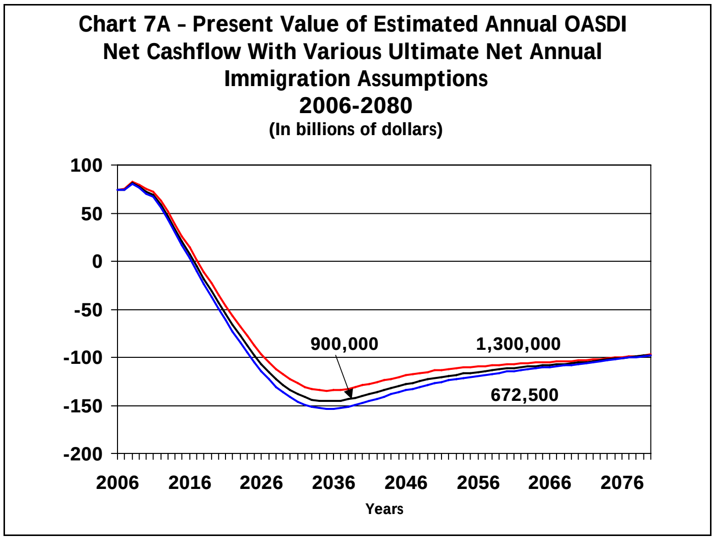
Ultimate Net Annual Immigration	672,500 Persons	900,000 Persons	1,300,000 Persons
Present Value of Estimated Excess (In billions)	-$6,782	-$6,449	-$5,982

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 several years, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 for the annual ultimate net immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons. 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 generally increasing for a few years, the present values decrease rapidly until around 2030. They remain positive through 2016 for the assumed ultimate net annual immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons, 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 2036 for all three assumptions.

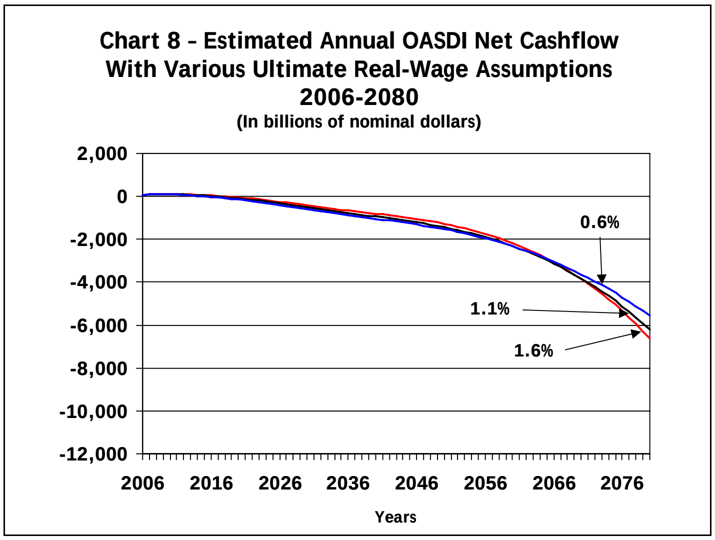
Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three assumptions about net annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more 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 the numbers of 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 cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1 and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2006 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 3.9 and 4.4 percent, respectively.

Table 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 cost would increase to $7,091 billion from $6,449 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to $5,542 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2006-2080			
Ultimate Annual Increase in Wages, CPI; **Real Wage Differential**	3.4% , 2.8%; **0.6%**	3.9% , 2.8%; **1.1%**	4.4% , 2.8%; **1.6%**
Present Value of Estimated Excess (In billions)	-$7,091	-$6,449	-$5,542

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.

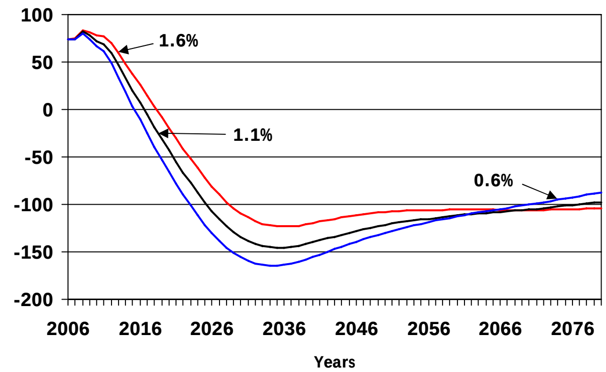


The three patterns of estimated net annual OASDI cashflow shown in Chart 8 generally increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, 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 2070, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

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

Chart 8A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2006-2080
(In billions of dollars)



The three patterns of the present values shown in Chart 8A generally increase for the first few years, and then, decrease rapidly until around 2030. 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 (2035, 2036 and 2037 for an assumed ultimate real-wage differential of 0.6, 1.1 and 1.6 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2062 when decreases temporarily begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

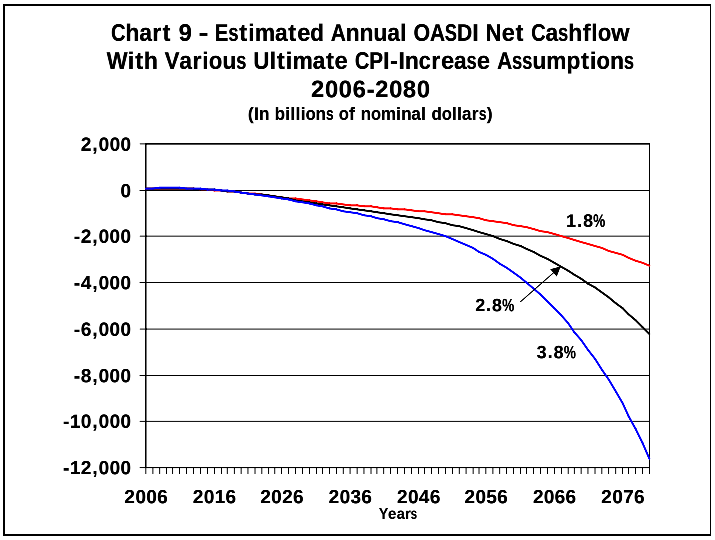
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8 and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2006 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.9, 3.9 and 4.9 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $6,876 billion, from $6,449 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to $6,015 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2006-2080

Ultimate Annual Increase in Wages, **CPI**; Real Wage Differential	2.9% , **1.8%**; 1.1%	3.9% , **2.8%**; 1.1%	4.9% , **3.8%**; 1.1%
Present Value of Estimated Excess (In billions)	-$6,876	-$6,449	-$6,015

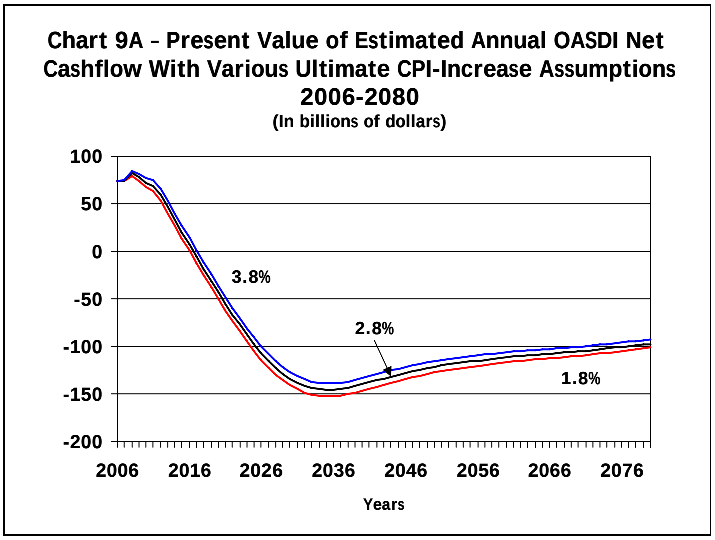
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.



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 2080. Annual net cashflow remains positive through 2016 for assumed ultimate annual increases in the CPI of 1.8 percent and 2.8 percent; and through 2017 for an assumed ultimate annual increase in the CPI of 3.8 percent. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher benefits based on these higher wages. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost in nominal dollars.

Larger increases in the CPI cause earnings and income to increase sooner, and thus by more in each year, than benefits and cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Initially (through 2021) the larger percentage increase in CPI results in a larger nominal-dollar increase in income, so net cashflow is increased for higher inflation in Chart 9. However, shortly after 2021, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because program income begins to fall well below program cost, and thus the larger percentage increases in CPI eventually produce smaller nominal-dollar increases in income than in program cost.

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 generally increasing for a few years, present values decrease rapidly until around 2030 before beginning to increase once again. They remain positive through 2016 (2017 for an assumed ultimate annual increase in the CPI of 3.8 percent) and are negative thereafter. Present values begin to increase (become less negative) in 2036 for all three 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.

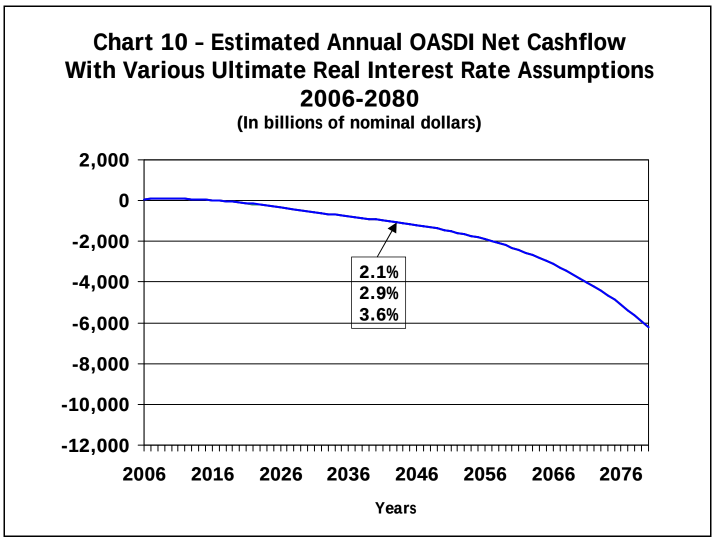
The magnitudes of the present values in Chart 9A are lower, year by year, than the amounts in Chart 9 because of the discounting process used for computing present values. This would be the case even if the nominal interest rates on which the present values are based were assumed to be the same for all 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 cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.1, 2.9 and 3.6 percent, where 2.9 percent is the intermediate assumption in the 2006 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 2.9 percent, the Trustees' intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to $9,034 billion, from $6,449 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to $4,850 billion.

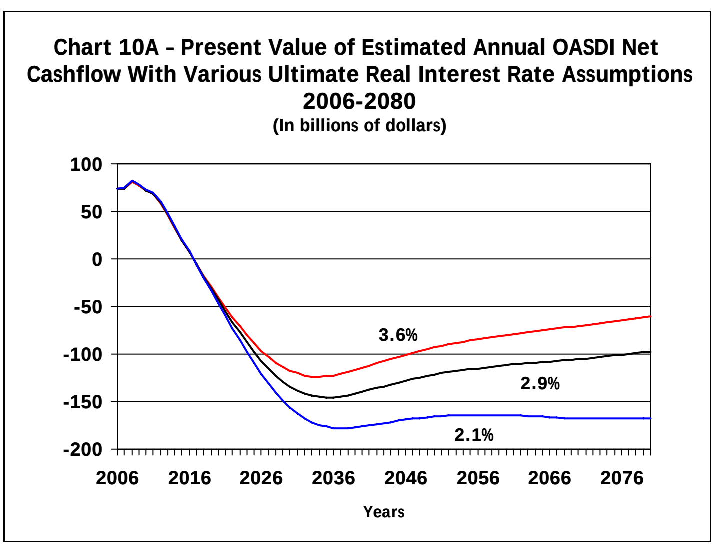
Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Interest Assumptions Valuation Period: 2006-2080			
Ultimate Annual Real Interest Rate	2.1 Percent	2.9 Percent	3.6 Percent
Present Value of Estimated Excess (In billions)	-$9,034	-$6,449	-$4,850

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 (which does not include interest) shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2008, the net cashflow estimates decrease steadily through 2080. 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 2 years, the present values decrease rapidly until around 2030. 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 (2038, 2036 and 2035 for assumed ultimate real interest rates of 2.1, 2.9 and 3.6 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 2.1 percent, the present values continue increasing temporarily, through 2055, then decrease through 2073, and increase thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Chart 10A shows a crossover in the patterns of the present values of the net cashflow. The crossover occurs at the time the net cashflow changes from positive to negative, which happens in 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.

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SOCIAL SECURITY

November 7, 2006

To: The Honorable Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2006 and 2005 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements, Report on Management's Assertion About the Effectiveness of Internal Control,* and *Report on Compliance and Other Matters.*

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 audit 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 No. 06-03, *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 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 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 2006 financial statements. PwC also audited the

FY 2005 financial statements, presented in SSA's Performance and Accountability Report for FY 2006 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2006 and 2005 financial statements. PwC also reported that SSA's assertion that its internal control over financial reporting was operating effectively as of September 30, 2006, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*.

For FY 2006, the Statement of Social Insurance (SOSI) was added as a basic financial statement subject to audit. No significant findings were noted during the audit of the SOSI and we applaud SSA's effort in preparing for this additional level of audit. In addition, SSA completed its assessment of its internal control over financial reporting in compliance with OMB Circular A-123 within the first year of the 3-year time frame allowed by OMB.

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 2006 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 06-03;
- 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 7, 2006, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.

Patrick P. O'Carroll, Jr.
Inspector General

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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1800 Tysons Boulevard
McLean VA 22102
Telephone (703) 918 3000
Facsimile (703) 918 3100
www.pwc.com

Report of Independent Auditors

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

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

- The consolidated balance sheets of SSA as of September 30, 2006 and 2005, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2006 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 internal control over financial reporting was operating effectively as of September 30, 2006.
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2006 and 2005, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2006. 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 Office of Management and Budget (OMB) Bulletin No. 06-03. 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 financial statements referred to above and appearing on pages 124 through 150 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2006 and 2005, and its net cost of operations, changes in net position, budgetary resources and financing for the years then ended and the financial condition of its social

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insurance programs as of January 1, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The additional information presented on the statement of social insurance as of January 1, 2006 is not a required part of the financial statements and is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 1 to the financial statements, SSA adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Earmarked Funds,* effective October 1, 2005. This standard does not permit the restatement of prior periods.

As discussed in Note 17 to the financial statements, SSA adopted SFFAS No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and SFFAS No. 26, *Presentation of Significant Assumptions of the Statement of Social Insurance: Amending SFFAS No. 25*, requiring that the statement of social insurance be presented as an integral part of the basic financial statements of the Agency. The statement of social insurance presents the actuarial present value of the Agency's estimated future income to be received from or on behalf of the participants and estimated future costs to be paid to or on behalf of participants during a projection period sufficient to illustrate the long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

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

We have also examined management's assertion, included in the accompanying Federal Manager's Financial Integrity Act (FMFIA) Assurance Statement on Page 60 of this Performance and Accountability Report (PAR), that SSA's internal control over financial reporting was operating effectively as of September 30, 2006 based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal 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. 06-03 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

(2)

PRICEWATERHOUSECOOPERS

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2006, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.

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

INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS

With respect to internal control relevant to data that support reported performance measures on pages 17, 18 and 19 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. 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.

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 06-03, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03 as of September 30, 2006.

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 as of September 30, 2006.

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 6 to 66, and Required Supplementary Information (RSI) included on pages 1 and 2 and 157 and 158 to 173 of this performance and accountability report are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements.* We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

(3)

PRICEWATERHOUSECOOPERS

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 157 of this PAR, is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 152 to 156 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The other accompanying information included on pages 3 to 5, 67 to 123, 174 to 176, and 181 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

* * * * *

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

PricewaterhouseCoopers LLP

November 7, 2006

(4)

SOCIAL SECURITY

The Commissioner

NOV - 6 2006

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

Ladies and Gentlemen:

We reviewed the draft Report of the Independent Auditors for the fiscal year 2006 financial statement audit of the Social Security Administration (SSA). This report contains PricewaterhouseCoopers' opinion on SSA's Financial Statements and SSA management's assertion about the effectiveness of its internal control and a report about SSA's compliance with laws and regulations.

We are extremely pleased that, for the second consecutive year, the report contains no findings or recommendations. This is validation of the Agency's continued progress in meeting its goal to protect the integrity of Social Security programs through superior stewardship.

If your staff have any questions, they may contact Dale W. Sopper at (410) 965-2910.

Sincerely,

Jo Anne B. Barnhart

Jo Anne B. Barnhart

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Inspector General Statement on SSA's Major Management Challenges

SOCIAL SECURITY

November 3, 2006

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the *Reports Consolidation Act of 2000* (Pub. L. No. 106-531), which requires 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 *Social Security Administration's Fiscal Year 2006 Performance and Accountability Report*.

In November 2005, we identified six significant management issues facing the Social Security Administration for Fiscal Year (FY) 2006.

- **Social Security Number Protection**
- **Management of the Disability Process**
- **Improper Payments and Recovery of Overpayments**
- **Internal Control Environment and Performance Measures**
- **Systems Security and Critical Infrastructure Protection**
- **Service Delivery and Electronic Government**

I congratulate you on the progress you have made during FY 2006 in addressing these challenges. My office will continue to focus on these issues in the current FY. I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the Office of the Inspector General's assessment of these six management challenges.

Sincerely,

Patrick P. O'Carroll, Jr.
Inspector General

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

Social Security Number Protection

In Fiscal Year (FY) 2006, the Social Security Administration (SSA) issued approximately 5.6 million original and 11.5 million replacement Social Security number (SSN) cards and received approximately $620 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

To protect the integrity of the SSN, SSA employs effective front-end controls in its enumeration process. We applaud the significant strides the Agency has made over the past several years in providing greater protection for the SSN. Nevertheless, incidences of SSN misuse continue to rise. To further strengthen the integrity of the SSN, we believe SSA should continue to (1) encourage public and private entities to limit use of the SSN as an individual identifier, (2) address identified weaknesses in its information security environment to better safeguard SSNs, and (3) coordinate with partner agencies to pursue any data sharing agreements that would increase data integrity.

Maintaining the integrity of the SSN and Social Security programs also involves properly posting the earnings reported under SSNs. Accurate earnings records are used to determine both the eligibility for Social Security benefits and the amount of those benefits. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for which wage earners' names and SSNs fail to match SSA's records. As of October 2005, the ESF had accumulated approximately 255 million wage items for Tax Years 1937 through 2003, representing about $520 billion in wages.

While SSA cannot control all of the factors associated with erroneous wage reports, SSA can continue to improve wage reporting by educating employers on reporting criteria, identifying and resolving employer reporting problems, and encouraging greater use of the Agency's SSN verification programs. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency works with the Internal Revenue Service to achieve more accurate wage reporting. In addition, as part of its worksite enforcement efforts, the Department of Homeland Security (DHS) recently proposed a new rule (*Safe-Harbor Procedures for Employers Who Receive a No-Match Letter*) that would require employers to take timely action on SSA no-match letters to avoid liability under immigration laws.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to noncitizens when (1) a Federal statute or regulation requires that noncitizens provide an SSN to receive a federally funded benefit to which they have established an entitlement or (2) a State or local law requires that noncitizens who are legally in the United States provide an SSN to receive public assistance benefits to which they are entitled and for which all other requirements have been met. SSA assigned these individuals SSN cards with a "Not Valid for Employment" annotation. SSA also provides information about earnings reported under a nonwork SSN to DHS as required by law. Nonetheless, prior audits have noted several issues related to nonwork SSNs, including the (1) type of evidence provided to obtain a nonwork SSN, (2) reliability of nonwork SSN information in SSA's records, (3) volume of wages reported under nonwork SSNs, and (4) payment of benefits to noncitizens who qualified for their benefits while working in the United States without proper authorization.

In March 2004, Congress placed new restrictions on the receipt of SSA benefits by noncitizens who are not authorized to work in the United States. Under the *Social Security Protection Act (SSPA) of 2004* (Pub. L. No. 108-203), payment of Title II benefits based on the earnings of any noncitizen is precluded unless the noncitizen was assigned an SSN indicating authorization to work in the United States, was admitted to the U.S. with a B-1 visa (for business purposes), or was admitted to the U.S. with a D visa (as a crewman). SSA's implementation of this new law will require increased coordination with DHS to ensure SSA has correct work status information.

SSA Has Taken Steps to Address this Challenge

Over the past 5 years, SSA implemented numerous improvements to its enumeration process. For example, in March 2005, SSA implemented mandatory use of the SS-5 Assistant to improve controls over processing SSN applications. The SS-5 Assistant, a software program that interfaces with the Modernized Enumeration System (MES), assists field office personnel in gathering and recording required SSN application information.

Additionally, SSA has significantly decreased the number of nonwork SSNs it assigns to noncitizens as a result of a change in regulations and field office compliance with procedures to ensure that nonwork SSNs are issued only to qualified individuals.

During FY 2006, SSA established another Enumeration Card Center in Queens, New York that focuses exclusively on assigning SSNs and issuing SSN cards—and it has plans to open several more as resources permit. In addition, during FY 2006, the *Intelligence Reform and Terrorism Prevention Act (IRTPA*) *of 2004* (Pub. L. No. 108-458) mandated several enhancements designed to protect the integrity of the SSN. The enhancements include (1) restricting the issuance of multiple replacement SSN cards to 3 per year and 10 in a lifetime, (2) requiring independent verification of any birth record submitted by an individual to establish eligibility for an SSN, other than for purposes of enumeration at birth, (3) consulting with DHS and other agencies to further improve the security of SSNs and cards, and (4) strengthening the standards and requirements for citizenship and identity documents presented with SSN applications to establish eligibility for an original or replacement SSN card.

SSA has also taken steps to reduce the size and growth of the ESF. In June 2005, the Agency expanded its voluntary *Social Security Number Verification Service* (SSNVS) to all interested employers nationwide. SSNVS allows employers to verify the names and SSNs of employees before reporting their wages to SSA. During 2005, SSNVS processed over 25.7 million verifications for over 12,000 employers.

SSA also supports DHS in administering the Basic Pilot program, which verifies the names and SSNs of employees as well as their authorization to work in the United States. In December 2004, the Basic Pilot program was made available to employers nationwide. During 2005, the Basic Pilot processed about 980,000 verifications for approximately 3,700 employers.

The Agency continues to modify the information it shares with employers. Under IRTPA, SSA is required to add both death and fraud indicators to the SSN verification systems for employers, State agencies issuing drivers' licenses and identity cards, and other verification routines, as determined appropriate by the Commissioner of Social Security. SSA added death indicators to those verification routines used by employers and State agencies on March 6, 2006 and is working to add fraud indicators by December 2007.

Management of the Disability Process

SSA needs to continue to improve critical parts of the disability process, such as making disability decisions and safeguarding the integrity of its disability programs. Modernizing Federal Disability Programs has been on the Government Accountability Office's high-risk list since 2003 due, in part, to outmoded concepts of disability, lengthy processing times, and inconsistencies in disability decisions across adjudicative levels and locations. The Federal Disability Program includes SSA's disability programs, as well as the Veterans Administration's disability program.

The timeliness and quality of the Agency's disability adjudication processes need to be improved. For example, the average processing time for the Office of Disability Adjudication and Review (ODAR), responsible for SSA's hearings and appeals programs, continues to increase each fiscal year—from 293 days in Fiscal Year (FY) 2001 to 483 days in FY 2006. In our May 2006 report on Supplemental Security Income (SSI) payments made during the appeals process, we found that financial performance and citizen satisfaction with the SSI program could be greatly increased if SSA would establish a business process to allow more timely decisions on medical cessation appeals.

Additionally, ODAR's pending workload continues to steadily increase. As of September 2006, the pending workload was 715,568 cases—up from 392,387 cases in FY 2001. In August 2006, we reported on case management procedures at one ODAR hearing office and found that, based on the productivity goal SSA established for that hearing office, less than half of the Administrative Law Judges (ALJ) issued the expected number of decisions during the year. Given the significant pending workload ODAR currently faces, we reported that SSA should identify a reasonable production goal for ALJs, consistent with independent decision-making processes, and establish a plan to assist ALJs in meeting the production goal.

As the hearing workload has increased, ODAR developed new ways of doing business. One improvement ODAR has made is to replace its aging analog cassette tape recorders with digital recorders. In August 2006, the Office of the Inspector General (OIG) issued a report on digital recording equipment. OIG found that while the equipment was an improvement over the previous technology, the weight of the travel unit recording equipment created physical hardships. ODAR also needs to enhance the security of sensitive information stored on the laptops.

Another new system ODAR is using to improve the disability process is its Case Processing and Management System (CPMS). CPMS was designed to process hearings and produce management information. In June 2006, OIG issued a report on CPMS and workload management. OIG found that ODAR managers need to make better use of the management reports and take action on hearings or appeals that were moving too slowly through the process.

Key risk factors in the disability program are individuals who feign or exaggerate symptoms to become eligible for disability benefits or who, after becoming eligible to receive benefits, knowingly fail to report medical improvements or work activity. In our April 2006 report *Overpayments in the Social Security Administration's Disability Programs*, we estimated that SSA prevented about $7 billion in payments from being issued to ineligible beneficiaries through its normal business processes, such as continuing disability reviews (CDR). However, we also estimated that SSA paid over $2 billion to ineligible beneficiaries due to unreported changes in their circumstances that impacted benefit payments, such as returning to work or improvements in their medical condition. We concluded that SSA's disability programs could be strengthened if the Agency conducted more CDRs to determine whether beneficiaries continue to be eligible for payments. However, in January 2006, SSA decreased the number of CDRs it planned to conduct in FY 2006 due to budget constraints—resulting in about a one-third reduction from the previous year.

SSA Has Taken Steps to Address this Challenge

In August 2006, SSA implemented the Disability Service Improvement (DSI) initiative in the Boston region—making significant changes in the Agency's disability programs, such as:

- A Quick Disability Determination process for individuals who are obviously disabled;
- A Medical-Vocational Expert System to enhance the quality and availability of the expertise needed to make accurate and timely decisions at all adjudicative levels;
- A Federal Reviewing Official to review initial level decisions upon the request of the claimant;
- Closing the record after the ALJ issues a decision—allowing for the consideration of new and material evidence only under very limited circumstances; and
- A Decision Review Board to review ALJ decisions and policies and procedures throughout the disability adjudication process.

SSA is also transitioning to the electronic disability folder which allows staff to electronically collect and transmit information related to disability claims between all offices handling disability folders. The Agency expects all offices to be processing disability claims electronically by March 2007, which should reduce processing delays caused by organizing, mailing, locating, and reconstructing paper folders. ODAR has also implemented Video Hearings, which allow hearings to be held quicker and minimize the need for extensive travel by ALJs, claimants, and medical or vocational experts.

We have also worked with the Agency to safeguard the integrity of its disability programs with the Cooperative Disability Investigations (CDI) program. Under the CDI program, our Office of Investigations and SSA staff obtain evidence to resolve questions of fraud in disability claims. Since the program's inception in FY 1998 through September 2006, the 19 CDI units, operating in 17 States, have been responsible for over $684 million in projected savings to SSA's disability programs and over $409 million in projected savings to non-SSA programs.

Improper Payments and Recovery of Overpayments

Improper payments are defined as any payment that should not have been made or that was an incorrect amount. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, or payments to ineligible beneficiaries. Furthermore, the risk of improper payments increases in programs with a significant volume of transactions, complex criteria for computing payments, and an emphasis on expediting payments.

The President and Congress have expressed interest in measuring the universe of improper payments in the Government. In August 2001, the Office of Management and Budget (OMB) published the President's Management Agenda (PMA), which included a government-wide initiative for improving financial performance, including reducing improper payments. In November 2002, the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300) was enacted, and OMB issued guidance in May 2003 and August 2006 on implementing this law. Under this *Act*, SSA must estimate its annual amount of improper payments and report this information in the Agency's annual Performance and Accountability Report. Additionally, Federal agencies, such as SSA, should take all necessary steps to ensure the accuracy and integrity of Federal payments.

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

SSA issues billions of dollars in benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs—and some improper payments are unavoidable. In FY 2005, SSA issued about $558 billion in benefit payments to about 52.8 million individuals. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of individuals, even the slightest error in the overall process can result in millions of dollars in over- or underpayments. In FY 2005, SSA reported that it detected over $4.2 billion in overpayments. In FY 2006, SSA detected $4.7 billion in overpayments and collected $2.3 billion. SSA also noted in its Performance and Accountability Report for FY 2005 that the Agency recovered over $2 billion in overpayments.

In February 2006, OMB issued a report *Improving the Accuracy and Integrity of Federal Payments* stating that seven Federal programs—including SSA's OASDI and SSI programs—accounted for approximately 95 percent of the improper payments in FY 2005. However, this report also noted that SSA is actively implementing sound improper payment measurement and corrective action plans.

SSA Has Taken Steps to Address this Challenge

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. In FY 2006 SSA implemented an initiative to improve overpayment recovery controls. According to SSA, the purpose of this initiative was to improve overpayment control, accounting and recovery on Title XVI program records and provide more consistency in the way SSA manages debt recovery from Title XVI debtors who are receiving SSI payments. SSA reported that this project resulted in establishing recovery efforts on about $61 million in uncollected overpayments from individuals receiving Title XVI benefits. Additionally, in FY 2005, SSA implemented eWork—a new automated system to control and process work related CDRs—which should strengthen SSA's ability to identify and prevent improper payments to disabled beneficiaries. However, one of the challenges facing SSA is the need for adequate funding for both medical and work-related CDRs. Although the Agency had special funding for CDRs in FYs 1996 through 2002 and the Agency's data shows that CDRs save about $10 for every $1 spent to conduct them, the Agency has cut back on this workload due to budget constraints imposed on the Agency. To address this, the Agency requested special funding for CDRs in its FY 2007 budget request.

We will continue to work with SSA to identify and address improper payments in its programs. For example, SSA took action to prevent and recover improper payments based on several OIG reviews.

- Working with us on an OIG audit of *Individuals Receiving Benefits Under Multiple Social Security Numbers at the Same Address,* SSA identified about $12.2 million in overpayments; and as of July 2006, about 11 percent of the funds had been recovered.
- In another review—B*enefits Paid to Dually Entitled Title II Beneficiaries*—we found that, as of July 2006, SSA had recovered about 13 percent of the $2 million in overpayments identified for our sample cases. Additionally, the Agency was taking corrective action to address the estimated $37.6 million in payment errors related to this review.
- In our review—*Match of Veterans' Affairs Historical Death File Against the Social Security Administration's Benefit Rolls*—we estimated $11.7 million in benefits was paid improperly after the individuals' deaths. As of May 2006, SSA had recovered about 9 percent of the funds in our sample cases and the Agency's efforts continue.

We have helped the Agency reduce improper payments to prisoners and improper SSI payments to fugitive felons. However, our work has shown that improper payments—such as those related to workers' compensation—continue to occur. Furthermore, in our April 2006 report *Overpayments in the Social Security Administration's Disability Programs*, we estimated that SSA had not detected about $3.2 billion in overpayments for the period October 2003 through November 2005 as a result of conditions that existed as of October 2003 or earlier. We also estimated that SSA paid about $2.1 billion in benefits annually to potentially ineligible beneficiaries.

Internal Control Environment and Performance Measures

Sound management of public programs includes both effective internal controls and performance measurement. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. OMB's Circular A-123, *Management's Responsibility for Internal Control*, requires the Agency and its managers to take systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management. Similarly, SSA management is responsible for determining through performance measurement and systematic analysis if the programs it manages achieve intended objectives.

One of the main work processes SSA management is responsible for establishing appropriate controls over is the development of disability claims under the Disability Insurance (DI) and SSI programs. Disability determinations under DI and SSI are performed by Disability Determination Services (DDS) in each State in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2006, SSA allocated almost $1.8 billion to fund DDS operations.

From FY 2000 through September 2006, we conducted 47 DDS administrative cost audits. In 26 of the 47 audits, we identified internal control weaknesses and over $82 million that SSA reimbursed to the States that were not properly supported or could have been put to better use. Nine of the 47 audits conducted were completed in FY 2006. Five of these reports noted similar control weaknesses identified in DDS audits in previous years and over $8 million of questioned costs and/or funds that could be put to better use. We believe the large dollar amounts claimed by State DDSs and the control issues we have identified warrant that this issue remains a major management challenge.

Another area that requires sound management and effective internal controls is the selection and oversight of contractors that assist the Agency in meeting its mission. In FY 2006, SSA spent over $631 million on contracts. We reviewed four of SSA's contracts in FY 2006. We generally found that the costs claimed for services provided by the contractors involved were reasonable and allowable. While we noted no major concerns in the reviews conducted, we believe ensuring proper oversight and controls over its contracts continues to be a major management challenge for SSA due to the total dollar amounts awarded and risks associated with third parties delivering services in fulfillment of a contract.

The *Government Performance and Results Act* (Pub. L. No. 103-62) and the PMA call for the identification of high quality outcome measures that accurately monitor programs' performance and associated costs. Also, SSA managers need sound information to monitor and evaluate performance. In FY 2006, we issued 9 audits that addressed 21 of SSA's performance measures. Six of the nine audits were based on work that began in FY 2005, with audit work continuing into FY 2006. The 15 performance measures addressed in these 6 reports are listed below.

- Percent of outstanding OASDI debt in a collection arrangement
- Percent of people who do business with SSA rating overall services as "excellent," "very good," or "good"
- Number of appellate actions processed
- Number of SSA hearings cases processed per workyear
- Number of SSA hearings pending
- Hearings decision accuracy rate
- Annual earnings items processed
- Percent of SSNs issued that are free of critical error
- Percent of outstanding SSI debt in a collection arrangement
- Percent of SSI aged claims processed by the time the first payment is due or within 14 days of the effective filing date
- SSI nondisability redeterminations
- Retirement and Survivors Insurance claims processed
- Periodic CDRs processed
- SSNs processed
- Number of initial disability claims pending

We concluded that the data used for 3 of the 15 measures were reliable and that the data used for 6 of them were unreliable. Additionally, we were unable to determine the reliability for another six measures.

Three of the nine audits released in FY 2006 were based on work that began and was completed in FY 2006. The six performance measures addressed by these audits are listed below.

- Enhance efforts to improve financial performance using Managerial Cost Accountability System
- Maintain zero outside infiltrations of SSA's programmatic mainframes
- Optimize the 800-number agent busy rate
- Percent of SSI payments free of preventable overpayments and underpayments
- Improve workload information using Social Security Unified Measurement System
- Optimize the speed in answering 800-number calls

We concluded that the data used for two of the six measures were reliable and that the data used for one of them was unreliable. Additionally, we were unable to determine the reliability for another two of the measures and we did not complete an analysis of data reliability on one measure since the calculation of the indicator was not based on computerized data.

Generally, the data addressed in our FY 2006 audits determined to be unreliable was incomplete or the systems used to collect the data were not sufficiently secure to ensure its integrity. We were unable to determine data reliability when SSA had not retained the data used in its measurement processes, which prevented us from testing it. The challenge SSA faces in this area is ensuring that it has the reliable management information needed when making strategic and operational plans.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to develop internal controls over its operations and contractor performance and in developing sound performance data. SSA has generally agreed with our recommendations that address internal control weaknesses associated with DDSs and has taken the recommended steps to ensure that reimbursements provided to DDSs are allowable and properly supported. Additionally, SSA is working to limit access to its performance data to only those that have a need to work with it in an effort to protect its integrity. Also, the Agency has worked with us to determine how to best audit its performance data without significantly increasing its data storage costs. This effort includes gaining real time access to SSA's performance data, which allows us to test the data as it is being created.

Systems Security and Critical Infrastructure Protection

Protecting the critical infrastructure of the United States is essential to the Nation's security, public health and safety, economic vitality, and way of life. Attacks on critical infrastructure could significantly disrupt the functioning of Government and business alike and produce cascading effects far beyond the targeted sectors and physical location of the incident. Therefore, any disruptions in the operation of information systems that are critical to the Nation's infrastructure should be infrequent, manageable, of minimal duration and result in the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures.

SSA's information security challenge is to understand and mitigate system vulnerabilities. Weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations had been identified. While many of these weaknesses have been resolved, SSA needs to monitor these issues diligently to ensure that they do not reoccur.

Numerous incidents that occurred recently involving the compromise or loss of sensitive personal information emphasizes the challenges the Government faces in the protection of sensitive information entrusted to it. OMB recently issued three memoranda addressing the protection of sensitive personally identifiable information within the Government. OMB memorandum M-06-15 reemphasizes existing requirements, including establishing employee rules of behavior, and administrative, technical, and physical safeguards for the protection of personally identifiable information. OMB memorandum M-06-15 also requires the agency's Senior Official for Privacy to review policies and procedures and take corrective actions to ensure the safeguarding of personally identifiable information. OMB memorandum M-06-16 requires agencies to tighten and reassure security controls when personally identifiable information is removed from, or accessed from outside, the agency location. OMB memorandum M-06-19 specifically requires agencies to report all incidents involving personally identifiable information to US-CERT within 1 hour of discovery. SSA is taking aggressive actions to meet these security challenges as part of the *Federal Information Security Management Act (FISMA) of 2002* (Pub. L. No. 107-347) process.

SSA Has Taken Steps to Address this Challenge

SSA continues to address significant information technology (IT) control issues. For example, the Agency developed and implemented configuration standards for all major operating system platforms and software components. SSA also began an extensive monitoring process to ensure that the Agency's over 100,000 servers and workstations are in compliance with established system configuration standards. Further, SSA also maintained Certifications and Accreditations for all 20 major systems, which were substantially compliant with security standards. SSA has instituted access control policies to ensure appropriate segregation of duties by limiting access to critical information on a 'need only' basis.
These control policy enhancements were completed largely through the Standardized Security Profile Project (SSPP). An employee's profile is the primary element used to control access to SSA's databases. SSA needs to continue its efforts to fully implement the policies that control access to sensitive records. Such efforts should include:

- The update and development of new configuration standards when appropriate;
- Strengthening its access control processes to ensure that the user profiles are adequately reviewed and tested;
- Continued monitoring of Agency's devices for compliance with established configuration standards; and
- Continued work of the SSPP and the regular monitoring of accesses made to sensitive data.

SSA has implemented a variety of methods in which it protects its critical information infrastructure and systems security. For example, SSA's Critical Infrastructure Protection workgroup continuously works to ensure Agency compliance with various directives, such as Homeland Security Presidential Directives and FISMA. To provide for the protection of the critical assets of the SSA National Computer Center, SSA has initiated the Information Technology Operations Assurance (ITOA) project. The objective of the ITOA project is to build a second, fully functional, co-processing data center. SSA also routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA continues to improve its security program to better comply with FISMA and makes strides towards reaching green in the PMA e-Government initiative. SSA has worked closely with the OIG to meet FISMA requirements and has issued a revised version of its Information System Security Handbook. SSA also:

- improved its automated tool to better track security weaknesses and help monitor their resolution;
- improved tracking of security training for SSA staff with significant security responsibilities; and
- conducted internal reviews to identify Information Technology infrastructure weaknesses.

To address its personally identifiable information protection needs, SSA is working to resolve difficulties involving the encryption of mobile computers and devices and removable media. SSA has issued memorandums to its staff emphasizing the importance of protecting personally identifiable information. SSA is also revising its policies and procedures for "incident reporting" to comply with current Federal requirements.

Service Delivery and Electronic Government

One of SSA's strategic goals is to deliver high-quality "citizen-centered" service. This goal encompasses traditional and electronic services to applicants for benefits, beneficiaries and the public. It includes services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. This area includes the challenges of the Representative Payee Process, Managing Human Capital and Electronic Government (e-Government).

SSA reports there are approximately 5.3 million representative payees who manage $48 billion in annual benefits for 7 million beneficiaries. SSPA presents new challenges for SSA's Representative Payee Process. Most notably, SSA is required to conduct periodic site reviews of representative payees. It also requires that SSA reissue benefits to beneficiaries who were victims of misuse by organizational representative payees or individual payees serving 15 or more beneficiaries. Further, SSPA provides that benefits misused by a nongovernmental representative payee be treated as overpayments to that representative payee, subject to overpayment recovery authorities.

In FY 2006, we identified several problematic conditions during our reviews of the Representative Payee Process. For example, we found that in some instances, child beneficiaries in a foster care program had their benefit payments managed by representative payees other than the foster care agency. We identified concurrently entitled OASDI and SSI beneficiaries receiving both representative payee and direct payments. Furthermore, we found SSA needs to improve its controls to ensure benefit payments are not improperly suspended pending the selection of representative payees and benefit payments are reinstated in a timely manner.

As of February 2005, the Government Accountability Office continued to include strategic human capital management on its list of high-risk Federal programs and operations. Further, Strategic Management of Human Capital is one of five government-wide initiatives contained in the PMA. SSA is challenged to address increasing workloads as the "baby boom" generation approaches its peak disability and retirement years, at the same time SSA's workforce is retiring. SSA projects that by FY 2015, 54 percent of its employees will be eligible to retire. This "retirement wave" will result in a loss of valuable skills, institutional knowledge and technical expertise that will affect SSA's ability to deliver quality service to the public.

The e-Government initiative of the PMA directs the use of technology to its fullest to provide services and information that is citizen-centered. Specifically, e-Government instructs SSA to help citizens find information and obtain services organized according to their needs.

SSA Has Taken Steps to Address this Challenge

SSA has taken several actions regarding the challenges of its representative payee process that include:

- Providing an annual report to Congress on its representative payee site reviews and other reviews.
- Repaying approximately $2.5 million to about 2,100 beneficiaries for benefit misuse by representative payees.
- Initiating a study to determine how individual and organizational representative payees are using and managing payments they receive on behalf of beneficiaries in their care.

SSA needs to strengthen its oversight of the representative payee process that concerns children in foster care. Prior work has identified children in long-term foster care placement with representative payees who were not their foster care parents. As a result, we are concerned about whether the benefit payments made to these payees were used for the children's food, shelter and clothing needs. We plan to do additional work in this area to assist the Agency in ensuring that these payments are being properly used for the benefit of the children.

Since June 30, 2004, SSA has consistently scored "green" in both "Current Status" and "Progress in Implementing the President's Management Agenda," for Human Capital on the Executive Branch Management Scorecard. The scorecard tracks how well the departments and major agencies are executing the government-wide management initiatives. In December 2005, SSA won the 2005 President's Award for Management Excellence for its performance and results in the Strategic Management of Human Capital. SSA has developed and implemented a Human Capital Plan; competency-based training for "mission critical" employees; and a national recruitment strategy to bring the "best and brightest" individuals to the Agency. Furthermore, SSA performed analyses of the retirement wave to develop 10-year projections on voluntary, early-out, and disability retirements.

Within the next 5 years, SSA expects to provide cost-effective e-Government services to citizens, businesses and other Government agencies. According to SSA, its e-Government strategy is based on the deployment of high volume, high payoff applications, for both the public and the Agency's business partners. To meet increasing public demands, SSA reports it has aggressively pursued a portfolio of services that include on-line and voice-enabled telephone transactions to increase opportunities for the public to conduct SSA business electronically in a secure environment. As of June 30, 2006, SSA scored "green" in e-Government on the Executive Branch Management Scorecard and "red" in e-Government for "Progress in Implementing the President's Management Agenda," According to Agency officials, SSA and OMB are discussing plans intended to improve the e-Government score for "Progress in Implementing the President's Management Agenda" on the Scorecard.

Other Statutory Information

Anti-Fraud Activities

SSA is committed to improving financial management by preventing fraudulent and improper payments (see the Agency Challenges section and the Improper Payments Information Act of 2002 Detailed Report in the Appendix 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 Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (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 Disability Determination Services (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 2002	FY 2003	FY 2004	FY 2005	FY 2006
% of accurate decisions to allow or continue benefits by State DDSs	96.3%	96.2%	96.4%	96.3%	96.3%
No. of cases reviewed	39,188	39,066	40,323	37,101	35,433
No. of cases returned to DDS due to error or inadequate documentation	1,455	1,499	1,454	1,389	1,326

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

Preeffectuation Reviews					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
% of State DDS decisions not returned to DDS due to error or inadequate documentation	96.3%	96.2%	96.3%	95.9%	96.0%
No. of cases reviewed	310,683	318,505	334,774	328,189	305,226
No. of cases returned to DDS due to error or inadequate documentation	11,186	12,090	12,498	13,338	12,153

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 2002	FY 2003	FY 2004	FY 2005	FY 2006
Overall Average	95.2%	94.2%	94.7%	94.9%	93.5%
Continuances	95.5%	94.4%	95.0%	95.3%	93.8%
Cessations	93.5%	93.5%	93.0%	93.3%	92.4%

OASI and SSI Quality Assurance Reviews

One of SSA's four Government Performance and Results Act strategic goals is 'to ensure superior stewardship of Social Security programs and resources'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the Performance Section of this report on pages 93-94 and 95-96.

SSI Redeterminations

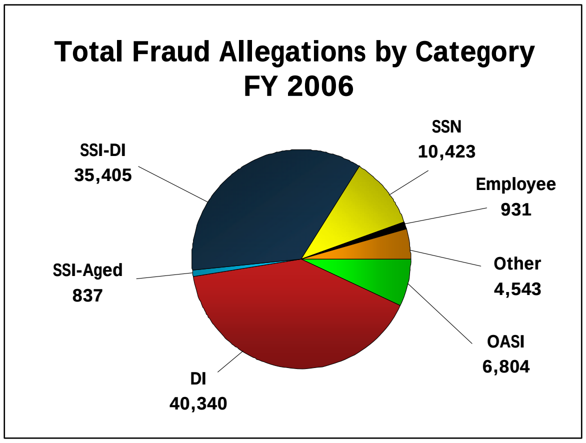
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA set a goal for the number of SSI redeterminations to be processed in FY 2006. Detailed discussion on SSI redetermination performance can be found in the Performance Section of this report on page 91.

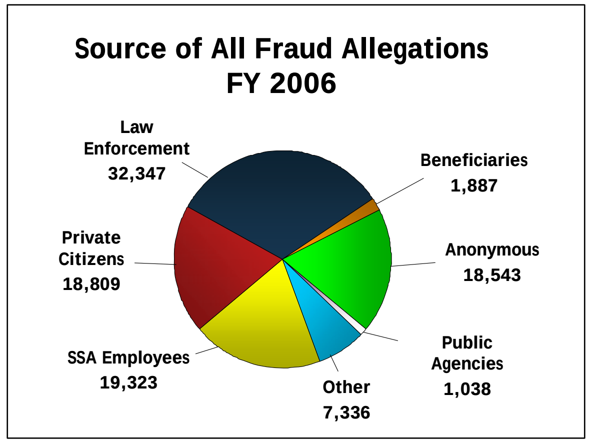
Payment Safeguards Activities

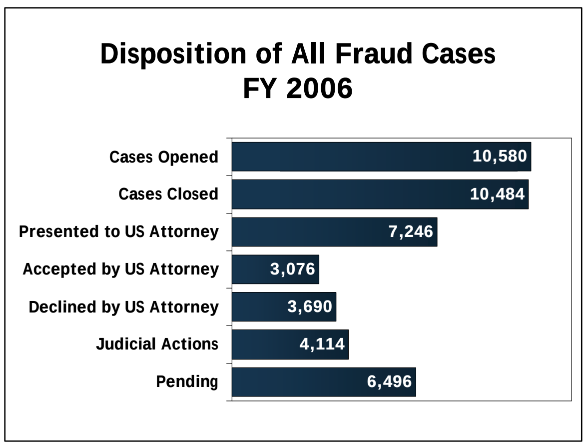
Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In continuing efforts to improve payment accuracy, SSA invested over $1.1 billion in processing nearly 9.6 million alerts in FY 2005. Current estimates indicate that these payment safeguard activities provided benefits to the trust funds of over $7.9 billion in overpayments detected and/or prevented. The FY 2006 results of these payment safeguard activities will be available in 2007.

The Office of the Inspector General's (OIG) Anti-Fraud Activities

In FY 2006, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts below summarize OIG's involvement in fraud activities throughout the FY.







Biennial Review of User Fee Charges

Summary of Fees

User fee revenues of $305 and $290 million in FY 2005 and FY 2006, respectively, accounted for less than 1 percent of SSA's total financing sources. Over 87 percent of user fee revenues are derived from agreements with 23 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2006, SSA charged a fee of $9.29 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $9.69 for FY 2007. 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 2006 did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed. SSA is planning to perform a review of these fees during FY 2008.

Debt Management

During FY 2006, SSA continued its comprehensive debt collection program. SSA employs its own internal debt collection methods, as well as other authorized, aggressive methods which in some cases make use of external entities. SSA's internal debt collection methods include benefit withholding to collect overpayments from monthly benefits when the person is still on the rolls. In FY 2006, SSA collected $2.3 billion in overpayments by this method. When the person is no longer on the rolls, SSA uses its own billing and follow-up system to collect overpayments. Using that system, SSA sends a series of progressively stronger notices requesting repayment and makes telephone calls to negotiate repayment. The Agency collects several hundred million dollars a year by this method. In addition, SSA used the following aggressive debt collection tools authorized for the Agency:

- Tax Refund Offset which is the collection of a delinquent debt from a Federal tax refund.
- Administrative Offset which is the collection of a delinquent debt from a Federal payment other than a tax refund.
- Mandatory Cross-Program Recovery which is the collection of a former SSI recipient's debt from any Old-Age, Survivors and Disability Insurance (OASDI) benefits due that person.
- Credit Bureau Reporting which acts as an incentive for individuals to repay their delinquent debts, or face the consequences of a bad credit report.
- Administrative Wage Garnishment which is the collection of delinquent debts from the wages of overpaid individuals.
- Non-Entitled Debtors which collects overpayments made to representative payees after the death of the beneficiary.

These tools continue to demonstrate their significance in the collection of delinquent program debt. In FY 2006, SSA surpassed cumulative collections of $1.1 billion as a result of the use of tax refund offset and administrative offset since 1992. In FY 2006 alone, SSA collected over $118 million as a result of the Treasury Offset Program. Since implementation of mandatory cross program recovery in February 2002, SSA has collected over $274 million by that method.

In FY 2006, SSA also expanded the administrative wage garnishment (AWG) initiative. AWG is a process that provides for collection of delinquent OASDI and SSI debts from wages of people working in the private sector. The initial implementation of AWG in FY 2005 targeted only newly delinquent debtors. The expanded AWG initiative includes existing debtors not previously notified of wage garnishment. This collection technique promises to be a significant addition to SSA's debt collection program. We estimate that AWG will yield $105 million in debt collections over a 5-year period.

Federal Salary Offset (FSO) was also implemented in FY 2006. FSO is a delinquent debt collection tool that is authorized by the Debt Collection Improvement Act of 1996 for OASDI debts and the Foster Care Independence

Act of 1999 for SSI debts. It will be used to collect delinquent overpayments owed by Federal employees, including employees who work for SSA. FSO is estimated to provide approximately $2.5 million in savings from 2006 - 2010.

SSA implemented Non-Entitled Debtors (NED) in FY 2006. NED is a system that manages overpayments and other debts owed by individuals who are not entitled to OASDI benefits or SSI payments. The NED initiative is being developed in a series of releases, each targeting a different group of debts. The initial phase of the NED system, implemented in November 2005, controls prospective overpayments made to representative payees after the death of Title II beneficiaries.

Future plans include further expansion of the NED program as well as an assessment of the feasibility of utilizing additional debt collection tools such as administrative fees, interest charging/penalties and private collection agencies.

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

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

SSA Debt Management Activities

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total debt outstanding end of FY (millions)	$12,531.0	$13,418.4	$12,260.2	$13,154.8	$13,662.3
% of outstanding debt					
- Delinquent	16.5%	18.9%	20.3%	21.8%	23.9%
- Estimated to be uncollectible	18.9%	21.1%	24.6%	24.2%	24.4%
New debt as a % of benefit outlays	0.9%	0.8%	0.8%	0.8%	0.9%
% of debt collected	18.5%	17.2%	18.3%	18.5%	20.2%
Cost to collect $1	$0.11	$0.10	$0.09	$0.09	$0.08
% change in collections from prior FY	1.5%	(0.3%)	(2.5%)	9.5%	13.4%
% change in delinquencies from prior FY	94.4%[1]	22.4%	(2.1%)	15.3%	13.9%
Collections & write-offs as a % of Total Debt	21.0%	19.4%	18.0%	19.3%	21.2%
Collections as a % of clearances	70.8%	71.5%	71.6%	74.3%	71.1%
Total write-offs of debt (in millions)	$954.0	$918.7	$892.7	$841.8	$1,123.6
Average number of months to clear receivables:					
- OASI	14	18	22	20	18
- DI	34	33	38	30	29
- SSI	26	52	47	42	43

1. In September 2001, SSA implemented a new process 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 2006 Quarterly Debt Management Activities (In Millions)				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables (cumulative)	$13,747.9	$13,479.7	13,641.9	$13,662.3
Total collections (cumulative)	(649.4)	(1,300.4)	(2,011.2)	(2,817.2)
Total write-offs (cumulative)	(205.2)	(462.6)	(732.3)	(1,123.6)
TOP collections (cumulative)	(2.1)	(46.4)	(73.9)	(73.7)
Aging schedule of delinquent debts:				
- 180 days or less	839.0	948.6	992.0	1,018.7
- 181 days to 10 years	1,865.2	2,099.0	2,029.0	2,181.1
- Over 10 years	39.8	49.4	52.0	63.1
- Total delinquent debt	$2,744.0	$3,097.0	$3,073.0	$3,262.9

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