MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* (MD&A) is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration (SSA). The MD&A describes who we are, what we do, and how well we meet our established goals.

The *Overview of the Social Security Administration* section highlights our mission as set forth in the *Agency's Strategic Plan*. In this section, we identify the major programs we administer and provide a brief explanation of our organization.

The next section, *Overview of Our FY 2011 Goals and Results*, provides a discussion of our goals and performance measures that track our progress toward achieving our mission. This section links our agency-wide strategic goals with our priority goals; displays our FY 2011 operating expenses by strategic goal; highlights how our results contribute to achieving our strategic goals and objectives; and discusses how we plan to address the challenges we face. In addition, we discuss our progress in carrying out initiatives funded by the *American Recovery and Reinvestment Act*. We also discuss the integrity of our data, highlight audits of our performance indicators, and describe our efforts to provide reasonable assurance that reported performance information is reliable and complete.

In addition to discussing program performance, the MD&A also addresses our financial performance in the *Highlights of Financial Position* section. We provide an overview of our financial data, and explain the major sources and uses of our funds, as well as the use of these resources, in terms of both program and function. We also provide an overview of our social insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds. We end this section with a summary of our progress toward addressing improper payments.

Finally, the *Systems and Controls* section of the MD&A provides a discussion of the actions we have taken to address our management control responsibilities. The *Management Assurances* section provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*.

Overview of the Social Security Administration

Our Mission

Deliver Social Security services that meet the changing needs of the public

Social Security Benefits America

Few government agencies touch as many people as we do. The programs we administer provide a financial safety net for millions of Americans, and many people consider them the most successful large-scale Federal programs in our Nation's history.

Social Security initially covered retired workers. Later expansions added dependent and survivor benefits, as well as disability insurance (DI). We also administer the Supplemental Security Income (SSI) program, a Federal needs-based program financed through general revenue funds.

Old-Age, Survivors, and Disability Insurance Program

Retirement Insurance Program

The basic benefit structure of retirement benefits has remained essentially unchanged since 1939. When people work and pay Social Security taxes, they earn credits toward Social Security benefits. Most people need 40 credits, or 10 years of covered work, to qualify. Social Security taxes fund the Old-Age, Survivors, and Disability Insurance Program (OASDI) Trust Funds that we use to pay OASDI (Retirement, Survivors, and Disability Insurance) benefits.

Survivors Insurance Program

A loss of a family's primary wage earner can take a financial toll. Survivors benefits provide income to family members of workers who die. Survivors eligible for benefits include widows or widowers, minor or disabled children, and surviving divorced spouses. In 1939, we began paying survivors benefits; disabled widows and widowers benefits began in 1968.

How Social Security Benefits America for Fiscal Year 2011

- Over 60 million Social Security beneficiaries and SSI recipients received a combined total of about $770 billion
- 87 percent of the American population age 65 and over receive Social Security benefits
- Among elderly Social Security beneficiaries, 23 percent of married couples and 43 percent of unmarried individuals rely on Social Security for 90 percent or more of their income
- 69 percent of the total benefits paid go to retired workers and their dependents
- 94 percent of all workers are covered by Social Security

Disability Insurance Program

In 1956, Social Security expanded to include a disability benefit program for disabled workers ages 50-65. These changes included benefits for disabled adult children of retired or deceased insured workers. In 1960, disabled workers of all ages could apply for DI benefits. We pay benefits to people who cannot work because they have a medical condition expected to last at least one year or result in death.

Supplemental Security Income Program

SSI is a means-tested program designed to provide a monthly payment to aged, blind, or disabled people with limited income and resources. Adults, as well as children, can receive payments based on disability or blindness.

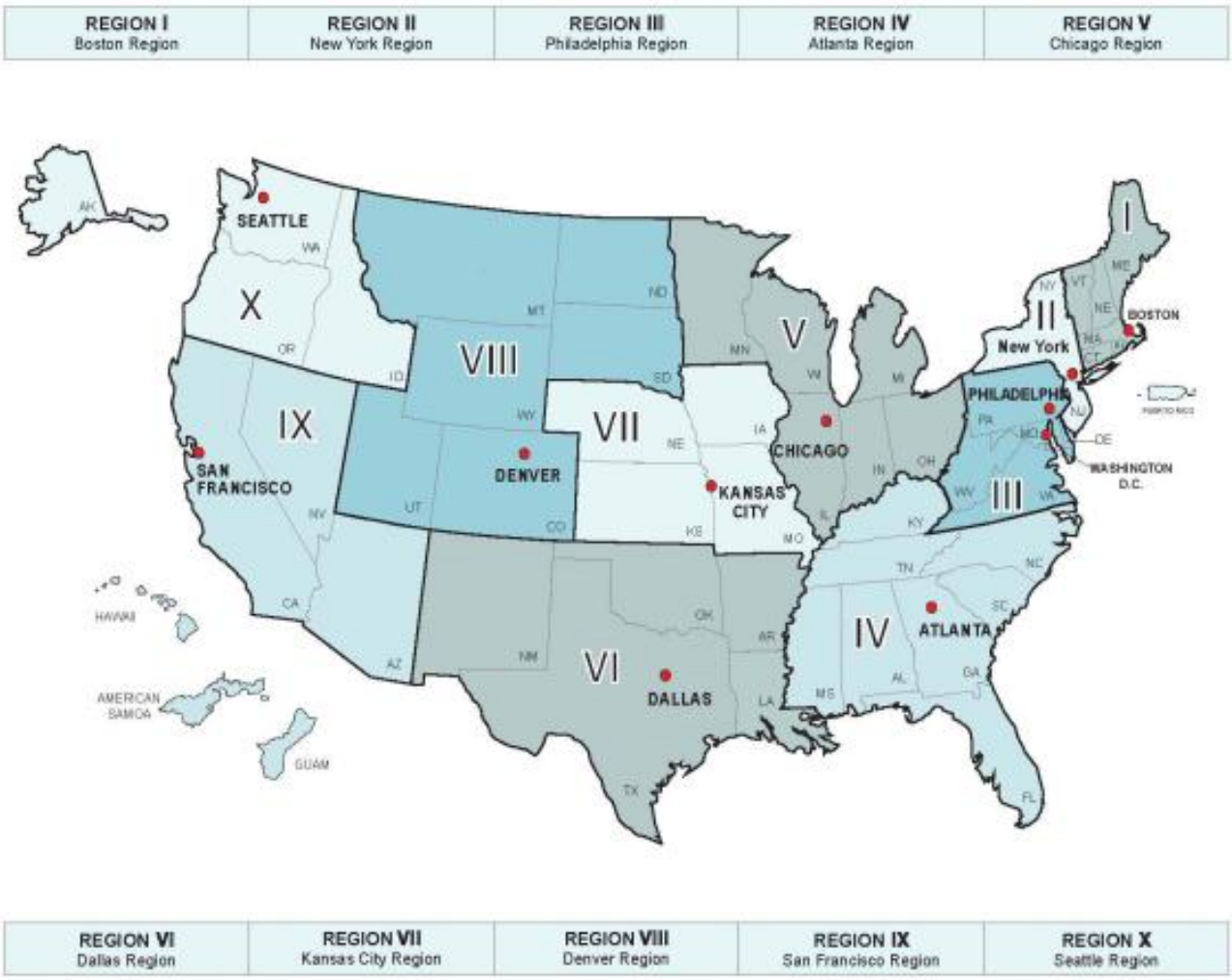
For more information on all of our programs and benefits, please visit our Understanding The Benefits web page at www.ssa.gov/pubs/10024.html.

How We Served America in Fiscal Year 2011

- Issued 16.4 million new and replacement Social Security cards
- Performed 1.3 billion automated Social Security number verifications
- Posted 216 million earnings items to workers' records
- Completed more than 62 million transactions on our National 800 Number
- Assisted 44.9 million visitors
- Received 4.8 million retirement, survivor, and Medicare applications
- Received 3.2 million initial disability claims
- Completed 2.4 million SSI non-disability redeterminations
- Completed over 1.4 million continuing disability reviews
- Completed 3.4 million overpayment actions
- Reconsidered 828,010 denied disability applications
- Completed 126,992 Appeals Council reviews
- Conducted 644,957 hearings
- Defended 12,000 new Federal court cases
- Oversaw approximately 6.6 million representative payees
- Distributed nearly $1.4 billion in attorney fees

Our Organization

We touch the lives of nearly every American, including many people living abroad. We administer the largest social insurance system in the world. Our current organization is comprised of more than 65,000 employees. We deliver services through a nationwide network of 1,500 offices that include regional offices, field offices (including card centers), teleservice centers, processing centers, hearing offices (including satellite offices and National Hearing Centers), the Appeals Council, and our headquarters located in Baltimore, Maryland. We also have a presence in several U.S. embassies around the globe.

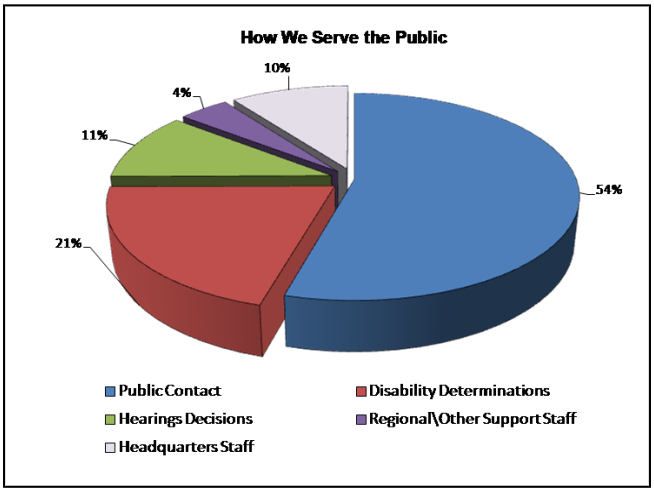


Our field offices and card centers are the primary points of contact for in-person interactions with the public. Our teleservice centers primarily handle telephone calls to our National 800 Number. Employees in our processing centers primarily process OASDI payments but also perform a wide range of functions, which include answering telephone calls to our National 800 Number. Our immediate claims taking units primarily take claims over the phone and assist with processing claims filed over the Internet. The Appeals Council and administrative law judges in our hearing offices and hearing centers make decisions on appeals of denied Social Security and SSI claims. Most of our employees serve the public directly or provide support to employees who do. We depend on over 17,066 employees in our 54 State and territorial Disability Determination Services (DDS) to make disability determinations. The accompanying table depicts the types of contact we provide to the public by office type. A chart illustrating our organizational structure and the function of each component is available on our website at www.socialsecurity.gov/org.

Type of Contact with the Public					
Office Type	In-Person	Local Phone Calls	National 800 Number Calls	Makes Decisions on Claims	Supporting Functions
Regional and Area Director Offices	✓	✓			✓
Field Offices	✓*	✓		✓	
Processing Centers			✓	✓	✓
Teleservice Centers			✓		✓
Immediate Claims Taking Units			✓	✓	✓
Social Security Card Centers	✓	✓			
Hearing Offices	✓	✓		✓	
National Hearing Centers	✓*	✓		✓	
Satellite Hearing Offices	✓	✓		✓	
National Case Assistance Center	✓				✓
Disability Determination Services				✓	
Headquarters					✓

*In-person contacts include video service delivery and video hearings.

Eighty-six percent of our employees serve the public directly or make decisions on benefit claims. The remaining employees support the staff who serve the public directly. Refer to the chart below for an employee breakdown by contact type.



OVERVIEW OF OUR FY 2011 GOALS AND RESULTS

How We Manage Performance

The *Government Performance and Results Act* established the framework for agencies to communicate progress in achieving their missions. We use a performance management framework detailed in our *Agency Strategic Plan*, available at www.socialsecurity.gov/asp/plan-2008-2013.html to associate our strategic goals with related long-term outcomes and strategic objectives. Our strategic goals are:

Goal 1: Eliminate Our Hearings Backlog and Prevent Its Recurrence;

Goal 2: Improve the Speed and Quality of Our Disability Process;

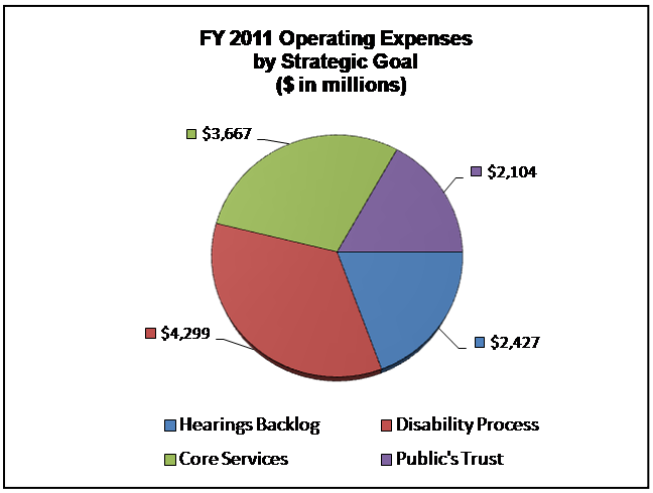
Goal 3: Improve Our Retiree and Other Core Services; and

Goal 4: Preserve the Public's Trust in Our Programs.

Each year, we publish our *Annual Performance Plan*, which outlines our current-year tactical plans for achieving the goals and objectives outlined in our *Strategic Plan*. Our integrated budget and *Annual Performance Plan* demonstrate the connection between requested funding and planned performance. The President's fiscal year (FY) 2012 budget request included our *Annual Performance Plan for Fiscal Year 2012 and Revised Final Performance Plan for Fiscal Year 2011*, which outlined our performance commitments for FY 2011. Our FY 2012 budget request is available at www.ssa.gov/budget/2012BudgetOverview.pdf.

The *Agency Performance* section of the *Performance and Accountability Report* completes the cycle by comparing our results to planned performance for each measure contained in the *Annual Performance Plan*. It also provides a full discussion of our program evaluations conducted.

The chart below shows our FY 2011 operating expenses allocated by strategic goal.



OUR PRIORITY GOALS

The President challenged Federal agencies to cut waste, save money, and deliver better service. In response, we identified 4 Priority Goals that we expect to achieve within a 24-month period. Our Priority Goals are aggressive, and support our overarching strategic goals. We regularly review our progress, and take necessary actions to improve our outcomes and reduce costs. We provide more information on our Priority Goal performance in the *Performance Summary of Goals and Results for FY 2011* section on pages 14–17.

Priority Goals	Strategic Goal Each Priority Goal Supports	Priority Goal Targets for FY 2011
Goal 1: Increase the Number of Online Applications for Retirement and Disability The public expects the convenience of online services and we are striving to meet its demand.	Goal 2: Improve the Speed and Quality of Our Disability Process Goal 3: Improve Our Retiree and Other Core Services	• Achieve 44 percent of the total retirement claims filed online • Achieve 34 percent of the total initial disability claims filed online
Goal 2: Issue More Decisions for People Who File for Disability We continue to lower the disability backlog, complete claims more accurately, make quicker decisions for people with severely disabling conditions, and reduce the time it takes to receive a hearing decision.	Goal 1: Eliminate Our Hearings Backlog and Prevent Its Recurrence Goal 2: Improve the Speed and Quality of Our Disability Process	• Complete 3.273 million initial disability claims • Achieve 5 percent of all initial disability cases identified as a Quick Disability Determination or a Compassionate Allowance • Complete 815,000 hearing requests
Goal 3: Improve Our Customers' Service Experience on the Telephone, in Our Field Offices, and Online We continue to improve telephone service on our National 800 Number and increase the public's overall satisfaction with the services they receive.	Goal 3: Improve Our Retiree and Other Core Services	• Achieve an average speed of answer rate of 267 seconds on our National 800 Number • Achieve the target busy rate of 6 percent for National 800 Number calls • Achieve our overall service rating of 83.5 percent "excellent," "very good," or "good" given by people who do business with us

Priority Goals	Strategic Goal Each Priority Goal Supports	Priority Goal Targets for FY 2011
Goal 4: Ensure Effective Stewardship of Our Programs by Increasing Our Program Integrity Efforts We strengthen program integrity by minimizing improper payments and protecting program dollars from waste, fraud, and abuse.	Goal 4: Preserve the Public's Trust in Our Programs	• Complete 329,000 full medical continuing disability reviews • Complete 2.422 million SSI non-disability redeterminations • Achieve 93.3 percent SSI payments free of overpayment error • Achieve 98.8 percent SSI payments free of underpayment error • Achieve 99.8 percent OASDI payments free of overpayment error • Achieve 99.8 percent OASDI payments free of underpayment error

Performance Summary of Goals and Results for FY 2011

The following tables provide a brief overview of our performance for our 33 FY 2011 performance measures. We list the measures based on the goals and objectives they support in our *Agency Strategic Plan for FYs 2008-2013* at www.socialsecurity.gov/asp/plan-2008-2013.html and our *Annual Performance Plan for FY 2012 and Revised Final Plan for FY 2011* at www.socialsecurity.gov/performance.

Note: We published the *FY 2011 Annual Performance Plan* before we received our annual funding; therefore, those performance targets were not based on our FY 2011 appropriation. The FY 2011 targets reported here reflect performance commitments based on our annual FY 2011 funding included in Public Law 112-10, the *Department of Defense and Full-Year Continuing Appropriations Act.*

We accumulate much of our performance data based on an operating month rather than a true calendar month. An operating month cuts off on the last Friday of the calendar month. Each quarter of a normal operating year contains 13 weeks and the fiscal year contains 52 weeks. Every 5 or 6 years, the fiscal year contains 53 weeks rather than the normal 52 weeks because the year is not evenly divisible by 7 days. FY 2011 is a 53-week fiscal year. The table on pages 83-84 shows our fiscal year performance for select measures through both the end of the 52nd and 53rd week. We include the 53rd week (through September 30, 2011) in the actual performance for these measures in this *Performance and Accountability Report*.

Key	
Target met or exceeded	↑
Target not met	↓
Target not met, but performance improved from previous fiscal year	⇔
To be determined – final FY 2011 data not available	**TBD**
PG – Indicates the measure is one of our *Government Performance and Results Act* performance measures that support our Priority Goals. More information on Priority Goals is available on pages 12-13.	

Strategic Goal 1: Eliminate Our Hearings Backlog and Prevent Its Recurrence					
Strategic Objective 1.1: Increase our capacity to hear and decide cases					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
1.1a PG	Complete the budgeted number of hearing requests	815,000	795,424*	⇔	50
1.1b	Achieve the budgeted goal for SSA hearings case production per workyear	107	109*	↑	51
Strategic Objective 1.2: Improve our workload management practices throughout the hearings process					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
1.2a	Achieve the target number of hearing requests pending	725,000	787,190*	↓	52
1.2b	Achieve the target to eliminate the oldest hearing requests pending	Less than 0.5% of hearing requests pending 775 days or older	0.09% of hearing requests pending 775 days or older*	↑	53

Strategic Goal 1: Eliminate Our Hearings Backlog and Prevent Its Recurrence					
Strategic Objective 1.2: Improve our workload management practices throughout the hearings process					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
1.2c	Achieve the budgeted goal for average processing time for hearing requests	365 days	360 days*	↑	53
1.2d	Achieve the target to eliminate the oldest Appeals Council requests for review pending	Less than 1% of Appeals Council requests for review pending 650 days or older	0.3% of Appeals Council requests for review pending 650 days or older*	↑	54
1.2e	Achieve the target average processing time for Appeals Council requests for review	370 days	358 days*	↑	55

Strategic Goal 2: Improve the Speed and Quality of Our Disability Process					
Strategic Objective 2.1: Fast-track cases that obviously meet our disability standards					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
2.1a PG	Achieve the target percentage of initial disability cases identified as a Quick Disability Determination or a Compassionate Allowance	5% (September only)	5.9% (September only)*	↑	56
2.1b PG	Complete the budgeted number of initial disability claims	3,273,000	3,390,936*	↑	57
2.1c	Minimize average processing time for initial disability claims to provide timely decisions	118 days	109 days*	↑	58
2.1d	Disability Determination Services net accuracy rate for combined initial disability allowances and denials	97%	Available January 2012	TBD	59
2.1e	Disability Determination Services cases production per workyear	275	287*	↑	60
Strategic Objective 2.2: Make it easier and faster to file for disability benefits online					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
2.2a PG	Achieve the target percentage of initial disability claims filed online	34%	33%*	⇔	61
2.2b	Achieve the target number of initial disability claims pending	845,000	759,023*	↑	62
Strategic Objective 2.3: Regularly update our disability policies and procedures					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
2.3a	Update the medical Listing of Impairments	Develop and submit at least three regulatory actions or *Social Security Rulings*	Published two regulatory actions and one *Social Security Ruling*	↑	63

Strategic Goal 2: Improve the Speed and Quality of Our Disability Process					
Strategic Objective 2.3: Regularly update our disability policies and procedures					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
2.3b	Increase the percentage of disability cases evaluated using health Information Technology	500% above FY 2010 baseline (18,000)	108% above FY 2010 baseline* (6,235)	⇔	63
2.3c	Number of Disability Insurance and Supplemental Security Income disability beneficiaries, with Tickets assigned, who work	114,310	Available July 2012	TBD	64
2.3d	Number of Disability Insurance and Supplemental Security Income disability beneficiaries who earned four quarters of work credit during the calendar year	774,048	Available December 2012	TBD	65
Strategic Goal 3: Improve Our Retiree and Other Core Services					
Strategic Objective 3.1: Dramatically increase baby boomers' use of our online retirement services					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
3.1a	Percent of retirement, survivors, and health insurance claims receipts completed up to the budgeted level	100% (4,590,000)	106% (4,877,955)*	↑	66
31.b PG	Achieve the target percentage of retirement claims filed online	44%	41%*	⇔	67
Strategic Objective 3.2: Provide individuals with accurate, clear, and up-to-date information					
We do not have an FY 2011 performance measure under this strategic objective.					
Strategic Objective 3.3: Improve our telephone service					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
3.3a PG	Achieve the target speed in answering National 800 Number calls	267 seconds	180 seconds	↑	68
3.3b PG	Achieve the target busy rate for National 800 Number calls	6%	3%	↑	69
Strategic Objective 3.4: Improve service for individuals who visit our field offices					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
3.4a PG	Percent of individuals who do business with SSA rating the overall services as "excellent," "very good," or "good"	83.5%	81.4%	⇔	70
Strategic Objective 3.5: Process our Social Security number workload more effectively and efficiently					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
3.5a	Achieve the target percentage for correctly assigning original Social Security numbers	99%	Available May 2012	TBD	71

Strategic Goal 4: Preserve the Public's Trust in Our Programs					
Strategic Objective 4.1: Curb improper payments					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
4.1a PG	Complete the budgeted number of Supplemental Security Income non-disability redeterminations	2,422,000	2,456,830*	↑	72
4.1b PG	Increase the budgeted number of continuing disability reviews	1,357,000	1,408,897	↑	73
4.1c PG	Percent of Supplemental Security Income payments free of overpayment and underpayment error	Overpayment 93.3%**	Available June 2012	TBD	75
		Underpayment 98.8%	Available June 2012	TBD	
4.1d PG	Percent of Old-Age, Survivors, and Disability Insurance payments free of overpayment and underpayment error	Overpayment 99.8%	Available April 2012	TBD	76
		Underpayment 99.8%	Available April 2012	TBD	
4.1e	Increase the number of transactions received through the Access to Financial Institutions program	500,000	2,048,678	↑	78
Strategic Objective 4.2: Ensure privacy and security of personal information					
We do not have an FY 2011 performance measure under this strategic objective.					
Strategic Objective 4.3: Maintain accurate earnings records					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
4.3a	Reduce the target percentage of paper Forms W-2 completed	15.5%	14.4%	↑	79
Strategic Objective 4.4: Simplify and streamline how we do our work					
We do not have an FY 2011 performance measure under this strategic objective.					
Strategic Objective 4.5: Protect our programs from waste, fraud, and abuse					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
4.5a	Receive an unqualified audit opinion on SSA's financial statements	Receive an unqualified opinion	Received an unqualified opinion	↑	80
Strategic Objective 4.6: Use "green" solutions to improve our environment					
Performance Measure		**FY 2011 Target**	**FY 2011 Actual**	**Target Achieved**	**Page #**
4.6a	Replace gasoline-powered vehicles with alternative-fuel vehicles	75% of FY 2011 inventory replaced (28 vehicles)	75% of FY 2011 inventory replaced (28 vehicles)	↑	80
4.6b	Develop and implement an agency Environmental Management System	Establish performance objectives	Established performance objectives	↑	81

*****FY 2011 actuals based on data through the 53rd week.

******Our *Annual Performance Plan* and *Congressional Justification*, issued in February 2011, reflected the FY 2011 SSI overpayment accuracy rate target as 92 percent. Because of the lag in producing actual performance data, we did not receive FY 2010 SSI overpayment accuracy data until June 2011. The increase in our FY 2010 accuracy rate prompted us to revise our FY 2011 target to 93.3 percent.

Summary of FY 2011 Performance

The following 13 pages highlight our accomplishments and the practices and initiatives we used to meet our goals in FY 2011. We discuss key issues that affected our FY 2011 operations and those issues that we anticipate will affect our future operations. We also identify which Priority Goal supports each strategic goal and show our overall performance measure results.

STRATEGIC GOAL 1
ELIMINATE OUR HEARINGS BACKLOG AND PREVENT ITS RECURRENCE

Strategic Objectives	Supporting Priority Goal
• Increase our capacity to hear and decide cases • Improve our workload management practices throughout the hearings process	*Issue More Decisions for People Who File for Disability* **Overall Performance Measure Results** • Met the target for 5 of 7 measures • Did not meet the target for 2 of 7 measures

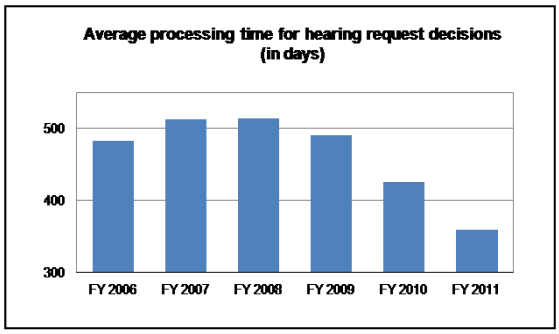
Eliminating our hearings backlog remained our top priority in FY 2011. We completed over 45 percent more hearing requests in FY 2011 than we did in FY 2007 before the recession began. We dramatically reduced the claimants' wait time for a hearing decision down to 345 days in September, the lowest level since FY 2003. In addition, we eliminated virtually all of our oldest hearing requests pending over 750 days. When we began executing our backlog reduction plan in FY 2008, only 49 percent of cases were pending less than 270 days versus 71.5 percent in FY 2011.

A hearing, which is the second step in our four-step appeals process, affords a claimant due process. Generally, there are four levels of appeal:

- Reconsideration by the Disability Determination Service (DDS);
- Hearing by an administrative law judge (ALJ);
- Review by the Appeals Council; and
- Federal Court review.

At the beginning of FY 2011, we had 111,792 pending hearings level cases that would be 775 days old or older by the end of the fiscal year. We reduced the 111,792 to 103 cases by the end of FY 2011.

In FY 2011, we received 859,514 requests for hearings, an all-time high. With our technology enhancements and increased capacity to hear and decide cases, we completed 795,424 hearing requests, our highest annual total to date. We averaged 360 days to issue a hearing decision, which is over 5 months faster than in FY 2008 (refer to accompanying chart). We are still on track to meet our goal to reduce the time it takes a person to receive a hearing decision to an average of 270 days in September 2013.



STRATEGIC OBJECTIVE 1.1: INCREASE OUR CAPACITY TO HEAR AND DECIDE CASES

We continue to increase our capacity to hear and decide cases through the following initiatives.

Open New Hearing Offices: We originally planned to open 16 new hearing offices in FY 2011, but budget cuts forced us to cut that number in half. We opened or expanded eight hearing offices in these locations: Moreno Valley, CA; Augusta, GA; Lawrence, MA; Columbia, MO; Jersey City, NJ; Reno, NV; Franklin, TN; and Tacoma, WA.

In FY 2011, we operated National Case Assistance Centers (NCAC) in St. Louis, MO and McLean, VA. The NCACs provide support services, such as preparing cases for hearings, writing hearing decisions, and helping to fill ALJ hearing dockets to capacity. In early FY 2011, our NCACs began working on two new workloads for our Office of Appellate Operations: (1) non-disability cases and (2) writing assistance. However, due to budget cuts, we had to close our McLean NCAC in late FY 2011.

Administrative Law Judge Hiring: In FY 2011, we hired 143 ALJs and more than 900 associated support staff to help us hear and decide more cases.

Expand Video Hearing Capacity: Video hearings give us the flexibility to distribute our hearing workload more efficiently. We use video hearing technology to reduce the travel time for all hearing participants. Video hearings allow the ALJ, the claimant, and any other hearing participants to attend the hearing via video teleconferencing from separate locations.

All of our hearing offices, permanent remote hearing sites, and some field offices are equipped to hold video hearings. Claimant representatives can buy their own video equipment if they and their clients want to participate in the hearing at their own office as long as we certify the claimant representative's video equipment. In FY 2011, we held almost 130,000 video hearings nationwide, over 9,000 more video hearings than in FY 2010.

Attorney Adjudicator Initiative: This initiative allows our most experienced adjudicators to make fully favorable on-the-record disability decisions without a hearing. If a claimant's case meets our disability definition, the attorney adjudicator writes the decision and adjudicates the claim. This initiative allows ALJs to work on cases that are more complex and require a hearing. While the majority of attorney adjudicators are senior attorneys working in hearing offices, attorney adjudicators also include regional attorneys, and other attorneys who are also hearing office directors or group supervisors.

We also have Virtual Screening Units, which include attorney adjudicators stationed at their home offices who devote 100 percent of their time screening cases to determine if they can make a fully favorable on-the-record decision. In FY 2011, attorney adjudicators decided 53,464 cases.

STRATEGIC OBJECTIVE 1.2: IMPROVE OUR WORKLOAD MANAGEMENT PRACTICES THROUGHOUT THE HEARINGS PROCESS

We used new technologies to improve our workload management practices throughout the hearing process. These technologies helped us complete, control, clear, and assess the quality and policy compliance of cases at all stages of the appeals process more quickly and easily. The new technologies also decreased ALJ decision time, allowing us to pay benefits more quickly after a favorable hearing decision.

Award-winning Training Program

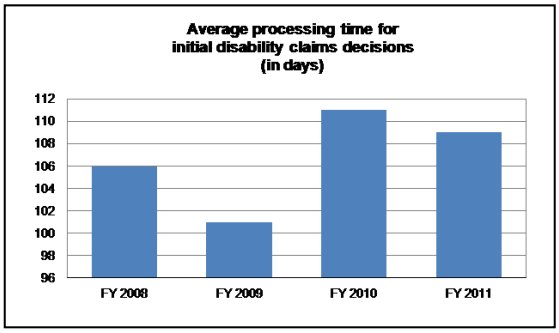
We received the *2011 W. Edwards Deming Outstanding Training Award* for excellence in workforce development and training for our Office of Appellate Operations' training program. The award recognizes our training initiatives that significantly increased our productivity, timeliness, and quality. The training enabled new analysts to become productive more quickly and reach decisions on more than 100,000 disability appeals. The training also provided experienced analysts with learning forums.

Use of the Standardized Electronic Business Process: Our electronic business process (eBP) unified the different processes hearing offices used. This unification helped us improve our workload management practices throughout the hearing process, improving our accuracy and timeliness. In FY 2011, we completed training on our standardized eBP in all hearing offices in existence prior to FY 2010. We also implemented the eBP in our national hearing centers.

STRATEGIC GOAL 2
IMPROVE THE SPEED AND QUALITY OF OUR DISABILITY PROCESS

Strategic Objectives	Supporting Priority Goals
• Fast-track cases that obviously meet our disability standards • Make it easier and faster to file for disability benefits online • Regularly update our disability policies and procedures	*Increase the Number of Online Applications for Retirement and Disability; Issue More Decisions for People Who File for Disability* **Overall Performance Measure Results** • Met the target for 6 of 11 measures • Did not meet the target for 2 of 11 measures • Final data not available for 3 of 11 measures

We continue to work diligently to improve the speed and quality of our disability process. In FY 2011, we received 3,257,461 initial disability claims, the highest number in our history, and over 32,793 more than in FY 2010. Even with the increase in receipts, we completed a record number of initial disability claims this year, 3,390,936. We exceeded our goal by more than 117,936 claims. Despite the rise in disability claims receipts, we were even able to decrease our average processing time by two days compared to FY 2010 (refer to the accompanying chart).



Despite losing 1,134 DDS employees and being unable to replace them due to budget constraints, we were able to exceed our initial disability claims goals because all of the new employees we hired in FY 2009 and FY 2010 had become fully productive.

STRATEGIC OBJECTIVE 2.1:
FAST-TRACK CASES THAT OBVIOUSLY MEET OUR DISABILITY STANDARDS

Improve the Efficiency of our Disability Process: We use our Quick Disability Determination and Compassionate Allowance processes to expedite benefits to claimants whose medical conditions are so serious that they obviously meet our disability standards. These automated processes help our staff tackle the increased volume of initial disability cases we are receiving. The Quick Disability Determination process uses a computer-based predictive model to analyze specific information in electronically filed disability applications to identify those cases where a favorable disability determination is highly likely and medical evidence is readily available, such as low birth-weight babies, certain cancers, and end-stage renal disease.

The Compassionate Allowance process uses software to more quickly identify claimants whose medical conditions clearly qualify for disability benefits based on objective medical evidence.

We identified about 153,000 fast-track cases in FY 2011 using these predictive models. In September 2011, we had 5.9 percent of initial disability claims that qualified for fast-track processing. In FY 2011, we also shortened the disability application process for people whose medical condition qualifies under the Compassionate Allowance rules so that they will not need to provide information on their work and educational histories.

Increase Use of Electronic Records Express: Electronic Records Express helped us provide faster service to people applying for disability benefits. It allows medical facilities and educational institutions to electronically submit health and school records to our secure website instead of mailing paper documents.

In FY 2011, we received 2,926,081 Electronic Record Express submissions compared to 2,397,601 submissions in FY 2010. More information is available in our Electronic Express leaflet at www.socialsecurity.gov/pubs/10046.html.

Support the Military Casualty Initiative: We worked collaboratively with the Department of Veterans Affairs (VA) and the Department of Defense (DOD), along with advocates and military treatment facilities, to inform and assist wounded service members, and their families to file for disability benefits. We also conducted outreach to surviving members of fallen soldiers. The following summarizes the initiatives we contributed to in FY 2011 to support military casualties:

- **Veterans Affairs Regional Office Pilot:** The VA frequently requests copies of the medical documentation we use in an individual's disability claim. Beginning in 2008, with the St. Louis, MO Veterans Affairs Regional Office (VARO), we piloted a secure electronic process for providing the medical information. The VARO Pilot showed a reduced average response time for the receipt of medical records. As a result, we are expanding the process to all 57 VA offices. We plan full implementation in FY 2012, with a provision that this process meets the VA's needs throughout the rollout.
- **Department of Veterans Affairs Outreach Initiative:** We continued working with the VA to increase the awareness of our benefits and programs to veterans and their families. We distributed the VA's pamphlet, *A Summary of VA Benefits*, in our field offices nationwide and the VA distributed our outreach materials, such as our leaflet, *Expediting Disability Applications for Wounded Warriors*, in its more than 500 facilities nationwide.

STRATEGIC OBJECTIVE 2.2: MAKE IT EASIER AND FASTER TO FILE FOR DISABILITY BENEFITS ONLINE

To handle the anticipated increase in disability benefit applications and meet the public's growing expectation for convenient, efficient, and secure electronic service options, we created a new, easy-to-use online application. In FY 2011, nearly 33 percent of the disability applications filed were online compared to 27 percent in FY 2010. We also streamlined the *Adult Disability Report* in January 2010, and this improvement contributed to the increased use of online applications. The *Adult Disability Report* collects information regarding disabling conditions, medical sources, and employment and education history.

STRATEGIC OBJECTIVE 2.3: REGULARLY UPDATE OUR DISABILITY POLICIES AND PROCEDURES

We regularly update our disability policies and procedures to keep up with the rapid advances in medical information. Using the methods below, we continued to modernize our disability decision-making processes to provide better service to the public.

Update the Medical Listing of Impairments: One of the most effective tools we have for adjudicating disability claims is the *Listing of Impairments*, which describes for each major body system the impairments that meet our

definition of disability. Using the *Listing of Impairments*, we can determine a claimant's disability status when his or her impairment meets specified criteria without the need to consider age, education, or work experience. Our use of the *Listing of Impairments* improves the consistency and accuracy of our decisions throughout all levels of the disability process.

In FY 2011, we published a final rule in the *Federal Register* for endocrine disorders. The rule removed the prior *Listing of Impairments* and provided a new one for children from birth to age six, who have diabetes mellitus and require daily insulin.

Increase the Percentage of Disability Cases Using Health Information Technology: The healthcare industry is using information technology (IT), and developing standards for the content and sharing of electronic medical records to enable more efficient and effective delivery of healthcare. We are leveraging this effort, known as *health IT*, to obtain more quickly the medical records needed to support disability determinations, and to more efficiently manage that information. We have already demonstrated, in live production, the capability to reduce the time it takes us to obtain and process the more than 15 million medical records we request from medical providers each year. *Health IT* fully automates the request, response, and initial processing of medical evidence. It provides the disability examiner with decision support when data received indicate the presence of certain medical conditions defined in our *Listing of Impairments*.

The amount of time it takes us to complete a disability claim will continue to decrease as the number of treating sources exchanging information using *health IT* increases. In FY 2010, we awarded 12 contracts to various medical networks and providers to expand the use of *health IT* to exchange medical records in 11 States. Under these contracts, in FY 2011, selected providers with numerous facilities began to exchange electronic medical records with Wisconsin, Washington, California, Oregon, Illinois, and Texas. In FY 2012, we plan to exchange medical records with selected providers in five additional states (Indiana, Minnesota, Idaho, New Mexico, and Michigan).

In addition, in FY 2011, we continued to expand the decision support capabilities of *health IT* by mapping additional diagnoses and procedure codes to our *Listing of Impairments*. We also continue to participate actively in national *health IT* efforts to ensure our business needs are met. We continued our collaboration with the Department of Health and Human Services, VA, and DOD, as well as other Federal and State agencies, healthcare providers, and insurers, to develop and implement interoperable standards-based clinical coding, report formatting, and transfer protocols for the electronic storage and exchange of medical records.

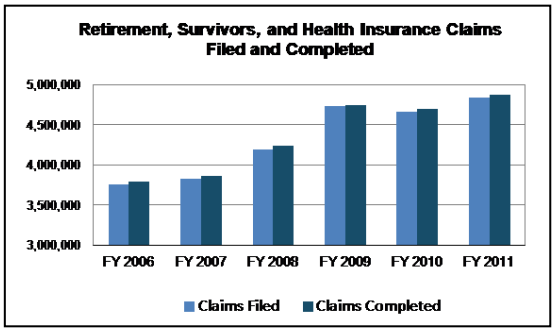
Continue to Develop an Occupational Information System: We rely on the occupational information found in the *Dictionary of Occupational Titles* to determine whether claimants can do their past work or any other work in the United States economy. The Department of Labor created the *Dictionary of Occupational Titles* but no longer updates this document. We continue to work jointly with the Department of Labor and other Federal agencies to create an occupational information system to replace the *Dictionary of Occupational Titles*.

STRATEGIC GOAL 3
IMPROVE OUR RETIREE AND OTHER CORE SERVICES

Strategic Objectives	Supporting Priority Goals
• Dramatically increase baby boomers' use of our online retirement services • Provide individuals with accurate, clear, and up-to-date information • Improve our telephone service • Improve service for individuals who visit our field offices • Process our Social Security number workload more effectively and efficiently	*Improve Our Customers' Service Experience on the Telephone, in Our Field Offices, and Online*; *Increase the Number of Online Applications for Retirement and Disability* **Overall Performance Measure Results** • Met the target for 3 of 6 measures • Did not meet the target for 2 of 6 measures • Final data not available for 1 of 6 measures

We have increased online services and made better use of technology to meet the growing demands of the public.

In FY 2011, we completed more than 4.8 million retirement, survivors, and health insurance claims (refer to the accompanying chart). An increasing number of these claims are being submitted over the Internet, which is becoming a preferred service channel for growing numbers of the public. This important service delivery channel allows the public to conduct business at their convenience and at their own pace, without the need to visit a field office or meet with an agency representative.



Claims submitted online require less data collection time and our employees can focus on review and processing of the claims. The time saved can be applied to more complicated cases. Trained agency employees review every online application and contact applicants if there are any questions. Our internal studies indicate that the service provided over the Internet is as high in quality as that provided through traditional service channels. As the number of retiring baby boomers grows, increasing the number of claims filed online is integral to delivering good customer service.

In FY 2011, we took the steps discussed below to improve our retiree and other core services.

STRATEGIC OBJECTIVE 3.1:
DRAMATICALLY INCREASE BABY BOOMERS' USE OF OUR ONLINE RETIREMENT SERVICES

Over the next 20 years, nearly 80 million baby boomers will apply for retirement benefits. Some of our efforts to provide convenient, user-friendly, multi-lingual automated services include the following:

Expand Marketing Efforts: In FY 2011, to promote our online services, we launched a new marketing campaign called "Boldly Go," with celebrity spokespersons Patty Duke and George Takei. We developed several "Boldly Go" public service announcements that air at no cost on hundreds of television networks nationwide, as well as Social Security TV (SSTV) in almost 600 of our field offices. As of September 30, 2011, our "Boldly Go" television public service announcements aired more than 60,000 times, were viewed more than 560 million times, and had an estimated free media value of more than $12 million.

We also feature the "Boldly Go" campaign, on our website at www.socialsecurity.gov, our Facebook page at www.facebook.com/socialsecurity, our Twitter page at www.twitter.com/socialsecurity, and our YouTube page at www.youtube.com/socialsecurityonline. We issued a national press release and conducted nationwide media outreach. We also expanded our use of ads displayed on billboards, buses, and in airport terminals.

In FY 2011, we received 999,203 retirement applications online and 289,418 Medicare-only applications online. Although the percentage of retirement applications filed online increased to nearly 41 percent, from nearly 37 percent the prior fiscal year, we did not meet our target to have 44 percent of all retirement claims filed online. In FY 2012, we will concentrate our advertising efforts on more targeted audiences.

Additional information about our online services is available on our website at www.socialsecurity.gov/. Our multi-lingual (English and Spanish) public service announcements on our press office web page are available at www.socialsecurity.gov/pressoffice/psa-video.html.

Launch a Spanish Version of the Ready Retirement Estimator: Our Retirement Estimator, which uses a person's Social Security earnings record to provide an immediate and personalized benefit estimate, has consistently ranked among the top rated eServices across government and private sector sites as measured by the American Customer Satisfaction Index (ACSI). ACSI, an industry standard, is one of the measures we use to gauge customer satisfaction with our online services.

In FY 2011, we launched a Spanish version of the Retirement Estimator. The Retirement Estimator is the first of our online services made available in Spanish, and we are working to make our online retirement, disability, Medicare-only, and Medicare Extra Help applications available in Spanish in FY 2012. Our Spanish tools provide a broader audience with the important information they need to plan for a secure retirement. You may access the Spanish Retirement Estimator at www.segurosocial.gov/espanol/calculador/.

Support Americans Living Abroad: In FY 2011, we added our Nonresident Alien Tax Withholding Screening Tool to our website. Using this tool, U.S. citizens living in other countries can determine if tax withholding applies to their benefits by answering "yes" or "no" to a series of questions about citizenship, residency, and the type of benefits they receive.

STRATEGIC OBJECTIVE 3.2: PROVIDE INDIVIDUALS WITH ACCURATE, CLEAR, AND UP-TO-DATE INFORMATION

It is important that people receive accurate, clear, up-to-date information so they can make informed decisions about applying for benefits, appealing a decision, or making changes to their records, such as marital status or name changes. Notices are one of the main ways we communicate with the public. Each year, we issue about 315 million notices. In our notices, we tell people our decisions, how much their payments will be, and other important information.

Notice Improvements: In FY 2011, we implemented a new system, which allowed us to create more accurate, standardized notices and more notices in Spanish. We improved the letters the DDSs send to disability applicants to explain our disability process, and we improved the structure, tone, and readability of the notices we send to accept hearing requests. We improved the language in our Medicare outreach and Medicare premium notices, and we added language to our award notices to explain the potential for tax liability.

New Large Print and Braille for the Blind or Visually Impaired Notices: Our special notice options allow people who are blind or visually impaired to receive notices in various formats, including Braille or on a compact disc. In May 2011, we added large print and audio compact discs as new options.

We implemented a survey during the fall 2011 to measure satisfaction with our special notice options. We will report the results of the survey in the *FY 2012 Performance and Accountability Report*.

More information about notices for blind and visually impaired individuals is available at www.socialsecurity.gov/notices.

Audio Publications Project: We offer English and Spanish audio publications on our website. These publications are available in MP3 format and can be accessed using Windows Media Player and Quick Time, which are commonly used media software. Currently, 92 of our English-language notices are available in this format. In FY 2011, we added 83 Spanish audio publications. Our English-language publications are available on our English-language electronic publications web page at www.socialsecurity.gov/pubs/audio/audio.html. Our Spanish publications are available on our Spanish electronic publications web page at www.segurosocial.gov/espanol/audio/audio-es.html.

STRATEGIC OBJECTIVE 3.3: IMPROVE OUR TELEPHONE SERVICE

For many people, the first contact with us is by telephone – a primary service option that is easily accessible and convenient. When callers reach us through our National 800 Number or our local field offices, they can use our self-help telephone services or speak directly with a representative. In FY 2011, we processed more than 62 million actions on our National 800 Number. For National 800 Number calls, a person has the option to speak to a telephone agent or use our automated services. Our automated services are available 24 hours a day, 7 days a week. We provide callers with services, such as answering questions about Social Security benefits, scheduling appointments, getting information from their Social Security records, and changing their address. We continuously improve our telephone services, as discussed below.

Expand Field Office Telephone System Replacement Project: Our Telephone System Replacement Project is a multi-year project continued in FY 2011 to replace our aged local stand-alone telephone systems in over 1,200 field offices and 162 hearing offices across the country. The new system includes Voice over Internet Protocol, a single system that carries voice and data over one line, which saves administrative costs and supports future technological improvements. Voice over Internet Protocol provides a new capability to re-route calls during disasters and other emergencies. At the end of FY 2011, we completed installation of our Telephone System Replacement Project in about 93 percent of our field offices and 95 of our hearing offices.

Replace Our National 800 Number Infrastructure: In FY 2011, we began implementation of Citizens Access Routing Enterprise through 2020 (CARE2020), a replacement of our National 800 Number telecommunications infrastructure. CARE2020 features a single Voice over Internet Protocol system. We expect to implement CARE2020 fully in FY 2012.

STRATEGIC OBJECTIVE 3.4: IMPROVE SERVICE FOR INDIVIDUALS WHO VISIT OUR FIELD OFFICES

In FY 2011, about 45 million people visited our field offices. To serve the public better, we continue to improve our field offices. Below we summarize a few of our efforts in FY 2011 to improve service for individuals who visit our field offices.

Expand Video Service Delivery: Video Service Delivery allows video conferencing between two or more sites. It increases service availability and helps us reduce travel costs and lost work hours. We offer two types of video services: (1) office-to-office and (2) office-to-video partner site. An office-to-office connection allows a field office to assist another busy or understaffed office via video. Office-to-video partner Video Service Delivery enables us to provide service to people located at remote sites, such as American Indian Tribal centers, local community centers, senior centers, hospitals, and homeless shelters, as well as improve service in our busy inner-city offices and rural areas. In FY 2011, we equipped 59 sites with Video Service Delivery equipment. We now have a total of

422 SSA sites and video partner locations with video equipment. We will expand Video Service Delivery in FY 2012, if funding allows.

Expand Social Security TV: We use SSTV as a communications tool to improve the public's experience in our field offices. SSTV plays informational broadcasts in our reception areas to provide office visitors with information about our programs and services. SSTV allows us to deliver information in several languages. In FY 2011, we updated public service announcements aired on SSTV, and added content related to protecting personally identifiable information and the "America Saves" initiative. We now have 577 offices with SSTV. We plan to install SSTV in additional field offices in FY 2012, budget permitting.

STRATEGIC OBJECTIVE 3.5: PROCESS OUR SOCIAL SECURITY NUMBER WORKLOAD MORE EFFECTIVELY AND EFFICIENTLY

The Social Security number (SSN) allows us to properly credit a worker's earnings. We use earnings to determine potential eligibility for and the amount of benefit payments. Annually, we complete about 6 million original and 11 million replacement Social Security card applications. We also verify SSNs more than one billion times a year through a variety of electronic exchanges with public and private organizations. In FY 2011, we began assigning SSNs randomly to help protect the integrity of the SSN and increase the available pool of numbers for assignment. We also supported the following initiatives:

Support E-Verify: We continue to work with the Department of Homeland Security (DHS) to make its E-Verify program more efficient and easier to use. E-Verify is a DHS voluntary program that allows registered employers to electronically verify the eligibility of newly hired employees to work in the United States. The program allows us to use information collected and verified by the State and by DHS. Our responsibility is to provide SSN verification and citizenship information to DHS.

In FY 2011, we implemented new E-Verify alerts. These alerts allow us to identify visitors who have received an E-Verify Tentative Non-Confirmation because of a data mismatch. The new alerts help us to process this workload more effectively and efficiently. More information is available on the U.S. Citizenship and Immigrations services E-Verify web page at www.dhs.gov/E–Verify.

Expand Enumeration at Entry: This program allows immigrants to apply for SSNs with the Department of State (DOS) as part of the visa application process. We used information collected and verified by both the DOS and the DHS to automatically issue an original or replacement Social Security card to permanent residents who enter the United States lawfully. In FY 2011, we developed software enhancements that prevent issuing multiple SSNs to the same person. We continue working with the DOS and the DHS to expand the program to additional classifications of non-citizens.

STRATEGIC GOAL 4
PRESERVE THE PUBLIC'S TRUST IN OUR PROGRAMS

Strategic Objectives

- Curb improper payments
- Ensure privacy and security of personal information
- Maintain accurate earnings records
- Simplify and streamline how we do our work
- Protect our programs from waste, fraud, and abuse
- Use "green" solutions to improve our environment

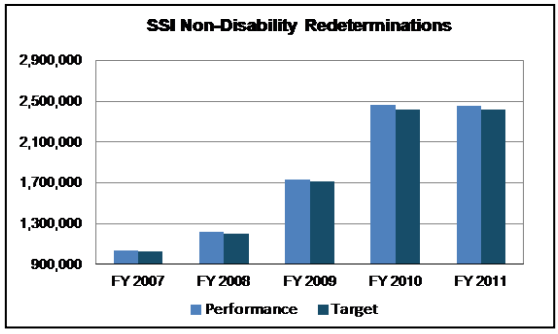
Supporting Priority Goal

Ensure Effective Stewardship of Our Programs by Increasing Our Program Integrity Efforts

Overall Performance Measure Results

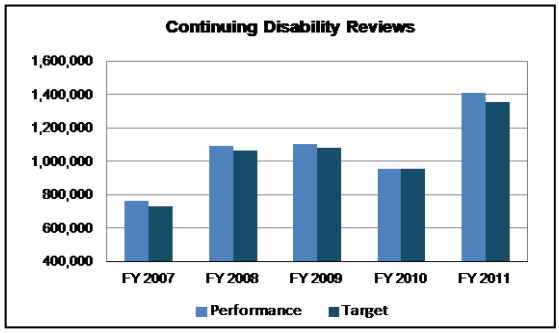
- Met the target for 7 of 9 measures
- Final data not available for 2 of 9 measures

We take great pride in being good stewards of the tax dollars entrusted to us and ensuring we protect our programs from waste, fraud, and abuse. Two of our most effective program integrity tools are SSI non-disability redeterminations and medical continuing disability reviews (CDR).



Recent estimates indicate redeterminations provide a return-on-investment of better than $7 in program savings over 10 years for every $1 spent, including savings accrued to Medicaid. In FY 2011, we completed 2,456,830 redeterminations saving valuable taxpayer dollars.

We increased the number of completed medical CDRs to ensure we pay disability benefits only to those who continue to meet our disability requirements. We completed 1,408,897 CDRs in FY 2011 (refer to the accompanying chart). Like redeterminations, CDRs are highly cost effective; historically, every $1 spent on CDRs produces at least $10 in lifetime program savings.



The following includes our additional efforts to preserve the public's trust in our programs.

STRATEGIC OBJECTIVE 4.1: CURB IMPROPER PAYMENTS

We take seriously our responsibility to curb improper payments. The following are among strategies we employed in FY 2011 to prevent and detect payment errors:

Expand the Access to Financial Institutions Project: The Access to Financial Institutions (AFI) project allows us to verify financial account balances electronically and to identify undisclosed bank accounts that may result in suspension of SSI payments. In FY 2011, we completed our nationwide roll-out of AFI and plan to integrate it with our automated SSI claims system in FY 2012.

Promote Use of the SSI Telephone Wage Reporting System: Wages continue to be a major source of payment error in the SSI program because we do not always receive accurate or timely wage information. We established a dedicated telephone number to allow those recipients and their representative payees to report monthly wages by calling in and using a combination of touch-tone entry and voice-recognition software.

Our software system automatically enters the wage data into the SSI system. This process is more efficient than having the recipient visit a field office where we manually enter wage information into our system. The improved

efficiency from the SSI Telephone Wage Reporting System (SSITWR) allows our employees to process wage information early enough to adjust the next SSI check before it is issued, thereby preventing improper payments.

We are currently conducting a Payee Outreach pilot. In FY 2011, we mailed notices to a sample of representative payees for working SSI recipients. The notice asks the representative payee to report the recipient's wages to us through SSITWR. Based on the positive results of electronic reporting in the SSI program, we plan to expand telephone wage reporting to Social Security Disability Insurance (SSDI) beneficiaries. This new initiative will allow SSDI beneficiaries to report their earnings through an automated telephone system similar to SSITWR system. We believe automated telephone wage reporting may help reduce wage-related overpayments in the SSDI program. More information is available on our Spotlight on SSI Telephone Wage Reporting web page at www.socialsecurity.gov/ssi/spotlights/spot–telephone–wage.htm.

Expand the Use of Electronic Death Data Exchange with Foreign Governments: In FY 2011, we expanded the electronic death data exchange with foreign governments to ensure we do not pay benefits to deceased people who resided overseas. We began an exchange with Sweden, negotiated a new Memorandum of Understanding with Italy, and conducted discussions with Belgium and Canada. We also signed Memorandums of Understanding with South Korea and Germany. As of FY 2011, under our network of international totalization agreements, we have regularly recurring, reciprocal exchanges with Australia, the Netherlands, and Sweden. We plan to expand automated reciprocal death data exchanges to all 24 totalization agreement partners over a 3-year period. More information about U.S. international Social Security agreements is available at www.socialsecurity.gov/international/agreements_overview.html.

Continue Our Centenarian Project: In an effort to reduce improper payments, we also schedule face-to-face interviews with beneficiaries age 103 and older to verify payment eligibility. In FY 2011, we completed over 9,000 interviews and detected over $8.7 million in overpayments due to unreported deaths.

STRATEGIC OBJECTIVE 4.2: ENSURE PRIVACY AND SECURITY OF PERSONAL INFORMATION

We are committed to ensuring privacy and security of personal information and we continue to place special emphasis in this area. In FY 2011, we conducted security authorizations for 8 of our major IT systems and tested annual security controls for all of our remaining 21 major IT systems.

In January 2011, we promoted National Data Privacy Day with a program dedicated to raising employee awareness about the importance of data privacy, individual privacy rights, and the prevention of improper use or disclosure of personally identifiable information.

In FY 2011, we conducted our Information Security Awareness Training for all of our employees with access to agency information or systems. We supplemented this training with an interactive security training session for all employees.

We worked together with our internal and external partners to develop privacy policies for social media tools and emerging technology, such as cloud computing. These policies are essential for maintaining public trust as the public interacts with us through social media, and as we consider moving systems to cloud platforms.

STRATEGIC OBJECTIVE 4.3: MAINTAIN ACCURATE EARNINGS RECORDS

In FY 2011, we posted 216 million items to workers' records. It is critical that earnings records are accurate because we base Social Security benefits on a worker's lifetime earnings. Posting items to workers' records is a complex and labor-intensive workload due to such factors as unreported name changes, employer errors, and the misuse of SSNs. We place wage items we cannot match with a record in our Earnings Suspense File.
In FY 2011, we were able to match over 691,000 items in the Earnings Suspense File with the correct workers'

earning records for a total of over $4.9 billion in earnings. Following are some of the activities we were involved in to help maintain accurate earnings records in FY 2011:

Increase Electronic Wage Report Filing: In FY 2011, we continued to reduce paper wage reports and to migrate to an electronic wage reporting process. Annually, we receive approximately 4 million paper wage reports from employers that contain over 32 million paper Forms W-2. To replace the more error-prone, labor-intensive, and expensive-to-process paper wage reports, we continued to encourage employers and third party submitters to use our Business Services Online Electronic Wage Reporting suite of services to file Forms W-2 electronically for their employees and customers. We informed employers about electronic wage reporting through online information and resources, promotional materials, payroll conferences, articles in trade publications, and direct contact. Additionally, we continued to work with the Internal Revenue Service (IRS) to improve all aspects of wage reporting.

Implement the Earnings Redesign Initiative: We continued to transform our earnings process from paper to electronic, which supported timely wage postings, increased the accuracy of posted earnings, and improved the verification of SSNs processes. In FY 2011, we improved the system that processes self-employment earnings, and we initiated activities to integrate the redesigned SSA/IRS System Reconciliation process into the Earnings Case Management System. We also continued a series of system upgrades for processing Forms W-2, along with planning and analysis for a system redesign.

STRATEGIC OBJECTIVE 4.4: SIMPLIFY AND STREAMLINE HOW WE DO OUR WORK

We continue to look for ways to simplify and streamline how we do our work to keep pace with our growing workloads and to provide the best service possible. In order to meet the growing needs of the public we serve, we moved many of our business processes to an electronic environment. We also worked with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. Additionally, we expanded the use of our Integrated Disability Process, a multi-component initiative, to identify issues and unify disability policy and procedures. Using cross-component Integrated Disability Process workgroups of subject matter experts, we developed the following solutions:

- **Past Relevant Work:** We use a five-step sequential evaluation process to determine if a claimant meets our disability criteria. We determined that in situations where there is little documentation related to past relevant work (Step 4), we could put that step on hold and move to Step 5 to determine if the claimant can perform other work that exists in the national economy. If the claimant can perform work at Step 5, then the claim is denied without the need to address Step 4. If we determine at Step 5 that the claimant cannot perform work, then we return to Step 4 to develop the necessary documentation and make a decision.
- **Medical Source Statement:** The Medical Source Statement project workgroup considers how we obtain and use medical source statements. The workgroup recommended a regulatory change allowing adjudicators greater flexibility to recontact medical sources to clarify or resolve inconsistencies or insufficiencies in medical evidence. In FY 2011, we published a Notice of Proposed Rulemaking in the *Federal Register*, which provides the recommended flexibility. After we receive and consider public comments from the Notice of Proposed Rulemaking, we will publish a final regulation.
- **Unified Disability Training:** Unified Disability Training (UDT) provides basic policy training materials and lessons that give employees insight into how their work relates to other components. It eliminates the need for components to develop and maintain their own similar disability training program. The training material is in a modularized format that is useful for entry-level and in-service training for all agency disability related components and the DDSs. In FY 2011, we announced the availability of our internal UDT website that will serve as a repository for all "core" disability training.

STRATEGIC OBJECTIVE 4.5: PROTECT OUR PROGRAMS FROM WASTE, FRAUD, AND ABUSE

We maintain a strong detection and prevention program to deter those who attempt to obtain benefits through fraud and abuse. Through our collaborative efforts with other Federal agencies, we investigate and prosecute fraud, expand forensic computer crime detection capabilities, and strengthen fraud prevention by adding new checks and balances in our processes. In FY 2011, we did the following to protect our programs from waste, fraud, and abuse:

Use Cooperative Disability Investigations Units: We have 24 Cooperative Disability Investigations (CDI) units, which help us protect our programs from fraud, waste, and abuse. Our CDI program is a collaborative effort with our Office of the Inspector General, the DDSs, and local law enforcement and has been very effective in finding fraud in our disability programs. Since its inception through September 2011, the CDI program efforts nationwide have resulted in $1.9 billion in projected savings to our SSDI and SSI programs and $1.2 billion to non-SSA programs, such as Medicare and Medicaid. In FY 2011, CDI investigations led to the denial or termination of 3,315 claims, $281.2 million in savings to our SSDI and SSI programs, and $182.5 million to non-SSA programs. In FY 2011, we opened three new CDI Units: Salt Lake City, UT; Oklahoma City, OK; and Lexington, KY.

Develop Tools to Fight Against Fraud: We receive numerous documents to help us establish a person's age, identity, and citizenship or lawful alien status. We must remain continually watchful for altered or fraudulent documents. Our Document Verification website is available to assist our front-line employees in identifying suspect or fraudulent documents. This website serves as a one-stop portal for links to a number of resources employees can access to help investigate the authenticity of submitted documents.

Conduct Onsite Security Control and Audit Reviews: We continue to conduct ongoing Onsite Security Control and Audit Reviews to make sure our field offices, teleservice centers, processing centers, DDSs, and hearing offices follow our established policies and procedures. These reviews help us prevent and detect waste, fraud, and abuse. The reviews identify problems before they lead to significant deficiencies. After a review, our office managers must submit a corrective action plan for each deficiency identified.

STRATEGIC OBJECTIVE 4.6: USE "GREEN" SOLUTIONS TO IMPROVE OUR ENVIRONMENT

We fully support the President's Executive Order 13423, *Strengthening Federal Environmental, Energy, and Transportation Management*, which makes it mandatory for Federal agencies to conduct their environmental, transportation, and energy-related activities in a fiscally sound and sustainable manner. In FY 2011, our successes in this area include:

- Reduced emissions;
- Recycled excess wood furniture;
- Increased purchase of renewable energy;
- Revised our *Strategic Sustainability Performance Plan*;
- Initiated an agency-wide sustainability awareness campaign;
- Replaced 28 gasoline-powered vehicles with alternative-fuel vehicles;
- Established performance objectives for an agency Environmental Management System;
- Continued to be one of the lowest water users per gross square foot in the Federal Government; and
- Implemented *Power Management*, a nationwide initiative that allows centralized management of computer power.

Looking Forward – Facing Our Challenges

While we continue to make progress in achieving our strategic goals and objectives, we have significant challenges ahead. Due to the economic downturn and the aging of the baby boomers, our workloads have been skyrocketing. Addressing this workload boom, while reducing our improper payments, is clearly our biggest challenge. In FY 2011, we received over 660,000 more initial disability claims and over 270,000 more hearing requests compared to FY 2008, representing increases of 26 percent and 46 percent, respectively.

The retirement wave and the disproportional number of our employees at or near retirement age will test our ability to process these growing workloads. We ended FY 2011 with over 3,000 fewer employees than we had at the beginning of the year. The budget uncertainty that we experienced in FY 2011 hampered our ability to replace these employees. Our challenges will be exacerbated if we are not properly funded in FY 2012 and beyond.

Sound planning and our employees' hard work have served us well as we continue to take on these challenges. To help States with mounting disability claims, we will continue to utilize our recently created Extended Service Teams. The Extended Service Teams are located in DDSs that have a history of good quality and high productivity. These centralized DDS teams will help us reduce the initial claims backlog as we electronically shift claims to them from the hardest hit DDSs. We have also expanded our Federal capacity to decide disability claims. We have many units around the country that assist those DDSs most adversely affected by the increase in initial claims. In FY 2011, the Extended Service Teams and Federal units processed 160,951 claims.

To the extent we can, we plan to hire in FY 2012 with a particular focus on ALJs and support staff. We will also look for opportunities to temporarily redirect our support staff to front line operations. For example, employees in our Office of Quality Performance will continue to screen disability hearings to determine if a decision can be fast-tracked.

From a more long-term perspective, we continue developing our Disability Case Processing System. This system will merge the current State and Federal DDSs systems into one unified system. In FY 2012, we will begin a pilot test in the Idaho DDS. We will then test in Illinois, Missouri, Nebraska, and New York DDSs. Between FY 2013 and FY 2014, we will rollout this system nationally.

Reducing improper payments remains one of our biggest challenges. The President's FY 2012 budget includes several legislative proposals that will simplify and streamline how we do our work, allowing us to avoid many of the improper payments that occur today. The Work Incentives Simplification Pilot proposal will allow us to conduct a pilot project that examines the effects of replacing complex Disability Insurance work incentive provisions with a clear, simple, unified process that is both easier to understand and easier to administer. Another proposal related to workers' compensation will allow us to develop and implement a system to collect information on workers' compensation recipients from States and private insurers. We will use this information to adjust benefits as appropriate to prevent improper payments.

American Recovery and Reinvestment Act of 2009

The *American Recovery and Reinvestment Act* (Recovery Act) *of 2009* provided us with administrative funding to carry out the following three initiatives.

1. **$500 Million for Addressing Disability and Retirement Workloads**

   The Recovery Act provided us $500 million to handle steep increases in our disability and retirement workloads, cover related IT costs, and make investments in *health IT*. We spent $147.1 million of Recovery Act funding in FY 2009 and another $347.7 million in FY 2010 to sustain higher staff and overtime levels, which improved our ability to complete additional requests for hearings and address our increasing disability and retirement workloads.

2. **$90 Million for Administering the Economic Recovery Payments**

   The Recovery Act provided for a maximum one-time Economic Recovery Payment of $250 to individuals who were eligible for Social Security or SSI benefits or both during any one of three months (November 2008, December 2008, or January 2009). We issued the one-time payments totaling $13.2 billion to over 53 million beneficiaries and SSI recipients. We spent $37.9 million of Recovery Act administrative funding in FY 2009 primarily to explain the payment to the public. In FY 2010, we spent $2.8 million to pay the salaries and benefits of employees responding to public inquiries concerning Economic Recovery Payments and issuing "catch-up" payments. We spent less than $1 million in FY 2011 to complete this work. In FY 2010, Congress rescinded $47 million of the $90 million allocated to us for Economic Recovery Payments as part of Public Law 111-226, *FAA Air Transportation Modernization and Safety Improvement Act*.

3. **$500 Million for our National Support Center and for Related Equipment**

   The Recovery Act provided $500 million to construct a new National Support Center. This new facility will increase our computer infrastructure and storage capacity, which are critical for us to support technological advancements, such as *health IT*, and enable us to maintain demographic and benefit information. Through FY 2011, we obligated nearly $391 million of the Recovery Act funding for planning, selecting and purchasing the site, and initiating the design of the facility. We will use the remaining funds to begin equipping the new facility. The General Services Administration plans to complete the construction and final building commissioning in FY 2015.

More information is available on our Recovery Act web page at www.socialsecurity.gov/recovery/.

How We Ensure Our Data Integrity

We remain committed to providing clear, reliable, and valid data for management decision-making and oversight. We have internal controls in place to ensure that our data are quantifiable and verifiable. Our internal controls include:

- Ongoing data quality reviews;
- Audit trails;
- Reviews at all levels of management;
- Restricted access to sensitive data; and
- Separation of duties.

We designed these controls to safeguard the integrity and quality of our vast data resources and provide assurances that our data contain no material inadequacies. These same controls support the Commissioner's *Federal Managers' Financial Integrity Act* Assurance Statement. Refer to the *Systems and Controls* section of this report on page 43 for more information about the *Federal Managers' Financial Integrity Act.*

Data Integrity Systems and Controls

We gather data for our performance measures using automated management information and other workload measurement systems. The data for several accuracy and public satisfaction measures come from surveys and work samples, which provide confidence levels of 95 percent or higher.

We also review the accuracy of OASDI and SSI payments. We select a representative sample of records to review and we interview the individual or the authorized representative, contact others as needed, and redevelop all non-medical factors of eligibility. These reviews are our primary measure of quality for agency performance and they provide an overall payment accuracy rate.

Audit of Our FY 2011 Financial Statements

The *Chief Financial Officers Act of 1990* requires the Office of the Inspector General (OIG), or an independent external auditor that it selects, to audit our financial statements. The OIG selected Grant Thornton, LLP to conduct the FY 2011 audit. The audit concluded that our financial statements present fairly, in all material respects, our financial position. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Both the OIG's transmittal letter and the Grant Thornton, LLP audit report appear in the *Auditor's Reports* section of this report.

Role of the Office of the Inspector General

The OIG plays a key role in protecting our programs and operations from waste, fraud, and abuse by conducting independent and objective audits, evaluations, and investigations. The OIG provides timely, useful, and reliable information and advice to agency officials, Congress, and the public.

The OIG's Office of Audit conducts performance audits of our programs and operations and makes recommendations to make sure we achieve our program objectives. In addition, the OIG conducts audits of our performance indicators to ensure our established performance measures comply with the *Government Performance and Results Act*. In FY 2011, the OIG issued three audits that evaluated nine of our *Government Performance and Results Act* performance indicators.

The objective of these audits was to:

- Comprehend and document our sources of data for the specific performance measure the OIG has selected for review;
- Identify and test critical controls (both electronic data processing and manual) of systems that generated the specified performance data;
- Test the adequacy, accuracy, reasonableness, completeness, and consistency of the underlying data for the specified performance measure; and
- Recalculate each performance measure to ascertain its accuracy.

The OIG did not identify any significant findings related to the internal controls, adequacy, accuracy, reasonableness, completeness, and consistency of the underlying data for six of the performance indicators audited. The OIG did not identify any significant findings for the remaining three performance indicators audited; however, there were three instances where we could not provide data related to the internal controls over the systems supporting the performance indicator, and two instances where we could not provide the underlying data related to the adequacy, accuracy, reasonableness, completeness, and consistency of the performance indicator. We do not have a requirement to maintain these data, and we believe it would be too costly to do so.

In FY 2011, the OIG also issued the results of an audit that reviewed whether our key programs and activities critical to achieving our four strategic goals were addressed by our FY 2010 performance indicators, and if so, whether those indicators were objective, understandable, and outcome-based. The auditors' opinion was that three performance indicators did not measure or assess the relevant output, service levels, and outcomes of our key programs in FY 2010. Additionally, the auditors concluded that of our 27 performance indicators in the FY 2010 PAR, 23 were objective, 23 were understandable, and 12 were outcome-based. Although we disagreed with several of the OIG's audit recommendations, we adopted some of their recommendations.

These audit reports are located on the Office of the Inspector General web page at oig.ssa.gov/audits-and-investigations/audit-reports/2010-10--2011-09.

HIGHLIGHTS OF FINANCIAL POSITION

Overview of Financial Data

We received an unqualified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 99 through 150 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2009 through 2011 (excluding key amounts from our Statement of Social Insurance and Statement of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the *Overview of Social Insurance Data* section).

Table of Key Financial Measures[1]
(Dollars in Billions)

Net Position (end of fiscal year)			
	2011	2010	2009
Total Assets	$2,702.3	$2,635.5	$2,553.6
Less Total Liabilities	$96.6	$95.9	$94.8
Net Position (assets net of liabilities)	$2,605.7	$2,539.6	$2,458.8
Change in Net Position (end of fiscal year)			
	2011	2010	2009
Net Costs	$782.7	$752.3	$731.6
Total Financing Sources[2]	$848.9	$833.0	$863.0
Change in Net Position	$66.1	$80.8	$131.3

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position.

Balance Sheet: The Balance Sheet displayed on page 100 presents our assets, liabilities, and net position. Total assets for FY 2011 are $2,702.3 billion, a 2.5 percent increase over the previous year. Of the total assets, $2,687.2 billion primarily relates to earmarked funds for the OASI and DI programs and approximately 98.2 percent are investments. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. Investments increased $68.2 billion over the previous year primarily due to tax revenues of $580.9 billion, and interest on those investments of $115.2 billion.

Liabilities grew in FY 2011 by $0.7 billion primarily because of the growth in benefits due and payable. The majority of our liabilities (85.1 percent) consist of benefits that have accrued as of the end of the fiscal year but have

not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Our net position grew $66.1 billion to $2,605.7 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost displayed on page 101 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of Payments to Social Security Trust Funds appropriations and also contains non-material activities.

In FY 2011, our total net cost of operations increased $30.4 billion to $782.7 billion, primarily due to the first wave of baby boomers attaining retirement age. The percent increase in net cost for our 3 major programs are: OASI 3.3 percent; DI 4.9 percent; and SSI 11.7 percent. Operating expenses increased for each of our 3 major programs by 7.6 percent, 8.4 percent, and 11.0 percent for OASI, DI, and SSI, respectively.

In FY 2011, our total benefit payments increased by $29.9 billion, a 4.0 percent increase. The table below provides the benefit payment information, number of beneficiaries, and the percentage change for these benefit items during FY 2011 and FY 2010 for each of our three major programs. SSI disbursements are generally made on the first day of each month; however, since October 1, 2011 falls on a Saturday, the October 2011 SSI benefit payments were paid in September, as required by law. Since there was no cost of living increase payable in 2011, the monthly maximum SSI benefits for eligible individuals remained unchanged.

Benefit Changes in Our Major Programs During Fiscal Years 2011 and 2010

	FY 2011	FY 2010	% Change
OASI			
Benefit Payments	$593,047	$574,223	3.3%
Average Benefit Payment (per month)	$1,118.46	$1,106.91	1.0%
Number of Beneficiaries	44.6	43.6	2.3%
DI			
Benefit Payments	$127,471	$121,598	4.8%
Average Benefit Payment (per month)	$926.92	$921.50	0.6%
Number of Beneficiaries	10.5	10.0	5.0%
SSI			
Benefit Payments	$49,041	$43,844	11.9%
Monthly Maximum Benefit Amount	$674.00	$674.00	0.0%
Number of Beneficiaries	8.1	7.9	2.5%

Note:

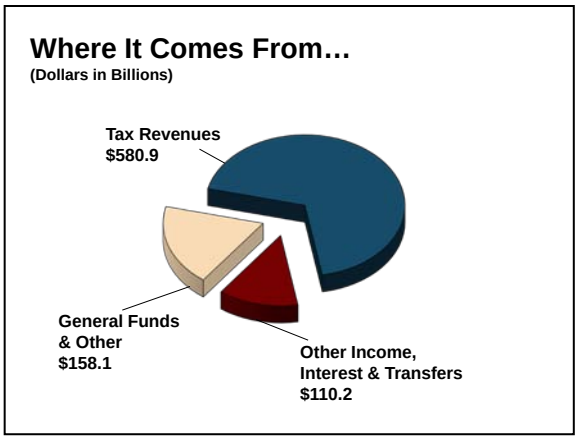
1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

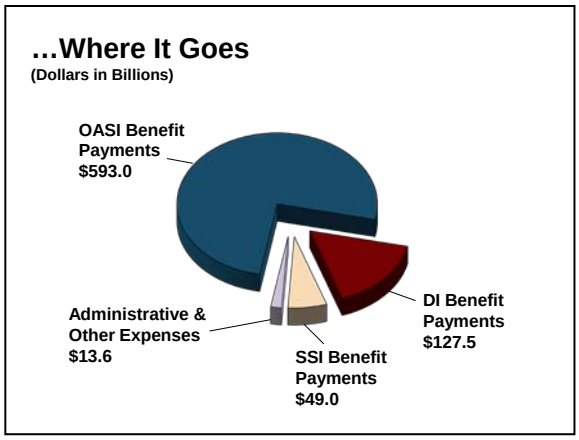
Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 102 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. The statement shows an increase of $66.1 billion in the net position of the agency, which is attributable to financing sources in excess of the agency's net cost. At this time, tax revenues, interest earned, and transfers related to Payroll Tax Holiday legislation continue to exceed benefit payments made to OASI and DI beneficiaries, keeping the agency's programs solvent. The Payroll Tax Holiday legislation provides employees a one-year reduction in *Federal Insurance Contributions Act* tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 tax year (January-December). In order to avoid harming the OASI and DI Trust Funds, the legislation also provides the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. This activity will result in decreased tax revenues and increased transfers for FY 2011 on the financial statements. We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits.

When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses is 1.8 percent.

In FY 2011, total financing sources increased by $15.9 billion to $848.9 billion. The $848.9 billion in total financing sources from the Statement of Changes in Net Position will not match the total financing sources in the chart "Where It Comes From…" as seen below. The activity in the chart includes $0.4 billion in exchange revenue, which is reported on the Statement of Net Cost. The primary sources for this increase are tax revenue, interest revenue, and Payroll Tax Holiday transfers received in FY 2011.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2011.

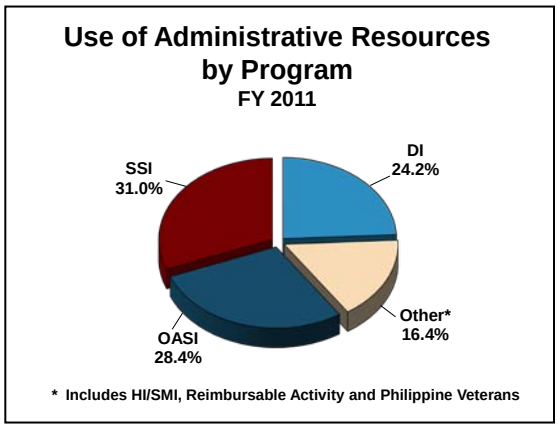




Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 103 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2011. The statement shows that we had $907.3 billion in budgetary resources, of which $0.9 billion remained unobligated at year-end. We recorded total net outlays of $784.3 billion by the end of the year. Budgetary resources grew $108.7 billion, or 13.6 percent from FY 2010, while net outlays increased $30.1 billion, or 4.0 percent.

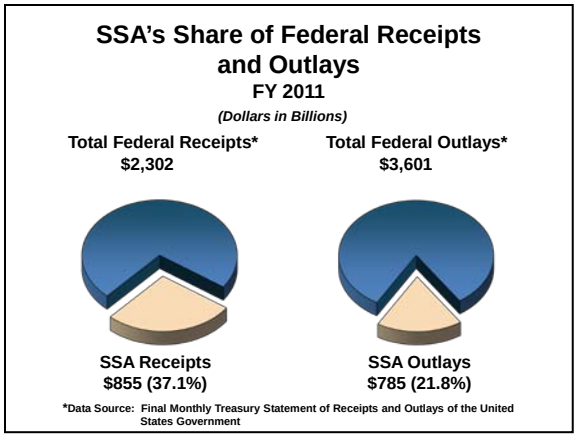
USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2011 in terms of the programs we administer or support. Although the DI program comprises only 16.6 percent of the total benefit payments we make, it consumes 24.2 percent of annual administrative resources. Likewise, while the SSI program comprises only 6.4 percent of the total benefit payments we make, it consumes 31.0 percent of annual administrative resources. State Disability Determination Services handle claims for DI and SSI disability benefits and render decisions on whether the claimant is disabled. In addition, we are required to perform continuing disability reviews of many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2010 use of administrative resources by program was 27.9 percent for the OASI program, 23.6 percent for the DI program, 29.6 percent for the SSI program, and 18.9 percent for Other.



SSA'S SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government as shown in the chart to the right. Receipts for our programs represented 37.1 percent of the $2.3 trillion in total Federal receipts, a decrease of 1.9 percent over last year as payroll tax collections declined, offsetting increases in Federal income tax collections. Outlays decreased by 0.1 percent to 21.8 percent of Federal outlays.



Overview of Social Insurance Data

Table of Key Social Insurance Measures[1]
(Dollars in Billions)

Statement of Social Insurance Old-Age, Survivors and Disability Insurance (calendar year basis)			
	2011	2010	2009
Present value of future net cashflows for current and future participants over the next 75 years (open group measure), current year valuation	-$9,157	-$7,947	-$7,677
Present value of future net cashflows for current and future participants over the next 75 years (open group measure), prior year valuation	-$7,947	-$7,677	-$6,555
Change in present value	-$1,211	-$270	-$1,123

1. Totals do not necessarily equal the sum of rounded components.

Statement of Social Insurance: As displayed on page 104, the Statement of Social Insurance presents the following estimates:

- The present value of future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age and the future cost of providing scheduled benefits to those same individuals;
- The present value of future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age and the future cost of providing scheduled benefits to those same individuals;
- The present value of future noninterest income less future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the assets in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of noninterest income to be received from or on behalf of future participants and the cost of providing scheduled benefits to those same individuals; and

- The present value of future noninterest income less future cost for the open group, which represents all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI Social Insurance program, *plus* the assets in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of future net cashflows (noninterest income less cost) for all current and future participants over the next 75 years (open group measure) becomes more negative when changing to the new valuation period. The present value changed from -$7.9 trillion, determined as of January 1, 2010, to -$9.2 trillion, determined as of January 1, 2011. Including the combined OASI and DI Trust Fund assets increases this open group measure to -$6.5 trillion for the 75-year valuation period. The comparable closed group measure, which includes the combined OASI and DI Trust Fund assets, is -$18.6 trillion.

Statement of Changes in Social Insurance Amounts: The Statement of Changes in Social Insurance Amounts displayed on page 105 reconciles the change (between the current valuation period and the prior valuation period) in the present value of future noninterest income less future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

The present value as of January 1, 2011 would have decreased (become more negative) by $0.4 trillion due to advancing the valuation date by one year and including the additional year 2085. Changes in demographic data, assumptions, and methods further decreased the present value of future net cashflows by $0.7 trillion and changes in economic data, assumptions, and methods decreased the present value by $0.1 trillion. However, changes in programmatic data, assumptions, and methods revisions in assumptions increased the present value of future cashflows by about $0.1 trillion. There was no significant cashflow effect from legislative changes.

OASI AND DI TRUST FUND SOLVENCY

Pay-As-You-Go Financing

The OASI and DI Trust Funds are deemed solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund assets. In recent years, current income has exceeded program obligations for the OASDI program, and thus, the combined OASI and DI Trust Fund assets have been growing. The following table shows that OASI and DI Trust Fund assets, expressed in terms of the number of months of program obligations that these assets could finance, has remained relatively constant at around 42.4 months from the end of FY 2007 to the end of FY 2010, followed by an estimated decline to 41.6 months at the end of FY 2011.

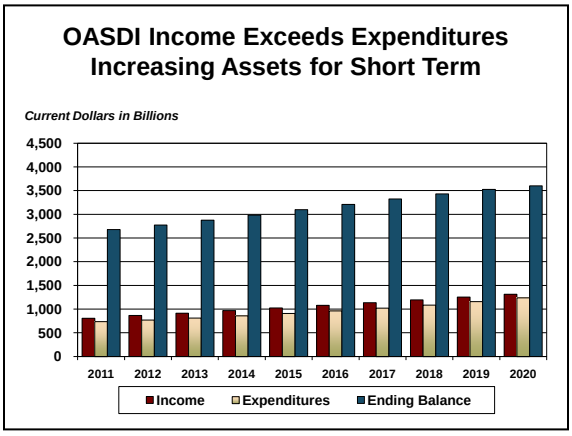
Number of Months of Expenditures Fiscal-Year-End Assets Can Pay[1]					
	2007	2008	2009	2010	2011
OASI	46.3	46.8	47.5	47.9	47.7
DI	23.9	22.0	19.7	17.1	14.1
Combined	42.4	42.4	42.5	42.4	41.6

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

Note: Values for 2010 and 2011 are estimates that are based on 2011 Trustees Report intermediate assumptions.

Short-Term Financing

The OASI and DI Trust Funds are deemed adequately financed for the short term when actuarial estimates of OASI and DI Trust Fund assets for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2011 Trustees Report indicate that the OASI and DI Trust Funds, on a combined basis, are adequately financed over the next 10 years. (Financing of the DI Trust Fund is inadequate, and, without remedial action, the fund is expected to be exhausted in 2018.) Under the intermediate assumptions of the 2011 Trustees Report, OASDI estimated expenditures and income for 2020 are 74 percent and 68 percent higher than the corresponding amounts in 2010 ($713 billion and $781 billion, respectively). From the end of 2010 to the end of 2020, assets are projected to grow by 38 percent, from $2.6 trillion to $3.6 trillion.



Long-Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2036, the combined OASI and DI Trust Funds will be exhausted according to the projections by Social Security's Chief Actuary. Under current law, when either the OASI or DI Trust Fund exhausts, full scheduled benefits cannot be paid on a timely basis upon exhaustion. Tax revenues are projected to be sufficient to support expenditures at a level of 77 percent of scheduled benefits after the combined OASI and DI Trust Fund exhaustion in 2036, declining to 74 percent of scheduled benefits in 2085.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth rates well below historical levels. In present value terms, the 75-year shortfall is $6.5 trillion, which is 2.1 percent of taxable payroll and 0.7 percent of Gross Domestic Product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

(1) Increasing payroll taxes;

(2) Slowing the growth in benefits;

(3) Finding other revenue sources (such as general revenues); or

(4) Increasing expected returns by investing, at least in part, in private securities through either personal accounts or direct investment of OASI and DI Trust Fund assets.

Significant uncertainty surrounds the estimates for the Statement of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, pages 138 through 150 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

Limitations of the Financial Statements

The principal financial statements beginning on page 99 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Social Security Administration in

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

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

Summary of Improper Payments Information

BACKGROUND

The *Improper Payments Information Act of 2002* (IPIA) requires Federal agencies to report annually on programs that are susceptible to significant improper payments and on the actions they are taking to reduce such payments. President Obama signed the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) into law on July 22, 2010. IPERA amends IPIA, and expands our accountability, transparency, and reporting responsibilities related to improper payments. IPERA also added a requirement that we report on our payment recapture auditing efforts.

OMB guidance on implementation of IPIA requires that we report on improper payments information for the OASI and DI programs, in addition to the SSI program. We report identified OASI and DI improper payments even though the levels of improper payments in these programs have continually been well below the percentage threshold for reporting improper payments. On April 14, 2011, OMB issued guidance on implementing IPERA.

RECOVERY AUDIT PROGRAM

For our OASI, DI, and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through our ongoing program integrity efforts. This approach complies with IPERA requirements for payment recapture audits.

We also use an existing in-house recovery audit program for administrative contractual payments. To enhance internal controls over administrative payments, we will award a payment recapture audit contingency contract in early FY 2012 to review our administrative payments. We will report on the results of that contract in FY 2012.

AGENCY EFFORTS AND FUTURE PLANS

We have multiple controls and processes in place to prevent, detect, and recover improper payments. As required by IPERA, effective FY 2012, we are also holding managers, program officials, and senior executives accountable for reducing improper payments. For affected employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent improper payments, detect and recover improper payments, and meet targets to reduce improper payments.

We use stewardship reviews to measure the accuracy of payments to beneficiaries in current payment status. Each month, we review a sample of OASI, DI, and SSI cases to determine payment accuracy rates. Stewardship review findings provide the data necessary to meet the IPIA reporting requirements, as well as other reporting requirements to monitoring authorities. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for current and previous reporting periods.

For the past five years, OASDI payments were highly accurate. However, the sheer magnitude of OASDI payments, approximately $696 billion in FY 2010, means that even a small percentage of error will result in substantial dollar error. In FY 2010, the OASDI accuracy rate was 99.6 percent for overpayments based on improper payments totaling a projected $2.722 billion (i.e., 99.6 percent of all dollars paid were free of overpayment errors). Accuracy for OASDI underpayments was 99.8 percent based on unpaid dollars projected at $1.788 billion (i.e., underpayment

dollar errors, as a percentage of total dollars paid, were 0.25 percent). Comparable accuracy rates for FY 2009 were 99.6 percent for overpayments and 99.9 percent for underpayments. The change in the overall OASDI overpayment accuracy rate is not statistically significant; however, the difference in the overall underpayment accuracy rates from FYs 2009 to 2010 is a statistically significant decline. While significant, the overall underpayment rate changed by only 0.16 percentage points. Each tenth of a percentage point in payment accuracy represents about $696 million in OASDI program outlays.

For the SSI program, payments free of overpayment error increased over a five-year period, FY 2006 through FY 2010, from 92.1 percent to 93.3 percent, respectively. In FY 2010, the SSI accuracy rate was 93.3 percent for overpayments based on improper payments totaling a projected $3.344 billion (i.e., 93.3 percent of all dollars paid were free of overpayment errors). This represents an increase of 1.7 percentage points over the FY 2009 overpayment accuracy rate of 91.6 percent; a statistically significant increase. FY 2010 accuracy for SSI underpayments was 97.6 percent based on unpaid dollars projected at $1.227 billion (i.e., underpayment dollar errors, as a percentage of total dollars paid, were 2.4 percent). This represents a statistically significant decrease of 0.8 percentage points from FY 2009 when SSI payments were 98.4 percent free of underpayment error based on underpaid dollars totaling a projected $787 million. For FY 2010, each tenth of a percentage point in payment accuracy represents about $50 million in SSI program outlays.

Below are examples of initiatives to improve payment accuracy in the OASDI and SSI programs. We provided additional information, as well as other corrective actions we have taken, in the *Improper Payments Information Detailed Report* in the *Other Accompanying Information* section.

Examples of OASDI Improper Payment Initiatives

- To address errors due to Substantial Gainful Activity, we prioritize the systems enforcement alerts we use to identify unreported earnings, and then work the cases with highest earnings first to minimize overpayments.
- We conducted an ongoing match with the Office of Personnel Management to identify Federal retirees receiving a Civil Service Retirement System pension. This initiative addresses accurate computation of beneficiaries' earnings.
- We modified the Earnings Alert System to allow adjudicators to identify and develop irregularities on the earnings record, which are likely to affect the worker's benefit payment.
- We submitted a legislative proposal in the FY 2012 President's Budget that requires State and local governments and private insurers to share Workers' Compensation payment information.

Examples of SSI Improper Payment Initiatives

- In June 2011, we completed expansion of Access to Financial Institutions (AFI) nationwide; three months earlier than our target date of September 2011. AFI allows us to verify financial account balances electronically and to identify undisclosed bank accounts that may result in suspension of SSI payments. We can now apply AFI processes to all of our SSI applicants and recipients.
- We recruited additional users to the SSI Telephone Wage Reporting initiative we implemented in FY 2008. SSI Telephone Wage Reporting allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via a completely automated system that ensures that we timely adjust the monthly payment.
- We expanded the living arrangement variables in the SSI Redetermination Scoring Model. The addition of these living arrangement variables to the model will reduce errors due to living arrangements, and we expect to save at least $200 million each year by improving how we target SSI redeterminations.

SYSTEMS AND CONTROLS

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) ASSURANCE STATEMENT
FISCAL YEAR (FY) 2011

SSA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. SSA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, SSA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011 was operating effectively and found no material weaknesses in the design or operation of the internal controls.

SSA also conducts reviews of its financial management systems in accordance with OMB Circular No. A-127, *Financial Management Systems*. Based on the results of these reviews, SSA can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of the FMFIA as of September 30, 2011.

In addition, SSA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements, as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular No. A-123. The results of this evaluation provide reasonable assurance that SSA's internal control over financial reporting was operating effectively as of September 30, 2011.

Michael J. Astrue
Commissioner
November 7, 2011

AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

We have a well-established agency-wide management control and financial management systems program as required by FMFIA. We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses, and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives submit an annual statement to the Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and there were no major

weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Commissioner's annual assurance statement.

Our Executive Internal Control committee, consisting of senior managers and chaired by the Deputy Commissioner, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control committee determines if the weakness is a material weakness that they would need to forward to the agency head for final determination.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls, and management reviews the new or changed processes and systems to certify the controls are in place. We test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observation of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance our business processes are functioning as intended. The reviews also ensure that management controls and financial management systems comply with the standards established by FMFIA and OMB Circular Nos. A-123, A-127, and A-130.

Please refer to the *Summary of Financial Statement Audit and Management Assurances* located in the *Other Reporting Requirements* section for more information.

Management Control Review Program

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State Disability Determination Services. These reviews indicate our management control review program is effective in meeting management's expectations for compliance with Federal requirements.

Financial Management Systems Review Program

OMB Circular No. A-127 requires agencies to maintain a financial management systems inventory and to conduct reviews to ensure financial management systems meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During FY 2011, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Commissioner has determined our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2011. In making this determination, he considered all the information available, including the auditor's opinion on our FY 2011 financial statements, the report on management's assertion about the effectiveness of internal controls, and the report on compliance with laws and regulations. He also considered the results of the management control reviews and financial management systems reviews conducted by the agency and its independent contractor.

Please refer to the *Summary of Financial Statement Audit and Management Assurances* located in the *Other Reporting Requirements* section for more information.

FINANCIAL STATEMENT AUDIT

The Office of the Inspector General contracted with Grant Thornton, LLP for the audit of our FY 2011 financial statements. The auditor found we present fairly the basic financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America for Federal entities. The auditor also found management fairly stated that our internal control over financial reporting was operating effectively, and reported no instances of noncompliance with laws, regulations, or other matters.

However, the auditor did identify certain deficiencies in internal control, that when aggregated, they considered a significant deficiency. The auditors found that 1) we did not consistently comply with policies and procedures to reassess, periodically, the content of security access profiles; 2) some employees and contractors had system access in excess of access required to complete their job responsibilities; and 3) certain mainframe configurations increased the risk of unauthorized access.

Grant Thornton, LLP recommends SSA management improve policies and procedures that require a periodic review of the content of the agency's security profiles, improve controls to test and monitor configurations on the mainframe and network operating system environments, and improve procedures that require on-going monitoring of implemented configurations to identify and address security risks. We concur with the recommendations, and we will continue to work to improve the overall effectiveness of our security controls.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The *Federal Information Security Management Act* (FISMA) requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. This year's report is due by November 15, 2011. Our report summarizes the results of the agency's security reviews of major information systems and programs, progress on correcting identified weaknesses, and the results of other work performed during the reporting period using OMB's performance measures. There are currently several bills pending in Congress to strengthen FISMA. As Congress considers new security legislation, we will strive to meet and exceed existing information security requirements for protecting Federal information systems and information, including personally identifiable information.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve Governmentwide and internal financial management milestones established for improvement.

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of twelve financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative, and continue the long-term development of our financial management systems following a defined strategy.

In the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In the Debt Management category, we are continuing to pursue enhanced capabilities to collect and resolve program debt. We developed an External Collection Operation (ECO) system to help recover program overpayments through the Treasury Offset Program, credit bureau reporting process, and Administrative Wage Garnishment process. We have continued to improve the ECO system through an initial three-phased approach. Phase I, implemented in July 2010, enabled us to collect delinquent Supplemental Security Income (SSI) debts from a population of debtors previously excluded from the automated ECO selection process. Next, we have secured information technology resources to embark on Phase II of the ECO enhancements in FY 2012, which will allow us to collect delinquent

debts by offsetting Federal payments through the Treasury Offset Program beyond the current 10-year statute of limitations, as authorized by Public Law 110-246 and 31 United States Code 3716. Finally, as resources permit, we will then pursue implementation of Phase III to collect delinquent debts by offsetting applicable State payments through the Treasury Offset Program.

In May 2011, we improved existing overpayment controls for the SSI program by implementing a process that automatically records any existing overpayments on newly created supplemental security records. This process will help ensure we properly account for, report, and resolve SSI overpayments. In addition, when this new process cannot automatically record an existing overpayment on a newly created supplemental security record, it alerts our employees to manually resolve the overpayment on an individual's SSI account.

In the Financial/Administrative category, we implemented the Social Security Online Accounting and Reporting System (SSOARS), a federally-certified accounting system based on Oracle Federal Financials, as our System of Record on October 1, 2003. In FY 2011, we implemented the Oracle Governance Risk and Compliance Controls Software Suite. The Governance Risk and Compliance Controls Software Suite provides real-time control over user access, provides segregation of duties policies and changes to key SSOARS configurations, and enables us to implement SSOARS enhancements in a transparent and more cost-effective manner.

We have standardized our web services to eliminate duplication of code and to establish a common gateway for the SSOARS Service-Oriented Architecture. This effort has allowed us to establish a standard framework for all future integrations with both internal and external systems, thereby reducing long-term maintenance costs and improving operational efficiency. We implemented business activity monitoring giving subject matter experts more control over the applications, and a service registry that provides technical data about the SSOARS Service-Oriented Architecture environment.

We also integrated the Internet Payment Platform (IPP) with the accounting system. The IPP is a secure web-based electronic invoicing and payment information system provided by the Department of the Treasury's Financial Management Service. The IPP allows agencies to transform existing paper-based order-to-pay processes into a streamlined electronic flow by sending electronic Purchase Orders to suppliers, receiving electronic invoices from suppliers, and for invoice routing and approval workflow. The integration of the IPP is an example of how we have adopted the latest guiding principles for system modernization by embracing common automated solutions for transaction processing.

In keeping with the directives in OMB Memorandum, M-10-26, *Immediate Review of Financial Systems IT Projects*, we continue to follow the prescribed guidelines and best practices to implement system improvements by: a) using an incremental approach that focuses on the latest technology, b) meeting critical agency business needs, and c) closely monitoring project schedule and cost. Although the accounting system is in a "steady-state" status, we continue to maintain current operational efficiencies through product upgrades, incremental enhancements, and application extensions that increase labor efficiencies and performance and maintain the integrity of the data.