Highlights of Financial Position

Overview of Financial Data

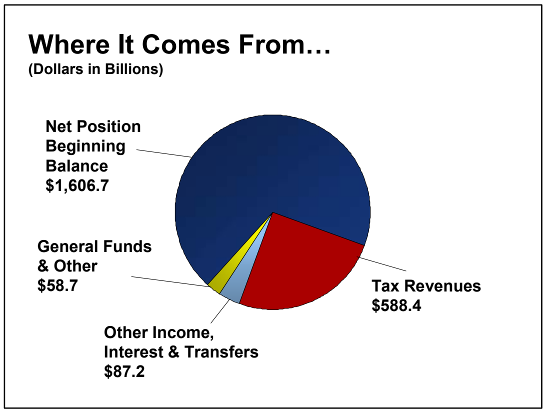
SSA's financial statements and footnotes appear on pages 115 through 161. The financial statements presented in this report received an unqualified opinion from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the programs administered by SSA. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination) and the Supplemental Security Income (SSI) program. OASI and DI have separate trust funds which are financed by payroll taxes, interest on trust fund investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.

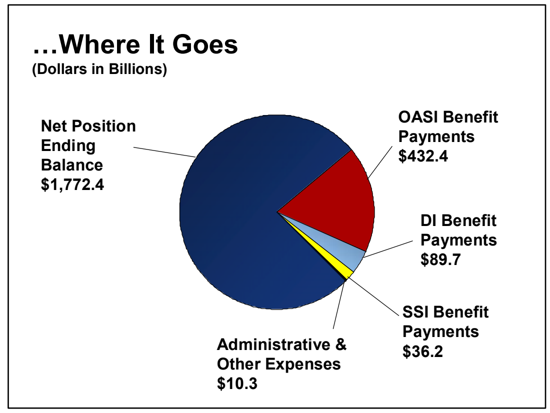
Balance Sheet: The Balance Sheet displayed on page 116 reflects total assets of $1,847 billion, a 10.7 percent increase over the previous year. Approximately 98 percent of assets are investments. These investments are commonly known as the Social Security Trust Funds. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The $174 billion growth (10.6 percent) in investments from 2004 is primarily due to tax revenues of $588.4 billion and interest on those investments of $93 billion, exceeding the cost of operations of $568.2 billion. The majority of our liabilities, 82 percent, consist of benefits that have accrued as of the end of the fiscal year but have not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Liabilities grew in 2005 by $12.4 billion (20 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew $165.7 billion or 10.3 percent to $1,772.4 billion. Interest on Investments, which is paid in the form of Treasury securities, represents 53.4 percent of the growth of the trust funds, down from 57.9 percent in 2004.

Statement of Net Cost: Net cost of operations increased $36.8 billion or 6.9 percent from $531.4 billion in 2004 to $568.2 billion in 2005. Of this increase, $35.5 billion (6.8 percent growth) resulted from increased benefit payments and $1.3 billion (14.5 percent growth) resulted from operating expenses. Operating expenses increased due to expenditures incurred in FY 2005 for the Medicare Prescription Drug Program and increased charges for the Internal Revenue Service's administration of certain trust fund activities. The net cost and benefit payments of the OASI program grew 4.9 percent and 4.8 percent, respectively while operating expenses grew by 17.1 percent. The number of OASI beneficiaries grew 1 percent to 40 million while average benefit payments grew by 3.7 percent to $901 per month. The net cost and benefit payments of the DI program grew 19.1 percent and 19.4 percent, respectively. Operating expenses grew by 8.9 percent. The number of DI beneficiaries grew by 5.0 percent while average benefits increased 4.1 percent to $763 per month.

The net cost and benefit payments of the SSI program grew 3.2 percent and 2.9 percent, respectively. Operating expenses grew by 7.3 percent. The number of SSI beneficiaries grew by 1.2 percent while average benefits increased by 2.7 percent to $579 per month. The operating expenses of the Other program grew by 35.2 percent. This increase is primarily due to expenditures related to the Medicare Prescription Drug Program.

Statement of Changes in Net Position: The Statement of Changes in Net Position reflects an increase of $165.7 billion. This increase is primarily attributable to a $174 billion increase in trust fund reserves. The following charts summarize the activity on SSA's Statement of Net Cost and Statement of Changes in Net Position by showing the funds SSA was provided in FY 2005 and how these funds were used. These statements are displayed on pages 117 and 118, respectively. Most resources available to SSA were used to finance current OASDI benefits and to accumulate reserves to pay future benefits. When funds are needed to pay administrative expenses or benefit entitlements, investments are redeemed to supply cash to cover the outlays. Administrative expenses shown, as a percent of benefit expenses, is 1.8 percent. Total financing sources grew by $49.6 billion or 7.2 percent from $684.4 billion in 2004 to $733.9 billion in 2005. The primary sources for this growth were a payroll and income tax revenue increase of $43.1 billion (7.9 percent) from 2004 due to a continuing improvement in the United States' economy and investment income of $5.4 billion (6.1 percent) from 2004. The growth in investment income was due to the 10.6 percent growth in investment which was partially offset by the drop of average interest yield from 6.25 percent to 6.15 percent.



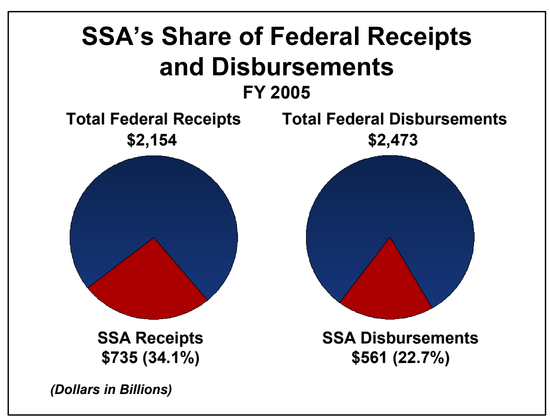


Statement of Budgetary Resources: This statement displayed on page 119 shows that SSA had $605.4 billion in budgetary resources of which $1.8 billion remained unobligated at year-end. SSA recorded total outlays of $561.3 billion by the end of the year. Budgetary resources grew $42.5 billion, or 7.5 percent from 2004, while outlays increased $31.1 billion, or 5.9 percent.

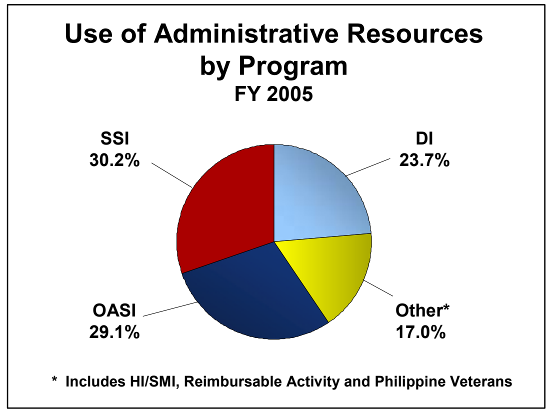
Statement of Financing: This statement reconciles "Total resources used to finance activities," an expression of budgetary spending, with the "Net cost of operations," the proprietary expenses of the Agency. It is the bridge between an entity's budgetary and financial accounting by identifying the change in activity from one period to another. The statement displayed on page 120 identifies $570.4 billion in budgetary spending for FY 2005, an increase of $39.8 billion or 7.5 percent over last year. This total is increased by $3.4 billion in resources not part of the net cost of operations, and is increased by $1.2 billion in components of net cost of operations that will not require or generate resources in the current period. The resulting balance reflects a $568.2 billion net cost of operations for the year, an increase of $36.8 billion or 6.9 percent over FY 2004.

SSA's Share of Federal Operations

The programs administered by SSA constitute a large share of the total receipts and disbursements of the Federal Government as shown in the chart to the right. Receipts for our programs represented 34.1 percent of the $2.2 trillion in total Federal receipts, a decrease of 2.1 percent over last year as Federal income tax collections grew more rapidly than payroll taxes. Disbursements stayed the same at 22.7 percent of Federal disbursements.



Use of Administrative Resources



The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2005 in terms of the programs SSA administers or supports. Although the DI program compromises only 16.1 percent of the total benefit payments made by SSA, it consumes 23.7 percent of annual administrative resources. Likewise, while the SSI program comprises only 6.5 percent of the total benefit payments made by SSA, it consumes 30.2 percent of annual administrative resources. Claims for DI and SSI disability benefits are processed through State Disability Determination Services where a decision is rendered on whether the claimant is disabled. In addition, the Agency is required to perform continuing disability reviews on many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2004 use of administrative resources by program was 28.5 percent for the OASI program, 24.9 percent for the DI program, 32.2 percent for the SSI program and 14.9 percent for Other.

Trust Fund Solvency

Pay-as-you-go Financing

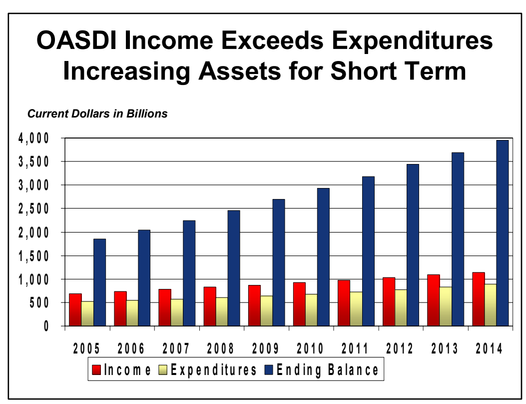
The Social Security Trust Funds are deemed to be adequately financed on a pay-as-you-go basis as long as assets are sufficient to finance program obligations. Such adequacy is reflected in the maintenance of a positive Trust Fund balance. In recent years, current income has exceeded program obligations, and thus the Trust Fund holdings have been growing. The following table shows that Trust Fund holdings, expressed in terms of the number of months of program obligations that these holdings could finance has grown from 30.8 months at the end of FY 2001 to 39.8 months at the end of FY 2005, an increase of 29 percent.

Number of Months of Expenditures Year End Assets Can Pay (End of FY)

	2001	2002	2003	2004	2005[1]
OASI	31.8	35.0	37.8	40.0	42.7
DI	24.6	25.9	26.2	25.8	25.6
Combined	30.8	33.6	35.9	37.7	39.8

1. Estimates are based on 2005 Trustees Report intermediate assumptions.

Short Term Financing



The Social Security Trust Funds are deemed adequately financed for the short term when actuarial estimates of Trust Fund holdings for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2005 Trustees Report indicate that the Social Security Trust Fund is adequately financed over the next 10 years. Under the intermediate assumptions of the 2005 Trustees Report, estimated expenditures and income in 2014 are 77 percent and 74 percent higher than the corresponding amounts in 2004 ($502 billion and $658 billion, respectively). From the end of 2004 to the end of 2014, assets are expected to grow by 134 percent, from $1.7 trillion to $4.0 trillion.

Long Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. In 2017, program cost will exceed tax revenues, and, in 2041, the Trust Fund will be exhausted according to the projections by Social Security's Chief Actuary. The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth rates well below historical levels. In present value terms, the 75 year shortfall is $4.0 trillion, which is about 2 percent of taxable payroll and about 0.6 percent of Gross Domestic Product (GDP) over the same period. Possible reform alternatives being discussed -- singularly or in combination with each other -- are (1) increasing payroll taxes, (2) slowing the growth in benefits, (3) using general revenues or (4) increasing returns through either personal savings accounts or direct investments of the trust funds.

Page 44 provides additional discussion of the long term solvency of the OASDI Trust Fund. Pages 143 through 161 include the disclosures required by Federal Accounting Standards Advisory Board Statement 17, Accounting for Social Insurance.

Limitation on Financial Statements

The principal financial statements beginning on page 116 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of 31 U.S.C. 3515 (b).

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

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