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:

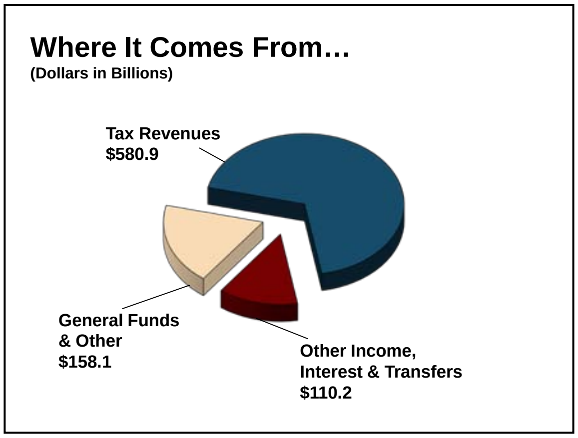
1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

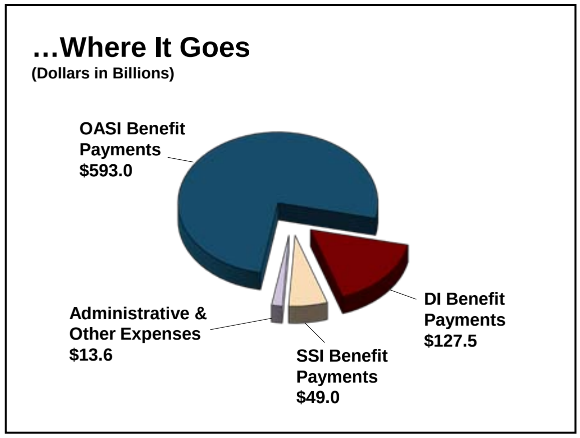
Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 102 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. The statement shows an increase of $66.1 billion in the net position of the agency, which is attributable 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.

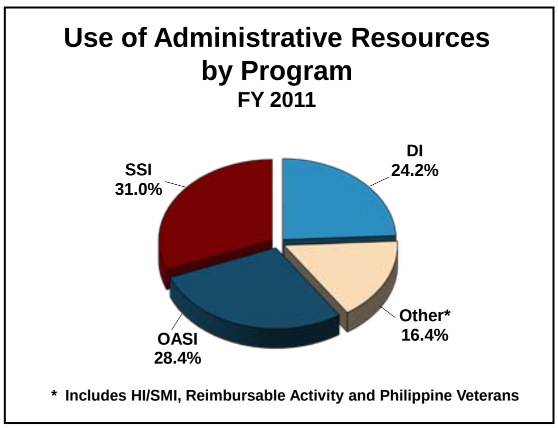




Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 103 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2011. The statement shows that we had $907.3 billion in budgetary 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.

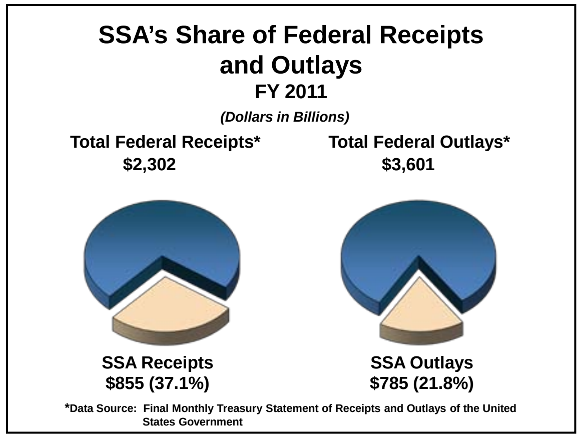
USE OF ADMINISTRATIVE RESOURCES

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]

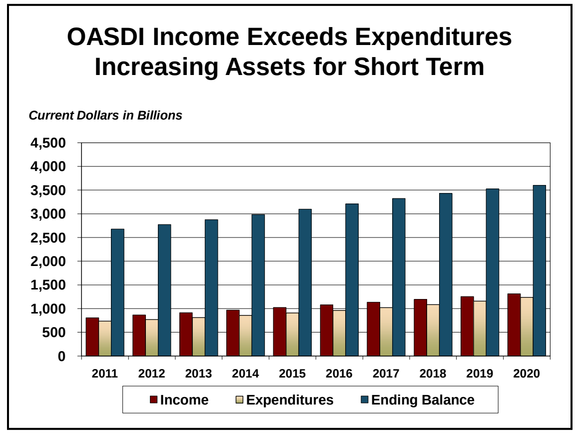
	2007	2008	2009	2010	2011
OASI	46.3	46.8	47.5	47.9	47.7
DI	23.9	22.0	19.7	17.1	14.1
Combined	42.4	42.4	42.5	42.4	41.6

[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.