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 United States (U.S.) Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 109 through 162 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2010 through 2012 (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)			
	2012	**2011**	**2010**
Total Assets	$2,766.5	$2,702.3	$2,635.5
Less Total Liabilities	$101.5	$96.6	$95.9
Net Position (assets net of liabilities)	$2,665.0	$2,605.7	$2,539.6
Change in Net Position (end of fiscal year)			
	2012	**2011**	**2010**
Net Costs	$822.9	$782.7	$752.3
Total Financing Sources[2]	$882.2	$848.9	$833.0
Change in Net Position	$59.3	$66.1	$80.8

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 110 presents our assets, liabilities, and net position. Total assets for FY 2012 are $2,766.5 billion, a 2.4 percent increase over the previous year. Of the total assets, $2,750.4 billion relates to earmarked funds for the OASI and DI programs, and approximately 98.3 percent are investments. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments increased $64.5 billion over the previous year.

Liabilities grew in FY 2012 by $4.9 billion primarily because of the growth in benefits due and payable, which is attributable to the 3.6 percent Cost of Living Adjustment provided to beneficiaries as of January 1, 2012. The majority of our liabilities (85.3 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 $59.3 billion to $2,665.0 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost displayed on page 111 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 2012, our total net cost of operations increased $40.2 billion to $822.9 billion, primarily due to the first wave of baby boomers attaining retirement age. The OASI and DI net cost increased by 6.3 and 6.0 percent respectively, while SSI's net cost decreased by 9.4 percent. Operating expenses decreased for each of our 3 major programs by 8.8 percent, 5.5 percent, and 3.4 percent for OASI, DI, and SSI, respectively.

In FY 2012, our total benefit payments increased by $40.9 billion, a 5.3 percent increase. The table below provides the benefit payment information, number of beneficiaries, and the percentage change for these benefit items during FY 2012 and FY 2011 for each of our three major programs. SSI disbursements are generally made on the first day of each month; however, since October 1, 2011 fell on a Saturday, the October 2011 SSI benefit payments were paid in September 2011, as required by law. This timing has resulted in a decrease in SSI benefit payments due to 11 months of activity in FY 2012 versus 13 months in FY 2011.

Benefit Changes in Our Major Programs During Fiscal Years 2012 and 2011

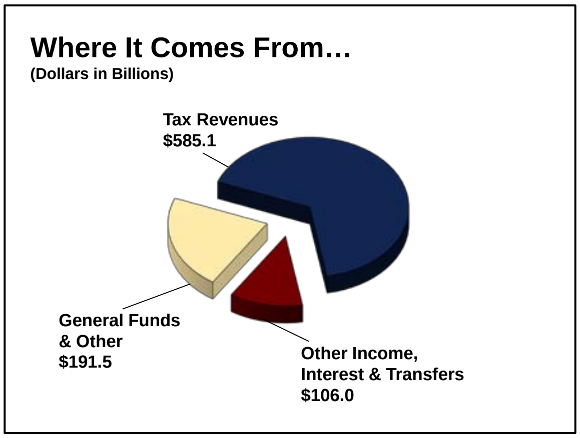
	FY 2012	FY 2011	% Change
OASI			
Benefit Payments	$630,841	$593,047	6.4%
Average Benefit Payment (per month)	$1,170.42	$1,118.46	4.6%
Number of Beneficiaries	45.6	44.6	2.2%
DI			
Benefit Payments	$135,454	$127,471	6.3%
Average Benefit Payment (per month)	$964.30	$926.92	4.0%
Number of Beneficiaries	10.8	10.5	2.9%
SSI			
Benefit Payments	$44,182	$49,041	-9.9%
Monthly Maximum Benefit Amount	$698.00	$674.00	3.6%
Number of Beneficiaries	8.2	8.1	1.2%

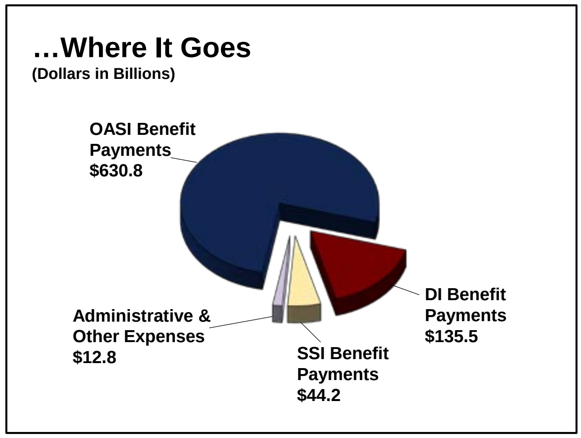
1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 112 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. The statement shows an increase of $59.3 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 reduction in *Federal Insurance Contributions Act* tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 and 2012 tax years (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 2012 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 1.6 percent.

In FY 2012, total financing sources, as shown in the Table of Key Financial Measures on page 38, increased by $33.3 billion to $882.2 billion. The primary sources for this increase are tax revenue and Payroll Tax Holiday transfers received in FY 2012. The $882.2 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 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 2012.

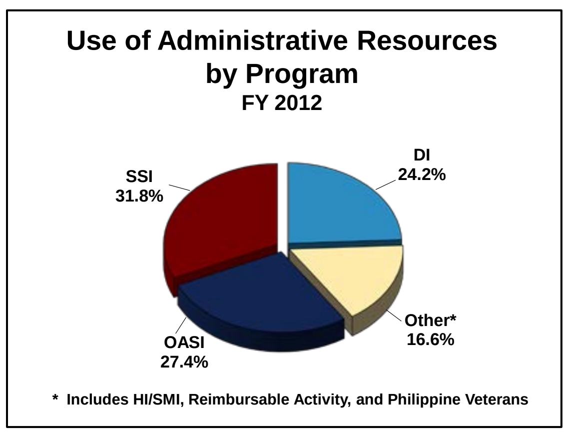




Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 113 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2012. The statement shows that we had $985.5 billion in budgetary resources, of which $1.7 billion remained unobligated at year-end. We recorded total net outlays of $821.2 billion by the end of the year. Budgetary resources grew $78.2 billion, or 8.6 percent from FY 2011, while net outlays increased $36.9 billion, or 4.7 percent.

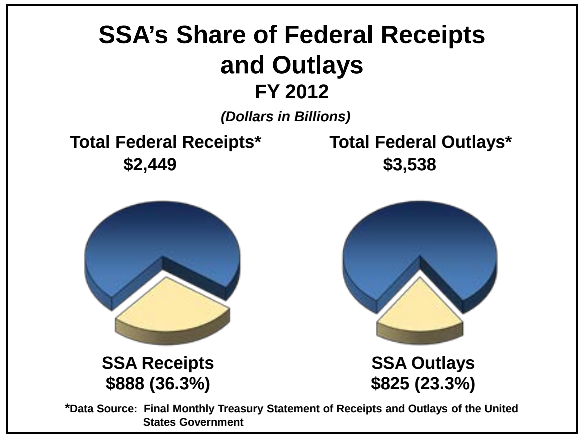
USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2012 in terms of the programs we administer or support. Although the DI program comprises only 16.7 percent of the total benefit payments we make, it consumes 24.2 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.5 percent of the total benefit payments we make, it consumes 31.8 percent of annual administrative resources. State Disability Determination Services handle claims for DI and SSI disability benefits and render decisions on whether the claimants are 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 2011 use of administrative resources by program was 28.4 percent for the OASI program, 24.2 percent for the DI program, 31.0 percent for the SSI program, and 16.4 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 36.3 percent of the $2.4 trillion in total Federal receipts, a decrease of 0.8 percent over last year. Outlays increased by 1.5 percent to 23.3 percent of Federal outlays as SSA beneficiaries received a 3.6 percent Cost of Living Adjustment increase in FY 2012.



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)			
	2012	2011	2010
Present value of future net cashflows for current and future participants over the next 75 years (open group measure), current year valuation	-$11,278	-$9,157	-$7,947
Present value of future net cashflows for current and future participants over the next 75 years (open group measure), prior year valuation	-$9,157	-$7,947	-$7,677
Change in present value	-$2,121	-$1,211	-$270

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

Statement of Social Insurance: As displayed on page 114, 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) became more negative when changing to the new valuation period. The present value changed from -$9.2 trillion, as of January 1, 2011, to -$11.3 trillion, as of January 1, 2012. Including the combined OASI and DI Trust Fund assets increases this open group measure to -$8.6 trillion for the 75-year valuation period.

The present value of future net cashflows for all current participants over the next 75 years, *plus* the assets in the combined OASI and DI Trust Fund as of the beginning of the period, is -$21.4 trillion (closed group measure). Including future participants over the next 75 years makes this value less negative and results in an open group measure of -$8.6 trillion.

Statement of Changes in Social Insurance Amounts: The Statement of Changes in Social Insurance Amounts displayed on page 115 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.

From January 1, 2011 to January 1, 2012: The present value as of January 1, 2012, decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2086. Changes in demographic data, assumptions, and methods further decreased the present value of future net cashflows by $0.1 trillion; changes in economic data, assumptions, and methods decreased the present value by $1.0 trillion; and changes in programmatic data, assumptions, and methods decreased the present value of future cashflows by about $0.5 trillion. There was no significant cashflow effect from legislative changes.

From January 1, 2010 to January 1, 2011: The present value as of January 1, 2011, decreased (became 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; changes in economic data, assumptions, and methods decreased the present value by $0.1 trillion; and changes in programmatic data, assumptions, and methods 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 in full, on a timely basis. 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 2008 to the end of FY 2010, followed by an estimated decline to 41.1 months at the end of FY 2011 and 39.7 months at the end of FY 2012. The historical values shown in the table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to continue in FY 2011 and 2012.

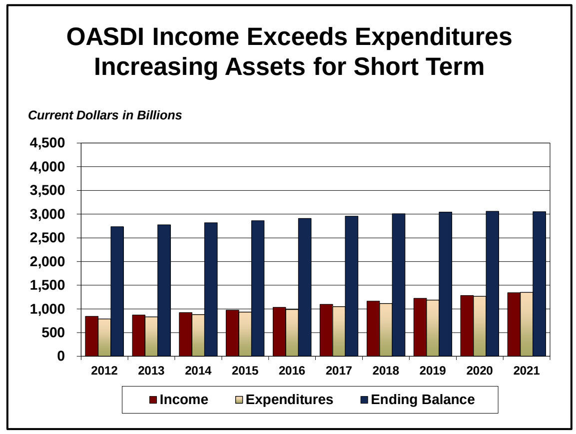
Number of Months of Expenditures Fiscal-Year-End Assets Can Pay[1]					
	2008	**2009**	**2010**	**2011**	**2012**
OASI	46.8	47.5	48.0	47.0	46.0
DI	22.0	19.7	17.1	14.0	10.9
Combined	42.4	42.5	42.5	41.1	39.7

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

Note: Values for 2011 and 2012 are estimates that are based on the intermediate set of assumptions of the 2012 Trustees Report.

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 2012 Trustees Report indicate that the combined OASI and DI Trust Funds 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 2016.) Under the intermediate assumptions of the 2012 Trustees Report, OASDI estimated expenditures and income for 2021 are 83 percent and 67 percent higher than the corresponding amounts in 2011 ($736 billion and $805 billion, respectively). From the end of 2011 to the end of 2021, assets are projected to grow by 14 percent, from $2.7 trillion to $3.1 trillion.



Recent legislation reduced the combined OASDI payroll tax rate for calendar years 2011 and 2012 by 2 percentage points for employees and self-employed workers. These laws provide for reimbursements from the General Fund of the Treasury to make up for the reduction in payroll tax revenue. Therefore, these laws had no direct financial impact on the OASDI program.

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 2033, the combined OASI and DI Trust Fund reserves will be depleted according to the projections by Social Security's Trustees. Under current law, when either the OASI or DI Trust Fund depletes, full scheduled benefits cannot be paid on a timely basis. Tax revenues are projected to be sufficient to support expenditures at a level of 75 percent of scheduled benefits after the combined OASI and DI Trust Fund exhaustion in 2033, declining to 73 percent of scheduled benefits in 2086.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is $8.6 trillion, which is 2.52 percent of taxable payroll and 0.9 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 the OASI and DI Trust Fund assets, at least in part, in private securities.

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 151 through 162 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 109 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), Public Law 107-300, requires Federal agencies to report annually on the extent of the improper payments in those programs that are susceptible to significant improper payment and the actions they are taking to reduce such payments. President Obama signed the *Improper Payments Elimination and Recovery Act* (IPERA) into law on July 22, 2010. IPERA amends IPIA and further increases our accountability, transparency, and reporting of improper payments, as well as reporting on our payment recapture auditing efforts.

OMB guidance on IPIA implementation requires us to report improper payment information for OASI, DI, and SSI programs. We report identified OASI and DI improper payments even though the level of such payments in these programs has continually been well below the threshold cited in IPIA. On April 14, 2011, OMB issued implementing guidance for IPERA.

RECOVERY AUDIT PROGRAM

For our OASI, DI, and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts and workloads. Because of our in-house internal controls for improper payments and the complexity of these programs, we have no immediate plans to contract for a private sector payment recapture auditing firm. This approach complies with IPERA requirements for payment recapture audits.

We also use an existing in-house recovery audit program for administrative contractual payments. In response to OMB guidance, our in-house recovery audit program employs a number of tools to aid in the detection and recovery of improper overpayments. To further enhance internal controls over administrative payments, on November 2, 2011, we awarded a payment recapture audit contingency contract to review our administrative payments. We will report on the results of the audit in our FY 2013 report and our FY 2013 *Payment Recapture Audit Report* to Congress.

AGENCY EFFORTS AND FUTURE PLANS

We have multiple efforts underway to prevent, detect, and recover our 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, detect, and recover improper payments and meet targets to reduce improper payments.

We use stewardship reviews to measure the accuracy of payments to beneficiaries. 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 reports 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 have been very accurate. However, the sheer magnitude of the payments made in the OASDI program, approximately $717 billion in FY 2011, means that even a small percentage of error will result in substantial dollar error. In FY 2011, the OASDI overpayments accuracy rate was 99.7 percent representing projected overpayments of $2.277 billion, and the underpayment accuracy rate was 99.9 percent, or $0.946 billion, in projected underpayments. Each tenth of a percentage point in payment accuracy represents about $717 million in OASDI program outlays.

In the SSI program, the overpayment accuracy rate increased over a five-year period, FY 2007 through FY 2011, from 90.9 percent to 92.7 percent. We based the FY 2011 rate of 92.7 percent on overpaid dollars totaling a projected $3.791 billion. This represents a decrease of 0.6 percentage points over the FY 2010 overpayment accuracy rate of 93.3 percent. In FY 2011, the SSI underpayment accuracy rate was 98.2 percent based on underpaid dollars totaling a projected $0.947 billion. This represents an increase of 0.6 percentage points from the FY 2010 underpayment accuracy rate of 97.6 percent. Neither of these changes is statistically significant. For FY 2011, each tenth of a percentage point in payment accuracy represents about $51.7 million in SSI program outlays.

Below are examples of initiatives to improve payment accuracy in the OASDI and SSI programs. We provide 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 because of Substantial Gainful Activity, we developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related 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 our Earnings Alert System to allow adjudicators to identify and develop those irregularities on earnings records which, when resolved, will most likely affect the worker's benefit payment.
- We submitted an FY 2012 President's Budget legislative proposal requiring State and local governments and private insurers to share Workers' Compensation payment information with us.

EXAMPLES OF SSI IMPROPER PAYMENT INITIATIVES

- In March 2012, we integrated our Access to Financial Institutions (AFI) bank verification process with our internal SSI systems. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources.
- We experience continued increased usage of the SSI Telephone Wage Reporting (SSITWR) initiative implemented in FY 2008. SSITWR allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via a completely automated system that ensures the wage amounts post timely.
- In FY 2013, we plan to develop a pilot in our field offices to identify undisclosed real property owned by SSI recipients. The pilot will provide information on cost savings and the feasibility of expansion to other field offices.