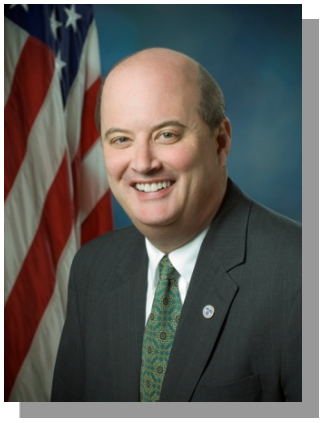
A MESSAGE FROM THE COMMISSIONER



I am pleased to present the Social Security Administration's *Performance and Accountability Report* (PAR) for fiscal year (FY) 2012. It is the first PAR under our new Strategic Plan, which outlines our goals to deliver quality disability decisions and services; provide quality service to the public; preserve the public's trust in our programs; and strengthen our workforce and infrastructure. In the PAR, we discuss our important programs, our hard-earned accomplishments, and the challenges we face in achieving our mission of delivering Social Security services that meet the changing needs of the public.

Surging workloads and damaging budget cuts continue to test the agency's fortitude. In addition to significant increases in our core work, few people realize that a rapidly increasing percentage of our work results from the verification work we do for other Federal, State, and local entities. For example, the number of people who come to our offices to get information for a third party entitlement or service increased by 46 percent since 2007.

Our employees continue to find innovative ways to serve the public. Even with a nearly 30 percent increase in initial disability applications since 2007, we lowered the average wait for an initial decision and significantly cut the level of pending cases. At the same time, we have maintained the quality of these decisions. We fast-tracked nearly 6 percent of initial applications with our compassionate allowance and quick disability determination processes. Severely disabled applicants who often waited years for a decision now get one in 10-14 days. We have also made progress in the area of disability policy. We are updating medical rules that had been out of date for decades, and we are making progress in working with the Department of Labor to overhaul our main vocational tool, the Dictionary of Occupational Titles.

We continue to expand our highly-rated online services. Since May 2012, people have been able to access their Social Security Statement online via our new authentication process, which will also allow us to expand our personalized online services. Over 2.2 million people have accessed their Statements online. We have the three highest rated online services in the Federal Government, and we are one of the first Federal agencies to offer interactive online services in Spanish. For the first time ever, we have a backup for our National Computer Center that will allow us to quickly recover from an incident affecting our information technology systems. In April, we broke ground for the state-of-the-art replacement for this important facility. None of these accomplishments would be possible without our employees, who have achieved an average productivity increase of over 4.7 percent a year for the past 5 years, a remarkable achievement that very few organizations—public or private—can match.

For the 19th consecutive year, we received an unqualified opinion on our financial statements. The financial and performance data in this report are reliable and complete in accordance with the Office of Management and Budget's guidance, and I have provided an unqualified statement of assurance regarding the agency's internal controls, as required by the *Federal Managers' Financial Integrity Act*. Our independent auditor reported a material weakness in our internal control over financial reporting, which we discuss in the *Management's Discussion and Analysis* section and in our response to the auditor's report in the *Financial Section*.

Not all of the news is good. Despite our achievements, untimely and deficient budgets place us on the verge of declining service. In fiscal years 2011 and 2012, the difference between the President's Budget and our appropriation was greater than in any other year of the previous two decades. As a result, we are losing momentum. For example, our progress in addressing our hearings backlog is not happening as quickly as the public deserves.

I know firsthand how hard our employees work to serve the public with grace and compassion. We know that the American people depend on our programs, and we remain hopeful that Congress will give us the support we need.

Michael J. Astrue
Commissioner
November 8, 2012

TABLE OF CONTENTS

1 A MESSAGE FROM THE COMMISSIONER

5 MANAGEMENT'S DISCUSSION AND ANALYSIS

7 OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

7 Our Mission

7 Social Security Benefits America

9 Our Organization

10 OVERVIEW OF OUR FISCAL YEAR 2012 GOALS AND RESULTS

10 How We Manage Performance

11 Fiscal Year 2012 Performance At-A-Glance

16 Summary of Fiscal Year 2012 Performance

34 Looking Forward – Facing Our Challenges

35 How We Ensure Our Data Integrity

38 HIGHLIGHTS OF FINANCIAL POSITION

38 Overview of Financial Data

41 Overview of Social Insurance Data

44 Limitations of the Financial Statements

44 Summary of Improper Payments Information

47 SYSTEMS AND CONTROLS

47 Management Assurances

53 PERFORMANCE SECTION

54 AGENCY PERFORMANCE

54 Introduction

55 Fiscal Year 2012 Performance Measures By Goal and Objective

95 Program Evaluation

107 FINANCIAL SECTION

108 A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

109 FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

110 Consolidated Balance Sheets

111 Consolidated Statements of Net Cost

112 Consolidated Statements of Changes in Net Position

113 Combined Statements of Budgetary Resources

114 Statement of Social Insurance

115 Statement of Changes in Social Insurance Amounts

116 Notes to the Basic Financial Statements

145 Other Accompanying Information: Balance Sheet by Major Program

146 Other Accompanying Information: Schedule of Net Cost

147 Other Accompanying Information: Schedule of Changes in Net Position

149 Required Supplementary Information: Schedule of Budgetary Resources

150 Other Accompanying Information: Schedule of Spending

151 Required Supplementary Information: Social Insurance

163 AUDITOR'S REPORTS

177 OTHER ACCOMPANYING INFORMATION

179 INSPECTOR GENERAL STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

199 OTHER REPORTING REQUIREMENTS

199 Summary of Financial Statement Audit and Management Assurances

200 Entitlement Reviews and Office of the Inspector General Anti-Fraud Activities

203 Biennial Review of User Fee Charges

204 Debt Management

207 IMPROPER PAYMENTS INFORMATION DETAILED REPORT

243 APPENDIX

244 GLOSSARY OF ACRONYMS

250 SSA MANAGEMENT AND BOARD MEMBERS

To access this report online, please visit our ***Fiscal Year 2012 Performance and Accountability Report* webpage (www.socialsecurity.gov/finance)**.

INTRODUCTION

Our *Performance and Accountability Report* (PAR) for fiscal year (FY) 2012 provides financial and performance information that enables the President, Congress, and the public to assess how we performed in accomplishing our mission and achieving our goals. We organize our report into the following major sections:

MANAGEMENT'S DISCUSSION AND ANALYSIS: *Management's Discussion and Analysis* gives an overview of our mission, organization, Strategic Goals and Objectives, Priority Goals, and our FY 2012 performance measures. We highlight the FY 2012 results of our key performance measures and discuss our accomplishments and plans to achieve our mission. We provide a summary of the financial and performance information contained in subsequent sections of the PAR. We also include a synopsis of our systems, controls, and legal compliance.

PERFORMANCE SECTION: The *Performance Section* discusses the results for each of our FY 2012 performance measures according to the Strategic Goal and Objective. We compare the targets we set for each performance measure to our actual performance during the year. In addition, we include trend data and discuss our performance. We also summarize program evaluations we conducted and their outcomes.

FINANCIAL SECTION: The *Financial Section* contains the message from our Chief Financial Officer, our audited financial statements, the accompanying notes to those statements, and required supplementary information, including the Schedule of Budgetary Resources and information on Social Insurance. This section concludes with the auditor's reports.

OTHER ACCOMPANYING INFORMATION: The *Other Accompanying Information* section includes the *Inspector General Statement on SSA's Major Management and Performance Challenges*, as well as our *Summary of Financial Statement Audit and Management Assurances* table. We also provide a discussion of our entitlement reviews, information from the Office of the Inspector General concerning their anti-fraud activities, and information on our debt management activities. The *Improper Payments Information Detailed Report* concludes this section.

APPENDIX: The *Appendix* includes a glossary of acronyms, a list of the agency's top management officials, the members of the Board of Trustees, and the members of the Social Security Advisory Board.

For the 14th year in a row, we received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting award for our FY 2011 Performance and Accountability Report. Receiving the Certificate of Excellence in Accountability Reporting is a significant accomplishment for a Federal agency, and it is the highest form of recognition in Federal financial reporting.

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 Fiscal Year 2012 Goals and Results*, provides a discussion of our goals and offers performance measure results that track our progress toward achieving our mission. This section links our agency-wide Strategic Goals with our Priority Goals, displays our fiscal year 2012 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. 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 the lives of 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 program 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 Trust Funds that we use to pay Retirement, Survivors, and Disability Insurance benefits.

SURVIVORS INSURANCE PROGRAM

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.

DISABILITY INSURANCE PROGRAM

In 1956, Social Security expanded to include a benefit program for disabled workers ages 50-65. The program expansion 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 webpage (www.socialsecurity.gov/pubs/10024.html).

HOW SOCIAL SECURITY BENEFITS AMERICA FOR FISCAL YEAR 2012

- Over 61 million Social Security beneficiaries and SSI recipients received a combined total of about $810 billion;
- 90 percent of the American population age 65 and over receive Social Security benefits;
- Among elderly Social Security beneficiaries, 53 percent of married couples and 74 percent of unmarried individuals rely on Social Security for 50 percent or more of their income;
- About 96 percent of persons aged 20-49 who worked in covered employment had survivors protection for their young children or a surviving spouse caring for the children; and
- Over 1.3 million blind and disabled children under age 18 received SSI payments.

HOW WE SERVED AMERICA IN FISCAL YEAR 2012

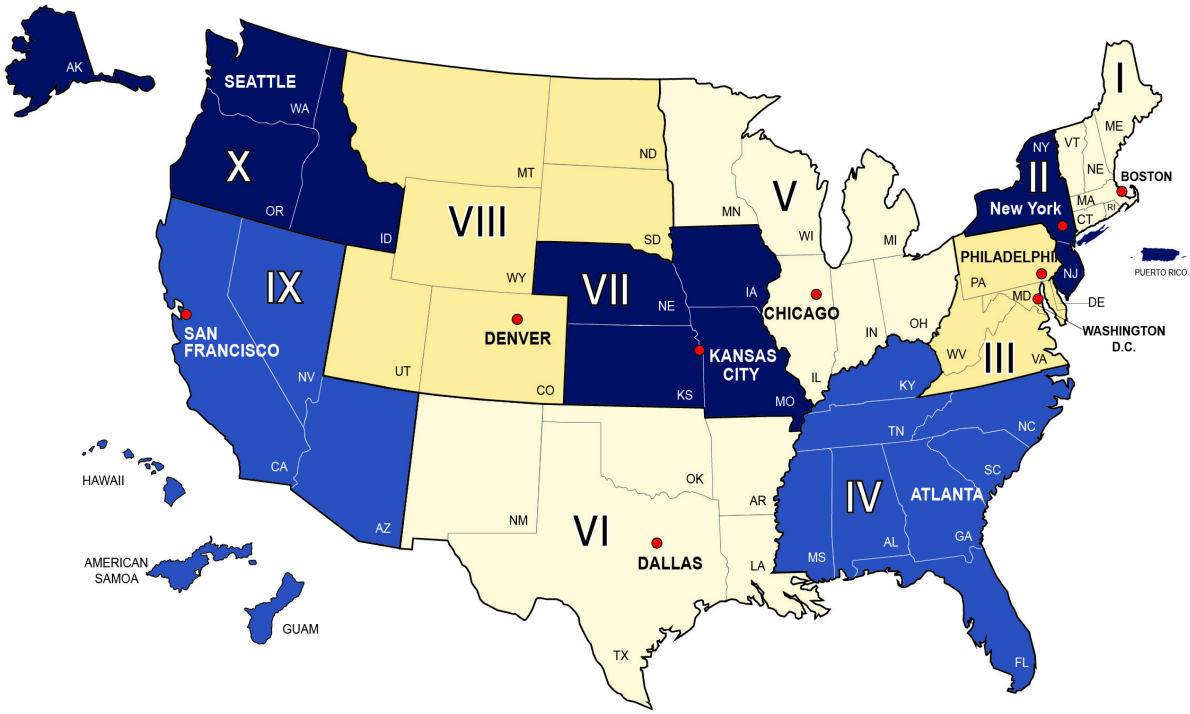
- Issued 16 million new and replacement Social Security cards;
- Performed 1.5 billion automated Social Security number verifications;
- Posted 220 million earnings items to workers' records;
- Completed more than 56 million transactions on our National 800 Number;
- Assisted 45 million visitors;
- Registered 2.2 million users for *MySocialSecurity* our online Social Security Statement;
- Received nearly 5 million retirement, survivor, and Medicare applications;
- Received about 3.2 million initial disability claims;
- Reconsidered 808,521 denied disability applications;
- Completed approximately 2.6 million SSI non-disability redeterminations;
- Completed 443,233 full medical continuing disability reviews;
- Completed nearly 3.2 million overpayment actions;
- Completed 166,020 Appeals Council reviews;
- Conducted 672,352 hearings;
- Completed about 12,300 new Federal court cases;
- Oversaw approximately 5.9 million representative payees; and
- Distributed over $1.3 billion in fees to appointed representatives.

Our Organization

We have about 65,000 employees and deliver services through a nationwide network of about 1,500 offices. We also have a presence in several United States embassies around the globe.

Our field offices and card centers are the primary points of contact for in-person interaction with the public. Our teleservice centers primarily handle telephone calls to our National 800 Number. Employees in our processing centers primarily handle Social Security retirement, survivors, and disability payments, but also perform a wide range of other functions, which include answering telephone calls to our National 800 Number. We depend on State employees in 54 State and territorial Disability Determination Services to make disability determinations. The administrative law judges in our hearing offices and the administrative appeals judges in our Appeals Council make decisions on appeals of denied Social Security and SSI claims. For more information about our components and their functions, visit our current organizational structure webpage (www.socialsecurity.gov/org).

REGION I Boston Region	REGION II New York Region	REGION III Philadelphia Region	REGION IV Atlanta Region	REGION V Chicago Region



REGION VI Dallas Region	REGION VII Kansas City Region	REGION VIII Denver Region	REGION IX San Francisco Region	REGION X Seattle Region

OVERVIEW OF OUR FISCAL YEAR 2012 GOALS AND RESULTS

How We Manage Performance

The *Government Performance and Results Act of 1993* (GPRA) established the framework for agencies to communicate progress in achieving their missions. The *GPRA Modernization Act of 2010* revised agency strategic plans to align with presidential terms and ensured that agency goals align with broader Federal efforts. We use a performance management framework detailed in our *Agency Strategic Plan for Fiscal Year (FY) 2013 - FY 2016* (www.socialsecurity.gov/asp/index.html) to associate our Strategic Goals with underlying objectives, relevant issues, strategies, and key performance measures. Our Strategic Goals are:

Goal 1: Deliver Quality Disability Decisions and Services;

Goal 2: Provide Quality Services to the Public;

Goal 3: Preserve the Public's Trust in Our Programs; and

Goal 4: Strengthen Our Workforce and Infrastructure.

Each year, we publish our *Annual Performance Plan* (APP), which outlines our current-year tactical plans for achieving the goals and objectives outlined in our *Agency Strategic Plan*. Our integrated budget and APP shows the connection between funding and planned performance. The President's FY 2013 Budget Request (www.socialsecurity.gov/budget) included our *Annual Performance Plan for FY 2013 and Revised Final Performance Plan for FY 2012* (www.socialsecurity.gov/performance/), which outlined our performance commitments for FY 2012.

The *Performance and Accountability Report* completes the cycle by showing the connection between our expenditures and achieving our mission, comparing our results to planned performance for each measure contained in the APP, and providing a discussion of the program evaluations we conducted. The chart below reflects our operating expenses by Strategic Goal.

FY 2012 Operating Expenses by Strategic Goal (Dollars in Millions)	
Deliver Quality Disability Decisions and Services	$6,022
Provide Quality Services to the Public	$2,940
Preserve the Public's Trust in Our Programs	$1,804
Strengthen Our Workforce and Infrastructure	$1,106

Throughout this document, we identify our three Priority Goals. We developed these goals in response to the President's challenge for Federal agencies to cut waste, save money, and deliver better service. To deliver a higher-performing government, we set aggressive Priority Goals that we expect to achieve within a 24-month period without new legislation or additional funding.

Priority Goal 1: Faster hearing decisions;

Priority Goal 2: Reduce Supplemental Security Income (SSI) overpayments; and

Priority Goal 3: Increase use of our online services.

Fiscal Year 2012 Performance At-A-Glance

The following tables provide an overview of our performance for our 35 performance measures included in our *Annual Performance Plan for FY 2013 and Revised Final Performance Plan for FY 2012* (www.socialsecurity.gov/performance/). We list the measures based on the Strategic Goals and Strategic Objectives they support, note our Priority Goals (PG), mark new measures (NEW), and indicate when final FY 2012 data is not available (TBD).

Strategic Goal 1: Deliver Quality Disability Decisions and Services					
Strategic Objective 1.1: Reduce the Wait Time for Hearing Decisions and Eliminate the Hearings Backlog					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
1.1a	Complete the budgeted number of hearing requests	875,000	820,484	No	56
1.1b	Achieve the budgeted goal for SSA hearings case production per workyear	114	111	No	57
1.1c **PG** **NEW**	Minimize average wait time from hearing request to decision	321 days (September only)	362 days (September only)	No	58
1.1d	Eliminate the oldest pending hearing requests	Less than 0.5% of pending hearing requests 725 days or older	169 of 113,593 cases remained pending (.15%)	Yes	59
1.1e **NEW**	Reduce the percentage of Appeals Council cases pending 365 days or over	Less than 20% of Appeals Council cases pending 365 days or over	18,978 of 161,070 Appeals Council cases remained pending (12%)	Yes	60
Strategic Objective 1.2: Improve Our Disability Policies, Procedures, and Tools					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
1.2a	Minimize average processing time for initial disability claims	111 days	102 days	Yes	61
1.2b	Complete the budgeted number of initial disability claims	3,173,000	3,206,869	Yes	62
1.2c	Disability Determination Services cases production per workyear	322	324	Yes	63
1.2d **NEW**	Complete the budgeted number of disability claims at the reconsideration level	787,000	808,521	Yes	64
1.2e	Achieve the target number of initial disability claims pending	861,000	707,700	Yes	65
1.2f **NEW**	Achieve the target number of disability claims pending at the reconsideration level	184,000	197,788	No	66

PG indicates the measure also supports a Priority Goal.

NEW indicates new performance measure for FY 2012.

Strategic Goal 1: Deliver Quality Disability Decisions and Services					
Strategic Objective 1.2: Improve Our Disability Policies, Procedures, and Tools					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
1.2g	Update the medical Listing of Impairments	Publish five rules for public comment and two final rules	Published three rules for public comment	No	67
1.2h	Increase the percentage of disability cases evaluated using health Information Technology	500% above FY 2011 performance (37,500)	263% above FY 2011 performance (22,671)	No	68
1.2i	Number of Disability Insurance and Supplemental Security Income disability beneficiaries, with Tickets assigned, who work	119,466	Data available July 2013	TBD	69
1.2j	Improve Disability Determination Services decisional accuracy rate for initial disability decisions	97%	Data available January 2013	TBD	70
Strategic Objective 1.3: Expedite Cases for the Most Severely Disabled Individuals					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
1.3a	Achieve the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances	5.5% (September only)	5.8% (September only)	Yes	71

TBD indicates final FY 2012 data not available.

Strategic Goal 2: Provide Quality Services to the Public					
Strategic Objective 2.1: Increase the Use of Our Online Services					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
2.1a **PG NEW**	Increase the percentage of claims filed online	42% (Last quarter only)	44% (Last quarter only)	Yes	72
2.1b	Complete the budgeted number of retirement, survivors, and Medicare claims	100% (4,918,000)	102% (5,001,092)	Yes	73
Strategic Objective 2.2: Increase Public Satisfaction with Our Telephone Services					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
2.2a	Achieve the target speed in answering National 800 Number calls	285 seconds	294 seconds	No	74
2.2b	Achieve the target busy rate for National 800 Number calls	6%	5%	Yes	75
2.2c	Maintain the percent of people rating our services as "excellent," "very good," or "good"	83.5%	80.9%	No	76
Strategic Objective 2.3: Expand the Use of Video Services					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
2.3a **NEW**	Complete the planned number of video hearings	140,000	153,592	Yes	78
Strategic Objective 2.4 Improve the Clarity of Our Notices					
There is no performance measure for this objective.					

PG indicates the measure also supports a Priority Goal.

NEW indicates new performance measure for FY 2012.

Strategic Goal 3: Preserve the Public's Trust in Our Programs					
Strategic Objective 3.1: Increase Efforts to Accurately Pay Benefits					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
3.1a	Complete the budgeted number of Supplemental Security Income non-disability redeterminations	2,622,000	2,624,170	Yes	79
3.1b	Complete the budgeted number of full medical continuing disability reviews	435,000	443,233	Yes	80
3.1c **PG**	Percent of Supplemental Security Income payments free of overpayment and underpayment error	Overpayment 95%	Data available April 2013	TBD	81
		Underpayment 98.8%	Data available April 2013	TBD	
3.1d	Maintain percent of Old-Age, Survivors, and Disability Insurance payments free of overpayment and underpayment error	Overpayment 99.8%	Data available April 2013	TBD	83
		Underpayment 99.8%	Data available April 2013	TBD	
Strategic Objective 3.2: Recover Improper Payments					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
3.2a **NEW**	Expand and enhance our debt collection tools	Implement Treasury Offset Program for programmatic delinquent debt over 10 years old	Implemented Treasury Offset Program for programmatic delinquent debt over 10 years old	Yes	85
Strategic Objective 3.3: Maintain Accurate Earnings Records					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
3.3a	Reduce the percentage of paper Forms W-2 completed	14%	13%	Yes	86
3.3b	Achieve the target percentage for correctly assigning original Social Security numbers	99%	Data available May 2013	TBD	87
Strategic Objective 3.4: Make Our Administrative Operations Even More Efficient					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
3.4a	Receive an unqualified audit opinion on SSA's financial statements	Receive an unqualified opinion	Received an unqualified opinion	Yes	88

PG indicates the measure also supports a Priority Goal.

NEW indicates new performance measure for FY 2012.

TBD indicates final FY 2012 data not available.

Strategic Goal 4: Strengthen Our Workforce and Infrastructure					
Strategic Objective 4.1: Strengthen Our Workforce – Recruit, Train, Develop, and Retain Superior Employees					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
4.1a **NEW**	Recruit and hire veterans and disabled veterans	Veteran Hiring: 26.72%	36.78%	Yes	89
		Disabled Veteran Hiring: 14.59%	15.49%	Yes	
4.1b **NEW**	Employ individuals with targeted disabilities	2%	1.99%	No	91
4.1c **NEW**	Conduct mandatory employee training on diffusing difficult encounters with the public	Develop the safety and security training curriculum	Identified existing training and developed internal website	No	92
Strategic Objective 4.2: Maintain Secure and Reliable Information Technology Services					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
4.2a **NEW**	Percentage of enterprise-wide systems availability	99.5%	99.9%	Yes	93
Strategic Objective 4.3: Increase Efficiency of Our Physical Infrastructure					
Performance Measure		**FY 2012 Target**	**FY 2012 Actual**	**Target Achieved**	**Page #**
4.3a **NEW**	Reduce energy intensity by 30 percent by 2015	7%	Data available January 2013	TBD	94

NEW indicates new performance measure for FY 2012.

TBD indicates final FY 2012 data not available.

Summary of Fiscal Year 2012 Performance

The following pages highlight the practices and initiatives we used to meet our goals in FY 2012. We discuss key issues that affected our FY 2012 operations and may affect our future operations. We also identify each of our Priority Goals that support our Strategic Goals and Strategic Objectives. We show our overall performance measure results.

STRATEGIC GOAL 1: DELIVER QUALITY DISABILITY DECISIONS AND SERVICES

Strategic Objectives

- Reduce the Wait Time for Hearing Decisions and Eliminate the Hearings Backlog
- Improve Our Disability Policies, Procedures, and Tools
- Expedite Cases for the Most Severely Disabled Individuals

Priority Goal

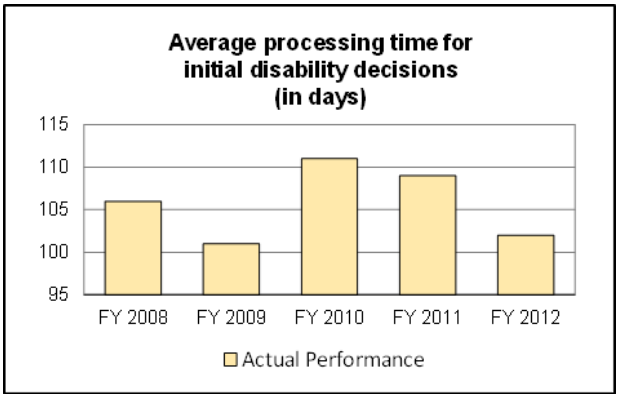
Faster hearing decisions

Overall Performance Measure Results

- Met the target for 8 of 16 measures
- Did not meet the target for 6 of 16 measures
- Final data not available for 2 of 16 measures

For over 50 years, we have helped disabled workers and their families replace income lost due to severe disabilities. Over the last six years, our disability workloads have grown significantly due to the baby boomer population reaching their disability-prone years and a global recession. Since FY 2007, initial disability claim receipts have increased by over 25 percent.

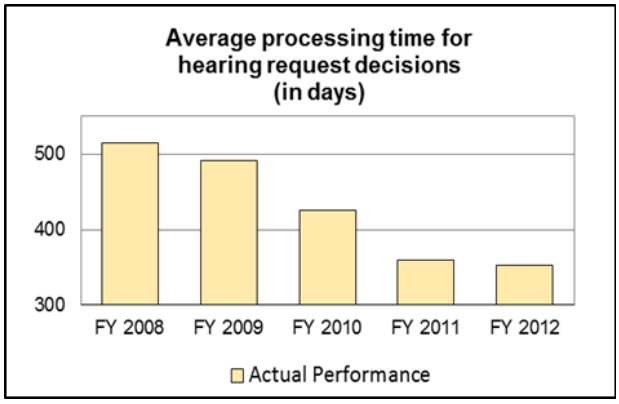
In FY 2012, we received 3,158,421 initial disability claims, the fourth year in a row we received over 3 million claims. Despite this high volume, we decreased our average processing time by seven days compared to FY 2011 (refer to the accompanying chart).



Toward the end of FY 2010, we began experiencing an unanticipated increase in hearings receipts. This trend continued throughout FY 2012 as we received 849,869 requests for hearings, 15,869 more hearings than expected.

The additional administrative law judges (ALJ) we hired and our technology enhancements helped increase our capacity to hear and decide cases. We completed 820,484 hearing requests in FY 2012, over 25,000 more than we completed in FY 2011.

Our annual average of 353 days to issue a hearing decision is over 161 days faster than in FY 2008 (refer to accompanying chart). We remain committed to our goal to reduce the time it takes a person to receive a hearing decision to an average of 270 days, but we need an adequate number of ALJs to reach that goal.



STRATEGIC OBJECTIVE 1.1: REDUCE THE WAIT TIME FOR HEARING DECISIONS AND ELIMINATE THE HEARINGS BACKLOG

In FY 2007, we began implementing our Plan to Eliminate the Hearings Backlog and Prevent its Recurrence (www.socialsecurity.gov/appeals). Since FY 2007, we have adjusted our plan to account for the increase in the number of hearing requests. In FY 2007, we defined an aged case as a case waiting over 1,000 days for a decision. Each year, we lower the threshold for defining an aged case to provide more timely service and eliminate the oldest cases first. We ended FY 2012 with virtually no cases over 725 days old. In FY 2013, our goal is to complete all cases over 700 days old.

Our efforts to reduce wait time for decisions and eliminate our backlog include:

Maximizing Use of National Hearing and Case Assistance Centers: Our National Hearing Centers (NHC) continue to serve as an integral component in eliminating the hearings backlog. These offices conduct all hearings via video conference giving us flexibility to swiftly target assistance to heavily backlogged areas across the country. Our five NHCs have proven to be a cost-effective option to improve service to claimants awaiting a hearing. The NHCs are located in Falls Church, VA; Albuquerque, NM; Baltimore, MD; Chicago, IL; and St. Louis, MO.

Our National Case Assistance Center (NCAC), located in St. Louis, MO, provides decision writing and case preparation assistance to heavily backlogged hearing offices. In FY 2012, the NCAC prepared over 23,000 cases for hearing and wrote over 10,000 decisions. As workloads change, we adjust the NCAC's work to meet those shifting needs.

Expediting Hearing Decisions: Attorney adjudicators screen cases and, when appropriate, issue fully favorable decisions without the need for an ALJ to conduct a hearing. In FY 2012, we expedited 37,423 fully favorable decisions under this initiative. One component of our screening efforts is our Virtual Screening Unit (VSU). Under the VSU initiative, up to 100 attorney adjudicators review disability hearings cases from some of the most backlogged hearing offices. In FY 2012, we issued 9,639 VSU dispositions.

Reducing the Backlog at the Appeals Council: As we decided more cases at the hearing level, the Appeals Council received more requests for review. Over the past 3 years, the Appeals Council received 179,000 more requests for review than the previous 3-year period, a 62 percent increase. This influx of work resulted in an increase of 35 days to the average wait for an Appeals Council decision in FY 2012 compared to FY 2011. Additionally, we continue to focus on deciding the oldest cases first. We are decreasing the percentage of cases pending over 365 days.

STRATEGIC OBJECTIVE 1.2: IMPROVE OUR DISABILITY POLICIES, PROCEDURES, AND TOOLS

We continue to find ways to improve and modernize our disability process. To provide better service to the public, we are making fundamental changes in the way we request and receive the medical information used to determine disability.

Efforts to improve our disability policies, procedures, and tools to provide better service to the public include:

Updating Our Listing of Impairments: One of the most effective tools used to make disability decisions is the Listing of Impairments (Listings) (www.socialsecurity.gov/disability/professionals/bluebook/listing-impairments.htm). The Listings allow us to determine if a claimant is disabled when his or her impairment meets specified medical criteria, without the need to consider age, education, or work experience. Using the Rule Making process, we revise the Listings' criteria on an ongoing basis. When updating a Listing, we consider current medical literature, information from medical experts, disability adjudicator feedback, and research by organizations such as the Institute of Medicine. As we update entire body systems, we also make targeted changes to specific rules as

necessary. We, thus, improve our decisions' consistency and accuracy throughout all levels of the disability process.

Simplifying the Disability Application Process: We simplified our online disability application process and reduced the amount of information we require if a claimant has a condition on our Compassionate Allowances list. In April 2012, we implemented a new electronic authorization process (eAuthorization) for adults filing online disability applications. Disability applicants are now able to complete the application process in a streamlined online session rather than printing, signing, and mailing paper forms SSA-827, *Authorization to Disclose Information to the Social Security Administration*, to our offices. We plan to expand eAuthorization for all disability applicants whether they file online, at their local office, or over the telephone.

Developing a Disability Case Processing System: The Disability Case Processing System (DCPS) replaces five different legacy systems in the Disability Determination Services (DDS) and Federal disability units with one unified system. DCPS will support consistent case processing, improve quality, and provide seamless workload sharing across State and Federal components. DCPS will provide additional functionality, lay the foundation for a state-of-the-art disability process, and make it easier to implement other important technological changes.

In FY 2012, we began beta testing the initial version of DCPS in the Idaho DDS and plan future releases of DCPS Beta in the Illinois, Missouri, Nebraska, and New York DDSs.

Increasing the Use of Health Information Technology: Obtaining medical records electronically will play a key role in streamlining the disability determination process. In FY 2012, we increased the exchange of medical records to 14 States through the use of health Information Technology (IT) (www.socialsecurity.gov/hit/index.html).

We see enormous potential for health IT to improve service to the public by reducing claim processing time. In FY 2012, we lowered case processing time by approximately 23 percent for those cases containing medical records obtained through health IT compared to cases without health IT. In FY 2012, we sent 32,754 medical requests to our 14 active health IT partners who provided us with access to over 850 medical sources, resulting in 22,670 medical documents.

Improving Employment Support Programs: We continue to improve our efforts to advance the quality and results of our employment support and work incentives planning programs. Disabled beneficiaries who want to work and attain self-sufficiency may receive services and support under the Ticket to Work and Self Sufficiency Program (www.socialsecurity.gov/OP_Home/handbook/handbook.05/handbook-0519.html) and the Vocational Rehabilitation (VR) Cost Reimbursement Program (www.socialsecurity.gov/work/vocrehabtraining.html).

A Ticket is a paper document that we issue to disabled or blind beneficiaries for participation in the Ticket to Work and Self-Sufficiency programs. The number of Tickets assigned, or in use, increased 67 percent from over 200,000 Tickets on May 1, 2008, prior to revising our regulations, to over 340,000 Tickets in July 2012. From May 1, 2008 to August 1, 2012, the number of beneficiaries with Tickets in use who had benefits suspended or terminated because they successfully returned to work increased 223 percent. In FY 2012, Mathematica Policy Research, Inc. completed an evaluation report covering the effects of the 2008 Ticket to Work regulations. We will use the results of the evaluation to identify how we can continue to improve both the Ticket to Work and VR programs.

Developing an Occupational Information System: We need information about work that exists throughout the nation to determine whether claimants' impairments prevent them from doing not only their past work, but any other work in the United States (U.S.) economy. We currently use the Dictionary of Occupational Titles (DOT) and its companion volume, the Selected Characteristics of Occupations, as our primary sources of information about jobs and job requirements. However, the Department of Labor last updated the DOT in 1991 and has no plans to conduct further updates. We realize using outdated reference materials to make disability determinations is a serious disservice to the public. We are working with the Bureau of Labor Statistics to develop a

tool to replace the DOT with updated occupational information that addresses our specific needs for vocational information. In FY 2013, we will test the feasibility of using the National Compensation Survey platform as a means to gather the data we need to develop an Occupational Information System (www.socialsecurity.gov/disabilityresearch/occupational_info_systems.html)

STRATEGIC OBJECTIVE 1.3: EXPEDITE CASES FOR THE MOST SEVERELY DISABLED INDIVIDUALS

We are committed to providing benefits quickly to claimants whose medical conditions are so serious that they obviously meet our disability standards. Our two initiatives, Quick Disability Determinations (QDD) (www.socialsecurity.gov/disabilityresearch/qdd.htm) and Compassionate Allowances (CAL) (www.socialsecurity.gov/compassionateallowances/), use technology to identify claimants with the most severe disabilities and allow us to expedite decisions on those cases while maintaining accuracy. These fast-track initiatives have been two of our greatest successes in recent years. We can approve some cases in a matter of days instead of weeks or months. We continue to refine our QDD screening model and expand the number of CAL conditions used to identify claimants with the most severe disabilities.

We regularly update our disability policies and procedures to keep up with the rapid advances in medical information. Additionally, we work closely with the Department of Defense (DoD) to expedite decisions for Wounded Warriors.

Our efforts to expedite cases for the most severely disabled individuals include:

Expanding Quick Disability Determinations: The QDD process uses predictive modeling and computer-based screening tools to screen initial applications. QDD identifies cases where a favorable disability determination is likely, and medical evidence is readily available (e.g., low birth-weight babies, certain cancers, and end-stage renal disease). In FY 2012, we refined the QDD predictive model to increase the number of claimants served while maintaining the high quality of cases selected.

Expanding Compassionate Allowances: The CAL process allows us to quickly target the most obviously disabled applicants based on available objective medical information. We award benefits in nearly all CAL cases if we receive confirmation of the diagnosis with objective medical evidence and the applicant meets our non-disability criteria. In FY 2012, we added 65 new conditions involving the immune system and neurological disorders, bringing the total number of conditions in this expedited disability process to 165 medical conditions. We plan to further expand our list of CAL conditions through consultations with medical, research, and advocacy communities. In FY 2012, we also shortened the disability application process for people with CAL conditions so they do not need to provide work and educational histories.

Increasing Use of Electronic Records Express: Electronic Records Express (ERE) helps 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 2012, we received 4.4 million ERE submissions compared to nearly 3.8 million submissions in FY 2011. More information is available in our Electronic Express leaflet (www.socialsecurity.gov/pubs/10046.html).

Supporting the Military Casualty/Wounded Warrior Initiative: We collaborated with the Department of Veterans Affairs (VA) and DoD, along with advocates and military treatment facilities, to inform and assist wounded service members and their families who file for disability benefits. We developed and successfully implemented pilot programs to improve medical information sharing between our agencies. These pilots reduced the total time it takes us to adjudicate claims and reduced the number of consultative exams we ordered, resulting in cost savings.

Our Disability Benefits For Wounded Warriors website (www.socialsecurity.gov/woundedwarriors/) includes a Questions and Answers section, a webinar, helpful publications, and other useful links.

STRATEGIC GOAL 2: PROVIDE QUALITY SERVICES TO THE PUBLIC

Strategic Objectives

- Increase the Use of Our Online Services
- Increase Public Satisfaction with Our Telephone Services
- Expand the Use of Video Services
- Improve the Clarity of Our Notices

Priority Goal

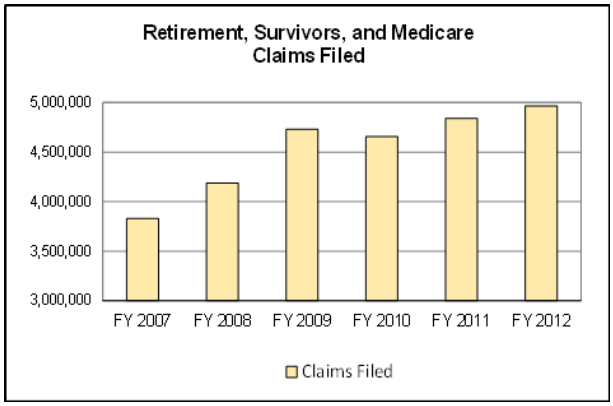
Increase use of our online services

Overall Performance Measure Results

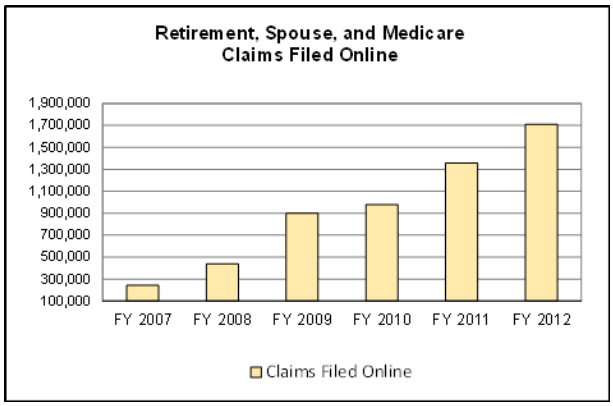
- Met the target for 4 of 6 measures
- Did not meet the target for 2 of 6 measures

Over the next 20 years, nearly 80 million people will start receiving retirement benefits. Providing quality services, while handling significant workload increases, is important to us.

In FY 2012, retirement, survivor, and Medicare claims were 30 percent higher compared to FY 2007 (refer to the accompanying chart). To keep up with the sharp increase in demand for our services, we continue to develop more efficient and effective ways to do business.



Over the past five years, we added and improved our online services. The number of retirement, spouse, and Medicare claims filed online was over 7 times higher, or about 1.5 million claims more, compared to FY 2007 (refer to the accompanying chart). Clearly, doing business with us online is becoming a preferred service channel for the public.



In FY 2012, we developed several new, easy-to-use online services allowing us to better handle the significant increase in claims applications. Our goal was to provide applicants and their representatives with a wide variety of online services, including the ability to apply for a range of benefits, update their records, and access information important to them.

We also made improvements to the telephone services in our field and hearing offices, as well as our National 800 Number infrastructure. In addition, we expanded our use of video technology and used plain language principles to simplify the letters we send to the public.

STRATEGIC OBJECTIVE 2.1: INCREASE THE USE OF OUR ONLINE SERVICES

We strive to provide the best online services in the Federal Government. In fact, we have the three highest rated electronic services as measured by the American Customer Satisfaction Index: iClaim – our online benefit application, the Retirement Estimator, and the Extra Help with Medicare Prescription Drug Plan Costs application.

Our website provides helpful information about our programs and services to the public, employers, other government agencies, businesses, and stakeholders. Users can conduct business at their convenience and at their own pace, without traveling to a field office and waiting to meet with one of our representatives.

Use of our online services (www.socialsecurity.gov/onlineservices/) continues to increase with these easy-to-use tools. We expect to increase the percentage of retirement, disability, survivors, and Medicare claims filed online to 48 percent by the end of FY 2013.

We provide much of our online information in Spanish and 14 other languages. Additionally, most of our Internet documents are accessible to anyone who needs to use screen readers, screen magnifiers, or voice recognition software.

Our efforts to improve online services include:

Expanding Marketing Efforts: In FY 2012, we continued to promote our online services with our "Boldly Go" marketing campaign. This campaign features celebrity spokespersons Patty Duke and George Takei in a series of eight "Boldly Go" public service announcements. We aired the series on Social Security TV (SSTV) in approximately 1,200 of our field offices. In FY 2012, hundreds of television stations nationwide aired our "Boldly Go" announcements more than 56,000 times. The public viewed our announcements more than 1.6 billion times.

We issued a national press release and posted a video on our YouTube page showing Patty Duke, who turned age 65, applying online for Social Security retirement and Medicare benefits. We also expanded our use of ads displayed on billboards, buses, and in airport terminals.

We have several social media and website features including:

- "Boldly Go" campaign (www.socialsecurity.gov/boldlygo/index.html);
- Facebook page (www.facebook.com/socialsecurity);
- Twitter page (www.twitter.com/socialsecurity); and
- YouTube page (www.youtube.com/socialsecurityonline).

Launching Online Social Security Statement: In May 2012, we launched a secure and easy-to-use online Social Security Statement, Get Your Social Security Statement Online (www.socialsecurity.gov/mystatement/). The online Social Security Statement is available to people age 18 and older, and provides access to benefit estimates and earnings history. In five months' time, more than 2.2 million people went online, created a *MySocialSecurity* account, and viewed their Social Security Statement. Users rated the online experience with a score of 85 on the American Customer Satisfaction Index. The American Customer Satisfaction Index standards state that any application scoring 80 or better is considered a top performing application in terms of customer satisfaction.

In FY 2012, we mailed paper Social Security Statements to approximately 11.4 million workers nearing retirement age (age 60 and older) and about 1 million workers who are turning age 25.

Improving Services to Our Spanish-Speaking Customers: The Census Bureau projects the Spanish-speaking population will nearly triple, from 46.7 million to 132.8 million, between 2008 and 2050. Approximately 5.4 percent of our National 800 Number calls are from the Spanish-speaking population. We have

also seen an increase of Spanish-speaking visitors in our field offices. In early FY 2012, we launched our online Spanish retirement application (iClaim). Our Spanish iClaim application received an American Customer Satisfaction Index score of 95.

In FY 2012, we launched a marketing campaign to promote our entire Spanish Language Suite of Online Services (www.socialsecurity.gov/espanol/donfrancisco). We now offer the following online applications in Spanish:

- Spanish Retirement Estimator (www.segurosocial.gov/espanol/calculador/);
- Spanish iClaim application (www.segurosocial.gov/espanol/plan/sobreelplan.htm); and
- Spanish Extra Help with Medicare Prescription Drug Plan Costs application (www.socialsecurity.gov/prescriptionhelp/index_sp.htm).

In FY 2012, we targeted a series of four public service announcements to Spanish-language stations. Stations nationwide aired these announcements more than 17,000 times. The public viewed the announcements more than 600 million times. We posted Spanish information on various websites as links, tweets, Facebook posts, blogs, and e-newsletters with an audience of over 240,000 people.

Mandating Online Appeals: In FY 2012, we simplified our Internet Disability Appeal application (iAppeals) iAppeals (www.socialsecurity.gov/appeals/appeals_process.html) by clarifying the language and consolidating the instructional pages to enhance the user experience. We also added the electronic signature to the medical release form in iAppeals to move the application to a more complete electronic process.

Once we simplified the online application process, we required appointed representatives requesting direct fee payments to file their clients' appeal requests online using iAppeals. Our outreach efforts to these eligible appointed representatives included issuing letters to over 25,000 representatives, organizing an advocates meeting, producing and distributing educational fliers, and sponsoring an iAppeals webcast. Representatives viewed the webcast over 6,000 times.

Expanding Online Services for Representatives: Registered appointed representatives can access their clients' disability application information online. Appointed representatives who want to electronically submit medical evidence can do so using ERE (www.socialsecurity.gov/ere/).

Supporting Americans Living Abroad: In FY 2012, we improved our online tools explaining how payments may be affected if a person lives, or plans to live, outside the U.S. These tools include our:

- Payments Abroad Screening Tool (www.socialsecurity.gov/international/payments.html) providing information on whether the user will receive benefits if they leave the U.S.; and
- Nonresident Alien Tax Screening Tool (www.socialsecurity.gov/international/AlienTax.html) informing the user if we will withhold a nonresident alien tax from their benefit.

STRATEGIC OBJECTIVE 2.2: INCREASE PUBLIC SATISFACTION WITH OUR TELEPHONE SERVICES

Our National 800 Number service (www.socialsecurity.gov/pgm/services.htm) remains the most popular option for conducting business with us. In FY 2012, we processed more than 56 million transactions through our National 800 Number and over 79 million callers dialed the National 800 Number. Callers can speak to a telephone agent during business hours or use our automated services that are available 24 hours a day, 7 days a week.

In FY 2012, we enhanced our telephone services by:

Replacing Our National 800 Number Infrastructure: We continued to enhance our automated telephone services so that more people can successfully complete their business with us by phone. In FY 2012, we began installation of our new National 800 Number telecommunications infrastructure. The new technology helps us forecast call volumes, anticipate staffing needs, and better distribute incoming calls across the network so callers can quickly reach telephone agents.

Streamlining National 800 Number Menus: We used customer satisfaction survey data to identify the points of service that create long wait times and reduce the number of prompts callers must navigate. In FY 2012, we completed the design for a new system which will overhaul the National 800 Number menus and speech recognition system. We will implement the new system as part of the National 800 Number infrastructure in FY 2013.

Providing Real-Time Assistance to Online Visitors: We are exploring the use of web support technologies to improve the level of customer service to our online users. As part of a click-to-communicate (C2C) initiative, we sought input from the public on our plan to use three web support technologies: Click-to-Talk, Screen Sharing, and Instant Messaging. In FY 2013, we will pilot software to assist us in developing a strategy for incorporating web support technologies into our business process. We will begin planning and analysis for C2C in FY 2014, as resources allow.

Completing the Telephone System Replacement Project: In FY 2012, we completed the multi-year project to replace our aged telephone systems and to better manage calls in field and hearing offices across the country.

STRATEGIC OBJECTIVE 2.3: EXPAND THE USE OF VIDEO SERVICES

Video technology is an important part of our efforts to reduce the hearings backlog. We use this technology to help balance workloads across the country, reduce travel for the public and our employees, and better serve remote areas. Video technology also provides an efficient and innovative way to provide service to segments of the public with unique service needs, such as hearing participants, appointed representatives, American Indian Tribal centers, and VA hospitals.

We expanded our video services with the following initiatives:

Increasing Video Hearing Capacity: Video technology reduces the need for our staff to travel between offices and to remote sites to hold hearings, thus decreasing travel costs and allowing more time for our judges to decide cases. Video hearings also give us the flexibility to distribute our hearing workload more efficiently.

In FY 2012, we held 23 percent of our hearings by video – an increase of more than 23,800 video hearings compared to last year. We are confident that this positive trend will continue.

Expanding Representative Video Project: This project allows attorney and non-attorney appointed representatives to participate in hearings from their offices using their own video conferencing equipment. In FY 2012, we had 52 approved representatives hold over 3,800 hearings through the Representative Video Project, an increase of 42 percent from FY 2011. We are adding more sites each year as representatives see the value of this initiative.

Using Video Service Delivery: Video technology allows real-time conferencing between two or more sites. We offer two types of video service delivery (VSD): (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 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. VSD reduces in-office wait time as well as travel time.

In FY 2012, we had video units in 449 sites, and we held 97,000 interviews using VSD.

Displaying Social Security TV: We use SSTV as a communications tool to improve the public's experience in our field offices. SSTV displays informational broadcasts in several languages in our reception areas to provide office visitors with information about our programs and services. In FY 2012, we completed SSTV installation in all our field office locations. We have the capability to provide locally tailored messaging, dynamically created content, emergency broadcasts, and public service announcements – all contributing to a more informative, meaningful, and pleasant office experience.

STRATEGIC OBJECTIVE 2.4: IMPROVE THE CLARITY OF OUR NOTICES

Notices are one of the primary ways we communicate with the public. Our notices communicate decisions, payment amounts, and other important information including a person's rights and responsibilities under our programs. In FY 2012, we issued approximately 250 million notices to the public explaining the programs that we administer. We also issued about 4 million Spanish notices. In FY 2012, we improved the readability, clarity, and tone of SSI notices explaining payment changes, and notices advising recipients their benefits will stop due to work.

Our notice clearance process ensures all new notice language complies with our notice standards, clear writing guidelines, and the *Plain Writing Act of 2010.*

Our efforts to improve the clarity of notices include:

Improving Notices: In FY 2012, we improved the readability, clarity, and tone of our work continuing disability reviews due process notices. We also improved the readability, clarity, and tone of the 48 highest volume paragraphs contained in our notices. In addition, we continued to develop a new enterprise communications system that will enable us to produce notices more efficiently and effectively. The new system will provide notices in a number of formats beyond normal print, such as audio, digital photography, Braille, and electronic.

Surveying Notice Options for the Blind or Visually Impaired: Our Special Notice Option (SNO) for the Blind and Visually Impaired (www.socialsecurity.gov/notices) allows people to receive notices in various formats, including follow-up phone calls, Braille, Microsoft Word files on compact discs (CD), large print, and audio CDs.

The FY 2011 SNO survey results showed that, overall, the SNO formats were effective in meeting customer needs. The overall satisfaction rate for all formats combined was 92 percent rating customer satisfaction as "good," "very good," or "excellent."

STRATEGIC GOAL 3: PRESERVE THE PUBLIC'S TRUST IN OUR PROGRAMS

Strategic Objectives

- Increase Efforts to Accurately Pay Benefits
- Recover Improper Payments
- Maintain Accurate Earnings Records
- Make Our Administrative Operations Even More Efficient

Priority Goal

Reduce Supplemental Security Income overpayments

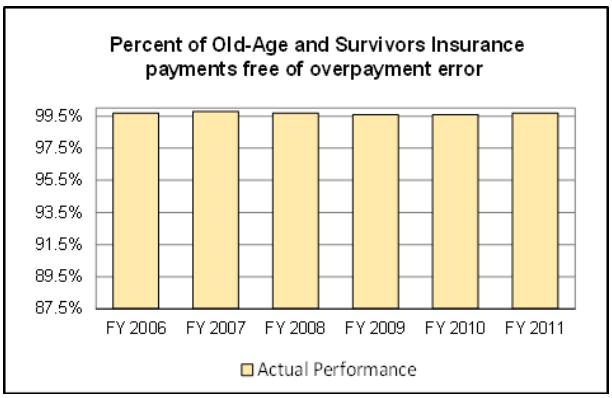
Overall Performance Measure Results

- Met the target for 5 of 8 measures
- Final data not available for 3 of 8 measures

We pay over $65 billion in benefits each month. Our most important responsibility is to accurately and promptly pay these benefits to entitled individuals. To preserve the public's trust in our programs, we must continue to invest in enhanced program integrity activities. Together, our stewardship and service missions serve a common purpose – making our programs more effective and efficient.

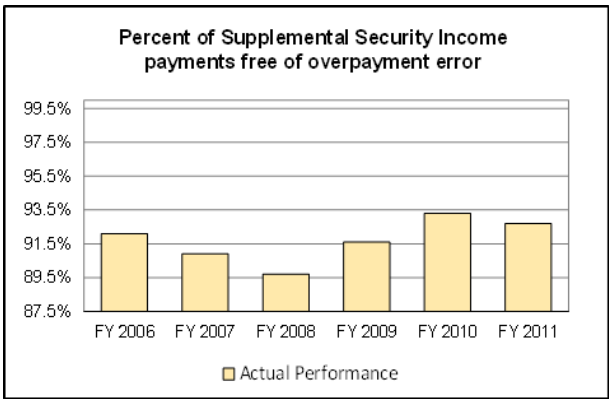
We make few errors in the administration of our retirement and survivors programs, with an overpayment accuracy rate in recent years between 99.7 percent and 99.9 percent (refer to the accompanying chart). Our disability insurance (DI) program is more complex, and the improper payments that occur are generally related to the complexity of these programs. Our DI program overpayment accuracy rate has been between 98.5 and 99.3 percent over the past several years.

Our SSI program provides payments to disabled adults and children with limited income and resources. SSI payments can change from month to month based on changes in a recipient's income, resources, and living arrangements. Our SSI overpayment accuracy reflects this complexity. To demonstrate our commitment to payment accuracy, we made SSI overpayments a Priority Goal.



We are improving our SSI overpayment accuracy. FY 2012 was the third year in a row we conducted over 2.4 million redeterminations. In FY 2008, we conducted just 1.2 million redeterminations.

Redeterminations are a review of SSI recipients' income and resources to ensure they are receiving the correct monthly benefit payment. This focus on redeterminations has helped improve SSI overpayment accuracy, which rose from 89.7 percent in FY 2008 to 92.7 percent in FY 2011 (refer to the accompanying chart).



For more information on overpayments, major causes, and corrective actions, please refer to the *Improper Payments Information Detailed Report* located in our *Other Accompanying Information* section of this report.

STRATEGIC OBJECTIVE 3.1: INCREASE EFFORTS TO ACCURATELY PAY BENEFITS

This Strategic Objective aligns with our second Priority Goal to reduce SSI overpayments. We have demonstrated our program integrity tools have a positive effect on our program accuracy.

Some of our most effective program integrity tools are:

- Conducting continuing disability reviews;
- Conducting SSI Redeterminations;
- Using Predictive Modeling in the SSI Redetermination Process;
- Expanding the Access to Financial Institutions Initiative;
- Promoting the Use of the SSI Telephone Wage Reporting System;
- Expanding the Use of Electronic Death Data Exchange with Foreign Governments; and
- Using Electronic Data Exchanges.

For details on these program integrity efforts, please refer to the *Improper Payments Information Detailed Report* located in our *Other Accompanying Information* section of this report.

STRATEGIC OBJECTIVE 3.2: RECOVER IMPROPER PAYMENTS

Although we strive to pay benefits accurately and timely, the complexity of our programs can lead to improper payments. When we identify an overpayment, we work to collect the debt. In FY 2012, we recovered $3.26 billion of Social Security and SSI overpayments from overpaid beneficiaries. We use benefit withholding to recover overpayments from debtors currently receiving payments. When overpaid individuals are no longer receiving benefits, we offer them the opportunity to repay the debt via monthly installment payments. If the debtor does not agree to an acceptable repayment plan or defaults on an established agreement, we use our external collection techniques to recover the overpayments.

We enhanced our debt collection program by using established external debt collection tools. These tools include Tax Refund Offset and Administrative Offset administered through the Treasury Offset Program (TOP) at the Department of the Treasury (Treasury). Our participation in TOP allows us to offset Federal tax refunds, Federal annuities, and Federal salaries to collect our delinquent debts. We also report delinquent debts to credit bureaus and use Administrative Wage Garnishment, which allows us to garnish a debtor's private sector wages.

We will continue improving our debt collection program by:

Maximizing Our Use of Proven Debt Collection Tools and Techniques: Referral of delinquent debts to TOP is an effective recovery method for individuals who are no longer entitled to program benefits. From our initial implementation in 1992 through FY 2012, we recovered approximately $2.158 billion through TOP. In 2009, Treasury enhanced TOP by amending its regulations to allow for collection of legally enforceable, non-tax debts beyond the prior 10-year statute of limitation. In FY 2011, we published regulatory changes authorizing us to refer delinquent debts over 10 years to TOP. In FY 2012, we implemented systems changes, began notifying our debtors, and, as a result, started referring their debts to Treasury for collection.

Implementing New Tools for Debt Collection: We have statutory authority to offset eligible State payments due to debtors as a way to collect delinquent debts. To offset the payment, the issuing State must have previously entered into a reciprocal agreement with Treasury. In FY 2011, we published the regulatory changes

authorizing us to offset eligible State payments issued by participating States. In FY 2013, development will begin to implement systems enhancements to employ State payment offset and increase our TOP collections.

For details on recovering improper payments, please refer to the *Improper Payments Information Detailed Report* located in our *Other Accompanying Information* section of this report.

STRATEGIC OBJECTIVE 3.3: MAINTAIN ACCURATE EARNINGS RECORDS

The Social Security number (SSN) allows us to properly credit a worker's earnings. In FY 2012, we completed more than 5 million original and 11 million replacement Social Security card applications. We also verify SSNs more than 1.5 billion times a year through a variety of secure electronic exchanges with public and private organizations. In FY 2012, we completed and posted more than 220 million items to workers' records.

Maintaining accurate earnings records is resource intensive and highly complex. We base Old-Age, Survivors, and Disability Insurance (OASDI) benefit payments on a worker's lifetime earnings, so it is critical that we maintain accurate earnings records and credit the correct amount of earnings to the right person.

Some of our key efforts to promote accurate earnings records are:

Increasing Electronic Wage Reports: Paper wage reports are more error-prone, labor intensive, and expensive to process. We are working to eliminate paper wage reports. In FY 2012, we reduced the amount of paper received by nearly 400,000 paper wage reports and over 3 million paper Forms W-2 compared to FY 2011.

We encouraged employers and third party submitters to use our Business Services Online (www.socialsecurity.gov/bso/bsowelcome.htm) Electronic Wage Reporting Suite of Services to electronically file Forms W-2 for their employees and customers. We continued to keep employers informed about our online Electronic Wage Reporting through promotional materials, payroll conferences, articles and trade publications, and direct contact.

Strengthening the Social Security Number Application Process: The SSN Application Process (SSNAP) is a web-based system we use to record information and evidence people submit during the interview for an SSN. In FY 2012, we revised SSNAP to guide users through the mandatory in-person interview for applicants who are age 12 or older and applying for their first SSN. SSNAP helps technicians locate a previously assigned SSN to prevent us from assigning multiple SSNs to the same person.

Supporting E-Verify: We worked with Department of Homeland Security (DHS) to make its E-Verify program more efficient and easier to use. E-Verify is a voluntary DHS program that allows registered employers to electronically verify the eligibility of newly hired employees to work in the U.S. Our responsibility is to verify whether the information employers submit in E-Verify matches our records. In addition, our field office and National 800 Number staff help resolve issues with SSA records when the data provided by an employer does not match our records.

In FY 2012, we assisted DHS in processing 22.9 million verifications of eligibility for employment in the U.S. More information is available on the U.S. Citizenship and Immigrations Services E-Verify website (www.dhs.gov/E-Verify).

STRATEGIC OBJECTIVE 3.4: MAKE OUR ADMINISTRATIVE OPERATIONS EVEN MORE EFFICIENT

We are committed to sound management practices. As responsible stewards, we continually review our business processes and use technology to make our operations more efficient. We continue to seek new ways to increase our efficiency.

In accordance with Executive Order 13589, *Promoting Efficient Spending*, we examined the key administrative areas targeted by the Executive Order and identified ways to cut costs where possible and eliminate practices that are outdated or unnecessary. Even prior to the issuance of the Executive Order, we took steps to reduce expenditures in many administrative areas, identifying opportunities to promote efficient and effective spending.

We made our administrative operations more efficient by:

Increasing Use of Technology as Alternatives to Travel: We significantly increased the use of video hearings to reduce travel expenses while simultaneously handling more hearings, transferring workloads between locations, and providing better service to claimants in remote areas. In FY 2012, we reduced training travel costs through Distance Learning Technology, an initiative that replaces some face-to-face training with video training.

Conducting Onsite Security Control and Audit Reviews: We continue to conduct ongoing Onsite Security Control and Audit Reviews (OSCAR) in our offices. The OSCAR process ensures our offices follow established security policies and procedures and that management controls are in place to deter and detect waste, fraud, and abuse. We require office managers to submit a corrective action plan providing details on the actions they will take to correct any deficiency cited during the review. We monitor these corrective action plans to ensure we address and resolve each deficiency.

Refreshing Our Open Government Plan: In April 2012, we published our online Open Government Plan 2.0 (www.socialsecurity.gov/open/story-2012-04-09-open-government-plan2.html), an updated version of our original 2010 plan. The Open Government Plan is our framework for incorporating the principles of transparency, participation, and collaboration into our plans for achieving our mission. The new plan highlights successful completion of planned actions from our previous plan and reflects our commitment to increased transparency.

Saving on Acquisitions: We spend about $1 billion annually to obtain mission essential goods and services. We saved approximately $155 million in FY 2012 primarily through negotiations and by requesting discounts from vendors with established ordering vehicles (e.g., General Services Administration (GSA) schedule contracts, Blanket Purchase Agreements).

STRATEGIC GOAL 4: STRENGTHEN OUR WORKFORCE AND INFRASTRUCTURE

Strategic Objectives

- Strengthen Our Workforce – Recruit, Train, Develop, and Retain Superior Employees
- Maintain Secure and Reliable Information Technology Services
- Increase Efficiency of Our Physical Infrastructure

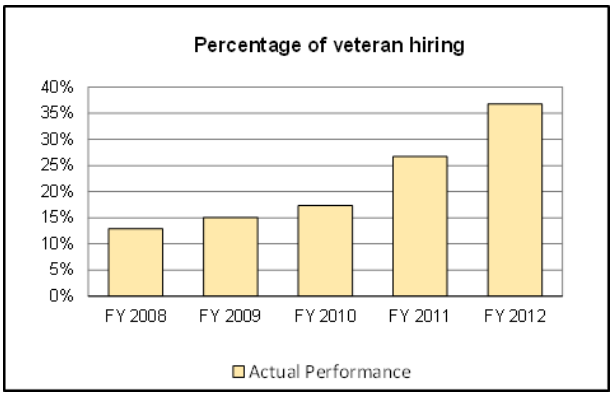
Overall Performance Measure Results

- Met the target for 2 of 5 measures
- Did not meet the target for 2 of 5 measures
- Final data not available for 1 of 5 measures

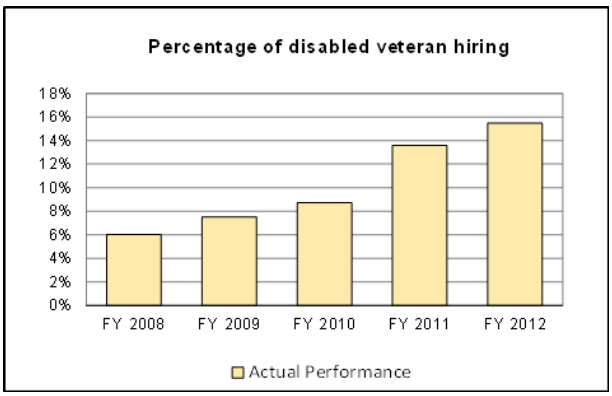
The landscape of the Federal workplace and its workforce continues to change, as do the needs of the public that we serve. We must be prepared to meet business demands by having a diverse, highly skilled, and agile workforce. Technological advances have changed the way the public conducts business with us. Technology has not only changed our service delivery methods, but it has also changed our physical workplace. The advent of portable electronic work is changing our traditional business models.

Our dedicated employees and State DDS partners enable us to sustain compassionate public service. One of our challenges continues to be the loss of institutional knowledge from the retirement of our employees. To strengthen our workforce, we recruit, train, develop, and retain superior employees. Our recruitment and retention efforts attract a multi-generational, multi-cultural workforce with the competencies needed for our mission critical positions.

Our rich talent pool exists because we embrace diversity. For example, in FY 2012, we received the President's *Veterans Employment Initiative Independent Agency Award for Outstanding Results* for our veteran hiring practices. Over a quarter of our new hires, in both FY 2011 and FY 2012, were veterans (refer to the accompanying chart). We have also been successful in recruiting and hiring disabled veterans (refer to the accompanying chart).



Our goal to develop leaders at all levels ensures our continued success. We are often cited as a model for best practices in leadership development.
We continually enhance our leadership and career development programs. We remain committed to creating an environment that fosters a learning organization and the development of talent.



Each year since 2007, our employees have ranked us in the top 10 *Best Places to Work in the Federal Government* (www.bestplacestowork.org/BPTW/rankings/).

While we have a long history of caring employees and high productivity, process improvements alone cannot offset the significant increases in our workloads and loss of staff. To meet our service delivery challenge, we rely on a large and complex IT infrastructure.

This infrastructure includes very sensitive national databases, hundreds of software applications, large back-end computer platforms, thousands of networked computers, printers, telephones, and other devices. Key to our success is maintaining secure and reliable IT services. Ensuring the privacy and security of all personal information is critical to maintain the public's trust.

In addition, we strive to provide a professional, safe, and secure environment for our workforce and the public while working toward achieving even greater savings by minimizing waste and reducing energy consumption.

STRATEGIC OBJECTIVE 4.1: STRENGTHEN OUR WORKFORCE – RECRUIT, TRAIN, DEVELOP, AND RETAIN SUPERIOR EMPLOYEES

Retirements continue to be the primary reason for our loss of employees. By 2015, almost 33 percent of our workforce, including 48 percent of our supervisors, will be eligible to retire. In FY 2012, we lost over 3,600 employees due to retirement and other reasons. Like many Federal agencies, we face the challenge of a diminishing workforce while simultaneously facing an increasing volume of work.

Our strategies to maintain a strong workforce help us achieve our mission. We will continue to strengthen our workforce by:

Using Diversity and Inclusion: We have a long-standing record of being one of the most diverse public sector Federal agencies. We continually strive to recruit, promote, and retain a highly skilled, diverse workforce that draws from all segments of society. Women constitute 68 percent of our workforce. Our minority representation stands at 49 percent.

In FY 2012, we instituted a new Diversity and Inclusion Council to implement our agency's *Diversity and Inclusion Strategic Plan*. The Council includes senior executive level representatives from each of our components, union officials, management association officials, and our eight advisory council chairpersons. The objective of the Council is to develop, define, and disseminate diversity messages and practices throughout the agency. Council members serve as role models to champion diverse perspectives and inclusive behaviors.

Employing Veterans and Individuals with Disabilities: We established plans to address the employment of veterans and individuals with disabilities. These plans help integrate proven practices for recruitment, development, support, and retention of veterans and individuals with disabilities into our ongoing human capital strategies.

Enhancing Career Development Programs: We have one of the most robust career development programs in the Federal sector. We offer three distinct programs to develop future leaders. These programs include the Senior Executive Service Candidate Development Program, the Advanced Leadership Program, and the Leadership Development Program.

Improving Learning Opportunities: We established more innovative training solutions, such as virtual conferences, video conferencing, and training simulations. We also developed a new workshop entitled *Personal Success Strategies* that focuses on such topics as communication, etiquette, teambuilding, listening, and collaboration.

Implementing Safety and Security Training: The safety of our employees and visitors to our offices has always been a top priority. We ban from our facilities members of the public who assault or seriously threaten our employees. We provide employees important reminders of our physical security policies and procedures. As our employees must deal with an increasing number of threats, we are developing a safety and security training curriculum to help our employees deal with difficult visitors.

We also provide annual systems security training for our employees and contractors. This training raises the awareness of employees and contractors regarding SSA's information systems security policies and procedures.

STRATEGIC OBJECTIVE 4.2: MAINTAIN SECURE AND RELIABLE INFORMATION TECHNOLOGY SERVICES

We are committed to protecting the privacy and security of personal information.

We developed privacy policies for social media tools and emerging technology. These policies are essential for maintaining the public's trust as they interact with us through social media.

The *American Recovery and Reinvestment Act* provided us with $500 million in administrative funding for our National Support Center. This new facility will ensure that we protect and maintain our vital IT infrastructure.

The GSA plans to complete the construction and final building commissioning in FY 2015. More information is available on our American Recovery and Reinvestment Act webpage (www.socialsecurity.gov/recovery/).

We maintained secure and reliable IT services by:

Enhancing Our Infrastructure: We completed infrastructure changes to restore national IT operations within one day in the event of a disaster affecting either of our two data centers. In FY 2012, we implemented several technologies including high-speed disk replication and dynamic load balancing with high bandwidth connectivity between data centers. We also increased data center capacity and automatic failover and staging systems. We continue to test our critical system recovery processes on an annual basis.

Protecting Our Systems and Data: We deployed tools and implemented techniques to maintain privacy and protection of our data, systems, and business processes. We continue to strengthen our information security program to meet the standards and requirements of the *Federal Information Security Management Act of 2002* by training our employees and implementing effective cyber security technologies.

Improving IT Cost and Performance: We used proven new technologies to lower IT costs and improve performance. As part of our capital planning and investment control processes, we evaluated the cost of IT projects to their return on investment. We appropriately adopt new technologies, which provide stable and high performing environments. In FY 2012, we implemented Service-Oriented Architecture technology to enhance code reusability and to reduce development costs.

Modernizing Older Software Applications: We incrementally modernize our older software applications based on business opportunity and technical risk. We evaluate current software applications by how they meet strategic business goals and conform to our Enterprise Architecture plans. We are increasing the number of open source software applications in use.

In FY 2012, our modernization efforts included the following enhancements:

- Converted Client Server applications to more modern web technologies;
- Renovated a portion of the Earnings process to implement next-generation database technology;
- Developed a strategy for converting our existing database architecture; and
- Converted the Representative Payee database from a legacy database to a modernized database.

Maintaining Systems Performance While Transitioning to Our New Data Center: As we prepare for the move to our new National Support Center in 2015, we are implementing several infrastructure enhancements to ensure continued system performance. These enhancements include: isolating our pre-production and network environments from our core computing environment; reducing the number of operating systems we support; implementing additional virtualization technologies wherever technically feasible and cost-effective; and configuring tiered architectures to meet application cost and performance requirements.

STRATEGIC OBJECTIVE 4.3: INCREASE EFFICIENCY OF OUR PHYSICAL INFRASTRUCTURE

We have a responsibility to the public to conduct business in an efficient, economical, and environmentally sound manner. We are reviewing our current office structure to identify opportunities to consolidate offices and reduce our carbon footprint. Facility closures or consolidations resulted in cost savings of nearly $6.1 million in FY 2012. Cancellations of previously planned lease acquisitions resulted in cost avoidance of approximately $5.5 million in FY 2012. We are working to achieve even greater savings by minimizing waste and reducing energy consumption.

In an effort to meet this responsibility, we recycled and purchased energy efficient lighting, electronics, and appliances. We continued to provide sustainable acquisition language in our contracts. We began these practices before release of Executive Order 13423, *Strengthening Federal Environment, Energy, and Transportation Management*, which directed Federal agencies to improve their environmental, energy, and transportation processes.

In FY 2012, to further increase the efficiency of our physical infrastructure we:

- Installed two white cool roofs with high quality insulation to reduce energy costs;
- Installed a solar parking canopy, with four electric vehicle charging stations;
- Reduced the amount of time the lights stayed on by one and a half hours every weekday at the headquarters facility; and
- Turned off the heating, ventilation, and air conditioning equipment in the building in the evenings to save on heating and cooling costs while the buildings have little to no occupancy at the headquarters facility.

In support of Executive Order 13423, we replaced 100 percent of our gasoline vehicles eligible for replacement with alternative fuel or low greenhouse gas emissions vehicles. As a result of our actions, we rank fifth in reducing petroleum and second in increased alternative fuel usage among 21 Federal agencies. We continue to find new and innovative ways to expand our "green" programs and use "green" solutions to improve our environment.

We increased the efficiency of our physical infrastructure by:

Greening Excess Property: We continue to participate in the "green" initiative that provides an environmentally sound way to reuse excess equipment and furniture. In FY 2012, we donated over 8,400 central processing units and over 1,200 monitors to local schools or to the Computers for Learning program. In addition, we sent over 8,200 equipment items and over 800 furniture items to the GSA for potential reuse.

Greening Our Fleet: One hundred percent of our new vehicle purchases are alternative fuel vehicles. Nationwide, we converted over 70 percent of our light-duty vehicles to alternative fuel vehicles, and at our headquarters, we converted 94 percent of these vehicles. We will continue to increase consumption of alternative fuels by 10 percent and reduce petroleum consumption by 2 percent annually. To expand our "green" programs in FY 2012, we purchased more renewable energy for our headquarters buildings, helping us to further reduce our greenhouse gas emissions.

Recycling and Redesigning Waste: In FY 2012, we improved our recycling process at our headquarters' complex to increase the amount of recyclable materials we divert from waste. We also deployed new recycling stations in high visibility areas with more foot traffic than our previous recycling centers. We are exploring the possibility of composting cafeterias' waste from several of our facilities.

Purchasing and Managing Environmentally Sound Electronics: We purchased desktop computers, laptops, and monitors that are silver-rated or better by the Electronic Product Environmental Assessment Tool. We implemented power management on desktop and laptop computers, which allows computers to revert to the "sleep" mode during periods of inactivity, reducing power usage and greenhouse gas emissions.

Converting to Sustainable, "Green" Energy Sources: We continued to explore sustainable energy sources, like solar and wind, and to use alternative sources where economically feasible. We also monitored our offices to ensure we met energy efficiency standards.

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 remain high. Addressing this workload boom, while reducing our improper payments, is clearly our biggest challenge. In FY 2012, we received over 565,000 more initial disability claims and over 260,000 more hearing requests compared to FY 2008, representing increases of 22 percent and 44 percent, respectively.

The retirement wave and the disproportional number of our employees at or near retirement age will test our ability to handle these growing workloads. We ended FY 2012 with over 6,500 fewer SSA and DDS employees than we had at the beginning of FY 2011. Our challenges will be exacerbated if we are not properly funded in FY 2013 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 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. In FY 2012, the Extended Service Teams completed over 65,000 claims.

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 September 2012, we began a pilot test in the Idaho DDS. During FY 2013, we will test in the Illinois, Missouri, Nebraska, and New York DDSs before we roll out nationally.

Reducing improper payments remains one of our biggest challenges. The President's FY 2013 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.

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, verifiable, and secure. Our internal systems and controls include:

- Audit trails;
- Integrity reviews;
- Separation of duties;
- Restricted access to sensitive data;
- Reviews at all levels of management; and
- Validation and verification in our System Development Lifecycles (SDLC).

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 47 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.

In FY 2010, we initiated a new data quality program designed to assess, measure, and monitor the quality of performance data. We evaluate the data in terms of four quality dimensions:

- Accuracy – measuring how well data adheres to specification (e.g. definitions, rules, and policies);
- Consistency – measuring consistency in internal and external reporting of data;
- Completeness – measuring missing occurrences or attributions of the data; and
- Timeliness – measuring the currency of the data (i.e., data are up-to-date and reporting occurs on time).

We conduct these quality evaluations based on established internal methodologies. As we introduce new performance measures, we perform a comprehensive assessment of management information data using these four quality dimensions. After the initial assessment, we continuously monitor the data to make sure we are maintaining high quality performance data. Continuous monitoring allows us to follow trends in data quality and proactively remediate potential data quality issues.

In FY 2012, we evaluated and verified data for the following three performance measures under this quality program:

- 1.1a: Complete the budgeted number of hearing requests;
- 1.3a: Achieve the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances; and
- 2.1a: Increase the percentage of claims filed online.

Also, the data for several accuracy and public satisfaction measures come from surveys and work samples, which provide confidence levels of 95 percent or higher.

The Audit Trail System (ATS) enables us to execute our fiduciary responsibility by ensuring we protect Social Security records and OASDI Trust Fund monies from improper use. ATS collects and maintains electronic transactions entered into our programmatic systems allowing us to retrieve transactions for the purpose of deterring, detecting, and investigating instances of fraud and abuse.

In addition, we have the Comprehensive Integrity Review Process (CIRP), which serves as our primary oversight tool to protect against waste, fraud, and abuse of our information systems. CIRP is one of the ways we fulfill our obligation to comply with Federal laws, such as the *Federal Managers' Financial Integrity Act*, that mandate a system of internal controls. CIRP proactively identifies suspect and potentially fraudulent cases for management review.

The SDLC is a process used to develop information systems. The SDLC documents required activities and outlines a consistent set of development tasks for Project Managers to follow. These tasks help support the integrity of our data by ensuring systems are built using the tools and methodologies that have been established as industry and our best practices.

AUDIT OF OUR FY 2012 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 2012 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 GPRA. In FY 2012, the OIG issued two audits that evaluated three of our GPRA performance indicators (SSI and OASDI payments free of overpayment and underpayment error and individuals who do business with us rating the overall services).

The reports are:

- Performance Indicator Audit: Improper Payments (A-15-11-11197) (oig.ssa.gov/sites/default/files/audit/full/pdf/A-15-11-11197.pdf) and
- Performance Indicator Audit: Customer Service (A-15-11-11183) (oig.ssa.gov/sites/default/files/audit/full/pdf/A-15-11-11183.pdf).

The objectives of these audits were to:

- Comprehend and document our sources of data for the specific performance measure the OIG 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 the three performance indicators audited.

These and other OIG reports are located on the Office of the Inspector General's webpage (oig.ssa.gov/audits-and-investigations/audit-reports/2010-10--2012-09).

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 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

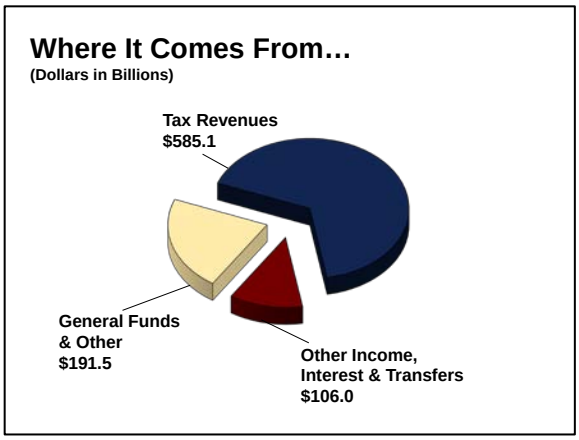
	FY 2012	FY 2011	% Change
OASI			
Benefit Payments	$630,841	$593,047	6.4%
Average Benefit Payment (per month)	$1,170.42	$1,118.46	4.6%
Number of Beneficiaries	45.6	44.6	2.2%
DI			
Benefit Payments	$135,454	$127,471	6.3%
Average Benefit Payment (per month)	$964.30	$926.92	4.0%
Number of Beneficiaries	10.8	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%

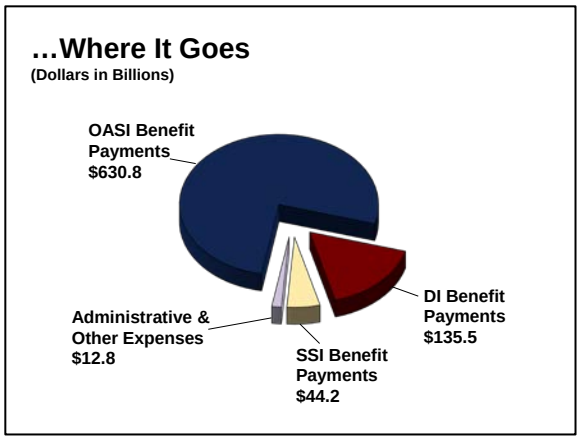
1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

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.

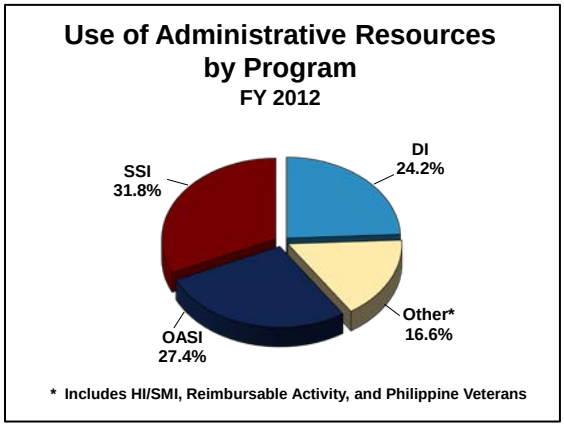




Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 113 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2012. The statement shows that we had $985.5 billion in budgetary 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.

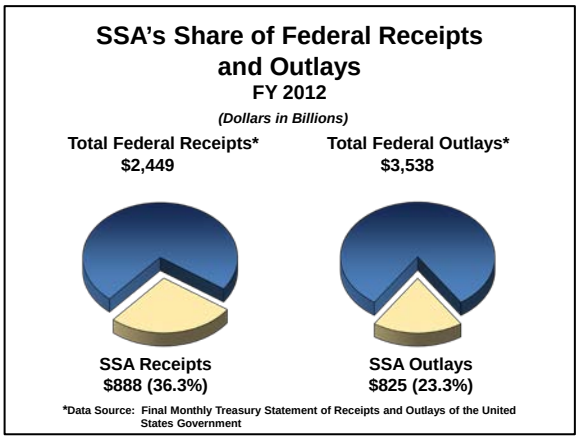
USE OF ADMINISTRATIVE RESOURCES

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.

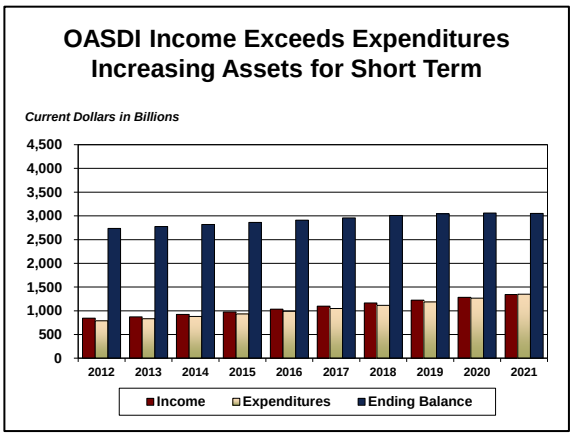
Number of Months of Expenditures Fiscal-Year-End Assets Can Pay[1]					
	2008	2009	2010	2011	2012
OASI	46.8	47.5	48.0	47.0	46.0
DI	22.0	19.7	17.1	14.0	10.9
Combined	42.4	42.5	42.5	41.1	39.7

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.

SYSTEMS AND CONTROLS

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) ASSURANCE STATEMENT
FISCAL YEAR (FY) 2012

Management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. We assessed 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 our evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012 was operating effectively and that we found no material weaknesses in the design or operation of the internal controls.

In accordance with the *Federal Information Security Management Act* (FISMA) and FMFIA, we are reporting that the financial statement auditor cited a material weakness in our information systems controls in its opinion on internal control and that the Office of Inspector General reported that finding as a significant deficiency under FISMA. As we do with all auditor findings, we are pursuing a risk-based corrective action plan to address the findings. However, we do not agree with the auditor's conclusion that its findings rise to the level of a material weakness in our information systems controls. We believe the likelihood of a material misstatement to our financial statements based on the auditor's findings is remote.

In addition, we assessed the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of our annual financial statements, 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 OMB Circular No. A-123, Appendix A. The results of this evaluation provide reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2012.

We also conduct reviews of financial management systems in accordance with OMB Circular No. A-127, *Financial Management Systems*. Based on the results of these reviews, we can provide reasonable assurance that our financial management systems comply with the applicable provisions of the FMFIA as of September 30, 2012.

Michael J. Astrue
Commissioner
November 8, 2012

AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

We have a well-established, agency-wide management control and financial management systems program as required by the *Federal Managers' Financial Integrity Act* (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 to 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 Office of Management and Budget (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 fiscal year (FY) 2012, 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 2012. In making this determination, he considered all the information available, including the auditor's opinion on our FY 2012 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 (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2012 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.

Grant Thornton cited a material weakness in our information systems controls in its opinion on internal control over financial reporting. We are pursuing a risk-based corrective action plan to address the findings. However, we do not agree with Grant Thornton's conclusion that its findings rise to the level of a material weakness in our information systems controls. We believe the likelihood of a material misstatement to our financial statements based on the auditor's findings is remote.

Grant Thornton found deficiencies in our benefit payment oversight, that when aggregated, it considered a significant deficiency, and provided recommendations for the deficiencies. We concur with the recommendations and will continue to improve our benefit payment oversight.

The OIG reported Grant Thornton's finding of material weakness as a significant deficiency under the *Federal Information Security Management Act* (FISMA). We acknowledge the finding identified by the OIG and reported it in accordance with OMB M-12-20.

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, 2012. 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. In the FISMA report, the OIG cited Grant Thornton's finding of a material weakness in our information systems controls as a significant deficiency.

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 Government-wide 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 12 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 (TOP), 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 debts from a population of debtors previously excluded from the automated ECO selection process. We implemented Phase II of the ECO Enhancements in May 2012. Phase II allows us to select debts 10 years or more delinquent for referral to TOP, as authorized by Public Law 110-246 and 31 U.S.C. 3716. In addition, we have secured information technology resources to embark on Phase III of the ECO enhancements in FY 2013, which will allow us to collect delinquent debts by offsetting applicable State payments through TOP.

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 2012, we implemented Oracle Release 12.1.3. This release upgrades the SSOARS to the most current version of the Oracle Federal Financials Software. Release 12.1.3 includes Common Government-wide Accounting Code functionality and sets the stage for implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) in SSOARS. Implementation of GTAS functionality is necessary to comply with new Treasury Department reporting requirements, which mandate GTAS implementation by December 2013.

Release 12.1.3 also provides new Accounts Payable to Accounts Receivable Netting functionality where open receivables and payables exist for the same payee. These receivables and payables are automatically netted prior to issuing payment. This new process will increase efficiency and reduce operational costs by consolidating transactions and preventing overpayments. Additionally, we implemented the Federal Delinquency functionality as part of the new release. This functionality automates manual processes and enhances our ability to recover improper payments more timely.

Building on our previous use of Web Services technology, we integrated the Case Processing and Management System, a web-based system that supports our disability workloads, to automatically transmit medical and vocational expert orders and invoices to the accounting system. These purchase order and accounts payable Web Services interface in real time to SSOARS and provide components with access to their financial data in near real time.

We also implemented Oracle Business Intelligence Applications (BI Apps). BI Apps provides financial management dashboards and includes reports, budget execution, and spending analyses. This functionality will reduce the time required to compile and report on workload performance, and increase transparency for managers to react to changing workloads.

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PERFORMANCE SECTION

AGENCY PERFORMANCE

Introduction

In fiscal year (FY) 2012, we used our 4 overarching Strategic Goals, their supporting 14 Strategic Objectives, and 35 performance measures to continue to focus our attention and resources on mission critical workloads and programs. We explained these goals, objectives, measures, and targets in detail in our *Annual Performance Plan for FY 2013 and Revised Final Performance Plan for FY 2012* (www.socialsecurity.gov/performance/). This section of the report discusses our success in achieving these performance targets. Final data for 6 of our 35 performance measures were not available when the report was published. We will report results for those measures in our *FY 2013 Annual Performance Report*. We met our target for 19 of 29 performance measures, a success rate of 66 percent.

The performance data presented in this section comply with the guidance provided in the following Office of Management and Budget (OMB) Circulars:

- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (www.whitehouse.gov/sites/default/files/omb/assets/a11_current_year/a_11_2012.pdf) and
- OMB Circular No. A-136, *Financial Reporting Requirements* (www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a136/a136_revised_2012.pdf).

The section entitled, *How We Ensure Our Data Integrity*, on page 35, describes our continuing efforts to enhance the quality and timeliness of our performance data to increase its value to our management and other interested parties. Our executives routinely use these performance data to improve the quality of our program management, make data-driven decisions, and demonstrate our accountability for achieving expected program results.

Fiscal Year 2012 Performance Measures By Goal and Objective

In this section, we:

- List our 35 performance measures for FY 2012, organized by Strategic Goal and Objective. For each performance measure, we provide our FY 2012 target, actual performance, a discussion of our performance, the data definition, and the data source;
- Provide historical trend data for our targets and performance;
- Provide our plans for improving our performance where we missed our target;
- Indicate which performance measures are Priority Goals;
- Identify the FY 2012 performance measures where final data were not available at the end of the fiscal year, indicate when the data will become available, and specify that we will report the data in our *FY 2013 Annual Performance Report*;
- Provide our performance results for the measures cited in our *FY 2011 Performance and Accountability Report* where the final data were not available at the end of FY 2011;
- Round our actual performance data to the nearest whole number or decimal point, when applicable, using a standard rounding convention; and
- Discuss our program evaluations.

The following are some abbreviations we use on pages 56 through 94:

- **TBD** indicates final FY 2012 data not available;
- **Priority Goal** indicates the measure supports a Priority Goal; and
- **N/A** indicates a prior year target was not established.

STRATEGIC GOAL 1: DELIVER QUALITY DISABILITY DECISIONS AND SERVICES

STRATEGIC OBJECTIVE 1.1: REDUCE THE WAIT TIME FOR HEARING DECISIONS AND ELIMINATE THE HEARINGS BACKLOG

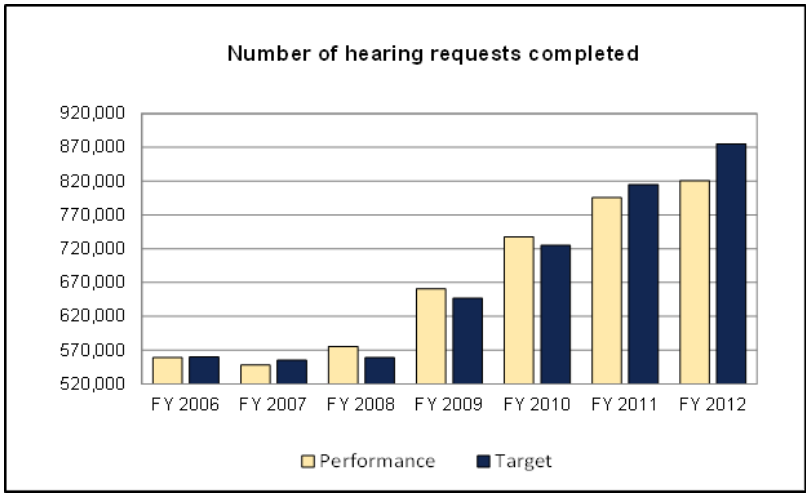
1.1a: Complete the budgeted number of hearing requests

FY 2012 Target:	875,000
Performance:	820,484
Target Achieved:	No

Discussion: Hearing requests have increased by over 45 percent since FY 2006. We completed more hearing requests this fiscal year than any other previous year. We ended FY 2012 short of our hearings completion target by 54,516 hearings. Decreased funding forced us to cancel our plans to open eight new hearing offices in Alabama, California, Indiana, Michigan, Minnesota, Montana, New York, and Texas.

We were unable to hire as many administrative law judges (ALJ) as we planned. Our hearing offices staff worked overtime to try to keep up with the surge in hearings. However, without enough ALJs, we were unable to meet our target.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	558,978	547,951	575,380	660,842	737,616	795,424	820,484
Target	560,000	555,000	559,000	647,000	725,000	815,000	875,000
Target Met	Not met	Not met	Met	Met	Met	Not met	Not met

Data Definition: The number of hearing requests completed in the current fiscal year.

Data Source: Case Processing and Management System

Plan for Improving Performance: We are developing the Electronic Bench Book (eBB), a web-based application, designed to assist the adjudicator in documenting, analyzing, and adjudicating disability claims. The eBB will assist

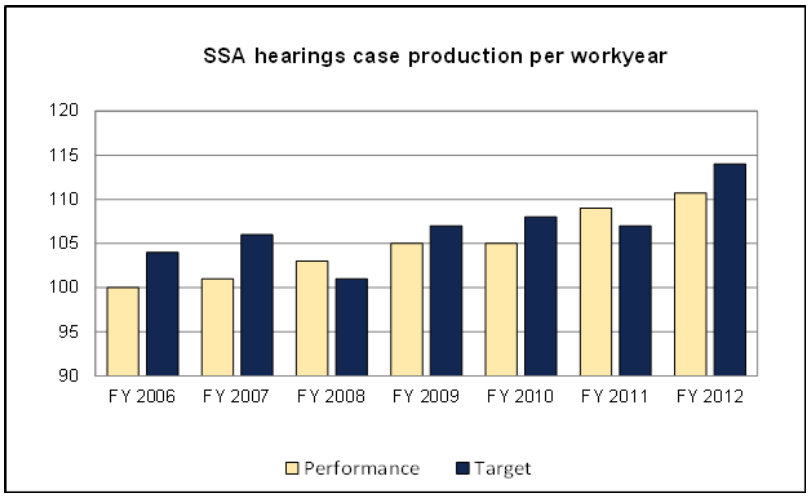
with pre-hearing analysis and on-the-record and dismissal capabilities. We anticipate our eBB will support our ALJs, improve decision writers' efficiency, and reduce remands from the Appeals Council.

1.1b: Achieve the budgeted goal for SSA hearings case production per workyear

FY 2012 Target: 114
Performance: 111
Target Achieved: No

Discussion: We improved our performance for the sixth consecutive year, but we fell slightly short of meeting this goal in FY 2012. We did not met our target because we cancelled eight planned hearing office openings for budgetary reasons, hearings receipts were higher than we projected, and we were unable to hire as many ALJs as we needed to complete this work.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	100	101	103	105	105	109	111
Target	104	106	101	107	108	107	114
Target Met	Not met	Not met	Met	Not met	Not met	Met	Not met

Data Definition: This indicator represents the average number of hearings completed per direct workyear used. A direct workyear represents actual time spent processing cases. It does not include time spent on training, ALJ travel, leave, holidays, etc.

Data Source: Office of Disability Adjudication and Review, Monthly Activity Report, the Case Processing and Management System, Payroll Analysis Recap Report, Travel Formula, and Training Reports (Regional reports on new staff training, ongoing training, and special training)

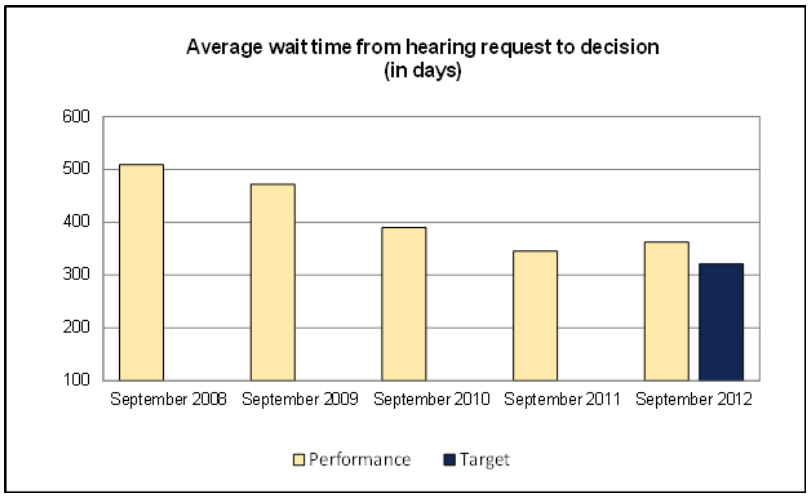
Plan for Improving Performance: We expect our Appointed Representative Services (ARS) to improve our performance. ARS provides appointed representatives the ability to access the electronic folders of their claimants through a secure website. Early use of ARS has reduced the need for hearing office staff to burn compact disc (CD) case files, freeing employees to perform more complex functions. When fully implemented in FY 2014, we project an 86 percent adoption rate by appointed representatives, delivering greater efficiencies and improved performance.

1.1c: Minimize average wait time from hearing request to decision (Priority Goal)

FY 2012 Target: 321 days (September only)
Performance: 362 days (September only)
Target Achieved: No

Discussion: We did not reach our target for average wait time for a hearing decision. We have received significant increases in hearings receipts in the last two years. We were only able to hire 145 of the 219 ALJs we needed in FY 2012. Due to resource constraints, we have less available space for ALJs because we had to cancel plans to open eight new hearing offices.

Trend:



September	2008	2009	2010	2011	2012
Performance	509	472	390	345	362
Target	N/A	N/A	N/A	N/A	321
Target Met	N/A	N/A	N/A	N/A	Not met

Data Definition: The average processing time for hearing request dispositions is the cumulative processing time for all hearing requests completed during the last month of the fiscal year divided by the total number of hearing requests completed during the last month of the fiscal year.

Data Source: Case Processing and Management System

Plan for Improving Performance: We are designing a new scheduling tool, called Auto Scheduling, to support timely hearing decisions. We will use this automated calendar-sharing tool to schedule hearings based on the availability of the hearing site, video equipment, ALJ, claimant, representative, and expert witnesses. Scheduling hearings is a resource intensive process because each hearing can involve up to five participants, from multiple locations, and by various means. Once fully developed and implemented, Auto Scheduling will allow schedulers to view the availability of all participants at once, significantly decreasing the time and effort it takes to schedule a hearing, which allows hearing office staff to focus on more complex work.

Note: This performance measure supports one of our three Priority Goals and is new for FY 2012. We present FY 2008 – FY 2011 performance for comparative purposes.

1.1d: Eliminate the oldest pending hearing requests

FY 2012 Target:	Less than 0.5% of pending hearing requests 725 days or older
Performance:	0.15% of pending hearing requests 725 days or older
Target Achieved:	Yes

Discussion: We achieved this goal. We began FY 2012 with 113,593 cases that would be 725 days or older by the end of the fiscal year. At the end of the fiscal year, only 169, or 0.15 percent, of claims remained, which was below our target.

Trend:

Fiscal Year	2007	2008	2009	2010	2011	2012
Performance	108 of 63,770 cases remained pending (.17%)	281 of 135,160 cases remained pending (.21%)	228 of 166,838 cases remained pending (.14%)	47 of 139,026 cases remained pending (.03%)	103 of 111,792 cases remained pending (.09%)	169 of 113,593 cases remained pending (.15%)
Target	Eliminate all hearings pending 1,000 days or older	Less than 1% of hearings pending 900 days or older	Less than 1% of hearings pending 850 days or older	Less than 0.5% of hearing requests pending 825 days or older	Less than 0.5% of hearing requests pending 775 days or older	Less than 0.5% of pending hearing requests 725 days or older
Target Met	N/A	Met	Met	Met	Met	Met

Data Definition: The percentage of oldest hearing requests pending. The oldest hearing requests are those cases that are pending, or will be pending, 725 days or more at the end of the fiscal year. We derive the percentage by dividing the total number of hearing requests pending 725 days or more at the end of the fiscal year by the total number of oldest hearing requests, identified at the beginning of the fiscal year.

Data Source: Case Processing and Management System

1.1e: Reduce the percentage of Appeals Council cases pending 365 days or over

FY 2012 Target:	Less than 20% of Appeals Council cases pending 365 days or over
Performance:	12% of Appeals Council cases remained pending 365 days or over
Target Achieved:	Yes

Discussion: We achieved this goal. We ended FY 2012 with 161,070 Appeals Council cases pending, of which 18,978, or 12 percent, were pending 365 days or over.

Trend:

Fiscal Year	2012
Performance	18,978 of 161,070 Appeals Council cases remained pending (12%)
Target	Less than 20% of Appeals Council cases pending 365 days or over
Target Met	Met

Data Definition: The percentage of oldest Appeals Council cases pending. The oldest Appeals Council cases are those cases that are pending, or will be pending, 365 days or over at the end of the fiscal year. The percentage is derived by dividing the total number of Appeals Council cases pending 365 days or over at the end of the fiscal year by the total number of Appeals Council cases pending at the end of the fiscal year.

Data Source: Appeals Review Processing System

Note: This performance measure is new for FY 2012.

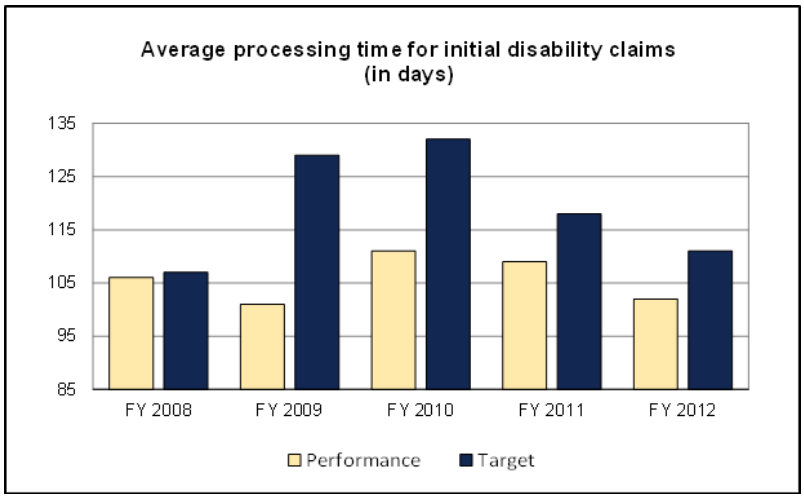
STRATEGIC OBJECTIVE 1.2: IMPROVE OUR DISABILITY POLICIES, PROCEDURES, AND TOOLS

1.2a: Minimize average processing time for initial disability claims

FY 2012 Target: 111 days
Performance: 102 days
Target Achieved: Yes

Discussion: In FY 2012, we lowered our average processing time to 102 days, 9 days below our target. This decrease is due, in part, to the continued productivity increases in our Disability Determination Services (DDS).

Trend:



Fiscal Year	2008	2009	2010	2011	2012
Performance	106	101	111	109	102
Target	107	129	132	118	111
Target Met	Met	Met	Met	Met	Met

Data Definition: The average processing time is the overall cumulative number of elapsed days (including processing times for transit, technical determinations, medical determinations, and quality review) from the date of filing through the date payment is made or the denial notice is issued for all initial claims that require a medical determination. The total number of days to process all initial disability claims requiring a medical determination is divided by the total number of initial disability claims requiring a medical determination that we process during the fiscal year.

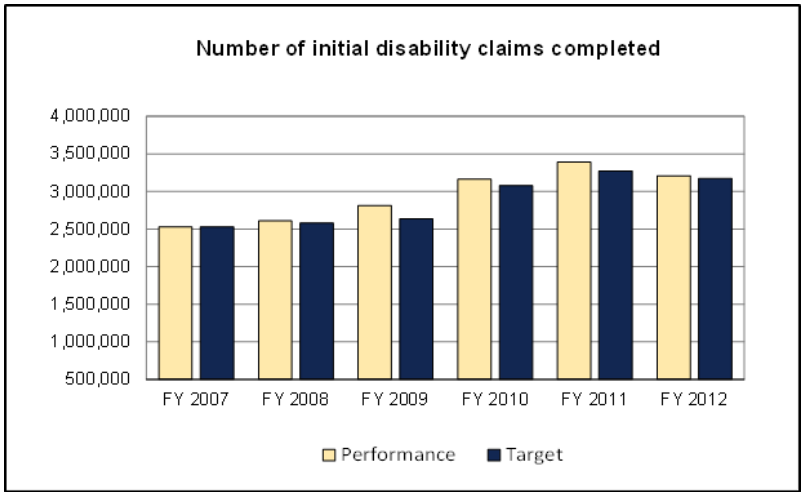
Data Source: Chicago Claims Goals Report sourced by Social Security Unified Measurement System Title II and Title XVI Processing Time

1.2b: Complete the budgeted number of initial disability claims

FY 2012 Target:	3,173,000
Performance:	3,206,869
Target Achieved:	Yes

Discussion: In FY 2012, we completed 3,206,869 initial disability claims, over 33,000 more than our target. This year was the third in a row we completed over 3 million claims.

Trend:



Fiscal Year	2007	2008	2009	2010	2011	2012
Performance	2,529,721	2,607,282	2,812,918	3,161,314	3,390,936	3,206,869
Target	2,530,000	2,582,000	2,637,000	3,081,000	3,273,000	3,173,000
Target Met	Not met	Met	Met	Met	Met	Met

Data Definition: The number of Social Security and Supplemental Security Income initial disability claims that the State Disability Determination Services and other agency components complete in the current fiscal year up to the budgeted number.

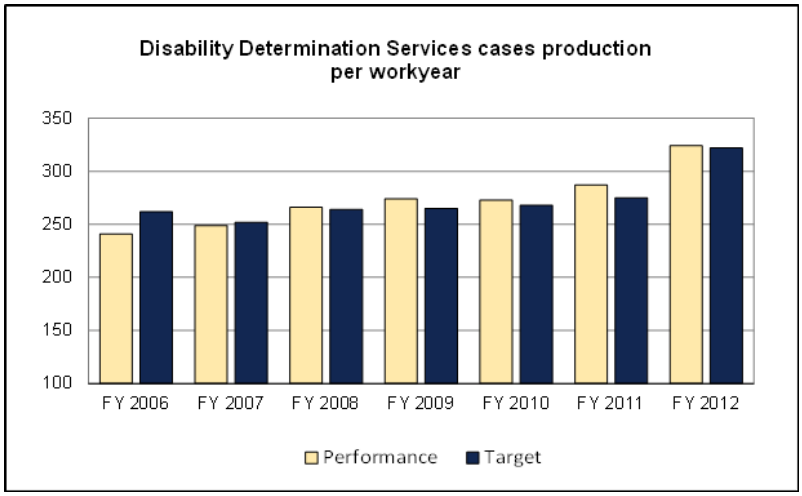
Data Source: National Disability Determination Services System and Disability Operational Data Store

1.2c: Disability Determination Services cases production per workyear

FY 2012 Target:	322
Performance:	324
Target Achieved:	Yes

Discussion: In FY 2012, we met our target for DDS case production per workyear. We have steadily increased our DDS productivity since FY 2006. We attribute our success to our experienced staff, process improvements, enhanced automation, and reliable information technology (IT) services.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	241	249	266	274	273	287	324
Target	262	252	264	265	268	275	322
Target Met	Not met	Not met	Met	Met	Met	Met	Met

Data Definition: The average number of all Disability Determination Services (DDS) cases produced per workyear expended. A workyear represents both direct and indirect time, including overhead (time spent on training, travel, leave, holidays, etc.). It is inclusive of all staff on the DDS payroll, including doctors under contract to the DDS. The DDS case production per workyear is a national target.

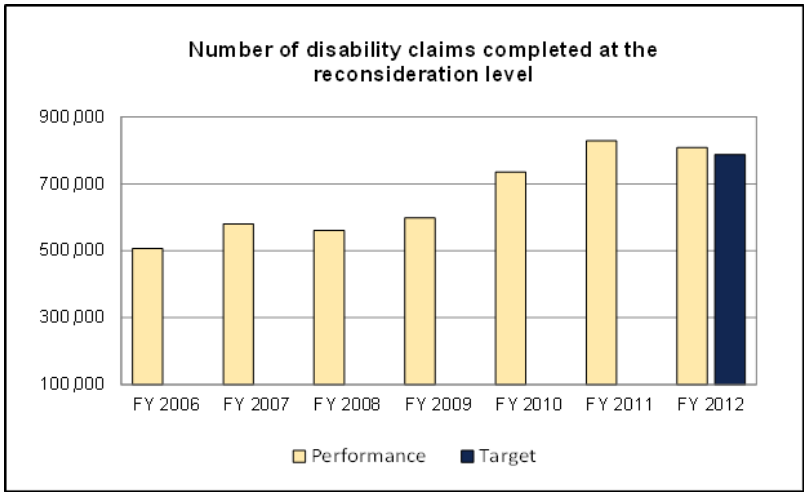
Data Source: National Disability Determination Services System and Disability Operational Data Store

1.2d: Complete the budgeted number of disability claims at the reconsideration level

FY 2012 Target:	787,000
Performance:	808,521
Target Achieved:	Yes

Discussion: A reconsideration is the first step in our administrative review process. In FY 2012, we met our goal to complete the budgeted number of disability claims at the reconsideration level.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	506,446	580,163	560,365	598,098	735,067	828,010	808,521
Target	N/A	N/A	N/A	N/A	N/A	N/A	787,000
Target Met	N/A	N/A	N/A	N/A	N/A	N/A	Met

Data Definition: The number of Social Security and Supplemental Security Income disability claims completed at the reconsideration level in the State Disability Determination Services and other agency components in the current fiscal year up to the budgeted number.

Data Source: National Disability Determination Services System and Disability Operational Data Store

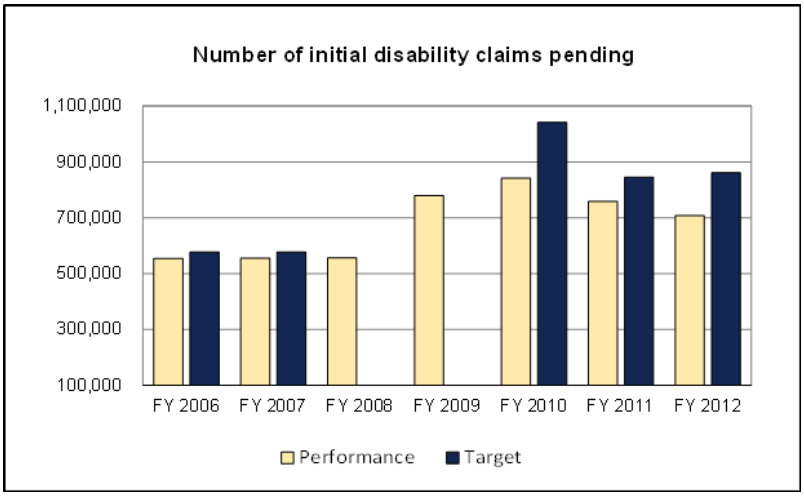
Note: This performance measure is new for FY 2012. We present FY 2006 – FY 2011 performance for comparative purposes.

1.2e: Achieve the target number of initial disability claims pending

FY 2012 Target:	861,000
Performance:	707,700
Target Achieved:	Yes

Discussion: We achieved this goal. We reduced our initial disability claims pending to 707,700 claims, 153,300 claims below our target.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	555,071	555,317	556,670	779,854	842,192	759,023	707,700
Target	577,000	577,000	N/A	N/A	1,041,000	845,000	861,000
Target Met	Met	Met	N/A	N/A	Met	Met	Met

Data Definition: The number of Social Security and Supplemental Security Income initial disability claims pending in the State Disability Determination Services and other agency components in the current fiscal year.

Data Source: National Disability Determination Services System and Disability Operational Data Store

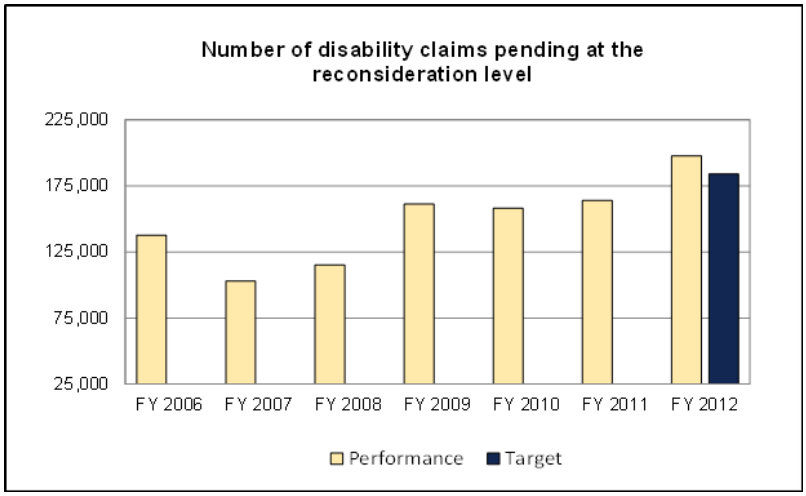
Note: This performance measure was new in FY 2010. We present FY 2008 – FY 2009 performance for comparative purposes.

1.2f: Achieve the target number of disability claims pending at the reconsideration level

FY 2012 Target:	184,000
Performance:	197,788
Target Achieved:	No

Discussion: Although we completed more reconsiderations than we planned, we did not achieve this target because the percentage of people who decide to appeal an initial denial has increased significantly. In FY 2012, reconsideration receipts were 72 percent higher than FY 2008.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	137,626	102,990	115,059	161,264	157,977	164,049	197,788
Target	N/A	N/A	N/A	N/A	N/A	N/A	184,000
Target Met	N/A	N/A	N/A	N/A	N/A	N/A	Not met

Data Definition: The number of Social Security and Supplemental Security Income disability claims pending at the reconsideration level in the State Disability Determination Services and other agency components in the current fiscal year.

Data Source: National Disability Determination Services System and Disability Operational Store

Plan for Improving Performance: While balancing our increasing workloads, we will continue to make every effort to achieve this and other targets. We will continue to monitor receipt levels and funded targets.

Note: This performance measure is new for FY 2012. We present FY 2006 – FY 2011 performance for comparative purposes.

1.2g: Update the medical Listing of Impairments

FY 2012 Target:	Publish five rules for public comment and two final rules
Performance:	Published three rules for public comment
Target Achieved:	No

Discussion: We did not meet our target for FY 2012. We published three rules for public comment in FY 2012. Rule Making is a multi-step process deliberately designed to include lengthy internal review and an opportunity for public comment. We continue to refine the medical Listing of Impairments.

Trend:

Fiscal Year	2009	2010	2011	2012
Performance	Published eight *Social Security Rulings* in the Federal Register	Published three final regulations and one Notice of Proposed Rule Making	Published two regulatory actions and one *Social Security Ruling*	Published three rules for public comment
Target	Develop and submit at least three regulatory actions or *Social Security Rulings*	Develop and submit at least three regulatory actions or *Social Security Rulings*	Develop and submit at least three regulatory actions or *Social Security Rulings*	Publish five rules for public comment and two final rules
Target Met	Met	Met	Met	Not met

Data Definition: We will develop regulatory actions or Social Security Rulings related to updating the medical Listing of Impairments for publication in the Federal Register. Regulatory actions include Advance Notice of Proposed Rulemaking, Notice of Proposed Rule Making, Final Rules, or Ruling, or other Federal notice.

Data Source: Office of Retirement and Disability Policy Workplan

Plan for Improving Performance: While we did not meet our target for FY 2012, we plan to improve our performance by queuing additional rules in our pipeline for FY 2013. For example, at the end of FY 2012, OMB had three regulations, one final rule, and two Notices of Proposed Rule Making (NPRM) for review, which OMB will publish in the Federal Register after completing the review process. We have two additional NPRMs and one ruling scheduled for release to OMB in early FY 2013; we then plan to publish up to five other NPRMs throughout the remainder of the fiscal year.

1.2h: Increase the percentage of disability cases evaluated using health Information Technology

FY 2012 Target:	500% above FY 2011 performance (37,500 claims)
Performance:	263% above FY 2011 performance (22,671 claims)
Target Achieved:	No

Discussion: While we increased the number of disability cases using health IT, we did not achieve this goal. We originally estimated the number of health IT cases assuming: (1) all 12 of our *American Recovery and Reinvestment Act* funded partners would be in production by the end of the January 2012; and (2) receiving the estimated volume of requests. However, four of the vendors were unable to move into production until May and June. By the fourth quarter of FY 2012, all 12 partners exchanged medical records with us using health IT.

In July 2012, we began a pilot with Kaiser Permanente, one of the Nation's largest healthcare providers, to exchange electronic health records in California. By the end of the fiscal year, we expanded our initiative by bringing on two new organizations.

Our 16 partners include facilities in the following 14 States: California, Idaho, Indiana, Massachusetts, Michigan, Minnesota, New Mexico, Ohio, Oregon, Pennsylvania, Texas, Virginia, Washington, and Wisconsin. In FY 2012, we lowered case processing time by approximately 23 percent, or 22 days less, for those cases containing medical records obtained through health IT.

Trend:

Fiscal Year	2010	2011	2012
Performance	Baseline Established (3,000 claims)	108% above FY 2010 baseline (6,235 claims)	263% above FY 2011 performance (22,671 claims)
Target	Establish Baseline	500% above FY 2010 baseline (18,000 claims)	500% above FY 2011 performance (37,500 claims)
Target Met	Met	Not met	Not met

Data Definition: The percentage increase in the number of disability cases evaluated using medical evidence gathered through health Information Technology (health IT) over the prior year.

Data Source: Health Information Technology Management Information System

Plan for Improving Performance: To continue to reap the benefits from our investment, we must increase the number of disability cases that can be evaluated using health IT. We plan to continue our expansion of health IT partners by exchanging medical records in additional facilities with existing partners as well as with a few new high volume organizations. In FY 2013, we intend to improve the percentage of disability cases evaluated using health IT with a 200 percent increase over FY 2012.

1.2i: Number of Disability Insurance and Supplemental Security Income disability beneficiaries, with Tickets assigned, who work

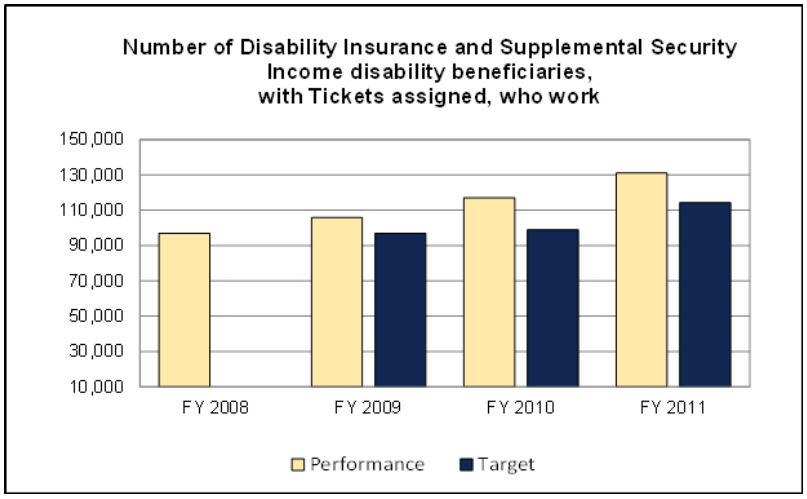
FY 2012 Target: 119,466
Performance: Data available July 2013
Target Achieved: TBD

Discussion: FY 2012 data for this performance measure will not be available until July 2013. We will discuss our FY 2012 performance in next year's report. Our FY 2011 performance data became available in July 2012.

In FY 2011, we exceeded our target with 131,099 beneficiaries with Tickets who worked. To help achieve this goal, we held 734 Work Incentive Seminar (WISE) webinars (www.chooseworkttw.net/wise/jsp/wise.jsp) with 1,744 beneficiaries, 254 employment networks, and community partners. WISE webinars feature information to help Social Security disability beneficiaries make the decision to reenter the workforce or to work for the first time.

For information about our Ticket to Work Evaluation Program, refer to page 96 of the *Program Evaluation* section.

Trend:



Fiscal Year	2008	2009	2010	2011	2012
Performance	96,993	105,843	117,124	131,099	Data available July 2013
Target	Establish a new baseline	97,000	98,940	114,310	119,466
Target Met	Met	Met	Met	Met	TBD

Data Definition: The total number of Social Security, Supplemental Security Income, and concurrent beneficiaries who used their Ticket to sign up with an Employment Network or State Vocational Rehabilitation Agency and who have recorded earnings in the Disability Control File in any month of the calendar year.

Data Source: Disability Control File "Verify Update Earnings Screen's Work and Earnings Reports" data field

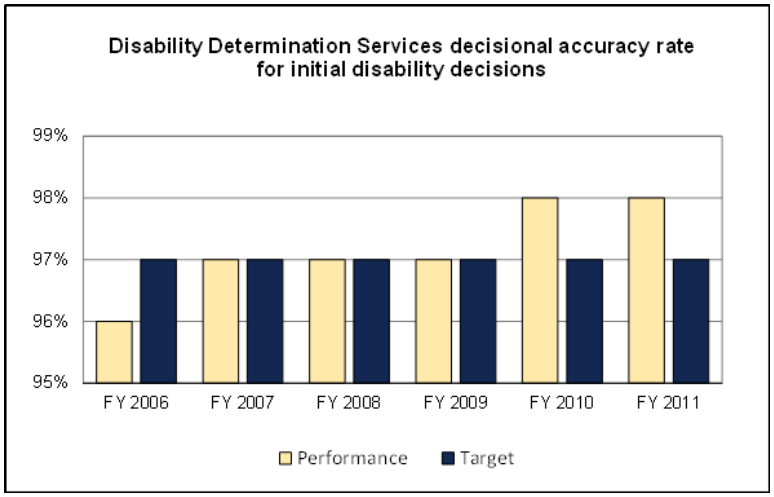
1.2j: Improve Disability Determination Services decisional accuracy rate for initial disability decisions

FY 2012 Target: 97%
Performance: Data available January 2013
Target Achieved: TBD

Discussion: FY 2012 data for this performance measure will not be available until January 2013. We will discuss our FY 2012 performance in next year's report. Our FY 2011 performance data were not available when we published our *FY 2011 Performance and Accountability Report*.

The data are now available and show that we exceeded our FY 2011 target with a 98 percent net accuracy rate.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	96%	97%	97%	97%	98%	98%	Data available January 2013
Target	97%	97%	97%	97%	97%	97%	97%
Target Met	Not met	Met	Met	Met	Met	Met	TBD

Data Definition: Net accuracy is the percentage of correct initial State disability determinations and is based on the net error rate (i.e., the number of corrected deficient cases with changed disability decisions), plus the number of deficient cases not corrected within 90 days from the end of the period covered by the report, divided by the number of cases reviewed.

Data Source: Disability Quality Assurance Databases

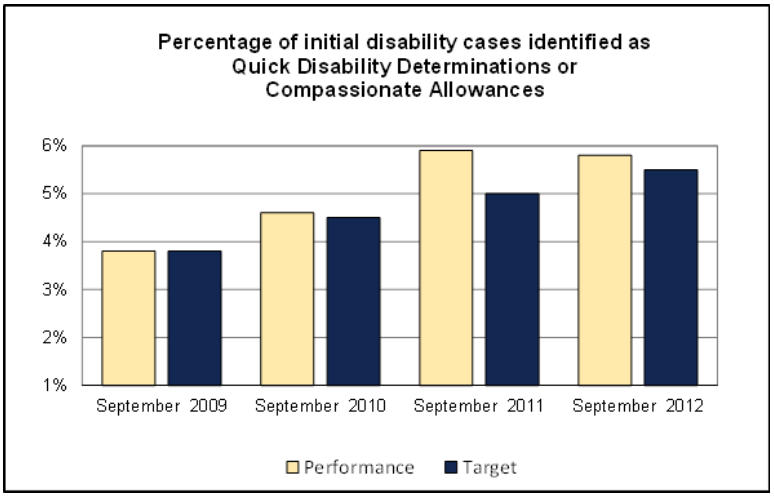
STRATEGIC OBJECTIVE 1.3: EXPEDITE CASES FOR THE MOST SEVERELY DISABLED INDIVIDUALS

1.3a: Achieve the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances

FY 2012 Target: 5.5% (September only)
Performance: 5.8% (September only)
Target Achieved: Yes

Discussion: In FY 2012, we met our goal. Quick Disability Determinations (QDD) and Compassionate Allowances (CAL) are two of our most successful initiatives designed to improve the speed of our disability process. In FY 2012, we updated our QDD predictive model, which allowed us to increase the number of applicants served through the process. We added 65 new conditions to the CAL list, which brought the total to 165 conditions. Our target was to identify 5.5 percent of the initial disability claims as QDD or CAL − we identified 5.8 percent in September 2012.

Trend:



September	2009	2010	2011	2012
Performance	3.8%	4.6%	5.9%	5.8%
Target	3.8%	4.5%	5.0%	5.5%
Target Met	Met	Met	Met	Met

Data Definition: We derive the percentage by dividing the total number of initial disability cases identified as a Quick Disability Determination or Compassionate Allowance, or both, by the total number of electronic initial disability cases filed in the last month of the current fiscal year.

Data Source: Executive and Management Information System and Management Information Disability

STRATEGIC GOAL 2: PROVIDE QUALITY SERVICES TO THE PUBLIC

STRATEGIC OBJECTIVE 2.1: INCREASE THE USE OF OUR ONLINE SERVICES

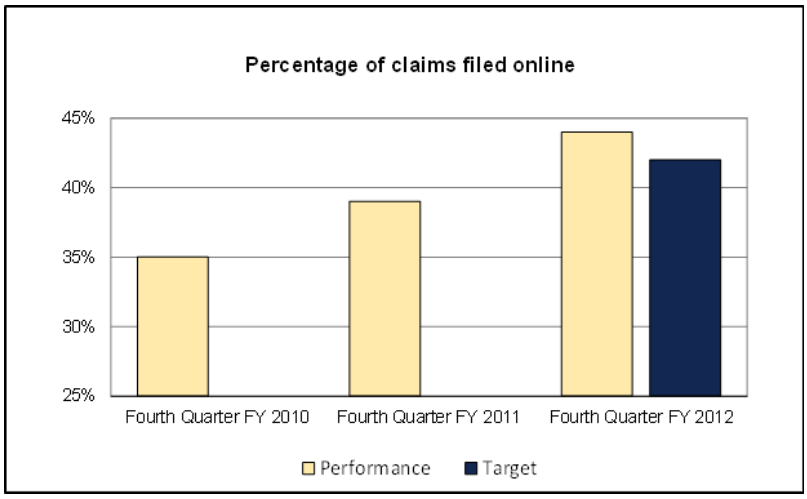
2.1a: Increase the percentage of claims filed online (Priority Goal)

FY 2012 Target:	42% (Last quarter only)
Performance:	44% (Last quarter only)
Target Achieved:	Yes

Discussion: In FY 2012, we achieved our goal by concentrating our marketing efforts on more targeted audiences.

iClaim – our online benefit application that is available in both English and Spanish – is one of the three highest rated electronic services in Federal Government, as measured by the American Customer Satisfaction Index (ACSI), ranking higher than popular private companies like Amazon and Google.

Trend:



Fourth Quarter FY	2010	2011	2012
Performance	35%*	39%*	44%
Target	N/A	N/A	42%
Target Met	N/A	N/A	Met

*To provide comparison data for FY 2010 and FY 2011, we present iClaims (combined initial Social Security disability, retirement, spouses, and Medicare claims filed online) for only the fourth quarter of FY 2010 and FY 2011.

Data Definition: The percentage of initial Social Security disability, retirement, spouses, and Medicare claims filed online in the last quarter of the fiscal year. We derive the percentage by dividing the number of initial Social Security disability, retirement, spouses, and Medicare claims filed online in the last quarter of the fiscal year by the total number of initial Social Security disability, retirement, spouses, and Medicare claims that could be filed online in the last quarter of the fiscal year.

Data Source: Social Security Unified Measurement System, MI Central, and Local Management Information Report

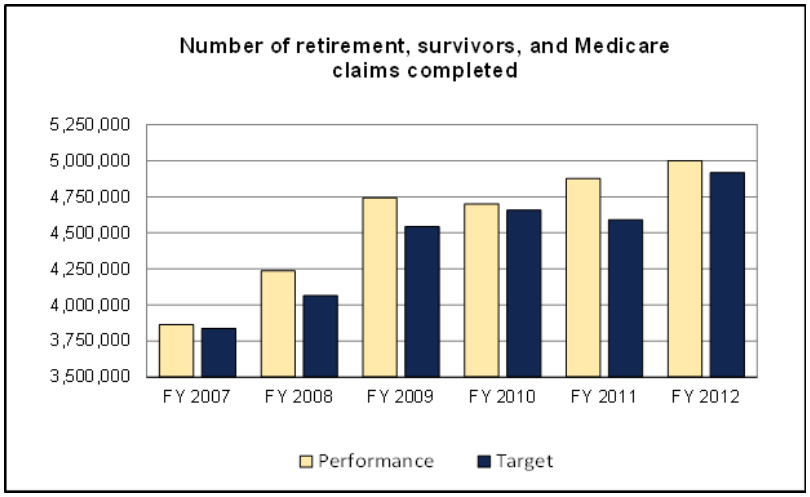
Note: This performance measure supports one of our three Priority Goals and is new for FY 2012. The new goal contains only the fourth quarter percentage of initial Social Security disability, retirement, spouses, and Medicare claims filed online.

2.1b: Complete the budgeted number of retirement, survivors, and Medicare claims

FY 2012 Target:	100% (4,918,000)
Performance:	102% (5,001,092)
Target Achieved:	Yes

Discussion: We achieved our goal by completing more than 5 million claims – a record breaking number. In FY 2012, we completed over a million more retirement, survivor, and Medicare claims than we completed in FY 2007. Our easy-to-use online application, iClaim, helped us keep up with the significant increase in applications.

Trend:



Fiscal Year	2007	2008	2009	2010	2011	2012
Performance	101% (3,863,813)	104% (4,236,455)	104% (4,742,218)	101%* (4,700,990)	106% (4,877,955)	102% (5,001,092)
Target	100% (3,837,000)	100% (4,065,000)	100% (4,543,000)	100% (4,718,000; 4,658,124 rec'd)	100% (4,590,000)	100% (4,918,000)
Target Met	Met	Met	Met	Met	Met	Met

*In FY 2010, our performance reached 101% as we completed 42,866 more retirement, survivors, and health insurance claims than were received. The number we received was slightly lower than we anticipated in the fiscal year; as a result, we were able to reduce the number of pending claims that were carried over from FY 2009.

Data Definition: The percent of retirement, survivors, and Medicare claims completed in the current fiscal year up to the budgeted number.

Data Source: Work Measurement Transitional Database

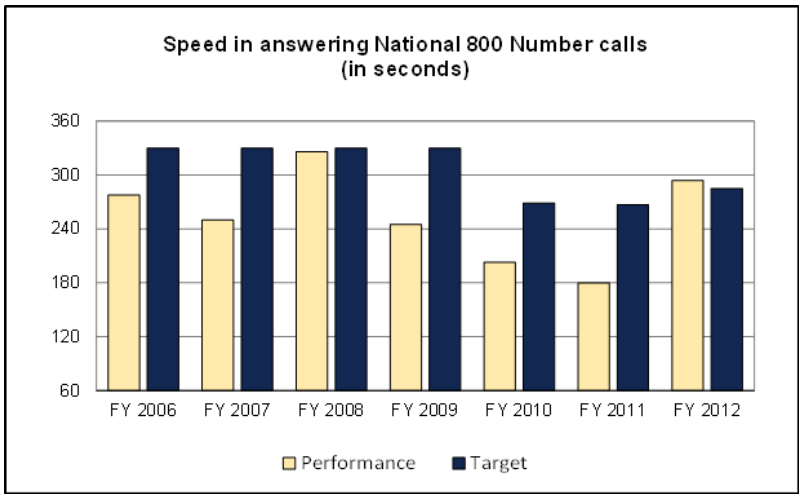
STRATEGIC OBJECTIVE 2.2: INCREASE PUBLIC SATISFACTION WITH OUR TELEPHONE SERVICES

2.2a: Achieve the target speed in answering National 800 Number calls

FY 2012 Target: 285 seconds
Performance: 294 seconds
Target Achieved: No

Discussion: In FY 2012, we did not meet our goal for Average Speed of Answer (ASA). Our ASA was 294 seconds, 9 seconds higher than our goal of 285 seconds. A more than 9 percent reduction in agents, coupled with an 11 percent increase in calls to the National 800 Number Network (callers wanting to speak to our agents compared to FY 2011), hindered our ability to achieve this goal.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	278	250	326	245	203	180	294
Target	330	330	330	330	269	267	285
Target Met	Met	Met	Met	Met	Met	Met	Not Met

Data Definition: We calculate the speed of answer by dividing the wait time of all National 800 Number calls answered by agents by the number of all National 800 Number calls answered by agents in the fiscal year. Wait time begins from the time the caller is transferred to the agent queue (waiting for an agent) and continues until an agent answers the call.

Data Source: Report generated by Cisco router software

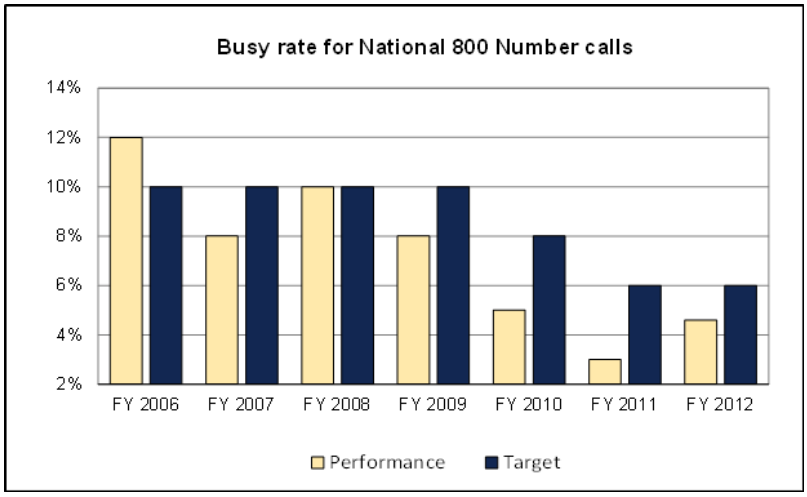
Plan for Improving Performance: We have made great strides in recent years to reduce the amount of time it takes to reach a National 800 Number agent. We reduced ASA three years in a row from FY 2009 – FY 2011. Even though staffing losses prevented us from continuing this trend in FY 2012, we continue to improve call center management processes and technologies to minimize the waiting times.

2.2b: Achieve the target busy rate for National 800 Number calls

FY 2012 Target: 6%
Performance: 5%
Target Achieved: Yes

Discussion: In FY 2012, we achieved our goal to keep the average busy rate down. Our busy rate was 5 percent, which was 1 percent lower than our target busy rate of 6 percent for National 800 Number calls.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	12%	8%	10%	8%	5%	3%	5%
Target	10%	10%	10%	10%	8%	6%	6%
Target Met	Not met	Met	Met	Met	Met	Met	Met

Data Definition: We calculate the Agent Busy Rate as the number of National 800 Number busy messages divided by the number of National 800 Number calls requesting agent service in the fiscal year. The caller receives a busy message when the number of calls offered exceeds the number of telephone lines available or when the agent queue has reached its maximum capacity of waiting calls.

Data Source: Report generated by Cisco router software

2.2c: Maintain the percent of people rating our services as "excellent," "very good," or "good"

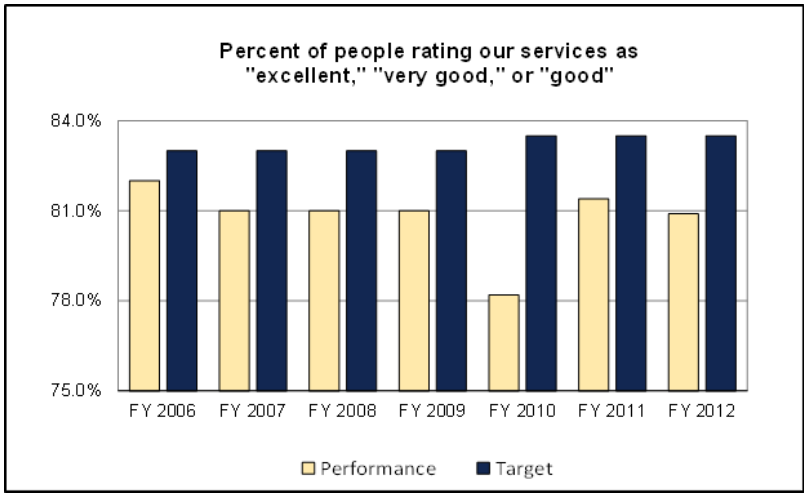
FY 2012 Target:	83.5%
Performance:	80.9%
Target Achieved:	No

Discussion: We did not achieve our FY 2012 target.

These survey results, along with other survey findings, allow us to identify the specific aspects of service where improvements would have the greatest effect on overall satisfaction. We discuss these surveys in more detail in the *Program Evaluation* section on page 98.

We also consider the ACSI as an indicator of the public's opinion of our services. ACSI results showed that the public was very satisfied with our online services in FY 2012. On a 100 point scale, our iClaims online benefit applications scored 92, and our online Retirement Estimator scored 90. Our online Extra Help with Medicare Prescription Drug Plan Costs scored 89 and our Social Security Internet Disability Report scored 83.

Trend:



Fiscal Year	2006	2007	2008	2009*	2010*	2011*	2012*
Performance	82%	81%	81%	81%	78.2%	81.4%	80.9%
Target	83%	83%	83%	83%	83.5%	83.5%	83.5%
Target Met	Not met	Not met	Not met	Not met	Not met	Not met	Not met

*Prior to FY 2009, historical data included surveys of National 800 Number callers, field office callers, and visitors to field offices and hearing offices only. Starting in FY 2009 and continuing in FY 2010, we expanded the data source to include individuals who filed an application online. In FY 2009, we included results of a special survey of iClaims in the calculation of the performance indicator. In FY 2010, we implemented the Internet Report Card Survey. We started that year with a sample that included iClaims and the online application for Extra Help with Medicare Prescription Drug Plan Costs. In FY 2011, we added online change of address and direct deposit transactions. In FY 2012, we included the iMedical segment, which sampled people who completed the online medical form for a disability initial claim or appeal. The FY 2011 Office Visitor Survey added Social Security Card Centers to the types of field offices included. Also, beginning in FY 2010, we rounded to one-tenth percent instead of whole number for both trend and performance data for this measure.

Data Definition: The percent is derived by dividing the number of respondents who rate overall service as "excellent," "very good," or "good" on a six-point scale ranging from "excellent" to "very poor" in the fiscal year by the total number of respondents.

Data Source: We based the overall satisfaction rating on Service Satisfaction Surveys of National 800 Number callers; field office callers; visitors to field offices (including Social Security Card Centers beginning in FY 2011) and hearing offices; and individuals who used one of our transactional Internet services. The Internet Report Card Survey, which began in FY 2010 with iClaim and Medicare Part D Subsidy applications, added online change of address and direct deposit actions to the types of transactions sampled in FY 2011. The FY 2012 Internet Report Card Survey will add a sample of individuals who completed the online medical form for a disability initial claim or appeal. The FY 2013 survey will incorporate online requests for information, such as benefit verifications.

Plan for Improving Performance: Although we did not meet our goal in FY 2012, we are making progress to improve the service rating from our customers for FY 2013 as follows:

- We will replace the National 800 Number infrastructure with a new modern infrastructure called Citizen Access Routing Enterprise (CARE 2020) that will help us better forecast call volumes, anticipate staffing needs, and distribute incoming calls across the network so callers can more quickly reach an agent. The new system will allow us to mirror industry practice of less than 1 percent busy signal rates. Wait times will be longer, but CARE 2020 will empower customers to make a decision to wait for service, receive a scheduled callback, or hang up and retry later, which we believe will be less frustrating for customers than reaching a busy signal.
- We will add an informational message to manage customers' expectations and reduce caller frustration. Field office callers will hear a message advising them how long their wait will be to speak to a representative – similar to the message our National 800 Number Network callers hear.

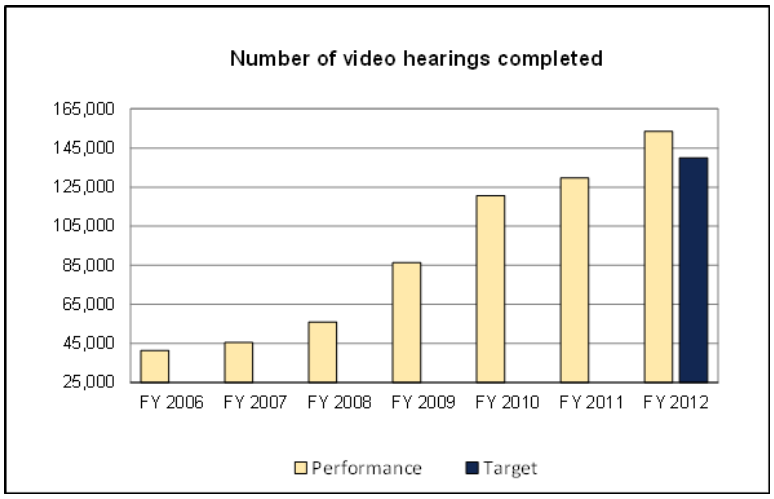
STRATEGIC OBJECTIVE 2.3: EXPAND THE USE OF VIDEO SERVICES

2.3a: Complete the planned number of video hearings

FY 2012 Target: 140,000
Performance: 153,592
Target Achieved: Yes

Discussion: We exceeded our goal by completing 153,592 video hearings in FY 2012, a growth rate of 17 percent. We attribute the growth in video hearings to a number of factors, such as more participants in the Representative Video Project where representatives are certified to participate in video hearings from their offices. Also, over the past year, we have added video capabilities to our hearing offices.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Performance	41,457	45,449	55,869	86,320	120,624	129,775	153,592
Target	N/A	N/A	N/A	N/A	N/A	N/A	140,000
Target Met	N/A	N/A	N/A	N/A	N/A	N/A	Met

Data Definition: The number of video hearings completed in the current fiscal year.

Data Source: Case Processing and Management System

Note: This performance measure is new for FY 2012. We present FY 2006 – FY 2011 performance for comparative purposes.

STRATEGIC OBJECTIVE 2.4: IMPROVE THE CLARITY OF OUR NOTICES

There is no performance measure for this objective.

STRATEGIC GOAL 3: PRESERVE THE PUBLIC'S TRUST IN OUR PROGRAMS

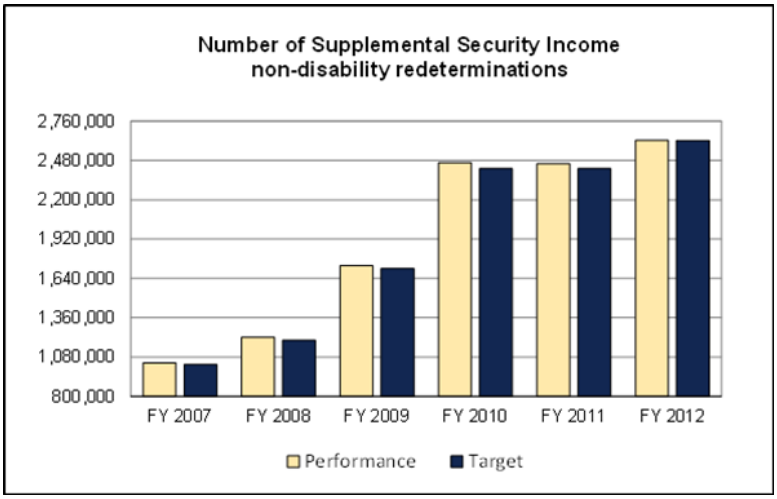
STRATEGIC OBJECTIVE 3.1: INCREASE EFFORTS TO ACCURATELY PAY BENEFITS

3.1a: Complete the budgeted number of Supplemental Security Income non-disability redeterminations

FY 2012 Target:	2,622,000
Performance:	2,624,170
Target Achieved:	Yes

Discussion: In FY 2012, we achieved our goal and completed 2,170 more redeterminations than we planned. Redeterminations are periodic reviews of the non-medical factors of SSI recipients' eligibility for SSI payments. We estimate that every dollar spent on SSI redeterminations yields about $6 in lifetime program savings, including savings accrued to Medicaid.

Trend:



Fiscal Year	2007	2008	2009	2010	2011	2012
Performance	1,038,948	1,220,664	1,730,575	2,465,878	2,456,830	2,624,170
Target	1,026,000	1,200,000	1,711,000	2,422,000	2,422,000	2,622,000
Target Met	Met	Met	Met	Met	Met	Met

Data Definition: The number of non-disability Supplemental Security Income redeterminations completed in the fiscal year up to the target. This number includes scheduled and unscheduled reviews, as well as targeted redeterminations.

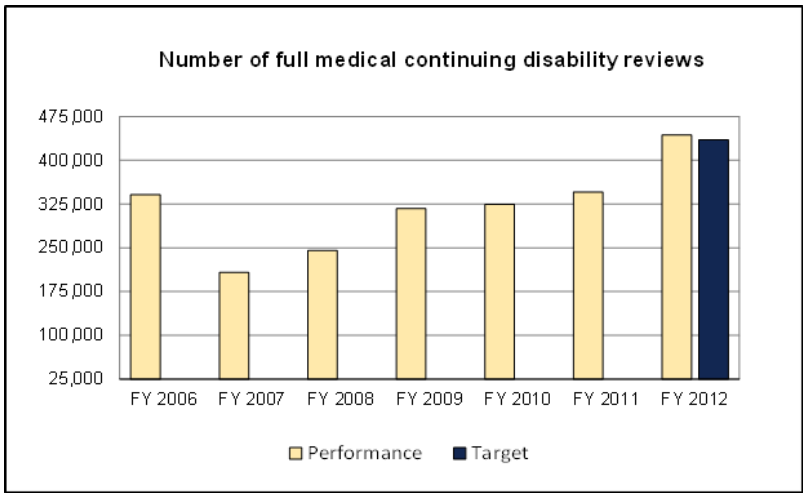
Data Source: Integrated SSA Unified Measurement System Counts Report

3.1b: Complete the budgeted number of full medical continuing disability reviews

FY 2012 Target:	435,000
Performance:	443,233
Target Achieved:	Yes

Discussion: In FY 2012, we achieved our goal. We conducted 97,741 more full medical continuing disability reviews (CDR) than FY 2011. We perform CDRs to determine if disabled beneficiaries still meet the medical requirements for continued eligibility. We estimate, on average, each dollar spent on full medical CDRs will yield about $9 in lifetime program savings, including savings accrued to Medicare and Medicaid.

Trend:



Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Full Medical	340,580	207,637	245,388	316,960	324,567	345,492	443,233
Target	N/A	N/A	N/A	N/A	N/A	N/A	435,000
Target Met	N/A	N/A	N/A	N/A	N/A	N/A	Met

Data Definition: The number of full medical CDRs completed in the fiscal year up to the target. This number represents only full medical reviews completed by the State DDS and other agency components and cases where we initiated a review but one was not conducted because the individual failed to cooperate.

Data Source: Continuing Disability Review Tracking Files

Note: This performance measure is new for FY 2012. We present FY 2006 – FY 2011 performance for comparative purposes. Prior to FY 2012, performance included reviews completed by the State DDS and other agency components, reviews conducted by questionnaires (mailers) that do not require a medical review, and cases where we initiated a review but one was not conducted because the individual failed to cooperate. The table below provides the total full medical CDRs and mailers reported in previous fiscal year reports.

Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Full Medical	340,580	207,637	245,388	316,960	324,567	345,492	443,233
Mailers	997,058	557,215	845,915	785,023	631,615	1,063,405	961,069
Total CDRs	1,337,638	764,852	1,091,303	1,101,983	956,182	1,408,897	1,404,302

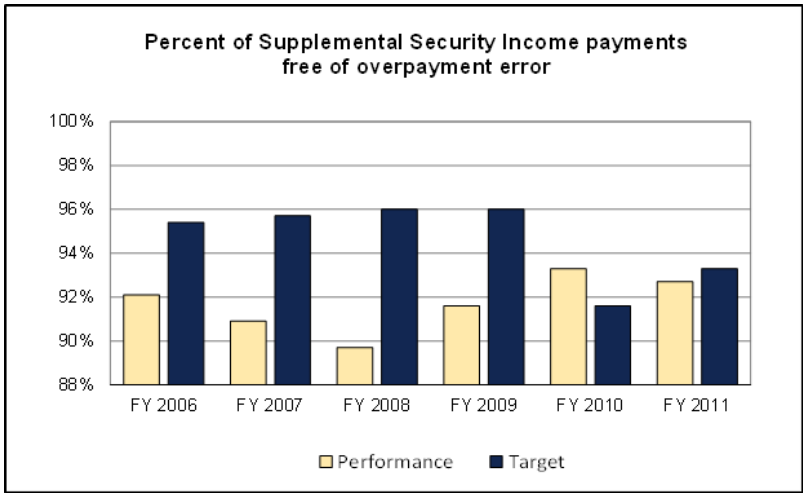
3.1c: Percent of Supplemental Security Income payments free of overpayment and underpayment error (Priority Goal)

FY 2012 Target:	Overpayment accuracy: 95.0%
	Underpayment accuracy: 98.8%
Performance:	Data available April 2013
Target Achieved:	TBD

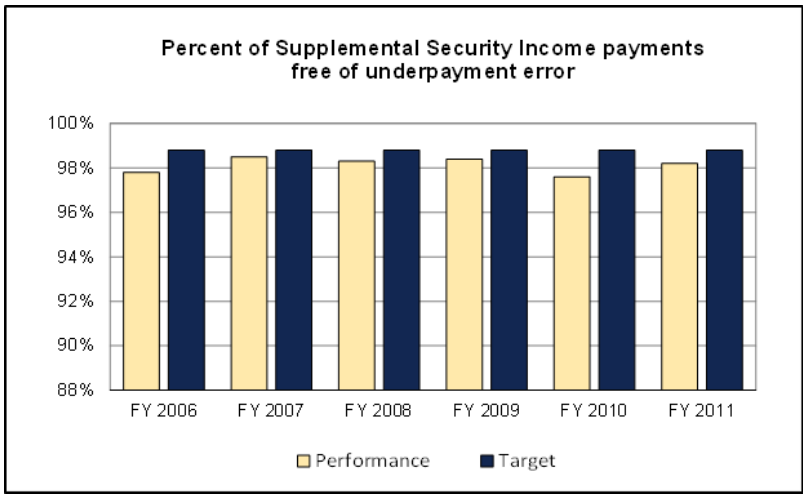
Discussion: FY 2012 data for this performance measure will not be available until April 2013. We will discuss our FY 2012 performance in next year's report. Our FY 2011 performance data were not available when we published our *FY 2011 Performance and Accountability Report*.

Data are now available and show that we did not meet our FY 2011 goal. Overpayments occur when we pay beneficiaries and recipients too much money. Underpayments occur when we pay beneficiaries and recipients too little money. Our SSI overpayment accuracy has improved since FY 2008 in part, because we have conducted more SSI redeterminations. SSI redeterminations generally have a positive effect, but not always a direct correlation, on our payment accuracy. More information about our SSI payment accuracy rates is located in our *Program Evaluation* section on page 103.

Trend:



Overpayment Accuracy Rate							
Fiscal Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Performance	92.1%	90.9%	89.7%	91.6%	93.3%	92.7%	Data available April 2013
Target	95.4%	95.7%	96.0%	96.0%	91.6%	93.3%	95.0%
Target Met	Not met	Not met	Not met	Not met	Met	Not met	TBD



Underpayment Accuracy Rate							
Fiscal Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Performance	97.8%	98.5%	98.3%	98.4%	97.6%	98.2%	Data available April 2013
Target	98.8%	98.8%	98.8%	98.8%	98.8%	98.8%	98.8%
Target Met	Not met	Not met	Not met	Not met	Not met	Not met	TBD

Data Definition: We determine the SSI payment accuracy rate free of overpayment and underpayment error by an annual review of a statistically valid sample of the beneficiary rolls. The payment accuracy is based on a non-medical review of sampled individuals receiving SSI payments during the fiscal year. We determine the overpayment accuracy rate by dividing the total overpayment error dollars by the total dollars paid for the fiscal year and subtracting this percentage from 100 percent. We determine the underpayment accuracy rate by dividing the total underpayment error dollars by the total dollars paid for the fiscal year and subtracting this percentage from 100 percent.

Data Source: Supplemental Security Income Stewardship Report

Plan for Improving Performance: We planned to significantly increase the number of bank verifications conducted through our Access to Financial Institutions Initiative by the beginning of FY 2013, however, due to resource shortages, we have delayed our plan. We continue to improve the bank verification process and will increase bank verifications as resources permit.

In FY 2013, SSI recipients (or their parent, spouse, or representative payee) will be able to use their Android or iPhone to report their monthly wage amounts. This application is an extension of the SSI Telephone Wage Reporting automated system that ensures wage amounts post timely to an individual's record. This initiative will serve as a research and development project as we work towards using mobile devices to interact with our customers.

Note: This performance measure supports one of our three Priority Goals.

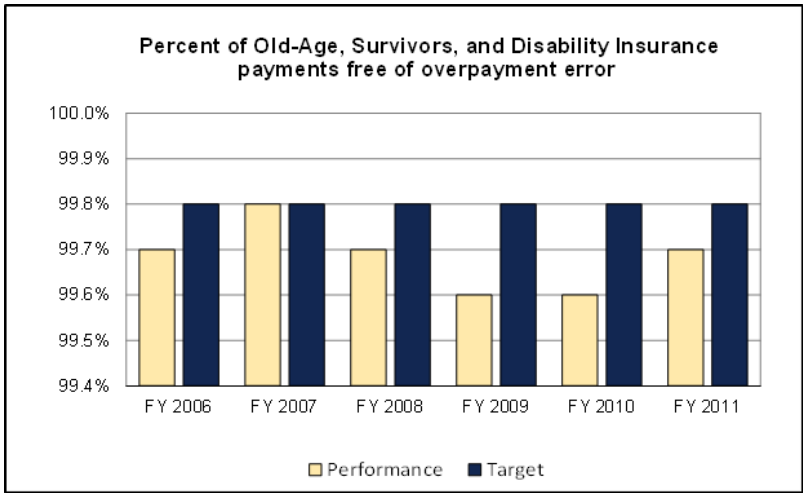
3.1d: Maintain percent of Old-Age, Survivors, and Disability Insurance payments free of overpayment and underpayment error

FY 2012 Target:	Overpayment accuracy: 99.8% Underpayment accuracy: 99.8%
Performance:	Data available April 2013
Target Achieved:	TBD

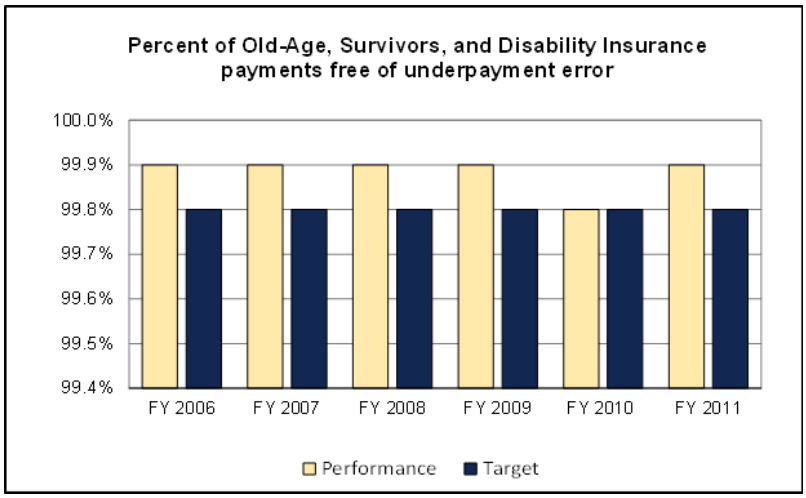
Discussion: FY 2012 data for this performance measure will not be available until April 2013. We will discuss our FY 2012 performance in next year's report. Our FY 2011 performance data were not available when we published our *FY 2011 Performance and Accountability Report*.

In FY 2011, we achieved our underpayment target, but we missed our overpayment target by 0.1 percent. Our Old-Age, Survivors, and Disability Insurance (OASDI) overpayment accuracy was 99.7 percent. Our underpayment accuracy rate for the OASDI program was 99.9 percent. There are many causes for improper OASDI payments, such as disabled beneficiaries' failing to report work activity, and beneficiaries' providing incorrect annual wage estimates. These and other causes resulted in approximately $3.2 billion in improper OASDI payments in FY 2011. More information about the OASDI accuracy rates is located in our *Program Evaluation* section, on page 102.

Trend:



Overpayment Accuracy Rate							
Fiscal Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Performance	99.7%	99.8%	99.7%	99.6%	99.6%	99.7%	Data available April 2013
Target	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%
Target Met	Not met	Met	Not met	Not met	Not met	Not met	TBD



Underpayment Accuracy Rate							
Fiscal Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Performance	99.9%	99.9%	99.9%	99.9%	99.8%	99.9%	Data available April 2013
Target	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%
Target Met	Met	Met	Met	Met	Met	Met	TBD

Data Definition: We determine the Old-Age, Survivors, and Disability Insurance (OASDI) payment accuracy rate free of overpayment and underpayment error by an annual review of a statistically valid sample of the beneficiary rolls. The payment accuracy is based on a non-medical review of sampled individuals receiving OASDI payments during the fiscal year. We determine the overpayment accuracy rate by dividing the total overpayment error dollars by the total dollars paid for the fiscal year and subtracting this percentage from 100 percent. We determine the underpayment accuracy rate by dividing the total underpayment error dollars by the total dollars paid for the fiscal year and subtracting this percentage from 100 percent.

Data Source: Old-Age, Survivors, and Disability Insurance Stewardship Report

Plan for Improving Performance: Our OASDI stewardship review indicates that this program is highly accurate. In an effort to prevent improper payments in our OASDI program, we continually enhance our statistical predictive models to identify the at risk workloads.

We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. We began testing this model in October 2010 and we expanded the pilot to include over 50 percent of the CDR workload. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments. We now prioritize the CDR enforcement alerts used to identify unreported earnings and complete the cases with highest earnings first to minimize overpayments.

STRATEGIC OBJECTIVE 3.2: RECOVER IMPROPER PAYMENTS

3.2a: Expand and enhance our debt collection tools

FY 2012 Target:	Implement Treasury Offset Program for programmatic delinquent debt over 10 years old
Performance:	Implemented Treasury Offset Program for programmatic delinquent debt over 10 years old
Target Achieved:	Yes

Discussion: We achieved our goal for FY 2012. In 2009, the United States (U.S.) Department of the Treasury enhanced the Treasury Offset Program by amending its regulations to allow for collection of legally enforceable, non-tax debts beyond the prior 10-year statute of limitation. In FY 2012, we identified 443,765 debtors with debt delinquent 10 years or more. In May 2012, we implemented systems enhancements to allow us to select and notify these debtors. In June 2012, we began sending notices to 60,000 of the affected debtors.

Data Definition: Develop and implement internal processes to allow SSA to begin pursuing, through the Department of Treasury Offset Program, programmatic debts that have been delinquent for longer than 10 years.

Data Source: The External Collection Operation Master File

Note: This performance measure is new for FY 2012.

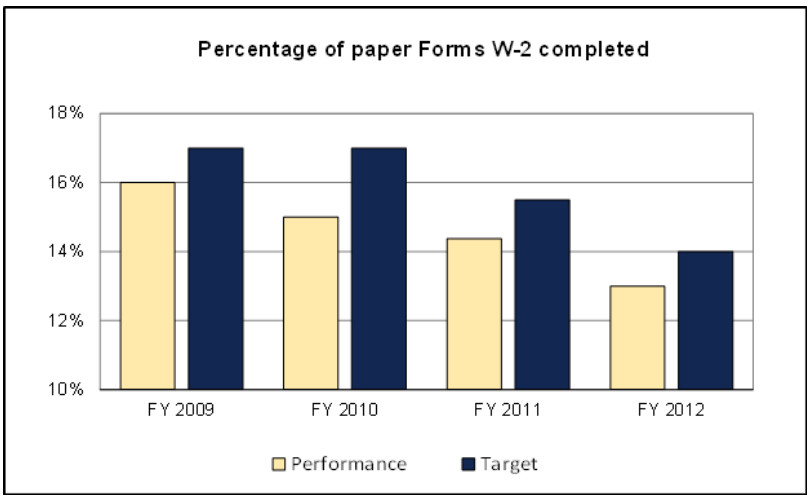
STRATEGIC OBJECTIVE 3.3: MAINTAIN ACCURATE EARNINGS RECORDS

3.3a: Reduce the percentage of paper Forms W-2 completed

FY 2012 Target: 14%
Performance: 13%
Target Achieved: Yes

Discussion: In FY 2012, we exceeded our target. Accurately posting all annual wage reports we receive to workers' earnings records is essential for the proper administration of our programs. We receive the majority of wage reports electronically. We still receive some paper reports, which are more error-prone and labor intensive to process.
To help reduce paper wage reports, we conducted several outreach activities to encourage employers to register and use our Business Services Online, which enables employers to file W-2 forms electronically.

Trend:



Fiscal Year	2009	2010	2011	2012
Performance	16%	15%	14.4%	13%
Target	17%	17%	15.5%	14%
Target Met	Met	Met	Met	Met

Data Definition: The percentage of paper Forms W-2 processed to completion. We derive the percentage by dividing the number of paper Forms W-2 processed to completion by the total number of Forms W-2 processed to completion. Data are reported cumulatively for the current calendar year, as Forms W-2 are processed for the prior tax year.

Data Source: Earnings Modernization Operational Data Store Management Information Reports

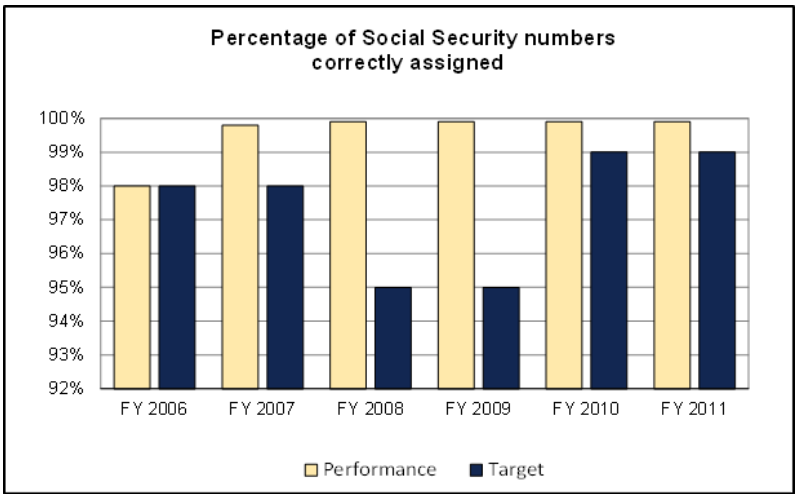
3.3b: Achieve the target percentage for correctly assigning original Social Security numbers

FY 2012 Target: 99%
Performance: Data available May 2013
Target Achieved: TBD

Discussion: FY 2012 data for this performance measure will not be available until May 2013. We will discuss our FY 2012 performance in next year's report. Our FY 2011 performance data were not available when we published our *FY 2011 Performance and Accountability Report*.

In FY 2011, we correctly assigned 99.9 percent of Social Security numbers (SSN), exceeding our FY 2011 target of 99 percent. To help us achieve this goal, we completed SSN specialized work in our card centers nationwide. We also continued making improvements to the SSN Application Process (SSNAP) tool, a web-based application for assigning original and replacement SSN cards in our field offices and card centers.

Trend:



Fiscal Year	2006	2007	2008*	2009*	2010*	2011*	2012
Performance	98%	99.8%	99.9%	99.9%	99.9%	99.9%	Data available May 2013
Target	98%	98%	95%	95%	99%	99%	99%
Target Met	Met	Met	Met	Met	Met	Met	TBD

*In FY 2008, historical data for SSNs correctly assigned included "if the applicant had more than one SSN, the numbers were cross-referenced." We changed the data definition in FY 2009 to what we considered a correctly assigned SSN, that is, if an individual did not receive more than one SSN. In FY 2010, we changed the data definition to include correct assignment of SSNs if the individual did not receive more than one SSN, except where permitted. Beginning with the *FY 2011 Performance and Accountability Report*, we reported our performance carried to the first decimal place of the percentage rather than rounding to a whole number percentage, as in previous year reports. We felt this was a more transparent reporting of this performance measure.

Data Definition: We derive the percentage using a statistically valid sample of original Social Security numbers assigned in the fiscal year. We divide the number of correctly assigned Social Security numbers by the total number sampled. We consider the Social Security number assigned correctly when: (1) the individual did not receive a Social Security number that belongs to someone else; (2) the individual did not receive more than one Social Security number, except where permitted; and (3) the individual is eligible to receive a Social Security number based on supporting documentation.

Data Source: Enumeration Quality Review

STRATEGIC OBJECTIVE 3.4: MAKE OUR ADMINISTRATIVE OPERATIONS EVEN MORE EFFICIENT

3.4a: Receive an unqualified audit opinion on SSA's financial statements

FY 2012 Target:	Receive an unqualified opinion
Performance:	Received an unqualified opinion
Target Achieved:	Yes

Discussion: For the 19th consecutive year, we received an unqualified opinion on our financial statements. In accordance with the *Chief Financial Officers Act*, the Office of the Inspector General contracted with Grant Thornton, LLP to independently audit our financial statements. In its audit, Grant Thornton, LLP found that our financial statements, as contained in this *FY 2012 Performance and Accountability Report*, are presented fairly, in all material respects, and in conformity with accounting principles generally accepted in the U.S. We take the stewardship of our programs very seriously, and we continue to demonstrate an unyielding dedication to sound financial management practices.

Trend: We have received an unqualified audit opinion every year from FY 1994 to FY 2012.

Data Definition: The receipt of an unqualified audit opinion from an independent auditor. We receive an unqualified opinion on the financial statements when an independent auditor determines that agency financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Data Source: The independent auditor report

STRATEGIC GOAL 4: STRENGTHEN OUR WORKFORCE AND INFRASTRUCTURE

STRATEGIC OBJECTIVE 4.1: STRENGTHEN OUR WORKFORCE – RECRUIT, TRAIN, DEVELOP, AND RETAIN SUPERIOR EMPLOYEES

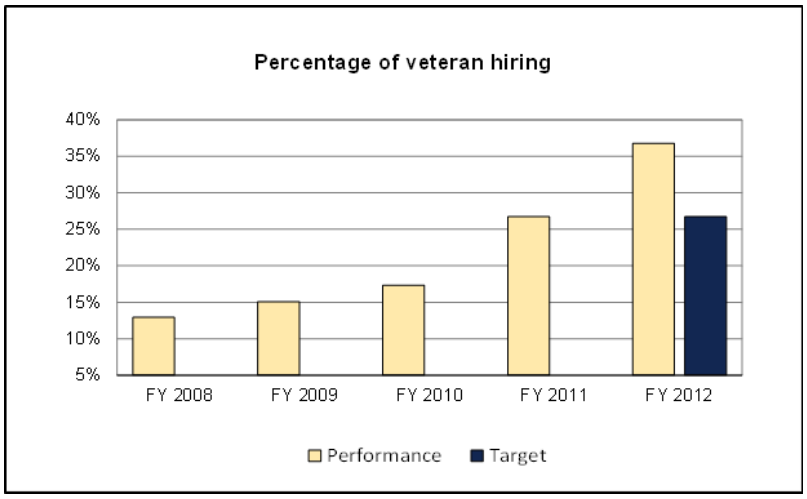
4.1a: Recruit and hire veterans and disabled veterans

FY 2012 Target:	Veteran Hiring:	26.72%
	Disabled Veteran Hiring:	14.59%
Performance:	Veteran Hiring:	36.78%
	Disabled Veteran Hiring:	15.49%
Target Achieved:	Yes	

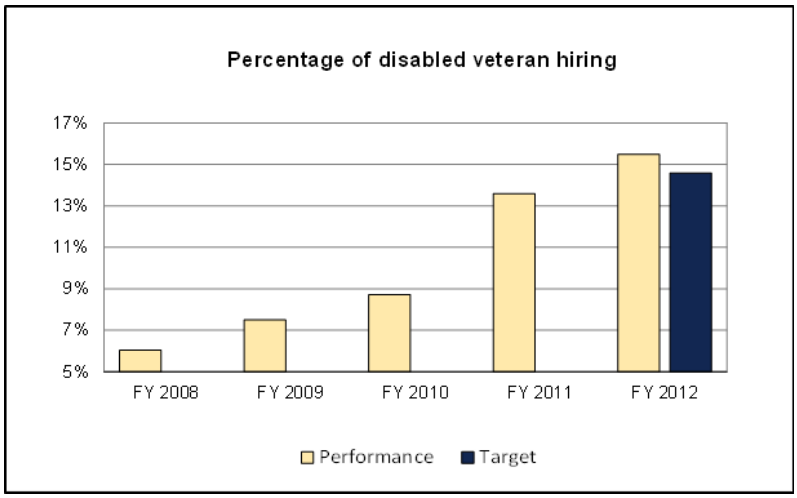
Discussion: We achieved our FY 2012 goal to recruit and hire veterans and disabled veterans. We implemented strategies to establish a pipeline of qualified veteran candidates.

We promoted the use of the Non-Paid Work Experience program to provide internship opportunities to connect with qualified veterans and created veteran referral packets based on non-competitive appointment eligibility to recruit and hire disabled veterans.

Trend:



Veteran Hiring					
Fiscal Year	**2008**	**2009**	**2010**	**2011**	**2012**
Performance	12.93%	15.07%	17.33%	26.72%	36.78%
Target	N/A	N/A	N/A	N/A	26.72%
Target Met	N/A	N/A	N/A	N/A	Met



Disabled Veteran Hiring					
Fiscal Year	**2008**	**2009**	**2010**	**2011**	**2012**
Performance	6.04%	7.50%	8.72%	13.59%	15.49%
Target	N/A	N/A	N/A	N/A	14.59%
Target Met	N/A	N/A	N/A	N/A	Met

Data Definition for Veteran Hiring: For a given fiscal year, the percentage of overall permanent hires who are veterans (i.e., an employee who has been discharged or released from active duty in the armed forces under honorable conditions and has a 5-point or 10-point veteran's preference).

Data Definition for Disabled Veteran Hiring: For a given fiscal year, the percentage of overall permanent hires who are disabled veterans (i.e., an employee who has been discharged or released from active duty in the armed forces under honorable conditions and has a 10-point preference due to a service-connected disability). This category is a subset of the overall veterans hiring statistic.

Data includes full-time permanent and part-time permanent employees only.

Data Source: Human Resources Operational Data Store

Note: This performance measure is new for FY 2012. We present FY 2008 – FY 2011 performance for comparative purposes.

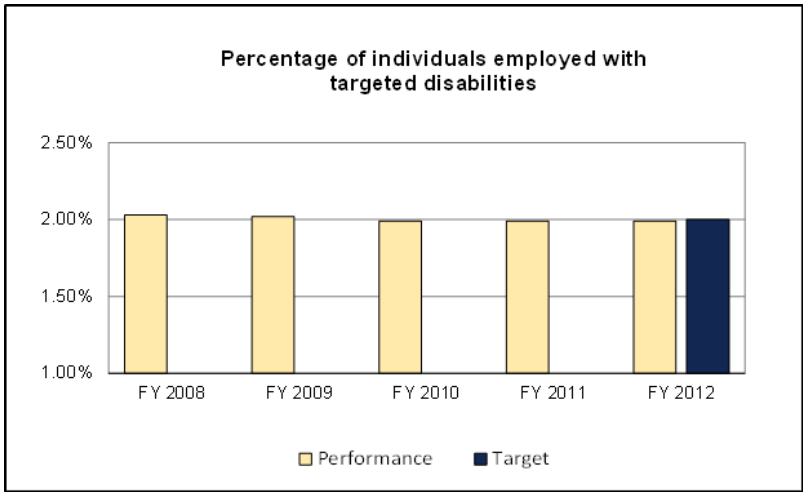
4.1b: Employ individuals with targeted disabilities

FY 2012 Target:	2.00%
Performance:	1.99%
Target Achieved:	No

Discussion: In FY 2012, we fell slightly short of our goal to employ individuals with targeted disabilities. We conducted targeted recruitment through our trained nationwide cadre of Selective Placement Coordinators who collaborated with partners from local colleges, State vocational rehabilitation agencies, Ticket to Work employment networks, advocacy groups, and other organizations to recruit qualified job candidates with disabilities. In addition, we selected candidates through the Schedule A appointing authority allowing us to hire individuals with disabilities outside of the traditional competitive hiring process.

Our Disability Careers website (www.socialsecurity.gov\careers\dib.html) is a valuable recruitment tool used to attract individuals with disabilities. In addition, we used video on demand as a valuable resource geared for managers who are seeking to permanently hire employees with disabilities.

Trend:



Fiscal Year	2008	2009	2010	2011	2012
Performance	2.03%	2.02%	1.99%	1.99%	1.99%
Target	N/A	N/A	N/A	N/A	2.00%
Target Met	N/A	N/A	N/A	N/A	Not met

Data Definition: The percentage of the on-duty workforce, as of the end of the fiscal year (September 30), who self-identified as an individual with a targeted disability (i.e., an employee who has self-identified with the following physical and/or mental impairment: deafness, blindness, missing extremities, partial paralysis, complete paralysis, and other impairment such as epilepsy, severe intellectual disability, psychiatric disability, and dwarfism). Data include full-time permanent and part-time permanent employees only.

Data Source: Human Resources Operational Data Store

Plan for Improving Performance: We plan to increase awareness of available hiring authorities, internal and external support resources, and employee retention efforts among hiring managers through enhanced marketing and training programs.

Note: This performance measure is new for FY 2012. We present FY 2008 – FY 2011 performance for comparative purposes.

4.1c: Conduct mandatory employee training on diffusing difficult encounters with the public

FY 2012 Target:	Develop the safety and security training curriculum
Performance:	Identified existing training and developed internal website
Target Achieved:	No

Discussion: We did not meet this goal.

Data Definition: The number of new and existing employees trained on safety and security measures when encountering irate and aggressive customers. We will train front-line employees first.

Data Source: Safety and Security Website and the Learning Management System

Plan for Improving Performance: We will achieve this goal in FY 2013 by:

- Conducting an agency-wide security training needs assessment;
- Designing a new and effective security training curriculum; and
- Establishing training delivery methods.

Note: This performance measure is new for FY 2012.

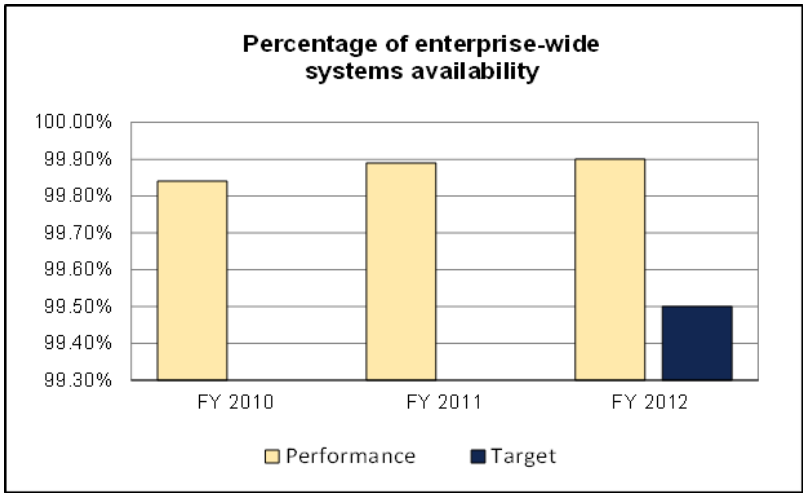
STRATEGIC OBJECTIVE 4.2: MAINTAIN SECURE AND RELIABLE INFORMATION TECHNOLOGY SERVICES

4.2a: Percentage of enterprise-wide systems availability

FY 2012 Target: 99.5%
Performance: 99.9%
Target Achieved: Yes

Discussion: We exceeded our target with a 99.9 percent enterprise-wide availability in FY 2012. Higher enterprise-wide systems availability allows our employees to be more productive. Our robust infrastructure and systems availability supports all our application processing needs. Our rigorous capacity planning ensures that hardware and network resources are in place to support application demands when needed. Continuous performance monitoring and tuning ensures we use these resources effectively and efficiently.

Trend:



Fiscal Year	2010	2011	2012
Performance	99.84%	99.89%	99.9%
Target	N/A	N/A	99.5%
Target Met	N/A	N/A	Met

Data Definition: We define enterprise availability as a weighted total availability of service channel mission critical applications for all our customers. An application is considered available when the end user can perform all business functions within the application with reasonable response times. Six different service channels (online, DDS eDIB, Internet, telephone, data exchange, and weekend outage) and accompanying applications are included.

Data Source: Change, Asset, and Problem Reporting System (Data is limited to Critical Application Severity 1 outages)

Note: This performance measure is new for FY 2012. We present FY 2010 – FY 2011 performance for comparative purposes.

STRATEGIC OBJECTIVE 4.3: INCREASE EFFICIENCY OF OUR PHYSICAL INFRASTRUCTURE

4.3a: Reduce energy intensity by 30 percent by 2015

FY 2012 Target: 7%
Performance: Data available January 2013
Target Achieved: TBD

Discussion: FY 2012 data for this performance measure will not be available until January 2013. We will discuss our FY 2012 performance in next year's report.

Our energy intensity is defined as the British thermal units, or BTUs, per gross square feet of the managed space. We implemented a number of Energy Conservation Measures, such as improving heating, ventilation, and air conditioning set point changes and reducing excess lighting.

Trend:

Fiscal Year	2010	2011	2012
Performance	5.6%*	1.8%*	Data available January 2013
Target	N/A	N/A	7%
Target Met	N/A	N/A	TBD

*We accomplish incremental progress by completing the annual Federal Energy Management Program worksheet using the results from monthly utility bills in delegated buildings. The Department of Energy issues the worksheet to agencies annually in October and it is due January 30.

Data Definition: Energy intensity is energy consumption per square foot of building space. Executive Order 13514 requires agencies to improve energy efficiency and reduce greenhouse gas emissions through reduction of energy intensity by 30 percent by the end of FY 2015 as it relates to the baseline of the agency's energy use in fiscal year 2003. We measure the decrease in energy consumption for FY 2012 compared to the FY 2003 usage baseline.

Data Source: Department of Energy Federal Energy Management Program Greenhouse Gas Reduction Inventory

Note: This performance measure is new for FY 2012. We present FY 2010 – FY 2011 performance for comparative purposes.

Program Evaluation

The following are brief summaries of selected program evaluations we completed, or obtained results for, during FY 2012. Program evaluations and surveys assess how well our programs are working. We list the evaluations under the Strategic Goal they support from our *Agency Strategic Plan for FY 2013 – FY 2016* (www.socialsecurity.gov/asp/index.html).

STRATEGIC GOAL 1: DELIVER QUALITY DISABILITY DECISIONS AND SERVICES

DISABILITY SCORECARD SURVEYS

The Disability Scorecard Surveys measure customer satisfaction with the disability application process at the initial and hearing levels. We survey disability claimants – both Social Security and Supplemental Security Income – in the following groups that reflect different stages of the process:

- Mid-process, after an initial disability application is filed but before a decision is made;
- Initial awards and denials, after the initial level decision on the application; and
- Hearing awards and denials, after the hearing level decision on the application.

We ask those surveyed for an overall rating of the service we provided during the disability application process. The chart below shows the percentage of respondents at each stage of the process rating our overall service as Excellent, Very Good, or Good for each year since the surveys were first conducted. The chart shows that respondent opinion is greatly influenced by the outcome of the application for disability benefits. In addition, the chart illustrates the extent of the decline in satisfaction as the application proceeds through the hearing level. However, the gap between initial and hearing level satisfaction is greater when the application is denied than when it is awarded.

FY 2011 Disability Scorecard Survey Results: Overall Opinion of Our Service

Fiscal Year	Disability Initial Claims Report Card Surveys			Hearing Process Report Card Survey	
	Mid-Process	Award	Denial	Award	Denial
2011	83%	92%	54%*	83%*	40%
2010	83%	92%	51%	80%*	39%*
2009	84%	92%	51%	76%*	37%*
2008	84%	92%	53%	74%	34%

*Indicates a statistically significant difference compared to the previous year.

DISABILITY CASE REVIEW OF ADMINISTRATIVE LAW JUDGE HEARING DECISIONS

The following discusses the results of our Disability Case Review of ALJ Hearing Decisions for FY 2011, which were not available when we published our *FY 2011 Performance and Accountability Report*. In FY 2011,

we conducted a quality review of our ALJ decisions, known as the Disability Case Review. This review evaluates both favorable and unfavorable ALJ hearing decisions.

Our two year data comparison begins with the last six months of 2009 and ends with the first six months 2011. In the last 6 months of FY 2009 (April through September), we agreed with 90 percent of ALJ favorable decisions and 89 percent of their unfavorable decisions. For FY 2010, we agreed with 84 percent of the ALJ favorable decisions and 91 percent of the unfavorable decisions. The 6-percentage point change between FY 2009 and FY 2010 for favorable decisions is statistically significant. The 2-percentage point change between ALJ unfavorable decisions in FY 2009 and FY 2010 is not statistically significant.

For mid-year FY 2011, we agreed with 78 percent of the ALJ favorable decisions and 88 percent for ALJ unfavorable decisions. None of the differences from our prior FY 2010 findings are statistically significant when compared to the mid-year FY 2011 findings. However, when comparing FY 2009 to mid-year FY 2011 ALJ favorable decisions, the 12-percentage point decline is statistically significant, while the 1-percentage point change from FY 2009 to mid-year FY 2011 for ALJ unfavorable decisions is not.

For those cases that we did not agree, we found most needed additional documentation to support the correct disability decision.

We will discuss the results of our FY 2011 Disability Case Review of ALJ Hearing Decisions in our *FY 2013 Annual Performance Report*.

EVALUATION OF TICKET TO WORK PROGRAM

We implemented the Ticket to Work Evaluation (www.socialsecurity.gov/disabilityresearch/research.htm#Ticket) to evaluate the progress of the program as required under the *Ticket to Work and Work Incentives Improvement Act of 1999*. In FY 2012, our independent evalution contractor completed the sixth evaluation report and several papers of the seventh and final evaluation report. Each of these reports is comprised of a series of papers and summary of findings.

Key findings of particular interest from the reports are as follows:

Can the Ticket to Work Program be Self-Financing? In the third paper of the sixth evaluation report, we analyzed whether the Ticket to Work (TTW) Program generates sufficient savings to self-finance. We found a modest, but carefully targeted, expansion of TTW participation and exits would make it more likely that the program would be self-financing. However, the scenarios in the paper highlight the need for us to target TTW carefully and avoid drawing in beneficiaries who do not need assistance from an employment network to leave the rolls.

Third WIPA Evaluation Report: This two-part analysis is the first of six papers that will make up the seventh evaluation report in a series.

- Part 1 presents findings on the activities of the 103 organizations receiving grants under our Work Incentives Planning and Assistance (WIPA) program from April 1, 2010 to March 31, 2011. This paper documents: (1) the characteristics of those who use WIPA services; (2) the work incentives, benefits, and services that community work incentive coordinators discussed with beneficiaries and those that WIPA service providers suggested they use; and (3) WIPA output measures, such as the number of beneficiaries enrolled in WIPA and the amount of funding each WIPA project receives and evaluates providers' performance.
- Part 2 examines what happens to beneficiaries after they enroll for WIPA services. The paper documents the characteristics of beneficiaries who enrolled for WIPA services from October 2009 through March 2010 and the services they received. The paper evaluates the beneficiaries' employment, earnings, benefit reductions due to earnings, use of work supports, and exits from the disability rolls during the period following WIPA program entry through the end of December 2010.

2010 National Beneficiary Survey: Methods and Statistics: We analyzed information from the fourth National Beneficiary Survey (NBS). The NBS collects data from a national sample of working-age (age 18 to 64) disability beneficiaries and SSI recipients and a separate sample of TTW participants. The NBS provides a portrait of all working-age Social Security beneficiaries and SSI recipients with disabilities and TTW participants. We found the percentage of people interested in work or career advancement dropped from 34 percent in the 2006 NBS to 31 percent in the 2010 NBS. Those working at the time of the interview dropped from 9 percent to 7 percent over the same period. These findings are not surprising, given the economic downturn that occurred between these two survey periods.

QUALITY REVIEW ASSESSMENT OF SENIOR ATTORNEY ADVISOR DISABILITY DECISIONS

The following presents the FY 2011 results of our Quality Review Assessment of Senior Attorney Advisor Disability Decisions, which were not available when we published our *FY 2011 Performance and Accountability Report*.

Some of our most experienced attorney adjudicators continue to help eliminate our hearings backlog by issuing fully favorable decisions when the decision can be made without a hearing in front of an ALJ. The FY 2011 accuracy rate for our senior attorney advisor process was 96 percent, based on a review of 960 decisions. The 2-percentage point change between FY 2008 (98 percent) and FY 2011 (96 percent) is statistically significant. We are focusing on training improvements to reduce the gap.

We will discuss the results of our FY 2012 Quality Review Assessment of Senior Attorney Advisor Disability Decisions in our *FY 2013 Annual Performance Report*.

OFFICE OF QUALITY PERFORMANCE DENIAL REVIEW

In FY 2011, we conducted an internal control review of medically-denied disability applications adjudicated by the DDSs. We conducted this review to identify whether the DDSs' denial decisions were policy compliant and supported by the medical and vocational evidence in the case file.

We reviewed 51,608 cases from all 52 DDSs throughout the nation (all 50 States, the District of Columbia, and the Commonwealth of Puerto Rico). To select the cases, we used a statistical model to identify cases that matched the profile for highly error-prone medically-denied disability applications. Out of the 51,608 cases we reviewed, 4,488 (8.7 percent) contained a substantive error (i.e., an error that could result in a change in the determination of the case).

Our review of denials in FY 2011 resulted in the reversal of 3,179 DDS denial determinations to allowances. These reversals resulted in claimants receiving their benefits at an earlier stage in the process.

STRATEGIC GOAL 2: PROVIDE QUALITY SERVICES TO THE PUBLIC

FIELD OFFICE TELEPHONE SERVICE EVALUATION

We conduct an annual evaluation of the telephone service in our field offices. Each year we select a random sample of over 100 field offices across the country for the evaluation. We monitor about 2,000 randomly selected calls over the course of the year to assess the accuracy of the information representatives provide and the actions they take. The representatives do not know when we monitor their calls. We use the results of our Field Office Telephone Service Evaluation, which we have conducted since 1999, to identify training needs and clarify operating instructions for our representatives.

We assess the accuracy of the information representatives provide and the actions they take based on our program policies and operating guidelines. We use two measures of accuracy in our Field Office Telephone Service Evaluation. The first measure we use is payment accuracy, which indicates the percentage of calls free of payment error. A payment error occurs when a representative's information or action (or failure to give information or take action) has the potential to affect a caller's payment or eligibility for benefits adversely. The second accuracy measure we use is service accuracy, which reflects the percentage of calls free of service error. A service error occurs when a representative does not meet the caller's need for information, causes the caller inconvenience, or creates an unnecessary additional workload.

Our latest published accuracy rates for field office telephone service are for FY 2011. Payment accuracy was 97 percent, statistically the same as the FY 2010 rate of 95.6 percent. Service accuracy improved significantly, up by almost 6-percentage points from 76.2 percent in FY 2010 to 81.9 percent in FY 2011.

NATIONAL 800 NUMBER TELEPHONE SERVICE EVALUATION

We monitor calls to our National 800 Number to evaluate both the accuracy of the information our telephone agents provide and the actions they take. Each year we monitor about 3,000 calls handled by agents in our 38 call centers nationwide. We randomly select and monitor calls throughout the year based on a statistical sampling methodology. Our agents do not know when we monitor their calls. We use the results of our annual National 800 Number Service Evaluation, which we have conducted on an ongoing basis since 1989, to identify training needs and improve operating instructions for our agents.

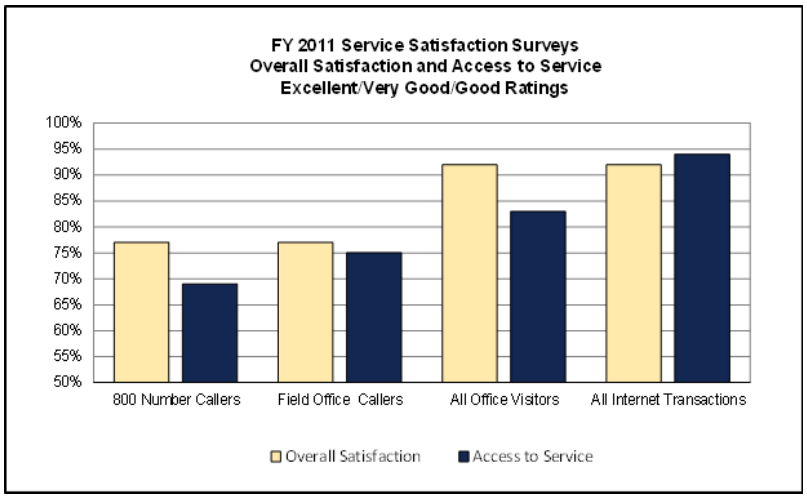
This evaluation identifies the specific causes of error and the operating policies that were not followed. It uses the same standards of payment and service accuracy as our Field Office Telephone Service Evaluation discussed above. Our latest published accuracy rates are for FY 2011. The FY 2011 payment accuracy rate of 97.8 percent was comparable to the FY 2010 payment accuracy rate of 97.4 percent. The FY 2011 service accuracy rate of 89.4 percent reflects a statistically significant improvement over the FY 2010 service accuracy rate of 87.3 percent.

OVERALL SERVICE SATISFACTION SURVEYS

We measure satisfaction with our services by surveying people who use them. The surveys we conduct reflect the public's perception of the services we provide in person, on the Internet, or by telephone at our National 800 Number and in our field offices. The feedback helps us identify strengths and weaknesses in our service delivery so we can make necessary improvements. We combine the survey results for our different types of services to produce a single customer satisfaction measure. In FY 2011, our service received a combined overall satisfaction rating of 81.4 percent for Excellent, Very Good, or Good.

The following chart shows the overall satisfaction ratings for each type of service included in our combined measure. Since people use the telephone to conduct Social Security business more than any other method (in FY 2011, over 70 percent of contacts were by telephone), satisfaction with our telephone service has a strong influence on the combined measure. The chart shows that, while the majority of callers were satisfied with our telephone service, their overall ratings did not reach the same very high level as ratings from people who conducted their business with us in person or on the Internet.

Our surveys have found that access to service – getting through on the telephone, waiting to be served in the office, or locating the desired service online – is an important factor that affects satisfaction with our service overall. The chart also displays ratings of access for each of our various types of service, and illustrates callers' lower levels of satisfaction with how quickly they were served on the telephone.



Satisfaction with the service our employees provide is also a very important factor in the overall satisfaction of our service. Our surveys find that our employees receive high marks for their courtesy, helpfulness, job knowledge, and the clarity of their explanations, whether they provide service on the telephone or in person. Ratings of these employee attributes were close to 90 percent Excellent, Very Good, Good, or above for all types of service.

PROSPECTIVE CLIENT SURVEY

We conducted the Prospective Client Survey in FY 2011 to improve our understanding of the service delivery preferences and expectations of members of the public as they approach retirement age. Our two previous Prospective Client Surveys were conducted in FY 2005 and FY 2008.

We surveyed a sample of people age 50 to 64 throughout the U.S. We targeted people in this age range because they were close enough to retirement to have considered the subject. Survey results reflected the opinions of 4,316 respondents.

The survey addressed preferred methods for handling various types of business with us and identified service attributes most important to future customers. The FY 2011 survey preserved the core questions from the previous surveys to allow us to track trends in service preferences. Other survey questions identified the nature and extent of Internet use and explored attitudes about filing online for retirement benefits. Security concerns when conducting business electronically and retirement planning were also covered.

We found that the first choice for a particular contact method appeared to be linked to the stage in the respondent's relationship with us. For all pre-claim business activities, speaking to an agent on the phone was by far the first choice of respondents. Visiting an office was favored more for activities closely associated with retiring – gathering retirement information and actually filing an application – than for other types of business. Filing a claim in person was actually preferred by respondents over either agent phone service or the Internet/email.

The Internet was preferred by about one in four respondents for most pre-claim and claim-related activities. This proportion increased to one out of three for checking the status of an application and for post-entitlement activities such as changing or obtaining personal information contained in our records. In fact, Internet/email was equally popular as agent phone service for both types of post-entitlement contacts.

SPECIAL NOTICE OPTION SURVEY

We conducted the Special Notice Option (SNO) Survey to measure satisfaction with our notices sent to blind or visually impaired individuals. The survey measured satisfaction with the following SNO formats: large print, data CD, Braille, follow-up telephone call, certified mail, and audio CD.

In FY 2011, we surveyed people who received a notice in their chosen SNO format to assess their satisfaction with their selection. The survey sampled individuals who received a notice in one of the SNO formats during the period May through September 2011. A contractor completed survey interviews by telephone. Survey results reflect the opinions of a total of 1,609 responders who confirmed the SNO choice used for the sampled notice.

The survey addressed issues common to all SNO formats, such as whether the notice arrived in good condition, as well as unique characteristics of each format. The key satisfaction measure for all formats was the response to the question, "Overall, how well did the notice meet your needs?" The survey measured satisfaction using our standard 6-point satisfaction scale: Excellent, Very Good, Good, Fair, Poor, and Very Poor.

Survey results demonstrated that overall, the SNO formats were effective in meeting customer needs, with few problems identified. The overall satisfaction rate for all formats combined was 92 percent Excellent, Very Good, and Good. Among the individual formats, ratings ranged from a low of 88 percent Excellent, Very Good, and Good for a follow-up telephone call to a high of 95 percent for both Braille and audio CDs. Open-ended comments, offered by about one-third of responders, were also largely positive with many expressing appreciation that the options are available.

STRATEGIC GOAL 3: PRESERVE THE PUBLIC'S TRUST IN OUR PROGRAMS

ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS

The *Social Security Act* requires the Board of Trustees of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds to report annually to Congress on the actuarial status and financial operations of the OASI and DI Trust Funds. The *2012 OASDI Trustees Report* (www.socialsecurity.gov/OACT/TR/2012), issued in April 2012, showed a decline in the projected long-term financial status of the Social Security program compared to the Trustees' 2011 report. The primary reasons for this decline were changes in economic projections due to changes in a number of factors and assumptions, such as birth and death rates, size and characteristics of the population receiving benefits, the level of monthly benefit amounts, the size of the workforce, and the level of covered workers' earnings.

Highlights in the report included:

- Non-interest income permanently fell below program costs in 2010;
- The projected point at which the combined OASI and DI Trust Funds will be exhausted is 2033 – three years earlier than the estimate in last year's report;
- The projected point at which the DI Trust Fund will be exhausted is 2016 – two years earlier than the estimate in last year's report;
- The projected actuarial deficit over the 75-year long-range period is 2.67 percent of taxable payroll – up from 2.22 percent in last year's report; and
- Over the 75-year period, the OASI and DI Trust Funds would require additional revenue equivalent to $8.6 trillion in present value as of January 1, 2012 to pay all scheduled benefits.

ANNUAL REPORT OF THE SUPPLEMENTAL SECURITY INCOME PROGRAM

We report annually to the President and to Congress the status of the SSI program. The report's purpose is to provide the necessary data to effectively manage the SSI program. The *2012 Annual Report of the Supplemental Security Income Program* (www.socialsecurity.gov/OACT/ssir/SSI12/index.html) issued in May 2012, includes projections for years 2012 to 2036.

Significant findings stemming from our evaluation included:

- By 2036, the end of the 25-year projection period, we estimate that the Federal SSI recipient population will reach 10.1 million. The projected growth in the SSI program over the 25-year period is largely due to the overall growth in the U.S. population, although we expect the recent economic slowdown to continue to generate some additional growth over the next few years beyond what we might expect from historical trends;
- We project that the percentage of the population receiving SSI will vary somewhat by age group, with the percentage for those age 65 or older declining throughout the projection period, and the percentage for those under age 65 continuing to increase over the next 3 years, but declining thereafter to a level slightly higher than the current percentage;
- As a percentage of the total U.S. population, the number of Federal SSI recipients increased slightly from 2.42 percent in 2010 to 2.47 percent in 2011. We project this percentage to increase gradually to 2.62 percent of the population by 2036 due largely to the changing age distribution of the population;
- We estimate that Federal expenditures for SSI payments in calendar year 2012 will increase by $3 billion to $52 billion, an increase of 6.1 percent from 2011 levels;
- In constant 2012 dollars, we project that Federal expenditures for SSI payments will increase to $64.6 billion in 2036, a real increase of 1.0 percent per year; and
- Federal SSI expenditures expressed as a percentage of Gross Domestic Product (GDP) were 0.32 percent in 2011. We project expenditures as a percentage of GDP will increase to 0.33 percent in 2012, remain essentially level through 2014, and decline thereafter to 0.25 percent of GDP by 2036.

ENUMERATION QUALITY REVIEW

The following presents results from our Enumeration Quality Review. These results were not available when we published our *FY 2011 Performance and Accountability Report.* Each year we process more than 5.4 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 data exchanges with public and private organizations. We refer to the process of assigning and issuing SSNs as enumeration.

To assess the accuracy of our enumeration process, we conduct annual reviews using a random sample of original SSNs assigned during the fiscal year by one of the following process:

- **Enumeration-at-Birth**: Parents can apply for an SSN for their newborn child at the same time they apply for their newborn's birth certificate. The State agency that issues the birth certificate shares the information with us and we assign an SSN and issue a Social Security card;
- **Enumeration-at-Entry**: Prospective immigrants can apply for an SSN as part of the Department of State's immigration process. When the immigrant enters the U.S., the Department of Homeland Security electronically transmits enumeration information to us. If the immigrant qualifies, we assign an SSN and issue a Social Security card; and
- **SSN Applications**: A person can apply for an SSN by completing Form SS-5, *Application for a Social Security Card*, and submitting it to a local field office or card center; or by having one of our

representatives file an application electronically through SSNAP during an in-office interview. If the person is qualified, we assign an SSN and issue a Social Security card.

In FY 2011, we correctly assigned 99.9 percent of SSNs exceeding our FY 2011 target of 99 percent. The most commonly cited error occurred when applicants received two different SSNs: one through Enumeration-at-Entry and one through SSNAP. To help us meet and exceed this goal, we completed SSN specialized work in our card centers nationwide. We continue making improvements to the SSNAP tool, a web-based Intranet application that assigns original SSNs and issues original and replacement SSN cards.

We derive the percentage of correctly assigned SSNs using a statistically valid sample of original SSNs assigned in the fiscal year. We divide the number of correctly assigned SSNs by the total number sampled. We consider the SSN assigned correctly when: (1) the individual did not receive a SSN that belongs to someone else; (2) the individual did not receive more than one SSN, except where permitted; and (3) the individual is eligible to receive a SSN based on supporting documentation.

We will discuss the FY 2012 Enumeration Quality Review results in our *FY 2013 Annual Performance Report.*

PREEFFECTUATION REVIEW OF DISABILITY DETERMINATIONS

Public Law 96-265, *Public Health and Welfare*, Section 221-c, requires us to review at least 50 percent of all Social Security Disability Insurance (DI) and concurrent DI/SSI Disability (SSI/DI) favorable initial and reconsideration determinations made by the DDS. In addition, Public Law 109-171, *Deficit Reduction Act*, requires we review at least 50 percent of all SSI adult initial and reconsideration favorable determinations made by the State DDS.

We select Preeffectuation Review (PER) cases from all 52 DDSs (the 50 States, District of Columbia, and DI cases from the Commonwealth of Puerto Rico) using a statistical model to identify allowances with a high probability of containing substantive errors (i.e., potential to ultimately reverse the determination from allowance to denial). In FY 2011, we conducted 383,826 DI and 119,383 SSI/DI preeffectuation reviews. The reviews resulted in 6,261 DDS determinations reversed from an allowance to a denial.

Three agency components work in conjunction with the Centers for Medicare and Medicaid Services to produce a report to Congress on the lifetime savings resulting from PER. The FY 2011 results will not be available until later this calendar year. The most recent PER Report to Congress for FY 2010 shows estimated lifetime savings of $627 million (which also includes Medicare and Medicaid savings).

RETIREMENT, SURVIVORS, AND DISABILITY INSURANCE STEWARDSHIP REVIEW

Stewardship findings provide the basic measure we use to report on the accuracy of OASDI payments. We base the FY 2011 report findings on non-medical reviews of monthly samples of OASDI payments issued from October 2010 through September 2011. We also provide payment accuracy rates for the current and previous reporting periods.

Overall, the OASDI accuracy rate was 99.7 percent for overpayments in FY 2011, based on improper payments totaling a projected $2.3 billion (i.e., 99.7 percent of all dollars paid were free of overpayment errors).

Accuracy for OASDI underpayments was 99.9 percent in FY 2011, based on unpaid dollars projected at $0.9 billion (i.e., underpayment dollar errors, as a percentage of total dollars paid, were slightly more than 0.1 percent).

Comparable accuracy rates for FY 2010 were 99.6 percent for overpayments and 99.8 percent for underpayments. The changes in the overall OASDI overpayment and underpayment accuracy rates are not statistically significant.

We will report the results of our FY 2012 Retirement, Survivors and Disability Insurance Stewardship Review in our *FY 2013 Annual Performance Report.*

SAFEGUARD REPORTS

Pursuant to Internal Revenue Code section 6103(p)(4), we are required to properly protect Federal Tax Information (FTI) handled in its various business processes.

We participate in three recurring activities with Internal Revenue Service (IRS) to ensure Code compliance:

1. The Safeguard Activity Report (SAR) we submit to the IRS for evaluation annually. A SAR describes controls agency components use to protect FTI in business processes and, when appropriate, provides a Plan of Action and Milestones to bring inadequate controls to full conformance with IRS' safeguard requirements. We successfully submitted the SAR in FY 2012.
2. The Safeguard Procedure Report (SPR) we submit to the IRS at least every six years. The SPR identifies significant changes to our FTI safeguard program. We successfully submitted the SPR in FY 2012.
3. The Safeguard Review we receive, when IRS conducts an onsite evaluation of our FTI safeguard program, every three years. IRS did not schedule a review for FY 2012.

SUPPLEMENTAL SECURITY INCOME STEWARDSHIP REVIEW

The review evaluates non-medical factors of eligibility and measures the accuracy of payments made to persons receiving SSI benefits. The primary objective is to measure the accuracy of payments we issued and to report these accuracy rates as required by the *Improper Payments Information Act of 2002*.

We reviewed 4,252 SSI cases in FY 2011. Accuracy rates are derived using data from the review of SSI cases with a payment made in at least one month of the fiscal year under review. Any difference between what was actually paid, and what the quality review determines should have been paid, is expressed as an overpayment (O/P) or underpayment (U/P) error. The O/P accuracy rate is the percentage of all dollars paid that are free of O/P errors. The U/P accuracy rate is the projected dollar value of U/P errors represented as a ratio of all dollars paid. The O/P and U/P accuracy rates are calculated and reported separately.

In FY 2011, the O/P accuracy rate was 92.7 percent based on overpaid dollars totaling a projected $3.8 billion. This represents a decrease of 0.6-percentage points from the FY 2010 O/P accuracy rate of 93.3 percent. This decrease is not statistically significant.

In FY 2011, the U/P accuracy rate was 98.2 percent based on underpaid dollars totaling a projected $0.95 billion. This represents an increase of 0.6-percentage points from the FY 2010 U/P accuracy rate of 97.6 percent. This increase is not statistically significant.

STRATEGIC GOAL 4: STRENGTHEN OUR WORKFORCE AND INFRASTRUCTURE

FEDERAL EMPLOYEE VIEWPOINT SURVEY (FORMERLY THE ANNUAL EMPLOYEE SURVEY/FEDERAL HUMAN CAPITAL SURVEY)

The U.S. Office of Personnel Management (OPM) sent the 2012 Federal Employee Viewpoint Survey to about 65,000 of our employees. Our employees had from April 17, 2012 through May 25, 2012 to take the survey. Over half of our permanent employees completed the survey.

We use the Federal Employee Viewpoint Survey results as a tool for measuring employee satisfaction and engagement throughout our agency. Traditionally, our employees show high levels of satisfaction working for us. We rank high in the categories of Job Satisfaction, Leadership, and Knowledge Management.

For more information about survey results refer to this link, Federal Employee Viewpoint Survey (www.fedview.opm.gov/).

FEDERAL INFORMATION SECURITY MANAGEMENT ACT REPORT

The *Federal Information Security Management Act* (FISMA) is part of the *eGovernment Act of 2002*. FISMA is a security framework requiring Federal agencies to ensure they provide adequate protections for Federal information systems and information. We must submit an annual FISMA status report to the OMB by November 15, 2012. Our report summarizes the results from security reviews conducted of our 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 intended to strengthen FISMA. As Congress considers new cyber security legislation, we will continue our efforts to meet and exceed existing information security requirements for protecting Federal information systems and personally identifiable information.

For more information refer to the complete report, *FY 2011 Report to Congress on the Implementation of the Federal Information Security Management Act of 2002* (www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/fy11_fisma.pdf).

HUMAN CAPITAL ACCOUNTABILITY SYSTEM

We monitor and evaluate the results of our human capital strategies, policies, and programs, as well as our adherence to merit system principles; it includes cyclical Human Resources Management and Delegated Examining Unit Assessments of components across the agency and our annual Human Capital Management Report.

We regularly review all aspects of the Human Capital Accountability System to determine efficiency, effectiveness, mission alignment, and compliance with the Human Capital Assessment and Accountability Framework (www.opm.gov/hcaaf_resource_center/2-2.asp). If changes are necessary, human resources consults and includes the appropriate staff and component in the adjustment process. The evaluation phase of the system is critical.

Results of these human capital reviews show that our human capital strategies, policies, and programs are sound and that we adhere to merit system principles. We took all required corrective actions identified through these reviews. In addition, we issued policy reminders, and provided refresher training, where needed, to ensure that we remain compliant with laws, regulations, and agency policies.

Many improvements in our accountability programs have been, and will continue to be, made through this process.

Some examples include:

- Completion of the Human Resources Management Assessment evaluation template. Through evaluation of feedback, our human resources staff will make necessary changes;
- Implementation of a remote Human Resources Management Assessment process to cut costs and improve efficiency; and
- Enhancement of the Delegated Examining Unit Audit process to increase audit effectiveness.

MANAGEMENT DIRECTIVE-715

The directive provides policy guidance and standards for establishing and maintaining effective affirmative action programs.

The Equal Employment Opportunity Commission (EEOC) Management Directive 715 (MD-715) requires Federal agencies to conduct an annual self-assessment of their Equal Employment Opportunity (EEO) program to ensure it

meets the requirements for each of the six essential elements of a model program. The assessment occurs in the first quarter of a fiscal year, with the report due to the EEOC in the second quarter of the fiscal year.

Below, we present our FY 2011 results, which were not available when we published our *FY 2011 Performance and Accountability Report*.

Our FY 2011 MD-715 self-assessment showed that of the 117 measures of the essential elements of a model EEO program that are applicable to us, we met 103 measures and were deficient in only 14 measures. Our strengths included:

- Issuing EEO policy statements and communicating EEO policies to all employees;
- Communicating effectively on structures to report to the Commissioner and other executives on the effectiveness, efficiency, and legal compliance of our EEO program;
- Staffing and funding our EEO program sufficiently; and
- Collaborating and coordinating effectively between EEO and Human Resources.

For the 14 identified deficiencies, we described our plans to correct them, to the extent possible. Examples of identified deficiencies included:

- Lack of timely compliance with EEOC orders;
- Not requiring managers to participate in Alternative Dispute Resolution; and
- Not timely completing EEO pre-complaint counseling.

We will discuss the results of our FY 2012 assessment in our *FY 2013 Annual Performance Report*.

NEW HIRE SURVEY

The New Hire Survey helps us to gauge our progress on recruiting, hiring, and engaging our newest employees. We complete the process of surveying our new employees hired throughout the fiscal year by the second quarter of the following fiscal year. Our 2012 New Hire Survey Report contains the survey results for our FY 2011 new hires.

We invited 639 newly hired employees in FY 2011 to complete the New Hire Survey, and 486 employees, or 76 percent, completed the survey. Survey results show that the majority (90 percent or more) of newly hired employees are satisfied with the application and hiring processes. Over 80 percent of newly hired employees indicate that they are satisfied with their overall orientation and training. Our efforts to make new employees feel welcome at their earliest points of interaction with us help retain a high-performing and diverse workforce.

OFFICE OF CIVIL RIGHTS AND EQUAL OPPORTUNITY QUALITY ASSURANCE PROGRAM

We assess the effectiveness of our EEO programs and our compliance with regulatory requirements, policy, and directives.

Between FY 2010 and FY 2012, we conducted 12 Office of Civil Rights and Equal Opportunity (OCREO) Quality Assurance Reviews and drafted reports from these reviews. We found that 11 of the 12 offices met the legal requirements for an effective EEO program, continued to work toward efficiently managing EEO program resources, and met customer needs. We worked with 1 of the 12 offices to help them meet the legal requirements for an effective EEO program.

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FINANCIAL SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Fiscal year (FY) 2012 marked the 19th consecutive year that we received an unqualified audit opinion on our financial statements. This accomplishment demonstrates our unyielding dedication to excellence in financial reporting. The unqualified opinion confirms that our financial statements present fairly the position of the agency and that they are free of material misstatement. We remain committed to being responsible stewards of the Old-Age, Survivors and Disability Insurance Trust Funds as we strive to achieve our mission.

Our independent auditor cited a material weakness in internal control over financial reporting related to our information security controls. While we acknowledge the auditor's findings, we do not agree that the findings, either individually or collectively, rise to the level of a material weakness. The independent auditor also identified a significant deficiency related to our benefit payment oversight. As we do with all auditor findings, we are pursuing a risk-based corrective action plan to address the findings. Additional information is available in the *Systems and Controls* and the *Auditor's Reports* sections of this report.

During this past year, we continued to pursue information technology advancements that ensure relevant, reliable, and timely accounting and management information. We upgraded our accounting system by implementing a software release that provides functionality to meet new Treasury Department reporting requirements, automates manual processes, and strengthens our ability to recover improper payments. We also implemented Business Intelligence software, which will provide more meaningful management information and reduce the time to compile and report on workload performance. Finally, we continued work on modernizing the cost analysis system, which will better manage and account for resources and enhance decision-making.

Executive Order 13589, *Promoting Efficient Spending*, requires agencies to reduce costs across several administrative categories. Prior to the issuance of the Executive Order, we examined our administrative areas and identified ways to cut costs where possible and eliminate antiquated and unnecessary practices. We continue to do everything we can to reduce costs, and we work diligently to identify opportunities to promote efficient, effective spending and perform mission-critical functions cost effectively.

Our *Performance and Accountability Report* for FY 2011 received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants, recognizing the agency's quality integration of performance and financial reporting. This is the 14th consecutive year we have received this prestigious award.

The achievements we made this year are a direct representation of our talented and dedicated employees. We are devoted to maintaining strong stewardship of the funds entrusted to us by the American people.

Michael G. Gallagher
Chief Financial Officer
November 8, 2012

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

The agency's financial statements and additional information for fiscal years (FY) 2012 and 2011 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2012 and 2011, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). We provide a Balance Sheet by Major Program as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2012 and 2011. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. We provide a Schedule of Net Cost to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2012 and 2011. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The Statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. We provide a Schedule of Changes in Net Position to present the change in net position by major programs as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2012 and 2011. We provide an additional Schedule of Budgetary Resources as Required Supplementary Information to present budgetary resources by major programs.
- The **Statement of Social Insurance** presents the present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future noninterest income and cost expected to arise from the formulas specified in current law for current and future program participants. We present the difference between these values on both an open group and a closed group basis, both including and excluding the value of the combined OASI and DI Trust Fund asset reserves at the beginning of the period.
- The **Statement of Changes in Social Insurance Amounts** reconciles the changes, from one 75-year valuation period to the next, in the present value of future noninterest income less future cost for current and future participants (the open group measure). The Statement shows two reconciliations: (1) changing from the period beginning on January 1, 2011 to the period beginning on January 1, 2012; and (2) changing from the period beginning on January 1, 2010 to the period beginning on January 1, 2011. This Statement identifies several changes that are significant and provides reasons for the changes.
- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries, and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated, and an interpretive analysis of trends revealed by the data.

Consolidated Balance Sheets as of September 30, 2012 and 2011
(Dollars in Millions)

Assets		**2012**		2011
Intragovernmental:				
Fund Balance with Treasury (Notes 3 and 4)	**$**	**5,414**	$	5,115
Investments (Note 5)		**2,719,042**		2,654,496
Interest Receivable, Net (Note 5)		**26,481**		28,085
Accounts Receivable, Net (Note 6)		**654**		625
Other		**29**		23
Total Intragovernmental		**2,751,620**		2,688,344
Accounts Receivable, Net (Notes 3 and 6)		**11,770**		11,089
Property, Plant, and Equipment, Net (Notes 3 and 7)		**3,132**		2,909
Other		**2**		2
Total Assets	**$**	**2,766,524**	$	2,702,344
Liabilities (Note 8)				
Intragovernmental:				
Accrued Railroad Retirement Interchange	**$**	**4,326**	$	4,227
Accounts Payable		**8,532**		8,357
Other		**245**		259
Total Intragovernmental		**13,103**		12,843
Benefits Due and Payable		**86,646**		82,218
Accounts Payable		**485**		485
Other		**1,300**		1,060
Total Liabilities		**101,534**		96,606
Net Position				
Unexpended Appropriations-Earmarked Funds (Note 9)		**61**		61
Unexpended Appropriations-Other Funds		**885**		376
Cumulative Results of Operations-Earmarked Funds (Note 9)		**2,662,913**		2,604,111
Cumulative Results of Operations-Other Funds		**1,131**		1,190
Total Net Position		**2,664,990**		2,605,738
Total Liabilities and Net Position	**$**	**2,766,524**	$	2,702,344

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2012 and 2011
(Dollars in Millions)

	2012	2011
OASI Program		
Benefit Payments	**$ 630,841**	$ 593,047
Operating Expenses (Note 10)	**3,518**	3,858
Total Cost of OASI Program	**634,359**	596,905
Less: Exchange Revenues (Notes 11 and 12)	**(14)**	(14)
Net Cost of OASI Program	**634,345**	596,891
DI Program		
Benefit Payments	**135,454**	127,471
Operating Expenses (Note 10)	**3,101**	3,282
Total Cost of DI Program	**138,555**	130,753
Less: Exchange Revenues (Notes 11 and 12)	**(43)**	(43)
Net Cost of DI Program	**138,512**	130,710
SSI Program		
Benefit Payments	**44,182**	49,041
Operating Expenses (Note 10)	**4,073**	4,216
Total Cost of SSI Program	**48,255**	53,257
Less: Exchange Revenues (Notes 11 and 12)	**(306)**	(358)
Net Cost of SSI Program	**47,949**	52,899
Other		
Benefit Payments	**6**	7
Operating Expenses (Note 10)	**2,130**	2,230
Total Cost of Other Program	**2,136**	2,237
Less: Exchange Revenues (Notes 11 and 12)	**(10)**	(9)
Net Cost of Other	**2,126**	2,228
Total Net Cost		
Benefit Payments	**810,483**	769,566
Operating Expenses (Note 10)	**12,822**	13,586
Total Cost	**823,305**	783,152
Less: Exchange Revenues (Notes 11 and 12)	**(373)**	(424)
Total Net Cost	**$ 822,932**	$ 782,728

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2012 and 2011

(Dollars in Millions)

	2012			2011		
	Earmarked Funds	**All Other Funds**	**Total**	Earmarked Funds	All Other Funds	Total
Cumulative Results of Operations:						
Beginning Balances	**$ 2,604,111**	**$ 1,190**	**$ 2,605,301**	$ 2,537,480	$ 1,637	$ 2,539,117
Budgetary Financing Sources						
Appropriations Used	**140,355**	**50,745**	**191,100**	101,998	55,974	157,972
Tax Revenues (Note 13)	**585,093**	**0**	**585,093**	580,886	0	580,886
Interest Revenues	**110,779**	**0**	**110,779**	115,169	0	115,169
Transfers-In/Out - Without Reimbursement	**(5,818)**	**7,883**	**2,065**	(5,858)	7,641	1,783
Railroad Retirement Interchange	**(4,750)**	**0**	**(4,750)**	(4,383)	0	(4,383)
Net Transfers-In/Out	**(10,568)**	**7,883**	**(2,685)**	(10,241)	7,641	(2,600)
Other Budgetary Financing Sources	**74**	**0**	**74**	67	0	67
Other Financing Sources (Non-Exchange)						
Imputed Financing Sources (Note 14)	**0**	**605**	**605**	0	680	680
Other	**0**	**(3,291)**	**(3,291)**	0	(3,262)	(3,262)
Total Financing Sources	**825,733**	**55,942**	**881,675**	787,879	61,033	848,912
Net Cost of Operations	**766,931**	**56,001**	**822,932**	721,248	61,480	782,728
Net Change	**58,802**	**(59)**	**58,743**	66,631	(447)	66,184
Cumulative Results of Operations	**$ 2,662,913**	**$ 1,131**	**$ 2,664,044**	$ 2,604,111	$ 1,190	$ 2,605,301
Unexpended Appropriations:						
Beginning Balances	**$ 61**	**$ 376**	**$ 437**	$ 61	$ 412	$ 473
Budgetary Financing Sources						
Appropriations Received	**140,363**	**51,262**	**191,625**	102,008	56,351	158,359
Other Adjustments	**(8)**	**(8)**	**(16)**	(10)	(413)	(423)
Appropriations Used	**(140,355)**	**(50,745)**	**(191,100)**	(101,998)	(55,974)	(157,972)
Total Budgetary Financing Sources	**0**	**509**	**509**	0	(36)	(36)
Total Unexpended Appropriations	**61**	**885**	**946**	61	376	437
Net Position	**$ 2,662,974**	**$ 2,016**	**$ 2,664,990**	$ 2,604,172	$ 1,566	$ 2,605,738

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2012 and 2011
(Dollars in Millions)

	2012	2011
Budgetary Resources (Note 15)		
Unobligated Balance, Brought Forward, October 1	**$ 870**	$ 2,095
Recoveries of Prior Year Unpaid Obligations	**227**	410
Other Changes in Unobligated Balance	**(16)**	(91)
Unobligated Balance From Prior Year Budget Authority, Net	**1,081**	2,414
Appropriations (Discretionary and Mandatory)	**969,480**	890,043
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	**14,918**	14,841
Total Budgetary Resources	**$ 985,479**	$ 907,298
Status of Budgetary Resources		
Obligations Incurred (Note 15)		
Direct	**$ 980,615**	$ 902,516
Reimbursable	**3,126**	3,912
Total Obligations Incurred	**983,741**	906,428
Unobligated Balance, End of Year		
Apportioned	**980**	291
Unapportioned	**758**	579
Total Unobligated Balance, End of Year	**1,738**	870
Total Status of Budgetary Resources	**$ 985,479**	$ 907,298
Change in Obligated Balance		
Unpaid Obligations, Brought Forward, October 1	**$ 88,326**	$ 87,604
Uncollected Customer Payments, Brought Forward, October 1	**(3,075)**	(3,830)
Obligated Balance, Start of Year (Net)	**85,251**	83,774
Obligations Incurred	**983,741**	906,428
Outlays, Gross	**(979,527)**	(905,296)
Change in Uncollected Customer Payments From Federal Sources (Net)	**(15)**	755
Recoveries of Prior Year Unpaid Obligations	**(227)**	(410)
Obligated Balance, Net, End of Period		
Unpaid Obligation, End of Year (Gross)	**92,313**	88,326
Uncollected Customer Payments From Federal Sources, End of Year	**(3,090)**	(3,075)
Obligated Balance, End of Year (Net)	**$ 89,223**	$ 85,251
Budgetary Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	**$ 984,398**	$ 904,884
Actual Offsetting Collections (Discretionary and Mandatory)	**(14,904)**	(15,596)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	**(15)**	755
Budget Authority, Net (Discretionary and Mandatory)	**969,479**	890,043
Outlays, Gross (Discretionary and Mandatory)	**979,527**	905,296
Actual Offsetting Collections (Discretionary and Mandatory)	**(14,904)**	(15,596)
Outlays, Net (Discretionary and Mandatory)	**964,623**	889,700
Distributed Offsetting Receipts	**(143,469)**	(105,395)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 821,154**	$ 784,305

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

Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
as of January 1, 2012
(Dollars in Billions)

		Estimates from Prior Years			
	2012	**2011**	**2010**	**2009**	**2008**
Present value for the 75-year projection period from or on behalf of: (Note 17)					
Participants who, in the starting year of the projection period, have attained eligibility age (age 62 and over):					
Noninterest income	$ 847	$ 726	$ 672	$ 575	$ 542
Cost for scheduled future benefits	9,834	8,618	8,096	7,465	6,958
Future noninterest income less future cost	-8,988	-7,892	-7,424	-6,890	-6,416
Participants who have not yet attained retirement eligibility age (ages 15-61):					
Noninterest income	22,703	20,734	19,914	18,559	18,249
Cost for scheduled future benefits	37,753	34,042	32,225	30,207	29,021
Future noninterest income less future cost	-15,050	-13,309	-12,311	-11,647	-10,772
Present value of future noninterest income less future cost for current participants (closed group measure)	-24,038	-21,201	-19,735	-18,537	-17,188
Combined OASI and DI Trust Fund assets at start of period	2,678	2,609	2,540	2,419	2,238
Closed group - Present value of future noninterest income less future cost for current participants *plus* combined OASI and DI Trust Fund assets at start of period	-$ 21,360	-$ 18,592	-$ 17,195	-$ 16,118	-$ 14,949
Present value for the 75-year projection period from or on behalf of: (Note 17)					
Future participants (those under age 15 and to be born and to immigrate during period):					
Noninterest income	21,649	20,144	19,532	18,082	17,566
Cost for scheduled future benefits	8,890	8,100	7,744	7,223	6,933
Future noninterest income less future cost	12,759	12,044	11,789	10,860	10,633
Present value of future noninterest income less future cost for current and future participants (open group measure)	-11,278	-9,157	-7,947	-7,677	-6,555
Combined OASI and DI Trust Fund assets at start of period	2,678	2,609	2,540	2,419	2,238
Open group - Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund assets at start of period	-$ 8,601	-$ 6,548	-$ 5,406	-$ 5,258	-$ 4,316

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

Statement of Changes in Social Insurance Amounts
Old Age, Survivors and Disability Insurance
For Changing the 75-Year Valuation Period from

January 1, 2011 to January 1, 2012
(Dollars in Billions)

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund Assets	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund assets at start of period
As of January 1, 2011	-$ 9,157	$ 2,609	-$ 6,548
Reasons for changes between January 1, 2011 and January 1, 2012 (Note 17)			
Change in the valuation period	-473	69	-404
Changes in demographic data, assumptions, and methods	-140	0	-140
Changes in economic data, assumptions, and methods	-1,037	0	-1,037
Changes in methodology and programmatic data	-471	0	-471
Net change between January 1, 2011 and January 1, 2012	-$ 2,121	$ 69	-$ 2,052
As of January 1, 2012	-$ 11,278	$ 2,678	-$ 8,601

January 1, 2010 to January 1, 2011
(Dollars in Billions)

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund Assets	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund assets at start of period
As of January 1, 2010	-$ 7,947	$ 2,540	-$ 5,406
Reasons for changes between January 1, 2010 and January 1, 2011 (Note 17)			
Change in the valuation period	-436	77	-359
Changes in demographic data, assumptions, and methods	-688	0	-688
Changes in economic data, assumptions, and methods	-143	0	-143
Changes in methodology and programmatic data	56	-8	48
Net change between January 1, 2010 and January 1, 2011	-$ 1,211	$ 69	-$ 1,142
As of January 1, 2011	-$ 9,157	$ 2,609	-$ 6,548

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

Notes to the Basic Financial Statements For the Years Ended September 30, 2012 and 2011

(Presented in Millions)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and the present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America for Federal entities and the form and content for entity financial statements specified by OMB in Circular No. A-136. The Combined Statements of Budgetary Resources and related disclosures provide information about how budgetary resources were made available as well as the status at the end of the period. It is the only statement predominately derived from an entity's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal Government. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the OASI and DI Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds, and six general fund appropriations. SSA's financial statements also include appropriations related to the *American Recovery and Reinvestment Act of 2009* (ARRA).

LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The six general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program, Payments for Credits Against Social Security Contributions, Medicare Savings Program, and Children's Health Insurance Program. SSA's financial statements also include OASI and DI investment activities performed by the Department of the Treasury (Treasury). SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE, and Other. Other consists primarily of PTF appropriations, but also contains SSI overpayment collections and other non-material activities.

Fund Balance with Treasury

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 3, Non-Entity Assets, and Note 4, Fund Balance with Treasury.

Investments

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201 (d) of the *Social Security Act*. These investments consist of U.S. Treasury special-issue bonds. Special-issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets. Refer to Note 5, Investments and Interest Receivable.

Property, Plant, and Equipment

SSA's property, plant, and equipment (PP&E) are recorded in the LAE program, but represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, requires the capitalization of internally-developed, contractor-developed, and commercial off-the-shelf software. The capitalization threshold for most PP&E categories is $100 thousand. Site preparation for Automated Data Processing (ADP) and Telecommunications, and Buildings and Other Structures are capitalized with no threshold. Refer to Note 7, Property, Plant, and Equipment, Net.

The change in PP&E from one reporting period to the next is presented on the chart in Note 16, Reconciliation of Net Cost of Operations to Budget, on the Resources that Finance the Acquisition of Assets line. This line item represents the capital assets that affect budgetary obligations.

Benefits Due and Payable

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

Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a federally-recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day. Since October 1, 2011 fell on a Saturday, the October 2011 SSI benefit payments were accelerated into September 2011. The related amounts were recorded as outlays and expenditures in FY 2011.

Administrative Expenses and Obligations

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

Obligations are incurred in the LAE accounts as activity is processed. Obligations are incurred in each of the financing sources (OASI, DI, SSI, and Other) once LAE's authority is recorded. Since LAE is reported with its financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE's obligations are recorded twice. This presentation is in conformance with OMB Circular No. A-136 to have the Combined Statement of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

Recognition of Financing Sources

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

Appropriations Used includes payments and accruals for the activities that are funded from Treasury's General Fund, including the ARRA appropriations.

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

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

Earmarked Funds

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

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

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

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and Middle Class Tax Relief and Job Creation Act of 2012 (Payroll Tax Holiday)

In FY 2011, Congress passed the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (Public Law 111-312). This provided employees a one-year reduction in FICA tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 tax year (January-December). In FY 2012, Congress passed the *Middle Class Tax Relief and Job Creation Act of 2012* (Public Law 112-96), extending the reduction through the 2012 tax year. Employers will continue to pay the full 6.2 percent rate. Self-employed persons, who pay both halves of the Social Security tax through self-employment tax, will pay 10.4 percent. In order to avoid harming the OASI and DI Trust Funds, the bill 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 on the financial statements. Refer to Note 13, Tax Revenues, for additional information.

Statement of Social Insurance and Statement of Changes in Social Insurance Amounts

Effective for FY 2011, the Statement of Social Insurance was revised to reflect a new summary section as required by FASAB SFFAS No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*. Also included as part of the new reporting requirements was a new basic financial statement, Statement of Changes in Social Insurance Amounts, that presents the reasons for changes in the open group measure reported on the Statement of Social Insurance.

Application of Critical Accounting Estimates

The Statement of Social Insurance and Statement of Changes in Social Insurance Amounts are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions and expectations of future conditions. Actual results could differ materially from the estimated amounts. Each statement includes information to assist in understanding the effect of changes in assumptions to the related information. Refer to Note 17, Social Insurance Disclosures.

Presentation Change

Effective FY 2012, the Statement of Budgetary Resources presentation has been modified to comply with the required format in OMB's Circular No. A-136. FY 2011 balances have been presented in the new format for comparison purposes to the reformatted statement.

2. CENTRALIZED FEDERAL FINANCING ACTIVITIES

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance, and health benefit programs. However, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statements of Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

SSA occupies buildings that have been leased by the General Services Administration (GSA) or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance, and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983, are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

SSA contributions to CSRS were $70 and $81 million for the years ended September 30, 2012 and 2011. SSA contributions to the basic FERS plan were $432 and $418 million for the years ended September 30, 2012 and 2011. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to the FERS savings plan were $148 and $146 million for the years ended September 30, 2012 and 2011. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management (OPM).

3. NON-ENTITY ASSETS

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are shown in Chart 3. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments and underpayments classified as SSI Accounts Receivable; (2) SSI overpayments collected; (3) General Fund's portion of fees collected to administer SSI State Supplementation; (4) General Fund's portion of fees collected to administer Title VIII State Supplementation; and (5) SSI attorney fees that are returned to Treasury's General Fund.

Chart 3 - Non-Entity Assets as of September 30:
($ in millions)

	2012			2011		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
SSI Fed/State A/R	$ 6,218	$ (280)	$ 5,938	$ 5,791	$ (316)	$ 5,475
SSI Overpayment Collections	2,732	0	2,732	2,961	0	2,961
SSI State Supp Fees (GF)	127	0	127	157	0	157
Title VIII State Supp Fees (GF)	2	0	2	2	0	2
SSI Attorney Fees (GF)	9	0	9	9	0	9
Total	$ 9,088	$ (280)	$ 8,808	$ 8,920	$ (316)	$ 8,604

The SSI Accounts Receivable, Net, has been reduced by intra-agency eliminations. SSI Federal overpayment collections are included as a part of the Fund Balance with Treasury on the Consolidated Balance Sheet. Public Law 101-517 requires that collections from repayment of SSI Federal benefit overpayments be deposited in Treasury's General Fund. These funds, upon deposit, are assets of Treasury's General Fund and shall not be used by SSA as an SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets. SSI State overpayment collections are used to offset reimbursements due from the States to SSA. When a beneficiary does not receive their full SSI State Supplemental benefit, SSA establishes an underpayment receivable. This receivable reflects the reimbursement due to SSA from the States to cover the unpaid benefit. SSA recognizes this receivable due from the States as a non-entity asset since the amount owed is due to the beneficiary.

The Fund Balance with Treasury includes the General Fund's portion of fees collected to administer SSI State Supplementation. The fee collection is classified as exchange revenue. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative Fees. In addition, the Fund Balance with Treasury also includes the General Fund's cumulative portion of fees related to Title VIII State Supplementation and SSI attorney fees.

4. FUND BALANCE WITH TREASURY

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

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

	2012	2011
Trust Funds*		
OASI	$ (490)	$ (606)
DI	(473)	(391)
LAE	(10)	(3)
General Funds		
SSI	2,918	2,372
Other	555	586
Other Funds		
SSI	178	191
Other	2,736	2,966
Total	$ 5,414	$ 5,115

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

	2012	2011
Unobligated Balance		
Available	$ 745	$ 200
Unavailable	424	177
Obligated Balance Not Yet Disbursed	2,304	2,581
OASI, DI, and LAE	(973)	(1,000)
Non-Budgetary FBWT	2,914	3,157
Total	$ 5,414	$ 5,115

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

The negative fund balances reported for the OASI, DI, and LAE Trust Funds as of September 30, 2012 and 2011 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

5. INVESTMENTS AND INTEREST RECEIVABLE

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest bearing securities backed by the full faith and credit of the Federal Government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Treasury Secretary to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. Therefore, there are no premiums or discounts associated with the redemption of these securities.

SSA's investments in Special-Issue U.S. Treasury Securities are $2,719,042 and $2,654,496 million as of September 30, 2012 and 2011, respectively. The interest rates on these investments range from 1¼ to 6½ percent and the accrued interest is paid on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the present to the year 2027. Accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury is an Intragovernmental Interest Receivable, Net, reported on the Consolidated Balance Sheets. Interest receivable amounts are $26,481 and $28,085 million as of September 30, 2012 and 2011.

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

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

6. ACCOUNTS RECEIVABLE, NET

Intragovernmental

Intragovernmental Accounts Receivable, Net, reported on the Consolidated Balance Sheets in the amounts of $654 and $625 million as of September 30, 2012 and 2011 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The gross accounts receivable has been reduced by $2,446 and $2,453 million as of September 30, 2012 and 2011 as an intra-agency elimination. This elimination is primarily to offset SSA's LAE receivable to be paid from the appropriate funds with corresponding payables set up for anticipated LAE disbursements.

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

With the Public

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

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

	2012			2011		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 2,301	$ (297)	$ 2,004	$ 2,095	$ (206)	$ 1,889
DI	6,090	(2,263)	3,827	5,955	(2,194)	3,761
SSI*	8,194	(1,976)	6,218	7,800	(2,009)	5,791
LAE	3	0	3	4	0	4
Subtotal	16,588	(4,536)	12,052	15,854	(4,409)	11,445
Less: Eliminations**	(282)	0	(282)	(356)	0	(356)
Total	$ 16,306	$ (4,536)	$ 11,770	$ 15,498	$ (4,409)	$ 11,089

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

Chart 6 shows that in FY 2012 and 2011, gross accounts receivable was reduced by $282 and $356 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset. Windfall Offset is the amount of SSI that would not have been paid if retroactive Title II benefits had been paid timely to eligible beneficiaries. SSA recognizes a receivable in the SSI program with offsetting payables for both the OASI and DI programs.

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

7. PROPERTY, PLANT, AND EQUIPMENT, NET

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

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

	2012			2011		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Construction in Progress	$ 41	$ 0	$ 41	$ 26	$ 0	$ 26
Buildings and Other Structures	59	(17)	42	59	(16)	43
Equipment (incl. ADP Hardware)	1,015	(742)	273	752	(613)	139
Internal Use Software	5,358	(2,787)	2,571	4,843	(2,315)	2,528
Leasehold Improvements	485	(280)	205	425	(252)	173
Total	$ 6,958	$ (3,826)	$ 3,132	$ 6,105	$ (3,196)	$ 2,909

Major Classes:	Estimated Useful Life	Method of Depreciation
Construction in Progress	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	3-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6-33 years	Straight Line

8. LIABILITIES

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

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

	2012			2011		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	$ 4,326	$ 0	$ 4,326	$ 4,227	$ 0	$ 4,227
Accounts Payable	22	8,510	8,532	41	8,316	8,357
Other	46	199	245	29	230	259
Total Intragovernmental	4,394	8,709	13,103	4,297	8,546	12,843
Benefits Due and Payable	82,669	3,977	86,646	78,602	3,616	82,218
Accounts Payable	45	440	485	49	436	485
Other	572	728	1,300	360	700	1,060
Total	$ 87,680	$ 13,854	$101,534	$ 83,308	$ 13,298	$ 96,606

Intragovernmental Accrued Railroad Retirement Interchange

The Intragovernmental Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to Treasury's General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments.

Intragovernmental Other Liabilities

Intragovernmental Other Liabilities includes amounts Covered by budgetary resources for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts Not Covered by budgetary resources for SSI State Administrative Fee Collections and amounts for *Federal Employees' Compensation Act* (FECA), administered by the Department of Labor. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to Department of Labor's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is $61 million as of September 30, 2012 and 2011. Intragovernmental Other Not Covered amounts include $127 and $157 million as of September 30, 2012 and 2011 for SSI State Fees payable to Treasury's General Fund. Refer to Note 3, Non-Entity Assets, and Note 11, Exchange Revenues, for a discussion of the SSI State Administrative Fees.

Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2012 and 2011. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

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

	2012	2011
OASI	$ 56,904	$ 53,161
DI	24,564	24,169
SSI	5,460	5,244
Subtotal	86,928	82,574
Less: Intra-agency eliminations	(282)	(356)
Total	$ 86,646	$ 82,218

Included in the Benefits Due and Payable for OASI, DI, and SSI are the estimated liabilities related to the settlement of Clark v. Astrue case. The case involves a claim for retroactive benefits in conjunction with the issue of not paying benefits to parole and probation violators. In December 2011, the district court certified a nationwide class of individuals who were not paid, or whose claims were not allowed, on or after October 24, 2006, based on evidence of an outstanding parole or probation violation warrant. Subsequently, the parties negotiated and jointly proposed a class relief order that the court approved on April 13, 2012. Essentially, the order requires reinstatement of benefits not paid, or reprocessing claims that were not allowed. Estimated payables are $87 million, $267 million, and $334 million for OASI, DI, and SSI, respectively as of September 30, 2012.

Chart 8b also shows that as of FY 2012 and 2011, gross Benefits Due and Payable was reduced by $282 and $356 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset. Refer to Note 6, Accounts Receivable, Net.

Accounts Payable

Accounts Payable Not Covered by budgetary resources consists of SSI overpayments due to States. States are entitled to any overpayment that SSA expects to collect since they make the actual payments to the beneficiaries. These amounts are set up as an accounts payable until payment is made.

Other Liabilities

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings, and unapplied deposit funds. Other Liabilities Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of $350 and $334 million as of September 30, 2012 and 2011 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

Contingent Liabilities

For several years, the Department of Justice (Tax Division) handled litigation concerning whether medical residents are subject to FICA taxation. FICA taxes are collected by the U.S. Treasury and then transferred to the OASI and DI Trust Funds. On March 2, 2010, the Internal Revenue Service (IRS) announced plans to refund medical residents FICA taxes for periods ending before April 1, 2005 to institutions and individuals with timely filed refund claims. SSA anticipates that the IRS refund program will result in dismissal of pending cases covering the period before April 1, 2005. The IRS will disperse refunds to the institutions, as well as to employees who sought or consented to receive a refund. At this time, SSA is not able to make a reasonable estimate for the refund of medical resident FICA taxes due to the applicable institutions and employees.

9. EARMARKED FUNDS

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

OASI and DI Trust Funds

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

The OASI and DI Trust Funds are primarily funded by payroll and self-employment taxes. Additional income is provided to the OASI and DI Trust Funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 13, Tax Revenues, for a discussion on employment taxes credited to the OASI and DI Trust Funds and Note 5, Investments and Interest Receivable, for a discussion on interest.

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

Payments to Social Security Trust Funds

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

SSI State Administrative Fees

Administrative Fees collected from States are also classified as earmarked funds. Section 42 U.S.C. 1616 authorizes the Commissioner of Social Security to assess each State an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the State for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 9 for balances of earmarked funds as reported in the Consolidated Financial Statements for the years ended September 30, 2012 and 2011. The Other Earmarked Funds column in Chart 9 consists of PTF and SSI State Administrative Fees activity.

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

	2012				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (490)	$ (473)	$ 65	$ 0	$ (898)
Investments	2,586,697	132,345	0	0	2,719,042
Interest Receivable	24,967	1,514	0	0	26,481
Accounts Receivables - Federal	3	1	0	(4)	0
Accounts Receivables - Non-Federal	2,004	3,827	0	(3)	5,828
Total Assets	$ 2,613,181	$ 137,214	$ 65	$ (7)	$ 2,750,453
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 3,894	$ 432	$ 0	$ 0	$ 4,326
Accounts Payable, Federal	818	863	4	(4)	1,681
Benefits Due and Payable	56,904	24,564	0	(3)	81,465
Accounts Payable, Non-Federal	0	7	0	0	7
Total Liabilities	61,616	25,866	4	(7)	87,479
Unexpended Appropriations	0	0	61	0	61
Cumulative Results of Operations	2,551,565	111,348	0	0	2,662,913
Total Liabilities and Net Position	$ 2,613,181	$ 137,214	$ 65	$ (7)	$ 2,750,453
Statement of Net Cost					
Program Costs	$ 630,841	$ 135,454	$ 0	$ 0	$ 766,295
Operating Expenses	603	215	0	0	818
Less Earned Revenue	(1)	(30)	(151)	0	(182)
Net Cost of Operations	$ 631,443	$ 135,639	$ (151)	$ 0	$ 766,931
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,462,194	$ 141,908	$ 70	$ 0	$ 2,604,172
Tax Revenue	500,114	84,979	0	0	585,093
Interest Revenue	104,012	6,767	0	0	110,779
Net Transfers In/Out	116,666	13,281	(140,515)	0	(10,568)
Other	22	52	140,355	0	140,429
Total Financing Sources	720,814	105,079	(160)	0	825,733
Net Cost of Operations	631,443	135,639	(151)	0	766,931
Net Change	89,371	(30,560)	(9)	0	58,802
Net Position End of Period	$ 2,551,565	$ 111,348	$ 61	$ 0	$ 2,662,974

The above Chart 9 for FY 2012 includes eliminations between SSA's earmarked funds which primarily represent eliminations for activity between the OASI and DI Trust Funds; however, $1,956 million of liabilities in the earmarked funds for the year ended September 30, 2012 need to be eliminated against LAE (Accounts Payable, Federal) and SSI (Benefits Due and Payable), which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in Chart 9.

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

	2011				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (606)	$ (391)	$ 75	$ 0	$ (922)
Investments	2,492,531	161,965	0	0	2,654,496
Interest Receivable	26,186	1,899	0	0	28,085
Accounts Receivables - Federal	2	2	0	(4)	0
Accounts Receivables - Non-Federal	1,889	3,761	0	(40)	5,610
Total Assets	$ 2,520,002	$ 167,236	$ 75	$ (44)	$ 2,687,269
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 3,778	$ 449	$ 0	$ 0	$ 4,227
Accounts Payable, Federal	869	704	5	(4)	1,574
Benefits Due and Payable	53,161	24,169	0	(40)	77,290
Other - Non-Federal Liabilities	0	6	0	0	6
Total Liabilities	57,808	25,328	5	(44)	83,097
Unexpended Appropriations	0	0	61	0	61
Cumulative Results of Operations	2,462,194	141,908	9	0	2,604,111
Total Liabilities and Net Position	$ 2,520,002	$ 167,236	$ 75	$ (44)	$ 2,687,269
Statement of Net Cost					
Program Costs	$ 593,047	$ 127,471	$ 0	$ 0	$ 720,518
Operating Expenses	715	221	0	0	936
Less Earned Revenue	(1)	(30)	(175)	0	(206)
Net Cost of Operations	$ 593,761	$ 127,662	$ (175)	$ 0	$ 721,248
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,370,742	$ 166,719	$ 80	$ 0	$ 2,537,541
Tax Revenue	496,590	84,296	0	0	580,886
Interest Revenue	106,931	8,238	0	0	115,169
Net Transfers In/Out	81,673	10,269	(102,183)	0	(10,241)
Other	19	48	101,998	0	102,065
Total Financing Sources	685,213	102,851	(185)	0	787,879
Net Cost of Operations	593,761	127,662	(175)	0	721,248
Net Change	91,452	(24,811)	(10)	0	66,631
Net Position End of Period	$ 2,462,194	$ 141,908	$ 70	$ 0	$ 2,604,172

The above Chart 9 for FY 2011 includes eliminations between SSA's earmarked funds which primarily represent eliminations for activity between the OASI and DI Trust Funds; however, $1,882 million of liabilities in the earmarked funds for the year ended September 30, 2011 need to be eliminated against LAE (Accounts Payable, Federal) and SSI (Benefits Due and Payable), which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in Chart 9.

10. OPERATING EXPENSES

Classification of Operating Expenses by Major Program

Chart 10a displays SSA's operating expenses for each major program. LAE SSA operating expenses recorded in Other represent: (1) HI/SMI Trust Funds' shares of SSA's operating expenses including the Medicare Prescription Drug Program; and (2) SSA's administrative expense for the Low Income Subsidy Program. LAE ARRA operating expenses recorded in the Other program represent administrative costs attributable to Economic Recovery Payment (ERP), expenses associated with the construction and setup of the new National Support Center, and costs related to the retirement and disability workload backlog. Program ERP amounts reported in Other represent the one-time payments made to eligible Title II and Title XVI beneficiaries. OASI and DI Trust Fund Operations include expenses of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries.

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

	2012						
	LAE						
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Program ERP	Total
OASI	$ 2,879	$ 36	$ 0	$ 601	$ 2	$ 0	$ 3,518
DI	2,850	36	0	114	101	0	3,101
SSI	3,951	0	0	0	122	0	4,073
Other	2,092	28	9	0	1	0	2,130
	$ 11,772	$ 100	$ 9	$ 715	$ 226	$ 0	$ 12,822

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

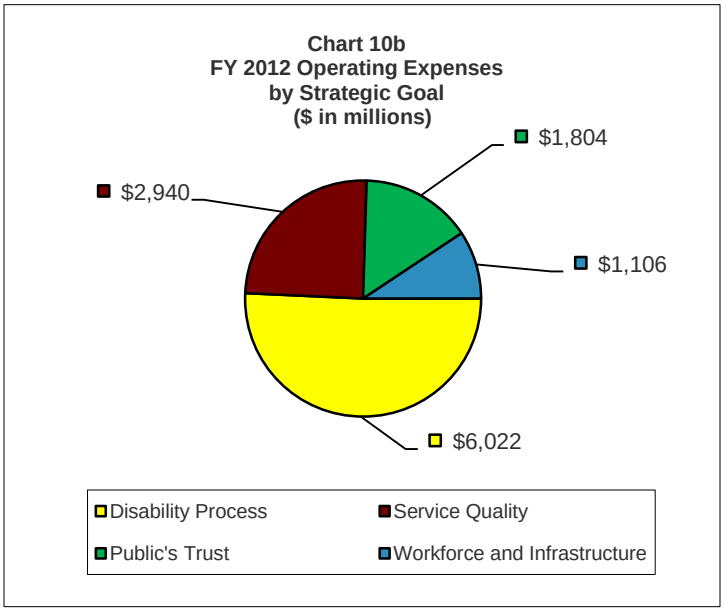
	2011						
	LAE						
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Program ERP	Total
OASI	$ 3,106	$ 37	$ 0	$ 713	$ 2	$ 0	$ 3,858
DI	3,025	36	0	133	88	0	3,282
SSI	4,091	0	0	0	125	0	4,216
Other	2,173	29	10	0	1	17	2,230
	$ 12,395	$ 102	$ 10	$ 846	$ 216	$ 17	$ 13,586

Classification of Operating Expenses by Strategic Goal

The *Revised Final FY 2012 Annual Performance Plan* (APP) sets forth expected levels of performance for FY 2012 that the agency is committed to achieving, and includes proposed levels of performance for future fiscal years. SSA's APP is characterized by broad-based Strategic Goals that are supported by the entire agency. The four goals are:

- Deliver Quality Disability Decisions and Services;
- Provide Quality Service to the Public;
- Preserve the Public's Trust in Our Programs; and
- Strengthen Our Workforce and Infrastructure.

Chart 10b exhibits the distribution of FY 2012 SSA and OIG LAE operating expenses to the four APP Strategic Goals, which agree to the agency's LAE budget appropriation. As noted earlier, the Strategic Goals have been revised since the publication of the FY 2011 PAR. Therefore, since the goals are not comparable between FY 2012 and FY 2011, we did not include a chart below showing the distribution of FY 2011 operating expenses by Strategic Goal. For Chart 10b, LAE ARRA expenses are subtracted from total SSA LAE operating expenses before being distributed to SSA's APP Strategic Goals in this chart. OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see Chart 10a) are not included in LAE by Strategic Goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.



11. EXCHANGE REVENUES

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the agency's cost. Total exchange revenues are $373 and $424 million for the years ended September 30, 2012 and 2011. SSA's exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 22 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional administrative fees are collected for administering Title VIII State Supplementation and handling SSI attorney fees. SSA earned administrative fee revenue in the amount of $288 and $341 million for the years ended September 30, 2012 and 2011.

A portion of the administrative fees we earn are non-entity assets. These fees are included within Fund Balance with Treasury in the amount of $136 and $166 million as of September 30, 2012 and 2011. The portion of these non-entity asset fees collected to administer SSI State Supplementation total $127 and $157 million as of September 30, 2012 and 2011. The fees are deposited directly to Treasury's General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to Treasury's General Fund is presented so that net position is not affected by this activity. The remainder of the administrative fees, which meet the criteria of an earmarked fund, in the amount of $152 and $175 million for the years ended September 30, 2012 and 2011 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned $85 and $83 million for the years ended September 30, 2012 and 2011 in other exchange revenue.

12. COSTS AND EXCHANGE REVENUE CLASSIFICATIONS

Chart 12 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks; employee benefits; and imputed financing costs. Refer to Note 14, Imputed Financing, for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments; SSI payments; ERP; payroll; and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided, which includes reimbursements from the United States Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided, which includes fees for administering the States' portion of SSI payments. Other Program primarily reports the costs and revenues that SSA incurs in administering: (1) a portion of the Medicare program; (2) the Medicare Saving Program and the Low Income Subsidy Program; and (3) ARRA activities.

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

	2012			2011		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	$ 1,410	$ (10)	$ 1,400	$ 1,566	$ (12)	$ 1,554
Public	632,949	(4)	632,945	595,339	(2)	595,337
OASI Subtotal	634,359	(14)	634,345	596,905	(14)	596,891
DI Program						
Intragovernmental	915	(10)	905	963	(12)	951
Public	137,640	(33)	137,607	129,790	(31)	129,759
DI Subtotal	138,555	(43)	138,512	130,753	(43)	130,710
SSI Program						
Intragovernmental	1,129	(14)	1,115	1,150	(15)	1,135
Public	47,126	(292)	46,834	52,107	(343)	51,764
SSI Subtotal	48,255	(306)	47,949	53,257	(358)	52,899
Other Program						
Intragovernmental	588	(8)	580	597	(8)	589
Public	1,548	(2)	1,546	1,640	(1)	1,639
Other Subtotal	2,136	(10)	2,126	2,237	(9)	2,228
Total	$ 823,305	$ (373)	$ 822,932	$ 783,152	$ (424)	$ 782,728

13. TAX REVENUES

Employment tax revenues are estimated monthly by Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by Treasury to credit the Social Security OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the IRS or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of $585,093 and $580,886 million for the years ended September 30, 2012 and 2011.

The FY 2012 and FY 2011 tax revenue is reduced as a result of two tax bills signed into law in December 2010 and February 2012. The *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* provided employees a one-year reduction in FICA tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 tax year (January-December). The *Middle Class Tax Relief and Job Creation Act of 2012* extends the reduction through the 2012 tax year. In order to avoid harming the OASI and DI Trust Funds, the bills also provide the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. The total transferred amounts are $112,795 and $78,915 million for the years ended September 30, 2012 and 2011.

14. IMPUTED FINANCING

The OPM administers three earned benefit programs for civilian Federal employees: (1) the Retirement Program, comprised of the CSRS and the FERS; (2) the Federal Employees Health Benefits Program (FEHBP); and (3) the Federal Employee Group Life Insurance Program. SSA is responsible for a portion of the contributions made to each benefit program during the fiscal year. The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of $1,089 and $1,169 million for the years ended September 30, 2012 and 2011 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life, and health insurance. A portion of these costs is covered by OPM and is recognized on SSA's financial statements as an imputed financing source. The Consolidated Statements of Changes in Net Position recognizes an imputed financing source of $605 and $680 million for the years ended September 30, 2012 and 2011 that primarily represents annual service cost not paid by SSA.

15. BUDGETARY RESOURCES

Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of $969,480 and $890,043 million for the years ended September 30, 2012 and 2011. Appropriations Received on the Consolidated Statements of Changes in Net Position are $191,625 and $158,359 million for the same periods. The differences of $777,855 and $731,684 million primarily represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the general fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Public Debt where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Since OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF

are duplicated. This is in compliance with OMB's Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as Category A. Other apportionments such as activities, projects, objects, or a combination of these categories are classified as Category B. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Categories A, B, and Exempt from Apportionment.

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

	2012			2011		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 0	$ 0	$ 0	$ 32	$ 0	$ 32
Category B	62,489	3,124	65,613	68,476	3,910	72,386
Exempt	918,126	2	918,128	834,008	2	834,010
Total	$ 980,615	$ 3,126	$ 983,741	$ 902,516	$ 3,912	$ 906,428

Permanent Indefinite Appropriation

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

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

Legal Arrangements Affecting Use of Unobligated Balances

All OASI and DI Trust Fund receipts collected in the fiscal year are reported as new budget authority on the Combined Statements of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated in the OASI and DI Trust Funds. The portion of OASI and DI Trust Fund receipts collected in the fiscal year that exceeds the amount needed to pay benefits and other valid obligations in that fiscal year is precluded by law from being available for obligation. However, all such excess receipts are assets of the OASI and DI Trust Funds and currently become available for obligation as needed. Chart 15b displays OASI and DI Trust Fund activities and balances. The OASI and DI Trust Fund Balances, Ending, are included in Investments on the Consolidated Balance Sheets.

Chart 15b - OASI and DI Trust Fund Activities as of September 30: ($ in millions)		
	2012	2011
Beginning Balance	$ 2,626,358	$ 2,534,325
Receipts	868,242	823,946
Less Obligations	777,704	731,913
Excess of Receipts Over Obligations	90,538	92,033
Ending Balance	$ 2,716,896	$ 2,626,358

Undelivered Orders at the End of the Period

Undelivered orders consist of unpaid orders of goods and services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are $2,187 and $2,239 million for the years ended September 30, 2012 and 2011.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2011 has been conducted. All differences shown in the chart below are recognized as accepted differences. Expired activity is not included in the Budget of the United States Government, and distributed offsetting receipts are not included in the net outlay calculation within the Budget of the United States Government.

Chart 15c presents a reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2011.

Chart 15c - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the United States Government for FY 2011: ($ in millions)				
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 907,298	$ 906,428	$ 105,395	$ 784,305
Expired activity not on P&F	(393)	(61)	0	0
Distributed Offsetting Receipts	0	0		105,395
Other	3	1	(2)	3
Budget of the United States Government	$ 906,908	$ 906,368	$ 105,393	$ 889,703

A reconciliation has not been conducted for the year ended September 30, 2012 since this report is published in November 2012 and the actual budget data for FY 2012 will not be available until the President's Budget is published.

16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2012 and 2011
(Dollars in Millions)

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	**$ 983,741**	$ 906,428
Offsetting Collections and Recoveries	**(15,145)**	(15,251)
Obligations Net of Offsetting Collections and Recoveries	**968,596**	891,177
Offsetting Receipts	**(143,469)**	(105,395)
Net Obligations	**825,127**	785,782
Other Resources		
Imputed Financing	**605**	680
Other	**(288)**	(340)
Net Other Resources Used to Finance Activities	**317**	340
Total Resources Used to Finance Activities	**825,444**	786,122
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**313**	(560)
Resources that Fund Expenses Recognized in Prior Periods	**(13)**	(116)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	**143,439**	105,365
Resources that Finance the Acquisition of Assets	**(859)**	(337)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(145,772)**	(107,559)
Total Resources Not Part of the Net Cost of Operations	**(2,892)**	(3,207)
Total Resources Used to Finance the Net Cost of Operations	**822,552**	782,915
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Other	**378**	16
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**635**	253
Other	**(633)**	(456)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**2**	(203)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**380**	(187)
Net Cost of Operations	**$ 822,932**	$ 782,728

Chart 16 presents a reconciliation between SSA's budgetary and proprietary accounting. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Costs by identifying and explaining key items that affect one statement but not the other.

17. SOCIAL INSURANCE DISCLOSURES

Statement of Social Insurance

The Statement of Social Insurance discloses the present value for the 75-year projection period of the estimated future noninterest income, estimated future cost, and the excess of income over cost for both the "open group" and "closed group" of participants. The open group of participants includes 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. The closed group of participants includes only current participants: those who attain age 15 or older in the first year of the projection period. The closed group disclosure is not relevant to the financial status because the program is financed largely on a pay-as-you-go basis.

Present values are computed based on the intermediate economic and demographic assumptions described in the *2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (the Trustees Report) for the 75-year projection period beginning January 1, 2012. Similar present values are shown in the Statement of Social Insurance based on the prior four Trustees Reports reflecting present values at January 1 of the applicable year.

Estimated future noninterest income consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. It does not include interest income on assets held in the combined OASI and DI Trust Fund. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, and net transfers with the Railroad Retirement program.

The present value of future excess of noninterest income over cost is shown in the Statement of Social Insurance, not only for the open group of participants, but also for the "closed group" of participants. The closed group of participants consists of those who, in the starting year of the projection period, have attained age 15 or older. This closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. The Statement of Social Insurance also presents the present value of future noninterest income less future cost *plus* the combined OASI and DI Trust Fund assets at the start of the period, on both an open and closed group basis.

Combined OASI and DI Trust Fund assets represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund assets, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund assets as of January 1, 2012 totaled $2,678 billion and were comprised entirely of investment securities that are backed by the full faith and credit of the Federal Government.

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

Because the OASDI program lacks borrowing authority, the open group unfunded obligation represents the amount of benefits scheduled in the law that would not be payable in the years after the asset reserves in the combined OASI and DI Trust Fund become depleted. Thus, if reserves in the combined OASI and DI Trust Fund become depleted, the amount of money available to pay benefits and other expenses would be limited to continuing noninterest income. Therefore, barring legislative action, this unfunded obligation represents a financial shortfall that would be accommodated by either paying benefits that are less than the amount scheduled or by delaying the payment of scheduled benefits.

Assumptions Used for the Statement of Social Insurance

The present values used in this presentation for the current year (2012) are based on the full amounts of noninterest income and the cost of providing benefits at the levels scheduled under current law, even after OASI and DI Trust Fund reserves are depleted. Estimates are also based on various economic and demographic assumptions, including those in the following table:

Table 1: Significant Assumptions and Summary Measures Used for the Statement of Social Insurance 2012

	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000)	Period Life Expectancy At Birth[3]		Net Annual Immigration (persons per year)[4]	Real-Wage Differential[5] (percentage points)	Annual Percentage Change In:				Average Annual Interest Rate[10]
			Male	Female			Average Annual Wage in Covered Employment[6]	CPI[7]	Total Employment[8]	Real GDP[9]	
2012	2.04	759.3	76.1	80.6	960,000	1.74	3.75	2.01	1.3	2.6	2.4%
2020	2.04	708.6	77.1	81.3	1,205,000	1.26	4.07	2.81	0.6	2.2	5.6%
2030	2.02	650.4	78.3	82.3	1,125,000	1.13	3.93	2.80	0.4	2.0	5.7%
2040	2.00	598.8	79.4	83.2	1,075,000	1.17	3.97	2.80	0.6	2.2	5.7%
2050	2.00	553.3	80.4	84.0	1,050,000	1.11	3.91	2.80	0.5	2.1	5.7%
2060	2.00	513.2	81.3	84.8	1,040,000	1.10	3.90	2.80	0.4	2.1	5.7%
2070	2.00	477.7	82.2	85.5	1,035,000	1.09	3.89	2.80	0.4	2.1	5.7%
2080	2.00	446.0	83.0	86.2	1,030,000	1.12	3.92	2.80	0.4	2.0	5.7%
2090	2.00	417.7	83.8	86.8	1,025,000	1.15	3.95	2.80	0.4	2.0	5.7%

1. The total fertility rate for a year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age assumed for the selected year, and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex assumed for the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in the selected year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age assumed for the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
5. The real-wage differential is the difference between the percentage increases in the average annual wage in covered employment and the average annual Consumer Price Index (CPI). The difference is not necessarily equal to the difference of rounded components.
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment is the sum of U.S. civilian and military employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real Gross Domestic Product (GDP) is the value of total output of goods and services produced in the U.S., expressed in 2005 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which are compounded semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

The present values used in the Statement of Social Insurance for the current year and in corresponding Statements in prior years are based on various economic and demographic assumptions. The values for each of these assumptions move from recently experienced levels or trends toward long-range ultimate values. These ultimate values are summarized in Table 2. Detailed information, similar to that denoted within Table 1, is available on the SSA website at: www.socialsecurity.gov/finance for the prior four years.

Table 2: Significant Ultimate Assumptions and Summary Measures Used for the Statement of Social Insurance for Current and Prior Years

					Average Annual Percentage Change In:			
Year of Statement	Total Fertility Rate[1]	Average Annual Percentage Reduction in the Age-Sex Adjusted Death Rates[2]	Average Annual Net Immigration (persons per year)[3]	Average Annual Real-Wage Differential[4] (percentage points)	Average Annual Wage in Covered Employment[5]	CPI[6]	Total Employment[7]	Average Annual Real Interest Rate[8]
FY 2012	2.0	0.77	1,080,000	1.12	3.92	2.80	0.6	2.9
FY 2011	2.0	0.78	1,075,000	1.2	4.0	2.8	0.5	2.9
FY 2010	2.0	0.79	1,065,000	1.2	4.0	2.8	0.5	2.9
FY 2009	2.0	0.79	1,065,000	1.1	3.9	2.8	0.5	2.9
FY 2008	2.0	0.75	1,070,000	1.1	3.9	2.8	0.5	2.9

1. The total fertility rate for a year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age assumed for the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in the 25th year of the projection period.
2. The age-sex-adjusted death rate is computed as the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex for the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage reduction for each 75-year projection period. The annual rate of reduction declines gradually during the period, so no ultimate rate is achieved. For the 2008 estimates, the average annual percentage reduction in death rates increased largely due to the increased ultimate assumed rate of mortality reduction for ages 15-64. For the 2009 estimates, the average annual percentage reduction in death rates increased primarily due to the increased ultimate rates of decline in mortality assumed for ages 65 through 84. For the 2012 Statement, the average annual rate of reduction is computed based on death-rate levels, as shown in Table 1.
3. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. The value in the table is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. For the 2008 Statement, the ultimate level of net legal immigration was increased from 600,000 to 750,000 persons per year. In addition, the method for projecting annual net other immigration was changed and the annual level of net immigration now varies throughout the projection period. The value shown is the average net immigration level projected for the 75-year projection period. For the 2012 Statement, the value shown is consistent with the annual levels shown in Table 1.
4. The annual real-wage differential is the difference between: (1) the annual percentage change in the average annual wage in covered employment; and (2) the annual percentage change in the Consumer Price Index (CPI). The value presented is the average of annual real wage differentials for the last 65 years of the 75-year projection period. For the 2010 Statement, the average real wage differential increased from 1.1 to 1.2 percentage points. For the 2012 Statement, the average real wage differential decreased from 1.17 to 1.12 percentage points. For the 2012 Statement, the average real-wage differential is consistent with the annual differentials shown in Table 1and is displayed to two decimal places.
5. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage change from the 10th year of the 75-year projection period to the 75th year. For the 2010 Statement, the average annual percentage change increased from 3.9 to 4.0 percentage points. For the 2012 Statement, the average annual percentage change decreased from 3.97 to 3.92 percentage points and is displayed to two decimal places.
6. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W). The ultimate assumption is reached within the first 10 years of the projection period.
7. Total employment is the sum of U.S. civilian and military employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2012 Statement, the average annual rate of change is consistent with the annual percentages shown in Table 1.
8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is assumed to be reached soon after the 10th year of the projection period. For the 2012 Statement, the average annual real interest rate is consistent with the nominal interest rates shown in Table 1.

These assumptions and the other values on which Table 2 is based reflect the intermediate assumptions of the 2008-2012 Trustees Reports. Estimates made prior to this year differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

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

Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts reconciles changes, from the beginning of one 75-year valuation period to the next, in the: (1) present value of future noninterest income less future cost for current and future participants (the open group measure) over the next 75 years; (2) starting assets of the combined OASI and DI Trust Funds; and (3) present value of future noninterest income less future cost for current and future participants over the next 75 years plus the assets of the combined OASI and DI Trust Funds. These values are included in the Statement of Social Insurance. The Statement of Changes shows two reconciliations: (1) changing from the period beginning on January 1, 2011 to the period beginning on January 1, 2012; and (2) changing from the period beginning on January 1, 2010 to the period beginning on January 1, 2011. The reconciliation identifies several changes that are significant and provides reasons for the changes.

The five changes considered in the Statement of Changes in Social Insurance Amounts are, in order:

- change in the valuation period;
- changes in demographic data, assumptions, and methods;
- changes in economic data, assumptions, and methods;
- changes in methodology and programmatic data; and
- changes in law or policy.

Because there were no changes in law or policy having a significant long-range financial effect on the OASDI program, the Statement of Changes in Social Insurance Amounts does not include this last item.

All estimates in the Statement of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods, represent the additional effect of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period.

Change in the Valuation Period

From the period beginning on January 1, 2011 to the period beginning on January 1, 2012

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2011-85) to the current valuation period (2012-86) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cashflow for 2011, replaces it with a much larger negative net cashflow for 2086, and measures the present values as of January 1, 2012, one year later. Thus, the present value of future net cashflows (excluding the combined OASI and DI Trust Fund assets at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2011-85 to 2012-86. In addition, the effect on the level of assets in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2011 are realized. The change in valuation period increased the starting level of assets in the combined OASI and DI Trust Funds.

From the period beginning on January 1, 2010 to the period beginning on January 1, 2011

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2010-84) to the current valuation period (2011-85) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cashflow for 2010 and replaces it with a much larger negative net cashflow for 2085, and measures the present values as of January 1, 2011, one year later. Thus, the present value of future net cashflows (excluding the combined OASI and DI Trust Fund assets at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2010-84 to 2011-85. In addition, the effect on the level of assets in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2010 are realized. The change in valuation period increased the level of assets in the combined OASI and DI Trust Funds.

Changes in Demographic Data, Assumptions, and Methods

From the period beginning on January 1, 2011 to the period beginning on January 1, 2012

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2012) are the same as those for the prior valuation. However, the starting demographic values, and the way these values transition to the ultimate assumptions, were changed.

- Preliminary birth rate data for 2009 and 2010 are lower than were expected in the prior valuation. During the period of transition to their ultimate values, the birth rates in the current valuation are generally lower than they were in the prior valuation.
- The current valuation incorporates final data on legal immigration levels for 2010. The levels are slightly lower than the estimates used in the prior valuation.
- Updated starting population levels and the interaction of these levels with the changes in the fertility and immigration assumptions result in higher ratios of retirement age population to working age population than in the prior valuation.

Inclusion of each of these demographic data sets decreases the present value of future net cashflows.

From the period beginning on January 1, 2010 to the period beginning on January 1, 2011

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2011) are the same as those for the prior valuation. However, the starting demographic values were changed.

- The inclusion of final mortality data for 2007 results in lower starting death rates and faster near-term declines in death rates at older ages for the current valuation.
- Revised historical estimates of net other immigration and final data on legal immigration for 2009 are also used in the current valuation. Based on estimates from the Department of Homeland Security for 2007 and 2008 and due to the weak U.S. economy since 2008, net other immigration levels for 2007-10 are assumed negative for the current valuation. These levels are significantly lower than the positive estimates used in the prior valuation.
- Birth rates projected through 2026 are slightly lower in the current valuation; preliminary birth data for 2008 and 2009 was lower than was expected for the prior valuation.
- Updated starting values of population levels were incorporated in the current valuation.

Except for updating starting values of population levels, inclusion of each of these demographic data sets decreases the present value of future net cashflows.

The following demographic methods were changed in the current valuation (beginning on January 1, 2011).

- The method for determining the initial projected rates of mortality decline was changed to place greater emphasis on recent experience. These initial rates of decline are now determined using the most recent 10 years of historical data, rather than the most recent 20 years. This change increased the rate of decline in death rates at older ages for years following the year of final data (2007) up to the year the ultimate rates of decline are fully in effect (2035).
- The historical estimates of the other immigrant population by age and sex were improved, resulting in greater consistency between the other immigrant population and the total population.

Both of these changes to demographic methods decrease the present value of future net cashflows.

Changes in Economic Data, Assumptions, and Methods

From the period beginning on January 1, 2011 to the period beginning on January 1, 2012

The ultimate economic assumptions for the current valuation (beginning on January 1, 2012) are the same as those for the prior valuation except for the assumed annual rate of change in average hours worked. The current valuation assumes a decline in average hours worked of 0.05 percent per year rather than no change, as was assumed in the prior valuation. This change lowers the ultimate annual real-wage differential by 0.05 percentage point from the prior valuation, and decreases the present value of future cashflows. In addition, the starting economic values and near-term economic growth rate assumptions were updated to reflect recent developments.

- For the current valuation, OASDI taxable earnings are lower in the starting year, 2011, than were projected for the prior valuation.
- Price inflation in 2011 was higher than expected, with the cost-of-living adjustment to benefits in December 2011 being 2.9 percentage points higher than was assumed in the prior valuation.
- The real interest rate is projected to be lower over the first ten years of the current valuation.

Inclusion of each of these economic revisions decreases the present value of future net cashflows.

From the period beginning on January 1, 2010 to the period beginning on January 1, 2011

The ultimate economic assumptions for the current valuation (beginning on January 1, 2011) are the same as those for the prior valuation. However, the starting economic values and near-term economic growth rate assumptions were changed. The economic recovery has been slower than was assumed for the prior valuation.

- For the current valuation, OASDI taxable earnings are considerably lower for the starting year, 2010, than were projected for the prior valuation. Even though earnings grow faster after 2010 through 2019, the projected level of earnings is lower through 2018 for the current valuation.
- Unemployment rates are slightly higher over first few years of the projection for the current valuation.
- The real interest rate is lower over first few years of the projection for the current valuation.

Inclusion of each of these economic revisions decreases the present value of future net cashflows.

A change to the methodology for projecting labor force participation was implemented for the current valuation (beginning on January 1, 2011). The assumed effect of gains in life expectancy on labor force participation for persons over 40 was doubled, significantly increasing projected participation rates at higher ages. Disability prevalence was added as an input variable to the labor force model for persons over normal retirement age, partially offsetting increases in the labor force due to changes in life expectancy. Inclusion of these changes to labor force participation projections increase the present value of future net cashflows.

Changes in Methodology and Programmatic Data

From the period beginning on January 1, 2011 to the period beginning on January 1, 2012

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2012). The most significant are identified below.

- Compared to the prior valuation, the ultimate age-adjusted disability incidence rates increased by 2 percent for males and 5 percent for females. Inclusion of these changes to disability incidence rates projections increased the number of disability beneficiaries.
- Projected earnings of new beneficiaries were made more consistent with projected economy-wide covered worker rates. This change led to increases in projected benefit levels for workers who become eligible for benefits in the future.
- Average benefit levels for retired-worker and disabled-worker beneficiaries were slightly increased for their first two years of benefit entitlement. The method for estimating these average benefit levels was changed to exclude beneficiaries who first start receiving benefits two or more years after their initial entitlement date, who tend to have lower benefits.

Inclusion of each of these methodological improvements and updates of program-specific data revisions decreases the present value of future net cashflows.

From the period beginning on January 1, 2010 to the period beginning on January 1, 2011

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2011). The most significant are identified below.

- Disabled worker mortality and termination rates were updated to reflect a more recent historical period. Inclusion of these updates decrease the present value of future net cashflows.
- The historical sample of new beneficiaries, which serves as the basis of average benefit levels, was updated from a 2006 sample to a 2007 sample. Inclusion of this update increases the present value of future net cashflows.
- Actual experience of the combined OASI and DI Trust Funds between January 1, 2010 and January 1, 2011 is incorporated in the current valuation and is slightly less than projected in the prior valuation.

Changes in Law or Policy

From the period beginning on January 1, 2011 to the period beginning on January 1, 2012

There were no legislative changes, included in the current valuation (beginning on January 1, 2012) and not in the prior valuation, that are projected to have a significant effect on the present value of the 75-year net cashflows.

From the period beginning on January 1, 2010 to the period beginning on January 1, 2011

There were no legislative changes, included in the current valuation (beginning on January 1, 2011) and not in the prior valuation, that are projected to have a significant effect on the present value of the 75-year net cashflows.

Assumptions Used for the Statement of Changes in Social Insurance Amounts

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Trustees Reports for those years. Table 1 summarizes these assumptions for the current year. The SSA website at www.socialsecurity.gov/finance provides tabulated assumptions for the prior year in a similar manner.

Period Beginning on January 1, 2011 and Ending January 1, 2012

Present values as of January 1, 2011 are calculated using interest rates from the intermediate assumptions of the 2011 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2012. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2011 Trustees Report. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2012 Trustees Report.

Period Beginning on January 1, 2010 and Ending January 1, 2011

Present values as of January 1, 2010 are calculated using interest rates from the intermediate assumptions of the 2010 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2011. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2010 Trustees Report. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2011 Trustees Report.

18. RECOVERY OF MEDICARE PREMIUMS

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

Other Accompanying Information: Balance Sheet by Major Program as of September 30, 2012
(Dollars in Millions)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (490)	$ (473)	$ 3,096	$ 3,291	$ (10)	$ 0	$ 5,414
Investments	2,586,697	132,345	0	0	0	0	2,719,042
Interest Receivable, Net	24,967	1,514	0	0	0	0	26,481
Accounts Receivable, Net	3	1	0	0	3,096	(2,446)	654
Other	0	0	0	0	29	0	29
Total Intragovernmental	2,611,177	133,387	3,096	3,291	3,115	(2,446)	2,751,620
Accounts Receivable, Net	2,004	3,827	6,218	0	3	(282)	11,770
Property, Plant, and Equipment, Net	0	0	0	0	3,132	0	3,132
Other	0	0	0	0	2	0	2
Total Assets	$ 2,613,181	$ 137,214	$ 9,314	$ 3,291	$ 6,252	$ (2,728)	$ 2,766,524
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 3,894	$ 432	$ 0	$ 0	$ 0	$ 0	$ 4,326
Accounts Payable	818	863	6,072	3,208	17	(2,446)	8,532
Other	0	0	136	2	107	0	245
Total Intragovernmental	4,712	1,295	6,208	3,210	124	(2,446)	13,103
Benefits Due and Payable	56,904	24,564	5,460	0	0	(282)	86,646
Accounts Payable	0	7	444	0	34	0	485
Other	0	0	315	2	983	0	1,300
Total Liabilities	61,616	25,866	12,427	3,212	1,141	(2,728)	101,534
Net Position							
Unexpended Appropriations-Earmarked Funds	0	0	0	61	0	0	61
Unexpended Appropriations-Other Funds	0	0	864	18	3	0	885
Cumulative Results of Operations-Earmarked Funds	2,551,565	111,348	0	0	0	0	2,662,913
Cumulative Results of Operations-Other Funds	0	0	(3,977)	0	5,108	0	1,131
Total Net Position	2,551,565	111,348	(3,113)	79	5,111	0	2,664,990
Total Liabilities and Net Position	$ 2,613,181	$ 137,214	$ 9,314	$ 3,291	$ 6,252	$ (2,728)	$ 2,766,524

Other Accompanying Information: Schedule of Net Cost for the Year Ended September 30, 2012
(Dollars in Millions)

	Program	LAE	Total
OASI Program			
Benefit Payments	$ 630,841	$ 0	$ 630,841
Operating Expenses	603	2,915	3,518
Total Cost of OASI Program	631,444	2,915	634,359
Less: Exchange Revenues	(1)	(13)	(14)
Net Cost of OASI Program	631,443	2,902	634,345
DI Program			
Benefit Payments	135,454	0	135,454
Operating Expenses	215	2,886	3,101
Total Cost of DI Program	135,669	2,886	138,555
Less: Exchange Revenues	(30)	(13)	(43)
Net Cost of DI Program	135,639	2,873	138,512
SSI Program			
Benefit Payments	44,182	0	44,182
Operating Expenses	122	3,951	4,073
Total Cost of SSI Program	44,304	3,951	48,255
Less: Exchange Revenues	(288)	(18)	(306)
Net Cost of SSI Program	44,016	3,933	47,949
Other			
Benefit Payments	6	0	6
Operating Expenses	1	2,129	2,130
Total Cost of Other	7	2,129	2,136
Less: Exchange Revenues	0	(10)	(10)
Net Cost of Other Program	7	2,119	2,126
Total Net Cost			
Benefit Payments	810,483	0	810,483
Operating Expenses	941	11,881	12,822
Total Cost	811,424	11,881	823,305
Less: Exchange Revenues	(319)	(54)	(373)
Total Net Cost	$ 811,105	$ 11,827	$ 822,932

Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2012
(Dollars in Millions)

	OASI	DI	SSI		Other	
	Earmarked	Earmarked	Earmarked	All Other Funds	Earmarked	All Other Funds
Cumulative Results of Operations:						
Beginning Balances	$ 2,462,194	$ 141,908	$ 9	$ (3,616)	$ 0	$ 0
Budgetary Financing Sources						
Appropriations Used	0	0	0	50,709	140,355	7
Tax Revenues	500,114	84,979	0	0	0	0
Interest Revenues	104,012	6,767	0	0	0	0
Transfers In/Out Without Reimbursement	120,922	13,775	(160)	(3,634)	(140,355)	0
Railroad Retirement Interchange	(4,256)	(494)	0	0	0	0
Net Transfers In/Out	116,666	13,281	(160)	(3,634)	(140,355)	0
Other Budgetary Financing Sources	22	52	0	0	0	0
Other Financing Sources (Non-Exchange)						
Transfers-In/Out	0	0	0	(2,732)	0	2,732
Imputed Financing Sources	0	0	0	22	0	0
Other	0	0	0	(559)	0	(2,732)
Total Financing Sources	720,814	105,079	(160)	43,806	0	7
Net Cost of Operations	631,443	135,639	(151)	44,167	0	7
Net Change	89,371	(30,560)	(9)	(361)	0	0
Cumulative Results of Operations	$ 2,551,565	$ 111,348	$ 0	$ (3,977)	$ 0	$ 0
Unexpended Appropriations:						
Beginning Balances	$ 0	$ 0	$ 0	$ 353	$ 61	$ 19
Budgetary Financing Sources						
Appropriations Received	0	0	0	51,227	140,363	6
Other Adjustments	0	0	0	(7)	(8)	0
Appropriations Used	0	0	0	(50,709)	(140,355)	(7)
Total Budgetary Financing Sources	0	0	0	511	0	(1)
Total Unexpended Appropriations	0	0	0	864	61	18
Net Position	$ 2,551,565	$ 111,348	$ 0	$ (3,113)	$ 61	$ 18

Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2012 (Continued)

(Dollars in Millions)

	LAE	CONSOLIDATED		
	All Other Funds	Earmarked	All Other Funds	CONSOLIDATED TOTAL
Cumulative Results of Operations:				
Beginning Balances	$ 4,806	$ 2,604,111	$ 1,190	$ 2,605,301
Budgetary Financing Sources				
Appropriations Used	29	140,355	50,745	191,100
Tax Revenues	0	585,093	0	585,093
Interest Revenues	0	110,779	0	110,779
Transfers In/Out Without Reimbursement	11,517	(5,818)	7,883	2,065
Railroad Retirement Interchange	0	(4,750)	0	(4,750)
Net Transfers In/Out	11,517	(10,568)	7,883	(2,685)
Other Budgetary Financing Sources	0	74	0	74
Other Financing Sources (Non-Exchange)				
Transfers-In/Out	0	0	0	0
Imputed Financing Sources	583	0	605	605
Other	0	0	(3,291)	(3,291)
Total Financing Sources	12,129	825,733	55,942	881,675
Net Cost of Operations	11,827	766,931	56,001	822,932
Net Change	302	58,802	(59)	58,743
Cumulative Results of Operations	$ 5,108	$ 2,662,913	$ 1,131	$ 2,664,044
Unexpended Appropriations:				
Beginning Balances	$ 4	$ 61	$ 376	$ 437
Budgetary Financing Sources				
Appropriations Received	29	140,363	51,262	191,625
Other Adjustments	(1)	(8)	(8)	(16)
Appropriations Used	(29)	(140,355)	(50,745)	(191,100)
Total Budgetary Financing Sources	(1)	0	509	509
Total Unexpended Appropriations	3	61	885	946
Net Position	$ 5,111	$ 2,662,974	$ 2,016	$ 2,664,990

Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2012

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources						
Unobligated Balances, Brought Forward, October 1	$ 0	$ 0	$ 298	$ 79	$ 493	$ 870
Recoveries of Prior Year Unpaid Obligations	6	3	7	1	210	227
Other Changes in Unobligated Balance	(6)	0	0	(9)	(1)	(16)
Unobligated Balance From Prior Year Budget Authority, Net	0	3	305	71	702	1,081
Appropriations (Discretionary and Mandatory)	638,547	139,154	51,381	140,369	29	969,480
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	0	0	3,338	2	11,578	14,918
Total Budgetary Resources	$ 638,547	$ 139,157	$ 55,024	$ 140,442	$ 12,309	$ 985,479
Status of Budgetary Resources						
Obligations Incurred						
Direct	$ 638,547	$ 139,157	$ 50,869	$ 140,362	$ 11,680	$ 980,615
Reimbursable	0	0	3,064	2	60	3,126
Total Obligations Incurred	638,547	139,157	53,933	140,364	11,740	983,741
Unobligated Balance , End of Year						
Apportioned	0	0	707	38	235	980
Unapportioned	0	0	384	40	334	758
Total Unobligated Balance, End of Year	0	0	1,091	78	569	1,738
Total Budgetary Resources	$ 638,547	$ 139,157	$ 55,024	$ 140,442	$ 12,309	$ 985,479
Change in Obligated Balance						
Unpaid Obligations, Brought Forward, October 1, (Gross)	$ 57,808	$ 25,361	$ 2,074	$ 507	$ 2,576	$ 88,326
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	0	0	0	0	(3,075)	(3,075)
Obligated Balance, Start of Year (Net)	57,808	25,361	2,074	507	(499)	85,251
Obligations Incurred	638,547	139,157	53,933	140,364	11,740	983,741
Outlays, Gross	(634,733)	(138,632)	(54,173)	(140,393)	(11,596)	(979,527)
Change in Uncollected Customer Payments From Federal Sources (Net)	0	0	0	0	(15)	(15)
Recoveries of Prior Year Unpaid Obligations	(6)	(3)	(7)	(1)	(210)	(227)
Obligated Balance, End of Period						
Unpaid Obligation, End of Year (Gross)	61,616	25,883	1,827	477	2,510	92,313
Uncollected Customer Payments From Federal Sources, End of Year	0	0	0	0	(3,090)	(3,090)
Obligated Balance, End of Year (Net)	$ 61,616	$ 25,883	$ 1,827	$ 477	$ (580)	$ 89,223
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	$ 638,547	$ 139,154	$ 54,719	$ 140,371	$ 11,607	$ 984,398
Actual Offsetting Collections (Discretionary and Mandatory)	0	0	(3,338)	(2)	(11,564)	(14,904)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	0	0	0	0	(15)	(15)
Budget Authority, Net (Discretionary and Mandatory)	638,547	139,154	51,381	140,369	28	969,479
Outlays, Gross (Discretionary and Mandatory)	634,733	138,632	54,173	140,393	11,596	979,527
Actual Offsetting Collections (Discretionary and Mandatory)	0	0	(3,338)	(2)	(11,564)	(14,904)
Outlays, Net (Discretionary and Mandatory)	634,733	138,632	50,835	140,391	32	964,623
Distributed Offsetting Receipts	(123,654)	(16,795)	(288)	(2,732)	0	(143,469)
Agency Outlays, Net (Discretionary and Mandatory)	$ 511,079	$ 121,837	$ 50,547	$ 137,659	$ 32	$ 821,154

Other Accompanying Information: Schedule of Spending for the Year Ended September 30, 2012
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
What Money is Available to Spend?						
Total Resources	$ 638,547	$ 139,157	$ 55,024	$ 140,442	$ 12,309	$ 985,479
Less Amount Not Agreed to be Spent	0	0	(707)	(38)	(235)	(980)
Less Amount Not Available to be Spent	0	0	(384)	(40)	(334)	(758)
Total Amounts Agreed to be Spent	$ 638,547	$ 139,157	$ 53,933	$ 140,364	$ 11,740	$ 983,741
How was the Money Spent?						
Direct Payments to the Public	$ 627,450	$ 135,114	$ 50,188	$ 0	$ 26	$ 812,778
Payroll	0	0	0	1	6,423	6,424
Travel	0	0	0	0	39	39
Rent, Utilities, and Communications	0	0	1	0	1,100	1,101
Acquisition of Capital Assets	0	0	0	0	361	361
Inter-Fund Transfers	2,766	2,781	3,882	140,384	0	149,813
Other	4,517	737	102	8	3,647	9,011
Total Spending	634,733	138,632	54,173	140,393	11,596	979,527
Amounts Remaining to be Spent	3,814	525	(240)	(29)	144	4,214
Total Amounts Agreed to be Spent	$ 638,547	$ 139,157	$ 53,933	$ 140,364	$ 11,740	$ 983,741
How was the Money Given?						
Direct Payments	$ 631,202	$ 135,530	$ 50,060	$ 1	$ 6,467	$ 823,260
Grants	0	0	0	7	0	7
Contracts	2	85	61	(3)	5,319	5,464
Inter-Fund Transfers	3,588	3,642	3,794	140,359	0	151,383
Other	3,755	(100)	18	0	(46)	3,627
Total Amounts Agreed to be Spent	$ 638,547	$ 139,157	$ 53,933	$ 140,364	$ 11,740	$ 983,741

Unaudited

REQUIRED SUPPLEMENTARY INFORMATION: SOCIAL INSURANCE

PROGRAM DESCRIPTION

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as "Social Security," provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2011, OASDI benefits were paid to about 55 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers' lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. The amount of OASDI income and benefits may be altered by changes in laws governing the program.

PROGRAM FINANCES AND SUSTAINABILITY

As discussed in Note 8 to the consolidated financial statements, a liability of $81 billion as of September 30, 2012 ($77 billion as of September 30, 2011) is included in "Benefits Due and Payable" on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2012. Also, an asset of $2,719 billion as of September 30, 2012 ($2,654 billion as of September 30, 2011) is recognized for the "investments in Treasury securities." These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investments and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2012. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are nonexchange transactions and are not considered deferred compensation, as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

Required Supplementary Information - While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial status of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **Income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; interest income from Treasury securities held as assets of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **Income excluding interest (Noninterest Income):** income, as defined above, excluding the interest income from Treasury securities held as assets of the OASI and DI Trust Funds;
- **Cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **Cashflow:** either income, noninterest income, or cost, depending on the context;
- **Net cashflow:** either income less cost or noninterest income less cost, however, net cashflow in this section refers to noninterest income less cost;

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

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2012 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

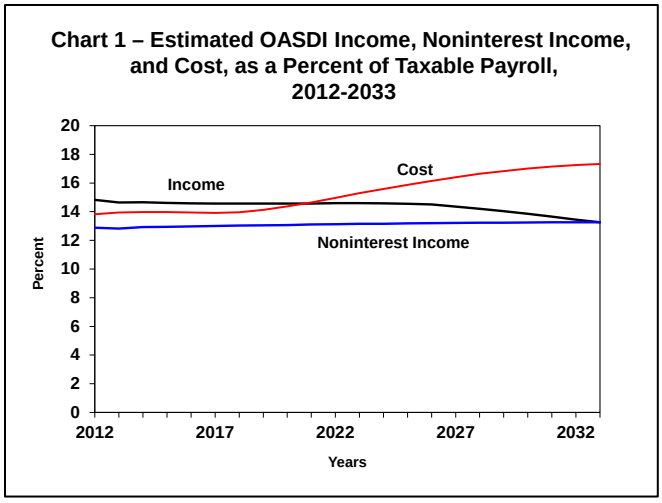
(1) present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
(2) estimated annual income, income (excluding interest), and cost as percentages of taxable payroll and gross domestic product (GDP);
(3) the ratio of estimated covered workers to estimated beneficiaries; and
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

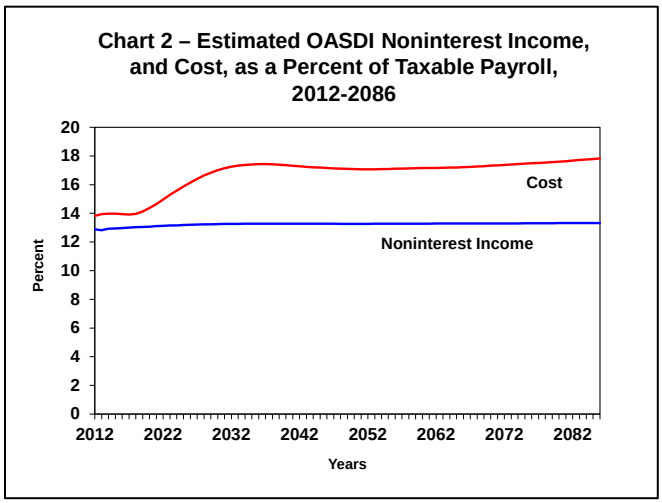
Sustainable Solvency - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits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

Cashflow Projections - Charts 1 through 4 show annual cashflow projections for the OASDI program. OASDI noninterest income and cost are estimated for each year from 2012 through 2086. However, income including interest is only estimated through 2033, the year that the combined OASI and DI Trust Funds are projected to become exhausted. After the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income (noninterest income). Thus, displaying annual income levels beyond the point of combined OASI and DI Trust Fund exhaustion would be inappropriate unless the cost of scheduled benefits were replaced by the amount of benefits that would be payable.

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

Amounts as a Percentage of Taxable Payroll - Chart 1 shows estimated annual income, noninterest income, and cost through 2033 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2086 expressed as percentages of taxable payroll.





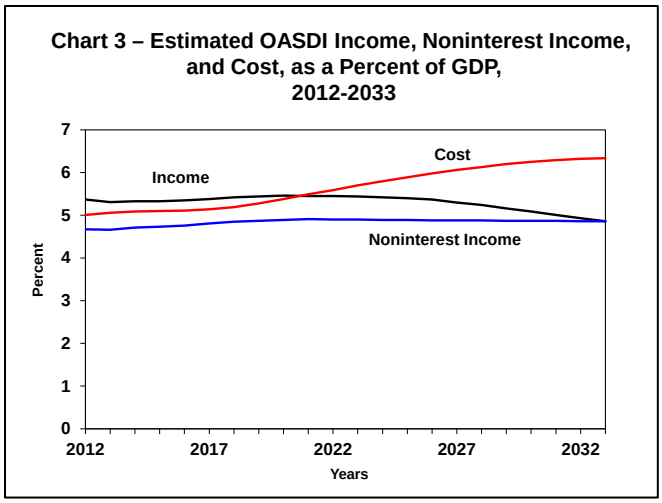
As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. (For calendar years 2011 and 2012, a 2 percent temporary reduction in the employee and the self-employment payroll tax rates is made up by reimbursements from the General Fund of the Treasury.) In all years of the projection period, estimated annual cost is more than estimated annual income, excluding interest. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2035 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 73 percent of the estimated cost.

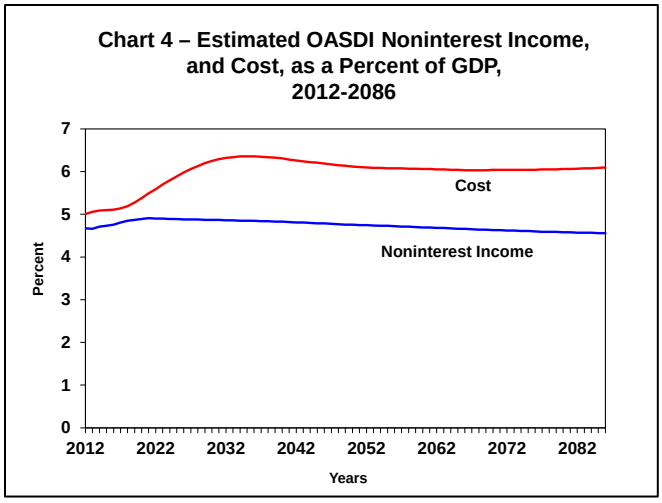
As Chart 1 shows, estimated cost starts to exceed income (including interest) in 2021. This occurs because of a variety of factors including the retirement of the "baby boom" generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed noninterest income in all years of the projection period. In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption differs from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. The Government could finance this redemption by increasing its borrowing from the public, raising taxes (other than OASDI payroll taxes), and/or reducing expenditures (other than OASDI cost). Alternatively, the Government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.

Actuarial Balance - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$11,278 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2012), it is -$8,601 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.67 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76th year of the period.

One interpretation of this negative actuarial balance (-2.67 percent of taxable payroll) is that it represents the magnitude of an increase in the combined payroll tax rate for the entire 75-year period that would allow the combined OASI and DI Trust Funds to remain solvent throughout the period with a small amount of assets remaining in the combined OASI and DI Trust Funds at the end of the period. The combined payroll tax rate is 12.4 percent today (including reimbursements from the General Fund of the Treasury) and is currently scheduled to remain at that level. An increase of 2.67 percentage points in this rate for each year of the 75-year projection period (1.335 percentage points for employees and employers each, resulting in a total rate of 15.07 percent or a rate of 7.535 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all benefits during this period could be reduced by about 16.2 percent on average, or there could be some combination of both tax increases and benefit reductions, to achieve solvency throughout the period.

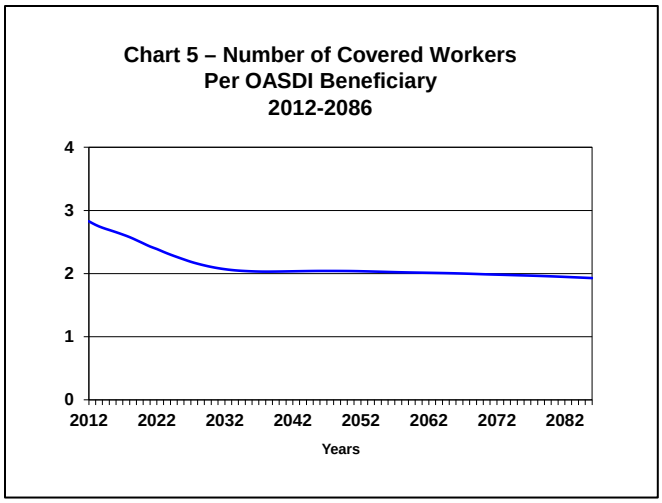
Amounts as a Percentage of Gross Domestic Product (GDP) - Chart 3 shows estimated annual income, noninterest income, and cost through 2033 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2086 expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.





In 2011, OASDI cost was about $736 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.2 percent of GDP in 2030, hits a peak of 6.4 percent of GDP in 2035, declines to 6.0 percent in 2067, and then slowly increases, reaching 6.1 percent of GDP by 2086. The rapid increase from 2012 to 2030 is projected to occur as baby boomers become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

Ratio of Workers to Beneficiaries - Chart 5 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes based on services for wages in covered employment and/or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.9 in 2011 to 1.9 in 2086.



SENSITIVITY ANALYSIS

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

For this analysis, the intermediate assumptions in the 2012 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2012, and are based on estimates of income and cost during the 75-year projection period 2012-2086. In this section, for brevity, "income" means "noninterest income."

For each assumption analyzed, one table and one chart are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The chart shows the present value of each annual net cashflow.

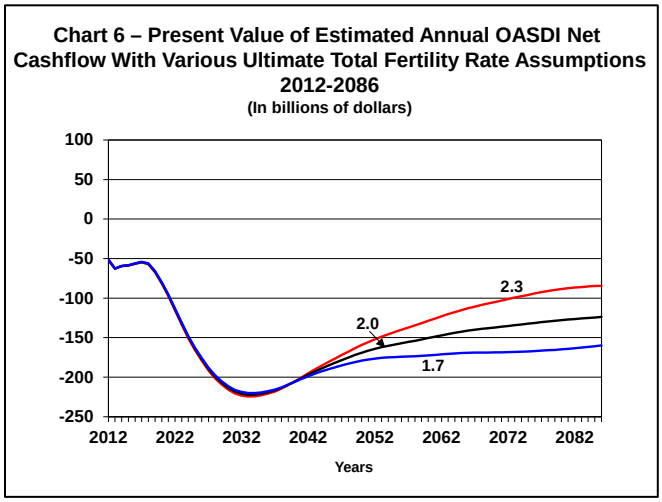
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more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

Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0, and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2012 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2036.

Table 1 demonstrates that: if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to $12,313 billion, from $11,278 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to $10,217 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2012-2086			
Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-$12,313	-$11,278	-$10,217

Using the same total fertility rates used for the estimates in Table 1, Chart 6 shows the present value of the estimated annual OASDI net cashflow.



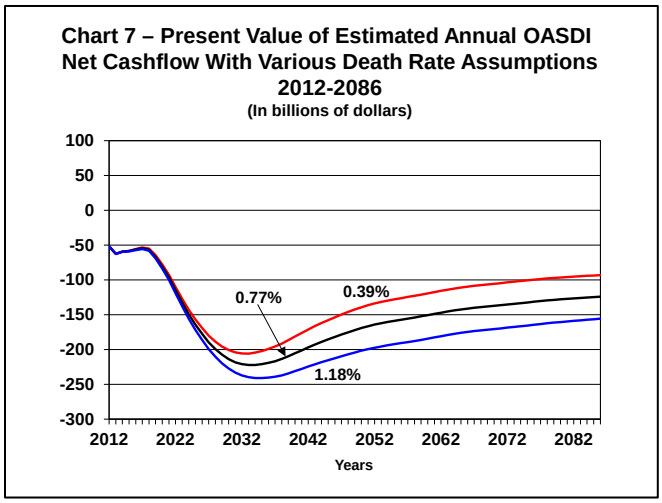
The three patterns of the present values shown in Chart 6 are similar. The present values based on all three ultimate total fertility rates are negative in all years of the 75-year projection period. The net cashflow estimates corresponding to a 1.7 ultimate total fertility rate decrease substantially (become more negative) in 2013, increase (become less negative) in years 2014-17, decrease in years 2018-34, and then increase thereafter. The net cashflow estimates corresponding to a 2.0 and a 2.3 ultimate total fertility rate follow the same pattern; decreasing substantially (becoming more negative) in 2013, increasing (becoming less negative) in years 2014-17, decreasing in years 2018-33, and increasing thereafter. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2035 than it would to cover the annual deficit in 2034.

Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2011-86 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.39, 0.77, and 1.18 percent per year, where 0.77 percent is the intermediate assumption in the 2012 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 26, 44, and 59 percent, respectively). The life expectancy at birth, on a unisex period life table basis, is projected to rise from 78.2 in 2011 to 81.8, 85.0, and 88.1 in 2086 for average annual reductions in the age-sex-adjusted death rate of 0.39, 0.77, and 1.18 percent, respectively.

Table 2 demonstrates that: if the annual reduction in death rates is changed from 0.77 percent, the Trustees' intermediate assumption, to 0.39 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $9,595 billion, from $11,278 billion; if the annual reduction were changed to 1.18 percent, meaning that people live longer, the shortfall would increase to $13,069 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2012-2086			
Average Annual Reduction in Death Rates (from 2011 to 2086)	0.39 Percent	0.77 Percent	1.18 Percent
Present Value of Estimated Excess (In billions)	-$9,595	-$11,278	-$13,069

Using the same assumptions about future reductions in death rates used for the estimates in Table 2, Chart 7 shows the present value of the estimated annual OASDI net cashflow.



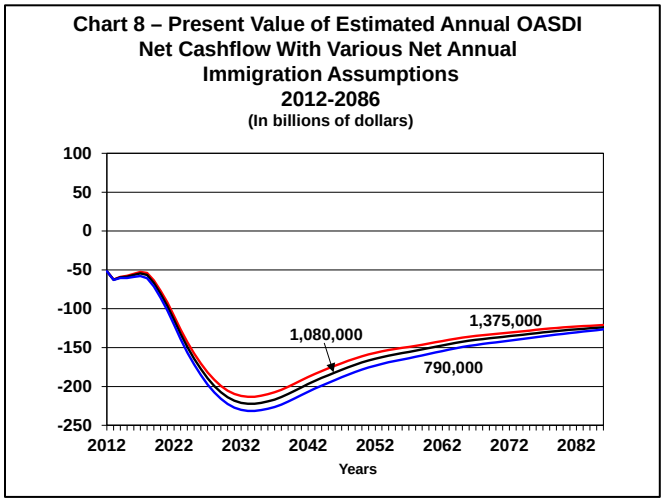
The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cashflow estimates are negative in all years of the 75-year projection period. After decreasing substantially (becoming more negative) in 2013 and increasing (becoming less negative) in years 2014-17, the present values decrease rapidly until around 2030. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2034, 2034, and 2036 for projected reductions of 0.39, 0.77, and 1.18 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time, and continues to increase through 2086.

Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on these levels, it is projected that net annual immigration (legal and other) will average 790,000 persons, 1,080,000 persons, and 1,375,000 persons over the 75-year valuation period, where 1,080,000 persons is the average value based on the intermediate assumptions in the 2012 Trustees Report.

Table 3 demonstrates that, if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,080,000 persons to 790,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $11,789 billion, from $11,278 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,375,000 persons, the present value of the shortfall would decrease to $10,836 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2012-2086			
75-Year Average Net Annual Immigration	790,000 Persons	1,080,000 Persons	1,375,000 Persons
Present Value of Estimated Excess (In billions)	-$11,789	-$11,278	-$10,836

Using the same assumptions about net annual immigration used for the estimates in Table 3, Chart 8 shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 8 are similar. The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. After decreasing substantially (becoming more negative) in 2013, the net cashflow estimates increase (become less negative) in years 2014-17, decrease steadily through 2033 and increase thereafter for all three sets of assumptions. Present values based on all three assumptions about net annual immigration increase (are less negative) from 2034 through the end of the projection period.

Very little difference is discernible in the first few years among the estimates of present values of net annual cashflow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Thus, even in the early years, the present values, year by year, are generally higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Thus, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

Real-Wage Differential - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual Consumer Price Index (CPI). The ultimate real-wage differential is the average of the annual real-wage differential for the last 65 years of the 75-year projection period. Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.51, 1.12, and 1.71 percentage points, where 1.12 percentage points is the intermediate assumption in the 2012 Trustees Report. In each case, the ultimate annual increase in the CPI is

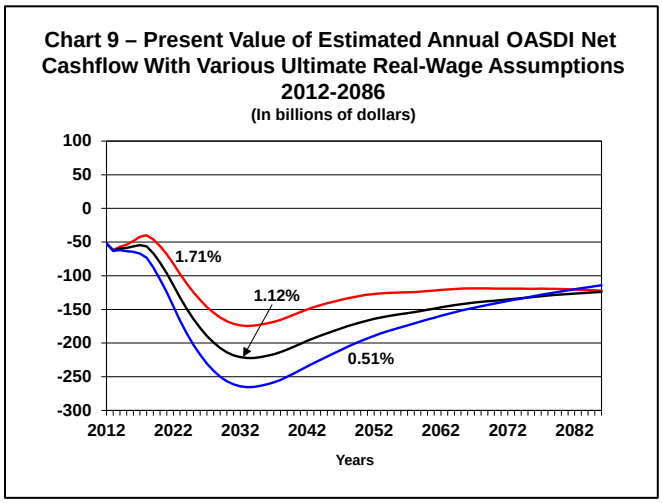
assumed to be 2.80 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.31, 3.92, and 4.51 percent, respectively.

Table 4 demonstrates that: if the ultimate real-wage differential is changed from 1.12 percentage point, the Trustees' intermediate assumption, to 0.51 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $12,745 billion from $11,278 billion; if the ultimate real-wage differential were changed from 1.12 to 1.71 percentage points, the shortfall would decrease to $9,177 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2012-2086

Ultimate Annual Increase in Wages, CPI; **Real Wage Differential**	3.31% , 2.80%; **0.51%**	3.92% , 2.80%; **1.12%**	4.51% , 2.80%; **1.71%**
Present Value of Estimated Excess (In billions)	-$12,745	-$11,278	-$9,177

Using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4, Chart 9 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Estimated net cashflows substantially decrease (become more negative) in 2013 for all three sets of assumptions. Estimated cashflows increase (become less negative) in 2014 for the assumed ultimate real-wage differential of 0.51 percentage points, in years 2014-17 for the assumed ultimate real-wage differential of 1.12 percentage points, and in years 2014-18 for the assumed real-wage differential of 1.71 percentage points. The present values then decrease through 2033 for all three assumed ultimate real wage differentials. Present values based on all three assumptions begin to increase (become less negative) in 2034. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.71 percentage points, the present values continue to increase until 2069 when decreases begin again and generally continue throughout the remainder of the projection period. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns

of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, toward the end of projection period, annual net cashflow becomes more similar for all assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds noninterest income. These effects are depicted by the patterns in Chart 9 coming together at the end of the projection period.

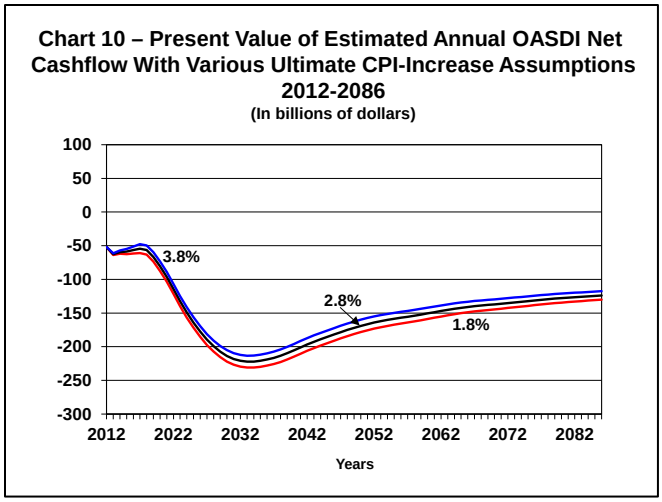
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.80, 2.80, and 3.80 percent, where 2.80 percent is the intermediate assumption in the 2012 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.12 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.92, 3.92, and 4.92 percent, respectively.

Table 5 demonstrates that: if the ultimate annual increase in the CPI is changed from 2.80 percent, the Trustees' intermediate assumption, to 1.80 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $11,853 billion, from $11,278 billion; if the ultimate annual increase in the CPI were changed to 3.80 percent, the shortfall would decrease to $10,696 billion. The seemingly counter-intuitive result that higher CPI increases result in decreased shortfalls (and vice versa) is explained by the time lag between the effects of the CPI changes on taxable payroll and on benefit payments. The effect on taxable payroll due to a greater increase in average wages is experienced immediately, while the effect on benefits is experienced with a lag of about 1 year. For this reason, larger increases in the CPI cause earnings and income to increase sooner, and thus by more each year, than benefits and cost.

Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2012-2086

Ultimate Annual Increase in Wages, **CPI**; Real Wage Differential	2.92% , **1.80%**; 1.12%	3.92% , **2.80%**; 1.12%	4.92% , **3.80%**; 1.12%
Present Value of Estimated Excess (In billions)	-$11,853	-$11,278	-$10,696

Using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5, Chart 10 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 10 are similar. Net cashflow estimates

decrease (become more negative) in years 2013 and 2018-33 for all three sets of assumptions. For an ultimate annual CPI increase of 1.80, there is an additional small decrease in 2015. For all other years in the projection period all three sets of assumptions increase (become less negative). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) in 2034, and continue to increase through 2086.

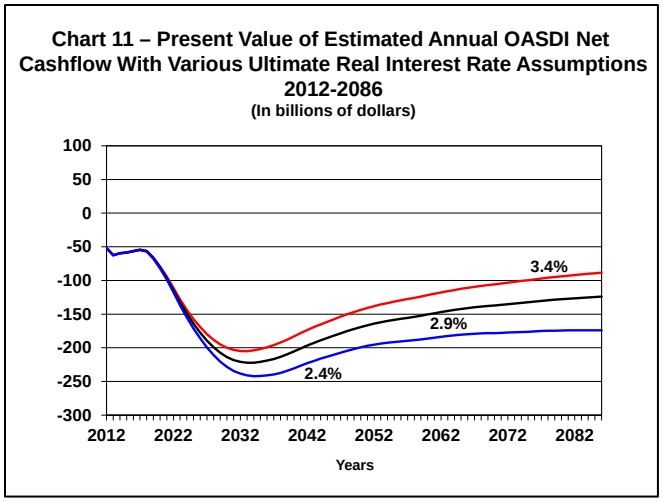
Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.4, 2.9, and 3.4 percent, where 2.9 percent is the intermediate assumption in the 2012 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 6 demonstrates that: if the ultimate real interest rate is changed from 2.9 percent, the Trustees' intermediate assumption, to 2.4 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to $13,303 billion, from $11,278 billion; if the ultimate annual real interest rate were changed to 3.4 percent, the present-value shortfall would decrease to $9,653 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Interest Assumptions Valuation Period: 2012-2086

Ultimate Annual Real Interest Rate	2.4 Percent	2.9 Percent	3.4 Percent
Present Value of Estimated Excess (In billions)	-$13,303	-$11,278	-$9,653

Using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6, Chart 11 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 11 are similar. After decreasing substantially (becoming more negative) in 2013 and increasing (becoming less negative) in years 2014-17, the present values decrease rapidly until around 2030. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2034, and 2034 for assumed ultimate real interest rates of 2.4, 2.9, and 3.4 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. The present values for all three sets of assumptions continue increasing throughout the remaining projection period.

AUDITOR'S REPORTS

SOCIAL SECURITY

November 8, 2012

The Honorable Michael J. Astrue
Commissioner

The *Chief Financial Officers Act of 1990 (CFO)* (Pub. L. No. 101-576), as amended, requires that the Social Security Administration's (SSA) Inspector General (IG) or an independent external auditor, as determined by the IG, audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), Grant Thornton, LLP, an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2012 financial statements. Grant Thornton, LLP, also audited the FY 2011 financial statements presented in SSA's FY 2012 Performance and Accountability Report for comparative purposes. This letter transmits the Grant Thornton, LLP, *Independent Auditor's Report* on the audit of SSA's FY 2012 financial statements. Grant Thornton, LLP's, Report includes the following.

- Opinion on Financial Statements
- Opinion on Management's Assertion About the Effectiveness of Internal Control
- Report on Compliance and Other Matters

OBJECTIVE OF A FINANCIAL STATEMENT AUDIT

The objective of a financial statement audit is to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used, and significant estimates made, by management as well as an evaluation of the overall financial statement presentation.

Grant Thornton, LLP, conducted its audit in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as considered necessary under the circumstances. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

AUDIT OF FINANCIAL STATEMENTS, EFFECTIVENESS OF INTERNAL CONTROL, AND COMPLIANCE WITH LAWS AND REGULATIONS

Grant Thornton, LLP, issued an unqualified opinion on SSA's FY 2012 and 2011 financial statements. However, Grant Thornton, LLP, stated SSA had not maintained effective internal control over financial reporting based on criteria under the *Federal Manager's Financial Integrity Act of 1982* (FMFIA).

In its audit, Grant Thornton, LLP, identified five deficiencies in internal control that, when aggregated, are considered to be a material weakness in controls over information security. Specifically, Grant Thornton, LLP's, testing disclosed

1. lack of monitoring controls and implementation of policy related to the configuration and content of information on SSA Intranet Webpages,
2. lack of controls related to the identification and monitoring of high-risk programs operating on the mainframe,
3. The Agency's vulnerability testing was not sufficient to identify critical weaknesses in SSA's information technology environment,
4. lack of a comprehensive profile and access recertification program, and
5. lack of appropriate controls to prevent programmer access to the production environment.

In addition to the material weakness, Grant Thornton, LLP, noted additional deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal control related to monitoring activities and overall control environment. Specifically, Grant Thornton, LLP's, testing disclosed

1. lack of consideration and resolution of audit findings that were reported in the Management Letter for the past two FYs;
2. lack of a comprehensive process for SSA's quality review feedback forms; and
3. lack of appropriate documentation for disability reviews; various approvals for certain transactions; and Overpayments detection and associated Waivers.

Grant Thornton, LLP, identified no reportable instances of noncompliance with the laws, regulations, or other matters tested.

OIG EVALUATION OF GRANT THORNTON, LLP AUDIT PERFORMANCE

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored Grant Thornton, LLP's, audit of SSA's FY 2012 financial statements by

- reviewing Grant Thornton, LLP's, audit approach and planning;
- evaluating its auditors qualifications and independence;
- monitoring the audit's progress at key points;
- examining Grant Thornton, LLP's, documentation related to planning the audit, assessing SSA's internal control, and substantive testing;
- reviewing Grant Thornton, LLP's, audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 07-04;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Grant Thornton, LLP, is responsible for the attached auditor's report, dated November 8, 2012, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Grant Thornton, LLP's, performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where Grant Thornton, LLP, did not comply with applicable auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to appropriate congressional committees with oversight and appropriation responsibilities over SSA. In addition, we will post a copy of the report on our public website.

Patrick P. O'Carroll, Jr.
Inspector General

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Honorable Michael J. Astrue
Commissioner
Social Security Administration

INDEPENDENT AUDITOR'S REPORT

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

- The consolidated balance sheets of the SSA as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the statements of social insurance as of January 1, 2012 and January 1, 2011 and statement of changes in social insurance amounts for the periods January 1, 2011 to January 1, 2012 and January 1, 2010 to January 1, 2011 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- SSA did not maintain effective internal control over financial reporting as of September 30, 2012; and
- No reportable instances of noncompliance with laws, regulations, or other matters tested.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the SSA as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the statements of social insurance as of January 1, 2012, January 1, 2011 and January 1, 2010 and the statements of changes in social insurance amounts for the periods January 1, 2011 to January 1, 2012 and January 1, 2010 to January 1, 2011. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of social insurance as of January 1, 2009 and 2008 were audited by other auditors whose reports dated November 9, 2009 and November 7, 2008 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants (AICPA); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and presented on pages 110 through 144 of this *Performance and Accountability Report* (PAR), present fairly, in all material respects, the financial position of SSA as of September 30, 2012 and 2011, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, and the financial condition of its social insurance program as of January 1, 2012 and January 1, 2011 and changes in social insurance amounts for the period January 1, 2011 to January 1, 2012, in conformity with accounting principles generally accepted in the United States of America.

However, misstatements may nevertheless occur in other financial information reported by SSA and may not be prevented or detected because of the deficiencies noted in the opinion on internal control below.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of the SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

OPINION ON INTERNAL CONTROL

We have audited SSA's internal control over financial reporting as of September 30, 2012, based on criteria established under 31 U.S.C. 3512(c), (d), commonly known as the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). We did not test all internal controls, relevant to the operating objectives broadly, defined by FMFIA. SSA's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the operating effectiveness of internal control over financial reporting included in the accompanying FMFIA Assurance Statement on page 47 of this PAR. Our responsibility is to express an opinion on SSA's internal control over financial reporting based on our audit.

We conducted our audit in accordance with attestation standards established by the AICPA; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An Agency's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles. An Agency's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Agency; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Agency are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Agency's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We identified certain deficiencies in internal control related to benefit payment oversight that, in the aggregate, are considered to be a significant deficiency.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in Information Systems Controls that, in the aggregate, are considered to be a Material Weakness.

Material Weakness - Information Systems Controls

SSA's business processes which generate the information included in financial statements are dependent upon the Agency's information systems. A comprehensive and effective internal control program over these systems is critical to the reliability, integrity, and confidentiality of data while mitigating the risk of errors, fraud and other illegal acts.

Overview

Management relies extensively on information systems operations for the administration and processing of the Title II and Title XVI programs, to both process and account for their expenditures. Internal Controls over this environment are essential for the reliability, integrity, and confidentiality of the program's data and mitigate the risks of error, fraud and other illegal acts.

Our internal control testing covered both general and application controls. General Controls encompass the entity-wide security program (EWSP), access controls (physical and logical), change management, segregation of duties, system software, and service continuity plans and testing. General controls provide the foundation for the integrity of systems, and combined with application level controls, are critical to ensure accurate and complete processing of transactions and integrity of stored data. Application controls include controls over input, processing of data, and output of data. Our audit included testing of the Agency's mainframe, networks and applications and was conducted at headquarters as well as Disability Determination Services Centers (DDS) and Program Service Centers (PSC).

Deficiencies Noted in Information Systems

While the SSA has made efforts to strengthen controls over its systems and address the outstanding significant deficiency in Information Security, our testing identified general control issues in both design and operation of key controls. We noted weaknesses in the following areas:

- Entity Wide Security Program
- Access Controls
- Compensating Controls

Entity-Wide Security Program: These programs are designed to ensure that security threats are identified, risks are assessed, control objectives are appropriately designed and formulated, relevant control techniques are developed and implemented, and managerial oversight is consistently applied to ensure the overall effectiveness of security measures. EWSPs afford management the opportunity to provide appropriate direction and oversight of the design, development, and operation of critical system controls. Deficiencies in the programs can result in inadequate access and configuration controls affecting mission-critical, system-based operations. Our testing identified the following issues:

- *Lack of monitoring controls and implementation of policy related to the configuration and content of information on SSA intranet web pages.*

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During our testing we were able to obtain security and Personal Identifiable Information (PII) data that was accessible due to the misconfiguration of SSA systems. While testing was terminated after gaining control of a single server, the information obtained enabled us to take control of the SSA's Windows network. These issues increase the risk that sensitive data is accessible to unauthorized personnel which may be used or disclosed inappropriately.

The Agency is currently in the process of implementing new software that will assist in the identification of inappropriate information being posted.

- *Lack of controls related to the identification and monitoring of high risk programs operating on the mainframe*.

During the change management process, management does not perform an impact assessment to determine security implications for significant mainframe programmatic changes. For example, management does not perform assessments for changes to programs in the Authorized Program Facility (APF) libraries (i.e. Services (SVCs), user SVCs, and exits). In addition, management does not have a comprehensive process to periodically review the privileged programs added to the SSA mainframe environment to ensure that all privileged programs have been approved, modified appropriately, and pose no security risks.

Without performing specific assessments of the impact of program changes to the system security framework, there is an increased risk that the security posture and controls may be bypassed or compromised.

- *Insufficient vulnerability testing is conducted by the Agency for the identification of critical weaknesses in their information technology environment.*

During our internal penetration testing we were able to gain access to restricted information and ultimately assume control over a server without detection. Although via a different method, this is the second year in a row we have been able to utilize an internal network drop to gain control of the SSA Windows system without detection. Management's failure to conduct robust enterprise focused penetration testing increases the risk that unauthorized access may occur and go undetected, allowing privileged information or critical infrastructure to be compromised.

The Agency currently performs security assessments related to specific implementations and projects but does not conduct enterprise wide penetration testing (simulated attacks from a malicious user).

Access Controls: Access controls provide assurance that critical systems assets are physically safeguarded and that logical access to sensitive applications, system utilities, and data is provided only when authorized and appropriate. Access controls over operating systems, network components, and communications software are also closely related. These controls mitigate the inherent risk that unauthorized users and computer processes cannot access sensitive data. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately accessed and/or disclosed. Our testing identified the following issues:

- *Lack of a comprehensive profile and access recertification program.*

Our testing disclosed that policies and procedures to periodically reassess the content of security access profiles had been developed but not implemented consistently throughout the Agency. This issue increases the risk of inappropriate access and user rights, which allows individuals an opportunity to perform transactions or access restricted information outside of their job responsibilities. During our testing we identified personnel with inappropriate access.

This is a recurring issue identified as part of the Significant Deficiency in prior years. The Agency is working to remediate its profile and access recertification program and plans for a full implementation of this control in Fiscal Year (FY) 2013.

- *Lack of appropriate controls to prevent programmer access to the production environment.*

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Our testing identified programmers with unmonitored access to production data for a benefit payment application. This is of heightened concern as this access did not exist in the prior fiscal year and based on inquiry with management was caused by human error. This issue increases the risk that programmers could make unauthorized changes to the production environment without detection and without a comprehensive recertification process discussed above. There is no current control that would have identified this error in a timely manner.

The Agency has implemented a secondary user ID process to allow programmers to access production data through a highly monitored, time-limited process. During our testing we determined this control was not operating effectively. For example, we identified instances where programmers were issued a secondary user ID; however, their access was not approved and reviewed for more than six months after they accessed production.

While our testing did not disclose that any inappropriate changes were made to the production environment, a risk existed.

Compensating Controls

Management has identified several areas of compensating controls to mitigate the risks related to the deficiencies above; however, our testing identified control deficiencies for the majority of these controls. The following highlights several of the control deficiencies identified related to these compensating controls:

1. **Change control**

   - Our testing noted a failure of the operational effectiveness of the controls related to documentation and approval of changes to financially relevant applications. This included both routine and emergency changes.

2. **Physical access**

   - During FY 2012, a comprehensive physical access recertification was not performed; including access to the data center. Management is currently working to implement an automated process; however, this was not in place during FY 2012.

   - Our testing identified multiple instances of control failures during our review of the SSA 4395 Form process (the form used to request and approve physical access to SSA facilities). For example, we identified forms that did not include approval signatures, physical access justification, and disapproved employees that were provided physical access.

   - During testing of terminated contractors, we identified a control failure related to removing contractor physical access (from the physical access system) upon termination. Specifically, we noted instances where terminated contractors were identified as having active physical access during our testing.

   - During a related physical security audit, auditors identified a contracted network engineer was found unsuitable for contract employment at the SSA by the Office of Personnel Management. That contracted employee maintained physical access to the SSA facilities for approximately one year after the unsuitable determination was made. This employee was immediately removed from the contract upon notification to the appropriate SSA personnel.

3. **Logical access**

   - Our testing identified control failures related to the appropriate use of the SSA 120 Forms (the forms used to request and approve logical access to SSA systems and applications). Included in these control failures were instances of new hires, transferred employees, state DDS employees, and contracted employees.

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- During a related logical security audit, auditors identified a DDS system user ID (also known as a PIN) that was in use after the employee associated to the ID was terminated to access the system. Management confirmed that no transactions were executed with the terminated employee's ID, but is currently investigating how this occurred.

Recommendations

In order to mitigate the risks of the issues noted in the material weakness, management should consider implementing:

- Monitoring controls designed to identify configurations within the SSA network and systems environment that are not in compliance with the SSA system configuration policy. In addition, management should consider implementing controls to identify and track content on SSA intranet web pages that may pose a risk to the security of SSA systems, or the confidentiality of SSA data;
- A comprehensive program to identify and monitor high risk programs operating on the mainframe. Consider including the identification of programs that may pose security risks to the SSA mainframe prior to them being loaded onto the production environment;
- Comprehensive enterprise-wide security vulnerability testing, including simulated penetration attacks, in order to identify critical weaknesses in the information technology environment that may not be identified by the current control processes.;
- A comprehensive profile and access recertification program; and,
- Additional controls to prevent unauthorized programmer access to the production environment.

Significant Deficiency - Benefit Payment Oversight

SSA has extensive operations geographically dispersed throughout the United States, spanning over 1,200 field offices (FO), 10 regional offices (RO) and 52 state operated DDS offices. In order to ensure consistent processing of transactions related to benefit payments across the numerous physical locations, SSA has detailed policies and procedures as well as an internal control system related to authorization, payment, and continuation of benefit payments. Adherence to policies and procedures are critical to decisions being made timely and correctly by the Agency. In order to ensure compliance with these policies and procedures, management's internal control structure is designed to prevent and/or detect inaccuracies and deviations which can occur throughout the process which relies heavily on human input and decisions.

Overview

Our testing identified control deficiencies that could impact the accuracy of benefit payments related to the following components of internal control: Monitoring and Control Environment. These components are critical to the overall function of the SSA control environment and are necessary to ensure the accuracy of benefits payments in an organization where extremely high volumes of relatively low dollar amount transactions are processed.

Monitoring and Control Environment Deficiencies

Our testing noted deficiencies in SSA Monitoring Controls and Control Environment in the key areas noted below. Many of these exceptions have recurred over the past two fiscal years and have been reported in prior Management Letters.

CDRs - Continuing Disability Reviews (CDRs) are performed by management to determine if existing beneficiaries receiving payments based on disability continue to meet the medical eligibility criteria. This process is critical to the establishment of continued eligibility of beneficiaries receiving disability benefits and has been identified as a key

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control by management as part of their OMB Circular A-123 assessment process. Our testing of CDR cases determined that some CDRs were not documented in accordance with SSA policies, for example physician approvals of final determinations were missing. However, for our sample, we were able to obtain sufficient evidence to conclude the final CDR determinations met the medical criteria established by SSA.

Improper documentation increases the risk of incorrect determinations and prevents the Agency from properly supporting decisions, impacting the accuracy and validity of SSA's recorded benefit payments.

Quality Assurance (QA) - The QA processes conducted by Office of Quality and Performance (OQP) reviews the work being performed through various workloads within the SSA, including a review of CDRs conducted. This process has been identified as a key control by management as part of their OMB Circular A-123 assessment process. Our testing of the QA processes related to the review of the CDRs conducted by the DDS determined the following:

- Communication of detected errors to responsible parties for resolution and performance improvement was not performed. By not communicating deficiencies noted, a key step in improving overall performance and quality is circumvented.
- QA reviews were not completed accurately based on SSA's policies and procedures. Inaccurate completion of QA reviews may result in ineligible beneficiaries receiving payments, which by statute, SSA may not be able to terminate.
- The QA process does not include procedures to update and verify SSA records outside of the QA systems. The lack of updates and verification with beneficiary records may compromise decisions made by management and lead to improper payments.

SSA-93 Forms: SSA management has claims review processes in place within OQP. OQP processes are considered key controls by management for the oversight of benefit payments. When an OQP claim review detects a discrepancy or inaccuracy, a Quality Review Feedback Form (SSA-93 Form) is produced to notify the applicable office that a correction is needed. Our testing identified, SSA-93 Forms are not being completed timely, accurately or completely. In addition, the SSA does not have a comprehensive process to track outstanding SSA-93 Forms and determine accuracy or timeliness of completion.

The lack of a comprehensive process related to identified findings negates the effectiveness of the OQP program and allows known payment errors to go uncorrected and inaccurate data to be maintained.

Overpayments - Overpayments occur when beneficiaries receive payments beyond their entitled amount. Our testing noted deficiencies in the documentation maintained to support a number of the overpayments tested. In certain situations, system limitations cause historic data to be overwritten. Consequently, we were unable to reconstruct the overpayment amount for a number of sample items due to this limitation.

The lack of documentation to support the overpayments impacts the Agency's ability to meet its fiduciary duties to protect the assets of the trust funds and government general fund and support the accounts receivable balance on its financial statements.

Recommendations

In order to mitigate the risks of the issues noted in the significant deficiency, management should:

CDRs

- Enforce existing policies and procedures around documentation of CDRs.
- Enhance enforcement procedures for DDSs which are not completing or documenting CDRs per policies and procedures.

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Quality Assurance

- Enhance policies over QA to clearly define when a reviewer should document and provide feedback to users.
- Enforce existing policies and procedures and continue training over the correct completion of a QA review.
- Implement procedures to update and verify SSA records outside of the QA systems based upon information validated during the QA review.

SSA-93 Forms

- Provide training and reminders to encourage timely and appropriate completion of SSA-93 Forms in accordance with SSA guidance.
- Implement management review in the RO and FO over completed SSA-93 Forms.
- Include reviews by Headquarters over timeliness and quality of completion of SSA-93s Forms.

Overpayments

- Include procedures in the current On-site Control and Audit Reviews (OSCAR) program for determining whether overpayment information has been completely, accurately, and timely documented by field offices or PSCs within the appropriate systems of record.
- Implement changes that prevent overpayment information from being overwritten in the system.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, SSA has not maintained effective internal control over financial reporting as of September 30, 2012, based on criteria established under FMFIA.

Specific disclosure of detailed information about these exposures might further compromise controls and are therefore not provided within this report. Rather, the specific details of deficiencies noted are presented in a separate, limited-distribution Management Letter.

We considered the material weakness identified above in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 financial statements, and this report does not affect the report above, which expressed an unqualified opinion.

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with laws and regulations, including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04 as amended, and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under the *Federal Financial Management Improvement Act of 1996* (FFMIA), we are required to report whether the SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We did not test compliance with all laws and regulations applicable to SSA. We limited our tests of compliance to the provisions of laws and regulations cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our test of compliance disclosed no instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 as amended and no instances of substantial noncompliance that are required to be reported under FFMIA.

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 5 through 52 and the Required Supplementary Information (RSI) included on pages 151 through 162 of this PAR are not a required part of the basic financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements.* This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Budgetary Resources included on page 149 of this PAR is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This schedule and the consolidating and combining information included on pages 145 to 148 of this PAR are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Commissioner's Message on page 1 and the other accompanying information included on pages 2 through 4, 53 through 109, 150 and 177 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

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

Grant Thornton LLP

Alexandria, Virginia
November 8, 2012

SOCIAL SECURITY
The Commissioner

November 08, 2012

Grant Thornton LLP
333 John Carlyle
Alexandria, VA 22314

Ladies and Gentlemen:

We have reviewed the draft Independent Auditor's Report concerning your audit of our fiscal year 2012 financial statements. We are extremely pleased to receive our 19th consecutive unqualified opinion on our financial statements, which demonstrates our long-standing dedication to strong financial management.

In your opinion on internal control, you identified certain deficiencies in information systems controls that in aggregate you considered a material weakness. Based on that conclusion, you did not provide an unqualified opinion that our internal control over financial reporting was operating effectively.

We strive to maintain strong controls over our systems, and we appreciate your work to identify issues so that we can further improve these controls. However, after careful consideration of your findings, many discussions with you, and based upon our overall knowledge and experience with these systems and processes, we respectfully disagree that your findings, either individually or in aggregate, rise to the level of material weakness. The findings do not prevent us from meeting the control objectives over our financial reporting. We believe the likelihood of a material misstatement to our financial statements based on your findings is remote. We remain committed to continuous enhancement of our internal controls over information systems; therefore, we are pursuing a risk-based corrective action plan to address the items you identified regarding entity-wide security programs, access controls, and compensating controls. As you have acknowledged in our discussions, we have already begun implementing improvements.

Your report also cited certain deficiencies related to benefit payment oversight that when aggregated you considered a significant deficiency. We acknowledge the need to strengthen our monitoring and control environment to ensure the accuracy of benefit payments. We will implement the necessary corrective actions to enforce and enhance continuing disability review documentation policies and procedures, enforce and enhance quality assurance policies and procedures, and improve timely completion and tracking of corrective actions from quality reviews.

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Page 2 - Grant Thornton LLP

If members of your staff have any questions, they may contact Carla Krabbe at (410) 965-0759.

Sincerely,

Michael J. Astrue

OTHER ACCOMPANYING INFORMATION

The *Other Accompanying Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.

In accordance with the *Reports Consolidation Act of 2000*, the *IG Statement on SSA's Major Management and Performance Challenges* section provides a summary and assessment of the most serious management and performance challenges facing our agency as determined by the Office of the Inspector General (OIG). The OIG also describes the steps we have taken to address each one of these challenges.

Next, in the *Other Reporting Requirements* section, we provide a summary of our financial statement audit and management assurances. We also provide information on our entitlement reviews, the OIG's anti-fraud activities, our biennial review of user fee charges, and our debt management activities.

Finally, the *Other Accompanying Information* section concludes with the *Improper Payments Information Detailed Report*. In this section, we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.

IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

SOCIAL SECURITY

November 8, 2012

The Honorable Michael J. Astrue
Commissioner

Dear Mr. Astrue:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Performance and Accountability Report*.

In Fiscal Year (FY) 2012, we continued our focus on most of the management and performance challenges from the previous year, but we added one additional challenge and deleted another. Specifically, we added "Strengthen Strategic and Tactical Planning" and deleted "Implement the *American Recovery and Reinvestment Act of 2009* Effectively and Efficiently." The challenges are listed below.

- Reduce the Hearings Backlog and Prevent its Recurrence
- Improve the Timeliness and Quality of the Disability Process
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Invest in Information Technology Infrastructure to Support Current and Future Workloads
- Strengthen the Integrity and Protection of the Social Security Number
- Improve Transparency and Accountability
- Strengthen Strategic and Tactical Planning

We used multiple sources when determining the status of each of the identified challenges. For example, we used statistics reported by SSA and Office of the Inspector General audits of SSA's operations. We also used the FY 2012 independent auditor's report, which contained the results of SSA's financial statement audit. This year's report concluded that SSA had a material weakness related to its information security and a significant deficiency related to its monitoring activities. These issues are discussed in detail in the enclosure.

My office will continue focusing on these issues in FY 2013. We will also continue assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Patrick P. O'Carroll, Jr.
Inspector General

Fiscal Year 2012 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges

November 2012

REDUCE THE HEARINGS BACKLOG AND PREVENT ITS RECURRENCE

CHALLENGE: *While the Social Security Administration (SSA) has a plan to eliminate the hearings backlog by 2013, the number of pending cases has increased, and the average processing time remains above the goal of 270 days. In addition, there is a growing concern with administrative law judges' (ALJ) adherence to SSA's policies as well as the variation in their decisional outcomes.*

Hearings Backlog: SSA's first goal in its Fiscal Year (FY) 2008-2013 *Agency Strategic Plan* was to ". . . eliminate our hearings backlog and prevent its recurrence." SSA has directed increased resources to improve hearing timeliness and process more hearings. Since FY 2008, average processing time dropped by about 31 percent, from an average of 514 days in FY 2008 to an average of 353 days at the end of FY 2012. During this time, ALJ productivity increased from 2.30 dispositions per day per ALJ to 2.41.

While timeliness and ALJ productivity have improved, an increased number of applicants has led to an increase in the hearings backlog. By the end of September 2012, the backlog stood at about 817,000 cases, an increase of almost 30,000 cases since the start of the FY. In the *Agency Strategic Plan Fiscal Years 2008-2013*, SSA established a goal to reduce the pending cases to about 466,000 and average processing time to 270 days. In his July 2011 statement to Congress, the SSA Commissioner stated the Agency focus was on the 270-day average processing time, stating, "What matters most to someone waiting for a decision is how quickly we decide his or her case, not how many other people are also waiting for a hearing."

Video Teleconferencing: In our June 2012 report, *Current and Expanded Use of Video Hearings*, we highlighted benefits related to video teleconferencing (VTC) at SSA, while noting that VTC decreased ALJ travel to remote sites. Nonetheless, we noted that the Agency could still take additional steps to expand its use, by placing VTC equipment into field offices, law offices, and government sites. In addition, the relocation of unused equipment and expanded use of desktop video units could increase the available capacity of video hearings.

National Hearing Centers: To eliminate the backlog and prevent its recurrence, the Agency has used automation and implemented a number of business processes to increase adjudicatory capacity and efficiency. One of these initiatives, the video-only National Hearing Centers (NHC), is designed to reduce case processing time by increasing adjudicatory capacity and efficiency with a focus on an electronic hearings process. In our April 2012 audit of *The Role of National Hearing Centers in Reducing the Hearing Backlogs*, we noted that NHCs provided the Agency with additional flexibility by transferring older cases from some of the most heavily backlogged hearing offices, thereby reducing their backlogs and processing times. However, NHCs face their own challenges, including lack of video capacity at claimant locations, scheduling difficulties, and claimants' reluctance to participate in video hearings.

Scheduling Hearings: In our August 2012 report, *Office of Disability Adjudication and Review's Process for Scheduling Hearings When Cases are in "Ready to Schedule" Status*, we identified various obstacles that impacted the hearing office staff's ability to timely schedule hearings. Most notably, staff cited claimant representative availability as the greatest obstacle for timely scheduling hearings. To a lesser degree, hearing office staff cited ALJ availability as another key obstacle.

ALJ Performance: Congress continues to express concerns about ALJ adherence to the Agency's policies and procedures while demonstrating good stewardship of taxpayer dollars. In our February 2012 report, *Oversight of Administrative Law Judge Workload Trends*, we identified ALJs who were significant outliers in terms of their productivity or decisional allowance rates and noted the Agency needed to ensure outlier ALJs were monitored and their underlying work processes were periodically reviewed. In a related March 2012 report, *The Social Security Administration's Review of Administrative Law Judges Decisions*, we noted that while SSA has the authority to review ALJ decisions, the Agency must work within legal restrictions when conducting its reviews.

AGENCY ACTIONS

The Agency continues to implement the Commissioner's plan to eliminate the backlog by

- expanding the list of diseases and conditions covered under compassionate allowances;
- increasing adjudicatory capacity through additional hiring and the use of senior attorney adjudicators;
- reducing the volume of aged cases in the hearings pipeline; and
- improving hearing efficiency with automation and improved business processes, such as the expansion of video hearings.

In FY 2012, SSA hired 147 new ALJs and adjudicated approximately 37,000 cases using the senior attorney adjudication program. The Agency held almost 154,000 video hearings nationwide in the FY, an increase of almost 24,000 video hearings when compared to FY 2011.

IMPROVE THE TIMELINESS AND QUALITY OF THE DISABILITY PROCESS

CHALLENGE: *SSA needs to address millions of initial disability and reconsideration claims and it continues to have backlogs of initial disability claims and continuing disability reviews (CDR).*

Disability Claims Backlog: Over the past 2 years, SSA has received a large influx of initial and reconsideration claims. More specifically, it received over 3.3 million initial and 836,000 reconsideration claims in FY 2011. In addition, it received about 3.2 million initial and over 832,000 reconsideration claims in FY 2012. In addition, SSA has a large number of initial claims pending completion. In 2012, SSA had over 707,000 initial disability claims pending, similar to the 720,000 initial disability claims that were pending at the end of FY 2011.

DDS Personnel Issues: Some disability determination services (DDS) are facing high attrition rates, hiring freezes, and employee furloughs, all of which affect SSA's ability to process the disability workload. With hiring freezes, DDSs are not allowed to replace the lost staff. As of September 2012, four States were still furloughing DDS employees (Nevada, New York, Oregon, and Washington).

CDR Backlog: In our March 2010 report on *Full Medical Continuing Disability Reviews,* we reported that SSA estimated a backlog of over 1.5 million medical CDRs at the end of FY 2010. As a result, we estimated that from Calendar Years (CY) 2005 through 2010, SSA made benefit payments of between $1.3 and $2.6 billion that it could have avoided had the medical CDRs in the backlog been conducted by State DDSs when they became due. SSA had a backlog of 1.3 million medical CDRs at the end of FY 2012.

AGENCY ACTIONS

SSA's Strategy: In November 2010, SSA released its *Strategy to Address Increasing Initial Disability Claim Receipts* (Strategy) to reduce the initial claims backlog to a pre-recession level of 525,000 by FY 2014. The multi-year Strategy includes

- increasing staffing in the DDS and Federal disability processing components;
- improving efficiency through automation;
- expanding the use of screening tools to assist in identifying claims likely to be allowed; and
- refining policies and business processes to expedite case completion.

As part of the Strategy, SSA provided funding for States to hire additional DDS employees. SSA also created centralized units, called Extended Service Teams, in Arkansas, Mississippi, Oklahoma, and Virginia. The Teams assist the States by taking claims from those with the highest pending levels. SSA also increased staffing levels in the Federal disability processing components that support the DDSs—hiring about 237 additional employees.

In total, SSA hired more than 2,600 DDS employees in FYs 2009 and 2010. However, in FY 2011, SSA froze DDS hiring and did only limited critical hiring in FY 2012. As a result, SSA lost over 1,200 DDS employees in FY 2011 and 1,025 additional DDS employees in FY 2012.

With the loss of DDS employees and a high level of initial disability claims receipts anticipated in FY 2013, SSA does not expect to achieve its initial claims pending level goal of 525,000 by FY 2014. In fact, in FY 2013, SSA expects that pending initial disability claims will rise to over 1.1 million. In FY 2013, we plan to initiate a review of the actions SSA is taking to reduce the initial disability claims backlog.

Disability Case Processing System: The Agency is developing a Disability Case Processing System (DCPS), which is 1 common system that will replace the 54 different existing systems that support the DDSs. DCPS will integrate case analysis tools and health information technology (IT). A common case processing system will help SSA to timely distribute policy changes. Per SSA, it will provide consistent case processing abilities between the DDSs, which should have a positive effect on processing times and the consistency of disability decisions. SSA

planned to test the initial version of DCPS in five locations, beginning with the Idaho DDS in September 2012. SSA expects to complete the implementation of DCPS by the end of FY 2016.

Cooperative Disability Investigations: We have continued working with SSA to address the integrity of the disability programs through Cooperative Disability Investigations (CDI). The mission of the 25 CDI units is to obtain evidence that can resolve questions of fraud in SSA's disability claims. The program is managed jointly by SSA's Offices of Operations and Disability Programs and the Office of the Inspector General (OIG). Since its inception in FY 1998 through FY 2012, the program efforts have resulted in $2.2 billion in projected savings to the Disability Insurance and Supplemental Security Income (SSI) programs and over $1.4 billion in projected savings to non-SSA programs.

REDUCE IMPROPER PAYMENTS AND INCREASE OVERPAYMENT RECOVERIES

CHALLENGE: *SSA is one of the top Federal agencies with a high amount of improper payments. In FY 2011, the last FY for which data were available, SSA reported about $8 billion in over- or underpayments, and the Agency incurred an administrative cost of $0.07 for every overpayment dollar it collected. Further, SSA needs to adhere to requirements in Executive Order 13520 – Reducing Improper Payments and Eliminating Waste in Federal Programs – and the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L. No. 111-204) to address improper payments.*

SSA is responsible for issuing over $700 billion in benefit payments annually to about 60 million people. Given the large overall dollars involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

Improper Payment Rates: Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

For example, according to SSA, in FY 2011:

- The Old-Age, Survivors and Disability Insurance (OASDI) overpayment error was $2.3 billion or 0.3 percent of program outlays, and the underpayment error was $1 billion or 0.1 percent of program outlays.
- The SSI overpayment error was $3.8 billion or 7.3 percent of program outlays, and the underpayment error was $1 billion or 1.8 percent of program outlays.

For FYs 2012 and 2013, SSA's goal was to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; and for SSI, the Agency's goal was to achieve an overpayment accuracy rate of 95 percent and an underpayment accuracy rate of 98.8 percent.

Executive Order 13520 and IPERA: In November 2009, the President issued Executive Order 13520 on reducing improper payments; and in March 2010, the Office of Management and Budget (OMB) issued guidance for implementing it. Also, in July 2010, IPERA was enacted. OMB issued guidance on implementing IPERA in April 2011. As a result, all agencies with high-risk programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. OMB designated SSA's programs as high-risk.

Overpayment Recoveries: Once SSA determines an individual has been overpaid, it must recover any overpayment. SSA reported that the percent of debt (for example, overpayments) collected decreased from FY 2011 to FY 2012. Specifically, SSA reported that it collected 22.9 percent of debt in FY 2011 and 22.1 percent in FY 2012. Additionally, the percent of debt collected in FY 2012 is lower than the percent collected in each of the previous 4 FYs.

AGENCY ACTIONS

Improper Payment Causes: One of the major causes of improper payments in the OASDI program is benefit computation errors. SSA has developed automated tools to address the more troublesome computation issues. Another major cause of improper payments in the SSI program is recipients' failure to provide accurate and timely reports of new or increased wages. In response, SSA developed a monthly wage reporting system incorporating touch-tone and voice-recognition telephone technology. SSA also implemented its Access to Financial Institutions project to reduce SSI payment errors by identifying undisclosed financial accounts with balances that place recipients over the SSI resource limit.

Debt Collection Tools: SSA uses a variety of methods to collect the debt related to overpayments. Collection techniques include internal methods, such as benefit withholding and billing with followup. In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts. These debt collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal Salary Offset. In FY 2012, SSA recovered $3.7 billion in overpayments at an administrative cost of $0.07 for every dollar collected.

CDRs: The CDR is a powerful tool for reducing improper payments. Through completion of CDRs, SSA periodically verifies that individuals are still disabled and eligible for disability payments. Available data indicate that SSA saves about $9 for every $1 spent on CDRs, including Medicare and Medicaid program effects.

IMPROVE CUSTOMER SERVICE

CHALLENGE: *Many factors challenge SSA's ability to provide quality customer service to the public, including budget constraints, growing workloads, changing customer expectations, an aging workforce, and shifting demographics.*

Increased Workload with Reduced Staff: Each day, almost 182,000 people visit SSA field offices and more than 445,000 people call the Agency for a variety of services, such as filing a claim, updating information, and asking questions. SSA is also receiving increasing numbers of claims. The Agency completed approximately 3.2 million disability claims and 5 million retirement and survivor and Medicare claims in FY 2012.

The projected retirement of its employees continues to present a challenge to SSA's customer service capability. SSA estimates that 45 percent of its employees, including 60 percent of its supervisors, will be eligible to retire by FY 2020. This loss of institutional knowledge may adversely affect SSA's ability to deliver the quality service the public expects.

Changing Customer Expectations: SSA is also finding that technology is rapidly changing and the public expects to complete more business online. Internet services and the use of mobile devices and social media continue to increase. At the same time, the Nation is becoming more diverse. Today, minorities comprise approximately 30 percent of the population, and the Census Bureau estimates that minorities will make up over half of the population by 2050. As SSA enhances its service delivery strategies, it must consider the increasing multilingual and multicultural population it serves.

Budget: SSA stated that the current level of funding would lead to a loss of employees. In FY 2012, it lost over 1,600 employees. Consequently, the Agency projected its national 800-number service will deteriorate significantly because it will not have a sufficient number of employees to answer calls. Busy signals rose from 3 percent in FY 2011 to 4.6 percent in FY 2012. The average speed to answer also increased from 180 seconds in FY 2011 to 294 seconds in FY 2012. Additionally, SSA estimates it will be unable to complete all its post-entitlement work. The Agency believes its inability to handle this work timely could result in improper payments and delays in collecting overpayments. Further, to reduce administrative costs and direct resources to meet growing public service expectations, SSA consolidated 20 field offices in FY 2012. SSA will continue evaluating its facilities to determine whether additional consolidations are necessary.

Direct Deposit: SSA uses direct deposit for 94 percent of Social Security benefits and 83 percent of SSI payments. In October 2011, we began tracking allegations that indicated individuals other than the beneficiaries or their representatives had redirected benefit payments away from the beneficiaries' bank accounts. As of the end of FY 2012, we had received over 22,000 reports concerning direct deposit changes to a Social Security beneficiary's record.

Representative Payment Program: Providing oversight to ensure representative payees properly manage the Social Security benefits of vulnerable beneficiaries is a critical customer service performed by SSA. SSA appoints representative payees to receive and manage the benefits of beneficiaries who are incapable of managing or directing the management of their finances because of their age or mental or physical impairment. Based on data from SSA's Representative Payee System, there were approximately 5.9 million representative payees as of December 2011. The Office of Research and Statistics reports these payees served approximately 8.4 million beneficiaries and managed about $72 billion in annual benefit payments.

Our reviews continue to identify problems with SSA's Representative Payment Program. We found SSA did not always take appropriate actions for individual representative payees who misused benefit payments. For example, SSA did not document negligence decisions, refer instances of misuse to the OIG, follow policy regarding the retention of payees who misuse beneficiary funds, or record misuse-related data accurately in its system.

We continue finding problems with representative payees who do not properly use and account for benefits. For example, we identified an organizational representative payee who improperly transferred about $800,000 from beneficiary accounts into its own business operating account to cover its cash flow shortages. Additionally, we

identified large-volume, fee-for-service representative payees who did not always have the resources, procedures, and controls in place to ensure they fulfilled their representative payee responsibilities.

AGENCY ACTIONS

SSA has implemented various initiatives to improve customer service, such as developing a customer service plan, clarifying correspondence, expanding the use of online services, improving telephone and field office services, and improving the Representative Payment Program.

Customer Service Plan: In FY 2012, SSA published its *Customer Service Plan*, which outlines its strategy to improve service delivery quality, speed, and efficiency. The plan highlights the Agency's video hearings initiative, which uses technology to minimize costs and expand customer access. Along with video technology, the Agency plans to improve its telephone and walk-in services, enhance online services, and enhance security for Internet access to personalized information.

Correspondence: SSA mails approximately 200 million notices to the public each year, making it one of the Agency's most common forms of service delivery. SSA intends to improve its notices to ensure they are clear, concise, and easily understood. For example, SSA plans to revise its SSI post-eligibility notices to show the new payment amount and eliminate duplicate charts.

Online Services: One of SSA's priorities is to provide the public more service options through a wide range of online services. In FY 2012, SSA released an online Spanish retirement application and a new online version of the Social Security Statement, which provides eligible workers access to their Social Security earnings and benefit information. SSA also enhanced electronic services for claimant representatives, such as improving the online appeals application (iAppeals). According to SSA, each online application saves about 15 minutes. Further, starting in April 2012, individuals applying for disability benefits were able to electronically sign and submit an authorization to disclose medical information, which will help process claims faster. SSA reports, on average, this should reduce the disability application process by 9 days per claim.

SSA continues expanding its nation-wide marketing campaign for its Internet services through public service announcements on television, radio, billboards, and buses as well as in airport terminals to promote online services. The Agency also uses social media, such as Facebook, Twitter, and YouTube, to direct the public to its online service options.

In FY 2012, SSA reported that 44 percent of initial Social Security disability, retirement, spouses, and Medicare claims were filed online. According to the *American Customer Satisfaction Index*, SSA has the two highest-rated electronic services in the Government. Further, three of SSA's online services outperformed or tied Amazon, the highest-scoring electronic retail Website.

Telephone Services: SSA serves over 60 million people per year over the telephone. SSA is replacing its national 800-number infrastructure with a new system, the Citizen Access Routing Enterprise Through 2020. SSA reports the new technology will help eliminate lengthy navigation menus, better forecast call volumes, anticipate staffing needs, and distribute incoming calls across the network so callers can reach an agent more quickly. It will also offer callers the opportunity to hang up and receive a return call from SSA when wait times exceed 3 minutes.

Video Services: SSA is expanding its video services for individuals living in rural areas or places without public transportation. Video services enable the Agency to provide service to people at such sites as hospitals, libraries, community centers, American Indian Tribal centers, and homeless shelters. Video services also increase service availability and help reduce travel costs and lost work hours.

Direct Deposit: SSA performs integrity reviews on direct deposit transactions processed in its program applications. In reaction to recent fraudulent activity in the direct deposit area, SSA has moved from a monthly to a weekly review of direct deposit integrity reviews.

Representative Payee Program: SSA piloted a new program in FY 2012 to ensure individuals convicted of committing or attempting to commit certain crimes do not serve as a representative payee. To increase the number of representative payees who submit timely wage reports, the Agency mailed notices to certain representative payees for working SSI recipients and encouraged the representative payees to report wages via an automated telephone wage reporting system. Further, SSA stated it issued reminders to its employees to follow representative payee program policy, and agreed to work with problem payees to correct deficiencies identified during audits.

INVEST IN INFORMATION TECHNOLOGY INFRASTRUCTURE TO SUPPORT CURRENT AND FUTURE WORKLOADS

CHALLENGE: *SSA faces major challenges to mitigate a material weakness in its logical access controls, provide additional electronic services to meet the growing needs of its customers, and strategically plan to modernize its systems.*

SSA faces the challenge of how best to use technology to meet its increasing workloads with limited budgetary and human resources. Further, SSA will not be able to manage its current and future workloads without the proper IT infrastructure. The Agency uses a variety of technologies, including telephone service, the Internet, and videoconferencing to deliver service to its customers. We have concerns regarding the Agency's IT physical infrastructure; logical access controls and security of sensitive information; development of electronic services, and strategic IT planning.

IT Physical Infrastructure: SSA's National Computer Center (NCC), built in 1979, houses the infrastructure that supports the Social Security programs provided to the public and other services provided to Federal, State, international, and private agencies. Increased workloads and growing telecommunication services have strained the NCC's ability to support the Agency's business. SSA's primary IT investment over the next few years is the replacement of the NCC. However, the Agency has projected that its new facility will not be operational until 2016.

Logical Access Controls and Security of Sensitive Information: SSA's FY 2009, 2010, and 2011 Financial Statement Audits identified a significant deficiency in the Agency's control of access to its sensitive information. For example, SSA did not consistently comply with policies and procedures to periodically reassess the content of security access given to its employees and contractors. Moreover, some employees and contractors had greater access to systems than they needed to perform their jobs. Additionally, certain configurations increased the risk of unauthorized access to key financial data and programs. Although SSA had taken some steps to address these issues, the FY 2012 Financial Statement Audit raised the deficiency to a material weakness in internal control related to information security in the areas of monitoring, logical access, and configuration controls.

Development of Electronic Services: SSA must provide additional electronic services to meet its customers' growing needs. Because of the economic times and baby boom generation retirements, more individuals are filing for retirement and disability benefits. SSA must find ways to expand easy-to-use and secure electronic services for its customers. In FY 2012, the Agency planned to increase the percentage of claims filed online to 42 percent. At the end of FY 2012, 44 percent of claims was filed electronically.

In FY 2013, the Agency plans to increase its online filings to 48 percent. In December 2009, Commissioner Astrue testified that to keep field offices from being overwhelmed by increasing workloads, the Agency would need to increase electronic filing to 50 percent by 2013. SSA's performance plan for FY 2013 is 2 percentage points fewer than what the Commissioner stated. Additionally, SSA has a customer service plan, but this plan does not include long-term strategies to develop and implement electronic services.

Strategic IT Planning: Under the current budget environment, it is crucial for SSA to ensure its IT investments are properly guided by its strategic planning and investment control processes to help ensure the Agency receives the full functionality and cost savings as expected and prevents duplication of efforts or waste. SSA must develop and maintain an Information Resources Management (IRM) Strategic Plan that supports the Agency's Strategic Plan. In addition, the strategic IT planning process should drive performance improvements to save money and avoid cost through collaboration, reuse, productivity enhancements, and elimination of redundancy.

Our prior audit work in this area found that although SSA had a 5-year IRM plan, SSA's IT planning process only spans 2 years. In addition, the IRM did not provide a clear IT blueprint, define IT resource requirements, and address all critical future challenges. Furthermore, SSA did not have a strategic plan to convert its legacy application programs to a more modernized programming language. Moreover, we believe SSA's IRM for FYs 2012 through 2016 is still tactical in nature and does not provide a clear vision of the IT infrastructure that will

be needed to support the Agency's programs 5 to 10 years in the future. Lastly, we believe the IRM lacks any tangible or measurable goals.

SSA's *Strategic Human Capital Plan* for FYs 2008 through 2013 and its *Human Capital Implementation Plan Fiscal Year 2012* did not provide a projection of future IT Specialist requirements. For example, SSA has not strategically planned for the loss of IT expertise needed to maintain or improve its legacy systems.

In addition, SSA should explore opportunities for savings, such as moving appropriate services to an external cloud as part of its IT strategic planning.

AGENCY ACTIONS

IT Physical Infrastructure: SSA has taken steps to address its IT infrastructure challenge. The Agency continues taking actions to address the NCC's sustainability through 2016. For example, SSA conducts recurring inspections of its infrastructure—performing hourly, daily, and weekly tours of the buildings and facility equipment as well as an "annual building walk-around" with technical experts to determine repairs or future replacement projects for the building, grounds, and equipment.

In February 2009, SSA received $500 million in *American Recovery and Reinvestment Act* (Pub. L. No. 111-5) funding to replace its NCC. The General Services Administration (GSA) selected a site for SSA's new data center in June 2011 and purchased it in August 2011. GSA and SSA also developed a Program of Requirements. In January 2012, GSA and SSA awarded a contract for the design and construction of a new data center. This was 2 months ahead of GSA's revised project management plan. The planned completion of construction is December 2014. After completion of construction and commissioning, IT migration to the new data center will take an additional 18 months. The new data center is expected to be operational in 2016.

SSA also has a Second Support Center that the Agency occupied in January 2009. The Second Support Center can recover all Agency mission-critical workloads, with the exception of some of the disability workloads, should the NCC become unavailable.

Logical Access Controls and Security of Sensitive Information: SSA stated that it issued and implemented several policies and procedures related to logical access controls and the security of sensitive information. In addition, SSA stated that it has implemented a Web-based tool for automating SSA's review process for access to sensitive information. SSA stated that it plans to use this tool for the Agency's triennial certification for access to sensitive information and the periodic review of security access content. SSA plans to complete this Agency-wide rollout of the tool in October 2012. Additionally, SSA stated that it assembled a workgroup to address the access control weaknesses identified as a significant deficiency in past years, which was elevated to a material weakness in FY 2012.

Development of Electronic Services: To address this challenge and reduce the workload in field offices, SSA offers 30 electronic services. Further, SSA has researched Internet authentication solutions to secure online initiatives, such as Ready Retirement, replacement Social Security number (SSN) cards, and other automated services. In May 2012, SSA introduced a new Internet process to register and authenticate members of the public who wish to use the Agency's online applications. The public can use this new authentication process when logging into the Agency's Webpage called MySocialSecurity. The MySocialSecurity Webpage allows the public to request a Social Security Statement online. The "electronic access" provides a secure, convenient, and user-friendly method for the public to register and gain access to SSA's online services to conduct business with the Agency instead of visiting the local servicing office or requesting information over the telephone. In December 2012, the Agency plans to incorporate its Internet Benefit Verification, Direct Deposit, Change of Address, and Check Your Benefit applications to its MySocialSecurity Webpage.

Strategic Planning: SSA issued its Agency Strategic Plan (ASP) in February 2012 that documents its missions, strategic goals, and strategies for FYs 2013 through 2016. The ASP outlines the Agency's goals and provides a snapshot of how SSA plans to achieve them. It also highlights key measures the Agency will use to monitor progress.

SSA issued its IRM in May 2012 for FYs 2012-2016. The IRM provides direction for the Agency to effectively prioritize and manage its investments in IT and information management toward the achievement of SSA's mission and business outcomes. The IRM focuses on SSA's IT governance efforts and its primary IT infrastructure domains. The IRM briefly discusses SSA's current IT state and provides high-level plans for each domain areas, such as Data Management, Software/Applications, Business Intelligence, Computing Platforms, Network Infrastructure, and Storage Infrastructure. The Agency recognizes it is facing a challenging budgetary environment and increasingly difficult choices for new investments.

Finally, SSA's *Strategic Human Capital Plan* for FYs 2008 through 2013 identified the IT Specialist job series (2210) as mission-critical as well as the competencies needed for this job series to enable SSA to develop its workforce and improve its retention strategies.

STRENGTHEN THE INTEGRITY AND PROTECTION OF THE SOCIAL SECURITY NUMBER

CHALLENGE: *Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.*

In FY 2012, SSA completed approximately 5.5 million original and 11 million replacement SSN cards and recorded approximately $585 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and eligible individuals receive the full benefits due them.

SSN Use: The SSN is heavily relied on as an identifier and is valuable as an illegal commodity. Accuracy in recording workers' earnings is critical because SSA calculates future benefit payments based on the earnings an individual accumulates over his/her lifetime. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

SSN Misuse: To its credit, SSA has implemented numerous improvements in its SSN assignment, or enumeration process. However, given the preponderance of SSN misuse and identity theft in U.S. society, we continue to believe protection of this critical number is a considerable challenge for SSA, as well as its millions of customers. Unfortunately, once SSA assigns an SSN, it has no authority to control the collection, use, and protection of these numbers by other entities. Our audit and investigative work have shown that the more SSNs are unnecessarily used, the higher the probability that they could be used to commit crimes throughout society. The Federal Trade Commission estimated that as many as 9 million Americans have their identities stolen each year.

We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States, as well as the misuse of children's SSNs for work and identity theft purposes. As such, our planned 2013 audits will address these issues and certain SSA enumeration processes.

Death Master File: In May 2012, the Inspector General testified before the Subcommittees on Oversight and Social Security, Committee on Ways and Means, regarding ways to improve SSN protection and guard against misuse, identity theft, and tax fraud. As mentioned in his testimony, the SSNs of deceased individuals are also vulnerable to misuse. As such, the public release of SSA's Death Master File (DMF) raises concerns. Each DMF record usually includes a deceased individual's SSN, full name, date of birth, and date of death. The file contains about 86 million records, and it adds about 1.1 million records each year. While the DMF has important and productive uses, our investigations show that individuals can use available death data to obtain SSNs and commit fraud. To the extent possible, we believe SSA should limit public access to the DMF to only what is required by law and take all steps to ensure its accuracy.

Earnings: Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated about $993 billion in wages and 313 million wage items for Tax Years 1937 through 2009. In Tax Year 2009 alone, 7.7 million wage items representing $73 billion were posted to the ESF.

AGENCY ACTIONS

SSA has implemented numerous improvements in its SSN assignment, or enumeration process. Some of SSA's more notable recent enumeration improvements include

- establishing enumeration centers in some States—most recently, the Manhattan Social Security Card Center—that focus exclusively on assigning SSNs and issuing SSN cards;
- implementing a new SSN assignment methodology called SSN Randomization; and
- addressing internal control weaknesses we identified in the Agency's process for issuing SSN Printouts.

These actions include implementing a pilot study in three SSA offices and one card center in which applicants must provide stringent, more reliable identity documents before obtaining an SSN Printout. Additionally, the Agency is implementing improved monitoring tools to track the SSN Printout workload.

Social Security Number Verification Service: SSA has taken steps to reduce the size and growth of the ESF. The Agency offers employers the ability to verify the names and SSNs of their employees using the Agency's Social Security Number Verification Service, which is an online verification program, before reporting wages to SSA. In FY 2012, approximately 40,000 registered employers submitted about 102 million verifications.

E-Verify: SSA also supports the Department of Homeland Security in administering the E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees. As of FY 2012, over 404,000 employers had enrolled to use E-Verify, and these employers had submitted almost 23 million queries during this period. Additionally, about 84,500 transactions were processed through the E-Verify Self-Check Service, which is an Internet-based application that allows U.S. workers to check their own employment eligibility.

While SSA cannot control all the factors associated with erroneous wage reports, it may be able to improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, encouraging greater use of the Agency's employee verification programs, and enhancing the employee verification feedback to provide employers with sufficient information on potential employee issues. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

IMPROVE TRANSPARENCY AND ACCOUNTABILITY

CHALLENGE: *SSA faces a number of challenges ensuring accountability, including concerns over its internal controls, systems security, and administrative cost allocations. SSA continues to lack a full set of performance indicators that measure whether the Agency is meeting all its strategic goals.*

There have been a number of efforts to make Federal agencies more transparent and accountable. The *Chief Financial Officers Act of 1990* (Pub. L. No. 101-576) provides for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and Congress in the financing, management and evaluation of Federal programs. The *Government Performance and Results Act of 1993* (GPRA) (Pub. L. No. 103-62) and the *GPRA Modernization Act of 2010* (Pub. L. No. 111-352) seek to improve Federal program effectiveness and public accountability by focusing on results, service quality, and customer satisfaction. More recently, OMB issued the Open Government Directive, which requires Federal agencies to improve the quality of Government information, publish Government information online, create and institutionalize a culture of open Government, and create an enabling policy framework for open Government.

***Federal Managers' Financial Integrity Act*:** OMB Circular A-123, Revised, *Management's Responsibility for Internal Control*, defines internal control as "…tools to help program and financial managers achieve results and safeguard the integrity of their programs." The Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) (Pub. L. No. 97-255). FMFIA encompasses accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management.

In the FY 2012 Independent Auditor's Report, the auditors reported a material weakness and a significant deficiency in internal control. The full text of the report can be found in SSA's *Performance and Accountability Report*. We summarize the two control weaknesses below.

Monitoring Activities and Overall Control Environment: The Agency faces a challenge in monitoring its activities and the overall control environment. This challenge is the aggregate of several issues that can be summarized into two categories—lack of timeliness and lack of appropriate documentation. SSA lacked timeliness in completion of quality review feedback forms, follow-up on Comprehensive Integrity Reviews Process System reviews, and consideration and resolution of prior year audit findings. SSA's lack of appropriate documentation includes areas of disability reviews, various approvals for certain transactions, and overpayment detection and associated waivers. Many of these areas are recurring issues that have accumulated over the past three Financial Statement Audits. However, there has not been meaningful improvement in resolving the issues. The FY 2012 Financial Statement Audit testing continued to identify monitoring activities and the overall control environment to be a concern.

Information Security: For the past 2 years, the auditor reported a significant deficiency in SSA's internal control over information security in its *Opinion on Management's Assertion about the Effectiveness of Internal Control*. The auditors have escalated the deficiency this year and have determined there is a material weakness in internal control related to information security in the areas of monitoring, logical access, and configuration controls. Specifically, SSA lacked monitoring controls related to policy on configuration of information; policy on content on SSA's Intranet Webpage; and high-risk programs operating on the mainframe. In addition, SSA lacked appropriate controls to identify high-risk programs; prevent programmer access to the production environment; and create a comprehensive profile and access recertification program. Lastly, the vulnerability testing conducted by the Agency was determined to be insufficient for the identification of critical weaknesses in the IT environment. Each deficiency listed above represents a serious information system security risk; the combination of all these control deficiencies raises the risk to the level of a material weakness.

Administrative Cost Allocation: We also believe SSA can bring greater accountability to its administrative cost allocation. The *Social Security Act* (Pub. L. No. 74-271) authorizes SSA to allocate administrative costs to the four Trust Funds for which it provides administrative support: Retirement and Survivors, Disability, Hospital, and

Supplementary Medical Insurance. SSA uses its Cost Analysis System (CAS) to allocate administrative costs to these four Trust Funds and general fund programs administered by SSA, such as the SSI program.

In FY 2012, our contractor completed a series of audits that examined SSA's CAS. Our contractor found CAS has certain risks that SSA needs to address to ensure it provides viable calculations of SSA's administrative costs. For example, SSA had not updated the CAS cost allocation methodology in over 30 years to account for changes in business processes, system technology, or Federal accounting standards. The failure to periodically revisit and update the cost allocation methodology could result in costing assumptions and cost factors that are no longer valid or accurate. Consequently, the equitable and appropriate allocation of SSA's administrative costs to the Trust Funds could be at risk.

AGENCY ACTIONS

SSA has taken steps to implement the Open Government Directive, which is focused on increasing transparency within the Government. SSA released its first Open Government Plan in 2010 and an updated Plan in 2012. SSA has continued updating its Open Government Website. SSA had also released 41 different datasets on Data.gov as of the end of FY 2012. These datasets are accessible by the public.

SSA has also increased access to information through online applications. For example, in May 2012, the Commissioner announced the release of an online version of the Social Security Statement. The new online Statement provides eligible workers with secure and convenient access to their Social Security earnings and benefit information.

In response to this report, SSA reported to us the following.

> The Comprehensive Integrity Review Process (CIRP) system selects approximately 440,000 cases for review in a given year. Over the years, the agency has steadily improved our timeliness of integrity reviews. In FY 2010, we timely certified approximately 94.5 percent of integrity reviews, with 99.5 percent completed within 60 days. In FY 2011, we timely certified 95.4 percent of CIRP cases selected for review, with 99.5 percent completed within 60 days. For FY 2012, we timely certified 95.9 percent of integrity reviews, with 99.5 percent completed within 60 days. Operational counterparts, in consultation with the Office of Information Security, send reminders to Regional Centers for Security & Integrity (CSI) staff emphasizing the importance of completing CIRP reviews in a timely manner. CSI staff, in turn, notifies offices with overdue integrity reviews. CIRP pending reports are also monitored closely to ensure that integrity reviews are certified timely.

Although SSA provided us with this information, we have not audited CIRP. Our financial statement auditors performed a limited review of CIRP, but were unable to determine the average number of days CIRPs were outstanding, how long it took to move CIRPs into investigation, or the completion rate.

STRENGTHEN STRATEGIC AND TACTICAL PLANNING

CHALLENGE: *While SSA has plans to address its operations in the next 4 to 5 years, it does not have strategic or tactical plans that address how the Agency will operate beyond 5 years. While near-term planning is important, SSA needs long-range plans that address long-term challenges, including a rising workload, a decrease in experienced staff, overly complex program policies, and a rising need to provide more services electronically.*

Rising Workload: The number of individuals filing for benefits has increased, and SSA predicts it will continue to increase by the millions. The Agency estimates that 80 million individuals, most from the baby boomer generation, will file for benefits over the next 20 years. The population applying for benefits will expect SSA to provide a greater number of services electronically. SSA realizes that it needs to rely more on technology not only to meet customer expectations but to keep up with a rising workload.

Fewer Experienced Staff: As workloads rise, a greater proportion of SSA's workforce will become eligible to retire; 19 percent of SSA's employees are eligible. In FY 2015, 33 percent of SSA's employees will be eligible to retire, and by FY 2020, this number will increase to 45 percent. While not every employee retires as soon as he/she is eligible to do so, SSA predicts that 28 to 36 percent of its workforce will retire over the next 10 years. Given the expectation of leaner future budgets, SSA needs to plan to meet its mission with fewer resources.

Social Security Advisory Board Report: At a time when SSA needs to plan to do more with less, SSA lacks long-term plans in a number of critical areas. In its report, *The Social Security Administration: A Vision of the Future*, the Social Security Advisory Board concluded that SSA needed to develop an innovative service delivery plan that reflected the service options currently available and anticipate those that will emerge in the next 10 years. It recommended that SSA take multiple steps to ensure success in 2020, including rethinking its service delivery strategy, performing a comprehensive review of program policy to reduce complexity, establishing a Systems Modernization Plan, and developing a Human Capital Plan.

Information Technology Strategic Planning: In our report, *The Social Security Administration's Information Technology Strategic Planning*, we stated that SSA did not have a comprehensive Agency Information Infrastructure Plan to meet potential processing needs for the next 20 years or that would allow the Agency to recover quickly if one or more major components of its processing infrastructure failed or was destroyed. While SSA has an IT planning process, the process is decentralized, and SSA officials agreed that it needed to be strengthened.

Customer Service Delivery Planning: In our report, *The Social Security Administration's Customer Service Delivery Plan*, we concluded SSA did not have a long-term customer service delivery plan. We noted that SSA must develop such a plan that serves as a roadmap for ensuring the Agency is technologically and structurally prepared with appropriate staff to operate its program in the future. The plan should also describe how the Agency is preparing to address increased workloads and service delivery in an electronic environment. The plan must identify what the service delivery environment will be in the future, including what services customers will expect and how they will want to receive services.

AGENCY ACTIONS

SSA has produced multiple planning documents, including those required by *GPRA* and the *GPRA Modernization Act of 2010*. These laws mandate that Federal agencies draft strategic and annual performance plans to help improve service delivery by requiring that Federal managers plan to meet program objectives.

The Agency has FY 2008 through 2013 and FY 2013 through 2016 strategic plans and an *Information Resources Management Strategic Plan*. These plans cover periods of 4 to 5 years. SSA also has a *Strategic Human Capital Plan.* This plan does not define the timeframe it addresses, but it states that it is aligned with the Agency's Strategic Plan. The most current Agency Strategic Plan addresses a 4-year period. While planning for the next few years is important, SSA needs a longer-term vision to ensure the Agency has the programs, processes, staff, and infrastructure required to provide needed services in the future.

OTHER REPORTING REQUIREMENTS

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Systems Controls	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

Entitlement Reviews and Office of the Inspector General Anti-Fraud Activities

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Improper Payments Information Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

ENTITLEMENT REVIEWS

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We list below the major entitlement reviews conducted by our agency:

DISABILITY QUALITY ASSURANCE REVIEWS

We perform quality assurance reviews of random samples of Disability Determination Services (DDS) determinations to measure the level of accuracy against standards mandated by the Regulations. We conduct these reviews prior to the effectuation of the DDS determinations and cover initial claims, reconsideration claims, and determinations of continuing eligibility. The following table shows that, for favorable determinations, the State DDSs have consistently made the correct decision to allow or continue benefits.

Quality Assurance Reviews					
	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
% of State DDS decisions to allow or continue not returned to the DDSs for correction	97.7%	98.3%	98.6%	98.4%	98.5%
No. of cases reviewed	32,292	34,378	32,451	32,807	32,262
No. of cases returned to the DDSs due to error or inadequate documentation	729	601	445	524	476

TITLE II (DI) PREEFFECTUATION REVIEWS

We also perform preeffectuation reviews of favorable Title II and concurrent Title II/Title XVI initial and reconsideration determinations using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. For FY 2012, the following table shows that 97.4 percent of the decisions made on Title II preeffectuation reviews are accurate.

Title II Preeffectuation Reviews					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
% of State DDS decisions to allow or continue not returned to the DDSs for correction	97.3%	97.9%	97.8%	97.4%	97.4%
No. of cases reviewed	338,440	356,956	378,712	390,480	362,250
No. of cases returned to the DDSs due to error or inadequate documentation	9,203	7,481	8,506	10,246	9,414

TITLE XVI (SSI) PREEFFECTUATION REVIEWS

Following legislation enacted in February 2006, we began preeffectuation reviews of favorable Title XVI initial and reconsideration adult determinations. FY 2007 was the first full year of review. As in Title II cases, we also use a profiling system to select cases for review. For FY 2012, the following table shows that 97.9 percent of the decisions made on Title XVI preeffectuation reviews are accurate.

Title XVI Preeffectuation Reviews					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
% of State DDS decisions to allow not returned to the DDSs for correction	98.1%	98.3%	98.4%	97.9%	97.9%
No. of cases reviewed	105,203	114,645	124,045	124,401	116,681
No. of cases returned to the DDSs due to error or inadequate documentation	2,018	1,900	2,023	2,612	2,430

CONTINUING DISABILITY REVIEWS

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews (CDR) through which we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. We show the accuracy of these CDRs in the following table.

CDR Accuracy					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Overall Accuracy	96.6%	97.7%	97.8%	97.7%	97.9%
Continuance Accuracy	97.6%	98.6%	98.4%	98.3%	98.6%
Cessation Accuracy	93.2%	94.8%	96.0%	96.0%	95.8%

OASI AND SSI QUALITY ASSURANCE REVIEWS

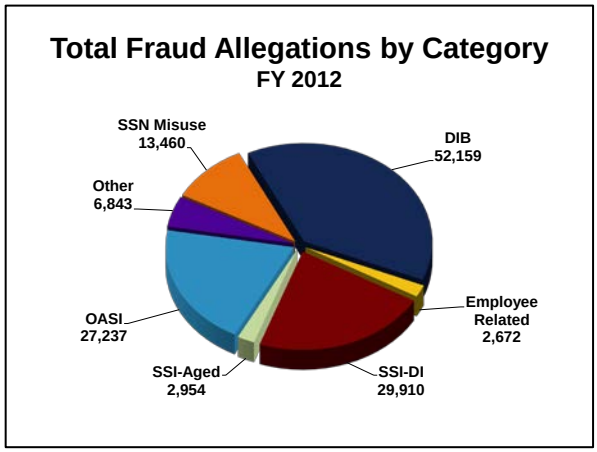
One of our four *Government Performance and Results Act* Strategic Goals is "preserve the public's trust in our programs." One of the ways in which we achieve this goal is by performing OASI and SSI quality assurance reviews. We present a detailed discussion on the results of these reviews in the *Performance Section* of this report on pages 81-84.

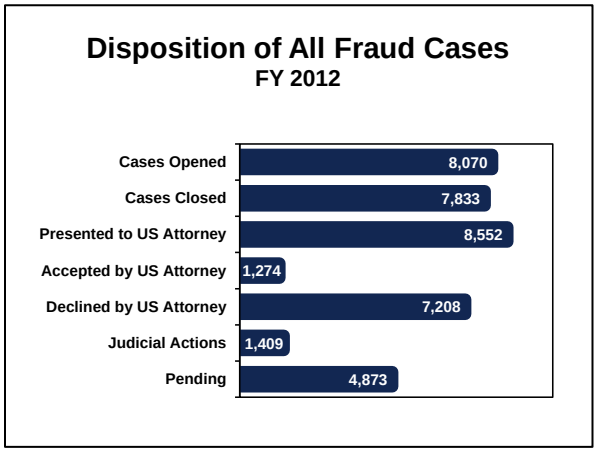
SSI REDETERMINATIONS

Once an individual becomes entitled to Social Security or SSI disability benefits, any changes in his or her circumstances may affect the amount or continuation of their benefits and thus we must reflect those changes in our records. SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have and will continue to pay the recipient the correct amount. We set a goal for the number of SSI redeterminations we would process in FY 2012. We present a detailed discussion on SSI redetermination performance in the *Performance Section* of this report on page 79.

THE OFFICE OF THE INSPECTOR GENERAL'S ANTI-FRAUD ACTIVITIES

In FY 2012, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice, and other Government agencies on cases involving fraud, waste, and abuse, as part of our fraud detection and prevention program for safeguarding the agency's assets. The following charts summarize the OIG's involvement in fraud activities throughout the fiscal year.





Biennial Review of User Fee Charges

SUMMARY OF FEES

User fee revenues of $424 and $373 million in FY 2011 and FY 2012, respectively, accounted for less than 1 percent of SSA's total financing sources. We derive over 74 percent of user fee revenues from agreements with 22 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2012, we charged a fee of $10.94 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $11.12 for FY 2013. We adjust the user fee annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our review of fees during FY 2012, we identified changes in costs that affect current fees and agency activities. A review of these changes did result in a uniform standard fee structure for non-programmatic workloads. SSA is planning to perform another review of these fees during FY 2014.

Debt Management

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the FY 2012 Quarterly Debt Management Activities Programmatic and Administrative Activity table. For more information on our agency's effort to curb overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

We identified a system limitation in the processing of Title II Overpayment recordation. In July 2011, the Government Accountability Office (GAO) issued an audit report on the Disability Insurance Program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments*." In that audit, GAO identified a Title II system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes.

The following tables do not include the amounts related to post 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. This system limitation prevents us from tracking what we estimate to be approximately $110 million in accounts receivable in the current fiscal year. We are working to address the system limitation and have determined that the estimated $110 million in post-2049 debt is uncollectible and total accounts receivable are correctly reflected in the financial statements and the tables that follow.

Debt Management Activities Programmatic and Administrative Activity					
Dollar Totals (in millions)	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Total receivables	$14,913	$15,000	$15,212	$15,854	$16,588
New receivables	5,615	5,818	5,736	6,102	5,955
Total collections	(3,366)	(3,561)	(3,650)	(3,633)	(3,663)
Adjustments	(580)	(1,093)	(888)	(809)	(536)
Total write-offs	(1,010)	(1,077)	(986)	(1,018)	(1,022)
- Waivers	(443)	(475)	(497)	(546)	(502)
- Terminations	(567)	(602)	(489)	(472)	(520)
Non delinquent debt	11,176	11,030	11,055	11,190	11,589
Total delinquent debt	$3,737	$3,970	$4,157	$4,664	$4,999
Percentage Analysis					
% of outstanding debt:					
- Non delinquent	74.9%	73.5%	72.7%	70.6%	69.9%
- Delinquent	25.1%	26.5%	27.3%	29.4%	30.1%
% of debt estimated to be uncollectible[1]	27.1%	27.5%	27.7%	27.8%	27.3%
% of debt collected	22.6%	23.8%	24.0%	22.9%	22.1%
% change in collections from prior FY	13.3%	5.8%	2.5%	-0.5%	0.8%
% change in delinquencies from prior FY	6.5%	6.3%	4.7%	12.2%	7.2%
Clearances as a % of total receivables	29.3%	30.9%	30.5%	29.3%	28.2%
- Collections as a % of clearances	76.9%	76.8%	78.7%	78.1%	78.2%
- Write-offs as a % of clearances	23.1%	23.2%	21.3%	21.9%	21.8%
Other Analysis					
Cost to collect $1	$0.07	$0.06	$0.07	$0.08	$0.07
Average number of months to clear receivables:					
- OASI	18	18	16	15	15
- DI	40	42	45	38	49
- SSI	36	34	35	35	36

1. The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

FY 2012 Quarterly Debt Management Activities Programmatic and Administrative Activity				
Dollar Totals (in millions)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Total receivables	$15,976	$16,041	$16,478	$16,588
New receivables	1,216	2,697	4,449	5,955
Total collections	(854)	(1,796)	(2,674)	(3,663)
Adjustments	(3)	(210)	(382)	(536)
Total write-offs	(237)	(504)	(769)	(1,022)
- Waivers	(112)	(249)	(376)	(502)
- Terminations	(125)	(255)	(393)	(520)
Aging schedule of debts:				
- Non delinquent debt	10,873	11,187	11,589	11,589
- Delinquent debt				
- 180 days or less	1,447	1,203	1,237	1,252
- 181 days to 10 years	3,380	3,364	3,340	3,410
- Over 10 years	276	287	312	337
- Total delinquent debt	$5,103	$4,854	$4,889	$4,999

Definitions:

1. Adjustments – Program debt adjustments represent: (1) written-off debts, by way of terminations, that we reinstate for collections; (2) changes in debts when we update debtor accounts with new information; and (3) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (1) is without fault in causing the debt; and (2) either cannot repay it or repayment would be against good equity and conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.
3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (1) the debtor cannot or will not repay the debt; (2) the debtor cannot be located after diligent search; or (3) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the Treasury Offset Program and Administrative Wage Garnishment. If the debtor becomes entitled to Title II benefits or eligible for Title XVI payments, we reinstate the debt and resume recovery through benefit/payment withholding.
4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (1) the date we establish a Title II debt; (2) the date of the initial overpayment notice for a Title XVI debt; (3) the date of the last voluntary payment; (4) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (5) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

IMPROPER PAYMENTS INFORMATION DETAILED REPORT

BACKGROUND

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring effective programs and accurate payments. As good stewards of the programs entrusted to us, it is our duty to pay people the correct amount. We take our responsibility to reduce improper payments seriously; curbing improper payments is one objective in our Strategic Goal to preserve the public's trust in our programs. Each year, we report improper payment findings (both overpayments and underpayments) from our stewardship reviews of the non-medical aspects of the OASI, DI, and SSI programs. In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), we report as improper those payments that result from:

- Errors when computing the payment;
- Not obtaining or taking action on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

In addition to the information contained in this report, we established a public improper payments website (www.socialsecurity.gov/improperpayments), which provides additional information on our efforts to curb improper payments for the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs and meets the requirements of Executive Order 13520, *Reducing Improper Payments*.

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, Parts I and II, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. The report provides general information demonstrating our commitment to reducing improper payments. It also contains descriptions of our efforts in reducing improper payments for our OASDI and SSI benefit programs and administrative payments.

RISK SUSCEPTIBLE PROGRAM

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed $100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1 for details of our OASI and DI improper payments, and Table 9 for details of our SSI improper payments.

OMB's IPERA guidance requires us to evaluate all of our payment outlays, i.e., payments from the OASI, DI, and SSI programs and other outlays, such as administrative payments. For the ninth consecutive year, we reviewed our administrative payments, including payroll disbursements and vendor payments. We found these payments were not susceptible to significant improper payments. Further information on this risk assessment of our administrative payments is available in the Improper Administrative Payments section.

RISK ASSESSMENT: BENEFIT PAYMENTS

To comply with IPERA risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our annual stewardship review is a proven, cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs, and OMB has approved it as a means to assess the risk of improper payments in our programs.

STATISTICAL SAMPLING

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. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility as of the sample month.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refers to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay more or less than what we should have. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year average for each type of deficiency to rank and identify trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI.

IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS

EXPERIENCE AND OUTLOOK

Table 1 features the improper payment rates for the OASI and DI programs for fiscal years (FY) 2009, 2010, and 2011. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

Table 1: OASDI Improper Payments Experience
FY 2009 – FY 2011
(dollars in millions)

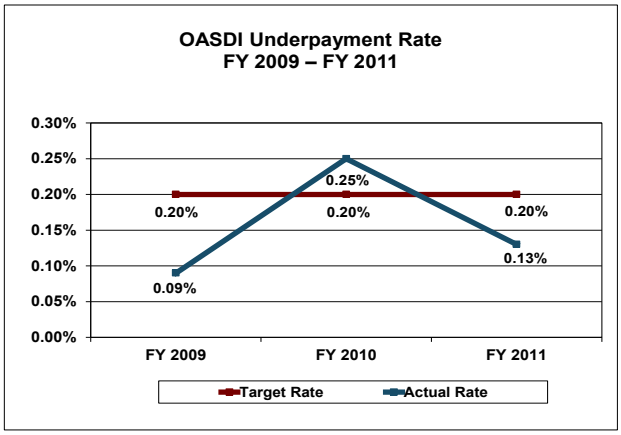
	FY 2009		FY 2010		FY 2011	
	Dollars	**Rate**	**Dollars**	**Rate**	**Dollars**	**Rate**
OASI						
Total Benefit Payments	$544,478		$572,569		$588,865	
Underpayment Error	$428	0.08%	$527	0.09%	$468	0.08%
Overpayment Error	$841	0.15%	$1,878	0.33%	$653	0.11%
DI						
Total Benefit Payments	$115,087		$122,899		$128,086	
Underpayment Error	$191	0.17%	$1,261	1.03%	$479	0.37%
Overpayment Error	$1,706	1.48%	$844	0.69%	$1,624	1.27%
OASDI						
Total Benefit Payments	$659,565		$695,469		$716,951	
Underpayment Error	$619	0.09%	$1,788	0.25%	$946	0.13%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	$2,547	0.37%	$2,722	0.39%	$2,277	0.32%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

1. Total benefit payments for FY 2009 and FY 2010 are actual cash outlays. Total benefit payments for FY 2011 represent estimated cash outlays while conducting the payment accuracy reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
3. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, ±0.05 percent for underpayments and +0.15 percent and -0.17 percent for overpayments; for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments; and for FY 2011, +0.07 percent and -0.08 percent for underpayments and ±0.08 percent for overpayments.
4. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, +0.16 percent and -0.17 percent for underpayments and ±1.33 percent for overpayments; for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments; and for FY 2011, +0.36 percent and -0.49 percent for underpayments and ±1.21 percent for overpayments.
5. Changes in the OASDI error rates from FY 2010 to FY 2011 are not statistically significant. For FY 2009 to FY 2010, the changes in the DI error rates are not statistically significant. The change in the overall OASDI underpayment error rates from FY 2009 to FY 2010 is a statistically significant increase. While significant, the overall underpayment rate changed by only 0.16 percentage points.

Over the last five years (FYs 2007-2011), we paid approximately $2.7 trillion to OASI beneficiaries. Of that total, we project $4.6 billion are overpayments, representing 0.17 percent of outlays. We project that underpayments during this same period were $2.3 billion, the equivalent of 0.09 percent of outlays.

Applying the same analysis to the DI program, we project that we paid $567.9 billion to DI beneficiaries over the last five years (FYs 2007-2011). Of that total, we project $6.2 billion are overpayments, representing 1.1 percent of outlays. We project underpayments during this same period totaled $2.3 billion, the equivalent of 0.4 percent of outlays.



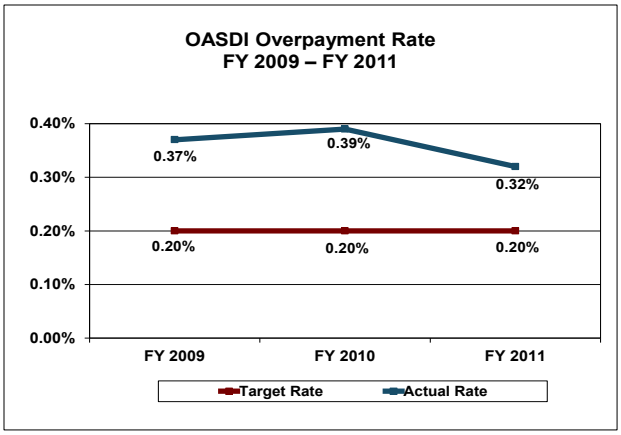


Table 2 presents our target accuracy goals for FYs 2012, 2013, and 2014 for the OASDI programs. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments.

Table 2: OASDI Improper Payments Reduction Outlook FY 2012 – FY 2014 (dollars in millions)

	2012 Target		2013 Target		2014 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI						
Total Benefit Payments	$767,542		$814,846		$861,650	
Underpayments	$1,535	0.20%	$1,630	0.20%	$1,723	0.20%
Overpayments	$1,535	0.20%	$1,630	0.20%	$1,723	0.20%

Notes:

1. We do not have separate OASI and DI targets (goals); therefore, we present a combined OASI and DI target.
2. FY 2012 data will not be available until April 2013; therefore, the rates shown are targets (goals).
3. Total benefit payments for FYs 2012-2014 are estimates consistent with projections for the President's FY 2013 Budget.

MAJOR CAUSES OF OASDI IMPROPER PAYMENTS

Table 3 lists the major causes of improper payments (overpayments and underpayments) in the OASDI program using OMB's three categories of error.

Table 3: Major Causes of OASDI Improper Payments in FY 2011

	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	64%	Non-verification of earnings, income, or work status (e.g., in relation to Substantial Gainful Activity (SGA) and Government Pension Offset (GPO)); inputting, classifying, or processing applications or payments incorrectly
Administrative and Documentation Errors	35%	Incorrect computations, onset dates, and earnings history
Authentication and Medical Necessity Errors	1%	Relationship/dependency errors and failure to report cessation of full-time attendance for students

Notes:

Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:

- **Verification and Local Administration Errors** are errors due to not verifying recipient information, including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.
- **Administrative and Documentation Errors** are errors due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.
- **Authentication and Medical Necessity Errors** are errors due to being unable to authenticate criteria such as living arrangements or qualifying child through third-party sources or incorrectly assessing the necessity of a medical procedure.

From our stewardship findings over the last five years, the major causes of overpayments in the OASDI program have been errors or omissions in the following:

- SGA;
- Computations;
- Earnings History; and
- GPO.

Over the last five years, the major causes of underpayments in the OASDI program have been errors or omissions in the following:

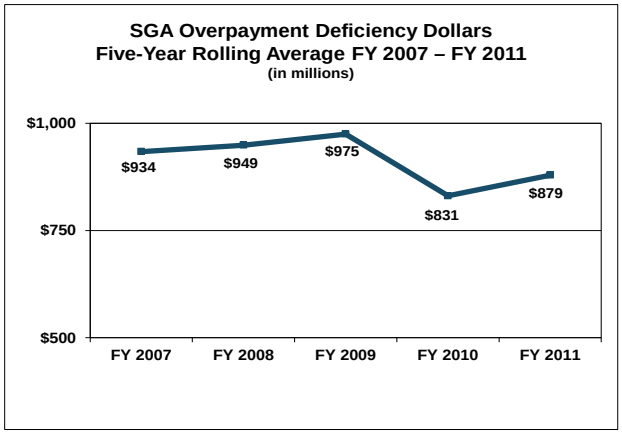
- Computations;
- Earnings History; and
- Workers' Compensation (WC).

Substantial Gainful Activity

Description:

When disability beneficiaries work, a number of factors determine whether they can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely or when we do not withhold monthly benefit payments timely. The following chart displays the five-year rolling average of SGA overpayment deficiency dollars.

Historical Figures:



Corrective Actions:

The following table shows our actions to ensure timely reporting of beneficiaries' earnings:

Table 4: SGA – Corrective Actions

Description	Target Completion	Status
Priority Alerts		
We are conducting the Continuing Disability Reviews (CDR) Enforcement Operation Predictive Model Pilot.	To be determined based on study results	We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. We began testing this model in October 2010 in our New York Region, and we expanded the pilot to include over 50 percent of the CDR workload with the inclusion of the Kansas City Region and the Office of Central Operations. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments.
We prioritized the systems enforcement alerts we use to identify unreported earnings and then work the cases with highest earnings first to minimize overpayments.	Ongoing	In our regional offices not involved in our predictive model pilot study discussed immediately above, we now prioritize the CDR enforcement alerts used to identify unreported earnings, and complete the cases with highest earnings first to minimize overpayments.

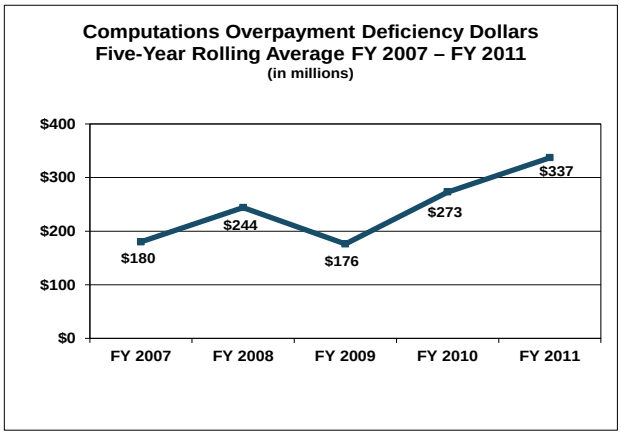
Table 4: SGA – Corrective Actions		
Description	**Target Completion**	**Status**
Priority Alerts		
We are conducting the Automated Earnings Reappraisal Operation (AERO) Pilot.	To be determined based on study results	In this pilot, we are coordinating two earnings related processes: benefit recomputations and the identification of DI beneficiaries with unreported earnings. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.
Wage Reporting		
We revised work activity report forms.	February 2012	We revised the forms we use to gather information about work activity from applicants and beneficiaries to make the forms easier to understand and complete. For example, we streamlined documentation requirements for work activity that is not SGA, and we eliminated the need for a signature. OMB approved our forms, and we incorporated them into our systems. We also updated our policies to streamline our follow-up procedures when beneficiaries do not respond to our requests for information.
Legislative Proposal		
The President's FY 2013 Budget includes a proposal that would reauthorize our demonstration authority to conduct a Work Incentives Simplification Pilot (WISP). Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under DI Demonstration Authority/WISP.	Pending	No Congressional action to date.
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

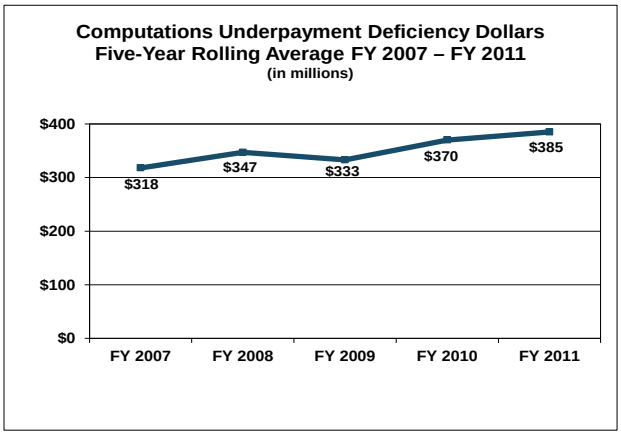
Computations

Description:

The law requires we base a person's benefit amount on a number of factors including age, earnings history, and the type of benefit awarded. Inaccurate information or administrative mistakes can cause errors in calculating benefits. There are many causes for computation errors. For the FY 2007 through FY 2011 period, approximately 53 percent of the computation errors resulted in underpayments, with the leading causes being primary insurance amount, the Windfall Elimination Provision (WEP), and the recalculation of benefits due to updated/new information received after our initial calculation of an individual's benefit amount. (Note: A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html.) For FY 2007 through FY 2011, errors involving WEP were the leading cause of computational deficiency dollars. Overpayments often result when we do not receive timely pension information and, therefore, do not offset benefits appropriately. Over 40 percent of the overpayment computational deficiency dollars for the FY 2007 through FY 2011 period involved WEP.

Historical Figures:





Corrective Actions:

The following table shows our actions to ensure accurate benefit computations:

Table 5: Computations – Corrective Actions		
Description	**Target Completion**	**Status**
Civil Service Retirement System (CSRS) Match		
We conduct an ongoing match with the Office of Personnel Management (OPM) to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2012, the OPM match generated almost 11,000 WEP alerts.
Missed Entitlements		
We are correcting payments to mothers who were not properly converted to widows benefits when they attained full retirement age.	September 2012	Of the nearly 6,000 cases identified, we have completed about 99 percent and issued over $16 million in underpayments.
We are referring veterans receiving SSI to the U.S. Department of Veteran's Affairs (VA) when we determine they may be entitled to veteran's benefits.	September 2012	These cases require manual development before referral to VA. From over 7,200 cases identified for possible referral, we have referred over 5,700 cases.
We are taking claims on SSI individuals who are insured on their own or another individual's record (survivor or living auxiliary) for Social Security or Medicare.	January 2013	We identified over 6,200 cases where the SSI recipient may be eligible for Social Security benefits. We are currently developing a corrective action plan for implementation.
AERO Project		
In FY 2011, we initiated the Automated Correction Expert System (ACES) to automatically address AERO cases that require manual completion. AERO is an annual operation that reexamines records of every individual entitled to OASDI to determine if increased benefits are due based upon earnings. ACES improves accuracy by reducing the number of manual computations, which are more error prone.	Ongoing	In FYs 2011 and 2012, we automated the completion of about 26,000 AERO cases using ACES. We issued about $14 million in underpayments. We will continue to use ACES for the AERO workload.

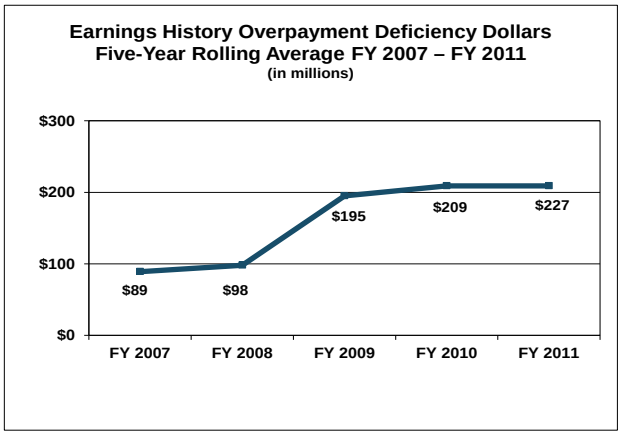
Earnings History

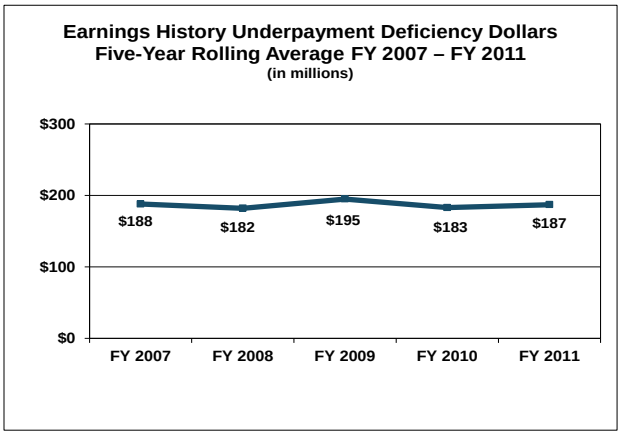
Description:

A person's earnings history is a factor in determining the amount of monthly benefits that the worker or someone filing on that the worker's account will receive. When our records do not accurately reflect the worker's earnings, we may calculate benefits incorrectly. For FY 2007 through FY 2011, OASDI errors based on earnings history are 45 percent underpayment and 55 percent overpayment dollars.

Wage discrepancies and scrambled earnings (i.e., earnings belonging to one worker posted to another worker's record) account for the largest percentage of earnings errors. Although earnings-related errors usually involve small dollars in each month of payment, the errors can have a substantial effect over the life of the claim.

Historical Figures:





Corrective Actions:

The following table shows our actions to reduce errors related to earnings history:

Table 6: Earnings History – Corrective Actions

Description	Target Completion	Status
Emphasize Corrected Earnings		
In FY 2009, we modified our instructions to clarify evidence needed for correcting earnings and eliminated development not affecting the accuracy of the earnings record.	June 2013	We are performing additional studies that will help determine the effect of our modified instructions.
Earnings Alert System		
In FY 2010, we modified the Earnings Alert System to allow adjudicators to identify and develop those irregularities on the earnings record which, when resolved, will most likely affect the worker's benefit payment.	June 2013	We are performing additional studies that will help determine the effect of our modified Earnings Alert System.

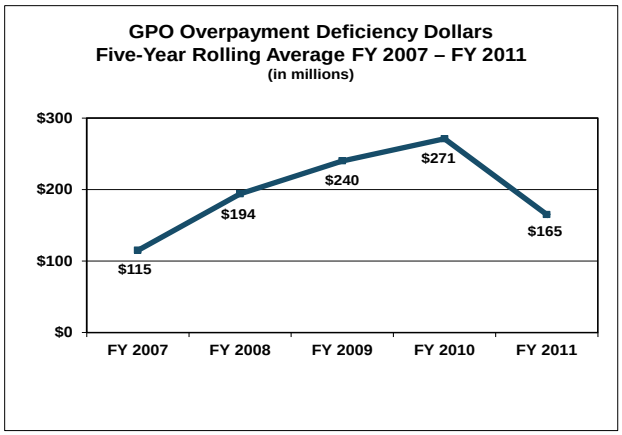
Table 6: Earnings History – Corrective Actions		
Description	**Target Completion**	**Status**
Legislative Proposal		
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Government Pension Offset

Description:

We offset OASDI benefits for spouses or surviving spouses if they receive a Federal, State, or local government pension based on work on which the spouse did not pay Social Security taxes. Errors occur when beneficiaries do not report receiving these types of pensions, or we fail to take appropriate action on reported pension information. The following chart displays the five-year rolling average of GPO overpayment deficiency dollars. (Note: A definition of GPO is available at: www.socialsecurity.gov/pubs/10007.html.)

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce improper payments caused by government pensions:

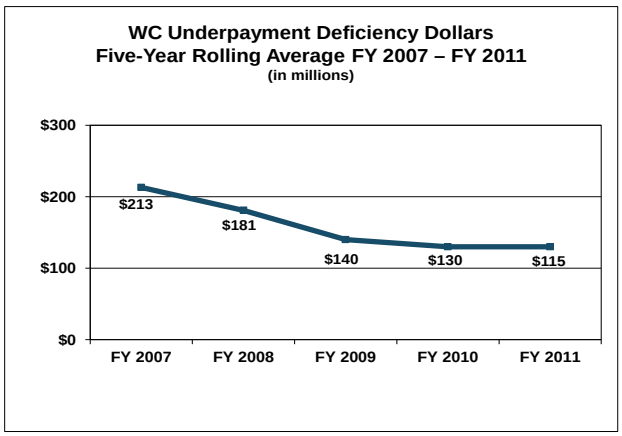
Table 7: GPO – Corrective Actions		
Description	**Target Completion**	**Status**
CSRS Match		
We conduct an ongoing match with OPM to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2012, the OPM match generated over 15,000 alerts.
Legislative Proposal		
The President's FY 2013 Budget includes a proposal for automated data exchanges. Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under WEP and GPO.	Pending	No Congressional action to date.

Workers' Compensation

Description:

If individuals receive both WC and Social Security DI benefits, the total amount of these benefits cannot exceed 80 percent of their average current earnings before becoming disabled. (Note: A definition of WC is available at: www.socialsecurity.gov/pubs/10018.html.) If the total WC and DI benefits exceed the worker's average earnings before becoming disabled, we reduce DI benefits to the 80 percent threshold. Underpayments occur when WC benefits decrease or cease, and we do not increase the DI benefit. The following chart displays the five-year rolling average of WC underpayment deficiency dollars.

Historical Figures:



Corrective Actions:

Table 8: WC – Corrective Actions		
Description	**Target Completion**	**Status**
Instructions Update		
We updated national operating instructions, incorporating regional instructions where appropriate. We also created the WC Resource Page to provide a centralized resource for analysts and technicians that process WC/Public Disability Benefits (PDB) workloads.	Ongoing	Our policy instructions now provide expanded information and guidance for developing WC evidence and technical guidance on new software to improve the overall accuracy of the WC workload. The new website provides links to resources and tools to assist with the adjudication of WC/PDB cases which we continuously update with new resources and tools.
Automated Processing		
In February 2011, we developed and implemented an automated process to ensure the agency systematically and routinely follows up on cases where we have already awarded DI benefits to a claimant, but a claim for WC/PDB is still pending.	Ongoing	We generate systems alerts at regular intervals for pending WC/PDB cases. The alert allows us to routinely monitor and control pending cases, and make timely adjustments to DI benefit payments.
Legislative Proposal		
The President's FY 2013 Budget includes a proposal requiring State and local governments and private insurers to share WC payment data. Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under "Workers' Compensation."	Pending	No Congressional action to date.

IMPROPER PAYMENTS IN THE SSI PROGRAM

EXPERIENCE AND OUTLOOK

Table 9 features the improper payment rates for the SSI program for FYs 2009, 2010, and 2011. We calculate the overpayment rate by dividing overpayment dollars by dollars paid and the underpayment rate by dividing underpayment dollars by dollars paid.

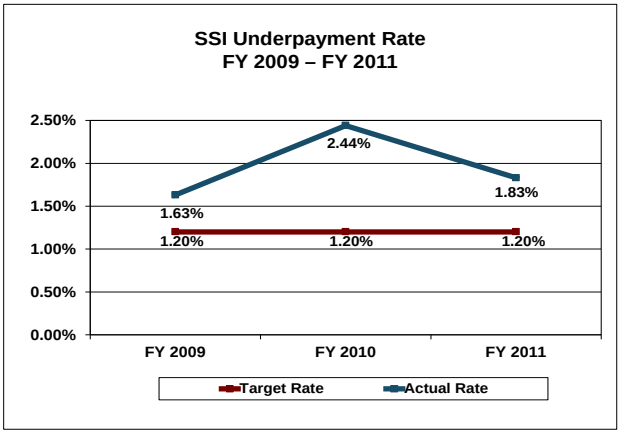
Table 9: SSI Improper Payments Experience FY 2009 – FY 2011 (dollars in millions)

	FY 2009	FY 2010	FY 2011
Total Federally-Administered Payments			
Dollars	$48,294	$50,276	$51,654
Underpayments			
Dollars	$787	$1,227	$947
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	1.63%	2.44%	1.83%
Overpayments			
Dollars	$4,040	$3,344	$3,791
Target Rate	≤4.00%	≤8.40%	≤6.70%
Actual Rate	8.36%	6.65%	7.34%

Notes:

1. Total federally-administered payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.
2. The percentages and dollar amounts presented in Table 9 are correct based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.
3. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, ±0.03 percent for underpayments and ±1.5 percent for overpayments; for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments; and for FY 2011, ±0.38 percent for underpayments and ±1.08 percent for overpayments.
4. The increase in the underpayment rate from FY 2009 to FY 2010 is statistically significant. It was mainly due to the following factors:
   - The failure of recipients to report a living arrangement change from “household of another” to “own household;” and
   - The failure to report a stoppage of work or a decrease in the amount of wages received.

Over the last five years (FYs 2007-2011), we paid over $237.8 billion to SSI recipients. Of that total, we project $19.7 billion were overpayments, representing 8.4 percent of outlays. We project that underpayments during this same period were $4.4 billion, the equivalent of 1.9 percent of outlays.



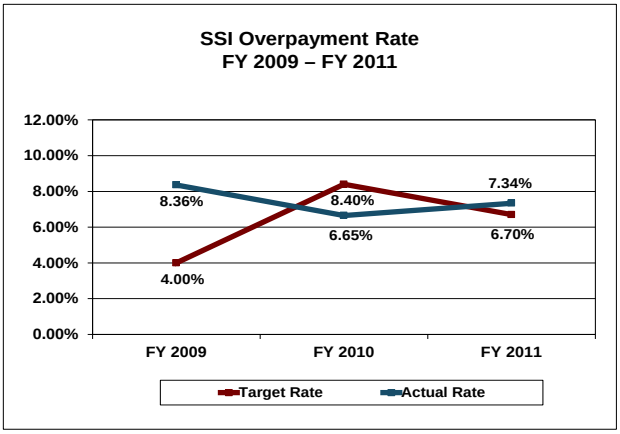


Table 10 presents our target accuracy goals for FYs 2012, 2013, and 2014 for the SSI program.

Table 10: SSI Improper Payments Reduction Outlook FY 2012 – FY 2014 (dollars in millions)

	2012 Target		2013 Target		2014 Target	
	Dollars	**Rate**	**Dollars**	**Rate**	**Dollars**	**Rate**
Total Federally-Administered Payments	$55,254		$57,875		$60,351	
Underpayments	$663	1.20%	$695	1.20%	$724	1.20%
Overpayments	$2,763	5.00%	$2,894	5.00%	$3,018	5.00%

Note:

1. Total federally-administered SSI payments are estimates consistent with projections for the President's FY 2013 Budget, adjusted to be presented on a constant 12-month per year payment basis.

MAJOR CAUSES OF SSI IMPROPER PAYMENTS

Table 11 lists major causes of improper payments (overpayments and underpayments) in the SSI program using OMB's three categories of error.

Table 11: Major Causes of SSI Improper Payments in FY 2011

	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	56%	Detection of unreported financial accounts and wages
Authentication and Medical Necessity Errors	29%	Existence or changes to living arrangements and In-Kind Support and Maintenance (ISM)
Administrative and Documentation Errors	15%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change

Notes:

Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:

- **Verification and Local Administration Errors** are errors due to not verifying recipient information, including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.
- **Authentication and Medical Necessity Errors** are errors due to being unable to authenticate criteria such as living arrangements or qualifying child through third-party sources, or incorrectly assessing the necessity of a medical procedure.
- **Administrative and Documentation Errors** are errors due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.

From our stewardship findings over the last five years, the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.);
- Wages; and
- Other Real Property (i.e., ownership of non-home real property).

Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in the following:

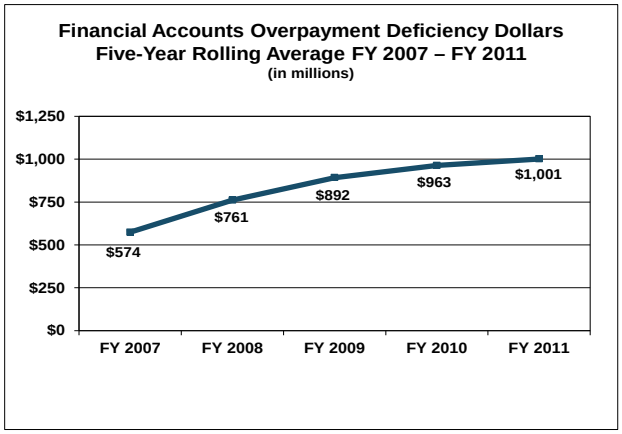
- ISM;
- Living Arrangements; and
- Wages.

Financial Accounts

Description:

Financial accounts, in excess of the allowable resource limits, are the leading cause of SSI overpayment errors. When an applicant or recipient (or his or her parent or spouse) has financial accounts that exceed the allowable resource limits, it may result in periods of SSI program ineligibility. The total value of the individuals' resources may include money held in accounts owned by their ineligible parent or spouse.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors related to financial accounts:

Table 12: Financial Accounts – Corrective Actions

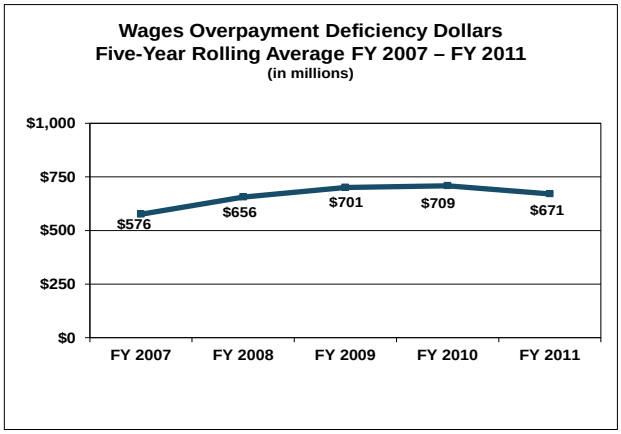
Description	Target Completion	Status
Access to Financial Institutions (AFI)		
We currently use AFI in 50 States, the District of Columbia, and the Northern Mariana Islands. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources in financial accounts held by SSI applicants and recipients.	September 2011	In June 2011, three months earlier than our target date of September 2011, we completed expansion of AFI nationwide. As a result, we can apply AFI procedures to all of our SSI applicants and recipients. In addition, we perform five negative searches for each applicant/recipient.
In FY 2012, we integrated the AFI process into our SSI claims process.	March 2012	For most SSI initial claims and redeterminations, we integrated electronic requests for financial information into our Modernized SSI Claims System.
In FY 2013, we anticipate performing more rigorous checks of alleged assets.	September 2013	Because of limited resources, and the necessity to carefully balance our claims applications and program integrity workloads, we delayed full implementation of our AFI project. We plan to further improve AFI depending on resource availability.

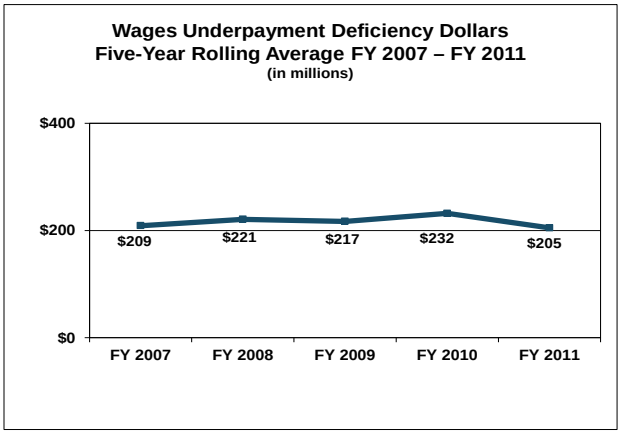
Wages

Description:

For more than a decade, wages have been one of the leading causes of overpayment and underpayment errors. These discrepancies occur when the recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate the SSI payment.

Historical Figures:





Corrective Actions:

The following table shows our actions to reduce errors related to wages:

Table 13: Wages – Corrective Actions

Description	Target Completion	Status
Supplemental Security Income Telephone Wage Reporting System (SSITWR)		
In FY 2008, we implemented SSITWR. SSITWR allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via an automated system that ensures the wage amounts post timely to the individual's record. We have several outreach initiatives to recruit new SSITWR reporters.	Ongoing	There were over 36,000 successful SSITWR reports in September 2012, surpassing our FY 2012 goal of 31,486 monthly reports.
SSITWR Representative Payee Outreach		
In FY 2011, we piloted a process and mailed notices to about 1,000 individuals serving as representative payees for working SSI recipients. The notice asked the representative payee to start using SSITWR to report the SSI recipient's wages to us.	September 2012	Overall, the first pilot demonstrated that notice-based outreach is an effective way of recruiting representative payees to report an SSI recipient's wages using SSITWR. On September 21, 2012, we conducted the second pilot of this process and mailed over 32,000 recruitment notices to the representative payees of working SSI recipients.

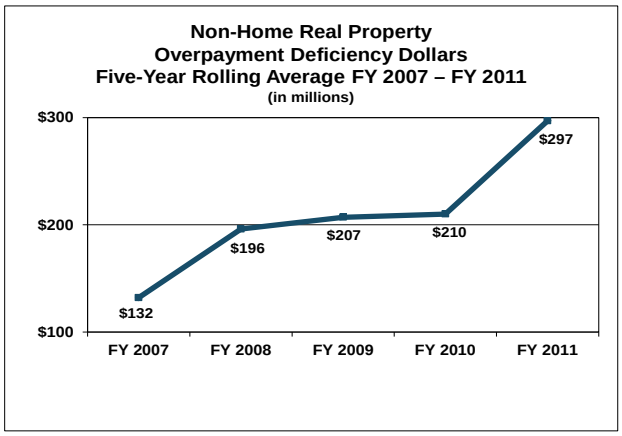
Table 13: Wages – Corrective Actions		
Description	**Target Completion**	**Status**
Payroll Provider		
Award a contract with a national payroll provider for individual wage verifications.	June 2012	We awarded a contract in June 2012 with The Work Number, a national payroll provider. Beginning July 2012, our field offices have instant access to wage information through The Work Number.
Smartphone		
Beginning in December 2012, SSI recipients (or their parent, spouse, or representative payee) can use their Android or iPhone to report their monthly wage amounts. This application is an extension of the SSITWR automated system that ensures the wage amounts post timely to the individual's record. This initiative will serve as a research and development project as we work towards using mobile devices to interact with our customers.	Beginning December 2012	Application development began in May 2012, and we are currently on track to implement our gradual rollout in December 2012. During the rollout, we will evaluate the user feedback to determine our rate of expansion towards national implementation.
Legislative Proposal		
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Other Real Property

Description:

Undisclosed non-home real property is a growing cause of improper overpayments in the SSI program. SSI ineligibility may result if the recipient is the owner of real property other than his or her principal place of residence. The objective of our corrective actions discussed below is to identify undisclosed property owned by the recipient.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors related to non-home real property:

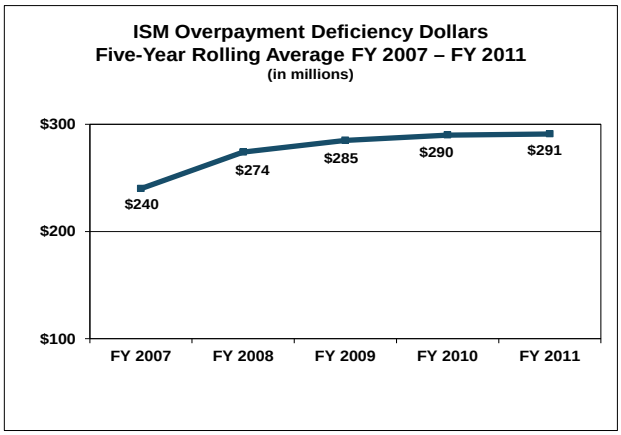
Table 14: Other Real Property – Corrective Actions		
Description	**Target Completion**	**Status**
We conducted a study to investigate non-home real property informational leads via a web-based commercial database source. The purpose of the study was to determine the accuracy and reliability of property information available and assess the cost-effectiveness of using this information to identify undisclosed property for SSI applicants and recipients.	February 2012	The study concluded in February 2012 and verified that a web-based tool is reliable.
We are developing a method to determine if a predictive model is feasible for limited issue SSI redeterminations that are focused on real property owned by SSI recipients.	December 2012	If we determine the predictive model is effective by December 2012, we will implement the automated process at a future date.
We are developing a pilot in our field offices to identify undisclosed real property owned by SSI recipients.	March 2013	If the pilot is successful and cost effective in identifying undisclosed real property, we will consider expanding the pilot to additional field offices.

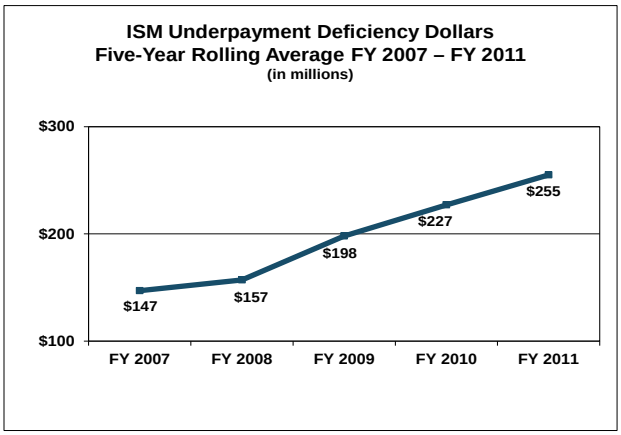
In-Kind Support and Maintenance

Description:

ISM is unearned income in the form of food or shelter received, with underpayments occurring when the recipient's ISM amount is less than the amount used to calculate payment. Overpayments can also occur when the recipient fails to report ISM. Studies show that many of the errors attributed to ISM are due to the complexity of the statutory policies for the program. These policies are difficult for SSI recipients to understand, making it problematic for them to report changes to us in a timely manner. This complexity also means that seemingly small changes in a recipient's household can result in an overpayment or an underpayment. The following charts display the five-year rolling average of ISM overpayment and underpayment deficiency dollars.

Historical Figures:





Corrective Actions:

The following table shows our actions to reduce errors stemming from ISM information:

Table 15: ISM – Corrective Actions

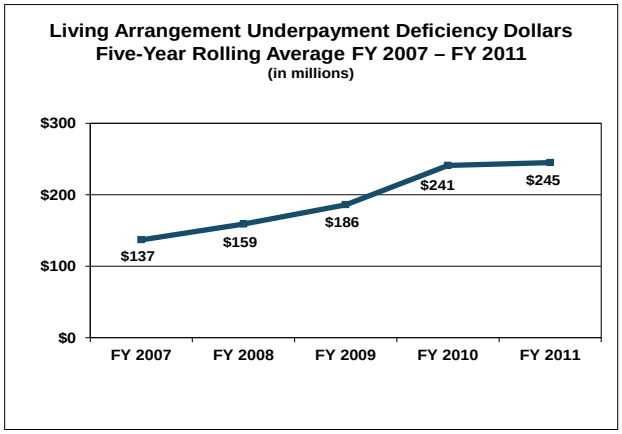
Description	Target Completion	Status
Statutory, Regulatory, Policy and Procedure Review		
We review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	We issue reminders and policy clarifications on a regular basis and will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

Living Arrangement

Description:

Over the past five years, living arrangement deficiencies have been the second leading cause of SSI underpayment error. These deficiencies occur when we pay the recipient based on a living arrangement with a lower payment rate when the recipient should have been paid based on a living arrangement with a higher payment rate.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors stemming from living arrangement information:

Table 16: Living Arrangement – Corrective Actions

Description	Target Completion	Status
Redetermination Funding		
We enhanced our SSI redeterminations statistical predictive model to better capture the effect of living arrangement changes on SSI payments.	December 2011	This enhancement will help reduce underpayments caused by incorrect living arrangement information.

USE OF PREDICTIVE MODELING IN THE SSI REDETERMINATION PROCESS

We conduct periodic, non-disability evaluations of SSI recipient's income and resources, also known as redeterminations, to ensure that they are still eligible for monthly payments. Redeterminations are one of our most powerful program integrity tools. We estimate that every dollar spent on SSI redeterminations yields about $6 in lifetime program savings, including Medicaid program effects. We have steadily increased the number of redeterminations we conduct each year since FY 2007. In FY 2012, we completed over 2.624 million redeterminations. Generally, the number of redeterminations we complete positively affects the accuracy of the SSI program.

We do not have the resources to conduct an annual redetermination on every SSI recipient, therefore we use a statistical scoring model to target annual SSI redeterminations. This statistical model, which has been in place for nearly two decades, uses various income, resource, and living arrangement variables obtained from our SSI payment

and claim processing systems to predict likely SSI overpayments and underpayments. Each year, we identify cases for review based on the likelihood of error and prioritize the reviews based on allocated funds. The SSI redetermination scoring model is a highly effective tool for ensuring that the selection of SSI redeterminations is efficient and cost effective. In FY 2011 alone, our SSI redeterminations resulted in prevention and recovery of about $3.2 billion in SSI overpayments. The agency would have prevented and recovered only $1.8 billion if we had used random selection instead of the statistical scoring model.

AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI, AND SSI PROGRAMS

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected $3.26 billion in OASDI and SSI benefit overpayments in FY 2012 at an administrative cost of $0.07 for every dollar collected, and $15.49 billion over a five-year period (FYs 2008-2012). To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as the external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts.

Since 2004, our cumulative recoveries are $24.20 billion for OASDI and SSI benefit overpayments. We suspend or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards. Generally, when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered, we terminate or suspend collection action. Even though we terminate collection action by stopping our internal efforts, we continue to use our external collection techniques. Termination of collection action is a temporary or conditional write-off in that the debt remains on the person's record. If the debtor becomes reentitled to benefits, we will collect the debt by appropriate and available methods in the future.

From inception through September 2012, our external collection techniques have yielded $4.264 billion in benefits recovered through a combination of overpayment recovery and prevention improvements. Table 17 provides a description of each of our key debt management initiatives and a summary of the results.

We developed a system to handle the Treasury Offset Program (TOP), credit bureau reporting, and Administrative Wage Garnishment (AWG). Because the system includes more than TOP and is the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation (ECO) system.

In May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the current 10-year statute of limitations, as authorized by Public Law 110-246. Continued improvement in our debt collection program is also underway. As resources permit, we will implement additional changes to our systems that will enable us to collect our delinquent debts by offsetting applicable State payments through TOP, expand the Non-Entitled Debtors (NED) program, and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies in debt collection.

Table 17: Cumulative Programmatic Debt Recovery Methods Through FY 2012
(dollars in billions)

Recovery Method	Inception	Description	OASDI	SSI	TOTAL
TOP	1992	TOP is a debt collection program sponsored by the Department of the Treasury that allows us to collect delinquent debt by Tax Refund Offset, Administrative Offset, and Federal Salary Offset. We collected $176.6 million in FY 2012 through these initiatives.	$1.303	$0.855	$2.158
Credit Bureau Reporting	1998	We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of $68.7 million in FY 2012.	$0.414	$0.301	$0.715*
Cross Program Recovery	2002	Cross Program Recovery collects OASDI overpayments from monthly SSI payments and SSI underpayments, and SSI overpayments from monthly OASDI benefit payments and OASDI underpayments.	$0.148	$0.732	$0.880
NED	2005	NED is an automated system used to control recovery activity for debts owed by debtors who are not entitled to benefits, such as representative payees who receive overpayments after the death of a beneficiary. We used the NED system to recover $3.5 million in FY 2012.	$0.026	N/A	$0.026**
AWG	2005	AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private sector disposable pay. We collected $20.3 million through this process during FY 2012.	$0.093	$0.020	$0.113
Automatic Netting SSI	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" $119.0 million in FY 2012.	N/A	$1.113	$1.113
Total			$1.544	$2.720	$4.264

Notes:

*Credit bureau reporting is a subset of TOP collections.

**NED is a subset of TOP and AWG collections.

Refer to the *Debt Management* section for information on our programmatic and administrative debt activity.

PAYMENT RECAPTURE AUDIT PROGRAM: BENEFIT PAYMENTS

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts and workloads. We have a multi-pronged approach to conduct payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, we review a sample of OASDI and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility and payment amount for the review period that affects the sample month. We use these data to identify payment accuracy strengths and weaknesses, from which we target our resources to take corrective actions that yield the highest return on investment. We conduct stewardship reviews by specialists with extensive expertise in our benefit programs and business processes; design and operations of evaluations; applied statistics and statistical models; and surveys and business analytics.

In our field offices, processing centers, and Disability Determination Services (DDS) operational areas, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA in a job. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first address those CDRs and redeterminations that will likely result in the greatest savings.

CDRs and SSI redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue benefit payments. To support this activity, we specifically request funding through the normal budget process. The number of CDRs and redeterminations we can conduct each year depends on the level of resources appropriated to the agency.

PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies that have programs or activities that are susceptible to significant improper payments to report on their payment recapture audit activities. For our OASDI and SSI benefit payments, we are unable to segregate our improper payments from our total overpayment universe. Not all overpayments are improper. Certain overpayments are unavoidable, and not improper, if the payment is required by statute, regulation, or court order, such as continued payments required by due process procedures. Tables 18-20 contain OASDI and SSI overpayment experience, inclusive of improper payments.

Table 18: FY 2012 Payment Recapture Audit Reporting
Benefit Payments
(dollars in millions)

Type of Payment	OASDI	SSI
Amount Subject to Review for Current Year (CY) Reporting [2]	$10,943.8	$9,382.0
Actual Amount Reviewed and Reported CY [2]	$10,943.8	$9,382.0
Amount Identified for Recovery CY [2]	$10,943.8	$9,382.0
Amount Recovered CY [3]	$2,059.8	$1,202.2
Percent of Amount Recovered out of Amount Identified CY	19%	13%
Amount Outstanding CY [4]	$8,884.0	$8,179.8
Percent of Amount Outstanding out of Amount Identified CY	81%	87%

Table 18: FY 2012 Payment Recapture Audit Reporting Benefit Payments (dollars in millions)		
Type of Payment	**OASDI**	**SSI**
Amount Determined Not to be Collectable CY [5]	$611.8	$407.2
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	6%	4%
Amounts Identified for Recovery Prior Years (PY) [6]	$7,934.3	$7,333.2
Amounts Recovered PYs [3]	$2,059.8	$1,202.2
Cumulative Amounts Identified for Recovery (CY + PYs) [2]	$10,943.8	$9,382.0
Cumulative Amounts Recovered (CY + PYs) [3]	$2,059.8	$1,202.2
Cumulative Amounts Outstanding (CY + PYs) [7]	$8,884.0	$8,179.8
Cumulative Amounts Determined Not to be Collectable (CY + PYs) [5]	$611.8	$407.2

Notes:

1. This table comprises all identified and recovered benefit program overpayments for the specified fiscal year. Overpayments identified or recovered in a specified year include debt that was established in prior years.
2. The amounts reported are debt available for recovery in the specified fiscal year. These include debts identified in previous fiscal years that have not been recovered or determined to be uncollectible. Debts identified in FY 2012 were $3,009.5 million for OASDI and $2,048.8 million for SSI.
3. The amounts reported are FY 2012 recoveries from debt we had available for recovery in FY 2012, which include debts identified in PYs.
4. The amounts reported equal the "Amount Identified for Recovery CY" minus the "Amount Recovered CY."
5. The amounts reported are uncollectible debt in the CY and include debts identified in PYs.
6. The amounts reported are outstanding debt we had available for recovery prior to the CY, which include debts identified in PYs.
7. The amounts reported equal the "Cumulative Amounts Identified for Recovery (CY+PYs)" minus the "Cumulative Amounts Recovered (CY+PYs)."

PROGRAM RECOVERY TARGETS

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). Our payment recapture recovery targets for FYs 2013 - 2015 are based on our FY 2012 experience. For several reasons, we do not plan to achieve OMB's annual payment recapture target rate of 85 percent. The current budgetary environment affects our ability to address all of our workloads, including pursuit of benefit overpayments. Budget reductions caused us to impose an agency-wide hiring freeze. At the same time, we are losing subject matter experts due to retirement. Consequently, we must prioritize the use of our resources with the demands of our workloads.

Finally, factors beyond our control influence our payment recapture recovery targets. For example, the state of the economy has an impact on availability of employment. When jobs are plentiful and more former OASDI and SSI recipients are working, we generally experience greater collections from our external debt collection tools.

Table 19: FY 2012 Payment Recapture Audit Targets Benefit Payments (dollars in millions)						
Type of Payment	**FY 2012 Amount Identified**	**FY 2012 Amount Recovered**	**FY 2012 Recovery Rate (Amount Recovered/ Amount Identified)**	**FY 2013 Recovery Rate Target**	**FY 2014 Recovery Rate Target**	**FY 2015 Recovery Rate Target**
OASDI	$10,943.8	$2,059.8	19%	19%	19%	19%
SSI	$9,382.0	$1,202.2	13%	13%	13%	13%

Note:

1. The recovery rate target is based on FY 2012 and prior years experience and the anticipated growth of our benefit payments in FYs 2013 - 2015.

Table 20 contains the aging schedule for outstanding overpayments in the OASDI and SSI programs.

Table 20: FY 2012 Aging of Outstanding Overpayments Benefit Payments (dollars in millions)			
Type of Payment	**FY 2012 Amount Outstanding (0 – 6 Months)**	**FY 2012 Amount Outstanding (6 Months to 1 Year)**	**FY 2012 Amount Outstanding (Over 1 Year)**
OASDI	$739.2	$296.3	$928.1
SSI	$512.7	$338.6	$2,182.0

Note:

1. The aging of outstanding overpayments begins when the overpayment is delinquent, generally when no voluntary payment has been made 30 days after the latest of the following dates:
   - The debt was established on our system for OASDI; or
   - The initial overpayment notice for a debt established on the SSI system; or
   - The last voluntary payment; or
   - An installment arrangement; or
   - A decision on an individual's request to reconsider the existence of the overpayment; or
   - A waiver denial.

IMPROPER ADMINISTRATIVE PAYMENTS

We evaluated our FY 2011 administrative expenses and determined that they were not susceptible to significant improper payments as defined by IPIA.

RISK ASSESSMENT

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that payments are susceptible to significant improper payments, agencies are required to establish an annual improper payment measurement related to administrative payments.

We segment administrative payments into several categories to analyze and determine the vulnerability of these outlays to improper payments.

Table 21: FY 2011 Administrative Expenses
(dollars in millions)

Payroll and Benefits	$6,759
State DDS	$2,288
American Recovery and Reinvestment Act*	$54
Other Administrative Expenses**	$3,008
Total Administrative Expenses	$12,109

Notes:

*Includes approximately $5 million in Payroll Expenses.

**Other Administrative Expenses includes Vendor, Travel, Transportation, Rents, Communications and Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land and Structure, Grants, Subsidies and Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest and Dividends, and Insurance Claims and Indemnities.

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive controls inherent in our administrative payment systems; and
- The current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We demonstrate that, other than what is required in our annual *Performance and Accountability Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

STATISTICAL SAMPLING

For FY 2011, the internal recovery audit program included a review of $1.479 billion in vendor and employee travel payments out of $1.695 billion subject to review. We elected to exclude the following classes of contracts from the scope of the recovery audit:

- Incomplete cost-type contracts where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and conditions of the contract; and
- Cost-type contracts that were completed, subjected to final contract audit, and prior to payment of the contractor's final invoice.

We identified total improper overpayments of $2.8 million, approximately 0.16 percent of total payments subject to review. As of the end of FY 2011, about $305,000 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivable balance reflected the timing of when we issued the request for overpayment refund. We consider all vendor and travel overpayments 100 percent collectible. We return all amounts recovered to the original appropriation from which the overpayment was made.

Although the number and amount of overpayments are minimal and immaterial, duplicate payments are the primary cause of vendor overpayments. To ensure identification and recovery of these payments, we designed, developed, and deployed a predictive analytics program to detect and recover these improper payments. Additionally, we developed and implemented internal controls to minimize improper payments.

Payroll and benefits account for a majority of total administrative expenses. For FY 2011, we found approximately $2.8 million in improper payroll overpayments out of $6,764 million total payroll payments, which yielded a 0.04 percent improper overpayment rate.

MAJOR CAUSES

The major causes of improper administrative payments (overpayments and underpayments) include:

- Payment at incorrect unit cost or rate (e.g., a vendor performed a service and billed us at a rate different from specified in the contract, or a vendor billed us for merchandise at a higher price than specified in the contract or purchase order);
- Duplicate payments to vendors; and
- Time and attendance records processed before actual data are available. To ensure that we pay our employees timely, several times a year our business processes (e.g., operational and systems processing schedules) require that we process employees' time and attendance records before actual data are available (i.e., early payroll close-out). Subsequently, this action can result in an improper payment.

Corrective actions include:

- The preventative measure to ensure we pay vendors at the correct unit cost or rate is the incorporation of installment completion notices (ICN). The ICN includes details of the goods or services provided. If the ICN details match the task/subtask orders in our acquisition system, the contracting officer's representative (COR) signs the ICN and gives the vendor authorization to invoice. Once invoiced, the COR compares the invoice details to the ICN and then compares unit costs/rates on the invoice to the task/subtask order in our acquisition system. If the unit cost/rates agree, the COR certifies the invoice for payment;
- The preventive measure for duplicate invoices moving forward is the implementation of the Case Processing and Management System (CPMS) for administrative payments. CPMS will electronically communicate invoice information (e.g., total amount of invoice, invoice number, vendor name, etc.) from field offices directly into the agency's centralized accounting system. This system will allow a service provider to submit only one invoice for a service rendered during a hearing (e.g., testimony from medical

or vocational experts, transcription services, etc.), and will send duplicate invoices back to the service provider. We are currently piloting CPMS in several field offices and one national hearing center. We expect to fully implement CPMS in all field offices and national hearing centers by January 2013; and

- The corrective action for improper payments caused by early processing of our time and attendance records is as follows:
  - Agency personnel, including employees, timekeepers, and certifiers, identify corrective actions the following pay period; and
  - Timekeepers are then responsible for recording the appropriate adjustments in the agency's Time and Attendance System.

PAYMENT RECAPTURE AUDIT PROGRAM: ADMINISTRATIVE PAYMENTS

To further strengthen our internal controls in FY 2012, we awarded a contract to a vendor to perform a payment recapture audit of our administrative payments.

This contract requires the examination of our administrative payment processes to identify overpayments made during FYs 2008 through 2010. The contractor will:

- Identify funds lost due to overpayments;
- Define the reason for the overpayment;
- Notify us of any overpayments identified; and
- Develop recommendations for preventing future overpayments.

The auditors have not completed the payment recapture audit and, therefore, we have identified no results or corrective actions. We expect to report on our corrective actions in next year's *Improper Payments Information Detailed Report.* At that time, we will also report on the status of any recaptured funds.

In addition to the external audit, we use an existing in-house recovery audit program for vendor and employee travel payments, which contains a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify duplicate payments made to the same vendor, with the same invoice date, and for the same amount;
- A report to identify duplicate payments made through the third-party draft payment system and the accounts payable system; and
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

According to OMB guidance, reviewing payments to employees to identify improper payments is optional. However, because our payroll and benefits account for a major portion of our administrative costs, we conduct annual payment accuracy reviews. Results from the audit program and quality review process continue to confirm that administrative payments are well below the OMB threshold for reporting improper payments.

PAYMENT RECAPTURE AUDIT REPORTING

These results further validate our existing controls to prevent, detect, and collect administrative improper payments.

Table 22: FY 2011 Payment Recapture Audit Reporting Administrative Payments
(dollars in millions)

Type of Payment	Payroll and Benefits [1]	Vendor and Travel
Amount Subject to Review for CY Reporting	$6,764	$1,695
Actual Amount Reviewed and Reported CY	$6,764	$1,479
Amount Identified for Recovery CY	$2.761	$2.841
Amount Recovered CY	$1.489	$2.584
Percent of Amount Recovered out of Amount Identified CY	54%	91%
Amount Outstanding CY	$1.272	$0.257
Percent of Amount Outstanding out of Amount Identified CY	46%	9%
Amount Determined Not to be Collectable CY	$0.250	$0.0
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	9%	0.00%
Amounts Identified for Recovery PYs	$2.983	$9.088
Amounts Recovered PYs	$1.465	$9.040
Cumulative Amounts Identified for Recovery (CY + PYs)	$5.744	$11.929
Cumulative Amounts Recovered (CY + PYs)	$2.954	$11.624
Cumulative Amounts Outstanding (CY + PYs)	$2.790	$0.305
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	$0.428	$0.0

Notes:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2011 but could have occurred in a prior year.
2. The amount subject to review for current year reporting for payroll and benefits includes about $5 million in payroll expenses attributable to the *American Recovery and Reinvestment Act*.
3. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards based on the following criteria:
   - The cost of collection does not justify the enforced collection of the full amount;
   - The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
   - The debt has been discharged in bankruptcy; or
   - The debtor has requested a waiver or review of the debt and the agency determines that such request is credible.

ADMINISTRATIVE PAYMENTS RECOVERY TARGETS

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. We strive to recover all administrative overpayments, and established a 100 percent target as required by OMB Circular No. A-123, Part II B (3) *Payment Recapture Targets for Audit Programs*. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former agency employees and duplicate payments to vendors. We use various tools for collection including offset of subsequent vendor payments and TOP, which includes AWG.

Table 23: FY 2011 Payment Recapture Audit Targets Administrative Payments (dollars in millions)

Type of Payment	FY 2011 Amount Identified	FY 2011 Amount Recovered	FY 2011 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2012 Recovery Rate Target	FY 2013 Recovery Rate Target	FY 2014 Recovery Rate Target
Payroll and Benefits	$2.761	$1.489	54%	100%	100%	100%
Vendor and Travel	$2.841	$2.584	91%	100%	100%	100%

Note:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2011 but could have occurred in a prior year.

Table 24: FY 2011 Aging of Outstanding Overpayments Administrative Payments (dollars in millions)

Type of Payment	FY 2011 Amount Outstanding (0 – 6 Months)	FY 2011 Amount Outstanding (6 Months to 1 Year)	FY 2011 Amount Outstanding (Over 1 Year)
Payroll and Benefits	$1.002	$0.314	$0.0
Vendor and Travel	$0.061	$0.232	$0.012

Note:

1. The payroll and benefits aging amounts for amounts outstanding over one year do not include amounts for current employees.

Table 25: Administrative Debt Overpayments – Detections and Recoveries (dollars in millions)						
Administrative Debt Overpayments	**Amount Identified FY 2012**	**Amount Recovered FY 2012**	**Amount Identified FY 2011**	**Amount Recovered FY 2011**	**Cumulative Amount Identified FY 2012 and 2011**	**Cumulative Amount Recovered FY 2012 and 2011**
Total	$2.5	$1.3	$2.5	$2.5	$5.0	$3.8

Notes:

1. The totals mainly include identified and recovered overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which are discussed in the Payment Recapture Audit: Administrative Payments section.
2. Identified overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. We do not consider every overpayment improper according to the definition contained in IPIA.

AGENCY EFFORTS TO REDUCE IMPROPER PAYMENTS

We focus on achieving our goals to reduce improper payments. Below, we address our efforts to reduce improper payments in the following areas:

- Internal controls;
- Human capital to support improper payment workloads;
- Information systems;
- Other infrastructure; and
- Statutory and regulatory barriers.

INTERNAL CONTROLS

We have a well-established, agency-wide management control program as required by the *Federal Managers' Financial Integrity Act*. 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 the weaknesses are corrected.

The effective internal controls we incorporate into our business processes and financial management systems, as well as program integrity efforts mentioned throughout this report, support the Commissioner's annual statement to the President and Congress on whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;

- Financial management systems are in conformance with Governmentwide requirements; and
- Internal controls over financial reporting are operating effectively.

We include the Commissioner's annual statement of assurance and additional information on our review program and our financial statement audit in the *Systems and Controls* section of this *Performance and Accountability Report*. In addition, we include the auditor's report in the *Auditor's Reports* section of this *Performance and Accountability Report.*

Our strong overall internal control program contributes significantly to the agency's efforts to reduce improper payments.

HUMAN CAPITAL TO SUPPORT IMPROPER PAYMENT WORKLOADS

For our program integrity reviews, we completed increasing numbers of CDRs and SSI redeterminations between FY 2007 and FY 2011. Even with our reduced FY 2012 funding, our CDR and SSI redetermination goals increased for FY 2012. In FY 2012, we completed over 2.624 million SSI redeterminations and about 443,233 full medical CDRs. We estimate that every dollar spent on full medical CDRs yields at least $9 in lifetime program savings; every dollar spent on SSI redeterminations yields about $6 in program savings over 10 years, including savings accruing to Medicaid. We completed about 287,650 work CDRs in FY 2012.

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits. We cannot continue to improve our processes without adequate resources to complete all the work for which we are responsible. Sustained, adequate funding is crucial to providing us with the necessary staff to balance our service and stewardship work and continue to reduce improper payments.

The *Budget Control Act* (Public Law 112-25) includes program integrity initiatives to reduce improper benefit payments under (among other Federal programs) the DI and SSI programs. It allows adjustments to the Governmentwide discretionary caps to permit additional appropriations for purposes of conducting CDRs and SSI redeterminations to the extent that such appropriations for program integrity purposes exceed $273 million a year. For FY 2013, the funding adjustment authorized is $751 million. If appropriated, the total amount of $1.024 billion would enable us to complete 650,000 periodic medical CDRs, an increase of 215,000 from our FY 2012 target, and to continue handling 2.622 million SSI redeterminations, resulting in significant savings of taxpayer dollars.

Effective FY 2012, as required by IPERA, we are 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.

INFORMATION SYSTEMS

The Comprehensive Integrity Review Process supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as the *Federal Managers' Financial Integrity Act*, which requires that we establish and maintain effective internal controls. The Comprehensive Integrity Review Process automatically selects, based on predefined criteria, potentially fraudulent transactions for management investigation. The selection criteria focus on potentially fraudulent activity rather than improper payments. However, if the transaction involves an issued payment, the reviewer looks at the accuracy of the payment to ensure that we complied with proper procedures.

OTHER INFRASTRUCTURE

As required by law, we conduct preeffectuation reviews (PER) on at least 50 percent of initial and reconsideration disability determinations allowances made by the State DDSs. In FY 2010, we initiated PERs of DDS allowances for OASDI benefits and initial and reconsideration allowances for the SSI program. We return deficient cases to the DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2010 cases will result in lifetime savings (after all appeals) of:

- $366 million in OASDI benefit payments;
- $60 million in SSI Federal payments;
- $199 million in Medicare benefits; and
- $2 million in the Federal share of Medicaid payments.

STATUTORY AND REGULATORY BARRIERS

Our processes, policies, and regulatory and statutory requirements are complicated, which make them difficult to administer and explain. To meet the challenges of our growing workloads and provide the best service possible, we continue to streamline our policies and procedures and move more of our business processes to an electronic environment. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The President's FY 2013 Budget includes several legislative proposals that could help simplify our programs and better identify and prevent improper payments. We discuss some of these proposals in the following paragraphs.

DI Demonstration Authority/Work Incentives Simplification Pilot

This proposal would reauthorize our demonstration authority for five years. This authority allows us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects, including alternative methods of treating work activity of disabled OASDI beneficiaries (including recipients of childhood disability benefits and disabled widow(er) benefits). Subject to rigorous evaluation protocols, WISP would test important improvements in our return-to-work rules. We believe that WISP has the potential to eliminate current barriers to employment by simplifying the treatment of beneficiaries' earnings, potentially reducing improper payments.

Windfall Elimination Provision and Government Pension Offset

Under this proposal, we would develop automated data exchanges for States and local governments to submit timely information on pensions based on work not covered by Social Security. The proposal includes funding for the development and implementation of the data exchanges. Receiving this pension information timely would help us avoid improper payments created when we do not know a beneficiary is receiving a pension that makes WEP and GPO applicable.

Workers' Compensation

Under this proposal, we would develop and implement a system to collect information on WC recipients from States and private insurers. We would use the information to offset DI benefits and reduce SSI payments as necessary. This proposal includes funding for developing and implementing the system. Receiving this information timely would help us avoid improper payments that occur when we do not have information about the receipt or amount of WC payments.

Quarterly Federal Wage Reporting

This proposal would restructure the Federal wage reporting process by requiring employers to report wages quarterly instead of annually. The proposal would facilitate the implementation of automating enrollment of employees in existing workplace pensions. It may also improve program integrity because more frequent reporting could provide more timely information and quality control over federally-administered, income-tested programs. Finally, increasing the frequency of wage reporting could enhance tax administration and reduce the amount of items added to the earnings suspense file, because we would discover discrepant employee identifiers more quickly.

APPENDIX

GLOSSARY OF ACRONYMS

A

ACES	Automated Correction Expert System
ACSI	American Customer Satisfaction Index
ADP	Automated Data Processing
AERO	Automated Earnings Reappraisal Operation
AFI	Access to Financial Institutions
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
APF	Authorized Program Facility
APP	Annual Performance Plan
ARRA	American Recovery and Reinvestment Act of 2009
ARS	Appointed Representative Services
ASA	Average Speed of Answer
ASP	Agency Strategic Plan
ATS	Audit Trail System
AWG	Administrative Wage Garnishment

B

BCAS	Benefit Certification and Accounting System
BI Apps	Business Intelligence Applications

C

C2C	Click-to-Communicate
CAL	Compassionate Allowances
CARE 2020	Citizens Access Routing Enterprise through 2020
CAS	Cost Analysis System
CD	Compact Disc
CDI	Cooperative Disability Investigation
CDR	Continuing Disability Review
CIRP	Comprehensive Integrity Review Process
CMS	Centers for Medicare and Medicaid Services
COR	Contracting Officer's Representative
CPI	Consumer Price Index
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CPMS	Case Processing and Management System
CSRS	Civil Service Retirement System
CY	Current Year

D

DACUS	Death Alert Control and Update System
DCPS	Disability Case Processing System
DDS	Disability Determination Services
DHS	Department of Homeland Security
DI	Disability Insurance
DMF	Death Master File
DMS	Debt Management System
DOD	Department of Defense
DOT	Dictionary of Occupational Titles

E

eAuthorization	Electronic Authorization Process
eBB	Electronic Bench Book
EEO	Equal Employment Opportunity
EEOC	Equal Employment Opportunity Commissioner
ERE	Electronic Records Express
ERP	Economic Recovery Payment
EWSP	Entity-Wide Security Program

F

FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contributions Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FO	Field Office
FTI	Federal Tax Information
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GF	General Fund
GPO	Government Pension Offset
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System

H

health IT	Health Information Technology
HI	Hospital Insurance
HI/SMI	Hospital Insurance/Supplemental Medical Insurance

I

iAppeals	Internet Disability Appeal Application
ICDB	Integrated Client Database
iClaims	Internet Claims
ICN	Installment Completion Notice
ID	Identification Number
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IRM	Information Resources Management
IRS	Internal Revenue Service
ISM	In-Kind Support and Maintenance
IT	Information Technology

L

LAE	Limitation on Administrative Expenses
Listings	Listing of Impairments

M

MCS	Modernized Claim System
MD-715	Management Directive 715
MD&A	Management's Discussion and Analysis
MOURS	Modernized Overpayment and Underpayment Reporting System
MSSICS	Modernized Social Security Income Claims System

N

NBS	National Beneficiary Survey
NCAC	National Case Assistance Center
NCC	National Computer Center
NDDS	National Disability Determination Services System
NED	Non-Entitled Debtors
NHC	National Hearing Center
NPRM	Notices of Proposed Rule Making
N/A	Indicates a prior year target was not established

O

OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCREO	Office of Civil Rights and Equal Opportunity
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OQP	Office of Quality Performance
OSCAR	Onsite Security Control and Audit Reviews
O/P	Overpayment

P

PAR	Performance and Accountability Report
PDB	Public Disability Benefits
PER	Preeffectuation Review
PG	Priority Goal
PI	Performance Indicator
PII	Personally Identifiable Information
PIN	Personal Identification Number
PP&E	Property, Plant, and Equipment
PSC	Program Service Centers
PTF	Payments to the Social Security Trust Funds
Pub. L. No.	Public Law Number
PY	Prior Year
P&F	Program and Financing

Q

QA	Quality Assurance
QDD	Quick Disability Determination

R

RO	Regional Office
ROAR	Recovery of Overpayments Accounting and Reporting
RRI	Railroad Retirement Interchange
RSDI	Retirement, Survivors and Disability Insurance
RSI	Required Supplementary Information

S

SAR	Safeguard Activity Report
SDLC	System Development Lifecycles
SECA	Self Employment Contributions Act
SFFAS	Statement of Federal Financial Accounting Standards
SF-133	Budget Execution Reports
SGA	Substantial Gainful Activity
SMI	Supplemental Medical Insurance
SNO	Special Notice Option
SPR	Safeguard Procedure Report
SSA	Social Security Administration
SSA-93	Quality Review Feedback Form
SSI	Supplemental Security Income
SSIRMS	Supplemental Security Income Management System
SSITWR	Supplemental Security Income Telephone Wage Reporting
SSN	Social Security Number
SSNAP	Social Security Number Application Process
SSNECS	Social Security Number Enumeration and Correction System
SSOARS	Social Security Online Accounting and Reporting System
SSTV	Social Security TV
Strategy	Strategy to Address Increasing Initial Disability Claim Receipts

T

TBD	To Be Determined
Ticket	Ticket to Work
Title II	Social Security
Title VIII	Special Benefits for Certain World War II Veterans
Title XVI	Supplemental Security Income
TOP	Treasury Offset Program
Treasury	Department of the Treasury
TTW	Ticket to Work

U

U.S.	United States
U.S.C.	United States Code
U/P	Underpayment

V

VA	Veterans Affairs
VR	Vocational Rehabilitation
VSD	Video Service Delivery
VSU	Virtual Screening Unit
VTC	Video Teleconferencing

W

WC	Workers' Compensation
WEP	Windfall Elimination Provision
WIPA	Work Incentives Planning and Assistance
WISE	Work Incentive Seminar
WISP	Work Incentives Simplification Pilot
W-2s	Wage and Tax Statements

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