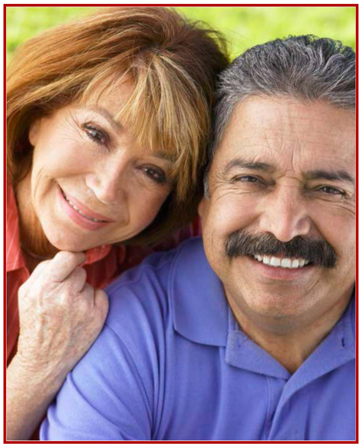
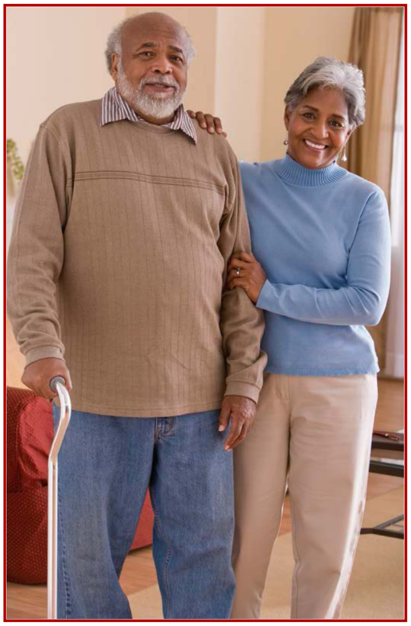
Financial Section









MESSAGE FROM THE CHIEF FINANCIAL OFFICER

In fiscal year (FY) 2013, we continued to demonstrate our commitment to excellence in financial reporting and accountability and received our 20th consecutive unmodified audit opinion on our financial statements. The unmodified opinion confirms our financial statements fairly present the financial position of the agency, and they are free from material misstatement. We continue to set a high standard in financial management while we remain focused on being responsible stewards of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

During FY 2013, our auditors found that we made substantial progress in addressing the material weakness in our information systems controls cited during last year's financial statement audit. In this year's audit, they reduced the severity of the finding to a significant deficiency. The auditors also cited a significant deficiency related to our calculation, recording, and prevention of overpayments. We are committed to resolving these deficiencies as quickly as possible. We will continue to build on the rapid and sustained progress we have made by pursuing a risk-based corrective action plan. Additional information on the auditors' findings and our corrective actions is available in the *Systems and Controls* and the *Auditor's Reports* sections of this report.

To ensure relevant, reliable, and timely accounting and management information, we continued to pursue information technology advancements in FY 2013. We upgraded our accounting system by expanding our Web Services technology to allow for real-time handling of miscellaneous receipts and established a common gateway architecture to ensure consistency, security, and improved productivity. We enhanced our accounts payable processing by modernizing our workflow and approval process to take better advantage of Government-wide shared processes, and we integrated several obligation and payment systems in real-time, eliminating both major workloads and the inherent delays in recording spending. We also began replacing the technology used in our financial reporting system with new software that features improved security, faster access to data, and simplified report queries for system users. Finally, we redesigned our cost accounting system to better manage and account for resources and provide enhanced management information to inform 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.

In recognition of our outstanding reporting efforts, the Association of Government Accountants awarded us the Certificate of Excellence in Accountability Reporting for our *Performance and Accountability Report* for FY 2012. We have received this prestigious award for 15 consecutive years.

The success of our financial stewardship is due to the efforts of our employees who practice sound fiscal policies supporting our mission, programs, and systems. We strive to uphold the highest standards of integrity in discharging our fiduciary responsibilities to the American people.

Peter D. Spencer
Chief Financial Officer
December 9, 2013

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

The agency's financial statements and additional information for fiscal years (FY) 2013 and 2012 consist of the following:

- The **Consolidated Balance Sheets** present, as of September 30, 2013 and 2012, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets), 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, 2013 and 2012. 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, 2013 and 2012. 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, 2013 and 2012. 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, 2012 to the period beginning on January 1, 2013; and (2) changing from the period beginning on January 1, 2011 to the period beginning on January 1, 2012. 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, 2013 and 2012
(Dollars in Millions)

	2013	2012
Assets		
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	**$ 1,896**	$ 5,414
Investments (Note 5)	**2,756,390**	2,719,042
Interest Receivable (Note 5)	**25,072**	26,481
Accounts Receivable, Net (Note 6)	**568**	654
Other	**24**	29
Total Intragovernmental	**2,783,950**	2,751,620
Accounts Receivable, Net (Notes 3 and 6)	**12,240**	11,770
Property, Plant, and Equipment, Net (Note 7)	**3,422**	3,132
Other	**3**	2
Total Assets	**$ 2,799,615**	$ 2,766,524
Liabilities (Note 8)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	**$ 4,505**	$ 4,326
Accounts Payable	**6,236**	8,532
Other	**106**	245
Total Intragovernmental	**10,847**	13,103
Benefits Due and Payable	**89,404**	86,646
Accounts Payable	**474**	485
Other	**1,323**	1,300
Total Liabilities	**102,048**	101,534
Net Position		
Unexpended Appropriations - All Other Funds	**262**	946
Cumulative Results of Operations - Funds from Dedicated Collections (Note 9)	**2,695,832**	2,662,913
Cumulative Results of Operations - All Other Funds	**1,473**	1,131
Total Net Position - Funds from Dedicated Collections (Note 9)	**2,695,832**	2,662,913
Total Net Position - All Other Funds	**1,735**	2,077
Total Net Position	**2,697,567**	2,664,990
Total Liabilities and Net Position	**$ 2,799,615**	$ 2,766,524

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2013 and 2012
(Dollars in Millions)

	2013	2012
OASI Program		
Benefit Payments	$ 666,387	$ 630,841
Operating Expenses (Note 10)	3,493	3,518
Total Cost of OASI Program	669,880	634,359
Less: Exchange Revenues (Notes 11 and 12)	(14)	(14)
Net Cost of OASI Program	669,866	634,345
DI Program		
Benefit Payments	139,262	135,454
Operating Expenses (Note 10)	3,019	3,101
Total Cost of DI Program	142,281	138,555
Less: Exchange Revenues (Notes 11 and 12)	(41)	(43)
Net Cost of DI Program	142,240	138,512
SSI Program		
Benefit Payments	49,496	44,182
Operating Expenses (Note 10)	4,044	4,073
Total Cost of SSI Program	53,540	48,255
Less: Exchange Revenues (Notes 11 and 12)	(327)	(306)
Net Cost of SSI Program	53,213	47,949
Other		
Benefit Payments	6	6
Operating Expenses (Note 10)	2,039	2,130
Total Cost of Other Program	2,045	2,136
Less: Exchange Revenues (Notes 11 and 12)	(9)	(10)
Net Cost of Other	2,036	2,126
Total Net Cost		
Benefit Payments	855,151	810,483
Operating Expenses (Note 10)	12,595	12,822
Total Cost	867,746	823,305
Less: Exchange Revenues (Notes 11 and 12)	(391)	(373)
Total Net Cost	$ 867,355	$ 822,932

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2013 and 2012

(Dollars in Millions)

	2013			2012		
	Funds from Dedicated Collections	**All Other Funds**	**Total**	Funds from Dedicated Collections	All Other Funds	Total
Cumulative Results of Operations:						
Beginning Balances	**$ 2,662,913**	**$ 1,131**	**$ 2,664,044**	$ 2,604,111	$ 1,190	$ 2,605,301
Budgetary Financing Sources						
Appropriations Used	**24,196**	**88,164**	**112,360**	27,534	163,566	191,100
Tax Revenues (Note 13)	**689,442**	**0**	**689,442**	585,093	0	585,093
Interest Revenues	**104,239**	**0**	**104,239**	110,779	0	110,779
Transfers-In/Out - Without Reimbursement	**25,904**	**(24,166)**	**1,738**	107,003	(104,938)	2,065
Railroad Retirement Interchange	**(4,677)**	**0**	**(4,677)**	(4,750)	0	(4,750)
Net Transfers-In/Out	**21,227**	**(24,166)**	**(2,939)**	102,253	(104,938)	(2,685)
Other Budgetary Financing Sources	**81**	**0**	**81**	74	0	74
Other Financing Sources (Non-Exchange)						
Imputed Financing Sources (Note 14)	**0**	**562**	**562**	0	605	605
Other	**0**	**(3,129)**	**(3,129)**	0	(3,291)	(3,291)
Total Financing Sources	**839,185**	**61,431**	**900,616**	825,733	55,942	881,675
Net Cost of Operations	**806,266**	**61,089**	**867,355**	766,931	56,001	822,932
Net Change	**32,919**	**342**	**33,261**	58,802	(59)	58,743
Cumulative Results of Operations	**$ 2,695,832**	**$ 1,473**	**$ 2,697,305**	$ 2,662,913	$ 1,131	$ 2,664,044
Unexpended Appropriations:						
Beginning Balances	**$ 0**	**$ 946**	**$ 946**	$ 0	$ 437	$ 437
Budgetary Financing Sources						
Appropriations Received	**24,196**	**88,534**	**112,730**	27,534	164,091	191,625
Other Adjustments	**0**	**(1,054)**	**(1,054)**	0	(16)	(16)
Appropriations Used	**(24,196)**	**(88,164)**	**(112,360)**	(27,534)	(163,566)	(191,100)
Total Budgetary Financing Sources	**0**	**(684)**	**(684)**	0	509	509
Total Unexpended Appropriations	**0**	**262**	**262**	0	946	946
Net Position	**$ 2,695,832**	**$ 1,735**	**$ 2,697,567**	$ 2,662,913	$ 2,077	$ 2,664,990

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2013 and 2012

(Dollars in Millions)

		2013		2012
Budgetary Resources (Note 15)				
Unobligated Balance, Brought Forward, October 1	**$**	**1,738**	$	870
Recoveries of Prior Year Unpaid Obligations		**215**		227
Other Changes in Unobligated Balance		**218**		(16)
Unobligated Balance From Prior Year Budget Authority, Net		**2,171**		1,081
Appropriations (Discretionary and Mandatory)		**928,394**		969,480
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		**14,440**		14,918
Total Budgetary Resources	**$**	**945,005**	$	985,479
Status of Budgetary Resources				
Obligations Incurred (Note 15)				
Direct	**$**	**940,685**	$	980,615
Reimbursable		**3,334**		3,126
Total Obligations Incurred		**944,019**		983,741
Unobligated Balance, End of Year				
Apportioned		**728**		980
Unapportioned		**258**		758
Total Unobligated Balance, End of Year		**986**		1,738
Total Budgetary Resources	**$**	**945,005**	$	985,479
Change in Obligated Balance				
Unpaid obligations:				
Unpaid Obligations, Brought Forward, October 1	**$**	**92,313**	$	88,326
Obligations Incurred		**944,019**		983,741
Outlays, Gross		**(940,800)**		(979,527)
Recoveries of Prior Year Unpaid Obligations		**(215)**		(227)
Unpaid Obligations, End of Year	**$**	**95,317**	$	92,313
Uncollected payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1	**$**	**(3,090)**	$	(3,075)
Change in Uncollected Payments, Federal Sources		**164**		(15)
Uncollected Payments Federal Sources, End of Year		**(2,926)**		(3,090)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year	**$**	**89,223**	$	85,251
Obligated balance, End of Year	**$**	**92,391**	$	89,223
Budgetary Authority and Outlays, Net				
Budget Authority, Gross (Discretionary and Mandatory)	**$**	**942,834**	$	984,398
Actual Offsetting Collections (Discretionary and Mandatory)		**(14,604)**		(14,904)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)		**164**		(15)
Budget Authority, Net (Discretionary and Mandatory)		**928,394**		969,479
Outlays, Gross (Discretionary and Mandatory)		**940,800**		979,527
Actual Offsetting Collections (Discretionary and Mandatory)		**(14,604)**		(14,904)
Outlays, Net (Discretionary and Mandatory)		**926,196**		964,623
Distributed Offsetting Receipts		**(58,800)**		(143,469)
Agency Outlays, Net (Discretionary and Mandatory)	**$**	**867,396**	$	821,154

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, 2013
(Dollars in Billions)

		Estimates from Prior Years			
	2013	**2012**	**2011**	**2010**	**2009**
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	$ 908	$ 847	$ 726	$ 672	$ 575
Cost for scheduled future benefits	11,021	9,834	8,618	8,096	7,465
Future noninterest income less future cost	-10,112	-8,988	-7,892	-7,424	-6,890
Participants who have not yet attained retirement eligibility age (ages 15-61):					
Noninterest income	24,591	22,703	20,734	19,914	18,559
Cost for scheduled future benefits	40,591	37,753	34,042	32,225	30,207
Future noninterest income less future cost	-16,000	-15,050	-13,309	-12,311	-11,647
Present value of future noninterest income less future cost for current participants (closed group measure)	-26,113	-24,038	-21,201	-19,735	-18,537
Combined OASI and DI Trust Fund asset reserves at start of period	2,732	2,678	2,609	2,540	2,419
Closed group - Present value of future noninterest income less future cost for current participants *plus* combined OASI and DI Trust Fund asset reserves at start of period	-$ 23,381	-$ 21,360	-$ 18,592	-$ 17,195	-$ 16,118
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	23,419	21,649	20,144	19,532	18,082
Cost for scheduled future benefits	9,600	8,890	8,100	7,744	7,223
Future noninterest income less future cost	13,819	12,759	12,044	11,789	10,860
Present value of future noninterest income less future cost for current and future participants (open group measure)	-12,294	-11,278	-9,157	-7,947	-7,677
Combined OASI and DI Trust Fund asset reserves at start of period	2,732	2,678	2,609	2,540	2,419
Open group - Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period	-$ 9,562	-$ 8,601	-$ 6,548	-$ 5,406	-$ 5,258

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, 2012 to January 1, 2013
(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 Asset Reserves	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period
As of January 1, 2012	-$ 11,278	$ 2,678	-$ 8,601
Reasons for changes between January 1, 2012 and January 1, 2013 (Note 17)			
Change in the valuation period	-543	57	-486
Changes in demographic data, assumptions, and methods	-681	0	-681
Changes in economic data, assumptions, and methods	-273	0	-273
Changes in methodology and programmatic data	1,034	-3	1,031
Changes in law or policy	-553	0	-553
Net change between January 1, 2012 and January 1, 2013	-$ 1,016	$ 54	-$ 961
As of January 1, 2013	-$ 12,294	$ 2,732	-$ 9,562

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 Asset Reserves	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves 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, 2011and January 1, 2012	-$ 2,121	$ 69	-$ 2,052
As of January 1, 2012	-$ 11,278	$ 2,678	-$ 8,601

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, 2013 and 2012

1. Summary of Significant Accounting Policies

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the U.S. 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, the present value for the 75-year projection period for social insurance, and the changes in the present value between the current valuation period and prior valuation period, 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. 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), four general fund appropriations, three receipt accounts, and one special fund.

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 four general funds are the Payments to Social Security Trust Funds (PTF), SSI Program, Office of the Inspector General (OIG), and Title VIII Program. The three receipt accounts are SSI Overpayment Collections, the General Fund's portion of the SSI State Supplementation fees, and SSI Attorney fees. The one special fund is SSA's portion of the SSI State Supplementation fees. SSA's financial statements also include OASI and DI investment activities performed by the Department of the Treasury (Treasury) and activity related to the *American Recovery and Reinvestment Act of 2009* (ARRA). 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. This has resulted in increased SSI benefit payments when comparing FY 2013 and FY 2012 on the financial statements.

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 once LAE’s authority is recorded. Obligations incurred in the HI and SMI Trust Funds are reported by the Centers for Medicare and Medicaid Services. 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.

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. Exchange revenue financing sources may be used to pay for current operating expenses as specified by law.

Funds from Dedicated Collections

SFFAS No. 43, *Funds from Dedicated Collections*, which amends SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, requires separate presentation and disclosure of funds from dedicated collections balances in the financial statements. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. SFFAS No. 43 amends SFFAS No. 27 for FY 2013 reporting, and funds from dedicated collections must now meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;
- Explicit authority for the fund to retain revenues and/or 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/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

SSA's funds from dedicated collections are the OASI and DI Trust Funds, funds collected through the taxation of Social Security benefits, and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 9, Funds from Dedicated Collections, 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 were required to pay the full 6.2 percent rate. Self-employed persons, who pay both halves of the Social Security tax through self-employment tax, paid 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. The expiration of this legislation at the end of the first quarter of FY 2013 has resulted in increased tax revenues and decreased transfers when comparing FY 2013 and FY 2012 on the financial statements. Refer to Note 13, Tax Revenues, for additional information.

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.

General Fund Receipt Accounts

SSA administers and records certain collection activities on behalf of Treasury. The amounts collected are deposited into receipt accounts during the fiscal year, and balances are removed when Treasury processes the annual funds sweep against these accounts. Prior to the funds sweep, the fund balances are offset on SSA's Consolidated Balance Sheets by payables due to Treasury's General Fund.

In FY 2012, SSA maintained General Fund Receipt Account balances on the Fund Balance with Treasury, Intergovernmental Accounts Payable, and Intergovernmental Other Liabilities line items on the Consolidated Balance Sheets. These balances were consistent with the fund balances reported by Treasury as of September 30, 2012. After the September period of FY 2012, Treasury swept the fund balances, removing them from SSA's accounts and properly allocating the funds to Treasury's General Fund.

In FY 2013, Treasury swept the fund balances of these and other General Fund Receipt Accounts out of SSA's accounts to Treasury's General Fund as of September 30, 2013. Due to the timing of the fund balances being swept, SSA removed these fund balances and related liabilities. The result has been a decrease in Fund Balance with Treasury, Intergovernmental Accounts Payable, and Intergovernmental Other Liabilities line items on the Consolidated Balance Sheets when comparing FY 2013 and FY 2012 balances.

Refer to Note 3, Non-Entity Assets, Note 4, Fund Balance with Treasury, Note 8, Liabilities, and Note 11, Exchange Revenue.

Presentation Change

Effective FY 2013, the Statements of Budgetary Resources presentation has been modified to comply with the required format in OMB's Circular No. A-136. FY 2012 balances have been presented in the new format for comparison purposes to the reformatted statement.

For FY 2013, SSA has also designated certain PTF activities previously reported as Funds from Dedicated Collections as All Other Funds on the Balance Sheets and Statements of Changes in Net Position. This was done to comply with the new requirements of SFFAS No. 43. FY 2012 balances have been reclassified for comparison purposes. Refer to Note 9, Funds from Dedicated Collections.

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 their 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 $60 and $70 million for the years ended September 30, 2013 and 2012.
SSA contributions to the basic FERS plan were $438 and $432 million for the years ended September 30, 2013 and 2012. 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 $151 and $148 million for the years ended September 30, 2013 and 2012. 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, Net; (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)

	2013			2012		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
Intragovernmental:						
SSI Overpayment Collections	$ 0	$ 0	$ 0	$ 2,732	$ 0	$ 2,732
SSI State Supp Fees	0	0	0	127	0	127
Title VIII State Supp Fees	2	0	2	2	0	2
SSI Attorney Fees	0	0	0	9	0	9
Total Intragovernmental	2	0	2	2,870	0	2,870
SSI Fed/State Accounts Receivable, Net	6,673	(313)	6,360	6,218	(280)	5,938
Total	$ 6,675	$ (313)	$ 6,362	$ 9,088	$ (280)	$ 8,808

The SSI Accounts Receivable, Net, has been reduced by intra-agency eliminations. SSI accounts receivable and overpayment collections are recognized as non-entity assets. 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. 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.

SSI State Supplementation, Title VIII State Supplementation, and SSI Attorney fee collections are classified as exchange revenue. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative Fees.

In FY 2012, SSI Overpayments, SSI State Supplementation, and SSI Attorney fees were included as part of the Fund Balance with Treasury on the Consolidated Balance Sheets. In FY 2013, the Fund Balance with Treasury line does not include any amounts for these activities. When comparing FY 2013 and FY 2012, the timing of Treasury's General Fund receipt account sweep has resulted in the decrease in amounts for these activities.

Title VIII State Supplementation Fees are included in the Fund Balance with Treasury as of September 30, 2013 and 2012, as these balances are not swept to Treasury's General Fund.

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)

	2013	2012
Trust Funds*		
OASI	$ (278)	$ (490)
DI	(413)	(473)
LAE	(82)	(10)
General Funds		
SSI	2,215	2,918
Other	404	555
Other Funds		
SSI	47	178
Other	3	2,736
Total	$ 1,896	$ 5,414

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

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

	2013	2012
Unobligated Balance		
Available	$ 439	$ 745
Unavailable	41	424
Obligated Balance Not Yet Disbursed	2,139	2,304
OASI, DI, and LAE	(773)	(973)
Non-Budgetary FBWT	50	2,914
Total	$ 1,896	$ 5,414

The negative fund balances reported for the OASI, DI, and LAE Trust Funds as of September 30, 2013 and 2012 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.

Fund Balance with Treasury includes $0 and $2,868 million for SSI Overpayment Collections, General Fund's portion of SSI State Supplementation Fees, and SSI Attorney Fees as of September 30, 2013 and 2012. When comparing FY 2013 and FY 2012, the timing of Treasury's General Fund receipt account sweep has resulted in the decrease in amounts for these activities. Refer to Note 3, Non-Entity Assets, for additional information.

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 $2,756,390 and $2,719,042 million as of September 30, 2013 and 2012. The interest rates on these investments range from 1⅜ 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 2028. Accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury is an Intragovernmental Interest Receivable, reported on the Consolidated Balance Sheets. Interest Receivable amounts are $25,072 and $26,481 million as of September 30, 2013 and 2012.

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. Government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. Government-wide 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 $568 and $654 million as of September 30, 2013 and 2012 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The gross accounts receivable has been reduced by $2,370 and $2,446 million as of September 30, 2013 and 2012 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)						
	2013			2012		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 2,296	$ (284)	$ 2,012	$ 2,301	$ (297)	$ 2,004
DI	6,007	(2,136)	3,871	6,090	(2,263)	3,827
SSI*	8,741	(2,068)	6,673	8,194	(1,976)	6,218
LAE	2	0	2	3	0	3
Subtotal	17,046	(4,488)	12,558	16,588	(4,536)	12,052
Less:						
Eliminations**	(318)	0	(318)	(282)	0	(282)
Total	$ 16,728	$ (4,488)	$ 12,240	$ 16,306	$ (4,536)	$ 11,770

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

Chart 6 shows that in FY 2013 and 2012, gross accounts receivable was reduced by $318 and $282 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Windfall Offset is the amount of SSI that would not have been paid if retroactive OASI and DI benefits had been paid timely to eligible beneficiaries. The KZ Diary process identifies SSI recipients eligible for prior entitlement of OASI and DI benefits, and determines SSA's liability for retroactive benefits owed to beneficiaries. For each activity, 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)

	2013			2012		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Construction in Progress	$ 161	$ 0	$ 161	$ 41	$ 0	$ 41
Buildings and Other Structures	59	(18)	41	59	(17)	42
Equipment (incl. ADP Hardware)	1,075	(834)	241	1,015	(742)	273
Internal Use Software	6,016	(3,279)	2,737	5,358	(2,787)	2,571
Leasehold Improvements	558	(316)	242	485	(280)	205
Total	$ 7,869	$ (4,447)	$ 3,422	$ 6,958	$ (3,826)	$ 3,132

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. Liabilities covered by budgetary resources use available budget authority when the liabilities are incurred. Liabilities not covered by budgetary resources do not use available budget authority in the current period. For SSA, these liabilities represent two main activities: 1) liabilities that will be funded in future periods; and 2) liabilities representing cash or SSA receivables due to the General Fund, which do not require budgetary authority.

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

	2013			2012		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	$ 4,505	$ 0	$ 4,505	$ 4,326	$ 0	$ 4,326
Accounts Payable	5	6,231	6,236	22	8,510	8,532
Other	44	62	106	46	199	245
Total Intragovernmental	4,554	6,293	10,847	4,394	8,709	13,103
Benefits Due and Payable	85,703	3,701	89,404	82,669	3,977	86,646
Accounts Payable	31	443	474	45	440	485
Other	590	733	1,323	572	728	1,300
Total	$ 90,878	$ 11,170	$102,048	$ 87,680	$ 13,854	$101,534

Intragovernmental Accrued Railroad Retirement Interchange

The Intragovernmental Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due to 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 *Railroad Retirement Act of 1974* 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. In FY 2013, the payable for the overpayment collections is not required as Treasury collected these funds from SSA as of September 30, 2013. Refer to Note 3, Non-Entity Assets, for additional information on SSI Federal benefit overpayment collections and 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 portions of FECA liability are $59 and $61 million as of September 30, 2013 and 2012. Intragovernmental Other Not Covered amounts include $0 and $127 million as of September 30, 2013 and 2012 for SSI State Fees payable to Treasury's General Fund. In FY 2013, the payable for the General Fund SSI State Fees is not required as Treasury collected these funds from SSA as of September 30, 2013. 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, 2013 and 2012. 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)

	2013	2012
OASI	$ 60,087	$ 56,904
DI	24,443	24,564
SSI	5,192	5,460
Subtotal	89,722	86,928
Less: Intra-agency eliminations	(318)	(282)
Total	$ 89,404	$ 86,646

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 for OASI, DI, and SSI are $4, $9, and $185 million, respectively, as of September 30, 2013 and $87, $267, and $334 million, respectively, as of September 30, 2012.

Chart 8b also shows that as of FY 2013 and 2012, gross Benefits Due and Payable was reduced by $318 and $282 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Refer to Note 6, Accounts Receivable, Net.

Accounts Payable

Accounts Payable Not Covered by budgetary resources consists of SSI State Supplemental 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, SSI State Supplemental amounts collected in advance, 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 $368 and $350 million as of September 30, 2013 and 2012 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. The IRS is near completion of refunding 100 percent of the employer share of taxes to institutions that had previously timely filed for a refund, as well as refunding the employee share of such taxes for those employees who had sought or consented to receive a refund. The IRS informed us that its processing of the administrative refund requests is substantially complete. We anticipate that the IRS refund program will result in dismissal of pending cases covering the period before April 1, 2005. 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. Funds from Dedicated Collections

The OASI and DI Trust Funds, Taxation on Social Security benefits, and SSI State Administrative Fees are classified as funds from dedicated collections. These funds obtain revenues primarily through non-Federal 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 benefits. 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.

Taxation on Social Security Benefits

Taxation on Social Security Benefits is also classified as funds from dedicated collections. The *Social Security Amendments of 1983* (Public Law 98-21) provides that the OASI and DI Trust Funds receive income related to Federal income taxation of benefits. The taxes are collected as Federal income taxes, and a subsequent payment is then made to the OASI and DI Trust Funds from the General Fund of the Treasury. These collections 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, Taxation on Social Security Benefits is considered dedicated collections.

SSI State Administrative Fees

Administrative Fees collected from States are also classified as funds from dedicated collections. 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 funds from dedicated collections as reported in the Consolidated Financial Statements for the years ended September 30, 2013 and 2012. The Other Dedicated Funds column in Chart 9 consists of Taxation on Social Security Benefits and SSI State Administrative Fees activity.

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

	2013				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (278)	$ (413)	$ 5	$ 0	$ (686)
Investments	2,655,599	100,791	0	0	2,756,390
Interest Receivable	23,981	1,091	0	0	25,072
Accounts Receivables - Federal	1	1	0	0	2
Accounts Receivables - Non-Federal	2,012	3,871	0	(5)	5,878
Total Assets	$ 2,681,315	$ 105,341	$ 5	$ (5)	$ 2,786,656
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 4,064	$ 441	$ 0	$ 0	$ 4,505
Accounts Payable, Federal	886	900	0	0	1,786
Benefits Due and Payable	60,087	24,443	0	(5)	84,525
Accounts Payable, Non-Federal	0	8	0	0	8
Total Liabilities	65,037	25,792	0	(5)	90,824
Cumulative Results of Operations	2,616,278	79,549	5	0	2,695,832
Total Liabilities and Net Position	$ 2,681,315	$ 105,341	$ 5	$ (5)	$ 2,786,656
Statement of Net Cost					
Program Costs	$ 666,387	$ 139,262	$ 0	$ 0	$ 805,649
Operating Expenses	576	236	0	0	812
Less Earned Revenue	(1)	(29)	(165)	0	(195)
Net Cost of Operations	$ 666,962	$ 139,469	$ (165)	$ 0	$ 806,266
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,551,565	$ 111,348	$ 0	$ 0	$ 2,662,913
Tax Revenue	589,375	100,067	0	0	689,442
Interest Revenue	99,126	5,113	0	0	104,239
Net Transfers In/Out	43,151	2,432	(24,356)	0	21,227
Other	23	58	24,196	0	24,277
Total Financing Sources	731,675	107,670	(160)	0	839,185
Net Cost of Operations	666,962	139,469	(165)	0	806,266
Net Change	64,713	(31,799)	5	0	32,919
Net Position End of Period	$ 2,616,278	$ 79,549	$ 5	$ 0	$ 2,695,832

The above Chart 9 for FY 2013 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds; however, $2,097 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2013 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, those eliminations have not been included in Chart 9.

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

	2012				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (490)	$ (473)	$ 0	$ 0	$ (963)
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	0	4
Accounts Receivables - Non-Federal	2,004	3,827	0	(3)	5,828
Total Assets	$ 2,613,181	$ 137,214	$ 0	$ (3)	$ 2,750,392
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 3,894	$ 432	$ 0	$ 0	$ 4,326
Accounts Payable, Federal	818	863	0	0	1,681
Benefits Due and Payable	56,904	24,564	0	(3)	81,465
Other - Non-Federal Liabilities	0	7	0	0	7
Total Liabilities	61,616	25,866	0	(3)	87,479
Cumulative Results of Operations	2,551,565	111,348	0	0	2,662,913
Total Liabilities and Net Position	$ 2,613,181	$ 137,214	$ 0	$ (3)	$ 2,750,392
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	$ 9	$ 0	$ 2,604,111
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	(27,694)	0	102,253
Other	22	52	27,534	0	27,608
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	$ 0	$ 0	$ 2,662,913

The above Chart 9 for FY 2012 has been updated to comply with the new requirements for Dedicated Collections for comparative purposes. Due to the new requirements, the following PTF activities are no longer included in Chart 9: 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.

Chart 9 for FY 2012 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds; however, $1,959 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2012 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections 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 primarily represent expenses associated with the construction and setup of the new National Support Center. 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)

	2013					
	LAE					
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
OASI	$ 2,880	$ 37	$ 0	$ 572	$ 4	$ 3,493
DI	2,748	35	0	108	128	3,019
SSI	3,914	0	0	0	130	4,044
Other	1,982	28	29	0	0	2,039
	$ 11,524	$ 100	$ 29	$ 680	$ 262	$ 12,595

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

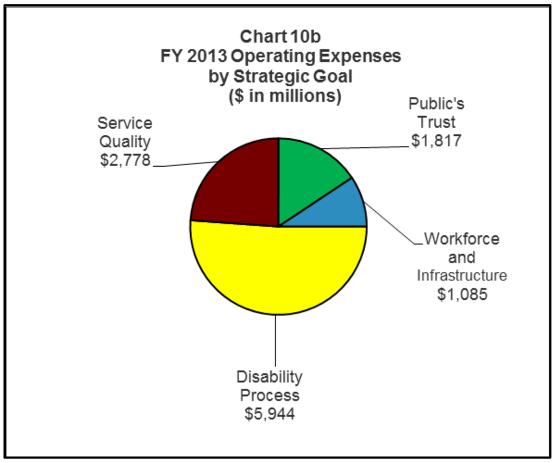
	2012					
	LAE					
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
OASI	$ 2,879	$ 36	$ 0	$ 601	$ 2	$ 3,518
DI	2,850	36	0	114	101	3,101
SSI	3,951	0	0	0	122	4,073
Other	2,092	28	9	0	1	2,130
	$ 11,772	$ 100	$ 9	$ 715	$ 226	$ 12,822

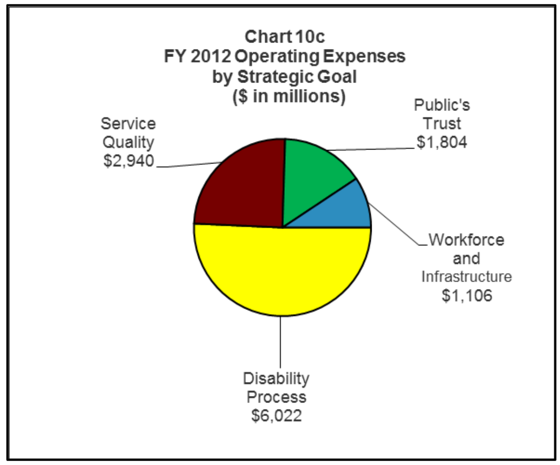
Classification of Operating Expenses by Strategic Goal

The *Annual Performance Plan* (APP) sets forth expected levels of performance 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 Services to the Public;
- Preserve the Public's Trust in Our Programs; and
- Strengthen Our Workforce and Infrastructure.

Charts 10b and 10c exhibit the distribution of FY 2013 and FY 2012 SSA and OIG LAE operating expenses to the four APP Strategic Goals, which agree to the agency's LAE budget appropriation. LAE ARRA expenses are subtracted from total SSA LAE operating expenses before being distributed to SSA's APP Strategic Goals in these two charts. 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 $391 and $373 million for the years ended September 30, 2013 and 2012. 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 $309 and $288 million for the years ended September 30, 2013 and 2012.

SSA's administrative fees are split between fees that SSA can use and fees that are entitled to Treasury's General Fund. The General Fund's portion of these administrative fees is $144 and $136 million for the years ended September 30, 2013 and 2012. Of this amount, $135 and $127 million was collected to administer SSI State Supplementation for the years ended September 30, 2013 and 2012. The remainder of the administrative fees, which meet the criteria of a fund from dedicated collections, in the amount of $165 and $152 million for the years ended September 30, 2013 and 2012 are maintained by SSA to defray expenses in carrying out the SSI program.

For FY 2012, the General Fund portion of administrative fees was classified as non-entity assets and was included in the Fund Balance with Treasury line on the Consolidated Balance Sheets. In addition, corresponding payables to Treasury's General Fund were presented so that net position was not affected by this activity. As of September 30, 2013, Treasury has swept the collected funds to the General Fund and all associated amounts have been removed from the FY 2013 Fund Balance with Treasury and related liabilities line items on the Consolidated Balance Sheets.

In addition, SSA earned $82 and $85 million for the years ended September 30, 2013 and 2012 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; payroll; and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided, which includes reimbursements from the U.S. 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 Savings Program and the Low Income Subsidy Program; and (3) ARRA activities.

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

	2013			2012		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	$ 1,406	$ (10)	$ 1,396	$ 1,410	$ (10)	$ 1,400
Public	668,474	(4)	668,470	632,949	(4)	632,945
OASI Subtotal	669,880	(14)	669,866	634,359	(14)	634,345
DI Program						
Intragovernmental	903	(9)	894	915	(10)	905
Public	141,378	(32)	141,346	137,640	(33)	137,607
DI Subtotal	142,281	(41)	142,240	138,555	(43)	138,512
SSI Program						
Intragovernmental	1,151	(14)	1,137	1,129	(14)	1,115
Public	52,389	(313)	52,076	47,126	(292)	46,834
SSI Subtotal	53,540	(327)	53,213	48,255	(306)	47,949
Other Program						
Intragovernmental	575	(7)	568	588	(8)	580
Public	1,470	(2)	1,468	1,548	(2)	1,546
Other Subtotal	2,045	(9)	2,036	2,136	(10)	2,126
Total	$ 867,746	$ (391)	$ 867,355	$ 823,305	$ (373)	$ 822,932

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 $689,442 and $585,093 million for the years ended September 30, 2013 and 2012.

The FY 2013 and FY 2012 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* extended 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 $31,632 and $112,795 million for the years ended September 30, 2013 and 2012.

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 $1,054 and $1,089 million for the years ended September 30, 2013 and 2012 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 $562 and $605 million for the years ended September 30, 2013 and 2012 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 $928,394 and $969,480 million for the years ended September 30, 2013 and 2012. Appropriations Received on the Consolidated Statements of Changes in Net Position are $112,730 and $191,625 million for the same periods. The differences of $815,664 and $777,855 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 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

Agency accounts or funds can receive budgetary resources from OMB through an apportionment or they can receive funds based on statutes, laws, legislation, etc. Apportionments issued for specific activities, projects, objects, or a combination of these categories are classified as Category B. If an account or fund receives its budgetary resources based on law or statute and does not receive an apportionment from OMB, it is classified as Exempt from Apportionment. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against Categories B Apportionment and Exempt from Apportionment accounts.

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

	2013			2012		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	$ 67,957	$ 3,332	$ 71,289	$ 62,489	$ 3,124	$ 65,613
Exempt	872,728	2	872,730	918,126	2	918,128
Total	$ 940,685	$ 3,334	$ 944,019	$ 980,615	$ 3,126	$ 983,741

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 United States. 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)

	2013	2012
Beginning Balance	$ 2,716,896	$ 2,626,358
Receipts	882,693	868,242
Less Obligations	816,848	777,704
Excess of Receipts Over Obligations	65,845	90,538
Ending Balance	$ 2,782,741	$ 2,716,896

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 $2,026 and $2,187 million for the years ended September 30, 2013 and 2012.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. 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 U.S. Government for the year ended September 30, 2012 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 U.S. Government, and distributed offsetting receipts are not included in the net outlay calculation within the Budget of the U.S. 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 U.S. Government for the year ended September 30, 2012.

Chart 15c - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the U.S. Government for FY 2012:
($ in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 985,479	$ 983,741	$ 143,469	$ 821,154
Expired activity not in President's Budget	(292)	(39)	0	0
Offsetting Receipts activity not in President's Budget	0	0	0	143,469
Other	2	(1)	9	(1)
Budget of the U.S. Government	$ 985,189	$ 983,701	$ 143,478	$ 964,622

A reconciliation has not been conducted for the year ended September 30, 2013 since this report is published in December 2013 and the actual budget data for FY 2013 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, 2013 and 2012
(Dollars in Millions)

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	**$ 944,019**	$ 983,741
Offsetting Collections and Recoveries	**(14,655)**	(15,145)
Obligations Net of Offsetting Collections and Recoveries	**929,364**	968,596
Offsetting Receipts	**(58,800)**	(143,469)
Net Obligations	**870,564**	825,127
Other Resources		
Imputed Financing	**562**	605
Other	**(309)**	(288)
Net Other Resources Used to Finance Activities	**253**	317
Total Resources Used to Finance Activities	**870,817**	825,444
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**165**	313
Resources that Fund Expenses Recognized in Prior Periods	**(291)**	(13)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	**58,770**	143,439
Resources that Finance the Acquisition of Assets	**(913)**	(859)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(61,319)**	(145,772)
Total Resources Not Part of the Net Cost of Operations	**(3,588)**	(2,892)
Total Resources Used to Finance the Net Cost of Operations	**867,229**	822,552
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	**18**	378
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**620**	635
Other	**(512)**	(633)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**108**	2
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**126**	380
Net Cost of Operations	**$ 867,355**	$ 822,932

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 *2013 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, 2013. 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 asset reserves 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 the 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 asset reserves at the start of the period, on both an open and closed group basis.

Combined OASI and DI Trust Fund asset reserves represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund asset reserves, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund asset reserves as of January 1, 2013 totaled $2,732 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 asset reserves 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 the asset 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 (2013) are based on the full amounts of noninterest income and the cost of providing benefits at the levels scheduled under current law, even after the OASI and DI Trust Fund asset 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 2013

			Period Life Expectancy At Birth[3]				Annual Percentage Change In:				
	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000)	Male	Female	Net Annual Immigration (persons per year)[4]	Real-Wage Differential[5] (percentage points)	Average Annual Wage in Covered Employment[6]	CPI[7]	Total Employment[8]	Real GDP[9]	Average Annual Interest Rate[10]
2013	1.91	722.2	76.4	81.2	1,155,000	0.87	2.67	1.80	1.2	2.2	1.6%
2020	2.06	670.2	77.4	82.0	1,250,000	1.35	4.15	2.80	0.7	2.3	5.6%
2030	2.03	613.0	78.6	83.0	1,110,000	1.20	4.00	2.80	0.4	2.0	5.7%
2040	2.00	564.1	79.7	83.9	1,080,000	1.15	3.95	2.80	0.6	2.2	5.7%
2050	2.00	521.1	80.8	84.7	1,060,000	1.11	3.91	2.80	0.5	2.1	5.7%
2060	2.00	483.3	81.7	85.5	1,055,000	1.10	3.90	2.80	0.4	2.0	5.7%
2070	2.00	449.7	82.6	86.2	1,055,000	1.10	3.90	2.80	0.5	2.1	5.7%
2080	2.00	419.8	83.4	86.9	1,055,000	1.13	3.93	2.80	0.4	2.1	5.7%
2090	2.00	393.1	84.1	87.5	1,050,000	1.15	3.95	2.80	0.4	2.0	5.7%

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex observed in, or 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 at a given age for a given year is the average remaining number of years expected prior to death for a person at that exact age, born on January 1, using the mortality rates for that year over the course of his or her remaining life. 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 annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index (CPI). Values are rounded after all computations.
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 Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment is total U.S. military and civilian 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 the total output of goods and services 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 compound 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

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 Percentage Change In: Average Annual Wage in Covered Employment[5]	Average Annual Percentage Change In: CPI[6]	Average Annual Percentage Change In: Total Employment[7]	Average Annual Real Interest Rate[8]
FY 2013	2.0	0.80	1,095,000	1.12	3.92	2.80	0.6	2.9
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

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or 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 based on the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex observed in, or assumed for, 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 2013 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. The value shown is the average net immigration level projected for the 75-year projection period. For the 2013 Statement, the value shown is consistent with the annual levels shown in Table 1.
4. The annual real-wage differential is the annual percentage change in the average annual wage in covered employment less 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 and is displayed to two decimal places. For the 2013 Statement, the average real-wage differential is consistent with the annual differentials shown in Table 1.
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. For the 2013 Statement, the average annual wage in covered employment is consistent with the annual percentages shown in Table 1.
6. The CPI is the Consumer Price Index 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 total U.S. military and civilian 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 2013 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 2013 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 2009-2013 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 asset reserves 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 asset reserves of the combined OASI and DI Trust Funds. These values are included in the Statement of Social Insurance. The Statement of Changes in Social Insurance Amounts shows two reconciliations: (1) changing from the period beginning on January 1, 2012 to the period beginning on January 1, 2013; and (2) changing from the period beginning on January 1, 2011 to the period beginning on January 1, 2012. 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.

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, 2012 to the period beginning on January 1, 2013

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2012-2086) to the current valuation period (2013-2087) 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 2012, replaces it with a much larger negative net cashflow for 2087, and measures the present values as of January 1, 2013, one year later. Thus, the present value of future net cashflows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2012-2086 to 2013-2087. In addition, the effect on the level of asset reserves 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 2012 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

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 (2011-2085) to the current valuation period (2012-2086) 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 and 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 asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2011-2085 to 2012-2086. In addition, the effect on the level of asset reserves 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 level of asset reserves in the combined OASI and DI Trust Funds.

Changes in Demographic Data, Assumptions, and Methods

From the period beginning on January 1, 2012 to the period beginning on January 1, 2013

For the current valuation (beginning on January 1, 2013), changes in ultimate assumptions and recent data for immigration have significant but largely offsetting effects.

- The assumed ultimate annual immigration of “other immigrants,” that is, those entering the country without legal permanent resident (LPR) status, is 1.4 million in the current valuation, compared with 1.5 million assumed for the prior valuation.
- The assumed ultimate annual number of persons attaining LPR status is 1.05 million for the current valuation, compared with 1.0 million assumed for the prior valuation. The distribution of the ultimate number between those entering the country with LPR status and those adjusting status after having already entered the country was also revised.

Reasons for these changes include: (1) the expectation of continued tighter border control in the future; (2) the assumed continuation of a recent increase in the number attaining LPR status as immediate relatives; and (3) the assumed continuation of a recent increase in the proportion of persons attaining LPR status upon entering the country (rather than adjusting status after entry).

These changes to immigration assumptions increased the present value of future cashflows.

Otherwise, the ultimate demographic assumptions for the current valuation 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.

- Final mortality data for 2008 and 2009 show substantially larger reductions in death rates for the current valuation than were expected in the prior valuation. The new data show a lower starting level of death rates and a faster rate of decline in death rates over the next 25 years.
- Final fertility (birth) data for 2009 and 2010, and preliminary data for 2011, indicate lower birth rates for these years than were assumed in the prior valuation.
- New historical data for marital status, for the number of new marriages, for “other immigration,” and for the size of the population (based on the 2010 Census) were used in the current valuation.

Inclusion of the new mortality and fertility data decreased the present value of future net cashflows, while the inclusion of the remaining data increased the present value of future net cashflows.

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 decreased the present value of future net cashflows.

Changes in Economic Data, Assumptions, and Methods

From the period beginning on January 1, 2012 to the period beginning on January 1, 2013

The ultimate economic assumptions for the current valuation (beginning on January 1, 2013) are the same as those for the prior valuation. Other changes include:

- The real interest rate is projected to be lower over the first 10 years of the current valuation.
- The starting economic values and near-term economic growth rate assumptions were updated.

The projection of lower real interest rates decreased the present value of future net cashflows, while the changes to starting economic values and near-term economic growth rates increased the present value of future net cashflows.

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 10 years of the current valuation.

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

Changes in Methodology and Programmatic Data

From the period beginning on January 1, 2012 to the period beginning on January 1, 2013

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2013). The most significant are identified below.

- The alignment of projected labor force participation rates with future trends in disability, longevity, and population levels was altered. Future changes in disability prevalence now affect labor force participation, and the starting year for longevity changes used in the participation rate projections is now consistent with the starting year for those projections.
- Ultimate age-sex specific unemployment rates based on the relative levels of long-term historical patterns were developed through the most recent historical year. This improvement is expected to substantially reduce the volatility in projected levels of these rates between valuations.
- The modeling of the number of workers insured under the programs was separated into two groups by residency status: (1) citizens and immigrants with legal permanent resident status; and (2) other

immigrants. Separate modeling for these groups is important because their relative sizes in the total population have been changing and will continue to do so.

- The historical sample of earnings histories for new beneficiaries was updated to reflect new benefit entitlements in 2008 for the current valuation. The prior valuation used a sample, which reflected new benefit entitlements in 2007.
- The projections of income from taxation of benefits were better aligned between the first 10 years and the remaining years of the projection period.
- There were also minor updates to programmatic data, method changes for projecting beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions.

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

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 decreased the present value of future net cashflows.

Changes in Law or Policy

From the period beginning on January 1, 2012 to the period beginning on January 1, 2013

The current valuation (beginning on January 1, 2013) reflects the enactment of one law and the implementation of one policy change.

- The *American Taxpayer Relief Act of 2012* was enacted on January 2, 2013. The Act reduces Federal marginal income tax rates for most beneficiaries and thus lowers projected revenue from taxation of benefits.
- The Deferred Action for Childhood Arrivals (DACA) policy was implemented on June 15, 2012. DACA provides protection from deportation and an opportunity to work legally for many unauthorized immigrants who entered the country before age 16 and were under age 31 on June 15, 2012.

Inclusion of the *American Taxpayer Relief Act of 2012* decreased the present value of future net cashflows, while inclusion of DACA increased the present value of future net cashflows.

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.

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, 2012 and Ending January 1, 2013

Present values as of January 1, 2012 are calculated using interest rates from the intermediate assumptions of the 2012 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2013. 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 2012 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 2013 Trustees Report.

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.

Potential Impact of the Repeal of Parts of the Defense of Marriage Act of 1996 on the Social Insurance Statements

Management is in the process of reviewing the decision of the Supreme Court to repeal parts of the *Defense of Marriage Act* with the Department of Justice regarding implications for eligibility to Social Security benefits. The SSA Office of the Chief Actuary has concluded that this decision will impact the actuarial methods and assumptions included within the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts for future estimates for periods after January 1, 2013. However, the Supreme Court decision does not affect the actuarial methods and assumptions used for estimates in the current Statement of Social Insurance and Statement of Changes in Social Insurance Amounts, because the change in legislation did not exist as of the date the estimates were developed. We do not expect that the court decision will have a material impact on future estimates on the Statement of Social Insurance and Statement of Changes in Social Insurance Amounts.

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.

Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2013
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources						
Unobligated Balances, Brought Forward, October 1	$ 0	$ 0	$ 1,091	$ 78	$ 569	$ 1,738
Recoveries of Prior Year Unpaid Obligations	10	62	2	1	140	215
Other Changes in Unobligated Balance	286	(60)	0	(8)	0	218
Unobligated Balance From Prior Year Budget Authority, Net	296	2	1,093	71	709	2,171
Appropriations (Discretionary and Mandatory)	673,720	142,830	55,946	55,871	27	928,394
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	0	0	3,271	2	11,167	14,440
Total Budgetary Resources	$ 674,016	$ 142,832	$ 60,310	$ 55,944	$ 11,903	$ 945,005
Status of Budgetary Resources						
Obligations Incurred						
Direct	$ 674,016	$ 142,832	$ 56,645	$ 55,856	$ 11,336	$ 940,685
Reimbursable	0	0	3,271	2	61	3,334
Total Obligations Incurred	674,016	142,832	59,916	55,858	11,397	944,019
Unobligated Balance , End of Year						
Apportioned	0	0	394	45	289	728
Unapportioned	0	0	0	41	217	258
Total Unobligated Balance, End of Year	0	0	394	86	506	986
Total Budgetary Resources	$ 674,016	$ 142,832	$ 60,310	$ 55,944	$ 11,903	$ 945,005
Change in Obligated Balance						
Unpaid obligations:						
Unpaid Obligations, Brought Forward, October 1	$ 61,616	$ 25,883	$ 1,827	$ 477	$ 2,510	$ 92,313
Obligations Incurred	674,016	142,832	59,916	55,858	11,397	944,019
Outlays, Gross	(670,586)	(142,847)	(59,920)	(56,016)	(11,431)	(940,800)
Recoveries of Prior Year Unpaid Obligations	(10)	(62)	(2)	(1)	(140)	(215)
Unpaid Obligations, End of Year	65,036	25,806	1,821	318	2,336	95,317
Uncollected payments:						
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0	(3,090)	(3,090)
Change in Uncollected Payments, Federal Sources	0	0	0	0	164	164
Uncollected Payments Federal Sources, End of Year	0	0	0	0	(2,926)	(2,926)
Memorandum (non-add) Entries:						
Obligated Balance, Start of Year	$ 61,616	$ 25,883	$ 1,827	$ 477	$ (580)	$ 89,223
Obligated balance, End of Year	$ 65,036	$ 25,806	$ 1,821	$ 318	$ (590)	$ 92,391
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	$ 673,720	$ 142,830	$ 59,217	$ 55,873	$ 11,194	$ 942,834
Actual Offsetting Collections (Discretionary and Mandatory)	0	0	(3,271)	(2)	(11,331)	(14,604)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	0	0	0	0	164	164
Budget Authority, Net (Discretionary and Mandatory)	$ 673,720	$ 142,830	$ 55,946	$ 55,871	$ 27	$ 928,394
Outlays, Gross (Discretionary and Mandatory)	670,586	142,847	59,920	56,016	11,431	940,800
Actual Offsetting Collections (Discretionary and Mandatory)	0	0	(3,271)	(2)	(11,331)	(14,604)
Outlays, Net (Discretionary and Mandatory)	670,586	142,847	56,649	56,014	100	926,196
Distributed Offsetting Receipts	(50,210)	(5,748)	(309)	(2,533)	0	(58,800)
Agency Outlays, Net (Discretionary and Mandatory)	$ 620,376	$ 137,099	$ 56,340	$ 53,481	$ 100	$ 867,396

Other Information: Balance Sheet by Major Program as of September 30, 2013
(Dollars in Millions)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (278)	$ (413)	$ 2,262	$ 407	$ (82)	$ 0	$ 1,896
Investments	2,655,599	100,791	0	0	0	0	2,756,390
Interest Receivable	23,981	1,091	0	0	0	0	25,072
Accounts Receivable, Net	1	1	0	0	2,936	(2,370)	568
Other	0	0	0	0	24	0	24
Total Intragovernmental	2,679,303	101,470	2,262	407	2,878	(2,370)	2,783,950
Accounts Receivable, Net	2,012	3,871	6,673	0	2	(318)	12,240
Property, Plant, and Equipment, Net	0	0	0	0	3,422	0	3,422
Other	0	0	0	0	3	0	3
Total Assets	$ 2,681,315	$ 105,341	$ 8,935	$ 407	$ 6,305	$ (2,688)	$ 2,799,615
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 4,064	$ 441	$ 0	$ 0	$ 0	$ 0	$ 4,505
Accounts Payable	886	900	6,501	317	2	(2,370)	6,236
Other	0	0	0	2	104	0	106
Total Intragovernmental	4,950	1,341	6,501	319	106	(2,370)	10,847
Benefits Due and Payable	60,087	24,443	5,192	0	0	(318)	89,404
Accounts Payable	0	8	448	0	18	0	474
Other	0	0	316	2	1,005	0	1,323
Total Liabilities	65,037	25,792	12,457	321	1,129	(2,688)	102,048
Net Position							
Unexpended Appropriations - All Other Funds	0	0	174	86	2	0	262
Cumulative Results of Operations - Funds from Dedicated Collections	2,616,278	79,549	5	0	0	0	2,695,832
Cumulative Results of Operations - All Other Funds	0	0	(3,701)	0	5,174	0	1,473
Total Net Position - Funds from Dedicated Collections	2,616,278	79,549	5	0	0	0	2,695,832
Total Net Position - All Other Funds	0	0	(3,527)	86	5,176	0	1,735
Total Net Position	2,616,278	79,549	(3,522)	86	5,176	0	2,697,567
Total Liabilities and Net Position	$ 2,681,315	$ 105,341	$ 8,935	$ 407	$ 6,305	$ (2,688)	$ 2,799,615

Other Information: Schedule of Net Cost for the Year Ended September 30, 2013
(Dollars in Millions)

	Program	LAE	Total
OASI Program			
Benefit Payments	$ 666,387	$ 0	$ 666,387
Operating Expenses	576	2,917	3,493
Total Cost of OASI Program	666,963	2,917	669,880
Less: Exchange Revenues	(1)	(13)	(14)
Net Cost of OASI Program	666,962	2,904	669,866
DI Program			
Benefit Payments	139,262	0	139,262
Operating Expenses	236	2,783	3,019
Total Cost of DI Program	139,498	2,783	142,281
Less: Exchange Revenues	(29)	(12)	(41)
Net Cost of DI Program	139,469	2,771	142,240
SSI Program			
Benefit Payments	49,496	0	49,496
Operating Expenses	130	3,914	4,044
Total Cost of SSI Program	49,626	3,914	53,540
Less: Exchange Revenues	(309)	(18)	(327)
Net Cost of SSI Program	49,317	3,896	53,213
Other			
Benefit Payments	6	0	6
Operating Expenses	0	2,039	2,039
Total Cost of Other	6	2,039	2,045
Less: Exchange Revenues	0	(9)	(9)
Net Cost of Other Program	6	2,030	2,036
Total Net Cost			
Benefit Payments	855,151	0	855,151
Operating Expenses	942	11,653	12,595
Total Cost	856,093	11,653	867,746
Less: Exchange Revenues	(339)	(52)	(391)
Total Net Cost	$ 855,754	$ 11,601	$ 867,355

Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2013
(Dollars in Millions)

	OASI	DI	SSI		Other	
	Funds from Dedicated Collections	Funds from Dedicated Collections	Funds from Dedicated Collections	All Other Funds	Funds from Dedicated Collections	All Other Funds
Cumulative Results of Operations:						
Beginning Balances	$ 2,551,565	$ 111,348	$ 0	$ (3,977)	$ 0	$ 0
Budgetary Financing Sources						
Appropriations Used	0	0	0	56,476	24,196	31,660
Tax Revenues	589,375	100,067	0	0	0	0
Interest Revenues	99,126	5,113	0	0	0	0
Transfers In/Out Without Reimbursement	47,269	2,991	(160)	(3,606)	(24,196)	(31,654)
Railroad Retirement Interchange	(4,118)	(559)	0	0	0	0
Net Transfers In/Out	43,151	2,432	(160)	(3,606)	(24,196)	(31,654)
Other Budgetary Financing Sources	23	58	0	0	0	0
Other Financing Sources (Non-Exchange)						
Transfers-In/Out	0	0	0	(2,533)	0	2,533
Imputed Financing Sources	0	0	0	17	0	0
Other	0	0	0	(596)	0	(2,533)
Total Financing Sources	731,675	107,670	(160)	49,758	0	6
Net Cost of Operations	666,962	139,469	(165)	49,482	0	6
Net Change	64,713	(31,799)	5	276	0	0
Cumulative Results of Operations	$ 2,616,278	$ 79,549	$ 5	$ (3,701)	$ 0	$ 0
Unexpended Appropriations:						
Beginning Balances	$ 0	$ 0	$ 0	$ 864	$ 0	$ 79
Budgetary Financing Sources						
Appropriations Received	0	0	0	56,830	24,196	31,675
Other Adjustments	0	0	0	(1,044)	0	(8)
Appropriations Used	0	0	0	(56,476)	(24,196)	(31,660)
Total Budgetary Financing Sources	0	0	0	(690)	0	7
Total Unexpended Appropriations	0	0	0	174	0	86
Net Position	$ 2,616,278	$ 79,549	$ 5	$ (3,527)	$ 0	$ 86

Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2013 (Continued)

(Dollars in Millions)

	LAE	CONSOLIDATED		CONSOLIDATED TOTAL
	All Other Funds	Funds from Dedicated Collections	All Other Funds	
Cumulative Results of Operations:				
Beginning Balances	$ 5,108	$ 2,662,913	$ 1,131	$ 2,664,044
Budgetary Financing Sources				
Appropriations Used	28	24,196	88,164	112,360
Tax Revenues	0	689,442	0	689,442
Interest Revenues	0	104,239	0	104,239
Transfers In/Out Without Reimbursement	11,094	25,904	(24,166)	1,738
Railroad Retirement Interchange	0	(4,677)	0	(4,677)
Net Transfers In/Out	11,094	21,227	(24,166)	(2,939)
Other Budgetary Financing Sources	0	81	0	81
Other Financing Sources (Non-Exchange)				
Transfers-In/Out	0	0	0	0
Imputed Financing Sources	545	0	562	562
Other	0	0	(3,129)	(3,129)
Total Financing Sources	11,667	839,185	61,431	900,616
Net Cost of Operations	11,601	806,266	61,089	867,355
Net Change	66	32,919	342	33,261
Cumulative Results of Operations	$ 5,174	$ 2,695,832	$ 1,473	$ 2,697,305
Unexpended Appropriations:				
Beginning Balances	$ 3	$ 0	$ 946	$ 946
Budgetary Financing Sources				
Appropriations Received	29	24,196	88,534	112,730
Other Adjustments	(2)	0	(1,054)	(1,054)
Appropriations Used	(28)	(24,196)	(88,164)	(112,360)
Total Budgetary Financing Sources	(1)	0	(684)	(684)
Total Unexpended Appropriations	2	0	262	262
Net Position	$ 5,176	$ 2,695,832	$ 1,735	$ 2,697,567

Other Information: Schedule of Spending for the Year Ended September 30, 2013
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
What Money is Available to Spend?						
Total Resources	$ 674,016	$ 142,832	$ 60,310	$ 55,944	$ 11,903	$ 945,005
Less Amount Available but Not Agreed to be Spent	0	0	(394)	(45)	(289)	(728)
Less Amount Not Available to be Spent	0	0	0	(41)	(217)	(258)
Total Amounts Agreed to be Spent	$ 674,016	$ 142,832	$ 59,916	$ 55,858	$ 11,397	$ 944,019
How was the Money Spent/Issued?						
Financial Assistance Direct Payments	$ 666,621	$ 139,313	$ 56,032	$ 8	$ 28	$ 862,002
Payroll	0	0	0	0	6,309	6,309
Contracts						
Travel	0	0	0	0	37	37
Rent, Utilities, and Communications	0	0	2	0	1,106	1,108
Acquisition of Capital Assets	0	0	0	0	278	278
Other Contractual Services	4	125	86	0	3,638	3,853
Inter-Fund Transfers	2,920	2,733	3,766	55,850	0	65,269
Railroad Board Transfers	4,118	560	0	0	0	4,678
Other	353	101	30	0	1	485
Total Amounts Agreed to be Spent	$ 674,016	$ 142,832	$ 59,916	$ 55,858	$ 11,397	$ 944,019

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 43. The Total Resources, Amount Available but Not Agreed to be Spent, Amount Not Available to be Spent, and Amount Agreed to be Spent balances reported above tie to the Total Budgetary Resources, Unobligated Balance – Apportioned, Unobligated Balance – Unapportioned, and Total Obligations Incurred lines, respectively, on the Statements of Budgetary Resources. The detailed line items presented under the How was the Money Spent/Issued section are not reported on the Statements of Budgetary Resources; however, the total of these amounts ties to the Total Obligations Incurred line reported.

The detailed line items reported above will not tie to amounts reported in USASpending.Gov. USASpending.Gov is a website that provides information on how tax dollars are spent. The website focuses specifically on spending related to contract, grants, loans, and other types of spending. Included in the other types of spending are Federal benefit payments. While some of these categories are broken out in the above Schedule of Spending, the two reports will not tie as amounts reported in the schedule above include transactions with both Federal and non-Federal entities.

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 2012, SSA paid OASDI benefits to about 57 million beneficiaries. The laws applicable for the period determine eligibility and benefit amounts. 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. Changes in laws governing the program may alter the amount of OASDI income (e.g., payroll taxes) and benefits.

Program Finances and Sustainability

As discussed in Note 8 to the Consolidated Financial Statements, a liability of $84 billion as of September 30, 2013 ($81 billion as of September 30, 2012) 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 2013. Also, an asset of $2,756 billion as of September 30, 2013 ($2,719 billion as of September 30, 2012) is recognized for the "investments in Treasury securities." These investments are referred to as the combined OASI and DI Trust Fund asset reserves 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, 2013. 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 tax on scheduled OASDI benefits; interest income from Treasury securities held as asset reserves 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 asset reserves 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**: depending on the context, either income, noninterest income, or cost;
- **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 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2013 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 asset reserves in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the asset reserves 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 2013 through 2087. However, income including interest is only estimated through 2033, the year that the asset reserves in the combined OASI and DI Trust Funds are projected to deplete. After the point of such depletion, 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). Therefore, displaying annual income levels beyond the point of combined OASI and DI Trust Fund depletion would be inappropriate unless the cost of scheduled benefits was 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. Therefore, 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 2087 expressed as percentages of taxable payroll.

Chart 1 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2013-2033

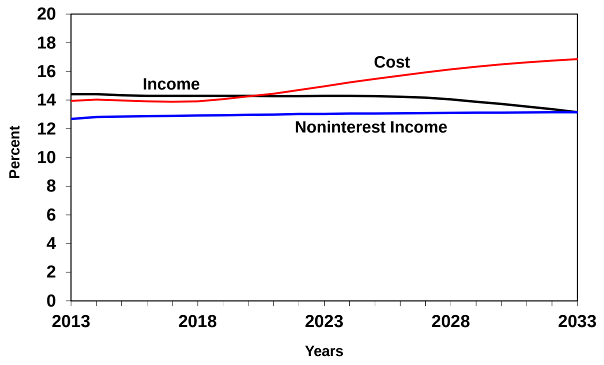
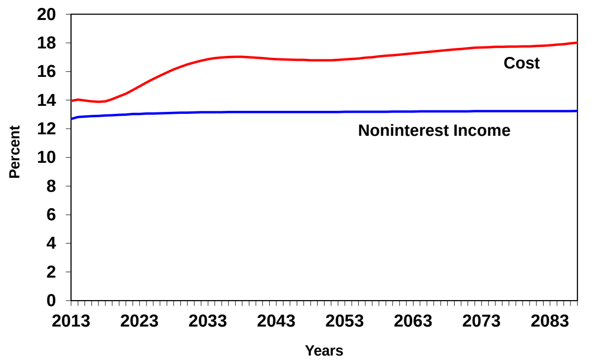


Chart 2 – Estimated OASDI Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2013-2087



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 was 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 72 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.

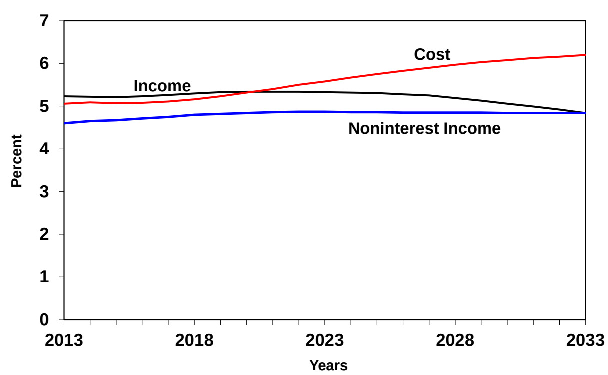
Actuarial Balance - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$12,294 billion. If augmented by the combined OASI and DI Trust Fund asset reserves at the start of the period (January 1, 2013), it is -$9,562 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.72 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.

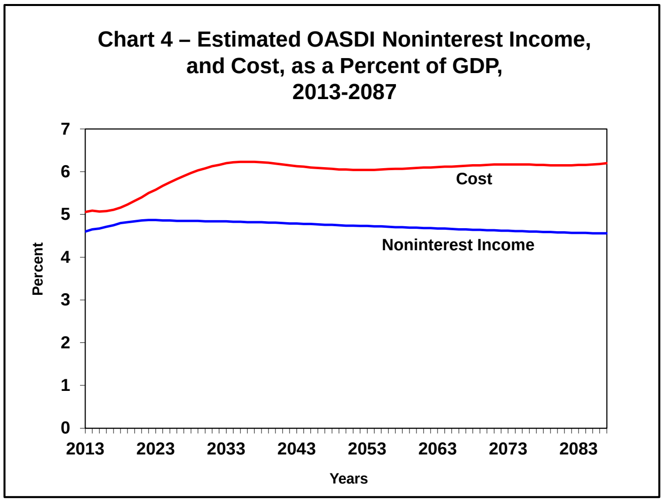
For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.66 percentage points (from its current level of 12.40 percent to 15.06 percent). One interpretation of the actuarial balance is that its magnitude, 2.72 percent, should equal the necessary increase. However, the increase is different for two reasons. First, the necessary tax rate is the rate required to maintain solvency throughout the period that results in no asset reserves in the OASI and DI Trust Funds at the end of the period, whereas the actuarial balance incorporates an ending asset reserve in the OASI and DI Trust Funds equal to one year's cost. Second, the necessary tax rate reflects a behavioral response to tax rate changes, whereas the actuarial balance does not. In particular, the calculation of the necessary tax rate assumes that an increase in payroll taxes results in a small shift of wages and salaries to forms of employee compensation that are not subject to the payroll tax.

Alternatively, solvency could be achieved by reducing scheduled benefits by an amount equivalent to an immediate and permanent reduction of 16.5 percent applied to all current and future beneficiaries, or of 19.8 percent if the reductions were applied only to newly entitled beneficiaries. Finally, some combination of both tax increases and benefit reductions could be adopted.

Amounts as a Percentage of Gross Domestic Product - 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 2087 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.

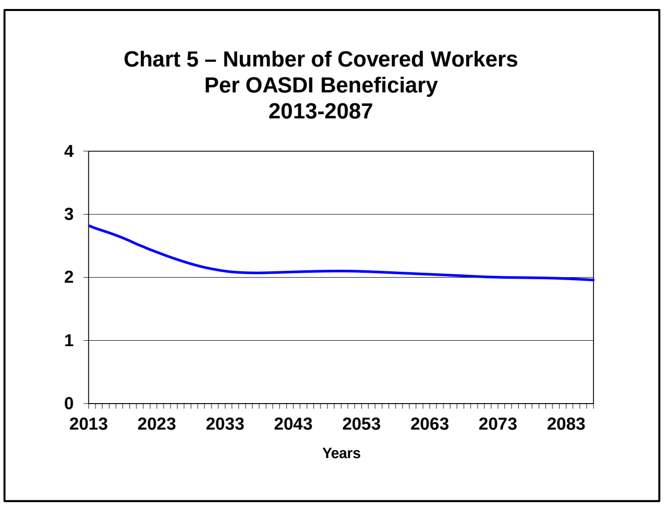
Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2013-2033





In 2012, OASDI cost was about $786 billion, which was about 5.0 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.1 percent of GDP in 2030, hits a peak of 6.2 percent of GDP in 2036, declines to 6.0 percent in 2052, and then slowly increases, reaching 6.2 percent of GDP by 2087. The rapid increase from 2015 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 2012 to 2.0 in 2087.



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 2013 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2013, and are based on estimates of income and cost during the 75-year projection period 2013-2087. 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.

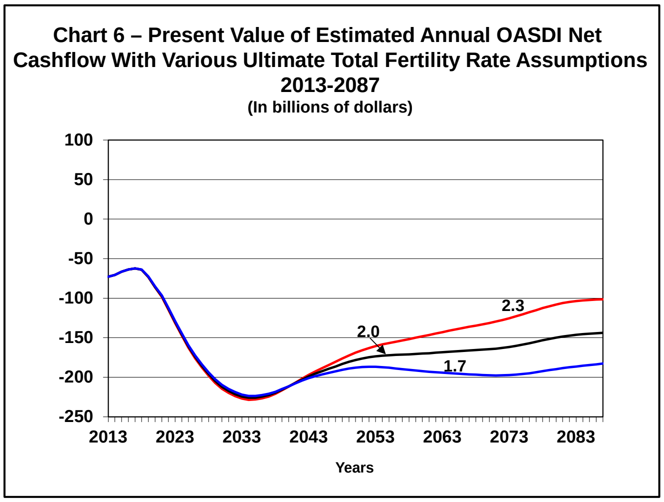
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more 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 2013 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2037.

Table 1 demonstrates that if the ultimate total fertility rate were 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 $13,407 billion from $12,294 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to $11,161 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2013-2087			
Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-$13,407	-$12,294	-$11,161

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 increase (become less negative) in years 2014-2017, decrease in years 2018-2035, and then generally increase thereafter. The net cashflow estimates corresponding to a 2.0 and a 2.3 ultimate total fertility rate follow the same pattern; increasing (becoming less negative) in years 2014-2017, decreasing in years 2018-2034, 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 2087 than it would to cover the annual deficit in 2035.

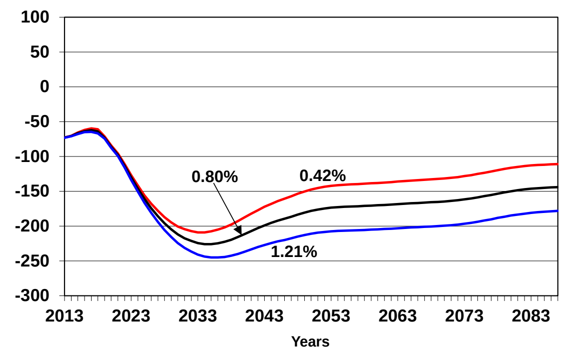
Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2012-2087 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.42, 0.80, and 1.21 percent per year, where 0.80 percent is the intermediate assumption in the 2013 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 27, 45, and 60 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 78.6 in 2012 to 82.4, 85.6, and 88.7 in 2087 for average annual reductions in the age-sex-adjusted death rate of 0.42, 0.80, and 1.21 percent, respectively.

Table 2 demonstrates that if the annual reduction in death rates were changed from 0.80 percent, the Trustees' intermediate assumption, to 0.42 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $10,541 billion from $12,294 billion; if the annual reduction were changed to 1.21 percent, meaning that people live longer, the shortfall would increase to $14,147 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2013-2087			
Average Annual Reduction in Death Rates (from 2012 to 2087)	0.42 Percent	0.80 Percent	1.21 Percent
Present Value of Estimated Excess (In billions)	-$10,541	-$12,294	-$14,147

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.

Chart 7 – Present Value of Estimated Annual OASDI Net Cashflow With Various Death Rate Assumptions 2013-2087
(In billions of dollars)



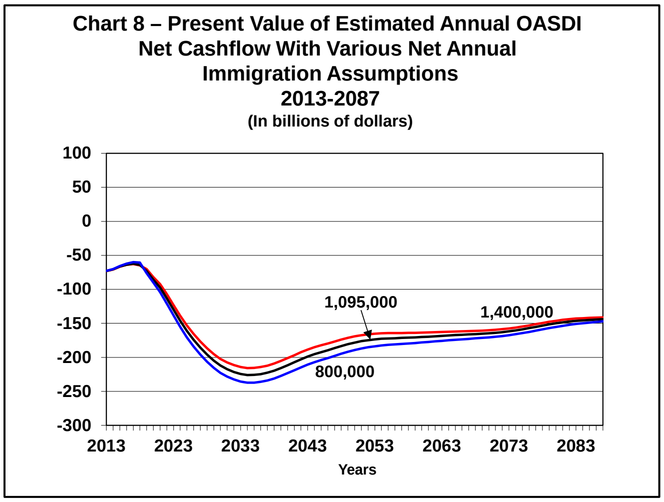
The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cashflow estimates are negative in all years of the 75-year projection period. After increasing (becoming less negative) in years 2014-2017, the present values are expected to decrease rapidly until around 2030. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2035, 2035, and 2037 for projected reductions of 0.42, 0.80, and 1.21 percent per year, respectively). Therefore, 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 2087.

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 800,000 persons, 1,095,000 persons, and 1,400,000 persons over the 75-year valuation period, where 1,095,000 persons is the average value based on the intermediate assumptions in the 2013 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 1,095,000 persons to 800,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $12,861 billion from $12,294 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,400,000 persons, the present value of the shortfall would decrease to $11,816 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2013-2087			
75-Year Average Net Annual Immigration	800,000 Persons	1,095,000 Persons	1,400,000 Persons
Present Value of Estimated Excess (In billions)	-$12,861	-$12,294	-$11,816

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. Net cashflow estimates increase (become less negative) in years 2014-2017, decrease steadily through 2034 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 2035 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. Therefore, 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. Therefore, 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 0.52, 1.12, and 1.72 percentage points, where 1.12 percentage points is the intermediate assumption in the 2013 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 3.32, 3.92, and 4.52 percent, respectively.

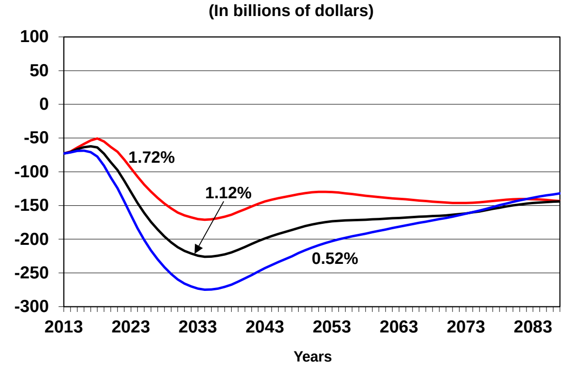
Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.12 percentage point, the Trustees' intermediate assumption, to 0.52 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $13,921 billion from $12,294 billion; if the ultimate real-wage differential were changed from 1.12 to 1.72 percentage points, the shortfall would decrease to $9,928 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2013-2087

Ultimate Annual Increase in Wages, CPI; **Real-Wage Differential**	3.32% , 2.80%; **0.52%**	3.92% , 2.80%; **1.12%**	4.52% , 2.80%; **1.72%**
Present Value of Estimated Excess (In billions)	-$13,921	-$12,294	-$9,928

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.

Chart 9 – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2013-2087
(In billions of dollars)



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Estimated cashflows increase (become less negative) in years 2014-2016 for the assumed ultimate real-wage differential of 0.52 percentage points, in years 2014-2017 for the assumed ultimate real-wage differential of 1.12 percentage points, and in years 2014-2018 for the assumed real-wage differential of 1.72 percentage points. The present values then decrease through 2034 for all three assumed ultimate real-wage differentials. Present values based on all three assumptions begin to increase (become less negative) in 2035. Therefore, 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 1.72 percentage points, the present values continue to increase until 2053 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 the 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 2013 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.

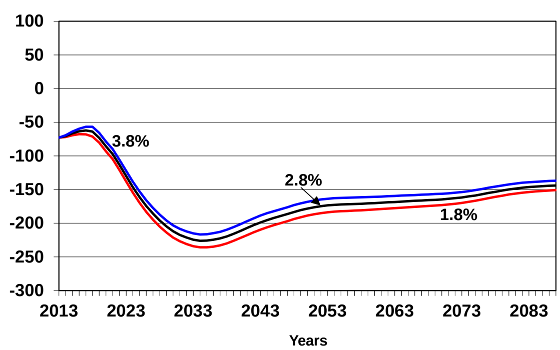
Table 5 demonstrates that if the ultimate annual increase in the CPI were changed from 2.80 percent, the Trustees' intermediate assumption, to 1.80 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $12,939 billion from $12,294 billion; if the ultimate annual increase in the CPI were changed to 3.80 percent, the shortfall would decrease to $11,667 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 one year. For this reason, larger increases in the CPI cause earnings and income to increase sooner and, therefore, 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: 2013-2087

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)	-$12,939	-$12,294	-$11,667

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.

Chart 10 – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate CPI-Increase Assumptions 2013-2087
(In billions of dollars)



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 2018-2034 for all three sets of assumptions. For an ultimate annual CPI increase of 1.80, there is an additional small decrease in 2017. For all other years in the projection period, all three sets of assumptions increase (become less negative). Therefore, in terms of today's investment dollar, annual

OASDI net cashflow, although still negative, begins to increase (become less negative) in 2035, and continues to increase through 2087.

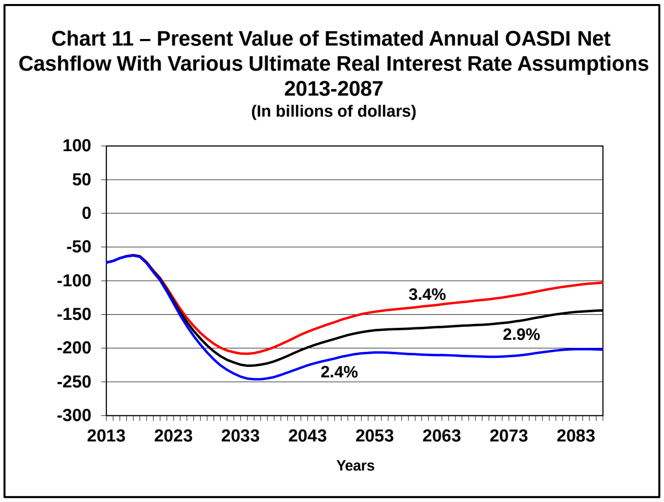
Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that 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 2013 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 were 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 $14,556 billion from $12,294 billion; if the ultimate annual real interest rate were changed to 3.4 percent, the present-value shortfall would decrease to $10,487 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real Interest Assumptions Valuation Period: 2013-2087

Ultimate Annual Real Interest Rate	2.4 Percent	2.9 Percent	3.4 Percent
Present Value of Estimated Excess (In billions)	-$14,556	-$12,294	-$10,487

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 increasing (becoming less negative) in years 2014-2017, the present values are expected to decrease rapidly until around 2030. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2036, 2035, and 2035 for assumed ultimate real interest rates of 2.4, 2.9, and 3.4 percent, respectively). Therefore, 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 to generally increase throughout the remaining projection period.

AUDITOR'S REPORTS

Office *of the* Inspector General
SOCIAL SECURITY ADMINISTRATION

December 9, 2013

The Honorable Carolyn W. Colvin
Acting 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) 2013 financial statements. Grant Thornton, LLP, also audited the FY 2012 financial statements presented in SSA's FY 2013 Agency Financial Report for comparative purposes. This letter transmits the Grant Thornton, LLP, *Independent Auditor's Report* on the audit of SSA's FY 2013 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 that 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. 14-02, *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 unmodified opinion[1] on SSA's FY 2013 and 2012 financial statements. Grant Thornton, LLP, also reported that SSA was maintaining effective internal control over financial reporting as of September 30, 2013 based on criteria under OMB Circular A-123, *Management's Responsibility for Internal Control*, and the *Federal Manager's Financial Integrity Act of 1982* (FMFIA).

However, Grant Thornton, LLP, did identify two significant deficiencies in internal controls.

Significant Deficiency – Information Systems Control

It is Grant Thornton, LLP's, opinion that SSA made significant progress in strengthening controls over its information systems to address the material weakness reported in FY 2012. While SSA made these significant efforts to strengthen controls over its systems and address weaknesses, Grant's Thornton, LLP's, FY 2013 testing continues to identify control issues in both design and operation of key controls. In its audit, Grant Thornton, LLP, identified four deficiencies that, when aggregated, are considered to be a significant deficiency in the areas of Information Systems Control. Specifically, Grant Thornton, LLP's, testing disclosed

1. lack of a comprehensive Agency-wide policies and procedures related to vulnerability management, including security vulnerability identification, prioritization, categorization, remediation, tracking, and closure/validation;
2. lack of comprehensive Agency-wide policies and procedures related to management of application and system software changes, including identification of all critical types of changes, security categorization and risk analysis for changes, testing requirements based on risk and requirements for the review and approval of testing results;
3. lack of controls related to the identification and monitoring of high-risk programs operating on the mainframe; and
4. weaknesses in logical access controls, such as access authorization, access removal, profile content, and analysis review program and supporting profile controls.

Significant Deficiency – Calculation, Recording, and Prevention of Overpayments

In addition to the Information Systems Control significant deficiency, Grant Thornton, LLP, identified three deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal controls related to Calculation, Recording, and Prevention of Overpayments. Specifically, Grant Thornton, LLP's, testing disclosed

1. overpayment calculation errors with 38 percent of items selected in its statistical sample;
2. system limitations where overpayment receivable installments extending past year 2049 are not systematically tracked and reported; and
3. a control failure where SSA was not reconciling key data fields between SSA internal databases, resulting in overpayment errors.

Grant Thornton, LLP, identified no reportable instances of noncompliance with the laws, regulations, or other matters tested.

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[1] Grant Thornton, LLP, issued an unqualified opinion on SSA's FY 2012 financial statements. The American Institute of Certified Public Accountants (AICPA) generally accepted auditing standard AU-C section 700.19 requires the auditor to express an "unmodified opinion" when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework for audits of financial statements ending on or after December 15, 2012. For consistency, we will refer to an unqualified opinion as an "unmodified opinion" for all fiscal years.

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 2013 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. 14-02;
- 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 December 9, 2013, 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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The Honorable Carolyn W. Colvin
Acting Commissioner
Social Security Administration

INDEPENDENT AUDITOR'S REPORT

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of SSA as of September 30, 2013 and 2012, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, the statements of social insurance as of January 1, 2013 and January 1, 2012 and statement of changes in social insurance amounts for the periods January 1, 2012 to January 1, 2013 and January 1, 2011 to January 1, 2012 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2013; and
- No reportable instances of noncompliance with laws, regulations, or other matters tested.

The following sections outline each of these conclusions in more detail.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2013 and 2012, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, the statements of social insurance as of January 1, 2013, January 1, 2012, January 1, 2011, and January 1, 2010 and the statements of changes in social insurance amounts for the periods January 1, 2012 to January 1, 2013 and January 1, 2011 to January 1, 2012. The statement of social insurance as of January 1, 2009 was audited by other auditors whose reports dated November 9, 2009 expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin No. 14-02 requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements referred to above and presented on pages 40 through 74 of this Agency Financial Report (AFR), present fairly, in all material respects, the financial position of SSA as of September 30, 2013 and 2012, its net cost of operations, changes in net position, and budgetary resources for the years then ended, the financial condition of its social insurance program as of January 1, 2013, January 1, 2012, January 1, 2011, and January 1, 2010 and changes in social insurance amounts for the period January 1, 2012 to January 1, 2013 and January 1, 2011 to January 1, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of 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 MANAGEMENTS ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

We have examined managements assertion as of September 30, 2013, based on criteria established under 31 U.S.C. 3512(c), (d), the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), and the OMB Circular No. A-123, *Management's Responsibility for Internal Control*. 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 effectiveness of internal control over financial reporting included in the accompanying FMFIA Assurance Statement on page 31 of this AFR. Our responsibility is to express an opinion on managements assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the AICPA; and internal control audit requirements included in OMB Bulletin No. 14-02. Attestation standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal

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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 examination 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 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. No deficiencies in internal control were identified that were considered material weaknesses. However, material weakness may exist that have not been identified.

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 that, in the aggregate, are considered a significant deficiency in the areas of Information Systems Controls and Controls over Calculation, Recording and Prevention of Overpayments.

SIGNIFICANT DEFICIENCY - 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 paramount 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, as well as for financial reporting. Internal controls over these environments 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), configuration and change management, segregation of duties, and service continuity/contingency planning. General controls provide the foundation for the integrity of systems including applications and the system software which make up the general support systems of the major applications. General controls, 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 as well as interface, master file, and other user controls. These controls provide assurance over the completeness, accuracy, and validity of data. Our examination included testing of the Agency's mainframe, networks, databases, applications, and other supporting systems and was conducted at headquarters, as well as, off-site locations such as Disability Determination Services (DDS) Centers and field offices (FOs).

Deficiencies Noted in Information Systems

SSA made significant progress in strengthening controls over its information systems to address the material weakness reported in FY 2012. In response to the material weakness SSA developed functional remediation teams to investigate issues, identify root causes, and implement corrective actions. Each functional remediation team, with oversight from SSA leadership, took risk-based approaches to remediation—addressing higher risk areas immediately, and planning for future security enhancements. Management's risk based approach included correction of vulnerabilities identified through our specific tests, as well as, development and implementation of institutionalized and repeatable processes to prevent future weaknesses.

While SSA made these significant efforts to strengthen controls over its systems and address weaknesses, our FY 2013 testing continues to identify control issues in both design and operation of key controls. We believe that in many cases these deficiencies continue to exist because of one or a combination of the following:

- Control enhancements and newly designed controls require additional time to effectuate throughout the environment;
- By focusing resources on higher risk weaknesses, SSA was unable to implement corrective action for all aspects of the prior year issues; and/or
- The design and/or operational effectiveness of enhanced or newly designed controls did not completely address risks.

We noted deficiencies in the following areas that contribute to the significant deficiency:

- Threat Identification and Vulnerability Management
- Change Management
- Mainframe Security
- Access Controls/Segregation of Duties

Threat Identification and Vulnerability Management

Software should be scanned and updated frequently to guard against security threats. Effective vulnerability and patch management as well as virus protection programs ensure that security threats are identified, risks are assessed, and actions are taken to prevent inappropriate access or software errors within an organization's Information Technology environment. Our testing identified the following issue:

- *Lack of a comprehensive Agency-wide policy and procedures related to vulnerability management, including security vulnerability identification, prioritization, categorization, remediation, tracking, and closure/validation.*

  During our internal penetration testing we were able to take advantage of software vulnerabilities, misconfigurations, and restricted information and ultimately assume control over two servers, the Windows domain, as well as, gaining access to the mainframe without detection. This is the third successive year we have gained control of the SSA Windows system without detection. During subsequent assessments of the

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Agency's overall vulnerability management process, we noted that a key scanning tool was not being fully used to identify vulnerabilities across SSA's network, and that Agency-wide comprehensive policies and procedures on vulnerability management were not established.

The Agency corrected the specific software vulnerabilities identified during our penetration testing, developed configuration standards for the software, and began using more capabilities of the scanning tool. However, without a comprehensive process in place, security threats may not be appropriately prioritized and remediated.

Change Management

Change management processes provide assurance that software, data, and other changes associated with information systems are approved and tested so they do not introduce functional or security risks. A disciplined process for testing, approving, and migrating changes between environments, including into production, is essential to ensure that systems operate as intended and that no unauthorized changes are implemented. Our testing identified the following issue:

- *Lack of comprehensive Agency-wide policy and procedures related to management of application and system software changes, including identification of all critical types of changes, security categorization and risk analysis for changes, testing requirements based on risk and requirements for the review and approval of testing results.*

  While our testing demonstrated that change management activities were occurring for both application and system software changes, the Agency had not fully documented a comprehensive policy and procedures covering the entirety of change management processes conducted by the Agency. Our testing noted the following:

  - System Software - An impact/risk assessment to determine the security implications for mainframe changes did not occur. Further, for the majority of changes tested, we noted that developers were responsible for testing their own changes and implementing these changes into production. While Management performed a review to validate that updates made were associated with an approved change, there were no requirements nor guidance related to the types of testing to be performed (including security reviews), nor for retention or independent review of testing documentation, nor validation that the change made was limited to the requirements in the approved change ticket.
  - Application Changes - We noted instances where evidence to support testing and other requirements could not be provided.

  These issues increase the risk that changes to applications and supporting system software, that may impact benefit claim processing, payments, or financial data, do not function as intended or introduce security risks.

Mainframe Security

Mainframe system software includes programs that are essential to the effective functioning of the operating system. Some of these programs act as an extension of the operating system and therefore are required to access restricted functions and can override security. Maintaining an authorized listing of high risk programs and implementing appropriate change and monitoring controls is essential to mainframe security. Our testing identified the following issue:

- *Lack of controls related to the identification and monitoring of high-risk programs operating on the mainframe.*

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The Agency had not finalized and fully implemented controls associated with ensuring that privileged programs have been approved, can only be modified appropriately, and pose no security risks. Management continues to make control enhancements, including but not limited to, identifying privileged programs, the review of privileged programs from a security perspective, access restrictions to all privileged programs, and change/monitoring control enhancements.

Without appropriate controls, there is an increased risk that the security posture and controls may be bypassed or compromised.

Access Controls/Segregation of Duties

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. These controls mitigate the inherent risk that unauthorized users and computer processes cannot access sensitive data, as well as, that users are not given access to system functions that could create a segregation of duties conflict. 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 with logical access controls:

- *Access Authorization*

  Our testing identified control failures related to the appropriate completion of authorization forms. Included in these control failures were instances of new hires, transferred employees, and contractors.

- *Access Removal*

  Our testing identified control failures related to the timely removal of logical access for terminated employees' logical access to the mainframe, network, and other supporting systems. Included in these control failures were instances of SSA employees and state DDS employees who retained access after they were terminated. Additionally, SSA did not have an authoritative source to identify and manage all contractors and therefore was unable to supply actual departure dates for contractors to substantiate timely removal of access.

- *Profile Content and Analysis Review Program and Supporting Profile Controls*

  SSA Management continues to make progress in assessing profile content to validate that profiles only provide access to the minimal resources required for users to complete job functions. However, SSA had not completed the review of all profiles that are relevant to critical applications and supporting systems nor had SSA completed other profile quality initiatives including, but not limited to, some control enhancements.

As a result of these deficiencies, we noted numerous issues of unauthorized and inappropriate access including application developers (programmers) with unmonitored access to production data and application transactions, access to key transactions and data, key change management libraries, and other sensitive system software resources.

Recommendations

In order to mitigate the risks of the issues noted in the significant deficiency, management should consider:

- Formally documenting comprehensive policies and procedures related to (1) threat identification and vulnerability management and (2) application and system software change management that addresses issues noted.

- Developing a comprehensive program to identify and monitor high risk programs operating on the mainframe.
- Analyzing current access authorization and removal processes to determine if current controls mitigate the risk of unauthorized access and modify controls considering automation and monitoring.
- Continuing, as part of the SSA profile quality program, additional profile content reviews and other key profile improvement initiatives.

SIGNIFICANT DEFICIENCY - CALCULATION, RECORDING AND PREVENTION OF OVERPAYMENTS

Overview

Benefit overpayments occur when beneficiaries receive payments beyond their entitled amount. Upon detection of an overpayment, the agency records an accounts receivable with the public to reflect the amount due to SSA from the beneficiary. Due to the nature of the benefit payment programs, SSA has extensive operations geographically dispersed throughout the United States. Overpayment detection, calculation, and documentation can take place in various places, including approximately 1,300 Field Offices (FOs) or eight Program Service Centers (PSCs). Therefore, SSA has specific policies and procedures in place to ensure consistent treatment and documentation of overpayments and the related accounts receivable balances. Since this process can be complex for some cases and relies heavily on manual input, SSA's adherence to its policies and procedures is critical to correct and timely decisions, and accurately tracking balances. Management also relies heavily on its Information Technology infrastructure, interfaces and controls to record and prevent erroneous payments.

Deficiencies in Overpayment Calculations and Records

Similar to prior years, Grant Thornton noted deficiencies in the documentation maintained around overpayments. During the current year, we selected a statistical sample of overpayments and noted overpayment calculation errors with 38 percent of the items selected. Although the impact of these errors is not deemed material, these errors evidence further control weaknesses in the overpayment process, including inappropriate overpayment tracking.

Deficiencies in Overpayment Records and Tracking

Large overpayment balances are often paid back to SSA in monthly installments. Payments of these installments can go beyond the year 2049. SSA has identified a systems limitation where receivable installments extending past 2049 are not tracked and reported systematically. Therefore, the accounts receivable balances related to these overpayments is understated. The projected understatements are immaterial. This issue has been previously discussed in Government Accountability Office (GAO) reports and continues to be studied by the agency.

During our testing of overpayments, we encountered samples where the 2049 situation contributed to manual errors. While the agency is working on enhancing the capabilities to properly account for these receivables and updating policies to avoid longer term repayment programs, failure to resolve the 2049 issue will continue to increase the likelihood of manual errors as well as continue to understate accounts receivable balances.

Deficiencies in Overpayment Prevention

During our Computer Assisted Auditing Techniques (CAATs), we identified certain key data fields, such as Date of Death, which did not agree between SSA internal databases. As a result, our testing detected overpayments issued to a limited number of deceased individuals. While these cases were clearly immaterial to SSA financial statements, they were indicative of a control failure where SSA was not reconciling data between systems to detect discrepancies which could lead to payment errors. While overpayments occur for many reasons, SSA should take all possible actions under their control to prevent and detect overpayments. Failure to detect overpayments results in continued erroneous benefit payments and unrecorded corresponding accounts receivable. The longer an

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overpayment goes undetected, the greater the overpayment balance becomes and the lower the chance of accounts receivable collections.

Recommendations

In order to mitigate the risks of the issues noted in the significant deficiency, management should consider:

Deficiencies in Overpayment Calculations and Records

- Performing a risk based analysis on current overpayment balances to detect and correct errors in existing overpayment balances, considering manual intervention, balance, and age.
- Enhancing documentation requirements and improve overpayment documentation tools to ensure overpayments are completely, accurately, and timely documented by FOs or PSCs within the appropriate systems of record.
- Increasing management review over manual transactions impacting overpayment balances.

Deficiencies in Overpayment Records and Tracking

- Evaluating technical enhancements that will address payment plans that extend beyond the year 2049.
- Evaluating changes in repayment plans to minimize future long term repayment plans.

Deficiencies in Overpayment Prevention

- Enhancing periodic reconciliations between SSA data which can impact payment amounts.

In our opinion, management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2013 is fairly stated, in all material respects, based on criteria established under FMFIA and OMB Circular No. A-123.

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. 14-02, 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 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. 14-02, and no instances of substantial noncompliance that are required to be reported under FFMIA.

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Other Matters

The Management's Discussion and Analysis (MD&A) included on pages 5 through 36, and the Required Supplementary Information (RSI) included on pages 75 and 81 through 92 of this AFR 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 AICPA. 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.

Other Information

The other information included on pages 1 through 4, 37 through 39, 76 through 80, 93 through 95 and 105 to the end of this AFR, 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
December 9, 2013

SOCIAL SECURITY

The Commissioner

December 9, 2013

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 (FY) 2013 financial statements. We are extremely pleased that we received our 20th consecutive unmodified opinion on our financial statements, an unmodified opinion on management's assertion that our internal controls were operating effectively, and a finding that there were no reportable instances of noncompliance with laws or regulations.

Your report acknowledged our significant progress in strengthening controls over our information systems to address the material weakness reported in FY 2012. While we made significant progress strengthening controls over our systems and addressing the previously identified weaknesses, you identified control issues in both the design and operation of key controls, resulting in a significant deficiency in information systems controls. We concur with your recommendations and remain committed to the continuous enhancement of our internal controls over information systems. We will continue to pursue a risk-based corrective action plan to address threat identification and vulnerability management, change management, mainframe security, and access controls/segregation of duties.

Your report also identified certain deficiencies related to the calculation, recording, and prevention of overpayments that, when aggregated, you considered a significant deficiency. We acknowledge the need to strengthen our controls in the overpayment process and will implement the necessary corrective actions.

We have enclosed a more detailed explanation of our plans.

If members of your staff have any questions, they may contact Carla Krabbe, our Associate Commissioner for Financial Policy and Operations, at (410) 965-0759.

Sincerely,

Carolyn W. Colvin

Carolyn W. Colvin
Acting Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Enclosure – Page 1 – Grant Thornton LLP

Comments of the Social Security Administration (SSA) on Grant Thornton LLP's Draft Independent Auditor's Report

General Comments

Thank you for the opportunity to comment on the draft Independent Auditor's Report concerning our fiscal year (FY) 2013 financial statements.

We are pleased that your report makes note of our significant progress in strengthening controls over our information systems to address the prior year material weakness. As we did in FY 2013, we will continue to strengthen our security program by remediating and institutionalizing the new processes that we put in place, making risk-based decisions, continuing to leverage current agency processes, and adding layers of defense to our current security program.

Your report also identified certain deficiencies related to the calculation, recording, and prevention of overpayments. We acknowledge the need to strengthen our controls in the overpayment process and will implement the necessary corrective actions to calculate, record, track, and prevent overpayments.

We offer the following comments.

Significant Deficiency - Information Systems Controls

Recommendation 1

Formally document comprehensive policies and procedures related to (1) threat identification and vulnerability management and (2) application and system software change management that address issues noted during the audit.

Comment

We agree with this recommendation. In FY 2013, we instituted a new daily penetration testing program related to threat identification and vulnerability management. Our goal in FY 2014 is to continue to mature this program. We have begun integrating the processes that have worked effectively and are analyzing the requirements in prioritizing vulnerabilities for a comprehensive end-to-end process. Remediation of any additional vulnerability found will be effectuated through the current and continually improving process. We have already increased the types of vulnerabilities we identify. In addition, analysis is underway to prioritize vulnerabilities. Not only have we made significant improvements in this area in a relatively short time, we believe the gaps have decreased and the real need now is to highlight individually where components of the end-to-end process can gain efficiency.

We also agree with this recommendation to formally document our change management process. As with FY 2013, we continue to investigate improving risk categorization along with required testing for system software changes that could cause a significant outage or security risk. We are working to define the different levels of controls required based on the change. We agree that we need to add consistency as our process matures. We also plan to further assess risk and document as necessary.

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Recommendation 2

Develop a comprehensive program to identify and monitor high risk programs operating on the mainframe.

Comment

We agree with this recommendation. We will continue to improve management of privileged programs in FY 2014. We are also considering the possibility of a manual review of privileged programs, in addition to an automated scanning and review of privileged programs. As we continue to improve in this area, we are taking a risk-based approach to address the highest-level risk first.

Recommendation 3

Analyze current access authorization and removal processes to determine if current controls mitigate the risk of unauthorized access and modify controls considering automation and monitoring.

Comment

We agree with this recommendation. In FY 2014, we will implement an electronic process to grant access. We are also working on a fully automated process to grant access, which will help mitigate the control failures in access authorization.

Our goal is to automate access control changes wherever possible. In FY 2014, we will analyze new tools for managers to facilitate easy, continuous monitoring of staff's access. In addition, we are reviewing separation procedures and training for opportunities to improve performance in this area.

Recommendation 4

Continue, as part of the SSA profile quality program, additional profile content reviews and other key profile improvement initiatives.

Comment

We agree with this recommendation. We took a risk-based approach to perform the profile content review in FY 2013. To date, we have completed 4 campaigns, with the remaining campaigns scheduled for completion in early 2015. The remaining campaigns will include profiles with access related to Critical Infrastructure Protection Plan and Financially Significant Systems, focusing on higher-risk profiles first.

In addition, we are concurrently performing the Profile Quality Program, which includes several projects with the common goal of maintaining access profiles that allow only approved access to the minimum resources required. The Profile Quality Program includes the following:

- Elimination of obsolete/unused profiles;
- Enforcement of profile naming standards;
- Profile lifecycle and Change Management process enhancements; and
- Resource classification and enhanced controls.

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Significant Deficiency - Calculation, Recording, and Prevention of Overpayments

Deficiencies in Overpayment Calculations and Records

General Comment

To improve quality in overpayment workloads, we are implementing a regional Continuous Quality Initiative at field offices (FO) and payment service centers (PSC). We expect to implement this initiative nationwide by February 2014.

Recommendation 1

Performing a risk based analysis on current overpayment balances to detect and correct errors in existing overpayment balances, considering manual intervention, balance, and age.

Comment

We agree with this recommendation. We will explore options for instituting a risk-based approach to detect and correct overpayment errors.

Recommendation 2

Enhancing documentation requirements and improve overpayment documentation tools to ensure overpayments are completely, accurately, and timely documented by FOs or PSCs within the appropriate systems of record.

Comment

We agree with this recommendation. Through our Continuous Quality Initiative, we will address overpayment documentation issues and improve overpayment documentation tools, where feasible, to ensure FOs and PSCs completely, accurately, and timely document overpayments.

Recommendation 3

Increasing management review over manual transactions impacting overpayment balances.

Comment

We agree with this recommendation. Through our Continuous Quality Initiative, we will perform additional reviews of overpayments both in FOs and in the PSCs.

Deficiencies in Overpayment Records and Tracking

General Comment

In July 2011, a Government Accountability Office audit identified a Title II system limitation concerning long-term withholding agreements that extend past the year 2049. The system limitation prevents us from tracking the post- 2049 debt. This limitation requires operational, financial, information technology (IT), and policy solutions throughout our agency.

As a short-term solution, we issued updated guidance in August 2012 to address the 2049 situation. This guidance provides a uniform process for FOs to address newly established overpayments that would trigger a 2049 situation.

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We continue to explore a strategic approach for multiple long-term solutions, which may include changes to our systems, policies, and procedures.

Recommendation 1

Evaluating technical enhancements that will address payment plans that extend beyond the year 2049.

Comment

We agree with the recommendation. In FY 2013, we evaluated the cost and timeframe for changing our systems to address the 2049 limitation. The cost in IT resources exceeded what we had available; therefore, the proposal did not move forward in light of competing priorities. We continue to explore for a long-term solution.

Recommendation 2

Evaluating changes in repayment plans to minimize future long term repayment plans.

Comment

We agree with this recommendation. In an effort to minimize future long-term repayment plans, we are increasing our recovery efforts to include a minimum of 10 percent of the monthly benefit amount, rather than a $10 minimum, through a notice of proposed rulemaking. We are pursuing additional options to mitigate this issue.

Deficiencies in Overpayment Prevention

Recommendation 1

Enhancing periodic reconciliations between SSA data which can impact payment amounts.

Comment

We agree with this recommendation. We recently implemented a new monthly death match process and are working on a Death Process Redesign project to streamline the reconciliation processes.

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