Management's Discussion and Analysis

The *Management's Discussion and Analysis* (MD&A) section is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration. The MD&A describes who we are, what we do, and how well we meet our established goals.

The *Overview of the Social Security Administration* section highlights our mission as set forth in the *Agency's Strategic Plan*. In this section, we identify the major programs we administer and provide a brief explanation of our organization.

The next section, *Overview of Our Fiscal Year 2013 Goals and Results*, provides a high-level discussion of our goals and our key performance measure results to track our progress toward achieving our mission. This section links our agency-wide Strategic Goals with our Priority Goals, displays our fiscal year 2013 operating expenses by Strategic Goal, highlights how our results contribute to achieving our Strategic Goals and Objectives, and discusses how we plan to address the challenges we face.

In addition, the MD&A also addresses our financial performance in the *Highlights of Financial Position* section. We provide an overview of our financial data and explain the major sources and uses of our funds, as well as the use of these resources, in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds. We end this section with a summary of our progress toward addressing improper payments.

Finally, the *Systems and Controls* section describes the actions we have taken to address our management control responsibilities. The Management Assurances section provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*.

OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

Our Mission

Deliver Social Security services that meet the changing needs of the public

Social Security Benefits America

Few government agencies touch the lives of as many people as we do. The programs we administer provide a financial safety net for millions of Americans, and many people consider them to be the most successful large-scale Federal programs in our Nation's history.

Old-Age, Survivors, and Disability Insurance Program

Old-Age and Survivors Insurance Program

Created in 1935, the Old-Age and Survivors Insurance program provides retirement and survivors benefits to qualified workers and their families. When people work and pay Social Security taxes, they earn credits toward Social Security benefits. Most people need 40 credits, or 10 years of covered work, to qualify for retirement.

Reduced retirement benefits are payable as early as age 62. For people born in 1942 or earlier, full retirement benefits are payable at age 65. For people born from 1943 to 1960, the age at which full retirement benefits are payable increases gradually to age 67.

Benefits are also payable to certain members of retired workers' families and their survivors. In 1939, we began paying survivors benefits, which include benefits to widows or widowers, minor or disabled children, and surviving divorced spouses of deceased workers. Disabled widows and widowers benefits began in 1968.

Disability Insurance Program

In 1956, Social Security expanded to include a benefit program for disabled workers age 50 until full retirement age. In 1960, disabled workers of all ages could apply for Disability Insurance benefits. We pay benefits to people who cannot work because they have a medical condition expected to last at least one year or result in death.

Supplemental Security Income Program

Supplemental Security Income (SSI) is a means-tested program designed to provide a monthly payment to aged, blind, or disabled people with limited income and resources. Adults and children can receive payments based on disability or blindness.

For more information on all of our programs and benefits, please visit our Understanding The Benefits webpage (www.socialsecurity.gov/pubs/10024.html).

How Social Security Benefited America in Fiscal Year 2013

- On average each month, about 63 million individuals received Social Security or Federal SSI benefits. A combined total of about $855 billion was paid in Social Security and Federal SSI benefits;
- About 88 percent of the American population age 65 and over received Social Security benefits;
- Among elderly Social Security beneficiaries, 53 percent of married couples and 74 percent of unmarried individuals relied on Social Security for 50 percent or more of their income;
- About 96 percent of persons aged 20-49 who worked in covered employment had survivors protection for their young children and a surviving spouse caring for the children; and
- On average each month, more than 1.3 million blind or disabled children under age 18 received Federal SSI payments.

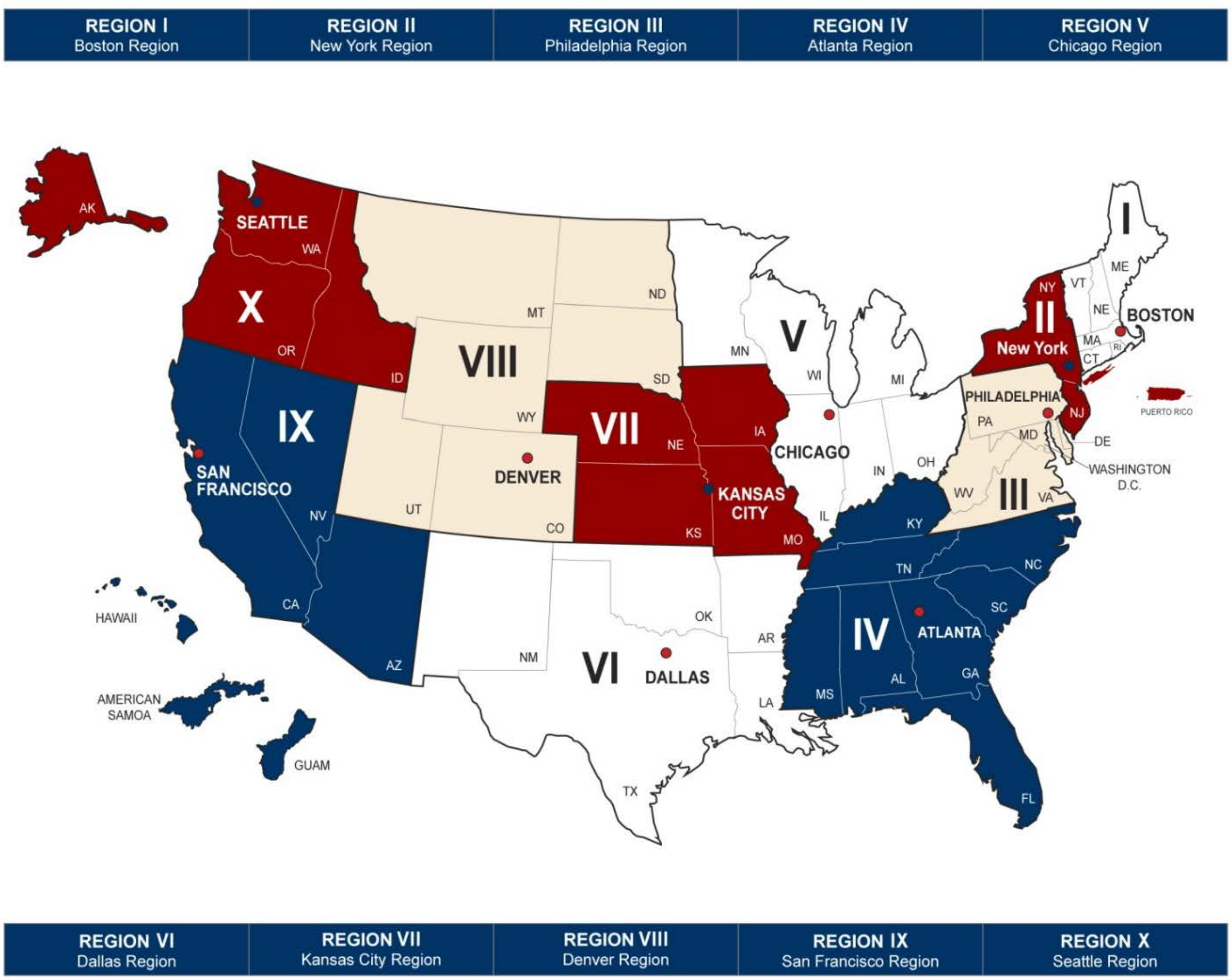
How We Served America in Fiscal Year 2013

- Issued 16 million new and replacement Social Security cards;
- Performed over 1.6 billion automated Social Security number verifications;
- Posted 251 million earnings items to workers' records;
- Completed more than 53 million transactions on our National 800 Number;
- Assisted more than 43 million visitors;
- Registered 6.2 million users for *my*SocialSecurity, a personalized online account;
- Received approximately 5 million retirement, survivor, and Medicare applications;
- Completed about 3 million initial disability claims;
- Reconsidered 803,194 denied disability applications;
- Provided support services for 321,218 beneficiaries trying to return to work or improve their earnings through the Ticket to Work program;
- Completed approximately 2.6 million SSI non-disability redeterminations;
- Completed 428,568 full medical continuing disability reviews;
- Completed 252,992 work continuing disability reviews;
- Completed over 3 million overpayment actions;
- Decided 176,251 Appeals Council requests for review; and
- Decided over 793,580 requests for hearings.

Our Organization

Our organization is composed of over 75,000 Federal and State employees. We deliver services through a nationwide network of about 1,500 offices that include regional offices, field offices (including Social Security card centers), teleservice centers, processing centers, hearing offices (including satellite offices and National Hearing Centers), the Appeals Council, and our headquarters in Baltimore, Maryland. We also deliver services in several U.S. embassies around the globe.

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



OVERVIEW OF OUR FISCAL YEAR 2013 GOALS AND RESULTS

How We Manage Performance

Our Performance Framework: The *Government Performance and Results Modernization Act of 2010* (GPRMA) specifies criteria for agency strategic plans to align with presidential terms and ensure that agency goals align with broader Federal efforts.

Our *Agency Strategic Plan* (ASP) *for Fiscal Year* (FY) *2013 - FY 2016* (www.socialsecurity.gov/asp/index.html) details our performance management framework. The ASP links our Strategic Goals with underlying objectives, relevant issues, strategies, and key performance measures.

Our goals are:

Strategic Goal 1: Deliver Quality Disability Decisions and Services;

Strategic Goal 2: Provide Quality Services to the Public;

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

Strategic Goal 4: Strengthen Our Workforce and Infrastructure.

Our Planned Performance: In April 2013, we published our *Annual Performance Plan* (APP) *for FY 2014 and Revised Final Performance Plan for FY 2013* (www.socialsecurity.gov/performance/) as a part of the *President's FY 2014 Budget Request* (www.socialsecurity.gov/budget).

Our APP outlines our tactical plans for achieving the goals and objectives in our ASP, finalizes our performance commitments for FY 2013, and discusses the program evaluations we conducted. The budgeted workloads published in our APP correspond to the key workload measures contained in our *FY 2013 Operating Plan* (www.socialsecurity.gov/budget/FY13Files/2013COPCombined.pdf).

Our Actual Performance and Program Results: For the first time, our *FY 2013 Annual Performance Report* (APR) and *FY 2014 and FY 2015 APP* will be integrated into one streamlined document that makes it easier to review our plans and priorities in light of our FY 2013 progress. The combined report, which we expect to issue in February 2014 and make available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/), will compare our results to planned performance.

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission for FY 2013. The table below reflects our operating expenses by Strategic Goal.

FY 2013 Operating Expenses by Strategic Goal (Dollars in Millions)	
Deliver Quality Disability Decisions and Services	$ 5,944
Provide Quality Services to the Public	$ 2,778
Preserve the Public's Trust in Our Programs	$ 1,817
Strengthen Our Workforce and Infrastructure	$ 1,085

Our Priorities: GPRMA also requires that we identify Agency Priority Goals (APG). We developed these goals to improve accountability, stimulate innovation, and deliver results on what matters most.

Our priorities are:

Priority Goal 1: Faster hearing decisions;

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

Priority Goal 3: Increase use of our online services.

You can find additional information on our APGs performance on Performance.gov (www.goals.performance.gov/agency/ssa).

Summary of Fiscal Year 2013 Performance

The following pages summarize our overall performance results and highlight some of the practices and initiatives we used to meet our goals in FY 2013. We discuss key issues that affected our FY 2013 operations and may continue to affect our future operations.

In FY 2013, we continued to focus our attention and resources on mission-critical workloads and programs. Final data for 7 of our 35 performance measures were not available when this report was published. We will include the overall results for those measures in our *FY 2014 Agency Financial Report*.

We met our target for 20 of 28 performance measures for which we had data. Below is an assessment of our overall progress by Strategic Goal for FY 2013:

- Strategic Goal 1: Deliver Quality Disability Decisions and Services
  - Met the target for 10 of 17 measures
  - Did not meet the target for 4 of 17 measures
  - Final data not available for 3 of 17 measures
- Strategic Goal 2: Provide Quality Services to the Public
  - Met the target for 4 of 6 measures
  - Did not meet the target for 2 of 6 measures
- Strategic Goal 3: Preserve the Public's Trust in Our Programs
  - Met the target for 4 of 7 measures
  - Final data not available for 3 of 7 measures
- Strategic Goal 4: Strengthen Our Workforce and Infrastructure
  - Met the target for 2 of 5 measures
  - Did not meet the target for 2 of 5 measures
  - Final data not available for 1 of 5 measures

For the first half of FY 2013, we operated under temporary funding and a Continuing Resolution Operating Plan until Congress passed the bill for our FY 2013 appropriations. Shortly after publishing our *Annual Performance Plan for FY 2014 and Revised Final Performance Plan for FY 2013* (www.socialsecurity.gov/performance/), we received our FY 2013 funding; we adjusted some performance targets based on actual FY 2013 funding.

Strategic Goal 1: Deliver Quality Disability Decisions and Services

Strategic Objectives

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

Priority Goal

Faster hearing decisions

The following tables represent our performance in four of our key performance measures. The first performance measure, minimize average wait time from hearing request to decision, supports our APG for faster hearing decisions.

Minimize average wait time from hearing request to decision (in number of days)							
September Only	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	472	390	345	362	396	~389	NOT MET

Minimize average wait time for initial disability claims (in number of days)							
Fiscal Year	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	101	111	109	102	107	109	MET

Disability determination services decisional accuracy rate for initial disability decisions							
Fiscal Year	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	97%	98%	98%	98%	Data available January 2014	97%	TBD*

TBD*: To be determined as final FY 2013 data were not available at the time of publishing.

Achieve the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances							
September Only	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	3.8%	4.6%	5.9%	5.8%	6.6%	6.0%	MET

Just as the baby boom generation entered its peak years of disability risk, we absorbed large, unexpected increases in disability workloads from the worst economic downturn since the Great Depression. Initial disability receipts continue to remain higher than they were five years ago. Despite the high volume of claims and a delayed budget, we increased our average wait time for initial disability claims by only five days compared to FY 2012.

Despite our hard work and past successes, the average wait time for a hearing decision has increased. We attribute the increase to a number of factors, including sequester-related reduced overtime levels and suspension of nearly all planned hearing office hiring. Another contributing factor to our diminished ability to hold hearings and decide cases is our reduced administrative law judge (ALJ) cadre. We have not been able to obtain a refreshed register of candidates; therefore, we cannot increase our ALJ cadre to address the volume of hearing requests we receive.

While our customers expect us to make timely decisions, they also expect us to consistently make accurate decisions, at the earliest possible point in the process. Over the past five years, we have met or exceeded our target for disability determination services (DDS) accuracy rates for initial disability determinations. Our efforts to deliver quality disability decisions and services include:

Ensuring an Adequate Staff of Administrative Law Judges: Since only ALJs can conduct hearings, it is vital that we hire and maintain an adequate number of judges and their support staff. While our ALJ corps has grown substantially in recent years, sustained growth in hearings requests and a recent inability to hire additional judges from the ALJ register have slowed our progress in reducing the hearings backlogs. Although we reduced the wait time in FY 2011, the average wait times for hearings request decisions are beginning to take longer.

Reducing the Backlog at the Appeals Council: As we decided more cases at the hearing level, the Appeals Council received more requests for review. In each of the past four years, the Appeals Council received nearly double the requests for review than the previous four-year period. As we address these requests for Appeals Council reviews, we also focus our attention on deciding the oldest cases first. We are steadily decreasing the percentage of cases pending 365 days or more. At the end of FY 2010, cases pending 365 days or more represented 20 percent of total Appeals Council pending requests for review. By the end of FY 2013, we reduced that number to 9 percent.

Streamlining the Disability Application Process: Beginning in FY 2012, adults filing online disability applications and appeals on their own behalf have the option to electronically sign and submit Form SSA-827, the Authorization to Disclose Information to the Social Security Administration. This electronic authorization process (eAuthorization) allows our clients to complete disability applications and appeals in a streamlined, online session rather than printing, signing, and mailing paper authorization forms to us. In early FY 2013, we expanded eAuthorization to allow electronic authorization for adult disability applications and appeals and adults participating in continuing disability reviews (CDR) by phone or in person. We will continue to explore fully electronic processes for individuals who file on behalf of others and for some childhood claims.

Developing a Disability Case Processing System: The Disability Case Processing System (DCPS) will replace five different legacy systems in the DDSs and Federal disability units with a unified system. DCPS will support consistent case processing, improved quality, and seamless workload sharing across State and Federal components. DCPS will help improve productivity by streamlining interactions with medical providers, copy services, and other vendors by using industry standards for electronic medical records.

We implemented the initial beta version of DCPS in the Idaho DDS in FY 2012. In FY 2013, we released additional beta versions and included the Illinois DDS. We plan future beta releases of DCPS to additional DDSs in FY 2014.

Advancing Quick Disability Determinations: We use technology to quickly provide benefits to claimants whose medical conditions are so serious that they obviously meet our disability standards. Our Quick Disability Determinations (QDD) (www.socialsecurity.gov/disabilityresearch/qdd.htm) predictive model helps us identify cases where favorable disability determinations are highly likely and medical evidence is readily available, enabling us to process the cases quickly.

We are refining the QDD model to ensure it continues to select cases with high potential for allowance. In FY 2013, we evaluated a reconfiguration of the QDD predictive model along with a new approach to the QDD selection process. Our evaluation found that the reconfiguration and the new selection process represent improvements in efficiency and accuracy over the existing model. In FY 2014, we plan to implement the reconfigured predictive model and new selection process.

Advancing Compassionate Allowances: Our [Compassionate Allowances (CAL) (www.socialsecurity.gov/compassionateallowances/)](http://www.socialsecurity.gov/compassionateallowances/) process allows us to quickly target the most obviously disabled applicants based on available, objective medical information. We award benefits in nearly all CAL cases if we receive confirmation of the diagnosis with objective medical evidence, and the applicant meets our non-disability criteria. In FY 2013, we added 35 new conditions, including certain cancers, adult brain disorders, and a number of rare disorders that affect children, bringing the total number of conditions in this expedited disability process to 200. In FY 2014, we plan to further expand our list of CAL conditions.

Expanding Electronic Bench Book: The Electronic Bench Book (eBB) is a web-based application designed to assist adjudicators in documenting, analyzing, and deciding disability claims at the hearing level. We use eBB to review the case file, take notes at the hearing, record analysis throughout the decision-making process, and prepare hearing instructions. eBB guides users through every step of the sequential evaluation process to ensure that each step is fully addressed. In FY 2013, we began using eBB, Release 2.0, and plan additional functionality in FY 2014.

Enhancing Electronic Claims Analysis Tool: We developed a web-based application that guides adjudicators through the five-step sequential evaluation process for determining disability. The electronic claims analysis tool (eCAT) produces a detailed, policy-compliant explanation of the decision made on the case and records the pertinent documentation and analysis necessary to support the decision. The explanation enables an independent reviewer to understand the decision maker's actions and conclusions throughout the claim's development and adjudication processes.

In FY 2013, we required DDSs to use eCAT on all initial and reconsideration-level disability claims. We will continue to refine eCAT in response to input from eCAT users. In FY 2014, we will enhance eCAT to handle CDR cases.

Strategic Goal 2: Provide Quality Services to the Public

Strategic Objectives

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

Priority Goal

Increase use of our online services

The following tables represent our performance in two of our key performance measures; the first performance measure, increase the percentage of claims filed online, supports our APG to increase use of our online services.

Increase the percentage of claims filed online							
Fourth Quarter Only	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	28%	35%	39%	44%	50.97%	48%	MET

Maintain the percent of people rating our services as "excellent," "very good," or "good"							
Fiscal Year	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	81%	78.2%	81.4%	80.9%	80.2%	83.5%	NOT MET

Based on the most recent demographic projections, over the next 20 years, nearly 75 million people aged 62 and above will start receiving retirement benefits. In FY 2013, we completed over 5 million retirement, spouse, and Medicare claims – nearly a million more claims than just 5 years ago. We continue to develop more efficient and effective ways of doing business to keep up with the increased demand for our services. One of those ways is providing online access to our services.

Over the past five years, we added new and easy-to-use online services. Our goal is to provide our customers with a wide variety of online services, including the ability to apply for a range of benefits, update their records, and access important information. The combined online filing rate for Medicare, retirement, disability, and spouse claims was 50.97 percent in the 4th quarter of FY 2013.

We also made improvements to the telephone services in our field and hearing offices, as well as our National 800 Number infrastructure. In addition, we expanded our use of: 1) video technology to provide in-person service; and 2) plain language principles to simplify the letters we send to the public.

Our efforts to continue providing quality services to the public include:

Providing the Best Online Services in the Federal Government: We have the three highest rated online services as measured by the American Customer Satisfaction Index: iClaim, the Retirement Estimator, and the Extra Help with Medicare Prescription Drug Plan Costs application.

Use of our online services (www.socialsecurity.gov/onlineservices/) continues to increase. In addition to claims filing, we offer electronic access to various documents. We provide publications in Spanish and 14 other languages online via our standard and mobile websites. Additionally, most of our documents are accessible on the Internet to anyone who needs to use screen readers, screen magnifiers, or voice-recognition software.

Marketing Online Services: We use public service announcements on television and radio, printed leaflets, billboards, bus posters, and displays in airport terminals to promote our online services. Additionally, we use social media to direct web users to our online service options. We also produce webinars and webcasts to promote online services and explain our programs and services.

Enhancing Telephone Services: In FY 2013, we completed more than 53 million transactions through our National 800 Number. Callers can speak to a telephone agent during business hours or use our automated services available 24 hours a day, 7 days a week.

We continue to enhance our automated telephone services so more callers can successfully complete their business with us by phone. We are converting our existing National 800 Number telecommunications infrastructure to a new Citizens Access Routing Enterprise 2020 (CARE 2020) infrastructure.

There are two major phases of CARE 2020: Phase I includes live-agent service and Phase II includes automated services and enhanced menus. In FY 2013, we successfully completed Phase I. We expect to complete Phase II in FY 2014. Once fully deployed, CARE 2020 will:

- Enhance our automated telephone applications' self-service features and speech-recognition technology;
- Increase our capacity to route callers for agent service, even on peak days;
- Enable callers to make a decision to wait for service, schedule a callback, or retry their call at a later time; and
- Help us forecast call volumes, anticipate staffing needs, and better distribute incoming calls across the network.

Expanding Video Service Delivery: Video technology allows real-time conferencing between two or more sites. We offer Video Service Delivery (VSD) to reduce in-office wait time as well as travel time and travel costs. Some individuals have difficulty visiting our offices because they live in rural locations or places without public transportation. VSD allows us to provide service to individuals at locations more convenient to them (e.g., hospitals, community centers). In FY 2013, we had video units in 423 sites and held 181,675 interviews using VSD.

In addition, during FY 2013, we added video units to some of our State DDS offices, allowing them to conduct video disability hearings and video consultative exams.

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

Strategic Objectives

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

Priority Goal

Reduce Supplemental Security Income overpayments

The following tables represent our performance in our two-part key performance measure, SSI payments free of overpayment and underpayment errors, and support our APG for reducing SSI overpayments.

Percent of Supplemental Security Income payments free of overpayment error							
Fiscal Year	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	91.6%	93.3%	92.7%	93.7%	Data available April 2014	95.0%	TBD*

TBD*: To be determined as final FY 2013 data were not available at the time of publishing.

Percent of Supplemental Security Income payments free of underpayment error							
Fiscal Year	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2013 Target**	**Target Achieved**
Performance	98.4%	97.6%	98.2%	98.2%	Data available April 2014	98.8%	TBD*

TBD*: To be determined as final FY 2013 data were not available at the time of publishing.

We pay over $65 billion in benefits each month. Our most important responsibility is to pay the right person the right amount at the right time. We take this responsibility very seriously and strive to be as accurate as possible in administering our programs.

Some of the initiatives we are undertaking to preserve the public's trust in our programs include:

Using Program Integrity Tools: Our SSI program is a means-tested program providing cash assistance to those who are aged, blind, or disabled with limited income and resources. Changes in recipients' living arrangements or income can affect their eligibility for payment or payment amount. We rely on recipients to self-report this information, which is a significant reason for the inconsistencies in our SSI payment accuracy rate. Due to frequent and sometimes unreported changes, we conduct periodic reviews of recipients' income and resources to determine the correct monthly benefit payments. FY 2013 was the fourth year in a row we conducted over 2 million redeterminations.

In addition to redeterminations, some of our most effective program integrity efforts include:

- Conducting CDRs. We periodically conduct CDRs to determine if the beneficiary's disabling condition has improved and if he or she is still eligible for benefits.
- Expanding the Access to Financial Institutions (AFI) initiative. AFI is an electronic system that allows us to detect assets, including those in undisclosed bank accounts. Detection of these assets prevents one of the most frequent causes of SSI erroneous payments.

- Promoting SSI Telephone Wage Reporting System and our new SSI Mobile Wage Reporting. Unreported and untimely reported wages continue to be a major source of payment error in the SSI program.
- Using electronic data exchanges and expanding the use of electronic death data exchange with foreign governments. We have over 3,700 data exchanges with a wide range of Federal, State, and local entities as well as some foreign governments that provide us with information we need to adjust the amount of benefits we pay.

Maximizing Our Use of Proven Debt Collection Tools and Techniques: Although we strive to accurately and timely pay benefits, the complexity of our programs and dependence on beneficiaries to report changes can lead to improper payments. We use benefit withholding to recover overpayments from debtors currently receiving payments. When individuals who are overpaid are no longer receiving benefits, we offer them the opportunity to repay the debt via monthly installment payments. If the debtor does not agree to an acceptable repayment plan or defaults on an established agreement, to recover the overpayments, we use our external collection procedures, which include referral to credit bureaus, Administrative Wage Garnishment, and Tax Refund Offset and Administrative Offset – both managed through the Department of the Treasury's Offset Program (TOP).

Our participation in TOP allows us to offset Federal tax refunds, Federal annuities, Federal salaries, and, as of FY 2013, eligible State payments, to collect delinquent debt. From our initial implementation in January 1992 through FY 2013, we recovered over $2 billion through TOP.

In FY 2013, we continued to notify debtors of our intent to recover their 10 years or more delinquent debt via TOP. We mailed 15,000 notices monthly from June 2012 through February 2013 and 25,000 notices monthly from March 2013 through September 2013, giving debtors the opportunity to repay or dispute their debt within 60 days of receipt of the notice. From June 2012 through September 2013, we sent a total of 310,000 notices.

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

Expanding Use of Social Security Number Verification Services: We can accurately post employee wages only when employers report wages under the correct Social Security number (SSN). Social Security Number Verification Services (SSNVS) allow registered users (e.g., employers) to verify the employee's name and SSN. We continue to market SSNVS to the business community online, at conferences, and at meetings; however, recent budgetary constraints will limit our attendance at such events.

Increasing Electronic Wage Reports: Paper wage reports are more error-prone, labor-intensive, and expensive to process. Although employers electronically filed about 87 percent of Forms W-2 in calendar year 2013, we received over 29 million paper Forms W-2.

We continue to work toward eliminating paper wage reports while migrating to a fully electronic earnings record process. A multi-year Earnings Redesign initiative is underway to further modernize our earnings reporting system to make our earnings process more efficient and accurate. In addition, we are working with the Internal Revenue Service to enhance earnings data exchanges for improved wage reporting.

Strategic Goal 4: Strengthen Our Workforce and Infrastructure

Strategic Objectives

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

Best Places to Work in the Federal Government

The following tables represent our performance in our two-part performance measure, recruit and hire veterans and disabled veterans.

Recruit and hire Veterans

Fiscal Year	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2013 Target	Target Achieved
Performance	15.07%	17.33%	26.72%	36.78%	46.6%	18%	MET

Recruit and hire Disabled Veterans

Fiscal Year	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2013 Target	Target Achieved
Performance	7.50%	8.72%	13.59%	15.49%	18.10%	15%	MET

The landscape of the Federal workplace and its workforce continues to change, as do the needs of the public it serves. We must be prepared to meet changing business demands by having a diverse, highly skilled, and agile workforce.

Our employees are integral in carrying out our mission. By strategically managing, engaging, and aligning our staff, we ensure that we have a workforce of highly dedicated and motivated employees who are committed to providing outstanding public service.

We strive to provide a professional, safe, and secure environment for our workforce and the public, while working to achieve even greater savings by minimizing waste and reducing energy consumption. Each year since 2007, our employees have ranked us in the top 10 *Best Places to Work in the Federal Government* (www.bestplacestowork.org/BPTW/rankings/).

While we have a long history of caring employees and high productivity, process improvements alone cannot offset the significant increases in our workloads and loss of staff. Technological advances have changed the way the public conducts their business with us. Technology continues to emerge and shape our service delivery methods and our traditional business models. To meet our service delivery challenge, we rely on a large and complex information technology (IT) infrastructure.

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

Our efforts to strengthen our workforce and infrastructure include:

Recruiting, Training, Developing, and Retaining Superior Employees: Retirements continue to be the primary reason for our workforce reduction. By 2017, almost 33 percent of our workforce, including 41 percent of our supervisors, will be eligible to retire. Under sequestration, we continue to face limited hiring capability while employee attrition increases. In FY 2013, we lost over 3,889 employees due to retirement and other reasons. Like many Federal agencies, we face the challenge of a diminishing workforce while simultaneously facing an increasing volume of work. By recruiting, training, and developing our employees, we retain a talented pool of dedicated employees who are committed to providing outstanding public service. Some of the initiatives we employ to retain our superior workforce include:

- Strengthening our diversity and inclusion practices;
- Employing veterans and individuals with disabilities;
- Identifying future leaders through management development programs; and
- Implementing safety and security training.

Focusing on the Employment of Veterans and Individuals with Disabilities: We have long recognized the rich talent pool that exists among veterans and individuals with disabilities. More than a quarter of our new hires over the past three years are veterans. To ensure sustained success in following the President's hiring directives, we continue to focus on recruiting and retaining veterans and individuals with disabilities. Each fiscal year, we establish operational goals that integrate strategic methods for recruitment, development, and retention that parallel our human capital strategies.

Due to budget constraints, we are experiencing hiring limitations. However, despite these challenges, we remain focused on working collaboratively with our external partners, using consistent marketing messages and outreach efforts to publicize us as an employer of choice.

Maintaining Secure and Reliable Information Technology Services: The *American Recovery and Reinvestment Act of 2009* provided us with $500 million in administrative funding for our National Support Center (NSC). This new facility will ensure that we protect and maintain our vital IT infrastructure. The General Services Administration (GSA) plans to complete construction and commission the building in FY 2015. More information on the NSC is available on our *American Recovery and Reinvestment Act* webpage (www.socialsecurity.gov/recovery/).

Some of our ongoing efforts to maintain secure and reliable IT services include:

- Enhancing our infrastructure;
- Upgrading the capacity and performance of our mainframe systems;
- Protecting our systems and data;
- Improving IT cost and performance;
- Modernizing older software applications; and
- Maintaining systems performance while transitioning to our NSC.

Protecting Privacy and Security: We are committed to protecting the privacy and security of personal information. To maintain the public's trust as individuals interact with us through social media, we developed privacy policies for social media tools and emerging technology. We also provide annual systems security training to our employees and contractors. This training raises the awareness of employees and contractors regarding our information systems security policies and procedures.

Reducing Our Carbon Footprint: We have a responsibility to the public to conduct business in an efficient, economical, and environmentally sound manner. We are reviewing our current organizational structure to identify opportunities to consolidate offices and reduce our carbon footprint. Facility closures or consolidations resulted in cost savings of nearly $5.2 million in FY 2013. We are working to achieve even greater savings by minimizing waste and reducing energy consumption. Also, we continue to use single-stream recycling and have deployed new recycling stations in high-visibility areas having more foot traffic at our headquarters complex.

Using "Green" Solutions: We continue to find new and innovative ways to expand our "green" programs and use "green" solutions to improve our environment. In an effort to meet our responsibility to be environmentally friendly, we recycle and purchase energy-efficient lighting, electronics, and appliances. In FY 2013, we estimated a 3.6 percent reduction in petroleum use and an 11.7 percent increase in alternative fuel use. GSA selected us to participate in its Plug-In Electric Vehicle Pilot program. As participants, GSA will provide us with two electric vehicles and charging stations at no cost.

Looking Forward – Facing Our Challenges

We take great pride in administering the Social Security and SSI programs, and we recognize that each of our customers is someone whose life will be affected by the work we do and how well we do it. Our agency is among the most efficient and effective in Federal Government. We achieve great success when our "can-do" attitude is matched with sufficient resources. Although we strive to achieve our Strategic Goals and objectives, we have significant challenges ahead. Over the past few years, providing high-quality service to all of our customers on all of our service fronts has grown increasingly difficult for us.

Our toughest fiscal challenge in nearly 30 years lies ahead of us. In the last 3 years, we have lost more than 10,000 employees. These losses have occurred unevenly across the country, threatening the viability of some of our offices. Our diminished workforce, coupled with hiring restrictions, comes at a time when demands for our services continue to remain high.

Despite these challenges, delivering excellent service remains our primary objective. Responding to the challenges we face requires us to rethink the way we do business. Throughout their history, Social Security programs have been dynamic, altering to meet the changing needs and attitudes of the American people. Today, we are guided by a driving principle that we must fundamentally transform the way we do business in order to manage our growing workloads and continue to meet the needs of the public. Recognizing that we must develop innovative ways to manage our work and must change along with our customers' needs, including their preferences for ways of doing business with us, we will continue to expand *my*SocialSecurity, iClaim, VSD, and other alternative service delivery options.

Our limited resources require us to maximize efficiencies in our disability and other programs, and we will continue to look for ways to strengthen policies, improve processes, increase the use of automation, and strengthen our employment support programs and provide help for beneficiaries who want to work. As good stewards of our resources and taxpayer funds, we will remain focused on our improper payments strategy by working in collaboration with our Federal partners, stakeholders, and beneficiaries to minimize improper payments. We also recognize the need to balance the number of decisions we make with the assurance that we make our decisions accurately and consistently across the country at the earliest possible point in our process.

HIGHLIGHTS OF FINANCIAL POSITION

Overview of Financial Data

We received an unmodified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 39 through 92 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2011 through 2013 (excluding key amounts from our Statement of Social Insurance and Statement of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

Table of Key Financial Measures[1]
(Dollars in Billions)

Net Position (end of fiscal year)			
	2013	**2012**	**2011**
Total Assets	$2,799.6	$2,766.5	$2,702.3
Less Total Liabilities	$102.0	$101.5	$96.6
Net Position (assets net of liabilities)	$2,697.6	$2,665.0	$2,605.7
Change in Net Position (end of fiscal year)			
	2013	**2012**	**2011**
Net Costs	$867.4	$822.9	$782.7
Total Financing Sources[2]	$899.9	$882.2	$848.9
Change in Net Position	$32.6	$59.3	$66.1

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position displayed on page 42.

Balance Sheet: The Balance Sheet displayed on page 40 presents our assets, liabilities, and net position. Total assets for FY 2013 are $2,799.6 billion, a 1.2 percent increase over the previous year. Of the total assets, $2,786.7 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Approximately 98.5 percent of our assets are investments, which increased $37.3 billion over the previous year.

Liabilities grew in FY 2013 by $0.5 billion primarily because of the growth in benefits due and payable, which is attributable to the 1.7 percent Cost of Living Adjustment (COLA) provided to beneficiaries as of January 1, 2013.

The growth in benefits due and payable is offset by a decrease in accounts payable due to the timing of the General Fund Receipt Account sweep. The majority of our liabilities (87.6 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Our net position grew $32.6 billion to $2,697.6 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost displayed on page 41 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs and contains non-material activities.

In FY 2013, our total net cost of operations increased $44.5 billion to $867.4 billion, primarily due to the 1.7 percent COLA provided to beneficiaries as of January 1, 2013. The OASI, DI, and SSI net cost increased by 5.6, 2.7, and 11.0 percent respectively. Operating expenses decreased for each of our three major programs by 0.7 percent, 2.6 percent, and 0.7 percent for OASI, DI, and SSI, respectively.

In FY 2013, our total benefit payments increased by $44.7 billion, a 5.5 percent increase. The table below provides the benefit payment information, number of beneficiaries, and the percentage change for these benefit items during FY 2013 and FY 2012 for each of our three major programs. SSI disbursements are generally made on the first day of each month; however, since October 1, 2011 fell on a Saturday, the October 2011 SSI benefit payments were paid in September 2011, as required by law. This timing has resulted in an increase in SSI benefit payments due to 12 months of activity in FY 2013 versus 11 months in FY 2012.

Benefit Changes in Our Major Programs During Fiscal Years 2013 and 2012

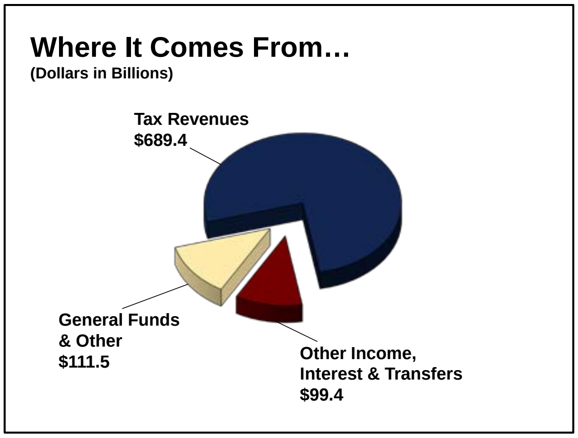
	FY 2013	FY 2012	% Change
OASI			
Benefit Payments	$666,387	$630,841	5.6%
Average Benefit Payment (per month)	$1,204.39	$1,170.42	2.9%
Number of Beneficiaries	46.7	45.6	2.4%
DI			
Benefit Payments	$139,262	$135,454	2.8%
Average Benefit Payment (per month)	$982.08	$964.30	1.8%
Number of Beneficiaries	10.9	10.8	0.9%
SSI			
Benefit Payments	$49,496	$44,182	12.0%
Monthly Maximum Benefit Amount	$710.00	$698.00	1.7%
Number of Beneficiaries	8.4	8.2	2.4%

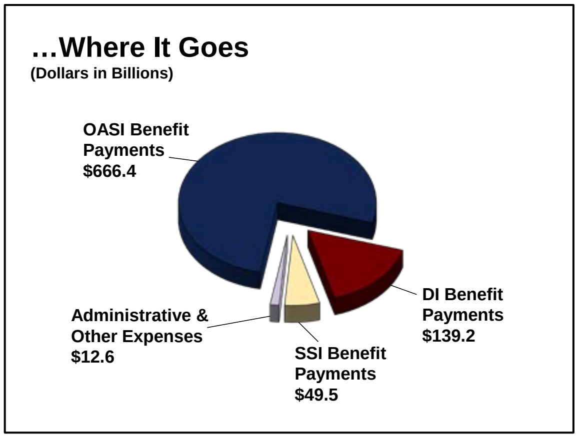
1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 42 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. The statement shows an increase of $32.6 billion in the net position of the agency, which is attributable to financing sources in excess of the agency's net cost. At this time, tax revenues, interest earned, and transfers related to Payroll Tax Holiday legislation continue to exceed benefit payments made to OASI and DI beneficiaries, keeping the agency's programs solvent. The Payroll Tax Holiday legislation provided employees a reduction in *Federal Insurance Contributions Act* tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 and 2012 tax years (January-December). In order to avoid harming the OASI and DI Trust Funds, the legislation also provided 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 resulted in increased tax revenues and decreased transfers when comparing FY 2013 and FY 2012 on the financial statements. We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are 1.5 percent.

In FY 2013, total financing sources, as shown in the Table of Key Financial Measures displayed on page 22, increased by $17.7 billion to $899.9 billion. The primary sources for this increase are tax revenues and Payroll Tax Holiday transfers received in FY 2013. The $899.9 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart "Where It Comes From…" as seen below. The activity reported in the chart includes $0.4 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2013.

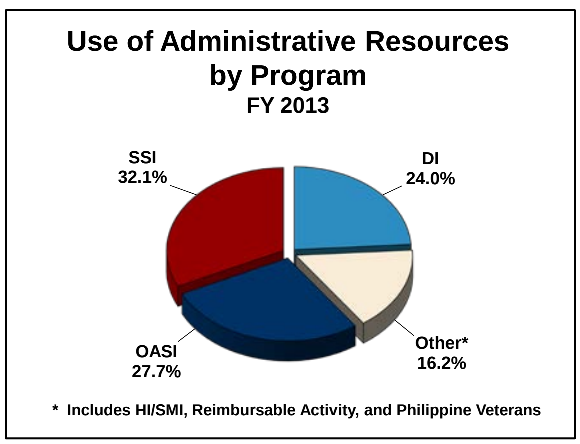




Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 43 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2013. The statement shows that we had $945.0 billion in budgetary resources, of which $1.0 billion remained unobligated at year-end. We recorded total net outlays of $867.4 billion by the end of the year. Budgetary resources decreased $40.5 billion, or 4.1 percent from FY 2012, while net outlays increased $46.2 billion, or 5.6 percent. These changes are primarily due to the expiration of the Payroll Tax Holiday legislation in FY 2013.

Use of Administrative Resources

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2013 in terms of the programs we administer or support. Although the DI program comprises only 16.3 percent of the total benefit payments we make, it consumes 24.0 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.8 percent of the total benefit payments we make, it consumes 32.1 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2012 use of

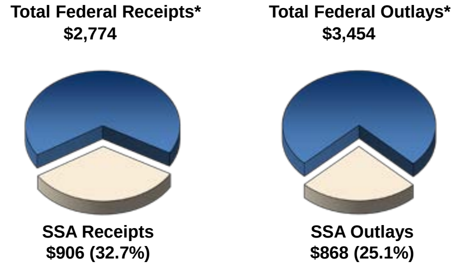


administrative resources by program was 27.4 percent for the OASI program, 24.2 percent for the DI program, 31.8 percent for the SSI program, and 16.6 percent for Other.

SSA's Share of Federal Operations

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2013 represented 32.7 percent of the $2.8 trillion in total Federal receipts, a decrease of 3.6 percent over last year. Outlays increased by 1.8 percent to 25.1 percent of Federal outlays as SSA beneficiaries received a 1.7 and 3.6 percent COLA increase in FY 2013 and FY 2012 respectively.

SSA's Share of Federal Receipts and Outlays
FY 2013
(Dollars in Billions)



*Data Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government

Overview of Social Insurance Data

Table of Key Social Insurance Measures[1]
(Dollars in Billions)

Statement of Social Insurance
Old-Age, Survivors, and Disability Insurance
(calendar year basis)

	2013	2012	2011
Present value of future net cashflows for current and future participants over the next 75 years (open group measure), current year valuation	-$12,294	-$11,278	-$9,157
Present value of future net cashflows for current and future participants over the next 75 years (open group measure), prior year valuation	-$11,278	-$9,157	-$7,947
Change in present value	-$1,016	-$2,121	-$1,211

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

Statement of Social Insurance: As displayed on page 44, the Statement of Social Insurance presents the following estimates:

- The present value of future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age and the future cost of providing scheduled benefits to those same individuals;
- The present value of future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age and the future cost of providing scheduled benefits to those same individuals;
- The present value of future noninterest income less future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;

- The present value of noninterest income to be received from or on behalf of future participants and the cost of providing scheduled benefits to those same individuals; and
- The present value of future noninterest income less future cost for the open group, which represents all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of future net cashflows (noninterest income less cost) for all current and future participants over the next 75 years (open group measure) became more negative when changing to the new valuation period. The present value changed from -$11.3 trillion, as of January 1, 2012, to -$12.3 trillion, as of January 1, 2013. Including the asset reserves in the combined OASI and DI Trust Fund increases this open group measure to -$9.6 trillion for the 75-year valuation period.

The present value of future net cashflows for all current participants over the next 75 years, *plus* the asset reserves in the combined OASI and DI Trust Fund as of the beginning of the period, is -$23.4 trillion (closed group measure). Including future participants over the next 75 years makes this value less negative and results in an open group measure of -$9.6 trillion.

Statement of Changes in Social Insurance Amounts: The Statement of Changes in Social Insurance Amounts displayed on page 45 reconciles the change (between the current valuation period and the prior valuation period) in the present value of future noninterest income less future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

From January 1, 2012 to January 1, 2013: The present value as of January 1, 2013 decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2087. Changes for this valuation period, and their effects on the present value of future net cashflows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of future net cashflows by $0.7 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of future net cashflows by $0.3 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of future cashflows by about $1.0 trillion; and
- Changes to legislation decreased the present value of future cashflows by $0.6 trillion.

Significant changes made for the current valuation included:

- Including final mortality data for 2008 and 2009, which led to lower starting levels and a faster rate of decline for death rates over the next 25 years;
- Modeling the insured status of citizens and legal permanent residents separately from other immigrants; and
- Including the effects of the *American Taxpayer Relief Act of 2012*.

From January 1, 2011 to January 1, 2012: The present value as of January 1, 2012 decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2086. Changes for this valuation period, and their effects on the present value of future net cashflows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of future net cashflows by $0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of future cashflows by $1.0 trillion;

- Changes in programmatic data, assumptions, and methods increased the present value of future cashflows by about $0.5 trillion; and
- Changes from legislation had no significant cashflow effect.

Significant changes made for this valuation period included:

- Changing the assumption for the annual change in average hours worked, from no change to a 0.05 percent per year decrease;
- Updating starting economic values and near-term growth rate assumptions; and
- Changing the ultimate age-adjusted disability incidence rates for males and females.

OASI and DI Trust Fund Solvency

Pay-As-You-Go Financing

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing. The following table shows that OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 42.5 months at the end of FY 2009 and FY 2010, to 41.2 months at the end of FY 2011, to an estimated 40.0 months at the end of FY 2012, and an estimated 38.3 months at the end of FY 2013. The historical values shown in the following table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to continue in FY 2012 and 2013.

Number of Months of Expenditures Fiscal-Year-End Asset Reserves Can Pay[1]

	2009	2010	2011	2012	2013
OASI	47.5	48.0	47.1	46.2	44.6
DI	19.7	17.1	14.0	11.1	8.1
Combined	42.5	42.5	41.2	40.0	38.3

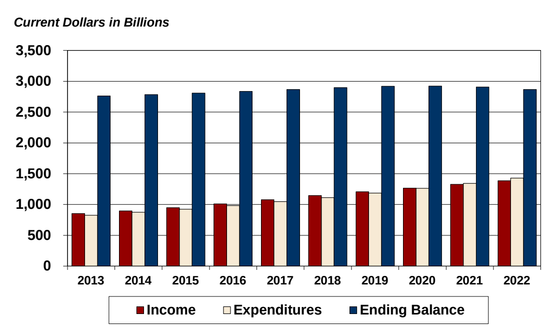
1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.

Note: Values for 2012 and 2013 are estimates based on the intermediate set of assumptions of the 2013 Trustees Report.

Short-Term Financing

The OASI and DI Trust Funds are deemed adequately financed for the short term when actuarial estimates of OASI and DI Trust Fund asset reserves for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2013 Trustees Report indicate that, on a theoretical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. While asset reserves in the OASI Trust Fund are more than adequate to cover projected DI Trust Fund cost over the first 10 years, the transfer of asset reserves between funds is not allowed under current law. When considered alone, financing of the DI Trust Fund is inadequate, and without remedial action, the fund asset

OASDI Income Exceeds Expenditures, Increasing Assets for Short Term



reserves are expected to deplete in 2016. Under the intermediate assumptions of the 2013 Trustees Report, OASDI estimated cost and income for 2022 are 82 percent and 65 percent higher than the corresponding amounts in 2012 ($786 billion and $840 billion, respectively). From the end of 2012 to the end of 2022, asset reserves are projected to grow by 5 percent, from $2.7 trillion to $2.9 trillion.

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

Long-Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2033, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Under current law, when either the OASI or DI Trust Fund depletes, full scheduled benefits cannot be paid on a timely basis. Tax revenues are projected to be sufficient to support expenditures at a level of 77 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2033, declining to 72 percent of scheduled benefits in 2087.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is $9.6 trillion, which is 2.6 percent of taxable payroll and 0.9 percent of Gross Domestic Product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

(1) Increasing payroll taxes;
(2) Slowing the growth in benefits;
(3) Finding other revenue sources (such as general revenues); or
(4) Increasing expected returns by investing the OASI and DI Trust Fund asset reserves, at least in part, in private securities.

Significant uncertainty surrounds the estimates for the Statement of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near term and ultimate assumptions used in the projections. For more information, pages 81 through 92 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

Limitations of the Financial Statements

The principal financial statements beginning on page 39 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

Summary of Improper Payments Information

Background

The *Improper Payments Information Act of 2002* (IPIA), Public Law 107-300, requires Federal agencies to report annually on the extent of the improper payments in programs susceptible to significant improper payments and the actions to reduce such payments.

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

President Obama signed the *Improper Payments Elimination and Recovery Act* (IPERA) into law on July 22, 2010. On April 14, 2011, OMB issued implementing guidance for IPERA. IPERA amends IPIA and further increases our accountability, transparency, and reporting of improper payments, as well as reporting on our payment recapture auditing efforts.

Recovery Audit Program

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

We also use an existing in-house recovery audit program for administrative contractual payments. Our in-house recovery audit program complies with OMB guidance and employs a number of tools to aid in the detection and recovery of improper overpayments. To further enhance internal controls over administrative payments, on November 2, 2011, we awarded a payment recapture audit contingency contract for review of our administrative payments. We will report on the results of the audit in our *FY 2014 Agency Financial Report* and our FY 2014 *Payment Recapture Audit Report* to Congress.

Agency Efforts and Future Plans

We have multiple efforts underway to prevent, detect, and recover our improper payments. As required by IPERA, effective FY 2012, we are also holding managers, program officials, and senior executives accountable for reducing improper payments. For affected employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments and meet targets to reduce improper payments.

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a sample of OASI, DI, and SSI cases to determine payment accuracy rates. Stewardship review findings provide the data necessary to meet the IPIA reporting requirements, as well as other reports to monitoring authorities. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for current and previous reporting periods.

For the past five years, OASDI payments have been very accurate. However, the sheer magnitude of the payments made in the OASDI program, approximately $770 billion in FY 2012, means that even a small percentage of error will result in substantial dollar error. In FY 2012, the OASDI overpayment accuracy rate was 99.8 percent representing projected overpayments of $1.708 billion, and the underpayment accuracy rate was 99.9 percent, or

$0.740 billion, in projected underpayments. Each tenth of a percentage point in payment accuracy represents about $770 million in OASDI program outlays.

In the SSI program, the overpayment accuracy rate increased over a 5-year period, FY 2008 through FY 2012, from 89.7 percent to 93.7 percent. We based the FY 2012 rate of 93.7 percent on overpaid dollars totaling a projected $3.387 billion. This represents an increase of 1.0 percentage point over the FY 2011 overpayment accuracy rate of 92.7 percent. In FY 2012, the SSI underpayment accuracy rate was 98.2 percent based on underpaid dollars totaling a projected $0.948 billion. Our SSI overpayment accuracy rate was unchanged from FY 2011. For FY 2012, each tenth of a percentage point in payment accuracy represents about $53.4 million in SSI program outlays.

The following are examples of initiatives to improve payment accuracy in the OASDI and SSI programs. We provide additional information, as well as other corrective actions we have taken, in the *Improper Payments Information Detailed Report* in the *Other Information* section.

Examples of OASDI Improper Payment Initiatives

- To address errors because of substantial gainful activity (SGA) (Note: A definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html), we developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments.
- We modified our Earnings Alert System to allow adjudicators to identify and develop those irregularities on earnings records which, when resolved, will most likely affect the worker's benefit payment.

Examples of SSI Improper Payment Initiatives

- In March 2012, we integrated our Access to Financial Institutions (AFI) bank verification process with our internal SSI systems. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources. In FY 2013, we further lowered the AFI threshold to verify liquid financial resources and increase undisclosed bank account searches. We fully implemented this expansion of AFI in October 2013.
- We experience continued increased usage of the SSI Telephone Wage Reporting (SSITWR) initiative implemented in FY 2008. SSITWR allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via a completely automated system that ensures we receive the wage information timely. In FY 2013, we rolled out the SSI Mobile Wage Reporting Smartphone Application, which allows SSI recipients (or their parents, spouses, or representative payees) to use their smartphones to report prior monthly gross wages by using an application the reporter can download at no charge from the Google Play and Apple App stores.
- In FY 2013, we developed a pilot in 100 of our field offices to identify undisclosed real property owned by SSI recipients. The pilot will provide information on cost savings and the feasibility of expansion to other field offices.

SYSTEMS AND CONTROLS

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT
FISCAL YEAR 2013

Management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We assessed the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*. Based on our evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013 was operating effectively and that we found no material weaknesses in the design or operation of the internal controls.

Our financial statement auditors found that we made significant progress in strengthening controls over our information systems to address the material weakness cited last year. In this year's financial statement audit, the material weakness was reduced to a significant deficiency. However, in accordance with the *Federal Information Security Management Act* (FISMA), we are reporting that the Office of the Inspector General cited the remaining deficiency in our information systems controls as a significant deficiency under FISMA. FISMA requires that we report this finding as a material weakness under FMFIA and an instance of a lack of substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) if related to financial management systems.

We do not agree that the significant deficiency rises to the level of a material weakness under FMFIA. We do not believe the identified deficiency adversely affects our ability to meet the internal control objectives of FMFIA as noted by the assurances provided in this statement. We also believe the identified finding does not affect our ability to meet the FFMIA requirements to maintain financial systems that substantially comply with Federal financial system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining deficiency and build on our progress to date.

In accordance with the requirements of OMB Circular No. A-123, Appendix A, we assessed the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of our annual financial statements, safeguarding of assets, and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements. The result of this evaluation provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2013.

We also conduct reviews of financial management systems in accordance with OMB Circular No. A-127, *Financial Management Systems*. Based on the results of these reviews, we can provide reasonable assurance that our financial management systems comply with the applicable provisions of the FMFIA as of September 30, 2013.

Carolyn W. Colvin
Acting Commissioner
December 9, 2013

Agency Federal Managers' Financial Integrity Act Program

We have a well-established, agency-wide management control and financial management systems program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives to submit an annual statement to the Acting Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended, and there were no major weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Acting Commissioner's annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control Committee determines if the weakness is a material weakness that they would need to forward to the agency head for final determination.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls, and management reviews the new or changed processes and systems to certify the controls are in place. We test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observation of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123, A-127, and A-130.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section for more information.

Management Control Review Program

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes, such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State disability determination services. These reviews indicate our management control review program is effective in meeting management's expectations for compliance with Federal requirements.

Financial Management Systems Review Program

OMB Circular No. A-127 requires agencies to maintain a financial management systems inventory and to conduct reviews to ensure financial management systems meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2013, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

Federal Financial Management Improvement Act

The Acting Commissioner determined that our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2013. In making this determination, she considered all the information available, including the auditor's opinion on our FY 2013 financial statements, the report on management's assertion about the effectiveness of internal controls, and the report on compliance with laws and regulations. She also considered the results of the management control reviews and financial management systems reviews conducted by the agency and our independent contractor.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section for more information.

Financial Statement Audit

The Office of the Inspector General (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2013 financial statements. The auditor found we present fairly the basic financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America for Federal entities.

Our financial statement auditors found that we made substantial progress in addressing the material weakness cited last year. In this year's financial statement audit, Grant Thornton cited a significant deficiency in our information systems controls in its opinion on internal control over financial reporting. We concur with the recommendations. We will continue to pursue a risk-based corrective action plan to address the remaining deficiency, and build on our progress to date.

Grant Thornton also found deficiencies in our calculation, recording, and prevention of overpayments that, when aggregated, it considered a significant deficiency and provided recommendations to remediate the deficiencies. We concur with the recommendations and will continue to improve our benefit payment oversight.

OIG reported Grant Thornton's finding of significant deficiency as a significant deficiency under the *Federal Information Security Management Act* (FISMA). We acknowledge the finding identified by OIG and reported it in accordance with OMB Memorandum M-14-04.

Federal Information Security Management Act

FISMA requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. This year's report is due by December 2, 2013. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using OMB's performance measures. During FY 2013, we strengthened our information security program by implementing and improving our management controls to correct deficiencies cited by our Inspector General in our prior year financial statement audit. For the FY 2013 financial statement audit, Grant Thornton identified a significant deficiency in SSA's information systems. This is an improvement from the material weakness identified in the FY 2012 financial statement audit. However, our OIG cited the auditors' finding as a significant deficiency under FISMA.

Financial Management Systems Strategy

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve Government-wide and internal financial management milestones established for improvement.

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of 12 financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative, and continue the long-term development of our financial management systems following a defined strategy. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In the Debt Management category, we continue to enhance our systems to recover program debt. We developed the External Collection Operation (ECO) system to select and refer our delinquent program overpayments to the Department of the Treasury (Treasury) for recovery through the Treasury Offset Program (TOP), for credit bureau reporting, and for Administrative Wage Garnishment. Since 2010, we have worked to improve the ECO system through a three-phased approach. Phase I, implemented in July 2010, enabled us to collect delinquent Supplemental Security Income debts from a population of debtors previously excluded from the automated ECO selection process. We implemented Phase II of the ECO Enhancements in May 2012. Phase II allows us to select debts 10 years or more delinquent for referral to TOP, as authorized by Public Law 110-246 and 31 U.S.C. 3716. Phase III, implemented in September 2013, allows us to collect delinquent debts by offsetting eligible State payments through TOP. We are now working to improve our ECO system through the ECO modernization project. Upon full implementation, this project will enable ECO to select and refer individual delinquent debts to Treasury for offset via TOP.

For the Financial/Administrative systems category, OMB Memorandum M-10-26 provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

We implemented SSOARS, a federally certified accounting system based on Oracle Federal Financials, as our System of Record on October 1, 2003. Since that time, we have implemented a number of software improvements. SSOARS consists of core accounting, payables, and receivables, and produces management information reports. In addition, SSOARS provides real-time integration with administrative and programmatic systems.

To provide functionality necessary to comply with new Treasury reporting requirements, in FY 2013, we continued implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) in SSOARS. We are on schedule to fully implement GTAS in December 2013.

Building on our previous use of Web Services technology, we completed the national rollout of the Case Processing and Management System (CPMS). CPMS transmits purchase orders and invoices to SSOARS for Medical Experts, Vocational Experts, and Verbatim Hearing Reporters. These obligations support our Office of Disability Adjudication and Review and our overall disability hearings process. This interface enables us to post obligations to SSOARS in real-time and significantly reduces the number of invoices we must process manually, approximately 5,500 per month before CPMS rollout.

We implemented a new Miscellaneous Receipt Gateway Web Service, which allows for both real-time and batch file processing of miscellaneous receipts. This Web Service processes nightly inbound batch files received from electronic *Freedom of Information Act* requests. The implementation of the Miscellaneous Receipt Gateway Web Service brings us into compliance with the SSOARS initiative to have all of the existing interfaces follow a common gateway architecture to ensure consistency, security, improved productivity, and more control over inbound and outbound interfaces.

We also completed the upgrade of the Electronic Document Management System (EDMS). The new EDMS software, Version 8, provides new functionality, such as: (1) improved Optical Character Recognition, which reads key data fields on invoices automatically and reduces the time required to register invoices; (2) email integration allowing acceptance of emails with attachments as an alternative to scanning; (3) new Invoice Prioritization based on agency rules such as prompt pay due date and small business accelerated payments; and (4) an Auto Assignment capability that automatically selects the correct examiner to process the invoice. The electronic workflow capabilities in this release allow us to better integrate with Treasury's Internet Payment Platform, one of several areas where we continue to embrace automated solutions that are common across the Federal Government.

Finally, we began replacing the outdated and unsupported technology used for the SSOARS Financial Information System (FIS). SSOARS FIS is used agency-wide to access the spending data recorded in SSOARS. The new technology will feature: (1) improved security using our Active Directory; (2) faster access to the homepage for new users; (3) fewer forms, tabs, and links for easier navigation; and (4) simplified report queries with user-configurable forms.

We plan to replace the SSOARS infrastructure with state-of-the-art servers that will consolidate software programs and consume less energy. We also plan to implement a new subsystem to collect administrative fees and programmatic debt in all field offices, and it will fully integrate with SSOARS and Treasury systems that track collection activity.

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