# A MESSAGE FROM THE ACTING COMMISSIONER

I am pleased to present the Social Security Administration's fiscal year (FY) 2013 *Agency Financial Report* (AFR). This report reflects our commitment to the stewardship of taxpayer resources in accomplishing our mission of "delivering Social Security services that meet the changing needs of the public." Through our AFR, we hope that the President, Congress, and the American public will better understand our programs, challenges, and accomplishments.

Social Security is an indispensable part of so many lives, providing disability or retirement benefits to workers and their families. We provide benefits to approximately 63 million people and infuse about $65 billion each month into the economy through benefits. Despite the ongoing budget challenges we face, our 75,000 employees work hard to meet the public's expectations. We continue to make great strides by focusing on our Strategic Goals, which include:

- 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.

We utilized this time of challenge as an opportunity to be innovative in our service delivery. I am pleased that we were successful in providing greater access to critical information, increasing the services available online, and enhancing our quality assurance tools. Our FY 2013 initiatives of expanding our online services, ensuring quality, and increasing efficiency and effectiveness helped to provide a world-class customer experience.

*Online Services*: For most Americans in today's world, being able to conduct business easily and quickly online is essential. During FY 2013, we not only redesigned our public website to enhance our customer's experience, but added additional online services. Individuals can apply for benefits online, update their records, and access needed documents. Three of our websites -- our iClaim, Retirement Estimator, and Extra Help with Medicare Prescription Drug Plan Costs application -- topped the American Customer Satisfaction Index's e-Government Satisfaction Index list. We are now expanding our services to include smartphone options, including creating a smartphone friendly version of our website and an application for wage reporting. We will continue to invest resources in this area to ensure that we are able to meet the demands of our customers in the future.

*Quality*: Ensuring quality in everything we do is very important to us. We continued to make investments to ensure quality disability decisions, payments accuracy, and public service. This past fiscal year, we expanded our electronic bench book and enhanced our electronic claims analysis tool. Both these tools ensure thorough analysis of cases and consistency in disability decisions. We have also put in place several initiatives, described in this document, to increase the accuracy of our payments. To ensure quality public service, we not only enhanced our online services, but we upgraded our National 800 Number Network and increased the number of Video Service Delivery locations to highlight a few.

*Efficiency & Effectiveness*: We are continuously looking for ways to increase our efficiency and effectiveness. Some highlights from this past year include taking action to reduce our carbon footprint and finding creative ways to be "green." We also remain committed to collaborating with our Federal partners. We increased efficiency in our data exchanges to prevent fraud and reduce the incidents of financial exploitation among our beneficiaries.

For the 20th consecutive year, we received an unmodified opinion on our financial statements. Based on our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable, and accurate. I am also pleased to announce that our financial statement auditors found that we made substantial progress in addressing the material weakness in internal control over financial reporting they cited last year. In this year's financial statement audit, the auditors reduced the severity of the finding to a significant deficiency. For more information, please see the auditor's report in the *Financial Section*.

In spite of the ongoing budgetary challenges, we are working hard to meet the public's expectations. My focus as Acting Commissioner is to position the agency for the future --- to be able to handle the emerging service needs of the American public.

In closing, I want to acknowledge the dedicated employees of our agency. Their hard work and commitment were vital to our success in meeting the needs of the American public. This report reflects their tireless efforts to serve.

Carolyn W. Colvin
Acting Commissioner
December 9, 2013

# TABLE OF CONTENTS

To access this report online, please visit our ***Fiscal Year 2013 Agency Financial Report* (www.socialsecurity.gov/finance)**.

# INTRODUCTION

For fiscal year (FY) 2013, we decided to produce an *Agency Financial Report* (AFR) and *Annual Performance Report* (APR) as an alternative to producing the consolidated *Performance and Accountability Report*. We will integrate our FY 2013 APR and our *Annual Performance Plan* (APP) *for FY 2015 and Revised Final Performance Plan for FY 2014* into one streamlined document. We plan to publish our integrated report and *FY 2013 Summary of Performance and Financial Information* in February 2014.

Our AFR provides financial management and high-level performance information that enables the President, Congress, and the public to assess how well we accomplished our mission, achieved our goals, and managed the financial resources entrusted to us. We organize our AFR into the following major sections:

**Management's Discussion and Analysis**: The *Management's Discussion and Analysis* section gives an overview of our mission, organization, Strategic Goals and Objectives, Priority Goals, and key FY 2013 performance measures. We highlight the FY 2013 results of our key performance measures and discuss our accomplishments and plans to achieve our mission. We provide a summary of the financial information contained in subsequent sections of the AFR. We also include a synopsis of our systems, controls, and legal compliance.

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

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

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

***For the 15th year in a row, we received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting award for our FY 2012 Performance and Accountability Report. Receiving the Certificate of Excellence in Accountability Reporting is a significant accomplishment for a Federal agency, and it is the highest form of recognition in Federal financial reporting.***

# Management's Discussion and Analysis

**The *Management's Discussion and Analysis* (MD&A) 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.

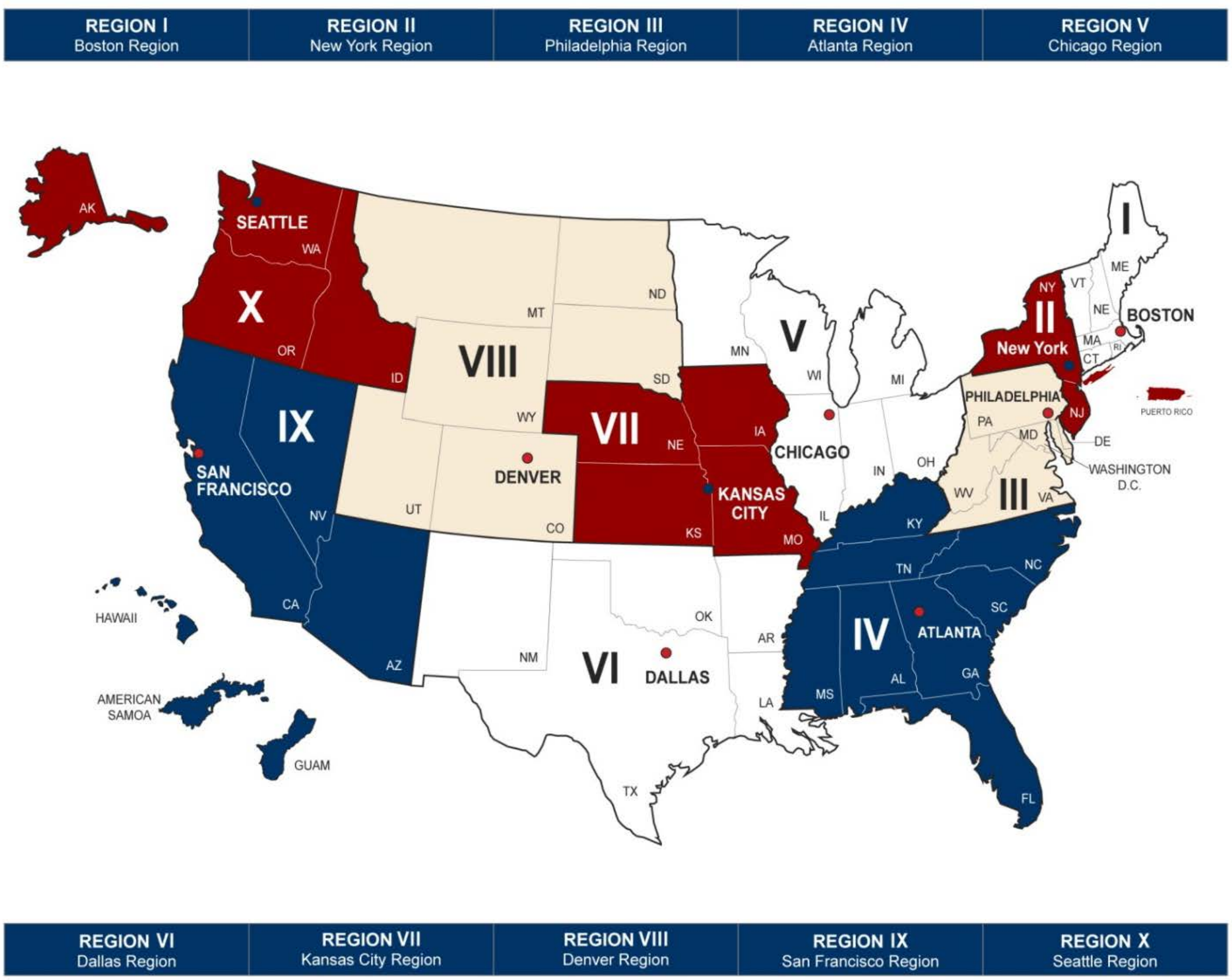
## How We Served America in Fiscal Year 2013

- 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*Social Security, 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/)](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**

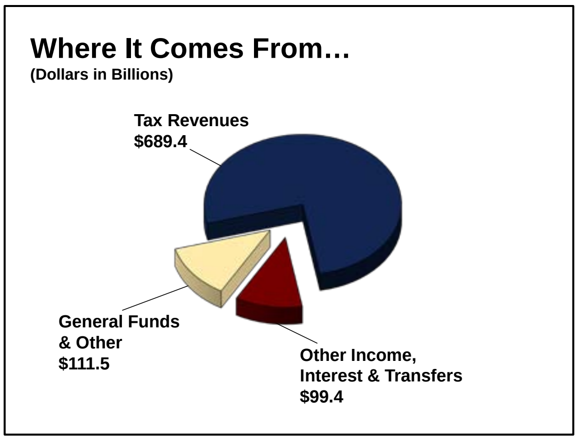
| | FY 2013 | FY 2012 | % Change |
|---|---|---|---|
| **OASI** | | | |
| **Benefit Payments** | $666,387 | $630,841 | 5.6% |
| **Average Benefit Payment (per month)** | $1,204.39 | $1,170.42 | 2.9% |
| **Number of Beneficiaries** | 46.7 | 45.6 | 2.4% |
| **DI** | | | |
| **Benefit Payments** | $139,262 | $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% |

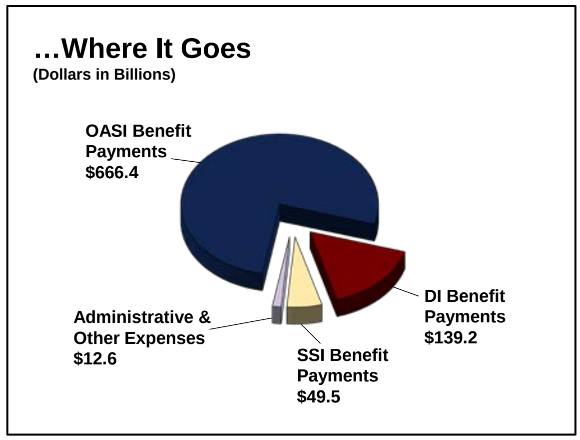
1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

**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.

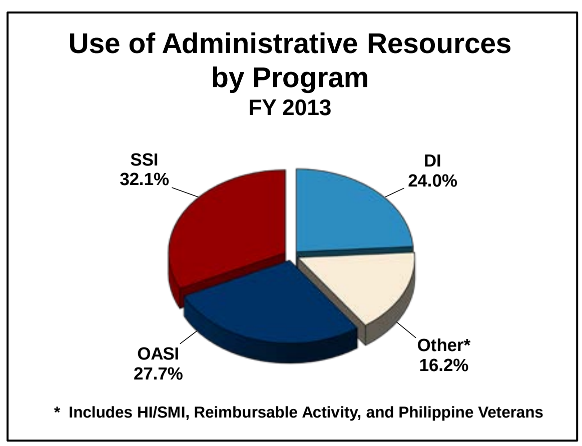



**Statement of Budgetary Resources**: The Statement of Budgetary Resources displayed on page 43 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2013. The statement shows that we had $945.0 billion in budgetary 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

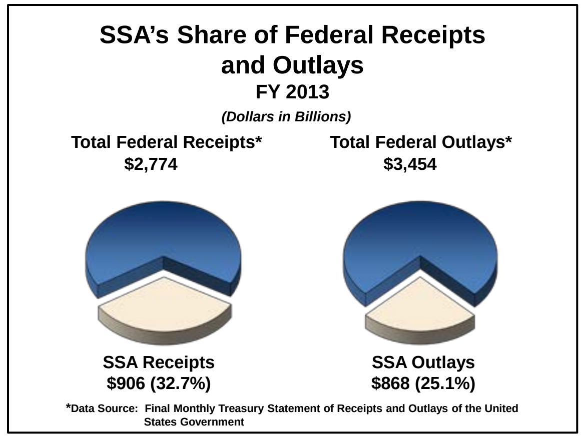
The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2013 in terms of the programs we administer or support. Although the DI program comprises only 16.3 percent of the total benefit payments we make, it consumes 24.0 percent of annual administrative 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.




# 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 |

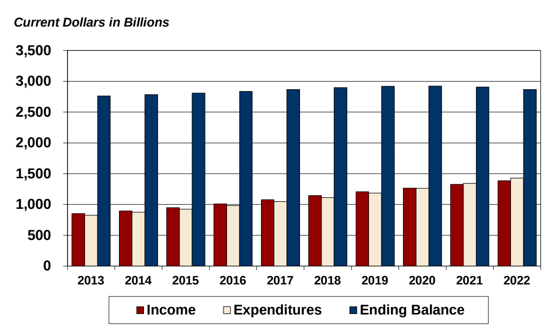
1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.

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

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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# 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)**

| **Assets** | **2013** | 2012 |
|---|---|---|
| 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 |

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

The negative fund balances reported for the OASI, DI, and LAE Trust Funds as of September 30, 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:<br>($ 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)

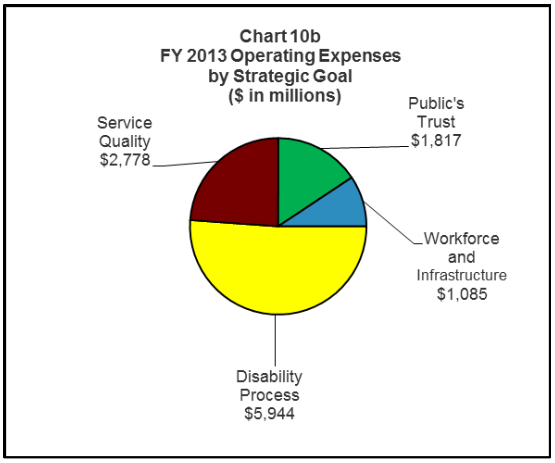
| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | LAE | | | | | |
| | SSA | OIG | ARRA | OASI and DI Trust Fund Operations | Vocational Rehabilitation & Other | Total |
| OASI | $ 2,879 | $ 36 | $ 0 | $ 601 | $ 2 | $ 3,518 |
| DI | 2,850 | 36 | 0 | 114 | 101 | 3,101 |
| SSI | 3,951 | 0 | 0 | 0 |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

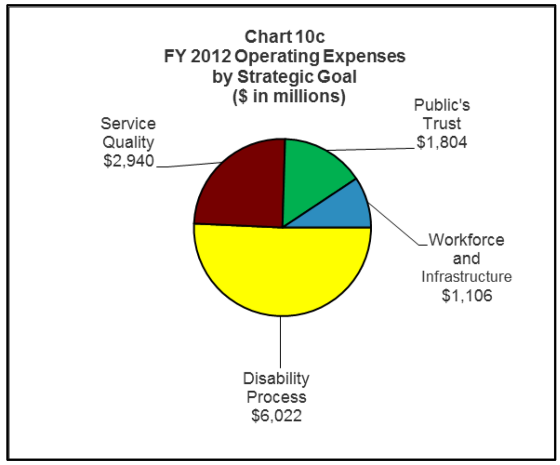
## Classification of Operating Expenses by Strategic Goal

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**

| | Total Fertility Rate[1] | Age-Sex-Adjusted Death Rate[2] (per 100,000) | Period Life Expectancy At Birth[3] | | Net Annual Immigration (persons per year)[4] | Real-Wage Differential[5] (percentage points) | Annual Percentage Change In: | | | | Average Annual Interest Rate[10] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Male | Female | | | Average Annual Wage in Covered Employment[6] | CPI[7] | Total Employment[8] | Real GDP[9] | |
| 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**

| | | | | | Average Annual Percentage Change In: | | | |
|---|---|---|---|---|---|---|---|---|
| Year of Statement | Total Fertility Rate[1] | Average Annual Percentage Reduction in the Age-Sex Adjusted Death Rates[2] | Average Annual Net Immigration (persons per year)[3] | Average Annual Real-Wage Differential[4] (percentage points) | Average Annual Wage in Covered Employment[5] | CPI[6] | Total Employment[7] | Average Annual Real Interest Rate[8] |
| FY 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

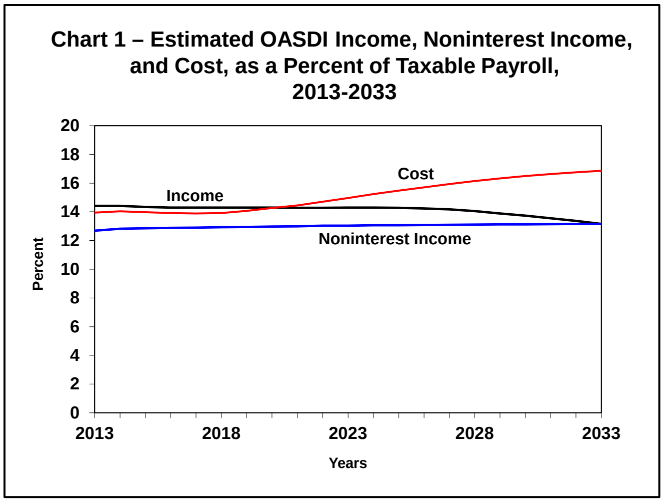
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

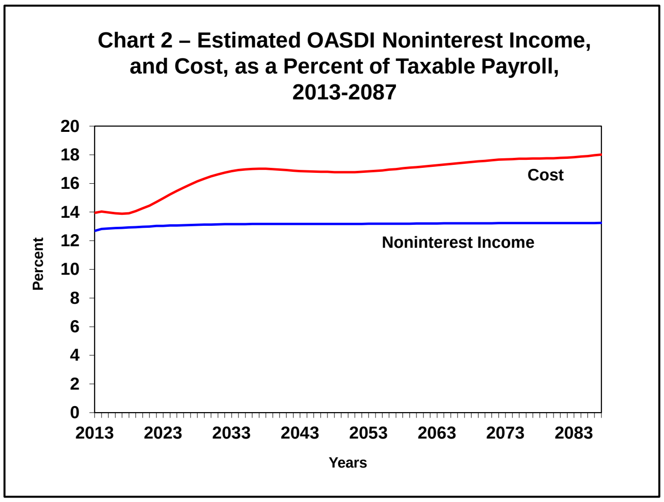
**Sustainable Solvency -** Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits 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.




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.

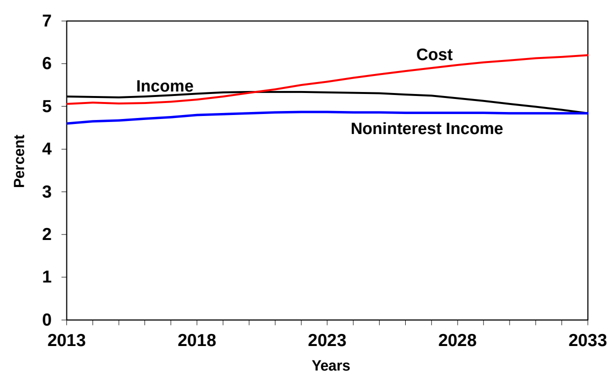
**Actuarial Balance -** The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$12,294 billion. If augmented by the combined OASI and DI Trust Fund asset reserves at the start of the period (January 1, 2013), it 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.

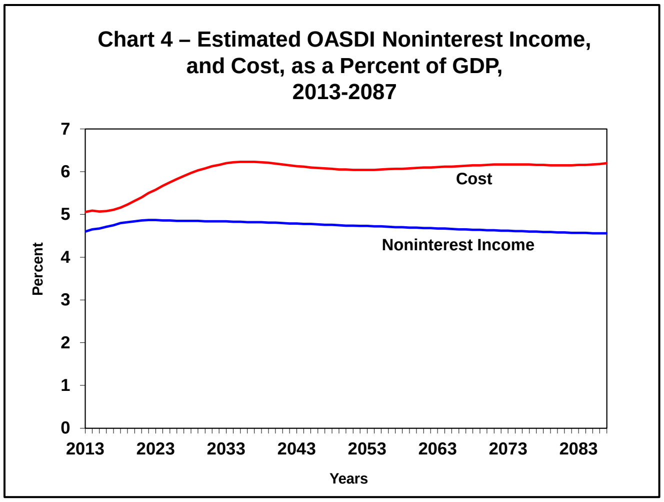
For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.66 percentage points (from its current level of 12.40 percent to 15.06 percent). One interpretation 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.

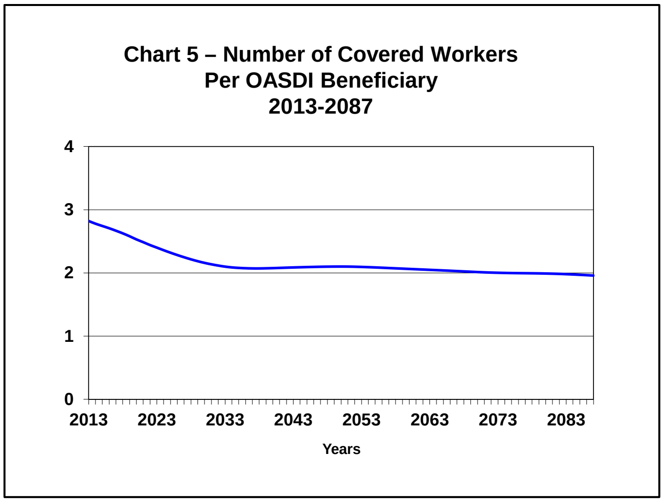
**Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2013-2033**






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.

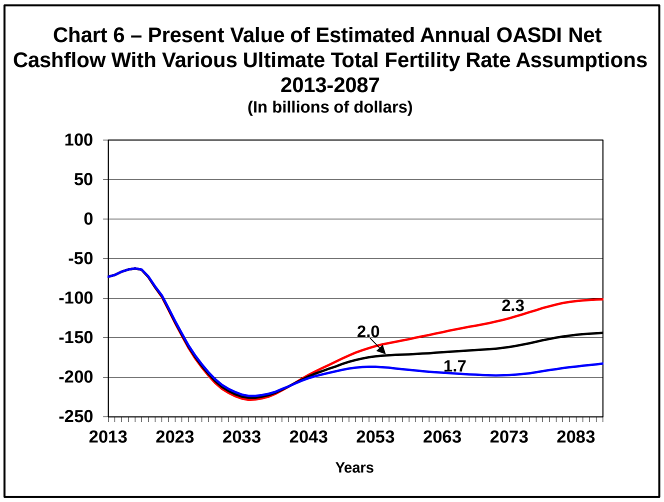
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more 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.



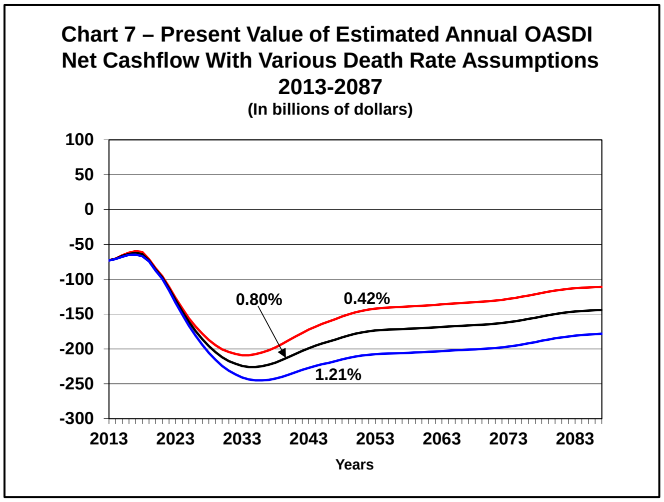

The three patterns of the present values shown in Chart 6 are similar. The present values based on all three ultimate total fertility rates are negative in all years of the 75-year projection period. The net cashflow estimates corresponding to a 1.7 ultimate total fertility rate increase (become less 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<br>With Various Death Rate Assumptions<br>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.



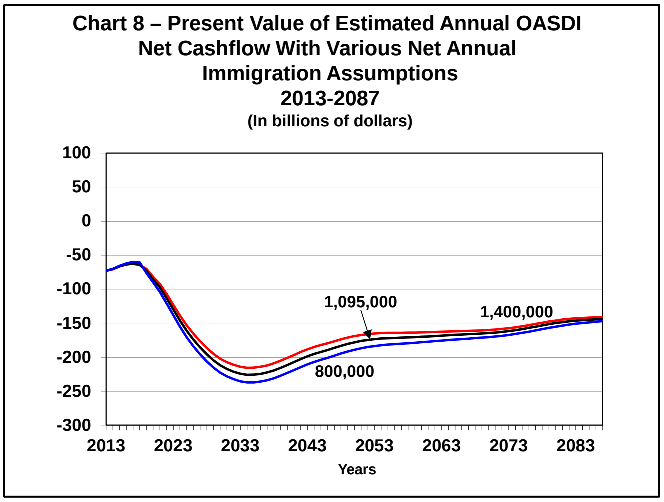

The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cashflow estimates are negative in all years of the 75-year projection period. After increasing (becoming less negative) in years 2014-2017, the present values are expected to decrease 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.

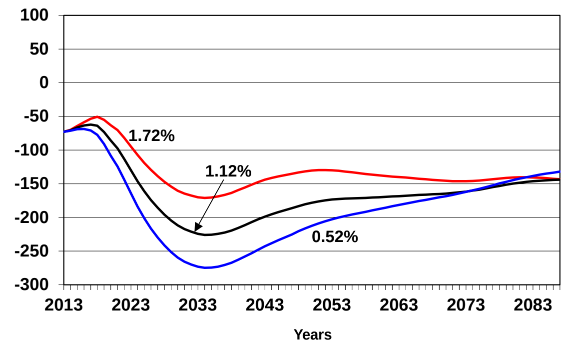
Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.12 percentage point, the Trustees' intermediate assumption, to 0.52 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $13,921 billion from $12,294 billion; if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

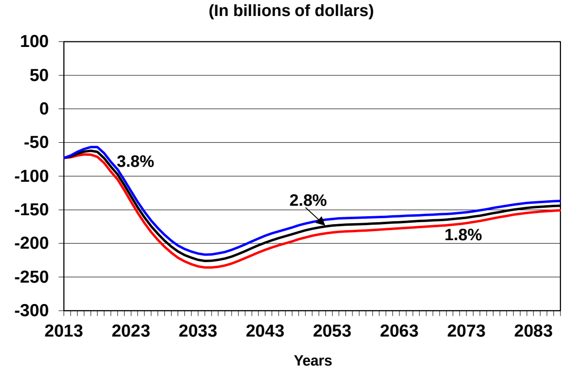
Table 5 demonstrates that if the ultimate annual increase in the CPI were changed from 2.80 percent, the Trustees' intermediate assumption, to 1.80 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $12,939 billion from $12,294 billion; if the ultimate 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.

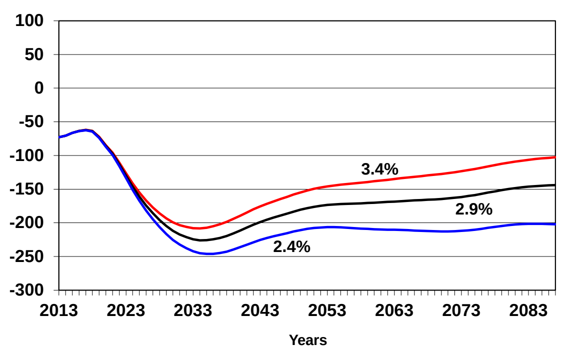
Table 6 demonstrates that if the ultimate real interest rate were changed from 2.9 percent, the Trustees' intermediate assumption, to 2.4 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms would increase to $14,556 billion from $12,294 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.

**Chart 11 – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real Interest Rate 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 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.

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- 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.

Grant Thornton

**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.

Enclosure – Page 2 – Grant Thornton LLP

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.

Enclosure – Page 3 – Grant Thornton LLP

## Significant Deficiency - Calculation, Recording, and Prevention of Overpayments

### Deficiencies in Overpayment Calculations and Records

<u>General Comment</u>

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.

<u>Recommendation 1</u>

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

<u>Comment</u>

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

<u>Recommendation 2</u>

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.

<u>Comment</u>

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.

<u>Recommendation 3</u>

Increasing management review over manual transactions impacting overpayment balances.

<u>Comment</u>

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

<u>General Comment</u>

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.

Enclosure – Page 4 – Grant Thornton LLP

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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# Other Information

**The *Other Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.**

**In accordance with the *Reports Consolidation Act of 2000,* the *IG Statement on SSA's Major Management and Performance Challenges* provides a summary and assessment of the most serious management and performance challenges we face as determined by the Office of the Inspector General (OIG). The OIG also describes the steps we have taken to address each of the challenges.**

**Next, in *Other Reporting Requirements*, we provide a summary of our financial statement audit and management assurances. We also provide information on our entitlement reviews, the OIG's anti-fraud activities, our biennial review of user fee charges, and our debt management activities.**

**Finally, the *Other Information* section concludes with the *Improper Payments Information Detailed Report*. In this section, we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.**

# IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

December 6, 2013

The Honorable Carolyn W. Colvin
Acting Commissioner

Dear Ms. Colvin:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* also requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Agency Financial Report*.

In Fiscal Year (FY) 2013, we continued our focus on the management and performance challenges from the previous year. The challenges are listed below.

- Reduce the Hearings Backlog and Prevent its Recurrence
- Improve the Timeliness and Quality of the Disability Process
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Invest in Information Technology Infrastructure to Support Current and Future Workloads
- Strengthen the Integrity and Protection of the Social Security Number
- Improve Transparency and Accountability
- Strengthen Strategic and Tactical Planning

We used multiple sources to determine the status of each of the identified challenges. For example, we used statistics reported by SSA and Office of the Inspector General audits of SSA's operations. We also used the FY 2013 independent auditor's report, which contained the results of SSA's financial statement audit. The report concluded that SSA had two significant deficiencies in internal control. These issues are discussed in detail in the enclosure.

My office will continue focusing on these issues in FY 2014. We will also continue assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Patrick P. O'Carroll, Jr.
Inspector General

# *Fiscal Year 2013 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges*

SOCIAL SECURITY ADMINISTRATION

OIG

*December 2013*

# Reduce the Hearings Backlog and Prevent its Recurrence

## Challenge

*While the Social Security Administration (SSA) had a plan to eliminate the hearings backlog by 2013, the number of pending cases has increased, and the average processing time remains above the goal of 270 days.*

**Hearing Backlog:** The Agency's first goal in its *Fiscal Year (FY) 2008-2013 Agency Strategic Plan* (ASP) is to eliminate the hearings backlog and prevent its recurrence. Its long-term outcome is to reduce the number of pending hearings to 466,000 cases and reduce the average processing time to 270 days by the end of FY 2013. However, SSA will not achieve the backlog goal since there were about 848,000 pending claims, and average processing time was 382 days at the end of FY 2013. In a FY 2011 report, we stated that the Agency would meet its hearings backlog goal if it accurately predicted administrative law judge (ALJ) productivity and availability, the number of hearing receipts, and senior attorney adjudicator (SAA) decisions. While ALJ productivity and availability were within a few percentage points of Agency projections, hearing receipts exceeded Agency projections by 15 percent or more each year, and there were fewer SAA decisions than anticipated in FYs 2012 and 2013.

The Agency dropped the 466,000 pending claims backlog goal from its FY 2013-2016 ASP and focused instead on reducing the average wait time for a hearing decision to 270 days by the end of FY 2013. While the Agency will not meet the 270-day goal, it has reduced the average wait times. For example, average processing time in FY 2008 was 514 days; by the end of FY 2013, it was 382 days.

**Adjudicatory Capacity:** In FY 2007, the Agency issued an interim final rule allowing SAAs to issue fully favorable on-the-record decisions, thereby conserving ALJ resources for the more complex cases that require a hearing. In our June 2013 report on the *Effects of the Senior Attorney Adjudicator Program on Hearing Workloads*, we stated that while the SAA Program contributed to an increase in adjudicative capacity and improved average processing time over the years, the number of SAA on-the-record decisions had been declining, and the quality of these decisions had dropped. We recommended the Agency evaluate the benefits of conducting focused quality reviews on ALJ and SAA on-the-record decisions. In this way, common on-the-record issues can be identified and appropriate training developed.

**Management Oversight:** Our January 2013 audit, *Identifying and Monitoring Risk Factors at Hearing Offices*, highlighted the Agency's efforts to identify problematic workload trends among ALJs. We recommended that this new monitoring approach be made a permanent part of management oversight and the Agency create additional monitoring of hearing office trends that may identify potential processing and management problems. In addition, we identified case rotation problems at hearing offices in a March 2013 audit, *Hearing Office Case Rotation among Administrative Law Judges*. We recommended that the Agency continue monitoring hearing offices that had rotation issues and remind hearing office managers that ALJ coverage of remote sites should be consistent with its rotation policy.

## Agency Actions

In the Agency's FY 2013-2016 ASP, SSA identified four strategies to achieve its hearings timeliness goal:

- eliminate the oldest cases first;
- expedite cases that do not require a hearing;
- enhance electronic tools that improve productivity and quality; and
- target national resources to meet workload demands.

In FY 2007, the Agency implemented an Aged Claim initiative that emphasized processing the oldest claims in the backlog. In FY 2008, there were over 135,000 claims 900 days or older in the backlog. With a sustained emphasis to process cases on a first-in, first-out basis, the Agency eliminated the oldest cases in its backlog, and by the end of

FY 2013, it had about 1,270 cases that were 700 days or older.  Since implementing the initiative, the Agency has processed nearly 900,000 aged cases that were 700 days or older.

The Agency hired 27 ALJs in FY 2013.  However, in FY 2013, the Agency lost 86 ALJs through attrition.  In addition, Office of Disability Adjudication and Review staffing levels were down about 4 percent from the start of the FY.  As a result, the Agency will need to continue using technology to increase adjudicatory capacity, including expanded use of video hearings and video-only National Hearing Centers that process cases from some of the most heavily backlogged hearing offices.  In FY 2013, the Agency held over 179,000 video hearings, which is over 25,700 more than the number of video hearings held in FY 2012.

The Agency has implemented a new “How MI Doing?” tool that provides each ALJ a list of favorable cases reviewed by the Appeals Council under its own motion authority.  This new capability builds on the information already available through “How MI Doing?”  It further improves the feedback to ALJs, which should help them ensure their decisions comply with policy.

# Improve the Timeliness and Quality of the Disability Process

## Challenge

*SSA needs to address millions of initial disability and reconsideration claims, as it continues to have backlogs of initial disability claims and continuing disability reviews (CDR).*

**Disability Claims Backlog:** Over the past 2 years, SSA has received a large influx of initial and reconsideration claims. It received about 3.2 million initial and 832,000 reconsideration claims in FY 2012 and approximately 3 million initial and 784,000 reconsideration claims in FY 2013. As a result, SSA had a large number of initial claims pending completion. As of September 2013, SSA had over 698,000 initial disability claims pending.

**DDS Personnel Issues:** Some disability determination services (DDS) are facing high attrition rates, hiring freezes, and employee furloughs, which affect SSA's ability to process its disability workload. Because of hiring freezes, DDSs are not allowed to replace lost staff. At the end of FY 2013, Nevada was still furloughing DDS employees.

**CDR Backlog:** In our March 2010 report on *Full Medical Continuing Disability Reviews,* we stated that SSA estimated a backlog of over 1.5 million medical CDRs at the end of FY 2010. As a result, we estimated that from Calendar Years (CY) 2005 through 2010, SSA made benefit payments of between $1.3 and $2.6 billion that it could have avoided had State DDSs conducted the medical CDRs when they were due. SSA had a backlog of 1.2 million medical CDRs at the end of FY 2012. As of the end of FY 2013, SSA had a backlog of 1.3 million medical CDRs.

## Agency Actions

**SSA's Strategy:** In November 2010, SSA released its *Strategy to Address Increasing Initial Disability Claim Receipts* to reduce the initial claims backlog to a pre-recession level of 525,000 by FY 2014. The multi-year Strategy included

- increasing staffing in the DDS and Federal disability processing components;
- improving efficiency through automation;
- expanding the use of screening tools to assist in identifying claims likely to be allowed; and
- refining policies and business processes to expedite case completion.

As part of the Strategy, SSA created Extended Service Teams, in Arkansas, Mississippi, Oklahoma, and Virginia to assist States by taking claims from those with the highest pending levels. In FY 2010, SSA hired 237 additional employees in the Federal disability processing components that support the DDSs.

SSA also provided funding for States to hire additional DDS employees. In total, SSA gained more than 2,600 DDS employees in FYs 2009 and 2010. However, SSA did only limited critical hiring from FYs 2011 to 2013. As a result, SSA lost over 2,800 DDS employees from FYs 2011 to 2013.

With the loss of DDS employees and a high level of initial disability claims receipts in FY 2013, SSA no longer expects to achieve an initial claims pending level of 525,000 by FY 2014. In fact, pending initial disability claims rose to over 698,000 in FY 2013, and SSA expects it to exceed 900,000 by the end of FY 2014. We are reviewing the actions SSA is taking to address the initial disability claims backlog.

**Disability Case Processing System:** The Agency is developing a Disability Case Processing System (DCPS), which is 1 system that will replace the existing 54 systems that support the DDSs. DCPS will integrate case analysis tools and health information technology (IT). A common case processing system will help SSA timely distribute policy changes. Per SSA, it will provide consistent case processing abilities between the DDSs, which should have a positive effect on processing times and the consistency of disability decisions. SSA began testing the initial version of DCPS in the Idaho DDS in September 2012. In FY 2013, SSA tested, trained, and implemented the second software release to the Idaho and Illinois DDSs. SSA expects to test additional software releases in two other DDSs in FY 2014 with expanded implementation through FY 2016.

**Cooperative Disability Investigations:** We have continued working with SSA to address the integrity of the disability programs through Cooperative Disability Investigations (CDI). The mission of the 25 CDI units is to obtain evidence that can resolve questions of fraud in SSA's disability claims. The program is managed jointly by SSA's Office of Operations and the Office of the Inspector General. Since the program's inception in FY 1998 through the end of FY 2013, its efforts have resulted in $2.5 billion in projected savings to the title II Disability Insurance and title XVI Supplemental Security Income (SSI) programs, as well as over $1.6 billion in projected savings to non-SSA programs.

# Reduce Improper Payments and Increase Overpayment Recoveries

## Challenge

*SSA is responsible for issuing over $800 billion in benefit payments annually to about 60 million people. Given the large overall dollars involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.*

SSA is one of the Federal agencies with a high amount of improper payments. In FY 2012, the last FY for which data were available, SSA reported about $6.8 billion in over- or underpayments, and the Agency incurred an administrative cost of $0.07 for every overpayment dollar it collected. Further, SSA needs to adhere to requirements in Executive Order 13520 – *Reducing Improper Payments* – and the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Pub. L. No. 111-204) to address improper payments. Additionally, the Office of Management and Budget (OMB) recently issued guidance on implementing the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) (Publ. L. No. 112-248), so SSA will need to take additional actions related to reducing improper payments.

**Improper Payment Rates:** Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

For example, according to SSA, in FY 2012,

- the Old-Age, Survivors and Disability Insurance (OASDI) overpayment error was $1.7 billion or 0.2 percent of program outlays, and the underpayment error was $740 million or 0.1 percent of program outlays and
- the SSI overpayment error was $3.4 billion or 6.3 percent of program outlays, and the underpayment error was $948 million or 1.8 percent of program outlays.

For FYs 2012 through 2014, SSA's goal is to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; and for SSI, the Agency's goal is to achieve over- and underpayment accuracy rates of 95 and 98.8 percent, respectively.

**Executive Order 13520, IPERA, and IPERIA:** In November 2009, the President issued Executive Order 13520 on reducing improper payments; and in March 2010, OMB issued guidance for implementing it. Also, in July 2010, IPERA was enacted. In April 2011, OMB issued guidance on implementing IPERA. As a result, all agencies with high-risk programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. OMB designated SSA's programs as high-risk. In January 2013, IPERIA was enacted; and it requires, among other things, that such agencies as SSA use available databases with relevant information on eligibility to prevent improper payments.

**Overpayment Recoveries:** Once SSA determines an individual has been overpaid, it attempts to recover the overpayment. According to SSA, in FY 2013, the Agency recovered $3.46 billion in overpayments at an administrative cost of $0.07 for every dollar collected and ended the FY with an uncollected overpayment balance of $16.4 billion.

## Agency Actions

**Improper Payment Causes:** One of the major causes of improper payments in the OASDI program is benefit computation error. SSA has developed automated tools to address the more troublesome computation issues. Another major cause of improper payments in the SSI program is recipients' failure to provide accurate and timely reports of new or increased wages. In response, SSA developed a monthly wage reporting system incorporating touch-tone and voice-recognition telephone technology.  SSA also implemented its Access to Financial Institutions project to reduce SSI payment errors by identifying undisclosed financial accounts with balances that placed recipients over the SSI resource limit.

**Debt Collection Tools:**  SSA uses a variety of methods to collect the debt related to overpayments.  Collection techniques include internal methods, such as benefit withholding and billing with follow up.  In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts.  These debt collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal Salary Offset.

**CDRs:**  The CDR is a powerful tool for reducing improper payments.  Through completion of CDRs, SSA periodically verifies that individuals are still disabled and eligible for disability payments.  Available data indicate that SSA saves about $9 for every $1 spent on CDRs, including Medicare and Medicaid program effects.

# Improve Customer Service

## Challenge

*The Agency faces several challenges as it pursues its mission to deliver Social Security services that meet the changing needs and demographics of the American public.*

**Increased Workload with Reduced Staff:** Each day, almost 182,000 people visit SSA field offices, and more than 445,000 people call SSA for a variety of services, such as filing a claim, updating information, and asking questions. In FY 2013, SSA completed over 5 million retirement, survivor, and Medicare claims; over 3.1 million Social Security and SSI initial disability claims; and 231,000 SSI aged claims.

In the last 3 years, SSA has lost over 10,000 employees. The Acting Commissioner reports these losses have occurred unevenly nationwide, threatening some offices' viability. SSA's diminished workforce, coupled with hiring restrictions, comes at a time when demands for its services are as high as they have ever been.

The projected retirement of its employees continues to present a challenge to SSA's customer service capability. SSA estimates that about 45 percent of its employees, including 60 percent of its supervisors, will be eligible to retire by FY 2022. SSA also projects it will lose more than 2,000 employees, annually, over the next 10 years, because of retirement. This loss of institutional knowledge may adversely affect SSA's ability to deliver the quality service the public expects. In its May 2013 report on management challenges SSA faces in meeting its mission-related objectives, GAO noted that despite the ongoing retirement wave and hiring freeze, SSA has not updated its succession plan since 2006.

**Changing Customer Expectations:** Technology is rapidly changing, and the public expects to complete more business with SSA online. Internet services and the use of mobile devices and social media continue to increase. At the same time, the nation is becoming more diverse. The Census Bureau projects the U.S. Hispanic population will nearly triple, from 46.7 to 132.8 million, between 2008 and 2050. As SSA enhances its service delivery strategies, it must consider the increasing multilingual and multicultural population it serves.

**Budget:** The Acting Commissioner has acknowledged that SSA is facing its toughest fiscal challenge in nearly 30 years. SSA has stated that the current level of funding will lead to a loss of employees. Consequently, SSA expects its national 800-number service to deteriorate because it does not have a sufficient number of employees to answer calls. For example, the national 800-number average telephone wait time exceeded 10 minutes in FY 2013, an increase of over 5 minutes from FY 2012.

With additional budget cuts, SSA believes its public service will decline, and improper payments will rise. To reduce costs, SSA reported it consolidated 44 field offices, closed 503 contact stations, and put on hold its plans to open 8 hearing offices and 1 teleservice center. Further, SSA has reduced the hours that field offices are open to the public, restricted hiring, and reduced overtime.

**Direct Deposit:** SSA uses direct deposit for about 98 percent of Social Security benefits and 94 percent of SSI payments. In October 2011, we began tracking allegations that indicated individuals other than the beneficiaries or their representatives had directed benefit payments away from the beneficiaries' bank accounts. As of September 30, 2013, we had received over 42,000 reports concerning inappropriate changes to beneficiaries' direct deposit accounts.

**Representative Payment Program:** Providing oversight to ensure representative payees properly manage the Social Security benefits and SSI payments of vulnerable beneficiaries and recipients is a critical customer service performed by SSA. SSA appoints representative payees to receive and manage the benefits of beneficiaries and recipients who are incapable of managing or directing the management of their finances because of their age or mental or physical impairment. SSA reported approximately 5.9 million representative payees serve approximately 8.4 million beneficiaries and recipients and manage about $72 billion in payments. Our audits and investigations continue identifying problematic representative payees.

## Agency Actions

SSA has implemented the following initiatives to improve customer service: establishing the Office of the Chief Strategic Officer, developing a service delivery plan, clarifying correspondence, expanding the use of online services, improving telephone services, expanding video services, strengthening controls over direct deposit, and improving the Representative Payment Program. The Office of the Chief Strategic Officer should help SSA plan for the future, taking into account customer expectations and available resources. We discuss this further in the *Strengthen Strategic and Tactical Planning* section of this report, which begins on page 16.

**Service Delivery Plan:** In February 2013, SSA published its *Service Delivery Plan*, which identified 22 key initiatives for providing the American public with quality service over the next 10 years. The Plan highlights SSA's commitment to improving (1) services readily used by the public, (2) the systems it uses to serve the public, and (3) operations' payment accuracy and efficiency.

More recently, SSA decided not to move forward with the *Service Delivery Plan*. It is working with the National Academy of Public Administration to develop a new long-term plan. SSA intends to publish the long-range plan in late 2014.

**Correspondence:** SSA mails approximately 250 million notices to the public each year, making correspondence one of SSA's most common forms of service delivery. SSA intends to improve its notices to ensure they are clear and concise. SSA planned improvements for the readability, clarity, and tone of SSI notices. Additionally, SSA reported it is improving language for its highest volume notices, such as the letter acknowledging receipt of a hearing request.

**Online Services:** One of SSA's priorities is to provide the public more service options through a wide range of online services. In FY 2013, SSA reported it would explore ways of expanding the use of the Spanish iClaim to international users by including features to collect information related to foreign work, international direct deposit, and U.S. residency.

SSA continues expanding its nation-wide marketing campaign for its Internet services through public service announcements. SSA also uses social media and targeted keyword searches on Google and Bing to direct the public to its online service options. In May 2013, SSA launched a mobile-friendly Website for smartphone users. In August 2013, SSA launched a new tablet-friendly public Social Security Website.

In January 2013, SSA expanded its services with a MySocialSecurity account—a personalized online account through which more than 60 million Social Security beneficiaries and SSI recipients can instantly access their benefit verification letter, payment history, and earnings records. Beneficiaries can also change their address and start or change direct deposit information online.

**Telephone Services:** SSA serves about 60 million people per year over the telephone. SSA is replacing its national 800-number infrastructure with a new system, the Citizen Access Routing Enterprise 2020. SSA reports the new technology will help eliminate lengthy navigation menus, better forecast call volumes, anticipate staffing needs, and distribute incoming calls across the network so callers can reach an agent more quickly.

**Video Services:** SSA is expanding its video services for individuals living in rural areas or places that do not have public transportation. Video services enable SSA to provide service to people at such sites as hospitals, libraries, community centers, American Indian Tribal centers, and homeless shelters. Video services also reduce travel costs and lost work hours. As of December 2012, SSA had expanded its video services to 262 additional field offices, for a total of 299 locations. Additionally, SSA provided 20 video units for DDSs.

**Direct Deposit:** In response to fraudulent activity in the direct deposit area, SSA has taken steps to strengthen the controls over the processes used to change beneficiaries' direct deposit account information. In FY 2013, SSA revised its policy for verifying the identities of callers who request to establish, change, or cancel direct deposit payments. Additionally, SSA allowed beneficiaries to block direct deposit changes.

**Representative Payment Program:** SSA continues a pilot program to ensure individuals convicted of committing or attempting to commit certain crimes do not serve as a representative payee. By the end of FY 2013, SSA's Philadelphia Region had barred over 170 individuals from serving as a representative payee because they had committed 1 or more crimes. To support the pilot program, in FY 2013, SSA implemented an electronic system to obtain third-party criminal information.

# Invest in Information Technology Infrastructure to Support Current and Future Workloads

## Challenge

*SSA faces major challenges to ensure it has sufficient IT controls, provide secure electronic services to meet the growing needs of its customers, and strategically plan to modernize its systems for future service delivery.*

SSA faces the challenge of how best to use technology to meet its increasing workloads with limited budgetary and human resources. Further, SSA will not be able to manage its current and future workloads without the proper IT infrastructure. The Agency uses a variety of technologies, including telephone service, the Internet, and videoconferencing, to deliver service to its customers. We have concerns regarding the Agency's IT physical infrastructure; development and implementation of secure electronic services; and logical access controls and security of sensitive information.

**IT Physical Infrastructure:** SSA's National Computer Center (NCC), built in 1979, houses the infrastructure that supports the Social Security programs provided to the public and other services provided to Federal, State, international, and private agencies. Increased workloads and growing telecommunication services have strained the NCC's ability to support the Agency's business. SSA's primary IT investment over the next few years is replacing the NCC. However, the Agency has projected that its new facility will not be operational until 2016.

**Development and Implementation of Secure Electronic Services:** SSA must provide additional electronic services to meet its customers' growing needs. For FY 2012, SSA had a goal to have 42 percent of its fourth quarter claims filed online. For FY 2013, the fourth quarter goal for online claims was 48 percent. During the fourth quarter of FY 2012, Agency customers filed 44 percent of claims online. During the fourth quarter of FY 2013, Agency customers filed 51 percent of claims online.

While expanding its inventory of electronic services, the Agency needs to ensure its existing and future electronic services are secure. In January 2013, SSA expanded its MySocialSecurity online portal; however, fraudulent accounts were established to redirect Social Security benefits to unauthorized bank accounts. As of the end of FY 2013, we had received—from SSA and other sources—more than 22,000 fraud allegations related to MySocialSecurity accounts.

**Logical Access Controls and Security of Sensitive Information:** SSA's FY 2009, 2010, and 2011 Financial Statement Audits identified a significant deficiency in the Agency's controls over access to its sensitive information. For example, SSA did not consistently comply with policies and procedures to periodically reassess the content of security access given to its employees and contractors. Moreover, some employees and contractors had greater access to systems than they needed to perform their jobs. Additionally, certain configurations increased the risk of unauthorized access to key financial data and programs. The FY 2012 Financial Statement Audit identified additional concerns and raised the significant deficiency to a material weakness.

While SSA made significant efforts to strengthen controls over its systems and address weaknesses, the auditor's FY 2013 testing continued to identify control issues in both design and operation of key controls. In its audit, the auditor identified four deficiencies that, when aggregated, are considered to be a significant deficiency in the areas of Information Systems Controls.

## Agency Actions

**IT Physical Infrastructure:** SSA has taken steps to address its IT infrastructure challenge and the NCC's sustainability through 2016. For example, SSA conducts regular tours of the buildings with technical experts to identify needed repairs or future replacement projects.

In February 2009, SSA received $500 million in *American Recovery and Reinvestment Act* (Pub. L. No. 111-5) funding to replace its NCC. In August 2011, the General Services Administration (GSA) purchased a site for SSA's new data center.  In January 2012, GSA and SSA awarded a contract for the design and construction of a new data center.  The planned completion of construction is December 2014.  After completion of construction and commissioning, IT migration to the new data center will take an additional 22 months.  The new data center is expected to be operational in 2016.

**Development and Implementation of Secure Electronic Services:**  At present, SSA offers the public 28 electronic services.  Further, SSA has researched Internet authentication solutions to secure online initiatives, such as Ready Retirement, replacement Social Security number (SSN) cards, and other automated services.

In June 2013, SSA established a dedicated MySocialSecurity help desk through the national 800-number to assist the public with MySocialSecurity-related issues.  The Agency will also assist with MySocialSecurity at a designated link called MySocialSecurity Contact Us.

**Logical Access Controls and Security of Sensitive Information:**  SSA developed the Profile Quality Program, a group of projects to limit access to the Agency's electronic resources, including sensitive data.  As part of this Program, SSA implemented several procedures related to logical access controls and the security of sensitive information.  Moreover, SSA implemented Web-based tools for automating SSA's review process of access to sensitive information.

Finally, SSA developed teams to address the other areas that comprise the material weakness in information security.  SSA implemented additional policies and procedures and conducted security tests to help resolve the material weakness.  This included, but was not limited to, policies and procedures over software change control, configuration management, authorization of hardware and software, and penetration testing.

# Strengthen the Integrity and Protection of the Social Security Number

## Challenge

*Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.*

In FY 2013, SSA completed approximately 5.8 million original and 10.3 million replacement SSN cards. In addition, the Agency received and processed about 250 million wage items, totaling approximately $5.7 trillion in earnings. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and eligible individuals receive the full benefits due them.

**SSN Use:** The SSN is heavily relied on as an identifier and is valuable as an illegal commodity. Accuracy in recording workers' earnings is critical because SSA calculates future benefit payments based on the earnings an individual accumulates over his/her lifetime. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

**SSN Misuse:** To its credit, SSA has implemented numerous improvements in its enumeration process. However, given the preponderance of SSN misuse and identity theft in U.S. society, we continue to believe protection of this critical number is a considerable challenge for SSA. Unfortunately, once SSA assigns an SSN, it has no authority to control the collection, use, and protection of the number by other public and private entities. Our audit and investigative work have shown that the more SSNs are unnecessarily used, the higher the probability that they could be used to commit crimes throughout society. The Federal Trade Commission has estimated that as many as 10 million Americans have their identities stolen each year.

We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States as well as the misuse of SSNs for identity theft purposes. The SSNs of deceased individuals are also vulnerable to misuse. As such, the public release of the Death Master File (DMF) raises concerns. To the extent possible, we believe SSA should limit public access to the DMF to only what is required by law and take steps to ensure its accuracy.

**Earnings:** SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments. Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated over $1.1 trillion in wages and 326 million wage items for Tax Years 1937 through 2011. In Tax Year 2011 alone, 7.1 million wage items representing $70 billion were posted to the ESF. From Tax Years 2001 to 2011, the ESF grew by approximately $734.5 billion in wages and 91.9 million wage items, representing about 65 percent of the total wages and 28.1 percent of the total wage items.

We are concerned about the size and growth of the ESF as it reached over $1 trillion in wages. Therefore, in 2014, we plan to review the steps SSA has taken to reduce the ESF's size and growth.

## Agency Actions

SSA continues improving its enumeration process. For example, SSA has established enumeration centers in some cities—most recently Social Security Card Centers in San Diego and El Cajon, California—that focus exclusively on assigning SSNs and issuing SSN cards. Additionally, SSA routinely enhances its software program for SSN card issuance. This allows SSA to enforce more enumeration policies and decreases the risk of improper issuance of SSNs and SSN cards, and also reduces SSN fraud. SSA has also strengthened its policy for processing requests for the SSN printout.  SSA's new policy requires that requesters provide the same evidentiary documents as required for processing a request for a replacement SSN card.

**SSN Verification Service:**  SSA has taken steps to reduce the size and growth of the ESF.  The Agency offers employers the ability to verify the names and SSNs of their employees using the Agency's SSN Verification Service, which is an online verification program, before reporting wages to SSA.  In FY 2013, approximately 38,500 registered employers submitted over 111 million verifications.

**E-Verify:**  SSA also supports the Department of Homeland Security in administering the E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees.  According to DHS, over 470,000 employers have enrolled to use E-Verify, and these employers submitted over 20 million queries in FY 2013.

While SSA cannot control all the factors associated with erroneous wage reports, it may be able to improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, encouraging greater use of the Agency's employee verification programs, and enhancing employee verification feedback to provide employers with sufficient information on potential employee issues.  SSA can also improve coordination with other Federal agencies with separate, yet related, mandates.  For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

# Improve Transparency and Accountability

## Challenge

*SSA faces a number of challenges ensuring accountability, including concerns over its internal controls, systems security, and administrative cost allocations.*

***Federal Managers' Financial Integrity Act of 1982*:** OMB Circular A-123, Revised, *Management's Responsibility for Internal Control,* defines internal control as "…tools to help program and financial managers achieve results and safeguard the integrity of their programs." The Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) (Pub. L. No. 97-255). FMFIA encompasses accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management.

The FY 2013 *Independent Auditor's Report* contained two significant deficiencies in internal control. The full text of the report can be found in SSA's FY 2013 *Agency Financial Report*. We summarize the two control weaknesses below.

**Calculation, Recording, and Preventing Overpayments:** In FY 2012, the auditor reported a significant deficiency related to Benefit Payment Oversight. In FY 2013, the auditor did not identify this significant deficiency. However, it identified three deficiencies in internal control that, when aggregated, were considered to be a significant deficiency in internal controls related to calculation, recording and prevention of overpayments. Specifically, the auditor noted calculations errors in 38 percent of the overpayment items selected in a statistical sample. Although the impact of these errors was not deemed material, these errors evidence further control weaknesses in the overpayment process. In addition, SSA has a system limitation where overpayment installments extending past year 2049 are not tracked and reported systematically. Finally, SSA was not reconciling data between systems to detect discrepancies, which could lead to payment errors.

**Information System Controls:** In FYs 2010 and 2011, the auditor reported a significant deficiency in SSA's internal control over information security in its *Opinion on Management's Assertion about the Effectiveness of Internal Control*. In FY 2012, the auditor escalated the deficiency and determined there was a material weakness in internal control related to information security in the areas of monitoring, logical access, and configuration controls. It is the auditor'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, the auditor's FY 2013 testing continued to identify control issues in both design and operation of key controls. In its audit, the auditor identified four deficiencies that, when aggregated, are considered to be a significant deficiency in the areas of information systems controls. The deficiencies noted were in the following areas.

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

**Administrative Cost Allocation:** We also believe SSA can bring greater accountability to its administrative cost allocation. The *Social Security Act* (Pub. L. No. 74-271) authorizes SSA to allocate administrative costs to the four trust funds for which it provides administrative support: Retirement and Survivors, Disability, Hospital, and Supplementary Medical Insurance. SSA uses its Cost Analysis System (CAS) to allocate administrative costs to these four trust and general fund programs administered by SSA, such as the SSI program.

In FY 2012, our contractor completed a series of audits that examined SSA's CAS. Our contractor found CAS had certain risks that SSA needed to address to ensure it provided viable calculations of SSA's administrative costs. For example, SSA had not updated the CAS cost allocation methodology in over 30 years to account for changes in business processes, system technology, or Federal accounting standards. The failure to periodically revisit and update the cost allocation methodology could result in costing assumptions and cost factors that are no longer valid or accurate. Consequently, the equitable and appropriate allocation of SSA's administrative costs to the trust funds could be at risk.

## Agency Actions

The Acting Commissioner has made addressing both the material weakness and significant deficiency reported in SSA's FY 2012 *Performance and Accountability Report* a priority. Specifically, SSA has established a protocol to control and follow up on discrepancies or inaccuracies in benefit payments to ensure they are corrected. Effective FY 2013, SSA closely tracks all high-risk error cases identified by the Office of Quality Review to ensure the payment errors are corrected accurately and timely.

Most recently, SSA hired a Deputy Chief Information Officer, a position that had been vacant at SSA. The role of the new Deputy Chief Information Officer is the Agency's IT strategic planning, alignment of IT investments to the Agency's strategic goals and objectives, and management of technology spending and capital planning.

SSA reported it achieved a number of accuracy and process improvements to CAS this year, which include the following.

- A process that more exactly determines costs by workload and more precisely allocates these workloads' costs among the programs that each workload supports.
- Automating calculations that were manual.
- Implementing a more detailed annual process to reconcile cost accounting data (budgetary accounting basis) to accrual-based expenses to ensure there are no material differences.
- Forming a standing executive governance committee to evaluate current methods, instructions, and workloads for component and Agency-level cost accountability processes to account for changes in business processes, system technology, and Federal accounting standards. The workgroup's activities include examining workload counts, work time, and payroll cost assignment by workload and function, and assignment of other costs by workload and function.

# Strengthen Strategic and Tactical Planning

## Challenge

*While near-term planning is important, SSA needs long-range plans that address its long-term challenges, including a rising workload, a decrease in experienced staff, overly complex program policies, and a rising need to provide more services electronically.*

**Rising Workload:** The number of individuals filing for benefits has increased, and SSA predicts it will continue increasing by the millions. Over the next 20 years, nearly 75 million people aged 62 and older will start receiving retirement benefits. The population applying for benefits will expect SSA to provide a greater number of services electronically. SSA realizes it needs to rely more on technology to meet customer expectations and keep up with a rising workload.

**Fewer Experienced Staff:** As workloads rise, a greater proportion of SSA's workforce will become eligible to retire. Of the 63,947 full- and part-time permanent employees on duty as of October 1, 2012, 22.2 percent was eligible to retire under the regular retirement option in FY 2013. In FY 2017, 32.7 percent of those employees will be eligible to retire, and, by FY 2022, this number will increase to 44.9 percent.

Given the expectation of leaner future budgets, SSA needs to plan to meet its mission with fewer resources. SSA's ASP for FY 2013 – FY 2016 and its *Information Resources Management Strategic Plan for FY 2012 – FY-2016* are near-term planning documents that do not provide plans on how SSA will address its challenges over the next 10 to 20 years and beyond. Both the OIG and Social Security Advisory Board have called for increased long-term planning to address SSA's future challenges.

**Customer Service Delivery Planning:** In our FY 2011 report on *The Social Security Administration's Customer Service Delivery Plan*, we concluded SSA did not have a long-term customer service delivery plan. We noted that SSA must develop a plan that serves as a roadmap for ensuring the Agency is technologically and structurally prepared with appropriate staff to operate its programs in the future. The plan should also describe how the Agency is preparing to address increased workloads and service delivery in an electronic environment. The plan must identify what the service delivery environment will be in the future, including what services customers will expect and how they will want to receive those services. SSA published a *Service Delivery Plan* in February 2013, but it did not comprehensively describe the service options it will offer in the future or the resources needed to do so.

**Social Security Advisory Board Report:** At a time when SSA needs to plan to do more with less, the Board believes SSA lacks long-term plans in a number of critical areas. In its March 2011 report, *The Social Security Administration: A Vision of the Future - The First Steps on the Road to 2020*, the Social Security Advisory Board concluded that SSA needed to develop an innovative service delivery plan that reflected the service options currently available and anticipate those that will emerge in the next 10 years. It recommended that SSA take multiple steps to ensure success in 2020, including rethinking its service delivery strategy, performing a comprehensive review of program policy to reduce complexity, establishing a Systems Modernization Plan, and developing a Human Capital Plan.

**IT Strategic Planning:** In our June 2009 report on *The Social Security Administration's Information Technology Strategic Planning*, we stated that SSA did not have a comprehensive Agency Information Infrastructure Plan to meet potential processing needs for the next 20 years or that would allow the Agency to recover quickly if one or more major component of its processing infrastructure failed or was destroyed. While SSA has an IT planning process, it is decentralized, and SSA officials agreed it needed to be strengthened.

## Agency Actions

SSA has produced multiple planning documents, including those required by the *Government Performance and Results Act of 1993* (GPRA) (Pub. L. No. 103-62) and the *GPRA Modernization Act of 2010* (Pub. L. No. 111-352). These laws mandate that Federal agencies draft strategic and annual performance plans to help improve service delivery by requiring that Federal managers plan to meet program objectives. SSA is developing its next ASP for FYs 2014-2018.

SSA has a number of planning documents. Specifically, SSA has the following strategic and tactical plans, which are listed on its Budget and Performance Webpage.

- Agency Conference Reporting
- Agency Strategic Plan
- Annual Performance Plan
- Budget Estimates and Related Information
- Information Resources Management Strategic Plan
- Major IT Investments (Exhibit 300s)
- Performance and Accountability Report
- Program Evaluations
- SSA Federal Program Inventory
- Summary of Performance and Financial Information
- Sustainability Plan and Scorecard

Of the 11 documents, 10 cover 1 through 5 years. The Agency's *Strategic Sustainability Performance Plan* includes FY 2020 goals, as required per an Executive Order. While this plan goes beyond a 5-year span, it does not include long-range plans that address SSA's long-term challenges, including a rising workload, a decrease in experienced staff, overly complex program policies, and a rising need to provide more services electronically.

**Service Delivery Plan:** SSA published its *Service Delivery Plan* in February 2013, which identified 22 key initiatives for providing the American public with quality service over the next 10 years. The plan highlighted SSA's commitment to improving (1) services readily used by the public, (2) the systems it uses to serve the public, and (3) payment accuracy and efficiency of operations.

More recently, SSA decided not to move forward with the *Service Delivery Plan*. It is in the process of developing a new long-term plan with the assistance of the National Academy of Public Administration. SSA intends to publish the long-range plan in late 2014.

**Planning Officers:** The *Service Delivery Plan*, and SSA's efforts to develop a newer long-term plan, are positive steps towards having a vision of SSA's future operations. This, coupled with the establishment in April 2013 of the Office of the Chief Strategic Officer to oversee all strategic planning across SSA, should help SSA plan for the next 10 years and beyond, taking into account customer expectations and available resources.

SSA established the Office of the Chief Strategic Officer to infuse strategic thinking into the culture, promote innovation, and achieve program performance improvements. The Office will lead the development of the long-term plan on how the Agency will modernized its services and operations by 2025, integrating IT, service delivery, and human capital.

SSA also reported that each Deputy Commissioner is developing a multi-year plan to ensure sustainability and improved effectiveness. Further, each component has been tasked with looking for ways to streamline SSA's organizations and operations, maximizing each employee's contribution, assessing the management structure, and cultivating a work environment and culture that fosters innovative approaches.

Most recently, SSA hired a Deputy Chief Information Officer to oversee the Agency's IT strategic planning, alignment of IT investments to the Agency's strategic goals and objectives, and management of technology spending and capital planning.

# Other Reporting Requirements

## Summary of Financial Statement Audit and Management Assurances

| Summary of Financial Statement Audit | | | | | |
|---|---|---|---|---|---|
| Audit Opinion | Unmodified | | | | |
| Restatement | No | | | | |
| | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| Information Systems Controls | 1 | 0 | 1 | 0 | 0 |
| Total Material Weaknesses | 1 | 0 | 1 | 0 | 0 |

| Summary of Management Assurances | | | | | | |
|---|---|---|---|---|---|---|
| **Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)** | | | | | | |
| Statement of Assurance | Unqualified | | | | | |
| | | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Total Material Weaknesses | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| **Effectiveness of Internal Control over Operations (FMFIA Section 2)** | | | | | | |
| Statement of Assurance | Unqualified | | | | | |
| | | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Total Material Weaknesses | 0 | 0 | 0 | 0 | 0 | 0 |
| **Conformance with financial management system requirements (FMFIA Section 4)** | | | | | | |
| Statement of Assurance | Systems conform to financial management system requirements | | | | | |
| | | | | | | |
| Non-Conformances | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Total Non-Conformances | 0 | 0 | 0 | 0 | 0 | 0 |

| Compliance with Federal Financial Management Improvement Act (FFMIA) | | |
|---|---|---|
| | Agency | Auditor |
| 1. System Requirements | No noncompliance noted | No noncompliance noted |
| 2. Accounting Standards | No noncompliance noted | No noncompliance noted |
| 3. USSGL at Transaction Level | No noncompliance noted | No noncompliance noted |

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

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Improper Payments Information Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

## Entitlement Reviews

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We conduct the following major entitlement reviews:

### Disability Quality Assurance Reviews

We perform quality assurance reviews of random samples of disability determination services (DDS) determinations to measure the level of accuracy against standards mandated by the regulations. We conduct these reviews prior to the effectuation of the DDS determinations and cover initial claims, reconsideration claims, and determinations of continuing eligibility. The following table shows the quality assurance accuracy rates for FY 2009 through FY 2013.

| Quality Assurance Reviews | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| Percent of State DDS decisions to allow or continue not returned to the DDSs for correction | 98.3% | 98.6% | 98.4% | 98.5% | 98.1% |
| Number of cases reviewed | 34,378 | 32,451 | 32,807 | 32,262 | 31,672 |
| Number of cases returned to the DDSs due to error or inadequate documentation | 601 | 445 | 524 | 476 | 608 |

## DI Preeffectuation Reviews

We also perform preeffectuation reviews of favorable DI and concurrent DI/SSI initial and reconsideration determinations using a profiling system to select cases for review. This profiling system helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases we review are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. The following table shows the DI preeffectuation accuracy rates for FY 2009 through FY 2013.

| DI Preeffectuation Reviews | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| Percent of State DDS decisions to allow or continue not returned to the DDSs for correction | 97.9% | 97.8% | 97.4% | 97.4% | 97.1% |
| Number of cases reviewed | 356,956 | 378,712 | 390,480 | 362,250 | 333,159 |
| Number of cases returned to the DDSs due to error or inadequate documentation | 7,481 | 8,506 | 10,246 | 9,414 | 9,619 |

## SSI Preeffectuation Reviews

Following legislation enacted in February 2006, we began preeffectuation reviews of favorable SSI initial and reconsideration adult determinations. As in DI cases, we also use a profiling system to select cases for review. The following table shows the SSI preeffectuation accuracy rates for FY 2009 through FY 2013.

| SSI Preeffectuation Reviews | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| Percent of State DDS decisions to allow not returned to the DDSs for correction | 98.3% | 98.4% | 97.9% | 97.9% | 97.7% |
| Number of cases reviewed | 114,645 | 124,045 | 124,401 | 116,681 | 109,645 |
| Number of cases returned to the DDSs due to error or inadequate documentation | 1,900 | 2,023 | 2,612 | 2,430 | 2,530 |

## Continuing Disability Reviews

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews (CDR) through which we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. The following table shows the CDR accuracy rates for FY 2009 through FY 2013.

| CDR Accuracy | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| Overall Accuracy | 97.7% | 97.8% | 97.7% | 97.9% | 97.2% |
| Continuance Accuracy | 98.6% | 98.4% | 98.3% | 98.6% | 98.0% |
| Cessation Accuracy | 94.8% | 96.0% | 96.0% | 95.8% | 95.1% |

## OASDI and SSI Quality Assurance Reviews

Quality assurance reviews assess the accuracy of benefit payments. The following tables show the OASDI and SSI accuracy rates for FY 2009 through FY 2012. Data for FY 2013 is not available at this time. We will report the FY 2013 data in the *FY 2014 Agency Financial Report.*

| OASDI Accuracy | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| **Overpayment Accuracy** | 99.6% | 99.6% | 99.7% | 99.8% | Data not yet available |
| **Underpayment Accuracy** | 99.9% | 99.8% | 99.9% | 99.9% | Data not yet available |

| SSI Accuracy | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| **Overpayment Accuracy** | 91.6% | 93.3% | 92.7% | 93.7% | Data not yet available |
| **Underpayment Accuracy** | 98.4% | 97.6% | 98.2% | 98.2% | Data not yet available |

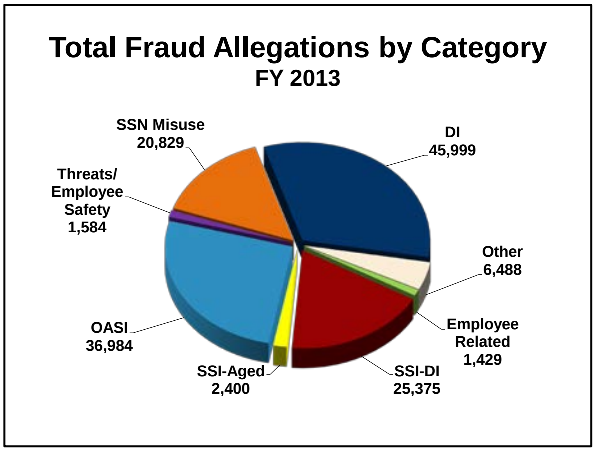
## SSI Redeterminations

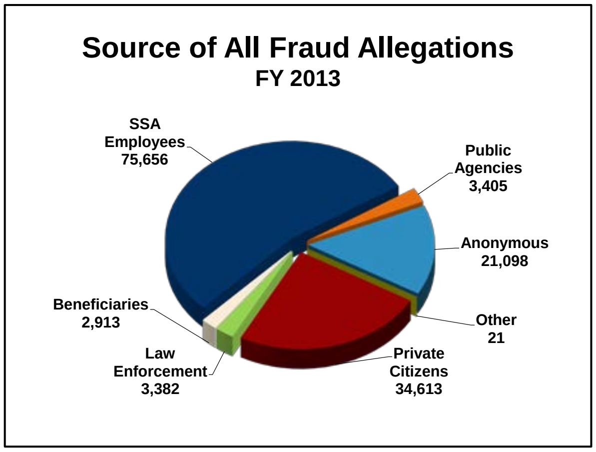
Once an individual becomes entitled to Social Security or SSI disability benefits, any changes in their circumstances may affect the amount or continuation of their benefits; therefore, we must reflect those changes in our records. SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have paid and will continue to pay the recipient the correct amount. The following table shows the number of SSI redeterminations we completed for FY 2009 through FY 2013.

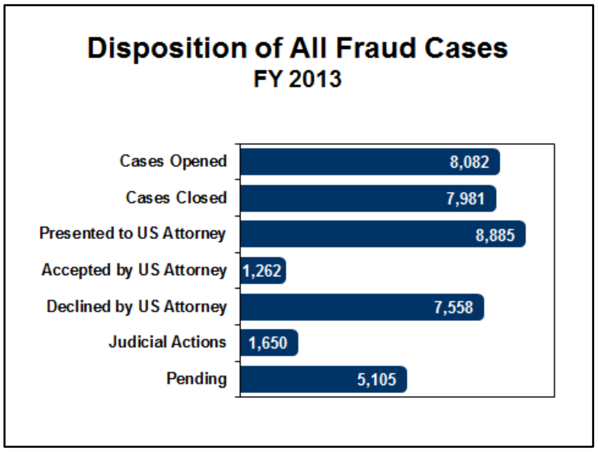
| SSI Redeterminations | | | | | |
|---|---|---|---|---|---|
| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| **Number of redeterminations completed** | 1,730,575 | 2,465,878 | 2,456,830 | 2,624,170 | 2,634,183 |

## The Office of the Inspector General's Anti-Fraud Activities

In FY 2013, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice, and other Government agencies on cases involving fraud, waste, and abuse as part of our fraud detection and prevention program for safeguarding the agency's assets. The following charts provide information from our OIG concerning fraud.




# Biennial Review of User Fee Charges

## Summary of Fees

User fee revenues of $373 and $391 million in FY 2012 and FY 2013, respectively, accounted for less than 1 percent of our total financing sources. We derive over 77 percent of user fee revenues from agreements with 22 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2013, we charged a fee of $11.12 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $11.32 for FY 2014. We adjust the user fee annually based on the Consumer Price Index, unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity, such as earnings record requests from pension funds and individuals.

## Biennial Review

The *Chief Financial Officers Act of 1990* requires Federal agencies to conduct biennial reviews of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our review of fees during FY 2012, we identified changes in costs that affect current fees and agency activities. A review of these changes resulted in a uniform standard fee structure for non-programmatic workloads. We are planning to perform another review of these fees during FY 2014.

# Debt Management

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the FY 2013 Quarterly Debt Management Activities Programmatic and Administrative Activity table. For more information on our agency's effort to curb overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

We identified a system limitation in the processing of certain overpayments. In July 2011, the Government Accountability Office (GAO) issued an audit report on the DI program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments*." In that audit, GAO identified a Title II system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes. We estimate that approximately 51,000 debts are affected by payment plans extending beyond the year 2049. The total gross value of the post year 2049 receivable amounts is estimated to be approximately $600 million. This amount is not material to the consolidated financial statements.

The following tables do not include the amounts related to post year 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. This system limitation prevents us from tracking what we estimate to be approximately $43 million in accounts receivable in FY 2013. We are working to address the system limitation and have determined that the estimated $43 million in post year 2049 debt is uncollectible and total accounts receivable are correctly reflected in the financial statements and the tables that follow.

| Debt Management Activities<br>Programmatic and Administrative Activity | | | | | |
|---|---|---|---|---|---|
| **Dollar Totals (in millions)** | **FY 2009** | **FY 2010** | **FY 2011** | **FY 2012** | **FY 2013** |
| **Total receivables** | $15,000 | $15,212 | $15,854 | $16,588 | $17,046 |
| **New receivables** | 5,818 | 5,736 | 6,102 | 5,955 | 5,616 |
| **Total collections** | (3,561) | (3,650) | (3,633) | (3,663) | (3,817) |
| **Adjustments** | (1,093) | (888) | (809) | (536) | (391) |
| **Total write-offs** | (1,077) | (986) | (1,018) | (1,022) | (950) |
| **- Waivers** | (475) | (497) | (546) | (502) | (421) |
| **- Terminations** | (602) | (489) | (472) | (520) | (529) |
| **Non delinquent debt** | 11,030 | 11,055 | 11,190 | 11,589 | 11,268 |
| **Total delinquent debt** | $3,970 | $4,157 | $4,664 | $4,999 | $5,778 |
| **Percentage Analysis** | | | | | |
| **% of outstanding debt:** | | | | | |
| **- Non delinquent** | 73.5% | 72.7% | 70.6% | 69.9% | 66.1% |
| **- Delinquent** | 26.5% | 27.3% | 29.4% | 30.1% | 33.9% |
| **% of debt estimated to be uncollectible[1]** | 27.5% | 27.7% | 27.8% | 27.3% | 26.3% |
| **% of debt collected** | 23.8% | 24.0% | 22.9% | 22.1% | 22.4% |
| **% change in collections from prior fiscal year** | 5.8% | 2.5% | -0.5% | 0.8% | 4.2% |
| **% change in delinquencies from prior fiscal year** | 6.3% | 4.7% | 12.2% | 7.2% | 15.6% |
| **Clearances as a % of total receivables** | 30.9% | 30.5% | 29.3% | 28.2% | 28.0% |
| **- Collections as a % of clearances** | 76.8% | 78.7% | 78.1% | 78.2% | 80.1% |
| **- Write-offs as a % of clearances** | 23.2% | 21.3% | 21.9% | 21.8% | 19.9% |
| **Other Analysis** | | | | | |
| **Cost to collect $1** | $0.06 | $0.07 | $0.08 | $0.07 | $0.07 |
| **Average number of months to clear receivables:** | | | | | |
| **- OASI** | 18 | 16 | 15 | 15 | 15 |
| **- DI** | 42 | 45 | 38 | 49 | 66 |
| **- SSI** | 34 | 35 | 35 | 36 | 38 |

1. The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

| FY 2013 Quarterly Debt Management Activities<br>Programmatic and Administrative Activity | | | | |
|---|---|---|---|---|
| Dollar Totals (in millions) | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| **Total receivables** | $16,612 | $16,659 | $17,230 | $17,046 |
| **New receivables** | 1,064 | 2,466 | 4,367 | 5,616 |
| **Total collections** | (939) | (1,872) | (2,759) | (3,817) |
| **Adjustments** | 114 | (72) | (267) | (391) |
| **Total write-offs** | (215) | (451) | (699) | (950) |
| **- Waivers** | (96) | (205) | (316) | (421) |
| **- Terminations** | (119) | (246) | (383) | (529) |
| **Aging schedule of debts:** | | | | |
| **- Non delinquent debt** | 11,236 | 11,472 | 12,096 | 11,268 |
| **- Delinquent debt** | | | | |
| **- 180 days or less** | 1,338 | 1,159 | 1,208 | 1,278 |
| **- 181 days to 10 years** | 3,672 | 3,651 | 3,526 | 4,052 |
| **- Over 10 years** | 366 | 377 | 400 | 448 |
| **- Total delinquent debt** | $5,376 | $5,187 | $5,134 | $5,778 |

Definitions:

1. Adjustments – Program debt adjustments represent: (1) written-off debts, by way of terminations, that we reinstate for collections; (2) changes in debts when we update debtor accounts with new information; and (3) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (1) is without fault in causing the debt; and (2) recovery would either defeat the purpose of the act or be against equity and good conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.
3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (1) the debtor will not repay the debt or alleges they cannot pay the debt; (2) the debtor cannot be located after diligent search; or (3) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the Treasury Offset Program and Administrative Wage Garnishment. If the debtor becomes entitled to OASDI benefits or eligible for SSI payments, we reinstate the debt and resume recovery through benefit/payment withholding.
4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (1) the date we establish an OASDI debt; (2) the date of the initial overpayment notice for a SSI debt; (3) the date of the last voluntary payment; (4) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (5) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

# Improper Payments Information Detailed Report

## Background

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring efficient programs and accurate payments. We take our responsibility to reduce improper payments very seriously – curbing improper payments is one objective in our Strategic Goal to Preserve the Public's Trust in Our Programs. Each year, we report improper payment findings, both overpayments and underpayments, from our stewardship reviews of the non-medical aspects of the OASI, DI, and SSI programs. In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), we report as improper those payments that result from:

- Errors in computing the payment;
- Not obtaining or taking action on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, Parts I and II, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. This report provides general information demonstrating our commitment to reducing improper payments. It also contains descriptions of our efforts in reducing improper payments for our OASDI and SSI benefit programs and our administrative payments.

In addition to the information contained in this report, a public improper payments website is available at: www.socialsecurity.gov/improperpayments. The site provides additional information on our efforts to curb improper payments for the OASDI and SSI programs and to meet the requirements of Executive Order 13520, *Reducing Improper Payments*.

## Risk Susceptible Program

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed $100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1 for details of our OASI and DI improper payments, and Table 6 for details of our SSI improper payments.

OMB's IPERA guidance requires us to evaluate all of our payment outlays (i.e., payments from the OASI, DI, and SSI programs and other outlays, such as administrative payments). For the 10th consecutive year, we reviewed our administrative payments, including payroll disbursements and vendor payments. We found these payments were not susceptible to significant improper payments. Further information on this risk assessment of our administrative payments is available in the Improper Administrative Payments section of this improper payments report.

## Risk Assessment: Benefit Payments

To comply with IPERA's risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our stewardship review is a proven, cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs, and OMB has approved it as a means to assess the risk of improper payments in our programs.

## Statistical Sampling

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a statistically valid sample of OASI, DI, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility as of the sample month. We based the data in the OASDI and SSI Improper Payments Experience tables on cases sampled in fiscal year (FY) 2012. FY 2013 data will not be available until April 2014. We will report our findings from the FY 2013 stewardship reviews in next year's *Improper Payments Information Detailed Report.*

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refers to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay more or less than we should have. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year rolling average for each type of deficiency to identify and rank error trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI.

## Improper Payments Strategy

For FYs 2013-2014, we refocused our improper payments strategy to align with our Improper Payments Governance strategy. We are working in collaboration with our Federal partners, stakeholders, and beneficiaries to attain our agency Strategic Goal to Preserve the Public's Trust in Our Programs. Proper management of payments is an essential element of our goal.

Under this Strategic Goal, we will:

- Prevent payment errors by getting the payment right the first time through policy and process simplifications and system enhancements;
- Detect and correct overpayments and underpayments;
- Promote program integrity by curbing fraudulent behavior; and
- Recover overpayments by enhancing debt collection practices.

In addition to our on-going efforts to curb improper payments, we identified the following seven key strategic initiatives to achieve our Strategic Goal:

- Increase Access to Financial Institutions (AFI) information;
- Enhance the SSI wage-reporting process;

- Identify non-home real property;
- Increase post-entitlement accuracy;
- Improve death data processing;
- Impose administrative sanctions; and
- Enhance debt collection policy and practices.

We will discuss these initiatives and how they relate to reducing improper payments in our OASDI and SSI programs in the sections of this improper payments report titled Major Causes of OASDI Improper Payments and Major Causes of SSI Improper Payments, respectively. For the initiatives that affect improper payments in both programs, please refer to the section of this improper payments report titled Efforts to Reduce Fraud, Waste, and Abuse in the OASDI and SSI Programs.

# Improper Payments in the OASI and DI Programs

## Experience and Outlook

Table 1 shows the improper payment rates for the OASI and DI programs for FYs 2010, 2011, and 2012. We calculate the overpayment rate by dividing overpayment dollars by total dollars paid, and the underpayment rate by dividing underpayment dollars by total dollars paid.

**Table 1: OASDI Improper Payments Experience**
**FY 2010 – FY 2012**
**(dollars in millions)**

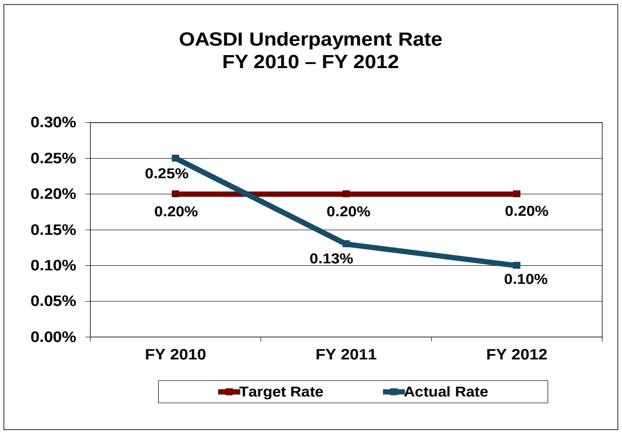
| | FY 2010 | | FY 2011 | | FY 2012 | |
|---|---|---|---|---|---|---|
| | **Dollars** | **Rate** | **Dollars** | **Rate** | **Dollars** | **Rate** |
| **OASI** | | | | | | |
| Total Benefit Payments | $572,569 | | $588,865 | | $643,100 | |
| Underpayment Error | $527 | 0.09% | $468 | 0.08% | $517 | 0.08% |
| Overpayment Error | $1,878 | 0.33% | $653 | 0.11% | $469 | 0.07% |
| **DI** | | | | | | |
| Total Benefit Payments | $122,899 | | $128,086 | | $127,200 | |
| Underpayment Error | $1,261 | 1.03% | $479 | 0.37% | $223 | 0.18% |
| Overpayment Error | $844 | 0.69% | $1,624 | 1.27% | $1,239 | 0.97% |
| **Combined OASDI** | | | | | | |
| Total Benefit Payments | $695,469 | | $716,951 | | $770,300 | |
| Underpayment Error | $1,788 | 0.25% | $946 | 0.13% | $740 | 0.10% |
| Underpayment Target | | ≤0.20% | | ≤0.20% | | ≤0.20% |
| Overpayment Error | $2,722 | 0.39% | $2,277 | 0.32% | $1,708 | 0.22% |
| Overpayment Target | | ≤0.20% | | ≤0.20% | | ≤0.20% |

Notes:

1. Total benefit payments for FY 2010 are actual cash outlays. Total benefit payments for FYs 2011 and 2012 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. FY 2013 data will not be available until April 2014.
3. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
4. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments; for FY 2011, +0.07 percent and -0.08 percent for underpayments and ±0.08 percent for overpayments; and for FY 2012, +0.05 percent and -0.06 percent for underpayments and ±0.04 percent for overpayments.
5. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments; for FY 2011, +0.36 percent and -0.49 percent for underpayments and ±1.21 percent for overpayments; and for FY 2012, +0.17 percent and -0.26 percent for underpayments and +0.86 percent and -0.87 percent for overpayments.
6. Changes in the OASDI error rates from FY 2011 to FY 2012 are not statistically significant.

Over the last 5 years (FYs 2008-2012), our stewardship reviews estimate that we paid approximately $2.9 trillion to OASI beneficiaries. Of that total, we estimate $4.7 billion were overpayments, representing 0.16 percent of outlays. We estimate that underpayments during this same period were $2.3 billion, the equivalent of 0.08 percent of outlays.

Applying the same analysis to the DI program, we estimated that we paid $597.8 billion to DI beneficiaries over the last 5 years (FYs 2008-2012). Of that total, we estimate $6.6 billion were overpayments, representing 1.1 percent of outlays. We estimate underpayments during this same period totaled $2.3 billion, the equivalent of 0.4 percent of outlays.



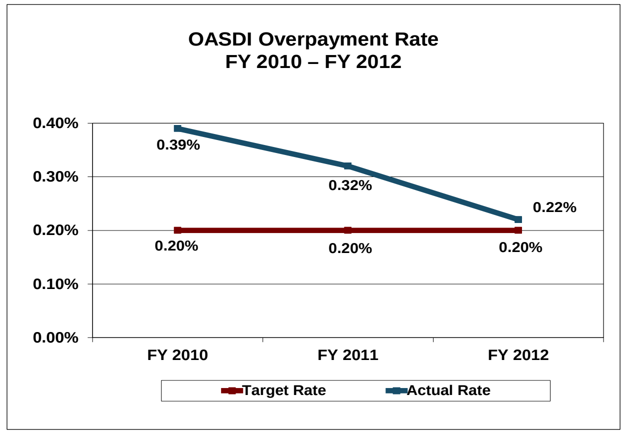




Table 2 presents our accuracy targets for FYs 2013, 2014, and 2015 for the OASDI programs. In the OASDI program, our goal is to maintain a 99.8 percent accuracy rate for program payments.

**Table 2: OASDI Improper Payments Reduction Outlook**
**FY 2013 – FY 2015**
**(dollars in millions)**

| | 2013 Target | | 2014 Target | | 2015 Target | |
|---|---|---|---|---|---|---|
| | **Dollars** | **Rate** | **Dollars** | **Rate** | **Dollars** | **Rate** |
| **OASDI** | | | | | | |
| Total Benefit Payments | $804,137 | | $845,377 | | $893,222 | |
| Underpayments | $1,608 | 0.20% | $1,691 | 0.20% | $1,786 | 0.20% |
| Overpayments | $1,608 | 0.20% | $1,691 | 0.20% | $1,786 | 0.20% |

Notes:

1. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.
2. FY 2013 data will not be available until April 2014; therefore, the rates shown are targets.
3. Total benefit payments for FYs 2013-2015 are estimates consistent with projections in the mid-session review for the President's FY 2014 Budget.

## Major Causes of OASDI Improper Payments

Table 3 lists the major causes of improper payments (overpayments and underpayments) in the OASDI program using OMB's three categories of error:

| Table 3: Major Causes of OASDI Improper Payments in FY 2012 | | |
|---|---|---|
| | **% of Improper Payments** | **Major Types of Errors** |
| **Verification and Local Administration Errors** | 67% | Non-verification of earnings, income, or work status (e.g., in relation to substantial gainful activity (SGA) and Government Pension Offset (GPO)); inputting, classifying, or processing applications or payments incorrectly |
| **Administrative and Documentation Errors** | 28% | Incorrect computations, onset dates, and earnings history |
| **Authentication and Medical Necessity Errors** | 5% | Relationship/dependency errors and failure to report cessation of full-time attendance for students |

Notes:

Beginning in 2009, OMB requires us to categorize improper payments in our programs into one of three categories as defined below:

- **Verification and Local Administration Errors** are those due to not verifying recipient information, including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency, or third party who is not the beneficiary.
- **Administrative and Documentation Errors** are those due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.
- **Authentication and Medical Necessity Errors** are those due to being unable to authenticate criteria such as living arrangements or incorrectly assessing the necessity of a medical procedure.

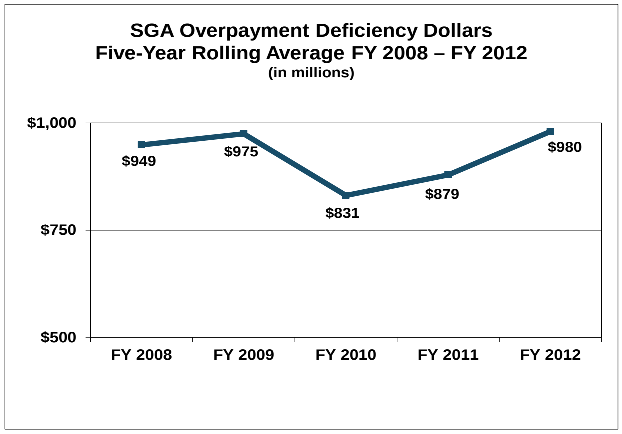
Our stewardship review findings over the last five years show that the major causes of overpayments in the OASDI program are administrative errors or beneficiary reporting failures in SGA and errors in computations. The major cause of underpayments is errors in computations. (Note: A definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html.)

### Substantial Gainful Activity

**Description:**

When disability beneficiaries work, a number of factors determine whether they can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely, or we do not take the proper actions to process work reports. The following chart shows the five-year rolling average of SGA overpayment deficiency dollars.

**Historical Figures:**




**Corrective Actions:**

Table 4 shows our actions to ensure timely processing of beneficiaries' earnings:

| Table 4: SGA – Corrective Actions | | |
|---|---|---|
| **Description** | **Target Completion** | **Status** |
| **<u>Audit Recommendation</u>** | | |
| To minimize improper payments, we agreed with an audit recommendation to make it a priority to identify cases where the disability payments have not been terminated following medical cessation determinations. | Ongoing | We are currently reviewing cases to determine the scope of the issue and the feasibility of the recommendation. |
| **<u>Predictive Model</u>** | | |
| We conducted the Continuing Disability Reviews (CDR) Enforcement Operation Predictive Model Pilot. | Completed May 2013 | We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The pilot operated October 2010 through May 2013. The predictive model helped us prioritize staff resources and reduced the amount of work-related overpayments. |
| We nationally implemented the CDR Enforcement Operation Predictive Model. | December 2013 | After successful completion of the pilot (above), we nationally implemented the model to prioritize review of earnings for beneficiaries who are at risk of receiving an overpayment due to work activity. We will monitor the first 120 days of processing, and we expect the initial evaluation results in December 2013. |

| Table 4: SGA – Corrective Actions | | |
|---|---|---|
| **Description** | **Target Completion** | **Status** |
| We are conducting a pilot to delay the Automated Earnings Reappraisal Operation (AERO) for cases with a pending work CDR. We are testing a new process to delay the benefit increase, which we may later determine to be an overpayment, resulting from an AERO, for a sample of disability beneficiaries with a pending work CDR. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase. | Ongoing | We used our predictive model to identify nearly 11,000 cases eligible for a benefit increase and delayed the AERO increase for 6 months. The first test of the pilot in October 2012 was a success. We continued the pilot by drawing a new sample in October 2013, and we will analyze the data in April 2014. |
| **Legislative Proposal** | | |
| The President's FY 2014 Budget includes a proposal that will establish and broaden the DI demonstration authority that expired for projects initiated on or after December 18, 2005. This authority will allow us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects. In addition to new authority to test early interventions, we will be able to test improvements in our return-to-work rules subject to rigorous evaluation protocols. Simplifying the treatment of beneficiaries' earnings has the potential to eliminate current barriers to employment and reduce improper payments. | Pending | No Congressional action to date. |

| Table 4: SGA – Corrective Actions | | |
|---|---|---|
| **Description** | **Target Completion** | **Status** |
| The President's FY 2014 Budget includes a proposal that will restructure the wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal will not affect reporting on self-employment. Increasing the timeliness of wage reporting can enhance tax administration and improve program integrity for our OASDI and SSI programs. | Pending | No Congressional action to date. |

## Computations

**Description:**

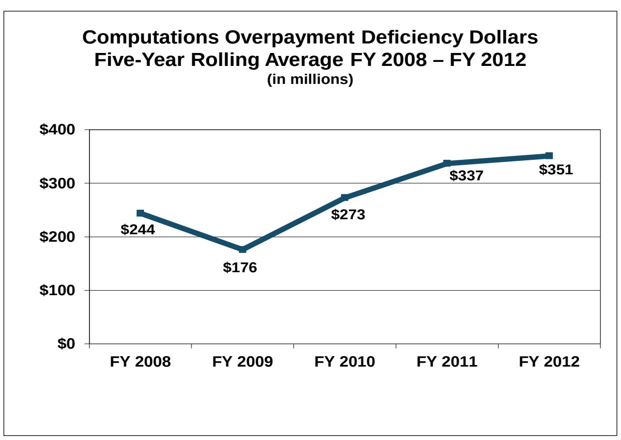
Errors in computations are a major cause of both overpayments and underpayments.

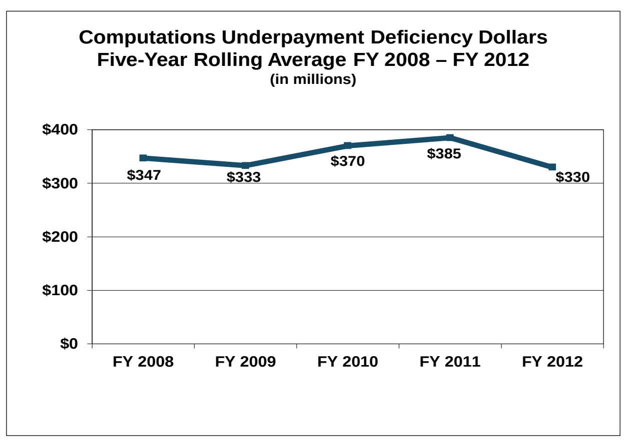
The law requires us to base a person's benefit amount on a number of factors, including age, earnings history, and the type of benefit awarded.

Inaccurate information or administrative mistakes can cause errors in calculating benefits. For FYs 2008-2012, approximately 52 percent of the computation errors resulted in overpayments, with the leading causes being the Windfall Elimination Provision (WEP) and the failure to apply the Retirement Insurance Benefit Limitation (RIB-LIM), when applicable. (Note: A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html. RIB-LIM applies when a deceased beneficiary received a reduced retirement benefit. Under RIB-LIM, the maximum surviving spouse or surviving divorced spouse's benefit is limited to what the deceased beneficiary would receive if he or she were still alive.)

Approximately 48 percent of computation errors from FYs 2008-2012 resulted in underpayments. The leading causes of underpayments are the miscalculation of the initial benefit amount and errors in recalculating benefits due to updated or new information received after our initial calculation of an individual's benefit amount.

**Historical Figures:**



## Corrective Actions

### Increase Post-Entitlement Accuracy

Recent studies indicate that accuracy can be improved in the areas of processing OASDI work CDRs and other changes to a beneficiary's record after they are already entitled to benefits. An internal workgroup is identifying workflow adjustments, policy changes, training, and automation solutions to improve post-entitlement accuracy.

Our studies also show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2013, we began to address four potential entitlement workloads. By addressing post-entitlement accuracy and identifying potential entitlements, we will reduce improper overpayments and underpayments.

Table 5 shows our actions to increase our post-entitlement accuracy:

**Table 5: Increase Post-Entitlement Accuracy**

| Description | Target Completion | Status |
|---|---|---|
| Better define the OASDI systems alert, exception, and processing limitation codes to give technicians more precise information on actions needed. | To be determined by results of planning. | Planning will begin in FY 2014. |
| Introduce an inline quality review in our processing centers. | March 2014 | We began implementing the inline quality review process in our processing centers in June 2013, and we should complete implementation in March 2014. |
| Pursue potential entitlement workloads. | Completed September 2013<br><br>FY 2014 | We evaluated results of the following initiative:<br>• Veteran Pension Case Referrals: We screen and refer to the U.S. Department of Veterans Affairs those SSI recipients who may be eligible for veteran pension benefits.<br>o Of 4,216 cases identified for possible referral, we referred 3,263 (77%).<br>In FY 2014, we will evaluate the following initiatives:<br>• Outstanding Potential Entitlement Referral Account Cases: These are cases involving SSI recipients who are potentially entitled to DI benefits.<br>• Military Service AERO Fall Out Cases: This workload represents priority cases that could not process through the automated AERO process.<br>• Widows with potential entitlement from another marriage. |

# Improper Payments in the SSI Program

## Experience and Outlook

Table 6 shows the improper payment rates for the SSI program for FYs 2010, 2011, and 2012. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

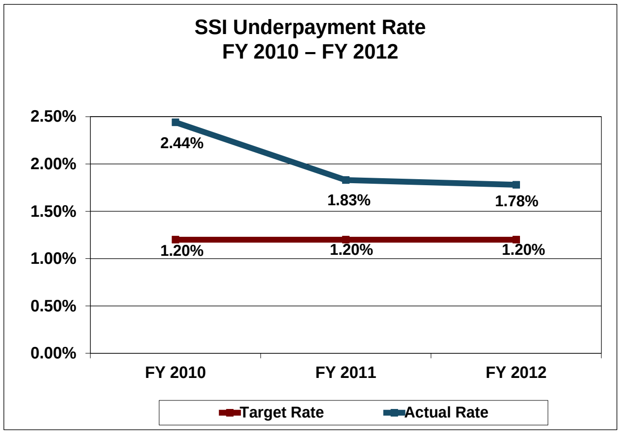
**Table 6: SSI Improper Payments Experience**
**FY 2010 – FY 2012**
**(dollars in millions)**

| | FY 2010 | FY 2011 | FY 2012 |
|---|---|---|---|
| **Total Federally Administered Payments** | | | |
| Dollars | $50,276 | $51,654 | $53,411 |
| **Underpayments** | | | |
| Dollars | $1,227 | $947 | $948 |
| Target Rate | ≤1.20% | ≤1.20% | ≤1.20% |
| Actual Rate | 2.44% | 1.83% | 1.78% |
| **Overpayments** | | | |
| Dollars | $3,344 | $3,791 | $3,387 |
| Target Rate | ≤8.40% | ≤6.70% | ≤5.00% |
| Actual Rate | 6.65% | 7.34% | 6.34% |

Notes:

1. Total federally administered payments represent estimated program outlays while conducting the annual stewardship reviews and may vary from actual outlays.
2. FY 2013 data will not be available until April 2014.
3. The percentages and dollar amounts presented in Table 6 are correct based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.
4. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments; for FY 2011, ±0.38 percent for underpayments and ±1.08 percent for overpayments; and for FY 2012, ±0.53 percent for underpayments and ±1.78 percent for overpayments.

Over the last 5 years (FYs 2008-2012), our stewardship reviews estimate that we paid approximately $248.7 billion to SSI recipients. Of that total, we estimate $19.2 billion were overpayments, representing 7.7 percent of outlays. We estimate that underpayments during this same period were $4.7 billion, the equivalent of 1.9 percent of outlays.



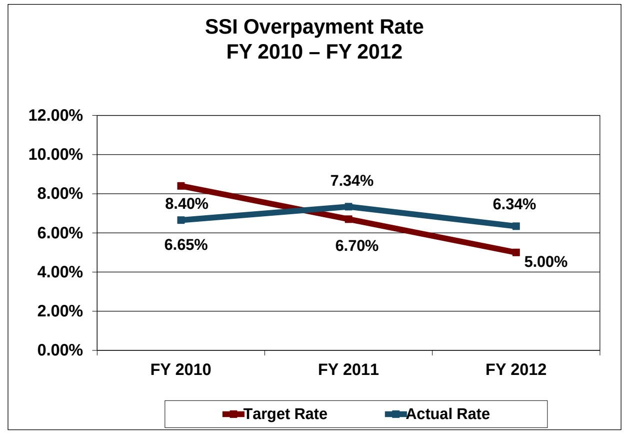




Table 7 shows our target accuracy goals for FYs 2013, 2014, and 2015 for the SSI program.

**Table 7: SSI Improper Payments Reduction Outlook**
**FY 2013 – FY 2015**
**(dollars in millions)**

| | 2013 Target | | 2014 Target | | 2015 Target | |
|---|---|---|---|---|---|---|
| | **Dollars** | **Rate** | **Dollars** | **Rate** | **Dollars** | **Rate** |
| **Total Federally Administered Payments** | $56,156 | | $57,908 | | $59,654 | |
| **Underpayments** | $674 | 1.20% | $695 | 1.20% | $716 | 1.20% |
| **Overpayments** | $2,808 | 5.00% | $2,895 | 5.00% | $2,983 | 5.00% |

Note:

1. Total federally administered SSI payments are estimates consistent with projections in the mid-session review for the President's FY 2014 Budget, adjusted to be presented on a constant 12-month per year payment basis.

## Major Causes of SSI Improper Payments

Table 8 shows major causes of improper payments (overpayments and underpayments) in the SSI program using OMB's three categories of error.

**Table 8: Major Causes of SSI Improper Payments in FY 2012**

| | % of Improper Payments | Major Types of Errors |
|---|---|---|
| **Verification and Local Administration Errors** | 59% | Detection of unreported financial accounts and wages |
| **Authentication and Medical Necessity Errors** | 27% | Existence or changes to living arrangements and In-Kind Support and Maintenance (ISM) |
| **Administrative and Documentation Errors** | 14% | Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change |

Notes:

Beginning in 2009, OMB requires us to categorize improper payments in our programs into one of three categories as defined below:

- **Verification and Local Administration Errors** are those due to not verifying recipient information, including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.
- **Authentication and Medical Necessity Errors** are those due to being unable to authenticate criteria such as living arrangements or incorrectly assessing the necessity of a medical procedure.
- **Administrative and Documentation Errors** are those due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.

SSI is a means-tested program for individuals with limited income and resources who are blind, disabled, or aged. This program is complex because fluctuations in monthly income, resources, and living arrangements may affect eligibility and monthly payment amounts. Improper payments often occur if recipients (or their representative payees on their behalf) or deemors (i.e., an individual such as a parent or spouse whose income and resources are considered in determining an applicant's or recipient's eligibility and payment) fail to timely report changes in any of these factors (e.g., an increase of their resources or a change in their wages). Failure to report payment changes is the primary cause of both overpayment and underpayment errors.

Our stewardship findings over the last five years show that the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial accounts (e.g., bank savings or checking accounts, or credit union accounts);
- Wages; and
- Other real property (i.e., ownership of non-home real property).

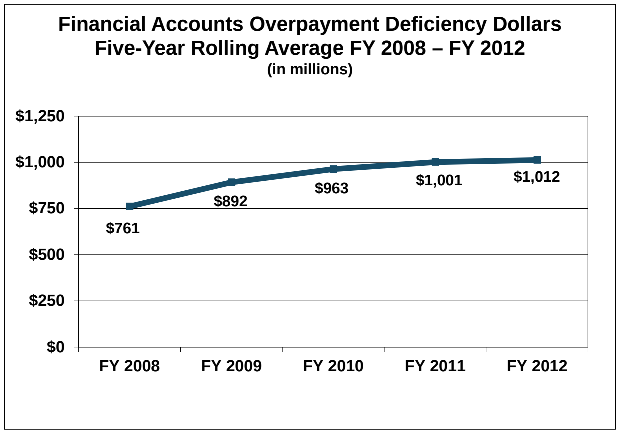
Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in living arrangements, ISM, and wages. Information for the corrective action for living arrangements may be found in the SSI Corrective Actions section for Wages.

## Financial Accounts

**Description:**

Financial accounts with countable resources in excess of the allowable resource limits are the leading cause of SSI overpayment errors. When an applicant or recipient (or his or her parent or spouse) has financial accounts exceeding the allowable resource limits, these accounts may result in periods of SSI ineligibility.

**Historical Figures:**




**Corrective Actions:**

To address overpayment errors related to financial accounts, we developed the AFI program. AFI is an electronic process that verifies alleged bank account balances with financial institutions to identify excess resources in financial accounts held by SSI applicants, recipients, and deemors. In addition to verifying alleged accounts, AFI detects undisclosed accounts by searching for accounts in financial institutions located near the SSI applicant, recipient, or deemor.

We will reduce SSI improper payments resulting from excess financial resources by using the AFI process on all initial claims and redeterminations (i.e., review a recipient's non-medical eligibility factors such as income and resources to determine continued eligibility and payment amount) and conducting up to 10 searches per individual for undisclosed accounts.

Table 9 shows our actions to reduce errors related to financial accounts:

**Table 9: Financial Accounts – Corrective Actions**

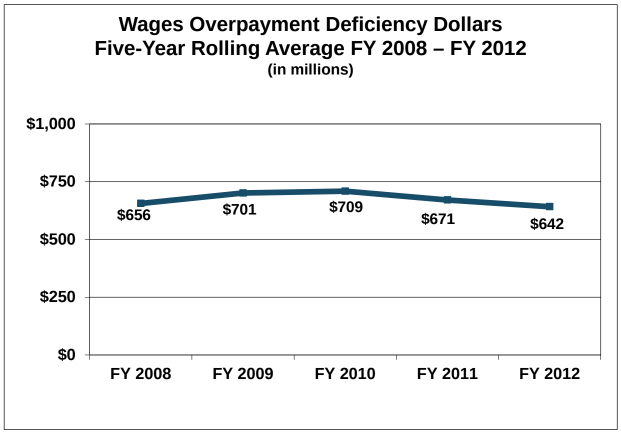
| Description | Target Completion | Status |
|---|---|---|
| Expand use of AFI and increase the number of undisclosed bank account searches. | Completed October 2013 | Based upon a return-on-investment analysis, we committed resources to use AFI in more SSI applications and redeterminations to verify financial accounts. We further lowered the AFI threshold to verify liquid financial resources and increase undisclosed bank account searches. |
| Begin the next five-year AFI vendor contract. | June 2015 | The current five-year AFI vendor contract expires June 2015. We will develop the statement of work and award for the next contract. |

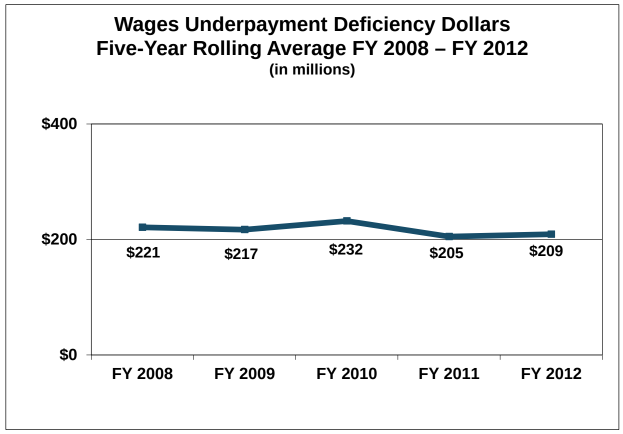
## Wages

**Description:**

For more than a decade, wage discrepancies have been one of the leading causes of overpayment and underpayment errors. Wage discrepancies occur when the recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate the SSI payment.

**Historical Figures:**




**Corrective Actions:**

We rely on individuals to timely self-report wages to us, but from experience, we know that they may fail to report, or fail to report soon enough to prevent an improper payment. Instead of relying solely on self-reporting, we are exploring using wage information we receive from other sources for timely and accurate wage reports. As part of the SSI application process, we will request that applicants for SSI provide their consent for us to obtain information from other sources. We will modify our policy and supporting operating process to allow the use of wage information we obtain from those sources. We will automate the process of obtaining wage information and adding wage information to our systems, thereby conserving administrative resources and reducing improper payments.

We are also developing several new communication initiatives to help encourage recipients not only to remember to report events that can affect eligibility or payment amounts, such as changes in living arrangements, but also to make it easier for them to comply with reporting requirements. For example, we created two new educational resources to be given out in field offices during claims and redeterminations:

- A two-pocket folder – The folder includes panels that list the SSI reporting requirements and pockets to store key documents such as wage stubs or other materials to help people report accurately.
- A business card – This small card contains information on the reporting requirements and can be kept in a wallet or with other important papers.

Other examples of our corrective actions to address the root causes of wage-related errors include options for recipients (or representative payees on their behalf) or their deemors to self-report wages via telephone or a smartphone application. Beginning October 2013, recipients, representative payees, and deemors were able to report prior monthly wage amounts anytime during the current month.

- SSI Telephone Wage Reporting System (SSITWR)

  In FY 2008, we implemented SSITWR, which allows recipients, representative payees, and deemors to report prior monthly gross wages via an automated telephone system. SSITWR ensures the wage amounts are timely recorded to the individual's record. Over 44,000 SSITWR reports were processed successfully in September 2013, surpassing our FY 2013 goal of 38,510 monthly reports.

- SSI Mobile Wage Reporting Smartphone Application

  Beginning in December 2012, 50 field offices across all 10 regions began a pilot project for mobile wage reporting. This initiative allows SSI recipients, representative payees, and deemors to use their smartphones to report prior monthly gross wages, using an application they can download at no cost from the Google Play and Apple App stores. The initial pilot was successful, and we expanded it to 263 participating field offices in March 2013. The expanded phase of the pilot has also been successful, with more than 9,000 wage reports submitted using the smartphone application during the entire pilot.

  We rolled out the initiative nationally on August 1, 2013, following the release of some minor system improvements made as the result of feedback received during the pilot. We received over 5,100 successful wage reports made through the smartphone application in September 2013.

Table 10 shows our actions to reduce errors related to wages:

**Table 10: Wages – Corrective Actions**

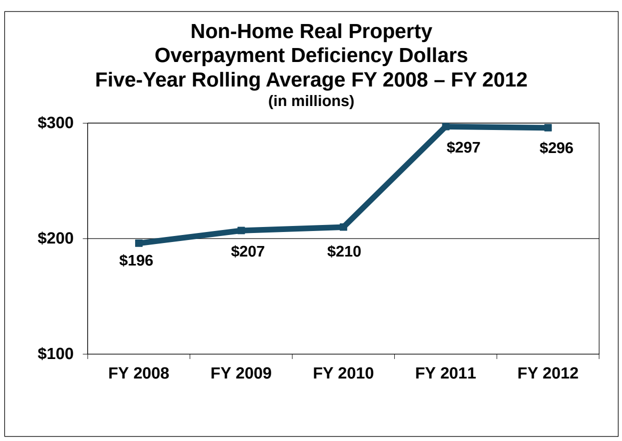
| Description | Target Completion | Status |
|---|---|---|
| Implement automated reporting of wage information from a national payroll provider(s). | To be determined by results of planning. | We will begin planning in FY 2014. |

## Other Real Property

**Description:**

Undisclosed non-home real property is a leading cause of improper overpayments in the SSI program. SSI ineligibility may result if the recipient is the owner of real property other than his or her principal place of residence, and the value exceeds the resource limit. We intend our corrective actions discussed on the following page to identify undisclosed property owned by the recipient.

**Historical Figures:**



**Corrective Actions:**

FY 2012 stewardship review findings indicate non-home real property remains the third leading cause of SSI overpayments. We currently rely on the applicant or recipient to report ownership of non-residential property. However, property information for all 50 states is available through commercial data providers (e.g., *LexisNexis/Accurint*). We projected about $296 million in SSI overpayments related to the ownership of non-home real property.

Table 11 shows our actions to reduce errors related to non-home real property:

**Table 11: Other Real Property – Corrective Actions**

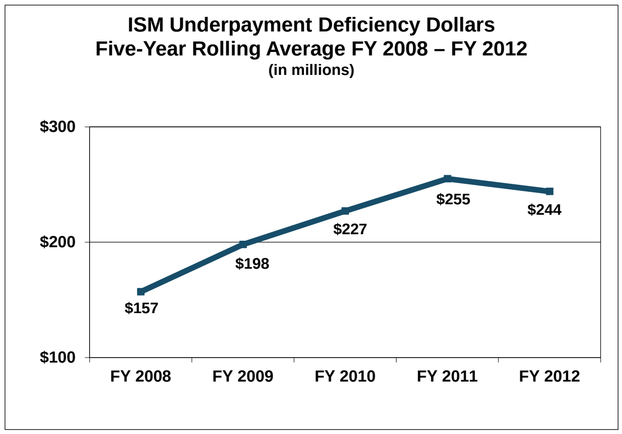
| Description | Target Completion | Status |
|---|---|---|
| Test in 100 field offices to determine the cost benefit of using *LexisNexis/Accurint* during initial claims interviews to identify real property owned by applicants or deemors that result in ineligibility for SSI. | FY 2014 | We screened over 20,000 initial SSI claims against *LexisNexis/Accurint*.<br>We are currently analyzing the data to determine the cost benefit of using *LexisNexis/Accurint*, including the number of improper payments prevented and the task times. |
| Test in the same 100 field offices to determine the potential for an automated non-home real property identification process for redeterminations. If successful, develop a tool to streamline the search process and pursue systems integration. | FY 2014 | We expect to begin phase two of the study, which will target redeterminations, in December 2013. |

## In-Kind Support and Maintenance

**Description:**

ISM is unearned income in the form of food or shelter received, with underpayments occurring when the recipient's ISM amount is less than the amount used to calculate his or her monthly payment. Studies show that many of the errors attributed to ISM are due to the complexity of the statutory policies for the program. These policies are difficult for SSI recipients to understand, making it problematic for them to report changes in a timely manner.

**Historical Figures:**




**Corrective Actions:**

Table 12 shows our actions to reduce errors stemming from ISM:

**Table 12: ISM – Corrective Actions**

| Description | Target Completion | Status |
|---|---|---|
| **Statutory, Regulatory, Policy and Procedure Review** | | |
| We frequently review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes. | Ongoing | As a result of our reviews, we issue periodic reminders and policy clarifications, as needed. We will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes. |

# Efforts to Reduce Fraud, Waste, and Abuse in the OASDI and SSI Programs

The following key initiatives enhance our program integrity efforts. By improving our death data processing, we will ensure that our death information is in agreement, thereby preventing erroneous payments. We are revising our administrative sanctions policy to ensure that we consistently apply sanctions throughout our programs, which will enable us to better address fraud.

## Death Reports

### Description

Current systems limitations prevent some death data from processing effectively and sharing information between our Numident database and programmatic systems. The Numident is our electronic database of our records of Social Security numbers assigned since 1936. We have three projects to address these problems:

- Establish a unique termination code for beneficiaries age 115 and over who have been in long-term payment suspense;
- Conduct an ongoing monthly comparison to ensure deaths recorded on the Numident are also recorded in our programmatic systems; and
- Perform a large-scale redesign of our death processing system to eliminate the causes of incorrect death reporting and share information between our programmatic systems.

**Corrective Actions:**

Table 13 shows our actions to reduce errors related to death reporting:

**Table 13: Death Reports – Corrective Actions**

| Description | Target Completion | Status |
|---|---|---|
| Terminate records of beneficiaries over 115 years old who are in long-term suspense status. | Completed August 2013 | We established a new code in our OASDI programmatic system to terminate records for aged individuals in long-term suspense where we did not receive notification of death. |
| Conduct Numident death match reviews. | Completed June 2013 | We released alerts to our field offices to resolve cases where we have death information for an individual on our Numident but the individual continues to receive benefits or will soon receive a payment. |
| Death Alert, Control, and Update System redesign. | September 2015 | Through FY 2014, we will continue planning and developing new web-based screens. In FY 2015, we will centralize and capture all death information in one location and make changes in all systems that receive and use death information. |

## Administrative Sanctions

To further target fraud in our programs, we developed a strategic initiative focused on imposing administrative sanctions.

### Description

Current OASDI beneficiaries or SSI recipients who intentionally misrepresent facts to receive their benefits are subject to administrative sanctions punishable by suspension of their benefits for 6, 12, or 24 months. We are implementing a new process to ensure that field office staffs consistently apply administrative sanctions in a manner that curbs fraudulent behavior, helps to reduce improper payments, and preserves the public's trust in our programs.

**Corrective Actions:**

Table 14 shows our actions to reduce errors by imposing administrative sanctions:

**Table 14: Administrative Sanctions – Corrective Actions**

| Description | Target Completion | Status |
|---|---|---|
| Implement the new administrative sanctions business process nationally. | Completed September 2013 | We published instructions and conducted an interactive video training session for all field office staff. |
| Evaluate the effectiveness of the new process once we have implemented it nationally. | March 2014 | Pending |

# Agency Efforts to Collect Overpayments in the OASI, DI, and SSI Programs

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected $3.46 billion in OASDI and SSI benefit overpayments in FY 2013 at an administrative cost of $0.07 for every dollar collected. We collected $16.12 billion over a five-year period (FYs 2009-2013). Since 2004, our cumulative recoveries are $27.66 billion for OASDI and SSI benefit overpayments. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and followup), as well as the external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts.

We suspend or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards. Generally, we terminate or suspend collection action when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered. Terminating collection action is a temporary or conditional write-off in that the debt remains on the debtor's record. If the debtor becomes entitled to benefits in the future, we will collect the debt by appropriate and available methods.

From 1992 through September 2013, our external collection techniques have yielded $4.713 billion in benefit overpayment recovery. Table 16 provides a description of each of our external collection techniques and a summary of the results.

We developed a system to handle the Department of the Treasury's (Treasury) Treasury Offset Program (TOP), credit bureau reporting, and Administrative Wage Garnishment (AWG). Because the system includes more than TOP and is the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation (ECO) system.

In September 2013, we enhanced ECO to collect delinquent debts through Treasury's State Reciprocal Program (SRP). SRP allows States to enter into reciprocal agreements with Treasury to collect unpaid State debt by offset of Federal non-tax payments. In return, the agreements allow the Federal Government to collect delinquent non-tax debt by offset of State payments.

As authorized by Public Law 110-246, in May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the previous 10-year statute of limitations. Through FY 2013, we notified 310,000 former beneficiaries with delinquent debts of 10 years or more of our ability to collect their delinquent debt through TOP.

Continued improvement in other aspects of our debt collection program is underway. As resources permit, we will expand the Non-Entitled Debtors (NED) program and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies in debt collection.

## Collecting Debt

Our improper payments strategy includes focusing on enhancements to improve our OASDI and SSI debt recovery efforts.

### Description

Dependent upon promulgation of regulations, we will increase the OASDI monthly minimum repayment amount from $10.00 to 10 percent of the debtor's monthly benefit payment. This change will increase our recoveries via withholding from benefits, and it will make the minimum recovery rate for OASDI overpayments consistent with the current minimum recovery rate for SSI overpayments. In October 2013, we began notifying debtors of our ability to offset eligible State payments to collect their debt. In addition, to continue to expand our use of TOP, we will:

- Complete notification to all debtors with debts delinquent 10 years or more;
- Implement the required systems enhancements to employ State payment offset through Treasury's SRP; and
- On a monthly basis, continue to notify debtors of our ability to offset eligible State payments to collect their delinquent debt.

These changes also support debt management compliance and performance as required by OMB.

Table 15 shows enhancements to improve our OASDI and SSI debt recovery efforts:

| Table 15: Collecting Debt – Corrective Actions | | |
|---|---|---|
| **Description** | **Target Completion** | **Status** |
| Publish draft regulations to increase the OASDI monthly minimum repayment amount from $10 to 10 percent of the debtor's monthly benefit amount. | June 2014 | Our Acting Commissioner approved the notice of proposed rule making. |
| Collect delinquent OASDI and SSI debts through TOP/SRP. | September 2015 | We implemented the required systems enhancements in 2013.<br>We began sending mandatory due process notification to delinquent debtors in October 2013. |
| Complete notification to debtors for delinquent debts 10 years or older for possible use of TOP to recover the debts. | February 2014 | We are on target to complete debtor notifications by February 2014. |

Table 16 shows the external collection techniques we use to recover OASDI and SSI overpayments:

**Table 16: Cumulative Programmatic Debt Recovery Methods Through FY 2013**
**(dollars in billions)**

| Recovery Method | Inception | Description | OASDI | SSI | TOTAL |
|---|---|---|---|---|---|
| **TOP** | 1992 | TOP allows us to collect delinquent debt by tax refund offset, administrative offset, and Federal Salary Offset. We collected $195.3 million in FY 2013 through this initiative. | $1.427 | $0.926 | $2.353 |
| **Credit Bureau Reporting** | 1998 | We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of $70.8 million in FY 2013. | $0.457 | $0.329 | $0.786* |
| **Cross Program Recovery** | 2002 | Cross program recovery collects OASDI overpayments from monthly SSI payments and underpayments, and SSI overpayments from monthly OASDI benefit payments and underpayments. We collected $144.0 million** though cross program recovery in FY 2013. | $0.177 | $0.814 | $0.991 |
| **NED** | 2005 | NED is an automated system used to control recovery activity for debtors who are not entitled to benefits (e.g., representative payees who receive payments after the death of a beneficiary). We used NED to recover $3.6 million in FY 2013. | $0.029 | N/A | $0.029*** |
| **AWG** | 2005 | AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private-sector disposable pay. We collected $19.0 million through this process in FY 2013. | $0.110 | $0.022 | $0.132 |
| **Automatic Netting SSI** | 2002 | This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" $124.0 million in FY 2013. | N/A | $1.237 | $1.237 |
| **Total** | | | $1.714 | $2.999 | $4.713 |

Notes:

*Credit bureau reporting is a subset of TOP collections.

**The cross program recovery total for FY 2013 includes all cross program recoveries; however, the cumulative cross program recovery totals include only those totals we can track since inception.

***NED is a subset of TOP and AWG collections.

Refer to the Debt Management section of this *Agency Financial Report* for information on our programmatic and administrative debt activity.

## Payment Recapture Audit Program: Benefit Payments

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts. We have a multi-pronged approach to conducting payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, specialists with extensive expertise in our surveys, benefit programs, business processes, applied statistics and statistical models, and business analytics conduct our stewardship reviews. These employees review a sample of OASDI and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility and payment amount for the review period. We use these data to identify payment accuracy as well as our strengths and weaknesses, which allows us to target our resources to take corrective actions that yield the highest return on investment.

In our field offices, processing centers, and State disability determination services (DDS) operational areas, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first work those CDRs and redeterminations that will likely result in the greatest savings. Please see the section of this improper payments report titled, Agency Efforts to Reduce Improper Payments, Human Capital to Support Improper Payment Workloads, for information on savings.

CDRs and SSI redeterminations are our most effective payment recapture program integrity activities to identify cases where we should discontinue benefit payments. To support CDRs and redeterminations, we specifically request funding through the normal budget process, and the number of CDRs and redeterminations we can conduct each year depends on the level of resources appropriated to the agency.

### Payment Recapture Audit Reporting

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies that have programs or activities that are susceptible to significant improper payments to report on their payment recapture audit activities. For our OASDI and SSI benefit payments, we are unable to segregate our improper payments from our total overpayment universe. Not all overpayments are improper. Certain overpayments are unavoidable and not improper if the payment is required by statute, regulation, or court order, such as continued payments required by due process procedures. Tables 17-19 show our OASDI and SSI overpayment experience, inclusive of improper payments.

| Table 17: FY 2013 Payment Recapture Audit Reporting Benefit Payments[1] (dollars in millions) | | |
|---|---|---|
| **Type of Payment** | **OASDI** | **SSI** |
| **Amount Subject to Review for Current Year (CY) Reporting[2]** | $10,991.7 | $9,858.6 |
| **Actual Amount Reviewed and Reported CY[2]** | $10,991.7 | $9,858.6 |
| **Amount Identified for Recovery CY[2]** | $10,991.7 | $9,858.6 |
| **Amount Recovered CY[3]** | $2,283.7 | $1,176.1 |
| **Percent of Amount Recovered Out of Amount Identified CY** | 21% | 12% |
| **Amount Outstanding CY[4]** | $8,708.0 | $8,682.5 |
| **Percent of Amount Outstanding Out of Amount Identified CY** | 79% | 88% |
| **Amount Determined Not to be Collectable CY[5]** | $551.3 | $394.4 |
| **Percent of Amount Determined Not to be Collectable Out of Amount Identified CY** | 5% | 4% |
| **Amounts Identified for Recovery Prior Years (PY)[6]** | $8,272.2 | $7,772.6 |
| **Amounts Recovered PYs[3]** | $2,283.7 | $1,176.1 |
| **Cumulative Amounts Identified for Recovery (CY + PYs)[2]** | $10,991.7 | $9,858.6 |
| **Cumulative Amounts Recovered (CY + PYs)[3]** | $2,283.7 | $1,176.1 |
| **Cumulative Amounts Outstanding (CY + PYs)[7]** | $8,708.0 | $8,682.5 |
| **Cumulative Amounts Determined Not to be Collectable (CY + PYs)[5]** | $551.3 | $394.4 |

Notes:

1. This table comprises all identified and recovered benefit program overpayments for the specified fiscal year. Overpayments identified or recovered in a specified year include debt that was established in prior years.
2. The amounts reported are debt available for recovery in the specified fiscal year. These amounts include debts identified in previous fiscal years that have not been recovered or are determined to be uncollectible. Debts identified in FY 2013 were $2,719.6 million for OASDI and $2,086.0 million for SSI.
3. The amounts reported are FY 2013 recoveries from debt we had available for recovery in FY 2013, which include debts identified in PYs.
4. The amounts reported equal the “Amount Identified for Recovery CY” minus the “Amount Recovered CY.”
5. The amounts reported are uncollectible debt in the CY and include debts identified in PYs.
6. The amounts reported are outstanding debt we had available for recovery prior to the CY, which include debts identified in PYs.
7. The amounts reported equal the “Cumulative Amounts Identified for Recovery (CY + PYs)” minus the “Cumulative Amounts Recovered (CY + PYs).”

## Program Recovery Targets

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). Our payment recapture recovery targets for FYs 2014-2016 are based on our FY 2013 experience. For several reasons, we will not achieve OMB’s annual payment recapture target rate of 85 percent. The current budgetary environment affects our ability to address all of our workloads, including pursuit of benefit overpayments. Due to budget reductions, we have imposed an agency-wide hiring freeze. At the same time, we are losing subject matter experts due to retirement. Consequently, we must prioritize the use of our resources with the demands of our workloads.

Factors beyond our control also affect our payment recapture recovery targets. For example, the state of the economy has an impact on availability of employment. When jobs are plentiful and former OASDI beneficiaries and SSI recipients are working, we generally experience greater collections from our external debt collection tools.

**Table 18: FY 2013 Payment Recapture Audit Targets**
**Benefit Payments**
**(dollars in millions)**

| Type of Payment | FY 2013 Amount Identified | FY 2013 Amount Recovered | FY 2013 Recovery Rate (Amount Recovered/ Amount Identified) | FY 2014 Recovery Rate Target | FY 2015 Recovery Rate Target | FY 2016 Recovery Rate Target |
|---|---|---|---|---|---|---|
| **OASDI** | $10,991.7 | $2,283.7 | 21% | 21% | 21% | 21% |
| **SSI** | $9,858.6 | $1,176.1 | 12% | 12% | 12% | 12% |

Note:

1. The recovery rate target is based on FY 2013 and prior years' experience and the anticipated growth of our benefit payments in FYs 2014-2016.

**Table 19: FY 2013 Aging of Outstanding Overpayments**
**Benefit Payments**
**(dollars in millions)**

| Type of Payment | FY 2013 Amount Outstanding (0 to 6 Months) | FY 2013 Amount Outstanding (6 Months to 1 Year) | FY 2013 Amount Outstanding (Over 1 Year) |
|---|---|---|---|
| **OASDI** | $722.2 | $331.8 | $1,395.0 |
| **SSI** | $555.4 | $337.2 | $2,434.5 |

Note:

1. The aging of outstanding overpayments begins when the overpayment is delinquent, generally when no voluntary payment has been made 30 days after the latest of the following dates:
    - The debt was established on our system for OASDI;
    - The initial overpayment notice for a debt established on the SSI system;
    - The last voluntary payment;
    - An installment arrangement;
    - A decision on an individual's request to reconsider the existence of the overpayment; or
    - A waiver denial.

# Improper Administrative Payments

We evaluated our FY 2012 administrative expenses and determined they were not susceptible to significant improper payments as defined by IPIA.

## Risk Assessment

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that payments are susceptible to significant improper payments, agencies are required to establish an annual improper payment measurement related to administrative payments.

We segment administrative payments into several categories to analyze and determine the vulnerability of these outlays to improper payments.

**Table 20: FY 2012 Administrative Expenses**
**(dollars in millions)**

| | |
|---|---|
| **Payroll and Benefits** | $6,422 |
| **State DDS** | $2,076 |
| ***American Recovery and Reinvestment Act*** | $29 |
| **Other Administrative Expenses*** | $3,069 |
| **Total Administrative Expenses** | $11,596 |

Note:

*Other Administrative Expenses includes vendor, travel, transportation, rents, communications and utilities, printing and reproduction, other services, supplies and materials, equipment, land and structure, grants, subsidies and contributions, information technology systems, OASI and DI Trust Fund operations, other dedicated accounts, other reimbursable, interest and dividends, and insurance claims and indemnities.

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive controls inherent in our administrative payment systems; and
- The current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We demonstrate that, other than what is required in our annual *Agency Financial Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

## Statistical Sampling

For FY 2012, the internal recovery audit program included a review of $1.468 billion in vendor and employee travel payments out of $1.735 billion subject to review. We elected to exclude the following classes of contracts from the scope of the recovery audit:

- Incomplete cost-type contracts where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and conditions of the contract; and
- Cost-type contracts that were subjected to final contract audit and completed prior to payment of the contractor’s final invoice.

We identified total improper overpayments of $1.159 million, approximately 0.07 percent of total payments subject to review. As of the end of FY 2012, almost $304,200 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivable balance reflected the timing of when we issued the request for overpayment refund. We consider all vendor and travel overpayments 100 percent collectible. We return all amounts recovered to the original appropriation from which the overpayment was made.

Although the number and amount of overpayments are minimal and immaterial, incorrect amounts paid (including duplicate payments) are the primary cause of vendor overpayments. To ensure identification and recovery of these payments, we designed, developed, and deployed a predictive analytics program to detect and recover these improper payments. Additionally, we developed and implemented internal controls to minimize improper payments.

Payroll and benefits account for a majority of total administrative expenses. For FY 2012, we found approximately $4.6 million in improper payroll overpayments out of $6,422 million total payroll payments, which yielded a 0.07 percent improper overpayment rate.

## Major Causes

The major causes of improper administrative payments (overpayments and underpayments) include:

- Incorrect amounts paid (including duplicate payments); and
- Time and attendance records processed before actual data are available. To ensure that we pay our employees timely, several times a year our business processes (e.g., operational and systems processing schedules) require that we process employees' time and attendance records before actual data are available (i.e., early payroll close out). Subsequently, this action can result in an improper payment.

Corrective actions include:

- To prevent paying incorrect amounts (including duplicate payments), we enhanced the Case Processing and Management System (CPMS) to process administrative payments. CPMS electronically transmits obligations (e.g., call order) and invoice information (e.g., total amount of invoice, invoice number, and vendor information) from hearing offices directly into our centralized accounting system. This system transmits an invoice electronically against each obligation only once for goods and services (e.g., testimony from medical or vocational experts and verbatim hearing reporter services), allowing a vendor to be paid only for services recorded and certified in CPMS. We fully implemented the CPMS enhancement in all hearing offices and National Hearing Centers by December 2012; and
- We addressed improper payments caused by early processing of our time and attendance records as follows:
    - Personnel, including employees, timekeepers, and certifiers, identify corrective actions the following pay period; and
    - Timekeepers are then responsible for recording the appropriate adjustments in our Time and Attendance System.

# Payment Recapture Audit Program: Administrative Payments

To further strengthen our internal controls, in FY 2012, we awarded a contract to a vendor to perform a payment recapture audit of our administrative payments.

This contract required the examination of our administrative payment processes to identify overpayments made during FYs 2008-2010. The contractor:

- Identified funds lost due to overpayments;

- Defined the reason for the overpayment;
- Notified us of any overpayments identified; and
- Developed recommendations for preventing future overpayments.

The auditors completed the payment recapture audit on August 5, 2013. Out of $23,282 million in payments reviewed, the auditors identified, and we confirmed through October 2013, improper payments totaling almost $28,000. We continue to review the auditors' findings to verify the improper payment amounts, and we expect to complete our review by December 2013. We will report on our corrective actions to verified improper payments in next year's *Improper Payments Information Detailed Report*. At that time, we will also report on the status of any recaptured funds.

In addition to the external audit, we use an existing in-house recovery audit program for vendor and employee travel payments that contains a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify duplicate payments made to the same vendor, with the same invoice date, and for the same amount;
- A report to identify duplicate payments made through the third-party draft payment system and the accounts payable system; and
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

According to OMB guidance, reviewing payments to employees to identify improper payments is optional. However, because our payroll and benefits account for a major portion of our administrative costs, we conduct annual payment accuracy reviews. Results from the audit program and quality review process continue to confirm our administrative payments are well below the OMB threshold for reporting improper payments.

## Administrative Payment Recapture Audit Reporting

Tables 21-23 show the results from our annual payment accuracy reviews for our administrative payments.

**Table 21: FY 2012 Payment Recapture Audit Reporting**
**Administrative Payments**
**(dollars in millions)**

| Type of Payment | Payroll and Benefits | Vendor and Travel |
|---|---|---|
| **Amount Subject to Review for CY Reporting** | $6,422 | $1,735 |
| **Actual Amount Reviewed and Reported CY** | $6,422 | $1,468 |
| **Amount Identified for Recovery CY** | $4.564 | $1.159 |
| **Amount Recovered CY** | $1.772 | $1.071 |
| **Percent of Amount Recovered Out of Amount Identified CY** | 39% | 92% |
| **Amount Outstanding CY** | $2.792 | $0.088 |
| **Percent of Amount Outstanding Out of Amount Identified CY** | 61% | 8% |
| **Amount Determined Not to be Collectable CY** | $1.322 | $0.0 |
| **Percent of Amount Determined Not to be Collectable Out of Amount Identified CY** | 29% | 0% |
| **Amounts Identified for Recovery PYs** | $5.744 | $11.929 |
| **Amounts Recovered PYs** | $2.954 | $11.624 |
| **Cumulative Amounts Identified for Recovery (CY + PYs)** | $10.308 | $13.087 |
| **Cumulative Amounts Recovered (CY + PYs)** | $4.726 | $12.783 |
| **Cumulative Amounts Outstanding (CY + PYs)** | $5.582 | $0.304 |
| **Cumulative Amounts Determined Not to be Collectable (CY + PYs)** | $1.750 | $0.0 |

Notes:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2012 but could have occurred in a prior year.
2. Cumulative Amounts Recovered (CY + PYs) for Vendor and Travel includes $0.088 million of amounts recovered in the current year for amounts identified in prior years.
3. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards based on the following criteria:
   - The cost of collection does not justify the enforced collection of the full amount;
   - The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
   - The debt has been discharged in bankruptcy; or
   - The debtor has requested a waiver or review of the debt, and the agency determines that such request is credible.

## Administrative Payments Recovery Targets

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. We strive to recover all administrative overpayments, and established a 100 percent target as required by OMB Circular No. A-123, Part II B (3), *Payment Recapture Targets for Audit Programs*. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former employees and duplicate payments to vendors. We use various tools for collection, including offset of subsequent vendor payments and TOP, which includes AWG.

**Table 22: FY 2012 Payment Recapture Audit Targets**
**Administrative Payments**
**(dollars in millions)**

| Type of Payment | FY 2012 Amount Identified | FY 2012 Amount Recovered | FY 2012 Recovery Rate (Amount Recovered/ Amount Identified) | FY 2013 Recovery Rate Target | FY 2014 Recovery Rate Target | FY 2015 Recovery Rate Target |
|---|---|---|---|---|---|---|
| **Payroll and Benefits** | $4.564 | $1.772 | 39% | 100% | 100% | 100% |
| **Vendor and Travel** | $1.159 | $1.071 | 92% | 100% | 100% | 100% |

Note:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2012 but could have occurred in a prior year.

**Table 23: FY 2012 Aging of Outstanding Overpayments**
**Administrative Payments**
**(dollars in millions)**

| Type of Payment | FY 2012 Amount Outstanding (0 to 6 Months) | FY 2012 Amount Outstanding (6 Months to 1 Year) | FY 2012 Amount Outstanding (Over 1 Year) |
|---|---|---|---|
| **Payroll and Benefits** | $1.127 | $0.684 | $1.204 |
| **Vendor and Travel** | $0.024 | $0.063 | $0.217 |

Note:

1. The payroll and benefits aging amounts for amounts outstanding over one year only include reductions (collections, write-offs, etc.) through the end of FY 2011.

| Table 24: Administrative Debt Overpayments – Detections and Recoveries (dollars in millions) | | | | | | |
|---|---|---|---|---|---|---|
| **Administrative Debt Overpayments** | **Amount Identified FY 2013** | **Amount Recovered FY 2013** | **Amount Identified FY 2012** | **Amount Recovered FY 2012** | **Cumulative Amount Identified FY 2013 and 2012** | **Cumulative Amount Recovered FY 2013 and 2012** |
| **Total** | $1.9 | $1.2 | $2.5 | $1.3 | $4.4 | $2.5 |

Notes:

1. The totals mainly include identified and recovered overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which are discussed in the Payment Recapture Audit Program: Administrative Payments section of this improper payments report.
2. Identified overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. We do not consider every overpayment improper according to the definition contained in IPIA.

# Agency Efforts to Reduce Improper Payments

We focus on achieving our goals to reduce improper payments. Below, we address our efforts in the following areas to reduce improper payments:

- Internal controls;
- Human capital to support improper payment workloads;
- Information systems;
- Other infrastructure; and
- Statutory and regulatory barriers.

## Internal Controls

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

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

The effective internal controls we incorporate into our business processes and financial management systems, as well as the program integrity efforts mentioned throughout this report, support the Acting Commissioner's annual statement to the President and Congress on whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;
- Financial management systems are in conformance with Government-wide requirements; and

- Internal controls over financial reporting are operating effectively.

We include the Acting Commissioner's annual statement of assurance, additional information on our review program, and our financial statement audit, in the *Systems and Controls* section of this *Agency Financial Report*. In addition, we include the auditor's report in the *Auditor's Reports* section of this *Agency Financial Report*.

Our strong overall internal control program contributes significantly to our efforts to reduce improper payments.

### The Disaster Relief Appropriations Act - Hurricane Sandy

The *Disaster Relief Appropriations Act of 2013* (Disaster Relief Act) requires that Federal agencies supporting Hurricane Sandy recovery and other disaster-related activities implement additional internal controls to prevent waste, fraud, and abuse of these funds. The Disaster Relief Act required each Federal agency to submit an internal control plan to OMB, the Government Accountability Office, the agency's Inspector General, and the Committees on Appropriations of the House of Representatives and the Senate by March 31, 2013.

OMB Memorandum M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, provides an overview of the internal control planning and reporting requirements for all programs funded under the Disaster Relief Act, with a focus on the following elements: (1) additional internal controls, (2) improper payments protocol, and (3) recapture of unexpended grant funds 24 months after agency obligation. On March 28, 2013, we submitted our Hurricane Sandy Disaster Relief (HSDR) Internal Control Plan and Risk Assessment. We determined the overall risk level for activities associated with HSDR payments was low, considering our overall control environment and specific control activities to monitor and report HSDR funds. However, the Disaster Relief Act requires us to treat these payments as "susceptible to significant improper payments" for purposes of the IPIA. Accordingly, we are testing 100 percent of the HSDR payment population to ensure we precisely use the Disaster Relief Act funds for their intended purposes.

## Human Capital to Support Improper Payment Workloads

For our program integrity reviews, we completed increasing numbers of CDRs and SSI redeterminations between FY 2008 and FY 2012. However, due to budget constraints, we were unable to continue increasing this cost-effective work in FY 2013, and we actually experienced a decline in the number of full medical CDRs completed. In FY 2013, we completed a total of over 428,500 full medical CDRs and over 2.634 million SSI redeterminations. On average, we estimate about $9 to $10 in lifetime program savings per dollar we have spent on medical CDRs, including Medicare and Medicaid program effects. We also estimate, on average, about $5 of net program savings per dollar spent on SSI non-medical redeterminations, with savings from overpayments partly offset from the cost for underpayments. In addition, we completed about 252,900 work CDRs in FY 2013.

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits and other mission-critical work. We cannot continue to improve our processes without adequate resources to complete all the work for which we are responsible. Sustained, adequate funding is crucial to providing us with the necessary staff to balance our service and stewardship work and continue to reduce improper payments.

The *Budget Control Act* (Public Law 112-25) includes program integrity initiatives to reduce improper benefit payments under the DI and SSI programs. It allows adjustments to the Government-wide discretionary caps to permit additional appropriations for purposes of conducting CDRs and SSI redeterminations to the extent that such appropriations for program integrity purposes exceed $273 million a year. For FY 2014, the funding adjustment authorized is $924 million. If appropriated, the total amount of $1.197 billion will enable us to complete 764,000 periodic medical CDRs, an increase of nearly 350,000 from our *FY 2013 Operating Plan* target, and continue handling 2.622 million SSI redeterminations, resulting in significant savings of taxpayer dollars.

The President's FY 2014 Budget includes a special legislative proposal that will provide a dependable source of mandatory program integrity funding. The funding will enable us to significantly ramp up our program integrity work and increase our ability to conduct more full medical CDRs, which will help ensure that only those eligible for

OASDI and SSI disability benefits continue to receive them. Based on our assessments of the return on investment from CDRs conducted in FY 2011 and earlier, we estimate that we will achieve significant additional program savings from the President's proposed investment in CDRs. Due to the current budget situation, we are unable to increase our cost-effective program integrity work without additional funding.

Effective FY 2012, as required by IPERA, we are holding managers, program officials, and senior executives accountable for reducing improper payments. For these employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent improper payments, detect and recover improper payments, and meet targets to reduce improper payments.

## Information Systems

The Comprehensive Integrity Review Process supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as the *Federal Managers' Financial Integrity Act*, which requires that we establish and maintain effective internal controls. The Comprehensive Integrity Review Process automatically selects potentially fraudulent transactions for management investigation based on predefined criteria. The selection criteria focus on potentially fraudulent activity rather than improper payments. However, if the transaction involves an issued payment, the reviewer looks at the accuracy of the payment to ensure that we complied with proper procedures.

## Other Infrastructure

As required by law, we conduct preeffectuation reviews (PER) on at least 50 percent of adult initial and reconsideration disability determination allowances made by the State DDSs. We have performed PER reviews on DI cases for many years, and since Public Law 109-171 amending Section 1633(e) (1) of the *Social Security Act* was enacted in February 2006, we have performed PER reviews on 50 percent of the allowances involving SSI adults. We use a predictive statistical model to identify error-prone disability determinations, and we return deficient cases to the State DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2011 cases will result in lifetime savings (after all appeals) of:

- $439 million in OASDI benefit payments;
- $80 million in SSI Federal payments;
- $219 million in Medicare benefits; and
- $14 million in the Federal share of Medicaid payments.

## Statutory and Regulatory Barriers

Our processes, policies, and regulatory and statutory requirements are complicated, which poses challenges in our administration of our programs. To meet the challenges of our growing workloads and provide the best service possible, we continue to streamline our policies and procedures and move more of our business processes to an electronic environment. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The President's FY 2014 Budget includes several legislative proposals that can help simplify our programs and better identify and prevent improper payments. We discuss some of these proposals in the following paragraphs.

### DI Demonstration Authority

This proposal will re-establish and broaden the DI demonstration authority that expired with respect to projects initiated on or after December 18, 2005. This authority allows us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects. In addition to new authority to test early interventions, we will be able to test improvements in our return-to-work rules, which are subject to rigorous evaluation protocols. Simplifying the treatment of beneficiaries' earnings has the potential to eliminate current barriers to employment and reduce improper payments.

### Windfall Elimination Provision and Government Pension Offset

Under this proposal, we will develop automated data exchanges for States and local governments to submit timely information on pensions based on work not covered by Social Security. The proposal includes funding for the development and implementation of the data exchanges. Receiving this pension information timely will help us avoid improper payments created when we do not know a beneficiary is receiving a pension that makes WEP and GPO applicable.

### Workers' Compensation

Under this proposal, we will require States, local governments, private insurers, and other entities that administer Workers' Compensation (WC) and public disability benefits (PDB) to report payment information to us. We will create a standardized reporting format, and develop and implement a system to collect and use the information to offset DI benefits and reduce SSI payments, as necessary. This proposal includes funding for developing and implementing the system. We currently rely on the disabled worker to report receipt of, and any changes to, WC and PDB. The proposed required reporting and a system to receive the information timely are crucial to avoid improper payments that occur when we do not have information about the receipt or amount of WC and PDB payments. Under the proposal, we will also provide pertinent collected information for child support enforcement purposes to the Secretary of the Department of Health and Human Services.

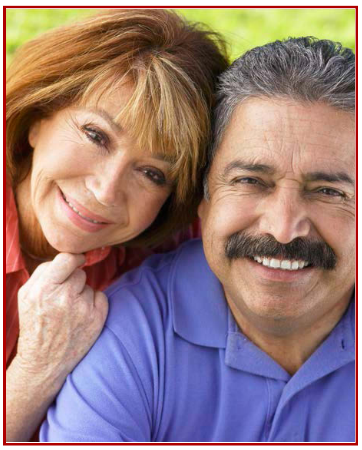
### Quarterly Federal Wage Reporting

This proposal will restructure the Federal wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal will facilitate the implementation of automated enrollment of employees in existing workplace pensions. It may also improve program integrity and help reduce improper payments because more frequent reporting can provide more timely information we can use to administer our programs. Finally, increasing the frequency of wage reporting can enhance tax administration.

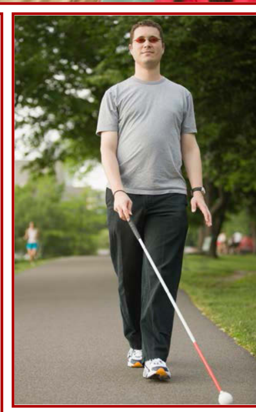
### Mandatory Program Integrity Funding

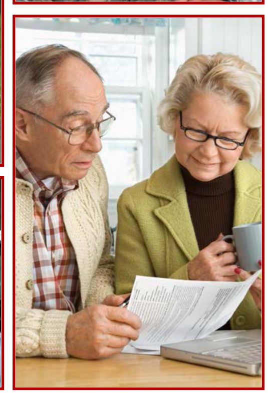
This proposal will repeal our discretionary cap adjustments beginning in 2014 and instead, establish a dependable source of mandatory funding for CDRs and SSI redeterminations, thereby ensuring that only those eligible for benefits continue to receive them. CDRs and redeterminations are our most valuable tools to combat improper payments. This proposal will ensure we have the funding necessary to conduct these reviews and reduce our CDR backlog.

# Appendix









# Glossary of Acronyms

## A

| | |
|---|---|
| ADP | Automated Data Processing |
| AERO | Automated Earnings Reappraisal Operation |
| AFI | Access to Financial Institutions |
| AFR | Agency Financial Report |
| AICPA | American Institute of Certified Public Accountants |
| ALJ | Administrative Law Judge |
| APG | Agency Priority Goal |
| APP | Annual Performance Plan |
| APR | Annual Performance Report |
| ARRA | American Recovery and Reinvestment Act of 2009 |
| ASP | Agency Strategic Plan |
| AWG | Administrative Wage Garnishment |

## C

| | |
|---|---|
| CAATs | Computer Assisted Auditing Techniques |
| CAL | Compassionate Allowances |
| CARE 2020 | Citizens Access Routing Enterprise 2020 |
| CAS | Cost Analysis System |
| CDI | Cooperative Disability Investigation |
| CDR | Continuing Disability Review |
| CFO | Chief Financial Officers Act of 1990 |
| CMS | Centers for Medicare and Medicaid Services |
| COLA | Cost of Living Adjustment |
| CPI | Consumer Price Index |
| CPI-W | Consumer Price Index for Urban Wage Earners and Clerical Workers |
| CPMS | Case Processing and Management System |
| CSRS | Civil Service Retirement System |
| CY | Calendar Year |
| CY | Current Year |

## D

| | |
|---|---|
| DACA | Deferred Action for Childhood Arrivals |
| DCPS | Disability Case Processing System |
| DDS | Disability Determination Services |
| DI | Disability Insurance |

| | |
|---|---|
| Disaster Relief Act | Disaster Relief Appropriations Act of 2013 |
| DMF | Death Master File |

## E

| | |
|---|---|
| eAuthorization | Electronic Authorization Process |
| eBB | Electronic Bench Book |
| eCAT | Electronic Claims Analysis Tool |
| ECO | External Collection Operation |
| EDMS | Electronic Document Management System |
| ESF | Earnings Suspense File |
| EWSP | Entity-Wide Security Program |

## F

| | |
|---|---|
| FBWT | Fund Balance with Treasury |
| FECA | Federal Employees' Compensation Act |
| FEHBP | Federal Employees Health Benefits Program |
| FERS | Federal Employees' Retirement System |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FICA | Federal Insurance Contributions Act |
| FIS | Financial Information System |
| FISMA | Federal Information Security Management Act |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| FO | Field Office |
| FY | Fiscal Year |

## G

| | |
|---|---|
| GAAP | Generally Accepted Accounting Principles |
| GAO | Government Accountability Office |
| GDP | Gross Domestic Product |
| GPO | Government Pension Offset |
| GPRA | Government Performance and Results Act of 1993 |
| GPRMA | Government Performance and Results Modernization Act of 2010 |
| GSA | General Services Administration |
| GTAS | Government-wide Treasury Account Symbol Adjusted Trial Balance System |

## H

| | |
|---|---|
| HI | Hospital Insurance |
| HI/SMI | Hospital Insurance/Supplemental Medical Insurance |
| HSDR | Hurricane Sandy Disaster Relief |

## I

| | |
|---|---|
| iClaim | Internet Claim |
| IG | Inspector General |
| IPERA | Improper Payments Elimination and Recovery Act of 2010 |
| IPERIA | Improper Payments Elimination and Recovery Improvement Act of 2012 |
| IPIA | Improper Payments Information Act of 2002 |
| IRS | Internal Revenue Service |
| ISM | In-Kind Support and Maintenance |
| IT | Information Technology |

## L

| | |
|---|---|
| LAE | Limitation on Administrative Expenses |
| LPR | Legal Permanent Resident |

## M

| | |
|---|---|
| MD&A | Management's Discussion and Analysis |

## N

| | |
|---|---|
| NCC | National Computer Center |
| NED | Non-Entitled Debtors |
| NSC | National Support Center |
| N/A | Not Applicable |

## O

| | |
|---|---|
| OASDI | Old-Age, Survivors, and Disability Insurance |
| OASI | Old-Age and Survivors Insurance |
| OIG | Office of the Inspector General |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |

## P

| | |
|---|---|
| PDB | Public Disability Benefits |
| PER | Preeffectuation Review |
| PP&E | Property, Plant, and Equipment |
| PSC | Program Service Centers |
| PTF | Payments to the Social Security Trust Funds |
| Pub. L. No. | Public Law Number |
| PY | Prior Year |

## Q

| | |
|---|---|
| QDD | Quick Disability Determination |

## R

| | |
|---|---|
| RIB-LIM | Retirement Insurance Benefit Limitation |
| RRI | Railroad Retirement Interchange |
| RSI | Required Supplementary Information |

## S

| | |
|---|---|
| SAA | Senior Attorney Adjudicator |
| SECA | Self Employment Contributions Act |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SF-133 | Budget Execution Reports |
| SGA | Substantial Gainful Activity |
| SMI | Supplemental Medical Insurance |
| SRP | State Reciprocal Program |
| SSA | Social Security Administration |
| SSI | Supplemental Security Income |
| SSITWR | Supplemental Security Income Telephone Wage Reporting |
| SSN | Social Security Number |
| SSNVS | Social Security Number Verification Services |
| SSOARS | Social Security Online Accounting and Reporting System |

## T

| | |
|---|---|
| TBD | To Be Determined |
| Title II | Social Security |
| Title VIII | Special Benefits for Certain World War II Veterans |
| Title XVI | Supplemental Security Income |
| TOP | Treasury Offset Program |
| Treasury | Department of the Treasury |

## U

| | |
|---|---|
| U.S. | United States |
| U.S.C. | United States Code |
| USSGL | United States Standard General Ledger |

## V

| | |
|---|---|
| VSD | Video Service Delivery |

## W

| | |
|---|---|
| WC | Workers' Compensation |
| WEP | Windfall Elimination Provision |
| W-2 | Wage and Tax Statement |

# SSA Management and Board Members

## Key Management Officials

| | |
|---|---|
| Acting Commissioner | Carolyn W. Colvin |
| Deputy Commissioner | Carolyn W. Colvin |
| Chief Actuary | Stephen C. Goss |
| Chief Strategic Officer | Ruby D. Burrell |
| General Counsel | David F. Black |
| Inspector General | Patrick P. O’Carroll, Jr. |
| Deputy Commissioner, Budget, Finance, Quality, and Management | Peter D. Spencer |
| Deputy Commissioner, Communications | Douglas K. Walker |
| Deputy Commissioner, Disability Adjudication and Review | Glenn E. Sklar |
| Deputy Commissioner, Human Resources | Reginald F. Wells, Ph.D. |
| Deputy Commissioner, Legislation and Congressional Affairs | Scott L. Frey |
| Deputy Commissioner, Operations | Nancy A. Berryhill |
| Acting Deputy Commissioner, Retirement and Disability Policy | Marianna LaCanfora |
| Deputy Commissioner, Systems/Chief Information Officer | William B. Zielinski |

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*Managing Trustee of the Trust Funds*

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*Security, and Trustee*

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*Associate Commissioner,*
*Office of Program Development and Research,*
*and Acting Secretary, Board of Trustees*

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Jagadeesh Gokhale

Dorcas R. Hardy

Bernadette Franks-Ongoy