Financial Section

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A MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

At Social Security, we strive to deliver services that meet the changing needs of the public, when and where they need us. Although we face many challenges, including resource constraints and the need to modernize our information technology systems, we are dedicated to achieving our mission as efficiently and effectively as possible. I am pleased to report that our funding in fiscal year (FY) 2014 and FY 2015 allowed us to restore services in critical areas. With sustained, adequate funding, we can continue to improve our service and achieve our *Vision 2025*.

At every step, it is our dedicated financial management staff, and our steadfast dedication to financial reporting excellence, transparency, and accountability, that ensures our success as responsible stewards of the funds the American people entrust to us. This year, we received our 22nd consecutive unmodified audit opinion, and therefore, I am honored to join Acting Commissioner Colvin in presenting our FY 2015 *Agency Financial Report*.

The unmodified audit opinion we received on our financial statements confirms that our financial statements fairly present the financial position of our agency and are free of material misstatement. We also received an unmodified opinion from our independent auditor on our assertion that our internal control over financial reporting was operating effectively during FY 2015. The independent auditor determined that we had no material weaknesses, but continued to cite two significant deficiencies identified in prior years. The first significant deficiency concerns our information systems controls and the second relates to our calculation, recording, and prevention of overpayments. The auditors also identified a new significant deficiency regarding our redeterminations process. We are committed to resolving these deficiencies as quickly as possible. We will continue to make significant strides to strengthen our control environment and mitigate risks by implementing our risk-based corrective action plans. We provide additional information on the auditor's findings and our corrective actions in the *Systems and Controls* and *Auditor's Reports* sections of this report.

In FY 2015, we improved the technology we use to ensure relevant, reliable, and timely accounting and management information. We completed the implementation of our field office administrative fee collection system by adding functionality to track, record, and report on fees collected for non-programmatic services we provide to individuals and third parties. We accept payment for these services by check or credit card. For our financial reporting system, we replaced outdated and unsupported software with new software. The new software provides faster access to the homepage for a new user, standardized functionalities for improved user productivity, and easy system maintenance. Finally, we acquired new hardware to replace our aging financial system infrastructure. These state-of-the-art servers will consolidate software programs, improve system performance of applications and databases, and consume less energy. Implementation of the new hardware is ongoing.

We have a zero tolerance for fraud, and we are committed to deterring, detecting, and mitigating it. Supported by SSA's National Anti-Fraud Committee, which I co-chair with the Inspector General, we established the Office of Anti-Fraud Programs (OAFP), to lead the agency's nationwide anti-fraud initiatives. OAFP develops the policy, analytical capability, and operational capacity to enhance the agency's ability to prevent fraud attempts, stop those who would abuse our programs, and develop cases for administrative action or investigation by the Office of the Inspector General.

As part of our commitment to serve the public when and where they need us, we are proud of our nationwide network of field and hearing offices offering in-person service. However, we also take seriously our responsibility to make the most efficient use of our resources. I am proud that we made further progress to freeze and reduce our real property footprint. We were able to capitalize on opportunities to scale back our footprint by consolidating staff from many leased locations into existing agency-owned space. We continue to evaluate our facility needs and pursue consolidation opportunities where it makes sound business sense, while ensuring that we have appropriate levels of in-person service options available to the public.

Finally, for our outstanding reporting efforts in our FY 2014 *Agency Financial Report*, the Association of Government Accountants awarded us the Certificate of Excellence in Accountability Reporting. We have received this esteemed award for 17 consecutive years.

The accomplishments in this report are a reflection of our employees' dedication to setting a high standard in financial management. We look forward to implementing even stronger fiscal policies and practices to provide the American taxpayer the maximum value for the resources entrusted to us.

M. Elizabeth Reich

M. Elizabeth Reich
Acting Chief Financial Officer
November 9, 2015

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Our agency's financial statements and additional information for fiscal years (FY) 2015 and 2014 consist of the following:

- The **Consolidated Balance Sheets** present, as of September 30, 2015 and 2014, amounts of economic benefits we owned or managed (assets), amounts we owed (liabilities), and residual amounts we retained, 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, 2015 and 2014. Our net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by our 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, 2015 and 2014. Changes to the two components of net position, Cumulative Results of Operations and Unexpended Appropriations, affect its balance. 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 us, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2015 and 2014. 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) estimated 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 estimated future noninterest income less estimated 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, 2014 to the period beginning on January 1, 2015; and (2) changing from the period beginning on January 1, 2013 to the period beginning on January 1, 2014. 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 include a narrative describing the program, including how the program is financed and how benefits are calculated, as well as an interpretive analysis of trends revealed by the data.

Consolidated Balance Sheets as of September 30, 2015 and 2014

(Dollars in Millions)

Assets	**2015**	2014
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	$ 7,069	$ 4,892
Investments (Note 5)	2,808,287	2,782,918
Interest Receivable (Note 5)	22,688	24,052
Accounts Receivable, Net (Note 6)	280	391
Other (Note 8)	18	19
Total Intragovernmental	2,838,342	2,812,272
Accounts Receivable, Net (Notes 3 and 6)	14,170	13,186
Property, Plant, and Equipment, Net (Note 7)	4,145	3,476
Other (Note 8)	4	4
Total Assets	$ 2,856,661	$ 2,828,938
Liabilities (Note 9)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	$ 4,483	$ 4,490
Accounts Payable	7,539	6,871
Other	147	145
Total Intragovernmental	12,169	11,506
Benefits Due and Payable	98,554	93,903
Accounts Payable	461	481
Federal Employee and Veteran Benefits	329	348
Other	884	874
Total Liabilities	112,397	107,112
Contingencies (Note 9)		
Net Position		
Unexpended Appropriations - All Other Funds	3,779	1,946
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	2,738,390	2,718,230
Cumulative Results of Operations - All Other Funds	2,095	1,650
Total Net Position - Funds from Dedicated Collections (Note 10)	2,738,390	2,718,230
Total Net Position - All Other Funds	5,874	3,596
Total Net Position	2,744,264	2,721,826
Total Liabilities and Net Position	$ 2,856,661	$ 2,828,938

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2015 and 2014

(Dollars in Millions)

	2015	2014
OASI Program		
Benefit Payment Expense	$ 736,752	$ 701,037
Operating Expenses (Note 11)	3,500	3,521
Total Cost of OASI Program	740,252	704,558
Less: Exchange Revenues (Notes 12 and 13)	(15)	(13)
Net Cost of OASI Program	740,237	704,545
DI Program		
Benefit Payment Expense	144,102	142,594
Operating Expenses (Note 11)	3,044	3,023
Total Cost of DI Program	147,146	145,617
Less: Exchange Revenues (Notes 12 and 13)	(39)	(37)
Net Cost of DI Program	147,107	145,580
SSI Program		
Benefit Payment Expense	51,520	50,844
Operating Expenses (Note 11)	4,336	4,192
Total Cost of SSI Program	55,856	55,036
Less: Exchange Revenues (Notes 12 and 13)	(243)	(331)
Net Cost of SSI Program	55,613	54,705
Other		
Benefit Payment Expense	3	4
Operating Expenses (Note 11)	2,077	1,992
Total Cost of Other Program	2,080	1,996
Less: Exchange Revenues (Notes 12 and 13)	(9)	(8)
Net Cost of Other	2,071	1,988
Total Net Cost		
Benefit Payment Expense	932,377	894,479
Operating Expenses (Note 11)	12,957	12,728
Total Cost	945,334	907,207
Less: Exchange Revenues (Notes 12 and 13)	(306)	(389)
Total Net Cost	$ 945,028	$ 906,818

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2015 and 2014

(Dollars in Millions)

	2015			2014		
	Funds from Dedicated Collections	**All Other Funds**	**Total**	Funds from Dedicated Collections	All Other Funds	Total
Cumulative Results of Operations:						
Beginning Balances	$ 2,718,230	$ 1,650	$ 2,719,880	$ 2,695,832	$ 1,473	$ 2,697,305
Budgetary Financing Sources						
Appropriations Used	30,663	59,392	90,055	25,664	59,043	84,707
Tax Revenues (Note 14)	786,402	0	786,402	751,339	0	751,339
Interest Revenues	94,601	0	94,601	99,247	0	99,247
Transfers-In/Out - Without Reimbursement	(5,437)	7,354	1,917	(5,048)	6,686	1,638
Railroad Retirement Interchange	(4,669)	0	(4,669)	(4,687)	0	(4,687)
Net Transfers-In/Out	(10,106)	7,354	(2,752)	(9,735)	6,686	(3,049)
Other Budgetary Financing Sources	55	0	55	96	0	96
Other Financing Sources (Non-Exchange)						
Transfer In/Out	0	0	0	0	(250)	(250)
Imputed Financing Sources (Note 15)	0	524	524	0	569	569
Other	0	(3,252)	(3,252)	0	(3,266)	(3,266)
Total Financing Sources	901,615	64,018	965,633	866,611	62,782	929,393
Net Cost of Operations	881,455	63,573	945,028	844,213	62,605	906,818
Net Change	20,160	445	20,605	22,398	177	22,575
Cumulative Results of Operations	$ 2,738,390	$ 2,095	$ 2,740,485	$ 2,718,230	$ 1,650	$ 2,719,880
Unexpended Appropriations:						
Beginning Balances	$ 0	$ 1,946	$ 1,946	$ 0	$ 262	$ 262
Budgetary Financing Sources						
Appropriations Received	30,663	61,242	91,905	25,664	60,738	86,402
Other Adjustments	0	(17)	(17)	0	(11)	(11)
Appropriations Used	(30,663)	(59,392)	(90,055)	(25,664)	(59,043)	(84,707)
Total Budgetary Financing Sources	0	1,833	1,833	0	1,684	1,684
Total Unexpended Appropriations	0	3,779	3,779	0	1,946	1,946
Net Position	$ 2,738,390	$ 5,874	$ 2,744,264	$ 2,718,230	$ 3,596	$ 2,721,826

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2015 and 2014

(Dollars in Millions)

	2015	2014
Budgetary Resources (Note 16)		
Unobligated Balance, Brought Forward, October 1	$ 2,740	$ 986
Recoveries of Prior Year Unpaid Obligations	849	355
Other Changes in Unobligated Balance	136	134
Unobligated Balance From Prior Year Budget Authority, Net	3,725	1,475
Appropriations (Discretionary and Mandatory)	984,099	940,921
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	14,631	15,088
Total Budgetary Resources	$ 1,002,455	$ 957,484
Status of Budgetary Resources		
Obligations Incurred (Note 16)		
Direct	$ 995,382	$ 951,404
Reimbursable	2,704	3,340
Total Obligations Incurred	998,086	954,744
Unobligated Balance, End of Year		
Apportioned	3,804	2,466
Unapportioned	565	274
Total Unobligated Balance, End of Year	4,369	2,740
Total Budgetary Resources	$ 1,002,455	$ 957,484
Change in Obligated Balance		
Unpaid obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 100,329	$ 95,317
Obligations Incurred	998,086	954,744
Outlays, Gross	(992,703)	(949,377)
Recoveries of Prior Year Unpaid Obligations	(849)	(355)
Unpaid Obligations, End of Year	$ 104,863	$ 100,329
Uncollected payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	$ (3,163)	$ (2,926)
Change in Uncollected Payments, Federal Sources	258	(237)
Uncollected Payments Federal Sources, End of Year	(2,905)	(3,163)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	$ 97,166	$ 92,391
Obligated balance, End of Year	$ 101,958	$ 97,166
Budgetary Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	$ 998,730	$ 956,009
Actual Offsetting Collections (Discretionary and Mandatory)	(14,889)	(14,851)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	258	(237)
Budget Authority, Net (Discretionary and Mandatory)	984,099	940,921
Outlays, Gross (Discretionary and Mandatory)	992,703	949,377
Actual Offsetting Collections (Discretionary and Mandatory)	(14,889)	(14,851)
Outlays, Net (Discretionary and Mandatory)	977,814	934,526
Distributed Offsetting Receipts	(33,694)	(28,754)
Agency Outlays, Net (Discretionary and Mandatory)	$ 944,120	$ 905,772

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, 2015
(Dollars in Billions)

		Estimates from Prior Years			
	2015	**2014**	**2013**	**2012**	**2011**
Present value for the 75-year projection period from or on behalf of: (Note 18)					
Participants who, in the starting year of the projection period, have attained eligibility age (age 62 and over):					
Noninterest income	$ 1,166	$ 984	$ 908	$ 847	$ 726
Cost for scheduled future benefits	12,833	11,852	11,021	9,834	8,618
Future noninterest income less future cost	-11,667	-10,868	-10,112	-8,988	-7,892
Participants who have not yet attained retirement eligibility age (ages 15-61):					
Noninterest income	27,791	25,391	24,591	22,703	20,734
Cost for scheduled future benefits	45,276	42,419	40,591	37,753	34,042
Future noninterest income less future cost	-17,486	-17,028	-16,000	-15,050	-13,309
Present value of future noninterest income less future cost for current participants (closed group measure)	-29,152	-27,896	-26,113	-24,038	-21,201
Combined OASI and DI Trust Fund asset reserves at start of period	2,789	2,764	2,732	2,678	2,609
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	-$ 26,363	-$ 25,131	-$ 23,381	-$ 21,360	-$ 18,592
Present value for the 75-year projection period from or on behalf of: (Note 18)					
Future participants (those under age 15, and to be born and to immigrate during period):					
Noninterest income	26,580	24,594	23,419	21,649	20,144
Cost for scheduled future benefits	10,867	10,028	9,600	8,890	8,100
Future noninterest income less future cost	15,713	14,566	13,819	12,759	12,044
Present value of future noninterest income less future cost for current and future participants (open group measure)	-13,440	-13,330	-12,294	-11,278	-9,157
Combined OASI and DI Trust Fund asset reserves at start of period	2,789	2,764	2,732	2,678	2,609
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	-$ 10,650	-$ 10,565	-$ 9,562	-$ 8,601	-$ 6,548

Notes:

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

Future noninterest income and future cost are estimated over the appropriate 75-year period.

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

January 1, 2014 to January 1, 2015
(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, 2014	-$ 13,330	$ 2,764	-$ 10,565
Reasons for changes between January 1, 2014 and January 1, 2015 (Note 18)			
Change in the valuation period	-560	19	-541
Changes in demographic data, assumptions, and methods	-103	0	-103
Changes in economic data, assumptions, and methods	-146	0	-146
Changes in programmatic data and methods	671	6	676
Changes in law or policy	29	0	29
Net change between January 1, 2014 and January 1, 2015	-$ 110	$ 25	-$ 85
As of January 1, 2015	-$ 13,440	$ 2,789	-$ 10,650

January 1, 2013 to January 1, 2014
(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, 2013	-$ 12,294	$ 2,732	-$ 9,562
Reasons for changes between January 1, 2013 and January 1, 2014 (Note 18)			
Change in the valuation period	-540	28	-512
Changes in demographic data, assumptions, and methods	235	0	235
Changes in economic data, assumptions, and methods	-604	0	-604
Changes in programmatic data and methods	-90	4	-86
Changes in law or policy	-37	0	-37
Net change between January 1, 2013 and January 1, 2014	-$ 1,035	$ 32	-$ 1,003
As of January 1, 2014	-$ 13,330	$ 2,764	-$ 10,565

Notes:

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

Future noninterest income and future cost are estimated over the appropriate 75-year period.

Notes to the Basic Financial Statements For the Years Ended September 30, 2015 and 2014

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 Special Veterans Benefits (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 and ARRA activity, 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 that 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 Treasury special-issue securities. Special-issue securities are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. 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 records its property, plant, and equipment (PP&E) in the LAE program, but the PP&E represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. SSA allocates user charges 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.

SSA presents the change in our PP&E from one reporting period to the next on the chart in Note 17, 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.

In FY 2015, while performing an internal review of PP&E, SSA discovered certain prior year internal use software activity that had not been capitalized. We identified contractor-developed internal use software, as well as SSA developed software that had not been captured prior to FY 2015. The total Net Book Value of the previously unrecorded activity was $399 million as of September 30, 2014. SSA determined that this unintentional error was not material to the financial statements, and therefore, recorded the activity during FY 2015. This activity increased SSA's FY 2015 Property, Plant, and Equipment and Total Assets line items on the Consolidated Balance Sheets. In addition, this activity decreased SSA's FY 2015 Operating Expense and Total Net Cost line items on the Consolidated Statements of Net Cost. Refer to Note 7, Property, Plant, and Equipment, Net.

Benefits Due and Payable

SSA accrues liabilities for OASI and DI benefits due for the month of September, which by statute, are not paid until October. Also, SSA accrues liabilities on benefits for past periods that have not completed processing by the close of the period, such as adjudicated and unadjudicated hearings and appeals and civil litigation cases. Refer to Note 9, 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.

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, SSA subsequently distributes administrative expenses during each month to the appropriate OASI, DI, HI, and SMI Trust Fund and general fund accounts. SSA initially makes all such distributions on an estimated basis and adjusts to actual each year, as provided for in Section 1534 of Title 31, United States Code (U.S.C.).

SSA incurs obligations in the LAE accounts as activity is processed. SSA incurs obligations in each of the financing sources once we record LAE's authority. The Centers for Medicare and Medicaid Services reports obligations that SSA incurred in the HI and SMI Trust Funds. Because SSA reports LAE 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, we record LAE's obligations twice. This presentation is in conformance with OMB Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

Recognition of Financing Sources

Tax revenue, which consists of funds transferred from the Treasury to the OASI and DI Trust Funds for employment taxes (*Federal Insurance Contributions Act* (FICA) and *Self Employment Contributions Act* (SECA)), represents SSA's largest financing source. Additional financing sources consist of interest revenue from the Trust Fund investments, taxation on benefits, 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 14, 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 12, Exchange Revenues. SSA may use exchange revenue financing sources to pay for current operating expenses as specified by law.

Funds from Dedicated Collections

SFFAS No. 43, *Funds from Dedicated Collections*, 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. Funds from dedicated collections must 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 10, Funds from Dedicated Collections, 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 18, Social Insurance Disclosures.

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 financial 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 Office of Personnel Management (OPM) administered contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). SSA makes matching contributions to FERS. 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. Refer to Note 15, Imputed Financing, for additional information.

SSA contributions to CSRS were $45 and $52 million for the years ended September 30, 2015 and 2014. SSA contributions to the basic FERS plan were $536 and $455 million for the years ended September 30, 2015 and 2014. 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 $171 and $159 million for the years ended September 30, 2015 and 2014. 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 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 displays its Non-Entity Assets in Chart 3a. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments and underpayments classified as SSI Accounts Receivable, Net; and (2) General Fund’s portion of fees collected to administer Title VIII State Supplementation.

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

	2015			2014		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
Intragovernmental:						
Title VIII State Supp Fees	$ 2	$ 0	$ 2	$ 2	$ 0	$ 2
SSI Fed/State Accounts Receivable, Net	7,964	(492)	7,472	7,287	(400)	6,887
Total	$ 7,966	$ (492)	$7,474	$ 7,289	$ (400)	$6,889

SSA has reduced the SSI Accounts Receivable, Net, by intra-agency eliminations. SSI accounts receivable is recognized as a non-entity asset. 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 will not be used by SSA as a 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.

Title VIII State Supplementation fee collections are classified as exchange revenue. These fees are included in the Fund Balance with Treasury as of September 30, 2015 and 2014.

Chart 3b provides a breakout between Non-Entity and Entity assets.

Chart 3b - Non-Entity/Entity Asset Breakdown as of September 30:
($ in millions)

	2015	2014
Non-Entity Assets	$ 7,474	$ 6,889
Entity Assets	2,849,187	2,822,049
Total Assets	$ 2,856,661	$ 2,828,938

4. Fund Balance with Treasury

The Fund Balance with Treasury, 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 includes PTF, ARRA, deposit funds, and a receipt account. 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 do not directly correspond with the budgetary lines shown in the chart. Therefore, 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)

	2015	2014
Trust Funds*		
OASI	$ (95)	$ (106)
DI	18	(187)
LAE	(30)	(27)
General Funds		
SSI	6,936	4,904
Other	199	265
Other Funds		
SSI	37	39
Other	4	4
Total	$ 7,069	$ 4,892

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

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

	2015	2014
Unobligated Balance		
Available	$ 3,566	$ 2,052
Unavailable	369	48
Obligated Balance Not Yet Disbursed	3,200	3,069
OASI, DI, and LAE	(107)	(320)
Non-Budgetary Fund Balance with Treasury	41	43
Total	$ 7,069	$ 4,892

The negative fund balances reported for the OASI and LAE Trust Funds as of September 30, 2015 and for the OASI, DI, and LAE Trust Funds as of September 30, 2014 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, SSA does not reclassify the negative balances as liabilities on the Consolidated Balance Sheets.

5. Investments and Interest Receivable

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest-bearing securities backed by the full faith and credit of the Federal Government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Secretary of the Treasury 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 displays its investments in Special-Issue U.S. Treasury Securities, as reported on the Consolidated Balance Sheets, in Chart 5.

Chart 5 - Investments as of September 30:
($ in millions)

	2015	2014
OASI	$ 2,766,649	$ 2,712,805
DI	41,638	70,113
Total	$ 2,808,287	$ 2,782,918

The interest rates on these investments range from 1.375 to 5.625 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 year 2016 to the year 2030. Accrued interest receivable on the OASI and DI Trust Fund investments with the Treasury is an Intragovernmental Interest Receivable, reported on the Consolidated Balance Sheets. Interest Receivable amounts are $22,688 and $24,052 million as of September 30, 2015 and 2014.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the Treasury. Because the OASI and DI Trust Funds and the 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 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 Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the 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 $280 and $391 million as of September 30, 2015 and 2014 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. SSA reduced the gross accounts receivable by $2,630 and $2,777 million as of September 30, 2015 and 2014 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.

SSA does not apply an allowance for doubtful accounts 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 Federal and State activity. The SSI Federal and State portions consists of overpayments from SSI recipients who are no longer eligible to receive benefit payments or received benefits in excess of their eligibility. Additionally, the SSI State portion consists of amounts due from the States to cover underpayments due to the SSI recipients. Refer to Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments and underpayments.

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

	2015			2014		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 2,602	$ (264)	$ 2,338	$ 2,423	$ (274)	$ 2,149
DI	6,478	(2,115)	4,363	6,296	(2,144)	4,152
SSI*	10,279	(2,315)	7,964	9,530	(2,243)	7,287
LAE	2	0	2	3	0	3
Subtotal	19,361	(4,694)	14,667	18,252	(4,661)	13,591
Less:						
Eliminations**	(497)	0	(497)	(405)	0	(405)
Total	$ 18,864	$ (4,694)	$ 14,170	$ 17,847	$ (4,661)	$ 13,186

Notes:

*See Discussion in Note 3, Non-Entity Assets

**Intra-Agency Eliminations

Chart 6 shows that in FY 2015 and 2014, SSA reduced gross accounts receivable by $497 and $405 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.

SSA annually recalculates a ratio of the estimated allowance for doubtful accounts using a moving five-year average of write-offs divided by clearances comprised of write-offs, waivers, and collections. SSA then applies this ratio 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)

	2015			2014		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings and Other Structures	$ 59	$ (20)	$ 39	$ 59	$ (19)	$ 40
Equipment (incl. ADP Hardware)	664	(330)	334	541	(239)	302
Internal Use Software	8,407	(5,054)	3,353	6,649	(3,835)	2,814
Leasehold Improvements	739	(408)	331	653	(360)	293
Other	838	(750)	88	710	(683)	27
Total	$ 10,707	$ (6,562)	$ 4,145	$ 8,612	$ (5,136)	$ 3,476

Major Classes:	Estimated Useful Life	Method of Depreciation
Buildings and Other Structures	50 years	Straight Line
Equipment (incl. ADP Hardware)	7-10 years	Composite
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6-33 years	Straight Line
Other	3 years	Straight Line

Other Property, Plant, and Equipment represent deferred charges for fixtures and bulk computer purchases.

SSA's Internal Use Software increased from September 2014 to September 2015, in part due to SSA recording previously uncaptured contractor-developed and SSA staff developed internal use software. As a result of this activity, SSA's Internal Use Software's Cost, Accumulated Depreciation, and Net Book Value were increased by $943, $630, and $313 million, respectively, as of September 30, 2015.

8. Other Assets

Intragovernmental Other Assets

Intragovernmental Other Assets amounts include advances provided to Federal agencies for goods and services that will be furnished to SSA. Intragovernmental Other Assets are $18 and $19 million as of September 30, 2015 and 2014.

Other Assets

Other Assets is comprised of advances provided to agency employees for travel and payroll, as well as advances provided to grantee organizations performing work on behalf of the agency. Other Assets are $4 million as of September 30, 2015 and 2014.

9. Liabilities

Liabilities of Federal agencies are classified as liabilities Covered or Not Covered by budgetary resources and are recognized when incurred. Chart 9a discloses SSA's liabilities Covered by budgetary resources and Not Covered by budgetary resources. Liabilities Covered by budgetary resources use available budget authority when SSA incurs the liabilities. 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 9a - Liabilities as of September 30:
($ in millions)

	2015			2014		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI*	$ 4,483	$ 0	$ 4,483	$ 4,490	$ 0	$ 4,490
Accounts Payable	13	7,526	7,539	31	6,840	6,871
Other	88	59	147	85	60	145
Total Intragovernmental	4,584	7,585	12,169	4,606	6,900	11,506
Benefits Due and Payable	94,721	3,833	98,554	90,059	3,844	93,903
Accounts Payable	22	439	461	34	447	481
Federal Employee and Veteran Benefits	0	329	329	0	348	348
Other	529	355	884	521	353	874
Total	$ 99,856	$ 12,541	$ 112,397	$ 95,220	$ 11,892	$ 107,112

Note:
*Railroad Retirement Interchange

Intragovernmental Accrued Railroad Retirement Interchange

The Intragovernmental Accrued Railroad Retirement Interchange 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 SSA had covered railroad employment. 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. SSA records a payable equal to the SSI Federal benefit overpayments receivable when the agency identifies overpayments. Refer to Note 3, Non-Entity Assets, for additional information on the SSI receivables established for the repayment of SSI benefit overpayments.

Intragovernmental Other Liabilities

Intragovernmental Other Liabilities include 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 *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 the Department of Labor's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is $57 million as of September 30, 2015 and 2014.

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 9b shows the amounts for SSA's major programs as of September 30, 2015 and 2014. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, budgetary resources cover the unadjudicated cases.

Chart 9b - Benefits Due and Payable as of September 30:
($ in millions)

	2015	2014
OASI	$ 66,222	$ 62,993
DI	27,487	26,021
SSI	5,342	5,294
Subtotal	99,051	94,308
Less: Intra-agency eliminations	(497)	(405)
Total	$ 98,554	$ 93,903

Chart 9b also shows that as of FY 2015 and 2014, SSA reduced gross Benefits Due and Payable by $497 and $405 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 because the States fund the actual payments made to the beneficiaries. These amounts are set up as an accounts payable until payment is made.

Federal Employee and Veteran Benefits

Federal Employee and Veteran Benefits Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of $329 and $348 million as of September 30, 2015 and 2014 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.

Other Liabilities

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll and SSI State Supplemental amounts collected in advance. Other Liabilities Not Covered by budgetary resources consists of leave earned but not taken and unapplied deposit funds.

Leases

SSA has Occupancy Agreements (OA) with GSA for each space that we occupy. The OA is a complete, concise statement of the business terms governing the tenancy relationship between SSA and GSA. The OA is not a lease, but rather a formal agreement between the signing parties. For accounting purposes, these OAs are treated as lease activity. GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of the OAs vary according to whether the Federal Government directly owns the underlying assets or if GSA rents the underlying asset from third party commercial property owners, though each OA may have slightly different terms. SSA executes cancellable and non-cancellable OAs with GSA. Periods of occupancy on OAs vary, and can generally be cancelled with four months' notice following the first year of occupancy. OAs must be coterminous with the underlying lease term. For non-cancellable OAs, SSA is financially responsible for rental payments on vacated space until the expiration of the OA, the termination of the OA permitted under the lease terms, or the occupancy by a replacement tenant covers the total rent obligation. OAs do not include renewal options that may be in the lease, as GSA makes a determination as to whether such options are fair and reasonable relative to the market when the option matures. Chart 9c shows the future estimated rental payments required under OAs that have initial or remaining non-cancellable terms in excess of one year. SSA does not include the amounts reported in our financial statements. SSA expenses OAs as incurred, and does not record liabilities for future years' costs.

Chart 9c – Future Operating Lease/Occupancy Agreement Commitments as of September 30:
($ in millions)

Fiscal Year	GSA OAs	
2016	$	96
2017		91
2018		87
2019		84
2020		75
2021 and Thereafter (In total)*		585
Total Future Lease Payments		1,018

Note:

*OAs go through the year 2034.

Contingent Liabilities

Putative class action lawsuits challenging the agency's collection of debt using the Treasury Offset Program were filed in Federal district court in Maryland and in the District of Columbia in April 2014 and February 2015, respectively. We cannot estimate the possible dollar amount at this time.

10. 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 retirement and survivors benefits to qualified workers and their families, 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.

Payroll and self-employment taxes primarily fund the OASI and DI Trust Funds. 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 provide additional income to the OASI and DI Trust Funds. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 14, 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 12, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 10 for balances of funds from dedicated collections as reported in the Consolidated Financial Statements for the years ended September 30, 2015 and 2014. The Other Dedicated Funds column in Chart 10 consists of Taxation on Social Security Benefits and SSI State Administrative Fees activity.

Chart 10 - Funds from Dedicated Collections as of September 30: Consolidating Schedule
($ in millions)

	2015				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (95)	$ 18	$ 3	$ 0	$ (74)
Investments	2,766,649	41,638	0	0	2,808,287
Interest Receivable	22,244	444	0	0	22,688
Accounts Receivables - Federal	1	1	0	0	2
Accounts Receivables - Non-Federal	2,338	4,363	0	(5)	6,696
Total Assets	$ 2,791,137	$ 46,464	$ 3	$ (5)	$ 2,837,599
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 4,173	$ 310	$ 0	$ 0	$ 4,483
Accounts Payable, Federal	319	694	0	0	1,013
Benefits Due and Payable	66,222	27,487	0	(5)	93,704
Accounts Payable, Non-Federal	0	9	0	0	9
Total Liabilities	70,714	28,500	0	(5)	99,209
Cumulative Results of Operations	2,720,423	17,964	3	0	2,738,390
Total Liabilities and Net Position	$ 2,791,137	$ 46,464	$ 3	$ (5)	$ 2,837,599
Statement of Net Cost					
Program Costs	$ 736,752	$ 144,102	$ 0	$ 0	$ 880,854
Operating Expenses	503	248	0	0	751
Less Earned Revenue	(1)	(26)	(123)	0	(150)
Net Cost of Operations	$ 737,254	$ 144,324	$ (123)	$ 0	$ 881,455
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,670,570	$ 47,656	$ 4	$ 0	$ 2,718,230
Tax Revenue	672,246	114,156	0	0	786,402
Interest Revenue	92,200	2,401	0	0	94,601
Net Transfers In/Out	22,651	(1,970)	(30,787)	0	(10,106)
Other	10	45	30,663	0	30,718
Total Financing Sources	787,107	114,632	(124)	0	901,615
Net Cost of Operations	737,254	144,324	(123)	0	881,455
Net Change	49,853	(29,692)	(1)	0	20,160
Net Position End of Period	$ 2,720,423	$ 17,964	$ 3	$ 0	$ 2,738,390

The above Chart 10 for FY 2015 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $1,500 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2015 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, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

Chart 10 - Funds from Dedicated Collections as of September 30: Consolidating Schedule
($ in millions)

	2014				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (106)	$ (187)	$ 4	$ 0	$ (289)
Investments	2,712,805	70,113	0	0	2,782,918
Interest Receivable	23,278	774	0	0	24,052
Accounts Receivables - Non-Federal	2,149	4,152	0	(5)	6,296
Total Assets	$ 2,738,126	$ 74,852	$ 4	$ (5)	$ 2,812,977
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 4,103	$ 387	$ 0	$ 0	$ 4,490
Accounts Payable, Federal	460	778	0	0	1,238
Benefits Due and Payable	62,993	26,021	0	(5)	89,009
Accounts Payable, Non-Federal	0	10	0	0	10
Total Liabilities	67,556	27,196	0	(5)	94,747
Cumulative Results of Operations	2,670,570	47,656	4	0	2,718,230
Total Liabilities and Net Position	$ 2,738,126	$ 74,852	$ 4	$ (5)	$ 2,812,977
Statement of Net Cost					
Program Costs	$ 701,037	$ 142,594	$ 0	$ 0	$ 843,631
Operating Expenses	544	235	0	0	779
Less Earned Revenue	(1)	(26)	(170)	0	(197)
Net Cost of Operations	$ 701,580	$ 142,803	$ (170)	$ 0	$ 844,213
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,616,278	$ 79,549	$ 5	$ 0	$ 2,695,832
Tax Revenue	642,276	109,063	0	0	751,339
Interest Revenue	95,568	3,679	0	0	99,247
Net Transfers In/Out	17,990	(1,890)	(25,835)	0	(9,735)
Other	38	58	25,664	0	25,760
Total Financing Sources	755,872	110,910	(171)	0	866,611
Net Cost of Operations	701,580	142,803	(170)	0	844,213
Net Change	54,292	(31,893)	(1)	0	22,398
Net Position End of Period	$ 2,670,570	$ 47,656	$ 4	$ 0	$ 2,718,230

Chart 10 for FY 2014 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $1,628 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2014 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, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

11. Operating Expenses

Classification of Operating Expenses by Major Program

Chart 11a displays SSA's operating expenses for each major program. LAE SSA operating expenses recorded in Other primarily represent the HI/SMI Trust Funds' shares of SSA's operating expenses, including the Medicare Prescription Drug 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 11a - SSA's Operating Expenses by Major Program as of September 30:
($ in millions)

	2015					
	LAE					
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
OASI	$ 2,959	$ 38	$ 0	$ 500	$ 3	$ 3,500
DI	2,760	36	0	87	161	3,044
SSI	4,162	0	0	0	174	4,336
Other	1,989	29	59	0	0	2,077
	$ 11,870	$ 103	$ 59	$ 587	$ 338	$ 12,957

Chart 11a - SSA's Operating Expenses by Major Program as of September 30:
($ in millions)

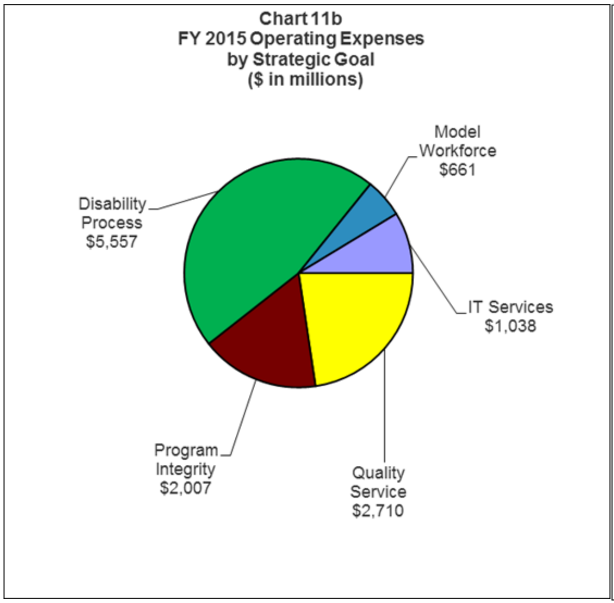
	2014					
	LAE					
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
OASI	$ 2,941	$ 36	$ 0	$ 542	$ 2	$ 3,521
DI	2,754	34	0	103	132	3,023
SSI	4,052	0	0	0	140	4,192
Other	1,936	27	29	0	0	1,992
	$ 11,683	$ 97	$ 29	$ 645	$ 274	$ 12,728

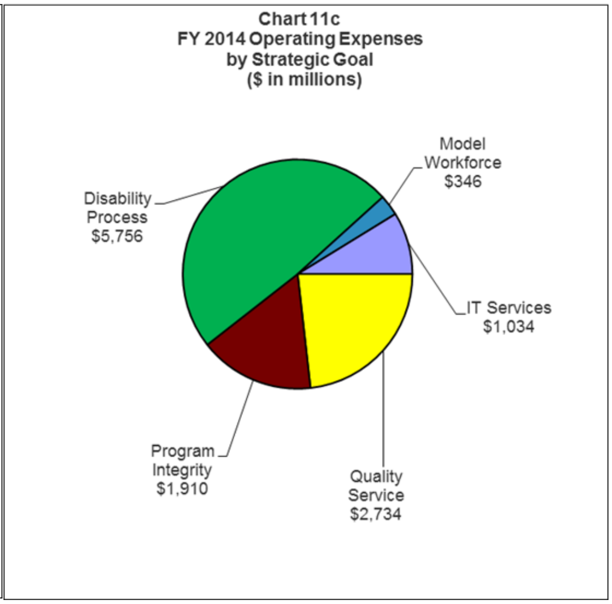
Classification of Operating Expenses by Strategic Goal

SSA's *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. Our APP is characterized by broad-based Strategic Goals that the entire agency supports. The five goals are:

- Deliver Innovative, Quality Services (Quality Service);
- Strengthen the Integrity of Our Programs (Program Integrity);
- Serve the Public Through a Stronger, More Responsive Disability Program (Disability Process);
- Build a Model Workforce to Deliver Quality Service (Model Workforce); and
- Ensure Reliable, Secure, and Efficient Information Technology Services (IT Services).

Charts 11b and 11c exhibit the distribution of FY 2015 and FY 2014 SSA and OIG LAE operating expenses to the five APP Strategic Goals, which agree to the agency's LAE budget appropriation.





For Charts 11b and 11c, we subtracted LAE ARRA expenses from total SSA LAE operating expenses before distributing the operating expenses to the agency's APP Strategic Goals. SSA does not include OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see Chart 11a) 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.

12. Exchange Revenues

SSA recognizes revenue from exchange transactions 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 $306 and $389 million for the years ended September 30, 2015 and 2014. SSA's exchange revenue primarily consists of fees collected to administer SSI State Supplementation. The fees charged to the State are $11.55 and $11.32, per payment, for the years ended September 30, 2015 and 2014. SSA has agreements with 21 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional fees are collected for handling OASI and DI Trust Fund and SSI attorney fees. Other exchange revenue consists of reimbursement for performing non-mission work for Federal and non-Federal entities. Chart 12 discloses SSA's exchange revenue by activity.

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

	2015	2014
SSI State Supplementation Fees	$ 216	$ 306
SSI Attorney Fees	8	8
DI Attorney Fees	26	26
OASI Attorney Fees	1	1
Other Exchange Revenue	55	48
Total	$ 306	$ 389

SSI 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 $102 and $143 million for the years ended September 30, 2015 and 2014. Of these amounts, $94 and $135 million was collected to administer SSI State Supplementation for the years ended September 30, 2015 and 2014. The remainder of the SSI administrative fees, which meet the criteria of a fund from dedicated collections, in the amount of $122 and $171 million for the years ended September 30, 2015 and 2014, are maintained by SSA to defray expenses in carrying out the SSI program.

13. Costs and Exchange Revenue Classifications

Chart 13 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 15, 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 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 13 - Costs and Exchange Revenue Classifications as of September 30:
($ in millions)

	2015			2014		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	$ 1,365	$ (9)	$ 1,356	$ 1,422	$ (9)	$ 1,413
Public	738,887	(6)	738,881	703,136	(4)	703,132
OASI Subtotal	740,252	(15)	740,237	704,558	(13)	704,545
DI Program						
Intragovernmental	894	(8)	886	928	(7)	921
Public	146,252	(31)	146,221	144,689	(30)	144,659
DI Subtotal	147,146	(39)	147,107	145,617	(37)	145,580
SSI Program						
Intragovernmental	1,249	(12)	1,237	1,233	(12)	1,221
Public	54,607	(231)	54,376	53,803	(319)	53,484
SSI Subtotal	55,856	(243)	55,613	55,036	(331)	54,705
Other Program						
Intragovernmental	584	(6)	578	581	(6)	575
Public	1,496	(3)	1,493	1,415	(2)	1,413
Other Subtotal	2,080	(9)	2,071	1,996	(8)	1,988
Total	$ 945,334	$ (306)	$ 945,028	$ 907,207	$ (389)	$ 906,818

14. Tax Revenues

Treasury estimates monthly employment tax revenues based on SSA's quarterly estimate of taxable earnings. Treasury uses these estimates 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 Internal Revenue Service 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 $786,402 and $751,339 million for the years ended September 30, 2015 and 2014.

15. Imputed Financing

SSA is required to incorporate the full cost of goods and services that it receives from other entities on its Consolidated Statements of Net Cost. In some instances, goods or services provided by one Federal entity to another may not be fully reimbursed by the receiving entity. The unreimbursed portion of these costs is considered an imputed cost, and must be recognized on the receiving entity’s Statement of Net Cost. The funding for these imputed costs is recognized as an imputed financing source on the receiving entity’s Statement of Changes in Net

Position. SSA has activities with both OPM and Treasury that require imputed costs and financing sources to be recognized. While the imputed financing sources are shown on the face of the Consolidated Statements of Changes in Net Position, the imputed costs are included in the operating expense amounts reported on the Consolidated Statements of Net Cost.

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 (FEGLI). The Consolidated Statements of Net Cost recognize post-employment benefit expenses of $1,089 and $1,059 million for the years ended September 30, 2015 and 2014, 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. SSA is responsible for a portion of the contributions made to each benefit program during the fiscal year, while the remaining costs are covered by OPM. SSA recognizes these costs on its financial statements as an imputed cost, with a corresponding imputed financing source.

Treasury, on SSA’s behalf, processes the payments for SSI benefits. While the majority of the administrative costs associated with processing these payments are recorded as imputed costs with an associated imputed financing source, SSA is responsible for the costs related to postage. In addition, when funds are not legally available to pay monetary awards from SSA’s own appropriations, Treasury issues payments from the Judgment Fund on behalf of SSA for court judgments and Department of Justice (DOJ) compromise settlements of actual or imminent lawsuits against SSA. These costs are also recorded as imputed costs with a corresponding imputed financing source.

Chart 15 discloses SSA’s imputed financing sources by activity.

Chart 15 - Imputed Financing Sources as of September 30:
($ in millions)

	2015	2014
Employee Benefits (OPM)		
CSRS	$ 125	$ 141
FERS	25	87
FEHBP	358	323
FEGLI	1	1
Total Employee Benefits	509	552
SSI Benefit Payments (Treasury)	14	16
Judgment Fund (Treasury)	1	1
Total	$ 524	$ 569

16. Budgetary Resources

Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of $984,099 and $940,921 million for the years ended September 30, 2015 and 2014. Appropriations Received on the Consolidated Statements of Changes in Net Position are $91,905 and $86,402 million for the same periods. The differences of $892,194 and $854,519 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 Fiscal Service where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Because 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 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 16a reflects the amounts of direct and reimbursable obligations incurred against Categories B Apportionment and Exempt from Apportionment accounts.

Chart 16a - Apportionment Categories of Obligations Incurred as of September 30:
($ in millions)

	2015			2014		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	$ 71,973	$ 2,703	$ 74,676	$ 70,895	$ 3,339	$ 74,234
Exempt	923,409	1	923,410	880,509	1	880,510
Total	$ 995,382	$ 2,704	$ 998,086	$ 951,404	$ 3,340	$ 954,744

Permanent Indefinite Appropriation

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides retirement and survivors benefits to qualified workers and their families. The DI Trust Fund provides disability benefits to individuals who cannot work because they have a medical condition expected to last one year or result in death. 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

During the year, the OASI and DI Trust Funds collect receipts and incur obligations. The receipts are primarily made up of tax and interest revenues. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated against the OASI and DI Trust Funds. During a given year, when receipts collected exceed the amount needed to pay benefits and other valid obligations, the excess authority becomes precluded by law from being available for obligations, as of September 30. While this amount is precluded from obligation at the end of one fiscal year, the excess receipts remain assets of the OASI and DI Trust Funds and can become available in future periods as needed.

Chart 16b provides an overview of fiscal year budgetary receipt and obligation information for the OASI and DI Trust Funds. SSA compares the current year receipts to the current year obligations incurred to determine the excess or shortfall for a fiscal year. As seen in Chart 16b, the DI Trust Fund's obligations exceed current year receipts, which resulted in the DI Trust Fund dipping into its authority reserves, which were previously precluded from obligation.

Chart 16b - OASI and DI Trust Fund Activities as of September 30:
($ in millions)

	2015			2014		
	OASI	DI	Total	OASI	DI	Total
Receipts	$ 795,334	$ 118,039	$ 913,373	$ 763,339	$ 114,193	$ 877,532
Less: Obligations	744,798	147,722	892,520	708,500	146,165	854,665
Excess of Receipts Over Obligations	$ 50,536	$ (29,683)	$ 20,853	$ 54,839	$ (31,972)	$ 22,867

The negative Excess of Receipts Over Obligations for DI presented in Chart 16b reflects the shrinking of the DI Trust Fund authority reserves. While the DI Trust Fund obligations exceed receipts, the overall Net Position of the DI Trust Fund, on the Consolidated Statements of Changes in Net Position, is $17,964 and $47,656 million for the years ended September 30, 2015 and 2014.

Undelivered Orders at the End of the Period

Undelivered orders consist of orders of goods and services that SSA has not actually or constructively received. SSA's total undelivered orders are $2,129 and $2,173 million for the years ended September 30, 2015 and 2014. The total undelivered orders contain unpaid and paid undelivered orders, with unpaid orders making up the majority of the total. SSA’s total unpaid undelivered orders are $2,106 and $2,150 million for the years ended September 30, 2015 and 2014.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

SSA conducted a reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net 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, 2014. 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 16c 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, 2014.

Chart 16c - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the U.S. Government for FY 2014:
($ in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 957,484	$ 954,744	$ 28,754	$ 905,772
Expired activity not in President's Budget	(342)	(73)	0	0
Offsetting Receipts activity not in President's Budget	0	0	0	28,754
Other	0	(1)	1	0
Budget of the U.S. Government	$ 957,142	$ 954,670	$ 28,755	$ 934,526

A reconciliation has not been conducted for the year ended September 30, 2015 since this report is published in November 2015 and the actual budget data for FY 2015 will not be available until the President’s Budget is published.

17. Reconciliation of Net Cost of Operations to Budget

Chart 17 - Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2015 and 2014

($ in millions)

	2015	2014
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 998,086	$ 954,744
Offsetting Collections and Recoveries	(15,480)	(15,443)
Obligations Net of Offsetting Collections and Recoveries	982,606	939,301
Offsetting Receipts	(33,694)	(28,754)
Net Obligations	948,912	910,547
Other Resources		
Imputed Financing	524	569
Other	(224)	(314)
Net Other Resources Used to Finance Activities	300	255
Total Resources Used to Finance Activities	949,212	910,802
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	48	(174)
Resources that Fund Expenses Recognized in Prior Periods	(30)	(27)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	33,690	28,765
Resources that Finance the Acquisition of Assets	(2,095)	(993)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(36,142)	(31,366)
Total Resources Not Part of the Net Cost of Operations	(4,529)	(3,795)
Total Resources Used to Finance the Net Cost of Operations	944,683	907,007
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		
Increase in Annual Leave Liability	2	0
Other	0	142
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	2	142
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,426	689
Other	(1,083)	(1,020)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	343	(331)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	345	(189)
Net Cost of Operations	$ 945,028	$ 906,818

Chart 17 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.

18. Social Insurance Disclosures

Statement of Social Insurance

The Statement of Social Insurance presents 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 (i.e., 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 *2015 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, 2015. These assumptions represent the Trustees' reasonable estimate of likely future economic and demographic conditions. 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 estimated 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 estimated future noninterest income less estimated 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, 2015 totaled $2,789 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 shown in the Report as a percentage of taxable payroll and as a percentage of gross domestic product (GDP) 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 (2015) are based on the full amounts of estimated 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 2015

	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]	
2015	1.91	771.3	76.9	81.5	1,465,000	3.18	3.38	0.20	1.3	3.3	2.2%
2020	2.04	730.1	77.7	82.1	1,395,000	1.73	4.43	2.70	1.0	2.7	5.3%
2030	2.00	667.6	78.9	83.1	1,190,000	1.23	3.93	2.70	0.5	2.1	5.6%
2040	2.00	615.0	80.0	84.0	1,135,000	1.20	3.90	2.70	0.6	2.2	5.6%
2050	2.00	568.9	81.0	84.8	1,110,000	1.21	3.91	2.70	0.5	2.1	5.6%
2060	2.00	528.2	81.9	85.5	1,095,000	1.16	3.86	2.70	0.4	2.0	5.6%
2070	2.00	492.2	82.8	86.2	1,085,000	1.11	3.81	2.70	0.4	2.1	5.6%
2080	2.00	460.1	83.6	86.9	1,085,000	1.13	3.83	2.70	0.4	2.1	5.6%
2090	2.00	431.4	84.3	87.5	1,080,000	1.15	3.85	2.70	0.4	2.0	5.6%

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, 2010, 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 for Urban Wage Earners and Clerical Workers (CPI-W). 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 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 GDP is the value of the total output of goods and services in 2009 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 our *Agency Financial Report* website (www.socialsecurity.gov/finance) for the prior four years.

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

Year of Statement	Total Fertility Rate[1]	Average Annual Percentage Reduction in the Age-Sex-Adjusted Death Rates[2]	Average Annual Net Immigration (persons per year)[3]	Average Annual Real-Wage Differential[4] (percentage points)	Average Annual Percentage Change In: Average Annual Wage in Covered Employment[5]	Average Annual Percentage Change In: CPI[6]	Average Annual Percentage Change In: Total Employment[7]	Average Annual Real Interest Rate[8]
FY 2015	2.0	0.78	1,155,000	1.17	3.87	2.70	0.5	2.9
FY 2014	2.0	0.79	1,125,000	1.13	3.83	2.70	0.5	2.9
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

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 13th year of the projection period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of a standard date if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. For the FY 2014 and FY 2015 Statements, the standard date was April 1, 2010. For the 2011-2013 Statements, the standard date was April 1, 2000. 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 2015 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 2015 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 for Urban Wage Earners and Clerical Workers (CPI-W). The value presented is the average of annual real-wage differentials for the last 65 years of the 75-year projection period. 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 2015 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 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 2015 Statement, the average annual percentage change increased from 3.83 to 3.87 percentage points and is consistent with the annual percentages shown in Table 1.
6. The CPI is the CPI-W. The ultimate assumption is reached within the first 10 years of the projection period. For the 2015 Statement, the average annual rate of CPI is consistent with the annual differentials shown in Table 1.
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 2015 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 2015 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 2011-2015 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 estimated future noninterest income less estimated 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 estimated future noninterest income less estimated 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, 2014 to the period beginning on January 1, 2015; and (2) changing from the period beginning on January 1, 2013 to the period beginning on January 1, 2014. 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 programmatic data and methods; 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. In general, an increase in the present value of net cashflows represents a positive change (improving financing), while a decrease in the present value of net cashflows represents a negative change (worsening financing).

Change in the Valuation Period

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2014-2088) to the current valuation period (2015-2089) 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 2014, replaces it with a much larger negative net cashflow for 2089, and measures the present values as of January 1, 2015, one year later. Thus, the present value of estimated 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 2014-2088 to 2015-2089. 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 2014 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, 2013 to the period beginning on January 1, 2014

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2013-2087) to the current valuation period (2014-2088) 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 2013 and replaces it with a much larger negative net cashflow for 2088, and measures the present values as of January 1, 2014, one year later. Thus, the present value of estimated 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 2013-2087 to 2014-2088. 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 2013 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, 2014 to the period beginning on January 1, 2015

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2015), with the exception of changes made due to the executive actions on immigration, 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 birth rate data for 2012 and preliminary data for 2013 indicated lower birth rates than were expected in the prior valuation. In this year's report, the total fertility rate reaches the ultimate in 2027, which is 11 years earlier than in last year's report.
- Incorporating mortality data obtained from Medicare experience at ages 65 and older for 2012 resulted in slightly higher death rates for 2012 and a slightly slower rate of decline in mortality over the next 25 years than were projected in last year's report. Incorporating mortality data obtained from the National Centers for Health Statistics at ages under 65 for 2011 resulted in slightly lower death rates for 2011 and a slightly faster rate of decline in mortality over the next 25 years than were projected in last year's report.
- Historical legal immigration was revised to include single age data (rather than 5-year age groups); including more recent marriage, legal immigration, and other-than-legal immigration data; historical data since 2001 was revised to be more consistent with the most recent estimates from the Census Bureau.

Inclusion of the new birth rate data and immigration data decreased the present value of estimated future net cashflows, while the inclusion of the remaining data increased the present value of estimated future net cashflows.

From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2014) 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 2012 indicated lower birth rates 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.
- New detailed historical divorce data along with revisions in the assumed path of the age-sex-adjusted divorce rate in the period of transition to the ultimate were used in the current valuation.
- New historical data since 2001 along with smoothing to the historical distribution of the married population by age of husband and wife was used in the current valuation period.

Inclusion of the new birth rate data decreased the present value of estimated future net cashflows, while the inclusion of the remaining data increased the present value of estimated future net cashflows.

There was one change in demographic methodology:

- The modeling of the other immigrant population was divided into three distinct groups for the current valuation: (1) those with temporary legal status; (2) those never authorized to be in the country; and (3) those who had temporary legal status previously but are no longer authorized to be in the country.

Inclusion of this new method increased the present value of estimated future net cashflows.

Changes in Economic Data, Assumptions, and Methods

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

For the current valuation (beginning on January 1, 2015), there was one change to the ultimate economic assumptions.

- The ultimate real-wage differential is assumed to be 1.17 percent in the current valuation period, compared to 1.13 percent in the previous valuation period.

The higher real-wage differential assumption is more consistent with recent experience and expectations of slower growth in employer sponsored group health insurance premiums from the Centers for Medicare and Medicaid Services. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax. This change to the real-wage assumption increased the present value of estimated future net cashflows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- The ratio of average taxable earnings to the average wage averages about 0.6 percentage point higher during the long-range period, compared to the previous valuation period.
- The projected suspense file contains fewer wage items, which is consistent with having fewer workers (many of whom are undocumented immigrants) with wages on the suspense file and more of these workers with earnings in the underground economy, compared to the previous valuation.

The change to the ratio of average taxable earnings to the average wage index increased the present value of estimated future net cashflows while the change to the suspense file decreased the present value of estimated future net cashflows. Other, smaller changes in starting values and near term growth assumptions combined to increase the present value of estimated future net cashflows.

From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

For the current valuation (beginning on January 1, 2014), there was one change to the ultimate economic assumptions.

- The ultimate annual rate of change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is assumed to be 2.7 percent per year in the current valuation period, compared to 2.8 percent per year in the previous valuation period.

Lowering the ultimate average annual increase in the CPI-W makes it more comparable to recent historical annual increases. This change to the CPI-W assumption decreased the present value of estimated future net cashflows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- The ratio of average taxable earnings to the average wage index is lower by 1.9 percent in 2012 and 1.5 percent in 2013, compared to the previous valuation period.

This change to the ratio of average taxable earnings to the average wage index decreased the present value of estimated future net cashflows.

There were two main changes in the economic methodology.

- Projected labor force participation rates for the older population are slightly lower for the current valuation in order to better reflect the difference in participation rates between never-married and married populations and the projected improvement in life expectancy.
- Different earnings levels are assigned to the three distinct groups of the other immigrant population supplied by demography. (This change decreased the present value of estimated future net cashflows by about the same amount as the related change in the demography methodology increased the present value of estimated future net cashflows.)

Inclusion of these changes in methodology decreased the present value of estimated future net cashflows.

Changes in Programmatic Data and Methods

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2015). The most significant are identified below.

- The earnings histories of worker beneficiaries were changed to be more consistent with: (1) the projected employment and earnings by single year of age and gender used in estimating payroll tax revenue; and (2) the projected distribution by single year of age and gender of newly entitled worker beneficiaries for each projection year.
- The projected relative earnings levels for those over age 65 were changed to those age 65 and younger. The projected insured rate for some immigrants was lowered. The affected group of immigrants includes those working in covered employment with a temporary visa that allows them to work and those working in covered employment without current legal work authorization.
- The ultimate projected ratio of income from taxation of benefits to total benefits was increased for this valuation period. There were also updates to programmatic data, changes in projections of beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions.

All of these methodological improvements increased the present value of estimated future net cashflows.

From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2014). The most significant are identified below.

- The ultimate projected ratio of income from taxation of benefits to total benefits was increased for this valuation period.
- There were also 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.

The change to taxation of benefits increased the present value of estimated future net cashflows, while updates of program-specific data decreased the present value of estimated future net cashflows. Taken together, these changes decreased the present value of estimated future net cashflows.

Changes in Law or Policy

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

In the current valuation period (beginning on January 1, 2015), no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, on November 20, 2014, the President announced a series of executive actions on immigration, which are expected to have a significant effect on the long-range income and cost of the OASDI program. Due to a Federal court order, implementation of the actions affecting undocumented children and parents is on hold at the time of this report. However, the estimates in this report assume this court order will be temporary and that the executive actions will proceed by the end of 2015.

Inclusion of these executive actions increased the present value of estimated future net cashflows.

From the period beginning on January 1, 2013 to the period beginning on January 1, 2014

In the current valuation period (beginning on January 1, 2014), no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, the Supreme Court's decision in the *United States v. Windsor* repealed parts of the *Defense of Marriage Act*, which affects the payment of Federal benefits based on same-sex marriages. The extent to which OASDI benefits based on marriage will be available to same-sex couples is still not completely clear. The agency has issued guidelines, approved by DOJ, for certain benefits for same-sex couples who were legally married when the insured accountholder resided in a State or jurisdiction that recognized same-sex marriages at the time of application or death. For estimates in this valuation, it is assumed that the agency will expand its guidelines to recognize all auxiliary beneficiaries for such marriages and that same-sex marriage will eventually be recognized in all States.

This expected expansion of benefits decreased the present value of estimated future 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. Our *Agency Financial Report* website (www.socialsecurity.gov/finance) provides tabulated assumptions for the prior year in a similar manner.

Period Beginning on January 1, 2014 and Ending January 1, 2015

Present values as of January 1, 2014 are calculated using interest rates from the intermediate assumptions of the 2014 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2015. 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 2014 Trustees Report. Because 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 2015 Trustees Report.

Period Beginning on January 1, 2013 and Ending January 1, 2014

Present values as of January 1, 2013 are calculated using interest rates from the intermediate assumptions of the 2013 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2014. 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 2013 Trustees Report. Because 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 2014 Trustees Report.

Potential Impact of H.R. 1314, the "Bipartisan Budget Act of 2015," on the Social Insurance Statements

The *Bipartisan Budget Act of 2015* was signed into law by the President on November 2, 2015. The *Act* includes several provisions that affect Social Security, including: (1) eliminating certain claiming strategies; (2) requiring a medical review for initial disability determinations; and (3) reallocating payroll tax revenue from the OASI Trust Fund to the DI Trust Fund. The SSA Office of the Chief Actuary has concluded that this law 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, 2015. However, we do not expect that the *Act* will have a material impact on future estimates on the Statement of Social Insurance and Statement of Changes in Social Insurance Amounts.

Other Information: Balance Sheet by Major Program
as of September 30, 2015
(Dollars in Millions)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (95)	$ 18	$ 6,973	$ 203	$ (30)	$ 0	$ 7,069
Investments	2,766,649	41,638	0	0	0	0	2,808,287
Interest Receivable	22,244	444	0	0	0	0	22,688
Accounts Receivable, Net	1	1	0	0	2,908	(2,630)	280
Other	0	0	3	0	15	0	18
Total Intragovernmental	2,788,799	42,101	6,976	203	2,893	(2,630)	2,838,342
Accounts Receivable, Net	2,338	4,363	7,964	0	2	(497)	14,170
Property, Plant, and Equipment, Net	0	0	0	0	4,145	0	4,145
Other	0	0	0	0	4	0	4
Total Assets	$ 2,791,137	$ 46,464	$ 14,940	$ 203	$ 7,044	$ (3,127)	$ 2,856,661
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 4,173	$ 310	$ 0	$ 0	$ 0	$ 0	$ 4,483
Accounts Payable	319	694	9,041	109	6	(2,630)	7,539
Other	0	0	1	2	144	0	147
Total Intragovernmental	4,492	1,004	9,042	111	150	(2,630)	12,169
Benefits Due and Payable	66,222	27,487	5,342	0	0	(497)	98,554
Accounts Payable	0	9	439	0	13	0	461
Federal Employee and Veteran Benefits	0	0	0	0	329	0	329
Other	0	0	261	2	621	0	884
Total Liabilities	70,714	28,500	15,084	113	1,113	(3,127)	112,397
Contingencies (Note 9)							
Net Position							
Unexpended Appropriations - All Other Funds	0	0	3,686	90	3	0	3,779
Cumulative Results of Operations - Funds from Dedicated Collections	2,720,423	17,964	3	0	0	0	2,738,390
Cumulative Results of Operations - All Other Funds	0	0	(3,833)	0	5,928	0	2,095
Total Net Position - Funds from Dedicated Collections	2,720,423	17,964	3	0	0	0	2,738,390
Total Net Position - All Other Funds	0	0	(147)	90	5,931	0	5,874
Total Net Position	2,720,423	17,964	(144)	90	5,931	0	2,744,264
Total Liabilities and Net Position	$ 2,791,137	$ 46,464	$ 14,940	$ 203	$ 7,044	$ (3,127)	$ 2,856,661

Other Information: Schedule of Net Cost for the Year Ended September 30, 2015
(Dollars in Millions)

	Program	LAE	Total
OASI Program			
Benefit Payment Expense	$ 736,752	$ 0	$ 736,752
Operating Expenses	503	2,997	3,500
Total Cost of OASI Program	737,255	2,997	740,252
Less: Exchange Revenues	(1)	(14)	(15)
Net Cost of OASI Program	737,254	2,983	740,237
DI Program			
Benefit Payment Expense	144,102	0	144,102
Operating Expenses	248	2,796	3,044
Total Cost of DI Program	144,350	2,796	147,146
Less: Exchange Revenues	(26)	(13)	(39)
Net Cost of DI Program	144,324	2,783	147,107
SSI Program			
Benefit Payment Expense	51,520	0	51,520
Operating Expenses	174	4,162	4,336
Total Cost of SSI Program	51,694	4,162	55,856
Less: Exchange Revenues	(224)	(19)	(243)
Net Cost of SSI Program	51,470	4,143	55,613
Other			
Benefit Payment Expense	3	0	3
Operating Expenses	0	2,077	2,077
Total Cost of Other	3	2,077	2,080
Less: Exchange Revenues	0	(9)	(9)
Net Cost of Other Program	3	2,068	2,071
Total Net Cost			
Benefit Payment Expense	932,377	0	932,377
Operating Expenses	925	12,032	12,957
Total Cost	933,302	12,032	945,334
Less: Exchange Revenues	(251)	(55)	(306)
Total Net Cost	$ 933,051	$ 11,977	$ 945,028

Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2015
(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	$ 2,670,570	$ 47,656	$ 4	$ (3,844)	$ 0	$ 0
Budgetary Financing Sources						
Appropriations Used	0	0	0	59,102	30,663	261
Tax Revenues	672,246	114,156	0	0	0	0
Interest Revenues	92,200	2,401	0	0	0	0
Transfers In/Out Without Reimbursement	26,979	(1,629)	(124)	(4,260)	(30,663)	(258)
Railroad Retirement Interchange	(4,328)	(341)	0	0	0	0
Net Transfers In/Out	22,651	(1,970)	(124)	(4,260)	(30,663)	(258)
Other Budgetary Financing Sources	10	45	0	0	0	0
Other Financing Sources (Non-Exchange)						
Transfers-In/Out	0	0	0	(2,465)	0	2,465
Imputed Financing Sources	0	0	0	14	0	0
Other	0	0	0	(787)	0	(2,465)
Total Financing Sources	787,107	114,632	(124)	51,604	0	3
Net Cost of Operations	737,254	144,324	(123)	51,593	0	3
Net Change	49,853	(29,692)	(1)	11	0	0
Cumulative Results of Operations	$ 2,720,423	$ 17,964	$ 3	$ (3,833)	$ 0	$ 0
Unexpended Appropriations:						
Beginning Balances	$ 0	$ 0	$ 0	$ 1,855	$ 0	$ 88
Budgetary Financing Sources						
Appropriations Received	0	0	0	60,933	30,663	280
Other Adjustments	0	0	0	0	0	(17)
Appropriations Used	0	0	0	(59,102)	(30,663)	(261)
Total Budgetary Financing Sources	0	0	0	1,831	0	2
Total Unexpended Appropriations	0	0	0	3,686	0	90
Net Position	$ 2,720,423	$ 17,964	$ 3	$ (147)	$ 0	$ 90

Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2015 (Continued)

(Dollars in Millions)

	LAE	CONSOLIDATED		
	All Other Funds	Funds from Dedicated Collections	All Other Funds	CONSOLIDATED TOTAL
Cumulative Results of Operations:				
Beginning Balances	$ 5,494	$ 2,718,230	$ 1,650	$ 2,719,880
Budgetary Financing Sources				
Appropriations Used	29	30,663	59,392	90,055
Tax Revenues	0	786,402	0	786,402
Interest Revenues	0	94,601	0	94,601
Transfers In/Out Without Reimbursement	11,872	(5,437)	7,354	1,917
Railroad Retirement Interchange	0	(4,669)	0	(4,669)
Net Transfers In/Out	11,872	(10,106)	7,354	(2,752)
Other Budgetary Financing Sources	0	55	0	55
Other Financing Sources (Non-Exchange)				
Transfers-In/Out	0	0	0	0
Imputed Financing Sources	510	0	524	524
Other	0	0	(3,252)	(3,252)
Total Financing Sources	12,411	901,615	64,018	965,633
Net Cost of Operations	11,977	881,455	63,573	945,028
Net Change	434	20,160	445	20,605
Cumulative Results of Operations	$ 5,928	$ 2,738,390	$ 2,095	$ 2,740,485
Unexpended Appropriations:				
Beginning Balances	$ 3	$ 0	$ 1,946	$ 1,946
Budgetary Financing Sources				
Appropriations Received	29	30,663	61,242	91,905
Other Adjustments	0	0	(17)	(17)
Appropriations Used	(29)	(30,663)	(59,392)	(90,055)
Total Budgetary Financing Sources	0	0	1,833	1,833
Total Unexpended Appropriations	3	0	3,779	3,779
Net Position	$ 5,931	$ 2,738,390	$ 5,874	$ 2,744,264

Other Information: Combined Schedule of Spending for the Year Ended September 30, 2015
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
What Money is Available to Spend?						
Total Resources	$ 744,798	$ 147,722	$ 66,024	$ 31,021	$ 12,890	$ 1,002,455
Less Amount Available but Not Agreed to be Spent	0	0	(3,524)	(42)	(238)	(3,804)
Less Amount Not Available to be Spent	0	0	(321)	(48)	(196)	(565)
Total Amounts Agreed to be Spent	$ 744,798	$ 147,722	$ 62,179	$ 30,931	$ 12,456	$ 998,086
How was the Money Spent/Issued?						
Financial Assistance Direct Payments	$ 737,144	$ 144,320	$ 57,250	$ 4	$ 40	$ 938,758
Payroll	0	0	0	0	6,700	6,700
Contracts						
Travel	0	0	0	0	18	18
Rent, Utilities, and Communications	0	0	1	0	1,149	1,150
Acquisition of Capital Assets	0	0	0	0	325	325
Other Contractual Services	506	246	(350)	0	4,115	4,517
Inter-Fund Transfers	3,025	2,823	5,084	30,927	0	41,859
Railroad Board Transfers	4,328	341	0	0	0	4,669
Other	(205)	(8)	194	0	109	90
Total Amounts Agreed to be Spent	$ 744,798	$ 147,722	$ 62,179	$ 30,931	$ 12,456	$ 998,086

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 53. 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 contracts, 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.

Other Information: Combined Schedule of Spending for the Year Ended September 30, 2014
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Consolidated
What Money is Available to Spend?						
Total Resources	$ 708,500	$ 146,165	$ 64,342	$ 25,900	$ 12,577	$ 957,484
Less Amount Available but Not Agreed to be Spent	0	0	(2,010)	(42)	(414)	(2,466)
Less Amount Not Available to be Spent	0	0	(2)	(46)	(226)	(274)
Total Amounts Agreed to be Spent	$ 708,500	$ 146,165	$ 62,330	$ 25,812	$ 11,937	$ 954,744
How was the Money Spent/Issued?						
Financial Assistance Direct Payments	$ 701,411	$ 142,882	$ 57,176	$ 6	$ 47	$ 901,522
Payroll	0	0	0	0	6,375	6,375
Contracts						
Travel	0	0	0	0	33	33
Rent, Utilities, and Communications	0	0	1	0	1,151	1,152
Acquisition of Capital Assets	0	0	0	0	532	532
Other Contractual Services	8	134	95	0	3,734	3,971
Inter-Fund Transfers	2,487	2,928	5,092	25,807	0	36,314
Railroad Board Transfers	4,296	390	0	0	0	4,686
Other	298	(169)	(34)	(1)	65	159
Total Amounts Agreed to be Spent	$ 708,500	$ 146,165	$ 62,330	$ 25,812	$ 11,937	$ 954,744

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 53. 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 contracts, 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: Combining Schedule of Budgetary Resources for the Year Ended September 30, 2015
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources						
Unobligated Balances, Brought Forward, October 1	$ 0	$ 0	$ 2,012	$ 88	$ 640	$ 2,740
Recoveries of Prior Year Unpaid Obligations	160	114	320	6	249	849
Other Changes in Unobligated Balance	264	(111)	0	(17)	0	136
Unobligated Balance From Prior Year Budget Authority, Net	424	3	2,332	77	889	3,725
Appropriations (Discretionary and Mandatory)	744,354	147,716	61,057	30,943	29	984,099
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	20	3	2,635	1	11,972	14,631
Total Budgetary Resources	$ 744,798	$ 147,722	$ 66,024	$ 31,021	$ 12,890	$ 1,002,455
Status of Budgetary Resources						
Obligations Incurred						
Direct	$ 744,798	$ 147,722	$ 59,547	$ 30,930	$ 12,385	$ 995,382
Reimbursable	0	0	2,632	1	71	2,704
Total Obligations Incurred	744,798	147,722	62,179	30,931	12,456	998,086
Unobligated Balance , End of Year						
Apportioned	0	0	3,524	42	238	3,804
Unapportioned	0	0	321	48	196	565
Total Unobligated Balance, End of Year	0	0	3,845	90	434	4,369
Total Budgetary Resources	$ 744,798	$ 147,722	$ 66,024	$ 31,021	$ 12,890	$ 1,002,455
Change in Obligated Balance						
Unpaid obligations:						
Unpaid Obligations, Brought Forward, October 1	$ 67,556	$ 27,211	$ 2,892	$ 177	$ 2,493	$ 100,329
Obligations Incurred	744,798	147,722	62,179	30,931	12,456	998,086
Outlays, Gross	(741,480)	(146,308)	(61,660)	(30,993)	(12,262)	(992,703)
Recoveries of Prior Year Unpaid Obligations	(160)	(114)	(320)	(6)	(249)	(849)
Unpaid Obligations, End of Year	70,714	28,511	3,091	109	2,438	104,863
Uncollected payments:						
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0	(3,163)	(3,163)
Change in Uncollected Payments, Federal Sources	0	0	0	0	258	258
Uncollected Payments Federal Sources, End of Year	0	0	0	0	(2,905)	(2,905)
Memorandum (non-add) Entries:						
Obligated Balance, Start of Year	$ 67,556	$ 27,211	$ 2,892	$ 177	$ (670)	$ 97,166
Obligated balance, End of Year	$ 70,714	$ 28,511	$ 3,091	$ 109	$ (467)	$ 101,958
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	$ 744,374	$ 147,719	$ 63,692	$ 30,944	$ 12,001	$ 998,730
Actual Offsetting Collections (Discretionary and Mandatory)	(20)	(3)	(2,635)	(1)	(12,230)	(14,889)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	0	0	0	0	258	258
Budget Authority, Net (Discretionary and Mandatory)	$ 744,354	$ 147,716	$ 61,057	$ 30,943	$ 29	$ 984,099
Outlays, Gross (Discretionary and Mandatory)	741,480	146,308	61,660	30,993	12,262	992,703
Actual Offsetting Collections (Discretionary and Mandatory)	(20)	(3)	(2,635)	(1)	(12,230)	(14,889)
Outlays, Net (Discretionary and Mandatory)	741,460	146,305	59,025	30,992	32	977,814
Distributed Offsetting Receipts	(29,854)	(1,151)	(224)	(2,465)	0	(33,694)
Agency Outlays, Net (Discretionary and Mandatory)	$ 711,606	$ 145,154	$ 58,801	$ 28,527	$ 32	$ 944,120

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 2014, SSA paid OASDI benefits to about 59 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 and 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 9 to the Consolidated Financial Statements, a liability of $93 billion as of September 30, 2015 ($89 billion as of September 30, 2014) 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 2015. Also, an asset of $2,808 billion as of September 30, 2015 ($2,783 billion as of September 30, 2014) 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, 2015 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; and
- **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 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2015 Trustees Report) (see Note 18 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 2015 through 2089. However, income including interest is only estimated through 2034, 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 (i.e., 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 2034 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2089 expressed as percentages of taxable payroll.

Chart 1 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2015-2034

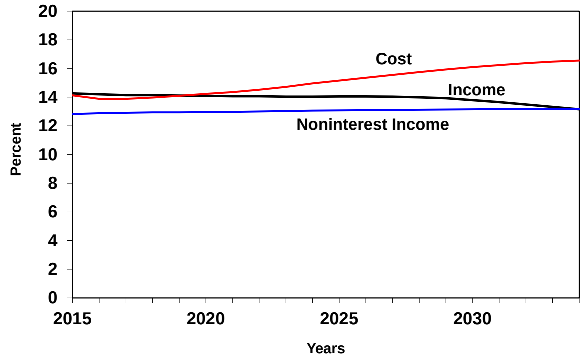
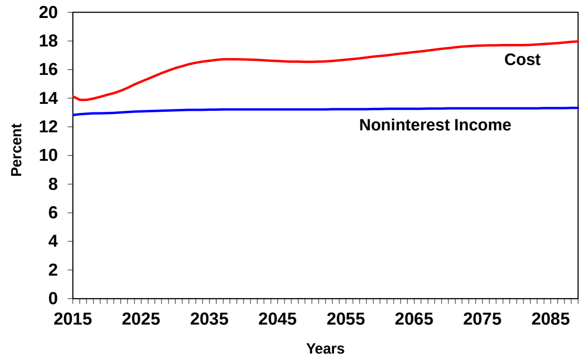


Chart 2 – Estimated OASDI Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2015-2089



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. In all years of the projection period, estimated annual cost is more than estimated annual income excluding interest. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2035 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 73 percent of the estimated cost.

As Chart 1 shows, estimated cost starts to exceed income including interest in 2020. 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 -$13,440 billion. If augmented by the combined OASI and

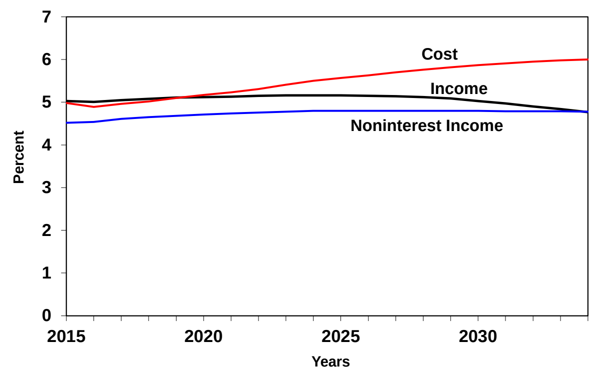
DI Trust Fund asset reserves at the start of the period (January 1, 2015), it is -$10,650 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.68 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76th year of the period.

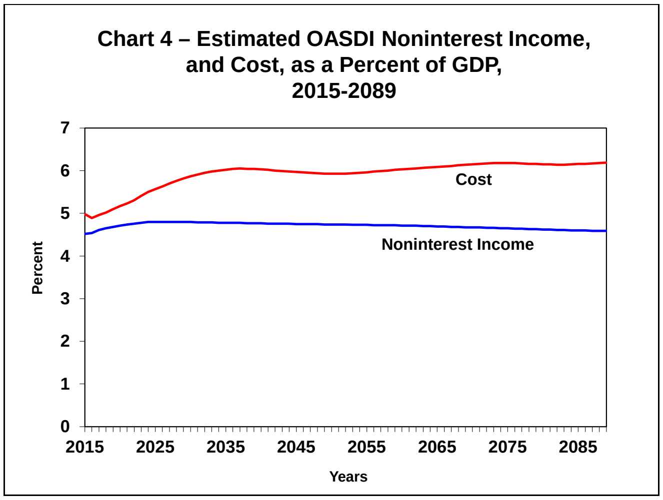
For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.62 percentage points (from its current level of 12.40 percent to 15.02 percent). One interpretation of the actuarial balance is that its magnitude, 2.68 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 16.4 percent applied to all current and future beneficiaries, or of 19.6 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 2034 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2089 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.

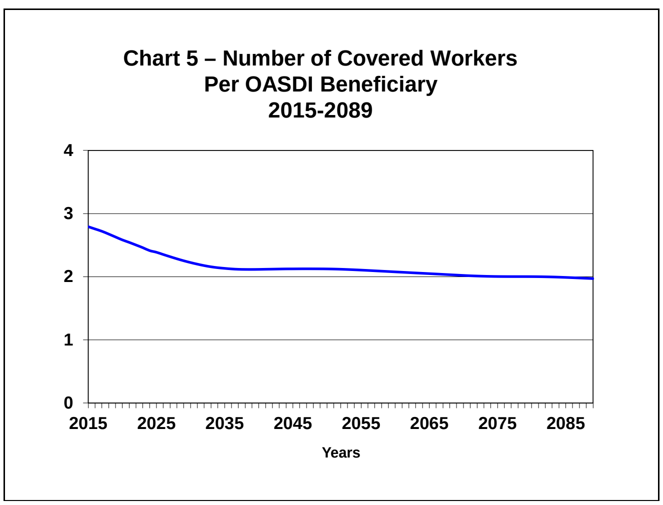
Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2015-2034





In 2014, OASDI cost was about $859 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises rapidly to 5.9 percent of GDP in 2030, hits a peak of 6.0 percent of GDP in 2037, declines to 5.9 percent by 2050, and generally increases to 6.2 percent of GDP by 2089. The rapid increase from 2016 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 2.8 in 2014 to 2.0 in 2089.



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 2015 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2015 and are based on estimates of income and cost during the 75-year projection period 2015-2089. 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.

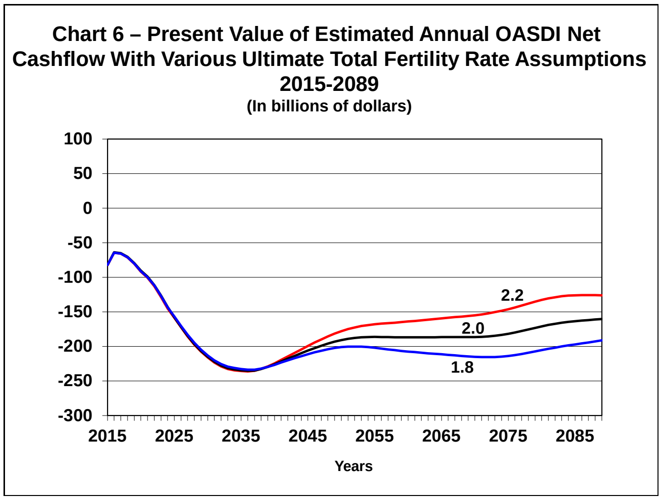
Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.8, 2.0, and 2.2 children per woman, where 2.0 is the intermediate assumption in the 2015 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2032, 2027, and 2023 under alternatives I, II, and III, respectively.

Table 1 demonstrates that if the ultimate total fertility rate were changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.8, the shortfall for the period of estimated OASDI income relative to cost would increase to $14,514 billion from $13,440 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to $12,234 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2015-2089

Ultimate Total Fertility Rate	1.8	2.0	2.2
Present Value of Estimated Excess (In billions)	-$14,514	-$13,440	-$12,234

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 all three ultimate fertility rates increase (become less negative) in 2016, decrease in years 2017-2036, and mostly increase thereafter. Net cashflow estimates corresponding to a 1.8 total fertility rate have one more significant period of decreasing present values in years 2053-2072. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2089 than it would to cover the annual deficit in 2035.

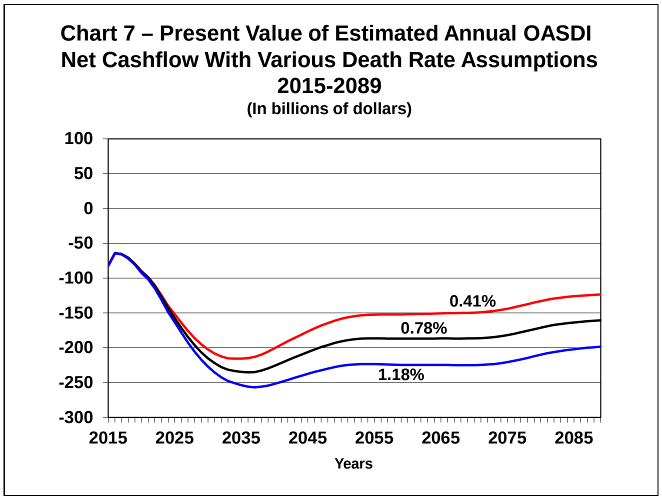
Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2014-2089 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.41, 0.78, and 1.18 percent per year, where 0.78 percent is the intermediate assumption in the 2015 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 26, 44, and 59 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 79.0 in 2014 to 82.8, 85.8, and 88.8 in 2089 for average annual reductions in the age-sex-adjusted death rate of 0.41, 0.78, and 1.18 percent, respectively.

Table 2 demonstrates that if the annual reduction in death rates were changed from 0.78 percent, the Trustees' intermediate assumption, to 0.41 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $11,467 billion from $13,440 billion; if the annual reduction were changed to 1.18 percent, meaning that people live longer, the shortfall would increase to $15,511 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2015-2089

Average Annual Reduction in Death Rates (from 2014 to 2089)	0.41 Percent	0.78 Percent	1.18 Percent
Present Value of Estimated Excess (In billions)	-$11,467	-$13,440	-$15,511

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 2016, 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, 2037, and 2038 for projected reductions of 0.41, 0.78, and 1.18 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 generally continues to increase through 2089.

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 850,000 persons, 1,155,000 persons, and 1,465,000 persons over the 75-year valuation period, where 1,155,000 persons is the average value based on the intermediate assumptions in the 2015 Trustees Report.

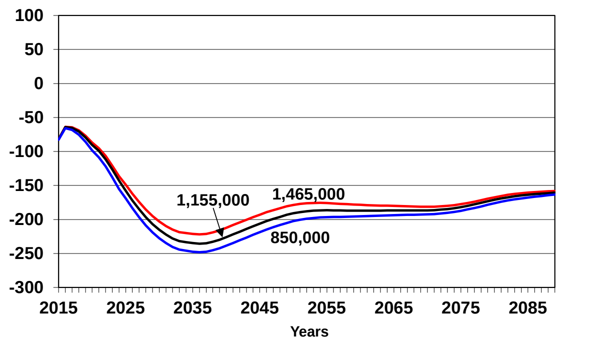
Table 3 demonstrates that if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,155,000 persons to 850,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $14,082 billion from $13,440 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,465,000 persons, the present value of the shortfall would decrease to $12,839 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2015-2089

75-Year Average Net Annual Immigration	850,000 Persons	1,155,000 Persons	1,465,000 Persons
Present Value of Estimated Excess (In billions)	-$14,082	-$13,440	-$12,839

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.

Chart 8 – Present Value of Estimated Annual OASDI Net Cashflow With Various Net Annual Immigration Assumptions 2015-2089
(In billions of dollars)



The three patterns of the present values shown in Chart 8 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 2016, 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 2037 and mostly increase thereafter. Net cashflow estimates corresponding to net annual immigration averages of 1,465,000 have one more significant period of decreasing present values in years 2055-2070.

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.

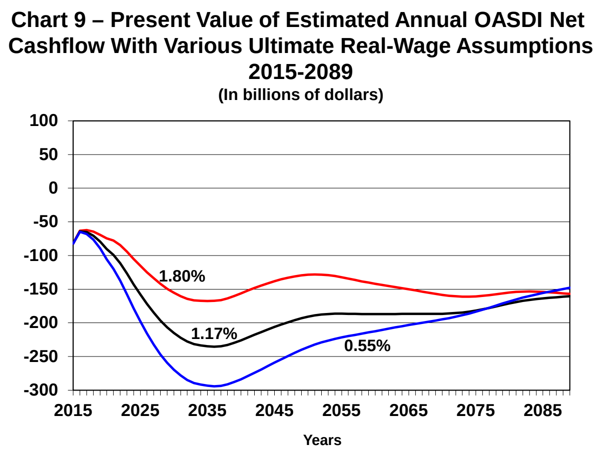
Real-Wage Differential - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual Consumer Price Index (CPI). The ultimate real-wage differential is the average of the annual real-wage 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 0.55, 1.17, and 1.80 percentage points, where 1.17 percentage points is the intermediate assumption in the 2015 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.70 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.25, 3.87, and 4.50 percent, respectively.

Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.17 percentage point, the Trustees' intermediate assumption, to 0.55 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $15,419 billion from $13,440 billion; if the ultimate real-wage differential were changed from 1.17 to 1.80 percentage points, the shortfall would decrease to $10,457 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2015-2089

Ultimate Annual Increase in Wages, CPI; **Real-Wage Differential**	3.25%, 2.70%; **0.55%**	3.87%, 2.70%; **1.17%**	4.50%, 2.70%; **1.80%**
Present Value of Estimated Excess (In billions)	-$15,419	-$13,440	-$10,457

Using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4, Chart 9 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Estimated cashflows increase (become less negative) in 2016 for the assumed ultimate real-wage differentials of 0.55 and 1.17 percentage points and increase in 2016-2017 for the assumed ultimate real-wage differential of 1.80. The present values then decrease through 2036 for assumed ultimate real-wage differentials of 0.55 and 1.17 percentage points and through 2035 for the assumed ultimate real-wage differential of 1.80. Present values based on all three assumptions begin to increase (become less negative) by 2037. 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 1.80 percentage points, the present values continue to increase until 2052 when decreases begin again and generally continue throughout the remainder of the projection period. The present values for the other two assumptions generally 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 2.00, 2.70, and 3.40 percent, where 2.70 percent is the intermediate assumption in the 2015 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.17 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.17, 3.87, and 4.57 percent, respectively.

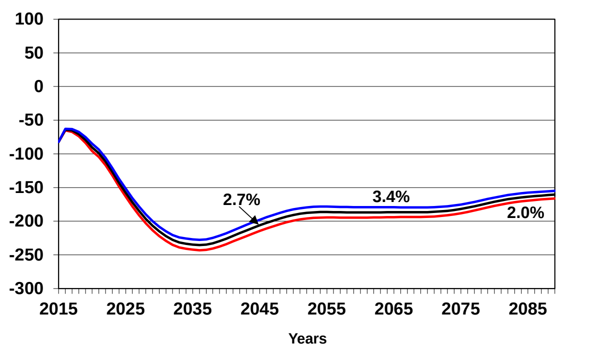
Table 5 demonstrates that if the ultimate annual increase in the CPI were changed from 2.70 percent, the Trustees' intermediate assumption, to 2.00 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $13,948 billion from $13,440 billion; if the ultimate annual increase in the CPI were changed to 3.40 percent, the shortfall would decrease to $12,930 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: 2015-2089

Ultimate Annual Increase in Wages, **CPI**; Real-Wage Differential	3.17%, **2.00%**; 1.17%	3.87%, **2.70%**; 1.17%	4.57%, **3.40%**; 1.17%
Present Value of Estimated Excess (In billions)	-$13,948	-$13,440	-$12,930

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
2015-2089
(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. 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 2016, the present values based on all three sets of assumptions begin to increase (become less negative) in 2037 and generally increase thereafter. Therefore, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) in 2037, and continues to increase through 2089.

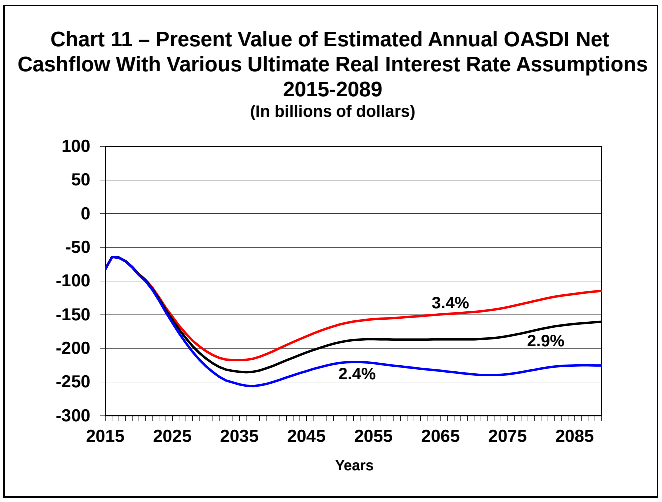
Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that 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 2015 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 $15,921 billion from $13,440 billion; if the ultimate annual real interest rate were changed to 3.4 percent, the present-value shortfall would decrease to $11,460 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real Interest Assumptions Valuation Period: 2015-2089

Ultimate Annual Real Interest Rate	2.4 Percent	2.9 Percent	3.4 Percent
Present Value of Estimated Excess (In billions)	-$15,921	-$13,440	-$11,460

Using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6, Chart 11 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 11 are similar. After increasing (becoming less negative) in 2016, 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 (2038, 2037, and 2036 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 mostly increase throughout the remaining projection period. Net cashflow estimates corresponding to a 2.4 percent real interest rate have one more significant period of decreasing present values in years 2053-2072.

AUDITOR'S REPORTS

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 9, 2015

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 (Grant Thornton) an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2015 financial statements. Grant Thornton also audited the FY 2014 financial statements presented in SSA's FY 2015 Agency Financial Report for comparative purposes. This letter transmits the Grant Thornton *Independent Auditor's Report* on the audit of SSA's FY 2015 financial statements. Grant Thornton'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 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. 15-02, *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 in 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 issued an unmodified opinion on SSA's FY 2015 and 2014 financial statements. Grant Thornton also reported that SSA was maintaining effective internal control over financial reporting as of September 30, 2015 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 did identify three significant deficiencies in internal controls.

Significant Deficiency – Information Systems Control

It is Grant Thornton's opinion that SSA made progress in strengthening controls over its information systems to address the significant deficiency reported in FY 2014. While SSA continued executing its risk-based approach to strengthen controls over its systems and address weaknesses, Grant Thornton's FY 2015 testing identified similar control issues in both design and operation of key controls. Grant Thornton identified information systems control deficiencies that, when aggregated, are considered to be a significant deficiency in the area of Information Systems Controls. Specifically, Grant Thornton's testing disclosed the following.

1. Weaknesses with cyber/network security controls during testing of threat and vulnerability management processes.
2. Recurring issues during site visits associated with security management, physical and logical access controls, and platform security. Further, it noted areas where SSA's requirements and guidance were ambiguous and not sufficiently documented, resulting in noncompliance or inconsistent implementation with SSA policy. Finally, it noted a lack of oversight for decentralized information systems and locations, inconsistent implementation of SSA information technology control requirements associated with system development and a lack of risk management activities, including but not limited to, security assessment and authorization processes in the regions and disability determination services.
3. While SSA made progress in addressing the FY 2014 significant deficiency, a lack of comprehensive Agency-wide policy and procedures related to management of application and system software changes, many procedures related to management of application and system software changes were still in development and had not been effectuated through SSA's central office and regions. Grant Thornton continued to note that SSA's systems software change processes did not require security categorization and risk analysis for changes, testing requirements based on risk, and requirements for the review and approval of testing results.
4. Weaknesses in logical access controls, such as access authorization, access removal, profile content, and analysis review program and supporting profile controls, as well as, numerous issues of unauthorized and inappropriate access.

Significant Deficiency – Calculation, Recording, and Prevention of Overpayments

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

1. control weaknesses over overpayment documentation and overpayment calculation errors with 24 percent of items selected in its statistical sample, which lead to difficulties in substantiating accounts receivable balances;

2. system limitations where overpayment receivable installment payments extending beyond year 2049 were not systematically tracked and reported; and
3. control failures where SSA was not reconciling key data fields between SSA internal databases, resulting in overpayment errors.

Significant Deficiency – Redeterminations

Finally, Grant Thornton identified deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal controls related to redeterminations. Specifically, Grant Thornton's testing disclosed instances where redetermination interviewers did not comply with established control policies, and results were not appropriately recorded.

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

OIG Evaluation of Grant Thornton 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's audit of SSA's FY 2015 financial statements by

- reviewing Grant Thornton's audit approach and planning;
- evaluating its auditors' qualifications and independence;
- monitoring the audit's progress at key points;
- examining Grant Thornton's documentation related to planning the audit, assessing SSA's internal control, and substantive testing;
- reviewing Grant Thornton's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 15-02;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Grant Thornton is responsible for the attached auditor's report, dated November 9, 2015 and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Grant Thornton'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 did not comply with applicable auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to 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

Grant Thornton

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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, 2015 and 2014, 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, 2015, January 1, 2014, January 1, 2013, January 1, 2012, and January 1, 2011 and the statements of changes in social insurance amounts for the periods January 1, 2014 to January 1, 2015 and January 1, 2013 to January 1, 2014 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, 2015;
- No instances of substantial noncompliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- No reportable instances of noncompliance with laws, regulations, contracts, grant agreements 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 financial statements of SSA, which comprise the consolidated balance sheets as of September 30, 2015 and 2014 and 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, 2015, January 1, 2014, January 1, 2013, January 1, 2012, and January 1, 2011 and the statements of changes in social insurance amounts for the periods January 1, 2014 to January 1, 2015 and January 1, 2013 to January 1, 2014 and the related notes to the financial 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. 15-02, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin No. 15-02 require 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 50 through 87 of this Agency Financial Report (AFR) present fairly, in all material respects, the financial position of SSA as of September 30, 2015 and 2014, 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, 2015, January 1, 2014, January 1, 2013, January 1, 2012, and January 1, 2011 and changes in social insurance amounts for the periods January 1, 2014 to January 1, 2015 and January 1, 2013 to January 1, 2014, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 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 MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

We have examined management's assertion included on page 40 of this AFR, that SSA maintained effective internal control over financial reporting as of September 30, 2015, 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 40 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 American Institute of Certified Public Accountants (AICPA); *Government Auditing Standards,* issued by the Comptroller General of the United States; and internal control audit requirements included in OMB Bulletin No. 15-02. 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 control over financial reporting, assessing the risk that a material weakness or significant deficiency 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 weaknesses 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 significant deficiencies in the areas of Information Systems Controls and Calculation, Recording and Prevention of Overpayments and Redeterminations.

SIGNIFICANT DEFICIENCY - INFORMATION SYSTEMS CONTROLS

Overview

Management relies extensively on information systems 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 and integrity of the program's data and mitigate the risks of misstatements whether due to fraud or error.

Our internal control testing covered both general and application controls. General controls encompass the security management program, 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 for 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 audit 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.

Deficiencies Noted in Information Systems

SSA continues to make progress in strengthening controls over its information systems to address the significant deficiency reported in Fiscal Year (FY) 2014. In response to continued control weaknesses, SSA's functional remediation teams continue to implement risk based corrective actions, which, in many cases, is a continuation of ongoing remedial efforts from past years. Management's planned risk based approach included correction of weaknesses identified through our specific tests, as well as, development and implementation of institutionalized and repeatable processes to prevent future weaknesses.

While SSA continued executing its risk-based approach to strengthen controls over its systems and address weaknesses, our FY 2015 testing identified similar 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:

- Risk mitigation strategies and related control enhancements require additional time to be fully implemented or to effectuate throughout the environment.
- SSA focused its resources on higher risk weaknesses and therefore was unable to implement corrective action for all aspects of the prior year deficiencies.
- The design of enhanced or newly designed controls did not completely address risks and recommendations provided over past audits.
- Oversight and governance were not sufficient to address deficiencies.

We noted deficiencies that contribute to the significant deficiency in the areas of threat and vulnerability management, information technology (IT) oversight and governance, change management, and access controls.

Threat and Vulnerability Management

Configuration, vulnerability, and patch management processes are critical components of an effective cyber security strategy. These processes and related controls that prevent or detect weaknesses such as misconfigurations, weak credentials, and vulnerabilities are essential in combating internal and external cyber threats, exploitations, and unauthorized access. Our information security and penetration testing, vulnerability management, and configuration management assessments identified control weaknesses with cyber/network security controls, many of which continue to exist from past audits. Specific disclosure of detailed information about these weaknesses might further compromise controls and are therefore not provided within this report. Rather, the specific details are presented in a separate, limited-distribution management letter.

IT Oversight and Governance

Appropriate IT governance and oversight provides assurance that risks are identified and assessed, controls are appropriately designed, and are operating effectively across the Agency's information systems and locations. Through the Agency's security management program, SSA's risk management framework must include a continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. We noted as part of our field testing that issues continued to persist from past audits due to limited remediation in the current FY associated with past weaknesses. Specifically,

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recurring issues continue to be cited associated with security management, physical and logical access controls, and platform security. Further, there are areas where SSA's requirements and guidance was ambiguous and/or not sufficiently documented, which resulted in inconsistent implementation or noncompliance with SSA policy. Finally, we noted a lack of oversight for decentralized information systems and locations, inconsistent implementation of SSA IT control requirements associated with system development, and a lack of risk management activities, including but not limited to, security assessment and authorization (SA&A) processes in the regions and disability determination services (DDS).

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. SSA implemented a change management directive in FY 2015 which documented control objectives and requirements for centralized and decentralized applications developed by SSA. However, many procedures designed to support the directive were still in development and the directive had not effectuated through SSA's central office and regions. In addition, we continue to note that SSA's system software change processes did not require security categorization and risk analysis for all changes, testing requirements based on risk, and requirements for the review and approval of testing results.

Access Controls

Access controls provide assurance that critical systems assets are physically safeguarded and that logical access to sensitive applications, system utilities, and data is provided only when authorized and appropriate. 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 control failures related to appropriate completion of logical access authorization forms and timely removal of location access. Further, we continue to note that 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. Finally, we noted that SSA management continued 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, control enhancements. As a result of these deficiencies, we noted numerous issues of unauthorized and inappropriate access including application developers (programmers) who had unmonitored access to production data and application transactions, 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 the following:

- Address specific weaknesses noted in information security and penetration testing, as well as, vulnerability/configuration management assessments. In addition, SSA should continue, as part of the SSA threat and vulnerability management processes, prioritization and implementation of risk mitigation strategies and plans of action and milestones.
- Enhance current information technology oversight and governance processes to ensure SSA information technology risk management requirements, as they apply to SSA systems, cloud systems, and contractor systems, are effectively and consistently implemented across the organization.

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- Develop comprehensive policies and procedures related to application and system-software change management that address issues noted during the audit.
- Analyze account management controls including access authorization, recertification, and removal processes to determine whether current controls mitigate the risk of unauthorized access and modify controls considering automation and oversight of processes.
- Continue, as part of the Cyber Sprint initiative, to improve controls over privileged accounts.
- Continue, as part of the SSA profile quality program, additional profile content reviews and 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 SSA records an accounts receivable with the public to reflect the amount due to SSA from the beneficiary. Because of 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 1,200 Field Offices (FOs) or eight Processing Centers (PCs). 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 IT infrastructure, interfaces and controls to record and prevent erroneous payments.

Deficiencies in Overpayment Calculations and Records

During FY 2015, the Agency implemented a new Continuous Quality Review (CQR) control in all of its regions to remediate findings noted in the prior year over the calculation and recording of overpayments. However, despite the addition of the CQR control, Grant Thornton continued to note control deficiencies in the documentation maintained around overpayments, due to manual errors and failure to properly retain documents. Insufficient documentation to support overpayments can lead to difficulties in calculating and substantiating outstanding accounts receivable balances. In addition, we selected a statistical sample of overpayments and noted overpayment calculation errors with 24 percent of the items selected. Although the impact of these calculation errors is not deemed material to the financial statements, these errors evidence control weaknesses in the accounts receivable process, including inappropriate overpayment tracking that could lead to misstatements in the financial statements.

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 the Year 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 SSA.

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 Year 2049 issue will continue to increase the likelihood of errors due to the manual process of tracking this debt, as well as continue to understate accounts receivable balances.

Deficiencies in Overpayment Prevention

While conducting Computer Assisted Auditing Techniques (CAATs), we continued to identify certain key data fields, such as Date of Death, which did not agree between SSA internal databases (master files). As a result, our testing detected overpayments issued to a limited number of individuals who were not entitled to benefits. While these cases were clearly immaterial to SSA financial statements, they were indicative of a control failure where SSA's data reconciliations were not operating effectively and/or potential discrepancies were not acted upon in a timely fashion in order to detect and prevent overpayment errors. While overpayments occur for many reasons, SSA should take all possible actions under their control to prevent and detect such payments. Failure to detect overpayments results in continued erroneous benefit payments and unrecorded corresponding accounts receivable. The longer an overpayment goes undetected, the greater the overpayment balance becomes while the probability of accounts receivable collection decreases. This finding continues to recur and we note CAATs routines performed in prior years continue find the same exceptions in the current year, indicating the agency is not timely detecting overpayments.

Recommendations

To mitigate the risks of the issues noted in the significant deficiency, management should consider the following:

Deficiencies in Overpayment Calculations and Records

- Continue evaluating current overpayment balances, based on a risk based approach, to detect and correct errors in existing overpayment balances, considering manual intervention, balance, and age. Consider analyzing debt outstanding for individuals with a Date of Death on any SSA system.
- Enhancing documentation requirements and improve overpayment documentation tools to ensure overpayments are completely, accurately, and timely documented by FOs or Processing Centers (PCs) within the appropriate systems of record.
- Continue to increase management review over manual transactions impacting overpayment balances, including CQ Reviews and PC Inline Reviews.

Deficiencies in Overpayment Records and Tracking

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

Deficiencies in Overpayment Prevention

- Continue enhancing periodic reconciliations between SSA data which can impact payment amounts in order to detect and act on overpayments more timely.

Significant Deficiency – Redeterminations

As the Supplemental Security Income (SSI) Program is a needs based program, beneficiaries' payments amounts can change based on numerous factors such as income, assets and living situations. SSA requires its SSI beneficiaries to undergo periodic reviews of their benefit payment amount considering these factors. Claims representatives in the field office perform this process during a redetermination interview. In order to ensure consistent processing of redeterminations across the approximately 1,200 field offices, SSA has detailed policies and procedures as well as an internal control system related to the completion of redeterminations, which rely heavily on human input by the claims representatives.

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We observed redetermination interviews in process and noted several instances where the interview did not comply with established control policies due to claims representative manual errors. In the interviews where we noted exceptions, the unanswered questions or responses recorded incorrectly could lead to changes in benefit payment amounts.

In addition, we selected a sample of completed redeterminations and noted deficiencies in the documentation of the redetermination. Failure to perform and document redeterminations in accordance with established policies could result in benefit overpayments, including payment to ineligible individuals and the potential inability to support benefit payment amounts.

Recommendations

To mitigate the risks of the issues noted in the significant deficiency, management should consider the following:

- Enhance training and reminders to claims representatives completing redeterminations in the field offices to ensure that all applicable questions in the redetermination application are answered.
- Increase the frequency and scope of management review over redetermination interviews.
- Establish and enforce procedures to ensure that claims representatives encourage beneficiaries to do a thorough review of the redetermination input data.

In our opinion, management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2015 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, regulations, contracts, and grant agreements, if applicable. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with laws, regulations, contracts, and grant agreements, including laws governing the use of budgetary authority, government-wide policies and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under 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 regulations and contracts applicable to SSA. We limited our tests of compliance to the provisions of laws, regulations and contracts 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, regulations and contracts, or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02, and no instances of substantial noncompliance that are required to be reported under FFMIA.

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Other Matters

The Management's Discussion and Analysis (MD&A) and the Schedule of Budgetary Resources included on pages 6 through 44 and page 94, respectively, and the Required Supplementary Information (RSI) included on pages 95 through 106 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.

Agency's Responses to Findings

The Agency's responses to the findings identified in our audit and presented on pages 119 through 124 of this AFR were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Other Information

The Acting Commissioner's Message on page 1 and the other information included on pages 2 through 5, 47 through 49, 88 through 93, 125 through 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
November 9, 2015

SOCIAL SECURITY

The Commissioner

November 9, 2015

Grant Thornton LLP
333 John Carlyle St.
Alexandria, VA 22314

Ladies and Gentlemen:

We have reviewed the draft Independent Auditor's Report concerning your audit of our fiscal year (FY) 2015 financial statements. We are extremely pleased that we received our 22nd consecutive unmodified opinion on our financial statements, an unmodified opinion on management's assertion that our internal controls over financial reporting were operating effectively, and that we had no reportable instances of noncompliance with laws, regulations, or other matters tested.

We are pleased that you acknowledged our progress in strengthening controls over our information systems to address the significant deficiency reported in FY 2014. While we made significant progress to strengthen controls over our systems and to address 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 and vulnerability management, information technology oversight and governance, change management, and access controls.

Your report 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 overpayment controls. We will continue to implement the necessary risk-based corrective actions to calculate, record, track, and prevent overpayments. This fiscal year, your report also identified exceptions related to redetermination interviews and documentation that, when aggregated, you considered a significant deficiency. We acknowledge the importance in performing and documenting redeterminations in accordance with established policies and procedures. We will implement the necessary risk-based corrective actions to ensure consistent processing of redeterminations.

We have enclosed a more detailed explanation of our plans. If members of your staff have any questions, they may contact Carla Krabbe at (410) 965-0759.

Sincerely,

Carolyn W. Colvin

Carolyn W. Colvin
Acting Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

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Comments of the Social Security Administration on Grant Thornton LLP's
Fiscal Year 2015 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) 2015 financial statements.

We are pleased that your report notes our progress in strengthening controls over our information systems to address the prior year significant deficiency. As we did in FY 2015, we will continue to strengthen our security program by remediating and institutionalizing the processes 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 identifies 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 risk-based corrective actions to calculate, record, track, and prevent overpayments.

Your report also identifies exceptions related to redetermination interviews and documentation. We acknowledge the importance in performing and documenting redeterminations in accordance with established policies and procedures. We will explore and implement the necessary risk-based corrective actions to ensure consistent processing of redeterminations.

We offer the following comments.

Significant Deficiency - Information Systems Controls

Recommendation 1 (Threat and Vulnerability Management)

Address specific weaknesses noted in information security and penetration testing, as well as, vulnerability/ configuration management assessments. In addition, SSA should continue, as part of the SSA threat and vulnerability management processes, prioritization and implementation of risk mitigation strategies and plans of action and milestones.

Comment

We agree with this recommendation. In FY 2015, we expanded our penetration testing program to include the analysis of external threats, in addition to internal threats. We successfully implemented new policies and programs to mitigate risks in this area. On October 19, 2015, we implemented a zero tolerance policy for weak credentials as we further refine our threat and vulnerability management program. We continue to emphasize prioritization and implementation of risk mitigation strategies, and plans of action and milestones as we remediate vulnerabilities.

Recommendation 2 (IT Oversight and Governance)

Enhance current information technology oversight and governance processes to ensure SSA information technology risk management requirements, as they apply to SSA systems, cloud systems, and contractor systems, are effectively and consistently implemented across the organization.

Comment

We agree with this recommendation. We continue to improve and standardize processes for information technology (IT) applications developed by non-Deputy Commissioner for Systems components and establish criteria for IT applications subject to Security Assessment and Authorization requirements.

For disability determinations services (DDS), we are accelerating the expansion of the suitability clearance process to identify and strengthen our controls surrounding Homeland Security Presidential Directive 12 suitability clearances for the State DDSs. We are in the process of implementing an automated, standardized DDS Security

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Plan that includes logs to facilitate the annual review and recertification of physical access to DDS facilities, including sensitive areas such as the computer room. The plan requires annual review and recertification of all parts, including the access logs. The DDS Security Plan also includes logs to facilitate the review of AS/400 security relevant events and command line access of users with privileged access and special authorities.

Regarding cloud systems, we are identifying risks and establishing processes and controls to assess and monitor cloud service providers.

In addition, we are working to ensure that our information security program extends to externally-managed contractor systems operating on our behalf. We continue working to improve current IT oversight and governance processes to ensure our systems comply with appropriate risk management requirements.

Recommendation 3 (Change Management)

Develop comprehensive policies and procedures related to application and system-software change management that address issues noted during the audit.

Comment

We agree with this recommendation. In FY 2015, we developed comprehensive policies and procedures related to application and system software change management. In addition, we placed the *SSA Application Software Release and Configuration Management Directive* into effect as part of a multi-stage approach to documenting comprehensive end-to-end policy and procedures. This comprehensive directive covers the entirety of change management processes and controls we conduct. For FY 2016, we will continue to implement tools, policies, and procedures in support of this directive.

Recommendation 4 (Access Controls)

Analyze account management controls including access authorization, recertification, and removal processes to determine whether current controls mitigate the risk of unauthorized access and modify controls considering automation and oversight of processes.

Comment

We agree with this recommendation. In FY 2015, we developed and tested a fully automated process to grant logical access. Scheduled for release in early FY 2016, this fully automated process will help continue to mitigate the control failures in access authorization.

Recommendation 5 (Access Controls)

Continue, as part of the Cyber Sprint initiative, to improve controls over privileged accounts.

Comment

We agree with this recommendation. In FY 2016, we will enhance our current policies and procedures associated with privileged accounts and expand privileged account review efforts across our platforms.

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Recommendation 6 (Access Controls)

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

Comment

We agree with this recommendation. In FY 2015, we made great progress in implementing least privilege access to financially significant resources. We also expanded our profile content review campaign to include batch profiles and performed systematic clean up to remove latent access. For FY 2016, we plan to finalize and document a strategy to periodically review high priority profiles.

Significant Deficiency - Calculation, Recording, and Prevention of Overpayments

Deficiencies in Overpayment Calculations and Records

Recommendation 1

Continue evaluating current overpayment balances, based on a risk based approach, to detect and correct errors in existing overpayment balances, considering manual intervention, balance, and age. Consider analyzing debt outstanding for individuals with a Date of Death on any SSA system.

Comment

We agree with this recommendation. We continue our efforts to identify and implement effective risk-based approaches to detect and correct overpayment errors. Due to the complexity of these manual transactions, we are exploring the use of data analytic techniques and methods to assist us in targeting the areas to ensure effective use of our resources.

Recommendation 2

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

Comment

We agree with this recommendation. Through our continuous quality initiatives, we will continue to address overpayment documentation issues in our field offices and processing centers. These initiatives will also clarify policies and provide additional targeted training to our employees.

Recommendation 3

Continue to increase management review over manual transactions impacting overpayment balances, including CQ Reviews and PC Inline Reviews.

Comment

We agree with this recommendation. Through our continuous quality initiatives, we will continue to expand our reviews of overpayments in our PCs and enhance our field office review processes to address overpayment accuracy and documentation issues.

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Deficiencies in Overpayment Records and Tracking

Recommendation 1

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

Comment

We agree with this recommendation. In FY 2015, we established an inter-component workgroup to review and address the recommendations made in the *Repayment Plans that Extend beyond the Year 2049 Final Risk and Impact Assessment Report.*

We have dedicated IT resources to explore the development of a new accounts receivable process. We will ensure that any new processes established will prevent this situation from occurring in the future.

Recommendation 2

Continue pursuing changes in repayment policy to minimize future long-term repayment plans.

Comment

We agree with this recommendation. We have prepared a legislative proposal to revise our minimum benefit withholding from $10 to 10 percent of the monthly Title II benefit payment for new repayment plans. We will work with all parties to expedite this legislative change.

Deficiencies in Overpayment Prevention

Recommendation 1

Continue enhancing periodic reconciliations between SSA data which can impact payment amounts in order to detect and act on overpayments more timely.

Comment

We are exploring the use of data analytic techniques and methods to assist us in identifying and reconciling data anomalies that may affect payment amounts.

Significant Deficiency - Redeterminations

Recommendation 1

Enhance training and reminders to claims representatives completing redeterminations in the field offices to ensure that all applicable questions in the redetermination application are answered.

Comment

We agree with this recommendation. In FY 2015, we issued reminders to our field office employees on the proper processing of redeterminations. We also will enhance training and issue appropriate reminders to claims representatives completing redeterminations by the end of the second quarter of FY 2016.

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Recommendation 2

Increase the frequency and scope of management review over redetermination interviews.

Comment

We agree with this recommendation. We will explore options for additional management oversight over the redetermination process.

Recommendation 3

Establish and enforce procedures to ensure that claims representatives encourage beneficiaries to do a thorough review of the redetermination input data.

Comment

We agree with this recommendation. We will work to ensure claims representatives encourage beneficiaries to perform a thorough review of the redetermination input data.

We currently afford beneficiaries the opportunity to review and ask questions about the information recorded during the redetermination, and provide a copy of the redetermination as a receipt for their records.

We have two controls in place that address this concern:

1. We provide a printed redetermination output to beneficiaries to review at the conclusion of the redetermination interview. The claims representative must print this before closing the redetermination. The output shows the information collected and instructs the recipient to let us know if any of the information needs correction or updating; and

2. If there are changes because of a processed redetermination, the system generates notices describing those changes and any rights for administrative review.

Both of these mechanisms allow beneficiaries to confirm whether the employee accurately recorded information during the interview.