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

The Overview of the Social Security Administration highlights our mission as set forth in our Agency Strategic Plan. We identify the major programs we administer and provide a brief explanation of our organization.

The Overview of Our Fiscal Year 2017 Goals and Results provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2017 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and Objectives, and discuss how we plan to address the challenges we face.

The MD&A also addresses our financial performance in the Highlights of Financial Position. We provide an overview of our financial data and explain the major sources and uses of our funds, as well as the use of these resources in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds.

Finally, Systems and Controls describes the actions we have taken to address our management control responsibilities. The Management Assurances subsection provides our assurances related to the Federal Managers’ Financial Integrity Act and the determination of our compliance with the Federal Financial Management Improvement Act. We also address the results of the audit of our financial statements and compliance with the Federal Information Security Management Act.
OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

OUR MISSION

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

SOCIAL SECURITY BENEFITS AMERICA

Few government agencies touch the lives of as many people as we do. We administer three programs under the Social Security Act:

- **Old-Age and Survivors Insurance**: Created in 1935, the Old-Age and Survivors Insurance (OASI) program provides retirement and survivors benefits to qualified workers and their family members. In fiscal year (FY) 2017, we paid approximately $793 billion in OASI benefits to an average of approximately 51 million beneficiaries a month, including 88 percent of the population age 65 and over.

- **Disability Insurance**: Established in 1956, the Disability Insurance (DI) program provides benefits for workers who become disabled and their families. In FY 2017, we paid approximately $141 billion in DI benefits to an average of more than 10 million disabled beneficiaries and their family members a month.

- **Supplemental Security Income**: Established in 1972, the Supplemental Security Income (SSI) program provides financial support to aged, blind, and disabled adults and children who have limited income and resources. In FY 2017, we paid approximately $51 billion in Federal benefits and State supplementary payments to over 8 million SSI recipients on average each month.

In addition, we support other national programs, such as Medicare, Employees Retirement Income Security Act of 1974, Coal Act, Supplemental Nutrition Assistance Program (formerly Food Stamps), Help America Vote Act, State Children’s Health Insurance Program, E-Verify, Medicaid, and Federal Benefits for Veterans.

We have implemented enterprise risk management processes to improve the effectiveness of our organization. Our goals are informed by both the strategic opportunities ahead, as well as our management of risks that threaten our core mission activities.

HOW SOCIAL SECURITY BENEFITED AMERICA IN FISCAL YEAR 2017

- A combined total of around $986 billion was paid in Social Security and SSI benefits;
- About 88 percent of the American population age 65 and over received Social Security benefits;
- About 95 percent of individuals age 20–49 who worked in covered employment had survivors protection for their young children and a surviving spouse caring for the children; and
- On average each month, more than 1.2 million blind or disabled children under age 18 received SSI benefits.
HOW WE SERVED AMERICA IN FISCAL YEAR 2017

- Issued 16 million new and replacement Social Security cards;
- Performed over 2.1 billion automated Social Security number verifications;
- Posted 290 million earnings items to workers’ records;
- Handled over 36 million calls on our National 800 Number;
- Assisted 42 million visitors in field offices;
- Mailed nearly 250 million notices;
- Registered over 5.7 million users for my Social Security, a personalized online account;
- Processed 155.5 million online transactions;
- Completed 10 million claims for benefits;
- Completed 685,657 hearing dispositions;
- Completed 160,776 Appeals Council requests for review;
- Handled 18,590 disability cases in Federal court;
- Completed 874,411 full medical continuing disability reviews (CDR);
- Performed nearly 2.6 million non-medical redeterminations of SSI eligibility;
- Through data exchange partnerships with the Centers for Medicare and Medicaid Services, we identified over $23 million in estimated incorrect payments; and
- Provided access to the Social Security Benefit Statement (Statement), mailing 13,673,994 paper Statements and allowing beneficiaries to access their Statements online more than 46.2 million times.
OUR ORGANIZATION

More than 61,000 Federal employees and approximately 16,000 State employees serve the public from a network of offices across the country and around the world. The vast majority of our employees serve the public directly or provide support to employees who do.

We administer our programs and services through a network of more than 1,200 field offices. Each day, over 170,000 people visit and 260,000 call one of our field offices nationwide for a variety of reasons such as to file claims, ask questions, or update their information.

Our National 800 Number handles over 30 million calls each year. Callers can conduct a variety of business transactions by speaking directly with a customer service representative or through our 24-hour automated services, which include requesting benefit verification letters, ordering replacement Medicare cards, and obtaining claim status updates.

Our processing centers handle complex Social Security retirement, survivors, and disability claims, as well as provide support to our National 800 Number. State agencies make disability determinations for initial claims, reconsiderations, and CDRs. Administrative law judges in our hearings offices and administrative appeals judges in our Appeals Council decide appealed cases.

For information about our components and their functions, visit our Organizational Structure webpage (www.socialsecurity.gov/org).
OVERVIEW OF OUR FISCAL YEAR 2017
GOALS AND RESULTS

HOW WE MANAGE PERFORMANCE

Our Performance Framework: The Government Performance and Results Modernization Act of 2010 (GPRMA) describes how agency strategic plans and goals should align with presidential terms and broader Federal efforts.

Setting goals and measuring our performance is vital to our success. We define our performance framework in the Fiscal Year (FY) 2014-2018 Agency Strategic Plan (www.socialsecurity.gov/asp). Our Agency Strategic Plan (ASP) defines our Strategic Goals and details underlying objectives, strategies, and relevant risks and mitigation plans.

Our Strategic Goals are:

- Strategic Goal 1: Deliver Innovative, Quality Services;
- Strategic Goal 2: Strengthen the Integrity of Our Programs;
- Strategic Goal 3: Serve the Public through a Stronger, More Responsive Disability Program;
- Strategic Goal 4: Build a Model Workforce to Deliver Quality Service; and
- Strategic Goal 5: Ensure Reliable, Secure, and Efficient Information Technology Services.

Our Planned Performance: In May 2017, we published our Annual Performance Plan for FY 2018, Revised Annual Performance Plan for FY 2017 (www.socialsecurity.gov/agency/performance) and our Annual Performance Report FY 2016 (www.socialsecurity.gov/agency/performance), as part of the President’s FY 2018 Budget Request (www.socialsecurity.gov/budget/). These plans and report outline our tactical plans for achieving the goals and objectives in our ASP and complete our performance commitments for FY 2017.

Each September, a draft consolidated Annual Performance Plan and Annual Performance Report (APR) accompanies our budget submission to the Office of Management and Budget. The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the FY 2017 Operating Plan (www.socialsecurity.gov/budget/).

Our Actual Performance and Program Results: We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR, containing our actual FY 2017 results, in February 2018. The final APR will be available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/).

This Agency Financial Report summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2017. The following table shows our operating expenses by Strategic Goal.
MANAGEMENT’S DISCUSSION AND ANALYSIS

FY 2017 Operating Expenses by Strategic Goal
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Strategic Goal</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver Innovative, Quality Services</td>
<td>$2,862</td>
</tr>
<tr>
<td>Strengthen the Integrity of Our Programs</td>
<td>$2,354</td>
</tr>
<tr>
<td>Serve the Public through a Stronger, More Responsive Disability Program</td>
<td>$6,033</td>
</tr>
<tr>
<td>Build a Model Workforce to Deliver Quality Service</td>
<td>$353</td>
</tr>
<tr>
<td>Ensure Reliable, Secure, and Efficient Information Technology Services</td>
<td>$1,130</td>
</tr>
</tbody>
</table>

Our Priorities: In support of the GPRMA, we established four Agency Priority Goals (APG). Our APGs were aggressive 24-month goals and reflect the performance improvement priorities of our executive leadership as well as those of the Administration. We routinely review our progress and take actions to improve our outcomes, promote innovation, and deliver favorable results.

For FYs 2016 and 2017, our APGs were:

1. Improve customer service and convenience by increasing online transactions by 25 million each year;
2. Increase customer satisfaction with our services;
3. Improve the integrity of the Supplemental Security Income (SSI) program by ensuring that 94 percent of our payments are free of overpayment; and
4. Improve customer service by reducing the wait time for a hearing decision.
This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2017. It also outlines some of the challenges we faced meeting these goals and analyzes our performance. We base our planned performance measures and targets on the President’s Budget request. If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

Below, we highlight 10 performance measures and targets that promote our Strategic Goals. Final data for 3 of the 10 performance measures and targets we highlighted were not available at the time we published this report. We will include those overall results in our FY 2018 Agency Financial Report. We met our targets for six of the seven performance measures with available data.

Overall, we met our targets for 22 of the 32 total performance measures that we use to track agency progress towards meeting our Strategic Goals and objectives. Final data for 7 of the 32 performance measures and targets were not available at the time we published this report. Data on those performance measures will be published in our Annual Performance Plan for FY 2019, Revised Performance Plan for FY 2018, and Annual Performance Report for FY 2017 in February 2018.

Summary of Our FY 2017 Performance Measure Results
STRATEGIC GOAL 1: DELIVER INNOVATIVE, QUALITY SERVICES

Strategic Objectives

- Develop and Increase the Use of Self-Service Options
- Enhance the Customer Experience by Completing Customers’ Business at the First Point of Contact
- Partner with Other Agencies and Organizations to Improve Customers’ Experience and Align with the Administration’s One-Government Approach
- Evaluate Our Physical Footprint to Incorporate Improved Service Options

We selected the following performance measures to help demonstrate our progress in delivering innovative, quality services:

Improve customer service and convenience by increasing online transactions by 25 million each year (APG)

Analysis: We processed 155.5 million online transactions in FY 2017. We continue to look for opportunities to add new online features to improve service delivery. Individuals who register for a my Social Security account can access their personal Social Security information and complete certain services with us online. In FY 2017, we enhanced my Social Security by adding the Get Help widget and Message Center. Users can check the status of their initial claims or appeals, and if they receive disability benefits, they can now report their wages online. In FY 2017, we also enhanced the security of my Social Security by requiring multifactor authentication for each registration.
Increase customer satisfaction with our services (APG)

Online Services

Analysis: Demonstrating our commitment to customer service, we are pleased that 7 of our 8 online applications earned scores of at least 80 out of 100 in the Forsee E-Government Satisfaction Index. (Note: A score of 80 or higher is considered the threshold for excellence.)
Our efforts to deliver innovative, quality services include:

**Enhance** *my Social Security*

Individuals who register for a *my Social Security* account can access their personal Social Security information and complete certain services with us online. In FY 2017, we enhanced *my Social Security* by adding the Get Help widget and Message Center. Users can check the status of their initial claims or appeals, and if they receive disability benefits, they can now report their wages online. In FY 2017, we also enhanced the security of *my Social Security* by requiring multifactor authentication for each registration.

**Expand the availability of the Online Social Security Replacement Card Application**

Replacing Social Security cards is one of our most requested services. Each year, we process about 10 million Social Security replacement cards in our field offices. Adults with a *my Social Security* account, who meet certain criteria, may apply for a replacement card through the Internet Social Security Number Replacement Card (iSSNRC) online application.

Since we launched iSSNRC in November 2015, we have increased the number of States where people may request a replacement Social Security card. We currently offer iSSNRC in 24 States and the District of Columbia. In FY 2016, we successfully issued more than 100,000 replacement cards through iSSNRC, and issued approximately 500,000 cards through the iSSNRC application in FY 2017.
STRATEGIC GOAL 2: STRENGTHEN THE INTEGRITY OF OUR PROGRAMS

Strategic Objectives

- Transform the Way We Record Earnings to Enhance Data Accuracy
- Protect the Public’s Data and Provide Secure Online Services
- Increase Payment Accuracy

We selected the following performance measures to indicate our progress in strengthening the integrity of our programs:

Increase secure access to the public's data

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2017 Actual</th>
<th>2017 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Completed all mainframe encryption in our data centers in May 2017</td>
<td>Encrypt all mainframe data stored in our data centers by September 2017</td>
<td>Met</td>
</tr>
</tbody>
</table>

Analysis: We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. We are strengthening the security of our systems by implementing consistent management controls at all of our data facilities. We review our policies and processes continually to ensure adequate safeguards are in place to prevent misuse and unauthorized access to our systems and data. As part of the Cybersecurity Act of 2015, Federal agencies must encrypt data that is stored or passing through the agency’s information systems. In FY 2017, we began the Data at Rest Encryption initiative to protect data in our most sensitive information technology (IT) environments and completed Data at Rest Encryption for mainframe.
Improve the integrity of the SSI program by ensuring that 94 percent of our payments are free of overpayment (APG)

Analysis: The primary cause of overpayment (O/P) errors is the failure by SSI recipients and their representative payees to report payment-affecting changes, which has been a perennial problem since the inception of the SSI program. In FY 2016, our O/P accuracy was 92.4 percent, based on improper payments totaling a projected $4.3 billion (compared with $3.4 billion in FY 2015). This decrease is statistically significant from the FY 2015 O/P accuracy rate of 93.9 percent, the highest O/P accuracy rate since FY 2003. FY 2017 data is not available until summer 2018.

Some of the initiatives we are undertaking to strengthen the integrity of our programs include:

**IMPROVE THE DEATH REPORTING SYSTEM PROCESS**

We are updating our death reporting system to ensure we are collecting accurate data from Federal, State, and local agencies as well as from other countries with whom we have Totalization agreements. We rely on our death reporting system, so we can stop Social Security and SSI benefits as soon as possible after an individual’s death. The early detection of an individual’s death is a key means of preventing improper payments.

**EXPAND OUR COOPERATIVE DISABILITY INVESTIGATIONS PROGRAM**

Cooperative Disability Investigations (CDI) units are jointly operated by SSA, the Office of the Inspector General, State disability determination services (DDS), and State and local law enforcement. Generally, CDI units investigate suspected fraud before the agency awards benefits as well as during the CDR and redetermination process when fraud may be involved.

Currently, the CDI program has 40 units, covering 34 States, the Commonwealth of Puerto Rico, and the District of Columbia. In FY 2017, we expanded coverage to New Jersey.
STRATEGIC GOAL 3: SERVE THE PUBLIC THROUGH A STRONGER, MORE RESPONSIVE DISABILITY PROGRAM

**Strategic Objectives**

- Improve the Quality, Consistency, and Timeliness of Our Disability Decisions
- Maximize Efficiencies throughout the Disability Program
- Enhance Employment Support Programs and Create New Opportunities for Returning Beneficiaries to Work

We selected the following performance measures to demonstrate our efforts to serve the public through a stronger and more responsive disability program:

**Ensure the quality of our decisions by achieving the disability determination services net accuracy rate for initial disability decisions**

Analysis: The public expects us to make timely and accurate decisions. We have consistently met our target for this measure since FY 2010. In FY 2016, we demonstrated the quality of our decisions by achieving the DDS net accuracy rate of 98 percent for initial disability decisions, exceeding our target of 97 percent. FY 2017 data is not available until January 2018.
**Increase our ability to provide timely decisions by reducing the percentage of pending Appeals Council requests for review 365 days or older**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2012 Actual</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>88% of cases pending less than 365 days</td>
<td>91.1% of cases pending less than 365 days</td>
<td>84% of cases pending less than 365 days</td>
<td>82% of cases pending less than 365 days</td>
<td>83% of cases pending less than 365 days</td>
<td>94% of cases pending less than 365 days</td>
<td>82% of cases pending less than 365 days</td>
<td>Met</td>
</tr>
</tbody>
</table>

Analysis: As we decide more cases at the hearing level, the Appeals Council receives more requests for review of hearing decisions. In FY 2017, we increased the percentage of cases pending less than 365 days to 94 percent, our highest percentage since we began tracking the data.

**Improve customer service by reducing the wait time for a hearing decision (APG)**

Analysis: Currently, over 1 million people are waiting for a hearing decision. In FY 2017, due in part to reduced disability receipts and increased adjudicative capacity, we began reducing the number of hearings pending. We continue to prioritize those who have waited the longest for a hearing decision.

Our efforts to deliver quality disability decisions and services include:

**EXPAND ACCESS TO ELECTRONIC MEDICAL EVIDENCE**

We depend on healthcare providers to gather the medical records we need to determine whether a claimant is disabled. On average, the agency processes over 15 million pieces of medical evidence per year. We are improving our process by expanding the use of electronic medical evidence. Electronic medical evidence provides faster access to medical information and reduces the time providers spend to comply with our requests. By using medical evidence and applying business rules, we can complete disability claims faster.
INCREASE THE NUMBER OF PEOPLE WITH DISABILITIES WHO RETURN TO WORK

Many disabled beneficiaries want to work, and with adequate support, some beneficiaries attain self-sufficiency. The Ticket to Work and the Vocational Rehabilitation (VR) cost reimbursement programs help beneficiaries transition to employment and progress towards reduced reliance on disability related benefits.

We continue to improve our outreach to beneficiaries. Ongoing mailings; marketing efforts, and monthly webinars; and an interactive presence on social media have also led to thousands of beneficiaries connecting with employment networks (EN) and State VR agencies to get the services they need to return to work. In FY 2017, we implemented systems enhancements to our Internet Ticket Operation Support System to expedite business processes for our EN service providers. We also automated and modernized the VR payment operation eliminating paper claims and streamlining the VR payment process.

REDUCE THE HEARINGS BACKLOG

In FY 2017, due in part to less disability receipts and increased adjudicative capacity, we began reducing the number of hearings pending. To reduce the backlog and enhance productivity, we implemented numerous initiatives as part of our Compassionate And REsponsive Service (CARES) plan. We updated our plan this year to take into consideration the $90 million in special funding that Congress provided to address the backlog.

Along with hiring, our CARES plan includes a variety of initiatives to increase decisional capacity and achieve business process efficiencies, as well as plans for IT investments.
STRATEGIC GOAL 4: 
BUILD A MODEL WORKFORCE TO DELIVER QUALITY SERVICE

Strategic Objectives

- Attract and Acquire a Talented and Diverse Workforce That Reflects the Public We Serve
- Strengthen the Competency, Agility, and Performance of Our Workforce to Align with the Needs of the Public
- Foster an Inclusive Culture that Promotes Employee Well-Being, Innovation, and Engagement
- Enhance Planning and Alignment of Human Resources to Address Current and Future Public Service Needs

The following performance measure demonstrates our efforts to build a model workforce to deliver quality service:

Become one of the Top 10 Best Places to Work among large agencies in the Federal Government

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>2017 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Top 10 Rank</td>
<td>Top 10 Rank</td>
<td>Top 10 Rank</td>
<td>Top 10 Rank</td>
<td>Data available December 2017</td>
<td>Top 10 Rank</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Analysis: One of our strategic objectives is to foster an inclusive culture that promotes employee well-being, innovation, and engagement. Our employees are our most valuable asset. Each year since 2007, our employees have ranked us in the top 10 Best Places to Work in the Federal Government. For FY 2016, we increased our target to become one of the top five best places to work among large agencies. Although we did not reach our goal, our employees still ranked us as number nine among large agencies. Data for FY 2017 will not be available until December 2017.

Some of the initiatives we undertook to remain an employer of choice for top talent included:

EXECUTE TALENT MANAGEMENT AND SUCCESSION PLANNING

Through talent management and succession planning, we will provide the structure and processes needed to ensure continuity of effective leadership at the highest organizational levels. In FY 2017, we addressed succession planning among the Senior Executive Service (SES) by refreshing our SES talent inventory and conducting talent management and succession planning reviews.

IMPLEMENT PERFORMANCE IMPROVEMENT TRAINING AND SUPPORT FOR MANAGERS

To provide supervisors with the tools to address employee performance, we developed a full suite of employee and labor relations training that addresses employee performance. In FY 2017, we trained practitioners and supervisors at headquarters and in the regions.
STRATEGIC GOAL 5: ENSURE RELIABLE, SECURE, AND EFFICIENT INFORMATION TECHNOLOGY SERVICES

Strategic Objectives

- Maintain System Performance and the Continuity of Information Technology Services
- Enhance and Execute Plans to Modernize Our Systems
- Incorporate Innovative Advances in Service Delivery
- Continuously Strengthen Our Cybersecurity Program

We selected the following performance measures to demonstrate our efforts to ensure reliable, secure, and efficient IT services:

Provide uninterrupted access to our systems during scheduled times of operation

Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to meeting our obligation to the public. Since FY 2012, we have exceeded the target for this measure.
Provide secure and effective services to the public by improving cybersecurity performance

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2017 Actual</th>
<th>2017 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Met</td>
</tr>
<tr>
<td>Homeland Security Presidential Directive 12 Compliance –</td>
<td>result 87%</td>
<td>Hardware Asset Management – result 100%</td>
<td>Software Asset Management – result 100%</td>
<td>Vulnerability and Weakness Management – result 100%</td>
<td>Achieved an average of 100% for the following Cybersecurity Cross-Agency Priority Goals: Anti-Phishing Defense; Malware Defense; Blended Defense (anti-phishing and malware defense measures); Hardware Asset Management; Software Asset Management; and Vulnerability and Weakness Management</td>
<td>Continue to achieve an average of 100% for the following Cybersecurity Cross-Agency Priority Goals: Anti-Phishing Defense; Malware Defense; Blended Defense (anti-phishing and malware defense measures); Hardware Asset Management; Software Asset Management; and Vulnerability and Weakness Management</td>
</tr>
<tr>
<td>Information Security Continuous Monitoring –</td>
<td>result 98%</td>
<td>Unprivileged Network Users – result 86%</td>
<td>Privileged Network Users – result 99%</td>
<td>Anti-Phishing Defense – result 100%</td>
<td>Achieved an overall score of Level 3 on the President’s Management Council Cybersecurity Scorecard (exceed government-wide targets in all 5 areas of the National Institute of Standards and Technology Cybersecurity framework)</td>
<td>Achieve an overall score of Level 3 on the President’s Management Council Cybersecurity Scorecard (exceed government-wide targets in all 5 areas of the National Institute of Standards and Technology Cybersecurity framework)</td>
</tr>
<tr>
<td>Trusted Internet Connections Consolidation –</td>
<td>result 100%</td>
<td>Anti-Phishing Defense – result 100%</td>
<td>Malware Defense – result 100%</td>
<td>Blended Defense – result 100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trusted Internet Connections 2.0 Capabilities –</td>
<td>result 94%</td>
<td>Hardware Asset Management – result 100%</td>
<td>Software Asset Management – result 100%</td>
<td>Vulnerability and Weakness Management – result 100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analysis: Continuously strengthening our cybersecurity is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. Since FY 2013, we have met the Department of Homeland Security cybersecurity standards and requirements.
Some of our ongoing efforts to maintain secure and reliable IT services include:

**MODERNIZE THE DISABILITY CASE PROCESSING SYSTEM**

In an ongoing effort to issue timely decisions, we are continuing work to modernize our disability processing system. When complete, we will replace 52 independently operated, aging systems. In FY 2017, we deployed our disability case processing system to nine DDS sites (Delaware, Maine, Ohio, Virginia, Iowa, Rhode Island, South Dakota, Washington, and Nebraska).

**STRENGTHEN OUR INFORMATION SECURITY PROGRAM AND MODERNIZE OUR CYBERSECURITY INFRASTRUCTURE**

We maintain a comprehensive, agency-wide information security program to protect our network, information, and communications assets. We review our policies and processes continually to ensure adequate safeguards are in place to prevent misuse and unauthorized access to our systems and data. We are strengthening the security of our systems by implementing consistent management controls at all of our data facilities.

As part of the *Cybersecurity Act of 2015*, Federal agencies must encrypt data that is stored or passing through the agency’s information systems. In FY 2017, we began the Data at Rest Encryption initiative to protect data in our most sensitive IT environments and completed Data at Rest Encryption for mainframe.
LOOKING FORWARD – FACING OUR CHALLENGES

The Social Security Administration touches the lives of nearly every member of the public. For more than 80 years, we have delivered critical services at significant times like birth, marriage, retirement, disability, and death. The public expects and deserves well-managed programs that provide timely and accurate payments.

Our priorities and goals for the coming years will focus on delivering services effectively, improving the way we do business, and ensuring stewardship. We must be able to deliver our services effectively to the people who come to us for assistance regardless of whether it is in-person, on the telephone, or online. As we interact with the public every day, our employees experience firsthand the impact of our programs. We understand that doing our work well matters. We know that our programs are not stagnant and that advancements in technology provide opportunities to do business differently, and often more efficiently and conveniently.

We must continuously evaluate our policies and business processes using data and modern methods to ensure we meet service demands that reinforce efficient and effective service. Recognizing that our current technology infrastructure and existing business system would not allow us to serve the public the way we want or the way they expect us to, we developed a plan to modernize our IT systems. This modernization effort is foundational to our overall ability to improve service to the public.

We are committed to being good stewards of taxpayer dollars to ensure the public has confidence that we manage their tax dollars wisely. We take our stewardship of our programs seriously and we will continue to demonstrate a commitment to sound management practices. To ensure stewardship and efficient administration of our programs, we will focus our efforts in three major areas: improving program integrity, enhancing our fraud prevention and detection activities, and improving workforce performance and increasing accountability.

As we have done since 1935, we will continue to monitor risks to our progress, seize opportunities for improvement, and evolve to meet the public’s changing needs.
We received an unmodified opinion on our financial statements from KPMG LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI.

Our financial statements, notes, and additional information appear on pages 41 through 96 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2015 through 2017 (excluding key amounts from our Statements of Social Insurance and Statements of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

### Table of Key Financial Measures

<table>
<thead>
<tr>
<th>Net Position (end of fiscal year)</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$2,934.8</td>
<td>$2,888.4</td>
<td>$2,856.7</td>
</tr>
<tr>
<td>Less Total Liabilities</td>
<td>$115.3</td>
<td>$113.7</td>
<td>$112.4</td>
</tr>
<tr>
<td>Net Position (assets net of liabilities)</td>
<td>$2,819.6</td>
<td>$2,774.6</td>
<td>$2,744.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Net Position (end of fiscal year)</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Costs</td>
<td>$999.1</td>
<td>$982.2</td>
<td>$945.0</td>
</tr>
<tr>
<td>Total Financing Sources^2</td>
<td>$1,044.1</td>
<td>$1,012.5</td>
<td>$967.5</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td>$45.0</td>
<td>$30.3</td>
<td>$22.5</td>
</tr>
</tbody>
</table>

Notes:
1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position displayed on page 44.

**Balance Sheet:** The Balance Sheet displayed on page 42 presents, as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2017 are $2,934.8 billion, a 1.6 percent increase over the previous year. Of the total assets, $2,917.7 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.5 percent of our assets, increased $47.3 billion over the previous year.
Liabilities grew in FY 2017 by $1.6 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries. The majority of our liabilities (89.8 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew $45.0 billion to $2,819.6 billion, reflecting the higher growth in assets than liabilities.

**Statement of Net Cost:** The Statement of Net Cost displayed on page 43 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2017, our total net cost of operations increased $16.9 billion to $999.1 billion, primarily due to a 2.3 percent increase in the number of OASI beneficiaries. The OASI net cost increased by 3.6 percent, while the DI and SSI net cost decreased 2.1 percent and 12.5 percent respectively. Operating expenses decreased for the OASI, DI, and SSI programs by 2.3 percent, 9.1 percent, and 7.5 percent, respectively.

In FY 2017, our total benefit payment expenses increased by $17.7 billion, a 1.8 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2017 and FY 2016 for each of our three major programs.

**Benefit Changes in Our Major Programs During Fiscal Years 2017 and 2016**

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OASI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payment Expense</td>
<td>$793,155</td>
<td>$765,024</td>
<td>3.7%</td>
</tr>
<tr>
<td>Average Monthly Benefit Payment</td>
<td>$1,304.21</td>
<td>$1,283.82</td>
<td>1.6%</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>51.19</td>
<td>50.02</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>DI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payment Expense</td>
<td>$141,206</td>
<td>$144,018</td>
<td>(2.0)%</td>
</tr>
<tr>
<td>Average Monthly Benefit Payment</td>
<td>$1,037.89</td>
<td>$1,028.50</td>
<td>0.9%</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>10.45</td>
<td>10.64</td>
<td>(1.8)%</td>
</tr>
<tr>
<td><strong>SSI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payment Expense</td>
<td>$51,355</td>
<td>$58,976</td>
<td>(12.9)%</td>
</tr>
<tr>
<td>Average Monthly Benefit Payment</td>
<td>$540.72</td>
<td>$540.09</td>
<td>0.1%</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>8.26</td>
<td>8.29</td>
<td>(0.4)%</td>
</tr>
</tbody>
</table>

Notes:
1. Benefit payment expense and the number of beneficiaries are presented in millions.
2. The average monthly benefit payment for OASI, DI, and SSI programs are presented in actual dollars.
3. The average monthly benefit payment for OASI and DI programs reflects the September average monthly benefit payment for FY 2017 and FY 2016.
4. The FY 2017 number of beneficiaries and average monthly benefit payment for the SSI program are presented for August 2017, since September figures are not yet available. The values presented for FY 2016 are from September 2016.

**Statement of Changes in Net Position:** The Statement of Changes in Net Position displayed on page 44 presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of $45.0 billion in the net position of our agency, which is attributable to financing sources in excess of our agency’s net cost. At this time, the total of all tax revenues and interest earned continue to exceed benefit payments made to OASDI beneficiaries, keeping the agency’s programs solvent. The passage of Public Law 114-74, Bipartisan Budget Act of 2015, authorizes a
MANAGEMENT’S DISCUSSION AND ANALYSIS

temporary reallocation of the DI Trust Fund’s portion of the Federal Insurance Contributions Act payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was
allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which
the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in increased tax revenue for
the DI Trust Fund, which resulted in DI’s net position increasing $25.4 billion from $20.8 billion to $46.2 billion.

We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to
pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem
investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are
1.4 percent.

In FY 2017, total financing sources, as shown in the Table of Key Financial Measures displayed on page 26,
increased by $31.6 billion to $1,044.1 billion. The primary source for this increase is additional tax revenues
received in FY 2017. The $1,044.1 billion in total financing sources from the Statement of Changes in Net Position
will not match the amounts reported in the chart “Where It Comes From…” as seen below. The activity reported in
the chart includes $0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we
receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These
amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position
by showing the sources and uses of funds for FY 2017.

The SSI program’s Cumulative Results of Operations are negative due to unfunded Benefits Due and Payable
liabilities. Unadjudicated and adjudicated, or pending, claims make up a significant portion of SSI’s Benefits Due
and Payable activity. SSI will pay for these benefits using future years’ resources. While the activity is unfunded,
we still record an expense, which creates the negative Cumulative Results of Operations since we do not record an
associated financing source.

Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 45 provides
information on the budgetary resources available to our agency for the year and shows the status of those resources
at the end of FY 2017. The Statement shows that we had $1,064.6 billion in budgetary resources, of which
$5.5 billion remained unobligated at year-end. We recorded total net outlays of $1,000.8 billion by the end of the
year. Budgetary resources increased $25.8 billion, or 2.5 percent, from FY 2016, while net outlays increased
$24.0 billion, or 2.5 percent. The increase in budgetary resources is primarily due to an increase in tax revenues.
The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries.
USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2017 in terms of the programs we administer or support. Although the DI program comprises only 14.3 percent of the total benefit payments we make, it consumes 22.1 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.2 percent of the total benefit payments we make, it consumes 33.2 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2016 use of administrative resources by program was 26.2 percent for the OASI program, 23.0 percent for the DI program, 33.9 percent for the SSI program, and 16.9 percent for Other.

SSA’s SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2017 represented 31.8 percent of the $3.3 trillion in total Federal receipts, an increase of 0.6 percent over last year. Outlays decreased by 0.2 percent to 25.2 percent of Federal outlays.
Table of Key Social Insurance Measures¹
(Dollars in Billions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Old-Age, Survivors, and Disability Insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(calendar year basis)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of future net cash flows² for current and future participants over the next 75 years (open group measure), current year valuation</td>
<td>-$15,357</td>
<td>-$14,169</td>
<td>-$13,440</td>
</tr>
<tr>
<td>Present value of future net cash flows² for current and future participants over the next 75 years (open group measure), prior year valuation</td>
<td>-$14,169</td>
<td>-$13,440</td>
<td>-$13,330</td>
</tr>
<tr>
<td>Change in present value</td>
<td>-$1,187</td>
<td>-$730</td>
<td>-$110</td>
</tr>
</tbody>
</table>

Notes:
1. Totals do not necessarily equal the sum of rounded components.
2. Future net cash flows are estimated over the appropriate 75-year period.

Statements of Social Insurance: As displayed on page 46, the Statements of Social Insurance present the following estimates:

- The present value of estimated future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age (age 62 and over) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age (ages 15–61) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income less estimated future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, plus the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of estimated noninterest income to be received from or on behalf of future participants (those under age 15, and to be born during the period) and the cost of providing scheduled benefits to those same individuals; and
- The present value of estimated future noninterest income less estimated future cost for the open group, which represents all current and future participants (including those to be born during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, plus the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -$14.2 trillion, as of January 1, 2016, to -$15.4 trillion, as of January 1, 2017. The deficit, therefore, increased in magnitude by about $1.2 trillion. Including the asset reserves in the combined OASI and DI Trust Funds this open group measure to -$12.5 trillion for the 75-year valuation period. Therefore, including the asset reserves decreases the open group measure, in magnitude, by about $2.8 trillion.
The present value of estimated future net cash flows for all current participants (who attain age 15 or older in the first year of the projection period) over the next 75 years, plus the asset reserves in the combined OASI and DI Trust Fund as of the beginning of the period, is -$30.3 trillion (closed group measure). Including future participants (those under age 15, and to be born during the projection period) over the next 75 years decreases the projected deficit by $17.8 trillion to the open group measure of -$12.5 trillion.

**Statements of Changes in Social Insurance Amounts:** The Statements of Changes in Social Insurance Amounts displayed on page 47 reconcile the change (between the current valuation period and the prior valuation period) in the 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. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

**From January 1, 2016 to January 1, 2017:** The present value as of January 1, 2017 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2091. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of estimated future net cash flows by less than $0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.6 trillion;
- Changes in programmatic data, assumptions, and methods decreased the present value of estimated future net cash flows by less than $0.1 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- Incorporating recent data led to higher death rates throughout the projection period and lower disabled worker incidence rates during the short-range period;
- Lower real-wage differential in the first 10 years of the projection period and lower near-term interest rates; and
- Reduction of the level of actual and potential gross domestic product by about 1 percent for all years after the short-range period.

**From January 1, 2015 to January 1, 2016:** The present value as of January 1, 2016 decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2090. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.6 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.9 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cash flows by less than $0.1 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by $0.1 trillion.

Significant changes made for this valuation included:

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent for the current valuation period, compared to 2.7 percent for the previous valuation period;
• The ultimate real-wage differential is assumed to be 1.20 percent in the current valuation period, compared to 1.17 percent in the previous valuation period;
• The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent for the current valuation period, compared to 2.9 percent in the previous valuation period; and
• The effects of the Bipartisan Budget Act of 2015.

OASI AND DI TRUST FUND SOLVENCY

PAY-AS-YOU-GO FINANCING

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing.

The following table shows that OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 38.9 months at the end of FY 2013, to 37.6 months at the end of FY 2014, to 36.8 months at the end of FY 2015, and to estimated values of 36.1 and 34.9 months at the end of FY 2016 and FY 2017, respectively. The historical values shown in the table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to reverse in FY 2016 and FY 2017 due to the Bipartisan Budget Act of 2015, which reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund.

<table>
<thead>
<tr>
<th>Number of Months of Expenditures Fiscal-Year-End Asset Reserves Can Pay</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>OASI</td>
<td>45.2</td>
<td>43.9</td>
<td>43.1</td>
<td>42.0</td>
<td>40.1</td>
</tr>
<tr>
<td>DI</td>
<td>8.3</td>
<td>5.7</td>
<td>3.4</td>
<td>3.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Combined</td>
<td>38.9</td>
<td>37.6</td>
<td>36.8</td>
<td>36.1</td>
<td>34.9</td>
</tr>
</tbody>
</table>

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

SHORT-TERM FINANCING

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program’s obligations for the year. Estimates in the 2017 Trustees Report indicate that, on a hypothetical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2017 Trustees Report, OASDI estimated cost of $1,665 billion and income of $1,521 billion for 2026 are 81 percent and 59 percent higher than the corresponding amounts in 2016 ($922 billion and $957 billion, respectively). From the end of 2016 to the end of 2026, asset reserves are projected to decrease by 8 percent, from $2.8 trillion to $2.6 trillion.
LONG-TERM FINANCING

Social Security’s financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2034, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security’s Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 77 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2034, declining to 73 percent of scheduled benefits in 2091.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is $12.5 trillion, which is 2.66 percent of taxable payroll and 0.9 percent of gross domestic product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

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

Significant uncertainty surrounds the estimates for the Statements of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, pages 85 through 96 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements beginning on page 41 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

SYSTEMS AND CONTROLS

MANAGEMENT ASSURANCES

Federal Managers’ Financial Integrity Act Assurance Statement  
Fiscal Year 2017

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers’ Financial Integrity Act. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, that are effective for fiscal year 2017. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017.

The agency’s internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. Generally Accepted Accounting Principles. Management is also responsible for designing, implementing, and maintaining effective internal control over financial reporting. An entity’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 entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and that receipts and expenditures of the entity 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 entity’s assets that could have a material effect on the financial statements.

We performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States. Based on that evaluation, we concluded that, as of September 30, 2017 SSA’s internal control over financial reporting is effective.

Nancy A. Berryhill  
Acting Commissioner  
November 9, 2017

AGENCY FEDERAL MANAGERS’ FINANCIAL INTEGRITY ACT PROGRAM

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

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

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

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

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

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

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

MANAGEMENT CONTROL REVIEW PROGRAM

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

FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2017, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

GOVERNMENT ACCOUNTABILITY OFFICE’S, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT

In FY 2017, we engaged an independent accounting firm to assess the agency’s compliance with the revised Government Accountability Office’s (GAO), Standards for Internal Control in the Federal Government. The standards provide the internal control framework and criteria that Federal managers should use to design,
implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meet the GAO’s standards.

**Federal Financial Management Improvement Act**

The Acting Commissioner determined that our financial management systems were in substantial compliance with the Federal Financial Management Improvement Act for FY 2017. In making this determination, she considered all the information available, including the auditors’ opinion on our FY 2017 financial statements, the report on the effectiveness of internal control over financial reporting, and the report on compliance with laws and regulations. She also considered the results of our management control reviews and financial management systems reviews conducted by our independent contractor.

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

**Financial Statement Audit**

The Office of the Inspector General (OIG) contracted with KPMG LLP (KPMG) for the audit of our FY 2017 financial statements. KPMG found we present fairly the basic financial statements, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles for Federal entities.

KPMG also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2017, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2016 to January 1, 2017, are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

KPMG found we maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the criteria established in the Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States.

In this year’s financial statement audit, KPMG continued to cite two significant deficiencies identified in prior years. One significant deficiency concerns certain financial information systems controls, and the other relates to our accounts receivable/overpayments. We are committed to resolving these deficiencies as quickly as possible through our risk-based corrective action plans, and to strengthening our control environment.

This year, KPMG also identified a new significant deficiency concerning controls over the reliability of information used in certain control activities. While we are confident in the controls over our information, we enhanced our processes to provide additional assurance and will continue to do so in the future, including for the process areas cited in the finding.

Please refer to the Auditors’ Report section of this report for more information on the auditors’ findings and our plans to correct the findings.

**Federal Information Security Modernization Act**

The Federal Information Security Management Act of 2002 (FISMA), as amended by the Federal Information Security Modernization Act of 2014, requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. We submitted this year’s report timely. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration’s cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.
During FY 2017, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by the auditors in our prior year financial statement audit. We made significant progress in improving our access management processes and developing our cybersecurity strategic and tactical plans to address risk. Additionally, we completed Authority to Operate documentation for nearly 800 non-centralized applications throughout our regions and DDS offices agency-wide. We also re-engineered and updated our Comprehensive Integrity Review Process to a modern predictive analytics platform within our Security Integrity Center to improve efficiency and accuracy of case investigations.

For the FY 2017 FISMA audit, KPMG assessed our overall maturity at Level 2 – Defined, and acknowledged that we had made some progress in improving our information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The auditors cited weaknesses in some areas, including Risk Management, Configuration Management, Identity and Access Management, Security Training, Information Security Continuous Monitoring, Incident Response, and Contingency Planning.

As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

**Financial Management Systems Strategy**

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

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

For our Debt Management category, in FY 2016, we began planning and analysis for the Overpayment Redesign project. This initiative will address various overpayment systems limitations identified via audits and other sources. Our goal is to build one comprehensive overpayment system that will enable us to track, collect, monitor, and report our programmatic overpayment activity more efficiently. We currently plan to begin development and implementation starting in FY 2018 through FY 2023.

In December 2014, we completed the nationwide rollout of the Social Security Electronic Remittance System (SERS) to collect administrative fees in all field offices. SERS fits our agency’s vision to upgrade our receipt processes to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are compliant with Payment Card Industry security standards. In FY 2017, we continued to expand the functionality of SERS to include the collection of programmatic debt. We completed the development phase and piloted the system in 20 field offices. Full system rollout to all field offices will be completed in December 2017. We accept checks, money orders, and debit/credit cards for programmatic debt payments.

Beginning in FY 2017, we began planning and analysis on additional mechanisms for submitting programmatic debt payments electronically. This initiative is a multi-year, multi-phase project of which SERS is the first phase.

For the Financial/Administrative systems category, OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*, provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.
SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

The agency implemented requirements for reporting under the Digital Accountability and Transparency Act of 2014 (DATA Act). The agency submitted the required reports for the second and third quarters of this fiscal year. The DATA Act effort will enhance the agency’s transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.

**NATIONAL ANTI-FRAUD COMMITTEE**

For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). In FY 2014, we reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, and Management (formerly Budget, Finance, Quality, and Management). The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Providing an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Considering best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensuring that the agency addresses the most critical vulnerabilities related to fraud;
- Serving as an advisory board for the Office of Anti-Fraud Programs (OAFP);
- Evaluating potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrating the agency’s commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

While the reinstitution of the NAFC provided strategic governance over our anti-fraud efforts, we also established OAFP to provide centralized oversight and accountability for our anti-fraud program. OAFP leads our anti-fraud activities and works across organizational lines to ensure that employees throughout the agency have the tools to combat fraud.

The NAFC co-chairs and OAFP meet periodically to ensure sustained attention on anti-fraud efforts. With the support of OAFP, the NAFC co-chairs convene regular meetings of the full NAFC membership. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency-level attention.

On September 25, 2017, OAFP and the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and discuss FY 2018 priorities and initiatives.