



# Financial Section



# A Message from the Chief Financial Officer

Fiscal year 2005 has been another successful year for the Social Security Administration (SSA) in the area of financial management, culminating with the Agency receiving an unqualified (clean) opinion on its consolidated financial statements for the 12th consecutive year. The unqualified opinion attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs.

SSA also received an unqualified (clean) opinion concerning SSA's assertion about the effectiveness of the Agency's systems of accounting and internal control. I believe the unprecedented recognition SSA received when awarded the Association of Government Accountants' Certificate of Excellence in Accountability Reporting for the seventh consecutive year is evidence of the Agency's commitment to demonstrating accountability and communicating results.

SSA takes pride in ensuring it has effective and efficient internal controls, and has a long history of aggressively correcting control deficiencies cited by our auditors. We have worked effectively and cooperatively, across all SSA components, to enhance information protection and ensure that standard security configurations are established, maintained and enforced. I am especially pleased to report that these demonstrated results are reflected in our audit report which now contains no reportable conditions.

SSA's core accounting system is in compliance with all Office of Management and Budget requirements, incorporates commercial best practices and includes the Agency's core accounting functions. The system interfaces with administrative systems to enhance the Agency's ability to soundly manage assets, and we will continue to invest in infrastructure needed to sustain superior performance into the future.

I am proud that the Agency continues to meet all the standards for obtaining a "green" score in both status and progress for the President's Management Agenda (PMA) Improved Financial Performance initiative. The Agency has new initiatives to "Get Beyond Green" that will improve the quality, consistency and access to information used by managers and analysts to manage work and account for resources. The lynchpin to these initiatives is a modernized cost accounting system which will integrate workload counts, processing times and administrative cost data at all levels of the organization. This data will be used to calculate unit cost and productivity management information for the Agency's programs down to the office level to support strategic decisionmaking

In the coming year, we will continue to focus on the initiatives related to the PMA and continue the integration of financial and performance management systems in support of timely and efficient decisions. Our goal remains to provide timely, reliable and useful financial management information to Congress and to the American public.



A handwritten signature in black ink that reads "Dale W. Sopper". The signature is written in a cursive, flowing style.

Dale W. Sopper  
Chief Financial Officer  
November 9, 2005

# Financial Statements and Additional Information

The Agency's financial statements and additional information for fiscal years (FY) 2005 and 2004 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2005 and 2004, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2005 and 2004. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. A Schedule of Net Cost is provided 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, 2005 and 2004. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by major programs as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2005 and 2004. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.
- The **Consolidated Statements of Financing** reconcile the net cost of operations with the obligation of budgetary resources for the years ended September 30, 2005 and 2004. A Schedule of Financing is provided to present the reconciliation by SSA's major programs as additional information.
- The **Required Supplementary Information: Intragovernmental Amounts** discloses amounts related to Intragovernmental transactions for assets, liabilities and non-exchange revenue for the year ended September 30, 2005.
- The **Required Supplementary Stewardship Information: Statement of Social Insurance** discloses the 75-year projection of the Actuarial present value of the Old-Age Survivors and Disability Insurance gross and net future benefit obligations expected to arise from the formulas specified in current law for current and future program participants. This projection is considered to be important information regarding potential future cost of the program. These projected potential future obligations under current law are not included in the Consolidated Financial Statements or their accompanying footnotes.

Consolidated Balance Sheets as of  
September 30, 2005 and September 30, 2004

Assets	(Dollars in Millions)	
	2005	2004
Intragovernmental:		
Fund Balance with Treasury (Note 4)	\$ 5,370	\$ 3,148
Investments (Note 5)	1,809,422	1,635,398
Interest Receivable, Net (Note 6)	23,472	22,315
Accounts Receivable, Net (Note 6)	307	624
Total Intragovernmental	1,838,571	1,661,485
Accounts Receivable, Net (Notes 3 and 6)	6,982	6,182
Property, Plant and Equipment, Net (Note 7)	1,419	1,231
Other	9	9
<b>Total Assets</b>	<b>\$ 1,846,981</b>	<b>\$ 1,668,907</b>
<b>Liabilities (Note 8)</b>		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,642	\$ 3,712
Accounts Payable	8,309	4,993
Other	108	247
Total Intragovernmental	12,059	8,952
Benefits Due and Payable	61,272	51,569
Accounts Payable	394	489
Other	894	1,205
Total	74,619	62,215
<b>Net Position</b>		
Unexpended Appropriations	1,446	1,489
Cumulative Results of Operations	1,770,916	1,605,203
Total Net Position	1,772,362	1,606,692
<b>Total Liabilities and Net Position</b>	<b>\$ 1,846,981</b>	<b>\$ 1,668,907</b>

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

Consolidated Statements of Net Cost for the Years Ended  
September 30, 2005 and September 30, 2004

	(Dollars in Millions)	
	2005	2004
<b>OASI Program</b>		
Benefit Payments	\$ 432,438	\$ 412,474
Operating Expenses (Note 9)	2,970	2,537
Total Cost of OASI Program	435,408	415,011
Less: Exchange Revenues (Notes 10 and 11)	22	16
<b>Net Cost of OASI Program</b>	<b>435,386</b>	<b>414,995</b>
<b>DI Program</b>		
Benefit Payments	89,731	75,169
Operating Expenses (Note 9)	2,419	2,221
Total Cost of DI Program	92,150	77,390
Less: Exchange Revenues (Notes 10 and 11)	20	15
<b>Net Cost of DI Program</b>	<b>92,130</b>	<b>77,375</b>
<b>SSI Program</b>		
Benefit Payments	36,224	35,216
Operating Expenses (Note 9)	3,083	2,872
Total Cost of SSI Program	39,307	38,088
Less: Exchange Revenues (Notes 10 and 11)	303	293
<b>Net Cost of SSI Program</b>	<b>39,004</b>	<b>37,795</b>
<b>Other</b>		
Benefit Payments	16	13
Operating Expenses (Note 9)	1,729	1,279
Total Cost of Other	1,745	1,292
Less: Exchange Revenues (Notes 10 and 11)	17	15
<b>Net Cost of Other</b>	<b>1,728</b>	<b>1,277</b>
<b>Total Net Cost</b>		
Benefit Payments	558,409	522,872
Operating Expenses (Note 9)	10,201	8,909
Total Cost	568,610	531,781
Less: Exchange Revenues (Notes 10 and 11)	362	339
<b>Total Net Cost</b>	<b>\$ 568,248</b>	<b>\$ 531,442</b>

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

## Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2005 and September 30, 2004

	(Dollars in Millions)			
	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position, Beginning Balance	\$ 1,605,203	\$ 1,489	\$ 1,453,080	\$ 705
<b>Budgetary Financing Sources</b>				
Appropriations Received		57,874		52,536
Other Adjustments	0	(13)	0	0
Appropriations Used	57,904	(57,904)	51,752	(51,752)
Tax Revenues (Note 12)	588,416		545,345	
Interest Revenues	92,994		87,616	
Transfers-In/Out				
Trust Fund Draws and Other - In	1,289		1,740	
Trust Fund Draws and Other - Out	(505)		358	
Railroad Retirement Interchange	(3,846)		(3,788)	
Net Transfers-In/Out	(3,062)		(1,690)	
Other Budgetary Financing Sources	63		85	
<b>Other Financing Sources</b>				
Transfers-In/Out	(2,818)		5	
Imputed Financing Sources (Note 13)	464		452	
<b>Total Financing Sources</b>	<b>733,961</b>	<b>(43)</b>	<b>683,565</b>	<b>784</b>
<b>Net Cost of Operations</b>	<b>568,248</b>		<b>531,442</b>	
<b>Net Change</b>	<b>165,713</b>	<b>(43)</b>	<b>152,123</b>	<b>784</b>
<b>Ending Balances</b>	<b>\$ 1,770,916</b>	<b>\$ 1,446</b>	<b>\$ 1,605,203</b>	<b>\$ 1,489</b>

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

## Combined Statements of Budgetary Resources for the Years Ended September 30, 2005 and September 30, 2004

	(Dollars in Millions)	
	2005	2004
<b>Budgetary Resources Made Available (Note 14)</b>		
<b>Budget Authority</b>		
Appropriations Received	\$ 754,724	\$ 699,908
Net transfers (+/-)	0	(4)
<b>Unobligated Balances</b>		
Beginning of Period	2,118	930
Net transfers (+/-)	0	(2)
<b>Spending Authority from Offsetting Collections</b>		
Earned		
Collected	4,596	4,319
Change in Receivable	9	(77)
Change in Unfilled Customer Orders		
Advance Received	0	1
Without Advance	0	(1)
Transfers from Trust Funds		
Collected	8,887	8,410
Anticipated	(108)	449
Subtotal	13,384	13,101
<b>Recoveries of Prior Year Obligations</b>	337	222
<b>Temporarily Not Available Pursuant to Public Law</b>	(165,150)	(151,236)
<b>Permanently Not Available</b>	(7)	(7)
<b>Total Budgetary Resources</b>	<b>\$ 605,406</b>	<b>\$ 562,912</b>
<b>Status of Budgetary Resources: (Note 14)</b>		
<b>Obligations Incurred</b>		
Direct	\$ 599,028	\$ 556,563
Reimbursable	4,546	4,231
Subtotal	603,574	560,794
<b>Unobligated Balances</b>		
Apportioned	1,566	1,509
<b>Unobligated Balances - Not Available</b>	266	609
<b>Total Status of Budgetary Resources</b>	<b>\$ 605,406</b>	<b>\$ 562,912</b>
<b>Relationship of Obligations to Outlays:</b>		
<b>Obligated Balances - Beginning of the Period</b>	<b>\$ 58,264</b>	<b>\$ 58,068</b>
<b>Obligated Balance - End of the Period</b>		
Accounts Receivable	(2,091)	(2,191)
Undelivered Orders	1,352	1,350
Accounts Payable	67,863	59,105
<b>Outlays:</b>		
Disbursements	594,477	560,013
Collections	(13,484)	(12,730)
Subtotal	580,993	547,283
<b>Less: Offsetting Receipts</b>	<b>19,653</b>	<b>16,999</b>
<b>Net Outlays</b>	<b>\$ 561,340</b>	<b>\$ 530,284</b>

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

## Consolidated Statements of Financing for the Years Ended September 30, 2005 and September 30, 2004

	(Dollars in Millions)	
	2005	2004
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 603,574	\$ 560,794
Less: Offsetting Collections	(13,721)	(13,323)
Obligations Net of Offsetting Collections	589,853	547,471
Less: Offsetting Receipts	(19,653)	(16,999)
Net Obligations	570,200	530,472
Other Resources		
Imputed Financing	464	452
Other	(276)	(305)
Net Other Resources Used to Finance Activities	188	147
Total Resources Used to Finance Activities	570,388	530,619
<b>Resources Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated, Not Yet Provided	(4)	(201)
Resources that Fund Expenses Recognized in Prior Periods	(714)	1,277
Budgetary Offsetting Collections and Receipts that Do Not affect Net Cost of Operations	19,653	16,999
Resources that Fund Capitalized Costs	(399)	(498)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(21,900)	(17,118)
Total Resources Not Part of the Net Cost of Operations	(3,364)	459
Total Resources Used to Finance the Net Cost of Operations	567,024	531,078
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods (Note 15)		
Increase in Annual Leave	6	15
Other	1,019	164
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	1,025	179
Components Not Requiring or Generating Resources		
Depreciation and Amortization	211	181
Other	(12)	4
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	199	185
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	1,224	364
<b>Net Cost of Operations</b>	<b>\$ 568,248</b>	<b>\$ 531,442</b>

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



**Notes to the Principal Financial Statements**  
**For the Years Ended September 30, 2005 and 2004**  
**(Presented in Millions)**

**1. *Summary of Significant Accounting Policies***

**Reporting Entity**

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States 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, and reconciliation of net cost to budgetary resources as required by the Chief Financial Officers Act of 1990.

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 and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). 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 assets and 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 three trust funds, three deposit funds, and four general fund appropriations. The trust funds are the Old-Age and Survivors Insurance (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund and the Limitation on Administrative Expenses (LAE). The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of PTF appropriations but also contains non-material activities.

**Medicare Reform Prescription Drug Program**

On December 8, 2003, the President signed the Medicare Prescription Drug Improvement and Modernization Act of 2003 (Public Law 108-173). SSA has played a significant role in implementing this law which provides a \$500 million appropriation for startup costs in FY 2004 and 2005. SSA will make low income subsidy determinations, calculate Part B premiums for high income beneficiaries and withhold premiums appropriate to beneficiaries' selected plans.

**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 the Department of the Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 4, Fund Balance with Treasury.

## **Investments**

Daily deposits received by the trust funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. Trust fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issue bonds. Special issue bonds are special public debt obligations for purchase exclusively by the trust funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets. U.S. Treasury bonds are carried at amortized cost.

## **Property, Plant and Equipment**

SSA's property, plant and equipment (PP&E) are recorded in the LAE program, but are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the trust funds for their use of 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 (COTS) software. The capitalization threshold for all PP&E categories is \$100,000.

The change in PP&E from one reporting period to the next is presented on the Consolidated Statements of Financing's Resources that Fund Capitalized Costs. This line item presents the effect on budgetary obligations for capital assets purchased by the OASI, DI and Health Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. However, HI/SMI's share of capital assets is presented on the Centers for Medicare and Medicaid Services' (CMS) financial statements.

## **Benefits Due and Payable**

Liabilities are accrued for OASI and DI benefits due for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases. Refer to Note 8, Liabilities.

## **Benefit Payments**

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. Title II benefit disbursements are generally made after the end of each month. Title XVI 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 trust or general fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate trust fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. As transfers are made from the appropriate trust or general funds into LAE, similar obligations are recorded in each of these financing sources. Since LAE is reported with its funding sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE's obligations are recorded twice. This is in

compliance with OMB's directive to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

## **Recognition of Financing Sources**

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations Used includes payments and accruals for the SSI program and for the OIG and PTF appropriations, which 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 12, 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 10, Exchange Revenues. Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

Capitalized expenditures are recognized in the Combined Statements of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

## **Earmarked Funds**

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. SSA's earmarked funds are included in the OASI, DI and LAE programs. Fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation are also considered earmarked funds.

## **Change in Financial Statement Presentation**

### **PTF Activity**

Prior to 2005, SSA reported funds collected through the Taxation of Social Security Benefits as Tax Revenue. SSA has concluded that the presentation of this revenue is more appropriately presented as an other financing source. SSA's Net Position remains unchanged as a result of this presentation change. Revenue totaling \$14 billion for 2004 has been reclassified from Tax Revenue to conform with the new reporting policy.

### **SSI Federal Overpayment Collections**

During FY 2004, SSA reported SSI Federal Overpayment Collections as non-entity assets and disclosed these transactions as Incidental Custodial Collections. Based on recent guidance provided by FASAB, SSA will continue to report the collection of Federal SSI Overpayment Collections as non-entity assets which are due to the U.S. Department of the Treasury. Furthermore, in FY 2005 the SSI Benefit Expense will be reported net of Federal Overpayment Collections received and remitted to Treasury.

## **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.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the OASI and DI Trust Funds, capitalized and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

SSA contributions to CSRS were \$121 and \$125 million for the years ended September 30, 2005 and 2004. SSA contributions to the basic FERS plan were \$226 and \$193 million for the years ended September 30, 2005 and 2004. 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 \$79 and \$72 million for the years ended September 30, 2005 and 2004. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

## **3. *Non-Entity Assets***

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are \$2,582 and \$2,767 million as of September 30, 2005 and 2004. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable, (2) recovery of SSI overpayment collections and (3) fees collected to administer SSI State Supplementation that are returned to the Department of the Treasury General Fund.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are \$2,306 and \$2,611 million as of September 30, 2005 and 2004. The SSI accounts receivable, net has been reduced by \$2,433 and \$2,609 million for FY 2005 and 2004 respectively as intra-agency elimination. Recovery of SSI overpayments as a part of the Fund Balance with Treasury on the Consolidated Balance Sheets is \$2,821 million as of September 30, 2005. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the Department of the Treasury General Fund. These funds, upon deposit, are assets of the Department of the Treasury General Fund and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets.

The amounts of fees collected to administer SSI State Supplementation are \$276 and \$273 million for the years ended September 30, 2005 and 2004. The fee collection is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. In FY 2005 the total amount of fees collected, \$276, and in FY 2004 a portion of the fees collected, \$156 million are deposited directly to a Department of the Treasury General Fund appropriation and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to the Department of the Treasury General Fund is presented so that net position is not affected by this activity. Refer to Note 10, Exchange Revenues, for a description of the SSI State Supplementation fees.

#### **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 the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. Trust fund budgetary accounts are not used in chart 4b since trust fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in chart 4b will not match corresponding activity on the combined SBR.

Chart 4a - Fund Balances as of September 30: (\$ in millions)			Chart 4b - Status of Fund Balances as of September 30: (\$ in millions)		
	2005	2004		2005	2004
Trust Funds			Unobligated Balance		
OASI	\$ (384)	\$ 46	Available	\$ 1,160	\$ 1,212
DI	(73)	(14)	Unavailable	134	132
LAE	32	102			
Appropriated Funds			Obligated Balance not yet		
SSI	2,915	2,940	Disbursed	1,391	1,115
Other	2,880	74	Trust Funds	(425)	134
Total	\$ 5,370	\$ 3,148	Deposit & Receipt Accounts	3,110	555
			Total	\$ 5,370	\$ 3,148

The negative fund balances reported for OASI and DI trust funds as of September 30, 2005 and 2004 are the result of the policy to protect the trust fund investments by not liquidating the investments until the cash is needed. Transfers between the trust funds and Treasury are managed to favor the financial position of the trust funds. Therefore, investments held by the trust funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with Treasury year-end reporting requirements, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

#### **5. Investments**

Chart 5 displays SSA's investments in U.S. par-value Treasury special securities and U.S. Treasury bonds at amortized cost. Treasury specials are Treasury securities that are issued directly by the Treasury Secretary to a government investment account that are non-negotiable and non-transferable in the secondary market. Par-value Treasury specials 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. The interest rates on these investments range from 3 1/2 percent to 8 1/4 percent and are payable on June 30, December 31, and at maturity or redemption. Investments held for the trust funds mature at various dates ranging from the present to the year 2020.

	2005	2004
Special Issue U.S. Treasury Securities	\$ 1,809,422	\$ 1,635,368
U.S. Treasury Bonds - Carrying value	0	30
<b>Total Investments</b>	<b>\$ 1,809,422</b>	<b>\$ 1,635,398</b>

## 6. *Interest and Accounts Receivable*

### Interest Receivable

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on trust fund investments with the U.S. Treasury. Interest receivable amounts are \$23,472 and \$22,315 million as of September 30, 2005 and 2004.

### Accounts Receivable

#### Intragovernmental

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets in the amounts of \$307 and \$624 million as of September 30, 2005 and 2004 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The LAE gross accounts receivable has been reduced by \$1,775 and \$1,559 million as of September 30, 2005 and 2004 as an intra-agency elimination.

#### With the Public

Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6. Amounts in the OASI and DI programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents overpaid Federal and State SSI payments to be recovered from SSI recipients who are no longer eligible to receive supplemental income or receive benefits in excess of their eligibility. Refer to Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments.

	2005			2004		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,077	\$ (112)	\$ 1,965	\$ 1,948	\$ (98)	\$ 1,850
DI	3,771	(1,291)	2,480	3,199	(1,094)	2,105
SSI*	7,307	(1,777)	5,530	7,113	(1,823)	5,290
LAE	159	0	159	228	0	228
<b>Sub-Total</b>	<b>13,314</b>	<b>(3,180)</b>	<b>10,134</b>	<b>12,488</b>	<b>(3,015)</b>	<b>9,473</b>
Less:						
Eliminations**	(3,152)	0	(3,152)	(3,291)	0	(3,291)
<b>Total</b>	<b>\$ 10,162</b>	<b>\$ (3,180)</b>	<b>\$ 6,982</b>	<b>\$ 9,197</b>	<b>\$ (3,015)</b>	<b>\$ 6,182</b>

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



In a prior period, SSA determined that a group of 228,000 SSI recipients who were eligible to receive DI benefits were paid either SSI or OASI benefits. At that time, the agency recognized and established receivables from both the OASI and SSI programs with an offsetting payable in the DI program.

Current estimates indicate that there are about 117,000 SDW cases remaining. For FY 2005, SDW receivables are included in the amounts in Chart 6. OASI SDW receivables are \$719 and \$682 million as of September 30, 2005 and 2004. DI SDW receivables are less than \$1 million as of September 30, 2005 and 2004. SSI SDW net receivables are \$2,138 and \$2,437 million as of September 30, 2005 and 2004.

Chart 6 shows that in FY 2005 and 2004, gross accounts receivable was reduced by \$3,152 and \$3,291 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Since payment of the retroactive OASI and DI benefits results in an overpayment of SSI benefits, the overpaid SSI amounts are offset from the OASI and DI retroactive payments. Therefore, these offsets are presented as intra-agency elimination.

A ratio of the estimated allowance for doubtful accounts is recalculated annually using a moving 5-year average of write-offs divided by clearances comprised of write-offs, waivers, and collections. The ratio is then applied to outstanding receivables to compute the amount of allowances for doubtful accounts.

## 7. *Property, Plant and Equipment*

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)

Major Classes:	2005			2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5	\$ 0	\$ 5	\$ 5	\$ 0	\$ 5
Buildings	381	(195)	186	386	(190)	196
Equipment (incl. ADP Hardware)	378	(314)	64	340	(268)	72
Internal Use Software	1,561	(408)	1,153	1,202	(262)	940
Leasehold Improvements	189	(178)	11	188	(170)	18
<b>Total</b>	<b>\$ 2,514</b>	<b>\$ (1,095)</b>	<b>\$ 1,419</b>	<b>\$ 2,121</b>	<b>\$ (890)</b>	<b>\$ 1,231</b>

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	7-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6 years	Straight Line

## 8. *Liabilities*

Liabilities of Federal agencies are classified as liabilities Covered or Not Covered by budgetary resources and are recognized when they are incurred. Chart 8a discloses SSA's liabilities Covered by budgetary resources and Not Covered by budgetary resources.

Chart 8a - Liabilities as of September 30: (\$ in millions)						
	2005			2004		
	Covered	Not Covered	Total	Covered	Not Covered	Total
<b>Intragovernmental:</b>						
Accrued RRI	\$ 3,642	\$ 0	\$ 3,642	\$ 3,712	\$ 0	\$ 3,712
Accounts Payable	1	8,308	8,309	3	4,990	4,993
Other	55	53	108	38	209	247
<b>Total Intragovernmental</b>	<b>3,698</b>	<b>8,361</b>	<b>12,059</b>	<b>3,753</b>	<b>5,199</b>	<b>8,952</b>
Benefits Due and Payable	59,003	2,269	61,272	50,318	1,251	51,569
Accounts Payable	94	300	394	182	307	489
Other	291	603	894	227	978	1,205
<b>Total</b>	<b>\$ 63,086</b>	<b>\$ 11,533</b>	<b>\$ 74,619</b>	<b>\$ 54,480</b>	<b>\$ 7,735</b>	<b>\$ 62,215</b>

### Accrued Railroad Retirement Interchange

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law 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 the Department of the Treasury General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments. Also included in the Not Covered Intragovernmental Accounts Payable amount is \$276 million as of September 30, 2005 for SSI State Fees payable to the Department of the Treasury General Fund. The FY 2004 portion of the SSI state fees is included in Intragovernmental Other Liabilities.

### Intragovernmental Other Liabilities

Intragovernmental Other Liabilities Covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. Intragovernmental Other Liabilities Not Covered by budgetary resources includes \$156 million as of September 30, 2004 for SSI State Fees payable to the Department of the Treasury General Fund. It also includes amounts for the Federal Employees' Compensation Act (FECA), administered by DOL. 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. Current fiscal year claim amounts to be paid by SSA within two years are the current portion. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is \$53 million as of September 30, 2005 and 2004.

### Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2005 and 2004. These



amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

	2005	2004
OASI	\$ 39,213	\$ 37,055
DI	22,375	16,048
SSI	2,836	1,757
Sub-Total	64,424	54,860
Less: Intra-agency eliminations	(3,152)	(3,291)
Total	\$ 61,272	\$ 51,569

The estimation methodology used to develop unadjudicated claims for OASDI has been revised substantially as a result of an evaluation of the data used to prepare the estimates. This review resulted in significant revisions to three components of the liability estimates: (1) the allocation of pending cases by type of claim, (2) the average amounts assigned to pending cases expected to be awarded benefits, and (3) the estimated average durations for which a liability will be assigned. As a consequence, the amounts of the estimated OASI, DI, and SSI liabilities have increased from September 30, 2004 to September 30, 2005 significantly beyond what might have been expected based solely on the change in the number of pending cases and the effects of wage and price inflation on OASDI benefit amounts.

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b also includes estimated payables related to SDW. Refer to Note 6, Interest and Accounts Receivable. OASI payables are \$331 and \$327 million as of September 30, 2005 and 2004. DI payables are \$4,139 and \$4,516 million as of September 30, 2005 and 2004. In FY 2005, the DI payables have decreased due to SDW cases decreasing by the amount of the discharged liabilities for cases that have been adjudicated. In addition, estimates have decreased as a result of enhancements to the models and sample data used in the estimates.

Chart 8b also shows that as of FY 2005 and 2004, gross Benefits Due and Payable was reduced by \$3,152 and \$3,291 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Refer to Note 6, Interest and Accounts Receivable. Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

Chart 8c shows the estimated net SDW liability due to the public as of September 30, 2005 and 2004.

	2005	2004
Net DI Liability	\$ 4,139	\$ 4,516
Net OASI Receivable	(388)	(355)
Net SSI Receivable	(2,138)	(2,437)
Net Liability Due to the Public	\$ 1,613	\$ 1,724

## Accounts Payable

Accounts Payable Not Covered by budgetary resources consists of SSI overpayments due to States and the SSI windfall amounts. States are entitled to any overpayment that SSA expects to collect since they make the actual payments to the beneficiaries. SSI windfall amounts are generated when a SSI recipient is found to be eligible for OASI or DI benefits. Any overlapping payments to the beneficiary made by OASI or DI are paid back to the SSI program, creating the windfall amount. This windfall amount, like the state overpayment is set up as an accounts payable until payment is made to the states.

## Other Liabilities

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities Not Covered by budgetary resources includes the non-current portion of FECA actuarial liability. The non-current portion of \$285 and \$288 as of September 30, 2005 and 2004 is comprised of claims that will be paid more than one year in the future. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

## Contingent Liabilities

SSA is a party to various class action lawsuits related to benefits paid or payable. These suits may be lost, in whole or in part, in lower courts and/or on appeal and may require a future implementation plan. Any final unfavorable court decisions will be funded from the appropriate trust fund or from the general funds for the SSI program. In the opinion of management and legal counsel, the resolution of the class actions and other claims and lawsuits will not materially affect the financial position or operations of SSA.

## 9. Operating Expenses

### Classification of Operating Expenses by Major Program

Chart 9a displays SSA's operating expenses for each major program. The HI/SMI Trust Funds' shares of SSA's operating expenses, which includes the Medicare Prescription Drug Program, are recorded in Other. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statements of Net Cost. Trust Fund Operations include expenses of the Department of the 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.

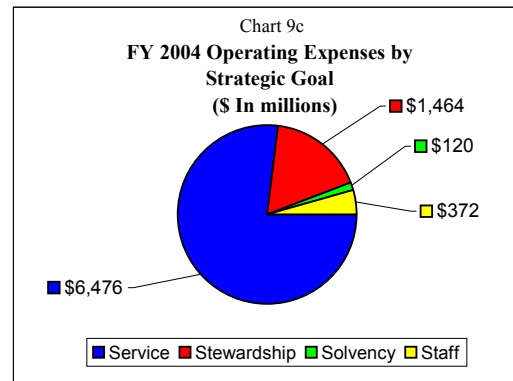
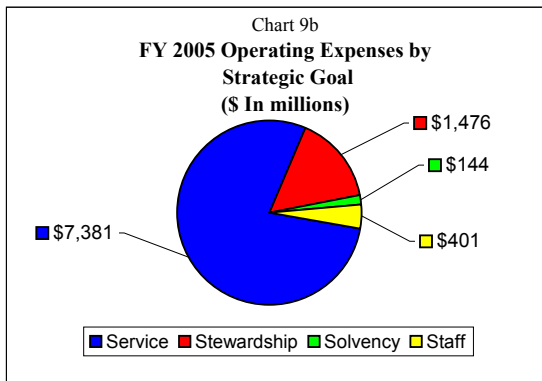
Chart 9a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)						
2005						
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Total	
OASI	\$ 2,368	\$ 34	\$ 568	\$ 0	\$ 2,970	
DI	2,239	33	99	48	2,419	
SSI	2,999	0	0	84	3,083	
Other	1,703	26	0	0	1,729	
	<u>\$ 9,309</u>	<u>\$ 93</u>	<u>\$ 667</u>	<u>\$ 132</u>	<u>\$ 10,201</u>	
Chart 9a - SSA's Operating Expenses by Major Program as of September 30:						
2004						
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Total	
OASI	\$ 2,209	\$ 29	\$ 299	\$ 0	\$ 2,537	
DI	2,089	28	51	53	2,221	
SSI	2,798	0	0	74	2,872	
Other	1,257	22	0	0	1,279	
	<u>\$ 8,353</u>	<u>\$ 79</u>	<u>\$ 350</u>	<u>\$ 127</u>	<u>\$ 8,909</u>	

## Classification of Operating Expenses by Strategic Goal

SSA's Annual Performance Plan (APP) is characterized by broad-based strategic goals that are supported by the entire agency. The four goals are:

- Service -- To deliver high-quality, citizen-centered service;
- Stewardship -- To ensure superior stewardship of Social Security programs and resources;
- Solvency -- To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations; and
- Staff -- To strategically manage and align staff to support SSA's mission.

Chart 9b and 9c exhibit distribution of FY 2005 and 2004 LAE operating expenses to APP Strategic goals.



## 10. Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the Agency's cost. Total exchange revenues are \$362 and \$339 million for the years ended September 30, 2005 and 2004. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 22 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. SSA earned administration fee revenue in the amount of \$276 and \$273 million for the years ended September 30, 2005 and 2004. In addition, SSA earned \$86 and \$66 million for the years ended September 30, 2005 and 2004 in other exchange revenue.

## 11. Costs and Exchange Revenue Classifications

Chart 11 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 13, Imputed Financing for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments, SSI payments, and payroll and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided which includes reimbursements from the United States 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. The Other program, primarily reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Chart 11- Costs and Exchange Revenue Classifications as of September 30:  
(\$ in millions)

	2005			2004		
	Gross Cost	Less Exchange Revenue	Net Cost	Gross Cost	Less Exchange Revenue	Net Cost
<b>OASI Program</b>						
Intragovernmental	\$ 1,220	\$ (18)	\$ 1,202	\$ 841	\$ (15)	\$ 826
Public	434,188	(4)	434,184	414,170	(1)	414,169
OASI Subtotal	435,408	(22)	435,386	415,011	(16)	414,995
<b>DI Program</b>						
Intragovernmental	718	(17)	701	573	(14)	559
Public	91,432	(3)	91,429	76,817	(1)	76,816
DI Subtotal	92,150	(20)	92,130	77,390	(15)	77,375
<b>SSI Program</b>						
Intragovernmental	821	(24)	797	691	(19)	672
Public	38,486	(279)	38,207	37,397	(274)	37,123
SSI Subtotal	39,307	(303)	39,004	38,088	(293)	37,795
<b>Other Program</b>						
Intragovernmental	374	(10)	364	314	(9)	305
Public	1,371	(7)	1,364	978	(6)	972
Other Subtotal	1,745	(17)	1,728	1,292	(15)	1,277
<b>Total</b>	<b>\$568,610</b>	<b>\$ (362)</b>	<b>\$568,248</b>	<b>\$531,781</b>	<b>\$ (339)</b>	<b>\$531,442</b>

## 12. Tax Revenues

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security trust funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the trust funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security 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 trust funds are reduced for excess employment taxes, which are refunded by offset against income taxes. Other tax revenues include FICA/SECA income tax credits. Chart 12 reflects the amounts for estimated employment taxes, adjustments for actual taxes payable and refunds, as well as other tax revenues.

	2005	2004
Estimated Employment Taxes Credited to SSA	\$ 591,057	\$ 553,647
Adjustments	(2,641)	(8,302)
Total Tax Revenues	\$ 588,416	\$ 545,345

## 13. Imputed Financing

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of \$829 and \$782 million for the years ended September 30, 2005 and 2004 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. The Consolidated Statements of Changes in Net Position recognizes an imputed financing source of \$464 and \$452 million for the years ended September 30, 2005 and 2004 that represents annual service cost not paid by SSA.

## 14. Budgetary Resources

### Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of \$754,724 and \$699,908 million for the years ended September 30, 2005 and 2004. Appropriations Received on the Consolidated Statements of Changes in Net Position are \$57,874 and \$52,536 million for the same years. The differences of \$696,850 and \$647,372 million represent appropriated trust fund receipts in OASI and DI. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the general fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Public Debt where they are also

recorded as Appropriations Received in the OASI and DI Trust Funds. Since OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's directive to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

### Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as Category A. Other apportionments such as activities, projects, objects or a combination of these categories are classified as Category B. Chart 14a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from Apportionment. The addition of Category A consists of Medicare Reform and Medicare Appeals distributed quarterly in the FY 2005 Budget.

	2005			2004		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	\$ 427	\$ 0	\$ 427	0	0	0
Category B	589,611	4,546	594,157	\$ 543,416	4,231	\$ 547,647
Exempt	8,990	0	8,990	13,147	0	13,147
Total	\$ 599,028	\$ 4,546	\$ 603,574	\$ 556,563	\$ 4,231	\$ 560,794

### Permanent Indefinite Appropriation

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides monetary assistance and protection against the loss of earnings due to retirement or death. The DI Trust Fund provides monetary assistance and protection against the loss of earnings due to a wage earner's disability. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, Foster Care Independence Act of 1999. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of PL 106-169, their SSI benefits would terminate the month after the veterans leave the U.S. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

### Legal Arrangements Affecting Use of Unobligated Balances

All trust fund receipts collected in the FY are reported as new budget authority on the Combined Statements of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the Social Security Act, benefit payments and other outlays are obligated in the trust funds. The portion of trust fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the SBR; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the trust funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 14b displays trust fund activities and balances. The entire trust fund balances, ending are included in Investments on the Consolidated Balance Sheets.

Chart 14b - Trust Fund Activities as of September 30:  
(\$ in millions)

	2005	2004
Trust Fund Balance, Beginning	\$ 1,578,149	\$ 1,426,913
Receipts	696,858	647,363
Less Obligations	531,708	496,127
Excess of Receipts Over Obligations	165,150	151,236
Trust Fund Balance, Ending	\$ 1,743,299	\$ 1,578,149

**Explanation of Material Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

There are no material differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.

**15. Statement of Financing Disclosures**

**Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods**

Liabilities Not Covered by Budgetary Resources of \$11,533 and \$7,735 million as of September 30, 2005 and 2004, represent SSI receivables and collections owed to Treasury, non-current portion of FECA liability to DOL and employees, benefits due and payable for SSI adjudicated and unadjudicated cases, and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Consolidated Statements of Financing, as Total Components of Net Cost of Operations, that will require or Generate Resources in Future Periods of \$1,025 and \$179 million for the years ended September 30, 2005 and 2004, represent the change in SSA expenses for adjudicated and unadjudicated SSI benefits due and payable and leave earned but not taken.

**16. Recovery of Medicare Premiums**

SSA identified a systemic and recurring error in the process for recovering certain transfers to CMS of Medicare Part B premiums. Beneficiaries of OASDI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premium transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, has not generally had procedures to recover Medicare premiums transferred to CMS. SSA estimates that approximately \$800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002, for periods after the death of a beneficiary. SSA intends to pursue the repayment from the Department of Health and Human Services (HHS). SSA and HHS are currently negotiating the resolution of this matter. Due to the uncertainty of the recovery, SSA has not recorded this in its financial statements as of September 30, 2005.

Other Accompanying Information: Balance Sheet by Major Program  
as of September 30, 2005

Assets	Dollars in Millions						
	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
<b>Intragovernmental:</b>							
Fund Balance with Treasury	\$ (384)	\$ (73)	\$ 2,915	\$ 2,880	\$ 32	\$ 0	\$ 5,370
Investments *	1,616,159	193,263	0	0	0	0	1,809,422
Interest Receivable, Net	20,934	2,538	0	0	0	0	23,472
Accounts Receivable, Net	2	1	0	0	2,079	(1,775)	307
<b>Total Intragovernmental</b>	<b>1,636,711</b>	<b>195,729</b>	<b>2,915</b>	<b>2,880</b>	<b>2,111</b>	<b>(1,775)</b>	<b>1,838,571</b>
Accounts Receivable, Net	1,965	2,480	5,530	0	159	(3,152)	6,982
Property, Plant and Equip., Net	0	0	0	0	1,419	0	1,419
Other	0	0	0	0	9	0	9
<b>Total Assets</b>	<b>\$ 1,638,676</b>	<b>\$ 198,209</b>	<b>\$ 8,445</b>	<b>\$ 2,880</b>	<b>\$ 3,698</b>	<b>\$ (4,927)</b>	<b>\$ 1,846,981</b>
<b>Liabilities</b>							
<b>Intragovernmental:</b>							
Accrued RRI	\$ 3,348	\$ 294	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,642
Accounts Payable	589	398	6,272	2,824	1	(1,775)	8,309
Other	0	0	0	0	108	0	108
<b>Total Intragovernmental</b>	<b>3,937</b>	<b>692</b>	<b>6,272</b>	<b>2,824</b>	<b>109</b>	<b>(1,775)</b>	<b>12,059</b>
Benefits Due and Payable	39,213	22,375	2,836	0	0	(3,152)	61,272
Accounts Payable	1	4	293	1	95	0	394
Other	2	1	13	2	876	0	894
<b>Total</b>	<b>43,153</b>	<b>23,072</b>	<b>9,414</b>	<b>2,827</b>	<b>1,080</b>	<b>(4,927)</b>	<b>74,619</b>
<b>Net Position</b>							
Unexpended Appropriations	0	0	1,376	53	17	0	1,446
Cumulative Results of Operations	1,595,523	175,137	(2,345)	0	2,601	0	1,770,916
<b>Total Net Position</b>	<b>1,595,523</b>	<b>175,137</b>	<b>(969)</b>	<b>53</b>	<b>2,618</b>	<b>0</b>	<b>1,772,362</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,638,676</b>	<b>\$ 198,209</b>	<b>\$ 8,445</b>	<b>\$ 2,880</b>	<b>\$ 3,698</b>	<b>\$ (4,927)</b>	<b>\$ 1,846,981</b>

\* For administrative expediency, it is often necessary for one trust fund to initially incur obligations and expenses on behalf of another trust fund. The Social Security Act provides for this administrative policy, but requires SSA to ensure that appropriate adjustments are made between the trust funds so that each has borne the proper costs.

Near the close of FY 2005, SSA determined that the DI Trust Fund had not been reimbursed for expenses initially incurred by the DI Trust Fund on behalf of the OASI Trust Fund. At this time, SSA has not been able to develop a reasonable estimate for the cumulative liability due from the OASI Trust Fund to the DI Trust Fund. When SSA is able to determine a reasonable estimate for this liability, the appropriate transfer will be made from the OASI Trust Fund to the DI Trust Fund.



Other Accompanying Information: Schedule of Net Cost for the Year Ended  
September 30, 2005

	Program	LAE	Total
<b>OASI Program</b>			
Benefit Payments	\$ 432,438	\$ 0	\$ 432,438
Operating Expenses	568	2,402	2,970
Total Cost of OASI Program	433,006	2,402	435,408
Less: Exchange Revenues	0	22	22
<b>Net Cost of OASI Program</b>	<b>433,006</b>	<b>2,380</b>	<b>435,386</b>
<b>DI Program</b>			
Benefit Payments	89,731	0	89,731
Operating Expenses	147	2,272	2,419
Total Cost of DI Program	89,878	2,272	92,150
Less: Exchange Revenues	0	20	20
<b>Net Cost of DI Program</b>	<b>89,878</b>	<b>2,252</b>	<b>92,130</b>
<b>SSI Program</b>			
Benefit Payments	36,224	0	36,224
Operating Expenses	84	2,999	3,083
Total Cost of SSI Program	36,308	2,999	39,307
Less: Exchange Revenues	276	27	303
<b>Net Cost of SSI Program</b>	<b>36,032</b>	<b>2,972</b>	<b>39,004</b>
<b>Other</b>			
Benefit Payments	16	0	16
Operating Expenses	0	1,729	1,729
Total Cost of Other	16	1,729	1,745
Less: Exchange Revenues	5	12	17
<b>Net Cost of Other</b>	<b>11</b>	<b>1,717</b>	<b>1,728</b>
<b>Total Net Cost</b>			
Benefit Payments	558,409	0	558,409
Operating Expenses	799	9,402	10,201
Total Cost	559,208	9,402	568,610
Less: Exchange Revenues	281	81	362
<b>Total Net Cost</b>	<b>\$ 558,927</b>	<b>\$ 9,321</b>	<b>\$ 568,248</b>

Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2005

(Dollars in Millions)				
	OASI	DI	SSI	
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
<b>Net Position, Beginning Balance</b>	\$ 1,433,278	\$ 170,598	\$ (1,325)	\$ 1,414
<b>Budgetary Financing Sources (other than Exchange Revenues)</b>				
Appropriations Received				41,309
Other Adjustments	0	0	0	0
Appropriations Used	0	0	41,347	(41,347)
Tax Revenues	502,998	85,418	0	
Interest Revenues	82,821	10,173	0	
Transfers-In/Out				
Trust Fund Draws and Other - In	15,349	1,171	0	
Trust Fund Draws and Other - Out	(2,472)	(2,007)	(6,335)	
Railroad Retirement Interchange	(3,461)	(385)	0	
Total Transfers-In/Out	9,416	(1,221)	(6,335)	
Other Budgetary Financing Sources	16	47	0	
<b>Other Financing Sources</b>				
Transfers-In/Out	0	0	0	
Imputed Financing Sources	0	0	0	
<b>Total Financing Sources</b>	595,251	94,417	35,012	(38)
<b>Net Cost of Operations</b>	433,006	89,878	36,032	
<b>Net Change</b>	162,245	4,539	(1,020)	(38)
<b>Ending Balances</b>	\$ 1,595,523	\$ 175,137	\$ (2,345)	\$ 1,376

(Dollars in Millions)						
Other		LAE		Intra-Agency Eliminations	Consolidated	
Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
\$ 0	\$ 59	\$ 2,652	\$ 16	\$ 0	\$ 1,605,203	\$ 1,489
	16,539		26			57,874
0	(13)	0	0	0	0	(13)
16,532	(16,532)	25	(25)	0	57,904	(57,904)
0		0		0	588,416	
0		0		0	92,994	
2,821		8,778		(26,830)	1,289	
(16,521)		0		26,830	(505)	
0		0		0	(3,846)	
(13,700)		8,778		0	(3,062)	
0		0		0	63	
(2,821)		3		0	(2,818)	
0		464		0	464	
11	(6)	9,270	1	0	733,961	(43)
11		9,321		0	568,248	
0	(6)	(51)	1	0	165,713	(43)
\$ 0	\$ 53	\$ 2,601	\$ 17	\$ 0	\$ 1,770,916	\$ 1,446

Other Accompanying Information: Schedule of Financing for the Year Ended September 30, 2005

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Consolidated
<b>Resources Used to Finance Activities:</b>						
<b>Budgetary Resources Obligated</b>						
Obligations Incurred	\$ 438,945	\$ 92,763	\$ 45,963	\$ 16,537	\$ 9,366	\$ 603,574
Less: Offsetting Collections	0	0	(4,621)	(5)	(9,095)	(13,721)
Obligations Net of Offsetting Collections	438,945	92,763	41,342	16,532	271	589,853
Less: Offsetting Receipts	(15,356)	(1,200)	(276)	(2,821)	0	(19,653)
Net Obligations	423,589	91,563	41,066	13,711	271	570,200
<b>Other Resources</b>						
Imputed Financing	0	0	0	0	464	464
Other	0	0	(276)	0	0	(276)
Net Other Resources Used to Finance Activities	0	0	(276)	0	464	188
Total Resources Used to Finance Activities	423,589	91,563	40,790	13,711	735	570,388
<b>Resources Not Part of the Net Cost of Operations:</b>						
Change in Budgetary Resources Obligated, Not Yet Provided	0	(9)	(1)	0	6	(4)
Resources That Fund Expenses Recognized In Prior Periods	(115)	(375)	(221)	0	(3)	(714)
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost of Operations	15,356	1,200	276	2,821	0	19,653
Resources That Fund Capitalized Costs	0	0	0	0	(399)	(399)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(5,824)	(2,501)	(5,831)	(16,521)	8,777	(21,900)
Total Resources Not Part of the Net Cost of Operations	9,417	(1,685)	(5,777)	(13,700)	8,381	(3,364)
Total Resources Used to Finance the Net Cost of Operations	433,006	89,878	35,013	11	9,116	567,024
<b>Components of the Net Cost of Operations That Will Not Require of Generate Resources in the Current Period:</b>						
<b>Components Requiring or Generating Resources in Future Periods</b>						
Increase in Annual Leave	0	0	0	0	6	6
Other	0	0	1,019	0	0	1,019
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	0	0	1,019	0	6	1,025
<b>Components Not Requiring or Generating Resources</b>						
Depreciation and Amortization	0	0	0	0	211	211
Other	0	0	0	0	(12)	(12)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	0	0	0	0	199	199
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Current Period	0	0	1,019	0	205	1,224
<b>Net Cost of Operations</b>	<b>\$ 433,006</b>	<b>\$ 89,878</b>	<b>\$ 36,032</b>	<b>\$ 11</b>	<b>\$ 9,321</b>	<b>\$ 568,248</b>

Required Supplementary Information: Schedule of Budgetary Resources  
as of September 30, 2005

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Combined
<b>Budgetary Resources Made Available</b>						
<b>Budget Authority</b>						
Appropriations Received	\$ 600,082	\$ 96,776	\$ 41,301	\$ 16,539	\$ 26	\$ 754,724
Net transfers (+/-)	(109)	109	0	0	0	0
<b>Unobligated Balances</b>						
Beginning of Period	0	0	1,282	53	783	2,118
Net transfers (+/-)	0	0	2	0	(2)	0
<b>Spending Authority from Offsetting Collections</b>						
Earned						
Collected	0	0	4,514	5	77	4,596
Change in Receivable	0	0	4	0	5	9
Transfers from Trust Funds						
Collected	0	0	0	0	8,887	8,887
Anticipated	0	0	0	0	(108)	(108)
Subtotal	0	0	4,518	5	8,861	13,384
<b>Recoveries of Prior Year Obligations</b>	0	0	103	0	234	337
<b>Temporarily Not Available Pursuant to Public Law</b>	(161,028)	(4,122)	0	0	0	(165,150)
<b>Permanently Not Available</b>	0	0	0	(7)	0	(7)
<b>Total Budgetary Resources</b>	<b>\$ 438,945</b>	<b>\$ 92,763</b>	<b>\$ 47,206</b>	<b>\$ 16,590</b>	<b>\$ 9,902</b>	<b>\$ 605,406</b>
<b>Status of Budgetary Resources:</b>						
<b>Obligations Incurred</b>						
Direct	\$ 438,945	\$ 92,763	\$ 41,453	\$ 16,532	\$ 9,335	\$ 599,028
Reimbursable	0	0	4,510	5	31	4,546
Subtotal	438,945	92,763	45,963	16,537	9,366	603,574
<b>Unobligated Balances</b>						
Apportioned	0	0	1,140	22	404	1,566
<b>Unobligated Balances - Not Available</b>	0	0	103	31	132	266
<b>Total Status of Budgetary Resources</b>	<b>\$ 438,945</b>	<b>\$ 92,763</b>	<b>\$ 47,206</b>	<b>\$ 16,590</b>	<b>\$ 9,902</b>	<b>\$ 605,406</b>
<b>Relationship of Obligations to Outlays:</b>						
<b>Obligated Balances - Beginning of the Period</b>	\$ 41,038	\$ 16,789	\$ 1,117	\$ 1	\$ (681)	\$ 58,264
<b>Obligated Balance - End of the Period</b>						
Accounts Receivable	0	0	(12)	0	(2,079)	(2,091)
Undelivered Orders	0	13	60	0	1,279	1,352
Accounts Payable	43,153	23,071	1,340	3	296	67,863
<b>Outlays:</b>						
Disbursements	436,830	86,468	45,585	16,535	9,059	594,477
Collections	0	0	(4,514)	(6)	(8,964)	(13,484)
Subtotal	436,830	86,468	41,071	16,529	95	580,993
<b>Less: Offsetting Receipts</b>	<b>15,356</b>	<b>1,200</b>	<b>276</b>	<b>2,821</b>	<b>0</b>	<b>19,653</b>
<b>Net Outlays</b>	<b>\$ 421,474</b>	<b>\$ 85,268</b>	<b>\$ 40,795</b>	<b>\$ 13,708</b>	<b>\$ 95</b>	<b>\$ 561,340</b>

Required Supplementary Information: Intragovernmental Amounts  
as of September 30, 2005

	(Dollars in Millions)			
	Fund Balance with Treasury	Investments	Interest Receivable, Net	Accounts Receivable, Net
<b>Intragovernmental Assets</b>				
Department of Health and Human Services				\$ 298
Department of the Treasury	\$ 5,370	\$ 1,809,422	\$ 23,472	
Other				9
<b>Total Intragovernmental Assets</b>	<b>\$ 5,370</b>	<b>\$ 1,809,422</b>	<b>\$ 23,472</b>	<b>\$ 307</b>
	Accrued Railroad Retirement Interchange	Accounts Payable	Other Liabilities	
<b>Intragovernmental Liabilities</b>				
Department of Labor			\$ 56	
Department of the Treasury, General Fund		\$ 8,308		
Office of Personnel Management			26	
Railroad Retirement Board	\$ 3,642			
Other		1	26	
<b>Total Intragovernmental Liabilities</b>	<b>\$ 3,642</b>	<b>\$ 8,309</b>	<b>\$ 108</b>	
	Non-Exchange Revenue			
	Transfers-In	Transfers-Out		
<b>Intragovernmental Revenues:</b>				
Department of the Treasury, General Fund	\$ 50	\$ 502		
Railroad Retirement Board		3,846		
Department of Health and Human Services	1,239	3		
<b>Total Intragovernmental Revenues:</b>	<b>\$ 1,289</b>	<b>\$ 4,351</b>		

## Required Supplementary Stewardship Information: Social Insurance

<b>Statement of Social Insurance</b>					
<b>Old-Age, Survivors and Disability Insurance</b>					
<b>75-Year Projection as of January 1, 2005</b>					
(In billions)					
	Estimates from Prior Years				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future income (excluding interest)<sup>2</sup> received from or on behalf of:</i>					
Current participants <sup>3</sup> who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	\$15,290	\$14,388	\$13,576	\$13,048	\$12,349
Have attained retirement eligibility age (Age 62 and over)	464	411	359	348	309
Those expected to become participants (Under age 15) <sup>4</sup>	13,696	12,900	12,213	11,893	11,035
All current and future participants	29,450	27,699	26,147	25,289	23,693
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future cost<sup>5</sup> for or on behalf of:</i>					
Current participants <sup>3</sup> who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	23,942	22,418	21,015	20,210	18,944
Have attained retirement eligibility age (Age 62 and over)	5,395	4,933	4,662	4,402	4,255
Those expected to become participants (Under age 15) <sup>4</sup>	5,816	5,578	5,398	5,240	4,700
All current and future participants	35,154	32,928	31,075	29,851	27,899
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future excess of income (excluding interest) over cost</i>	-\$5,704	-\$5,229	-\$4,927	-\$4,562	-\$4,207
<i>Trust fund assets<sup>6</sup> at start of period</i>	1,687	1,531	1,378	1,213	1,049
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future excess<sup>7</sup> of income (excluding interest) and trust fund assets at start of period over cost</i>	-\$4,017	-\$3,699	-\$3,550	-\$3,350	-\$3,157

## Footnotes to the Statement of Social Insurance

- <sup>1</sup>Present values are computed on the basis of the intermediate economic and demographic assumptions specified in the Report of the Board of Trustees for the year shown and over the 75-year projection period beginning January 1 of that year. Totals do not necessarily equal the sum of the rounded components.
- <sup>2</sup>Income (excluding interest) 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.
- <sup>3</sup>Current participants are the “closed group” of individuals age 15 and over at the start of the period. To calculate the actuarial present value of the excess of future income (excluding interest) from or on behalf of these individuals over future cost for them or on their behalf, subtract the actuarial present value of future cost for them or on their behalf from the actuarial present value of future income (excluding interest) from them or on their behalf. The projection period for the closed group would theoretically include all future working and retirement years, a period which may exceed 75 years in some instances. While the estimates are limited to the 75-year projection period, the net present value of future income and cost for the closed group participants beyond 75 years is not material.
- <sup>4</sup>Includes births during the period.
- <sup>5</sup>Cost includes scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.
- <sup>6</sup>Trust fund assets represent the accumulated excess of all past income, including interest on trust fund assets, over all past expenditures for the social insurance program. The assets are invested only in securities backed by the full faith and credit of the Federal Government.
- <sup>7</sup>The negative value represents the magnitude of the unfunded obligation of the program over the 75-year projection period. The calculation of the actuarial balance used for analysis by the Social Security trustees differs from the calculation of the amount presented on this line. The trustees’ actuarial balance is expressed as a percentage of the taxable payroll and includes the cost of attaining a target fund balance equal to the estimated next year’s cost at the end of the period.



## Assumptions Used for the Statement of Social Insurance

The estimates used in this presentation for the current year (2005) are based on the assumption that the programs will continue as presently constructed. They are also based on various economic and demographic assumptions, including those in the following table:

	Total Fertility Rate <sup>1</sup>	Age-Sex-Adjusted Death Rate <sup>2</sup> (per 100,000)	Period Life Expectancy At Birth <sup>3</sup>		Net Annual Immigration (persons per year) <sup>4</sup>	Real-Wage Differential <sup>5</sup> (percentage points)	Average Annual Percentage Change In:				Average Annual Interest Rate <sup>9</sup>
			Male	Female			Average Annual Wage in Covered Employment	CPI <sup>6</sup>	Total Employment <sup>7</sup>	Real GDP <sup>8</sup>	
2005	2.02	854.2	74.8	79.6	1,075,000	2.1	4.2	2.2	1.7	3.6	4.2%
2010	2.01	828.2	75.4	80.0	1,000,000	1.3	4.1	2.8	0.7	2.5	5.7%
2020	1.98	764.7	76.5	80.8	950,000	1.0	3.8	2.8	0.3	1.9	5.8%
2030	1.95	705.0	77.5	81.7	900,000	1.0	3.8	2.8	0.2	1.8	5.8%
2040	1.95	652.1	78.5	82.5	900,000	1.1	3.9	2.8	0.3	1.9	5.8%
2050	1.95	605.7	79.4	83.2	900,000	1.1	3.9	2.8	0.2	1.8	5.8%
2060	1.95	564.6	80.2	83.9	900,000	1.1	3.9	2.8	0.2	1.8	5.8%
2070	1.95	528.1	81.0	84.6	900,000	1.1	3.9	2.8	0.2	1.8	5.8%

1. The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age 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 2029.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. 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.
5. The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI).
6. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
7. Total employment represents total of civilian and military employment in the U.S. economy.
8. The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
9. The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.

These assumptions and the other values on which these displays are based reflect the intermediate assumptions of the 2005 Trustees Report. Estimates made in prior years 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.

## 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 2004, OASDI benefits were paid to approximately 48 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. The amount of OASDI income and benefits may be altered by changes in laws governing the program.

## Program Finances and Sustainability

As discussed in Note 8 to the consolidated financial statements, a liability of \$61 billion as of September 30, 2005 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 (\$52 billion as of September 30, 2004). Virtually all of this amount was paid in October 2005. Also, an asset of \$1,809 billion is recognized for the “investments in Treasury securities” as of September 30, 2005 (\$1,635 billion as of September 30, 2004). These investments are referred to as “trust fund assets” or “balance” throughout the remainder of this Required Supplementary Stewardship 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.

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, 2005. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and are not considered deferred compensation, as would employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes 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.

***Supplementary Stewardship Information*** - While no liability has been recognized on the balance sheet for future payments beyond those due at the reporting date, actuarial estimates are made of the long-range financial condition 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-taxation of scheduled OASDI benefits; interest income from Treasury securities held as assets of the trust funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **income excluding interest:** income, as defined above, excluding the interest income from Treasury securities held as assets of the trust funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;
- **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 payments as they fall due.

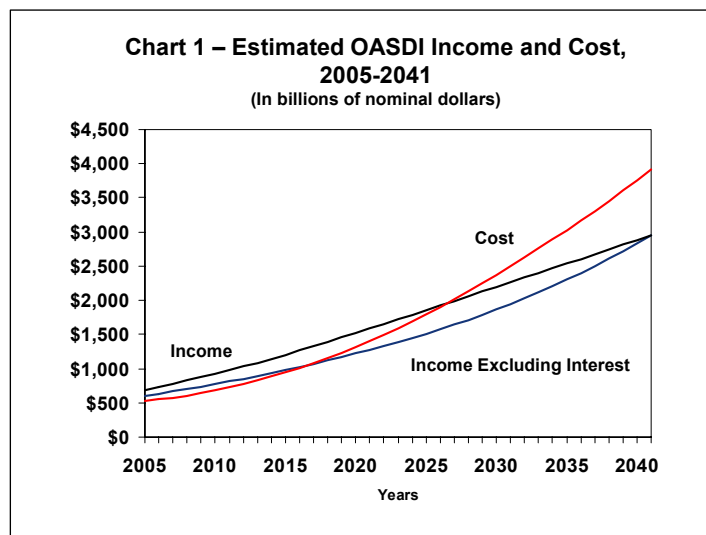
All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2005 Trustees Report) (see Table 1). The statement presented on page 143 and the supplementary stewardship 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) actuarial 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 excluding interest and cost in nominal dollars and as percentages of taxable payroll and 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.

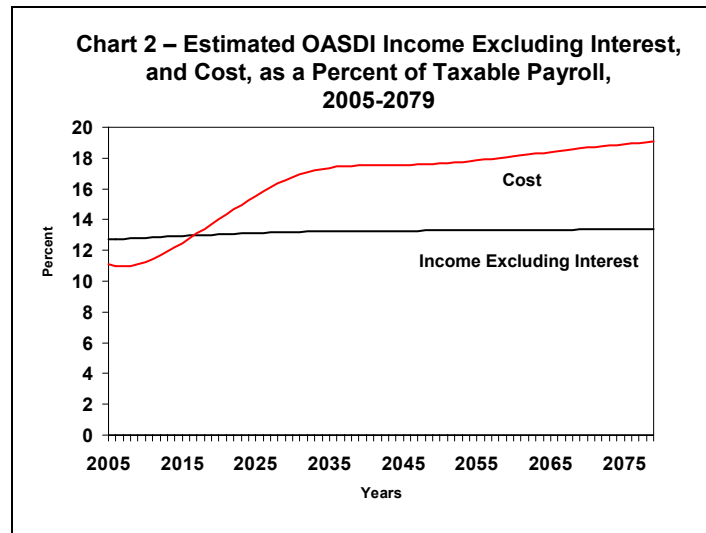
**Cashflow Projections** - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2005-2041 in nominal dollars. These estimates are only displayed through 2041, the year that the OASDI trust funds are projected to become exhausted. At the point of trust fund exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow significantly to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this table, which is intended to illustrate the source of revenue needed to meet the cost of the program, beyond the point of trust fund exhaustion, would be inappropriate.

The estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, 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 on behalf of such workers during that period.

As chart 1 shows, estimated cost starts to exceed income (including interest) in 2027. 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 low 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 cost starts to exceed income excluding interest even earlier, in 2017. At that time, to meet all OASDI cost on a timely basis, the trust funds would begin to redeem assets (Treasury securities). To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce 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.



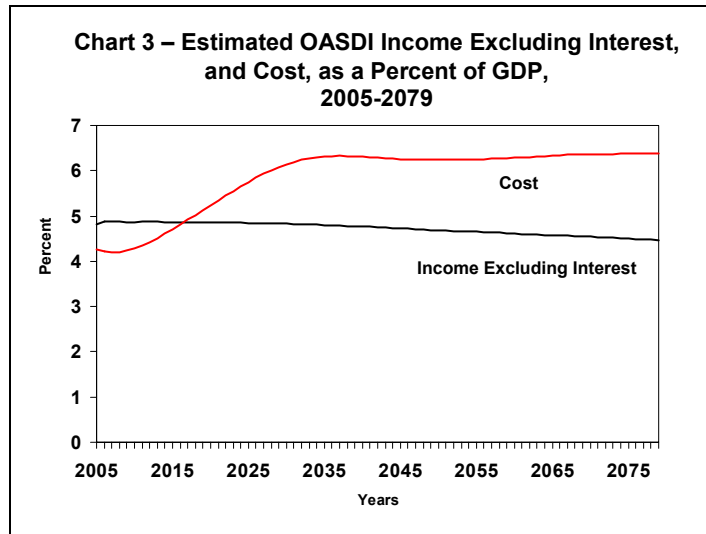
**Percentage of Taxable Payroll** - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2017, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover only 68 percent of the estimated cost.



**Actuarial Balance** - The statement of social insurance on page 143 shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$5,704 billion. If augmented by the trust fund assets at the start of the period (January 1, 2005), it is -\$4,017 billion. This excess does not equate to the actuarial balance in the Trustees Report of -1.92 percent of taxable payroll because the actuarial balance includes the cost of attaining a target trust fund balance by the end of the period.

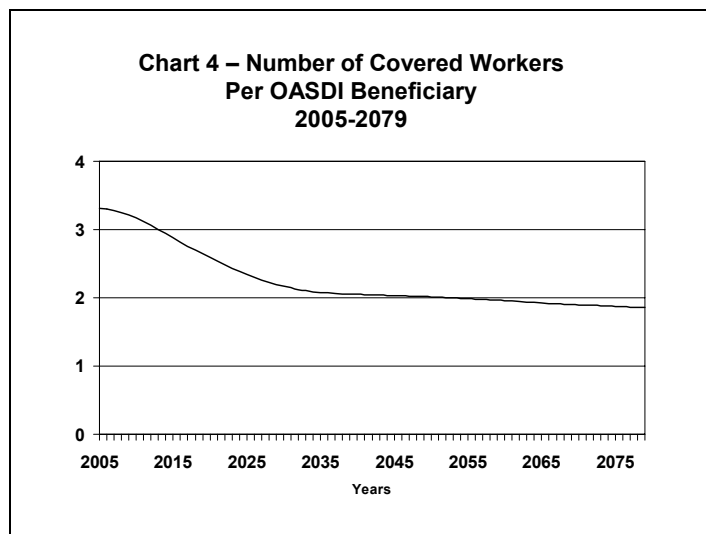
One interpretation of this negative actuarial balance (-1.92 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain at that level. An increase of 1.92 percentage points in this rate in each year of the 75-year projection period (0.96 percentage points for employees and employers each, resulting in a total rate of 14.32 percent or a rate of 7.16 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all current and future benefits could be reduced by about 12.8 percent (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

**Percentage of Gross Domestic Product (GDP)** - Chart 3 shows estimated annual income excluding interest and cost 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 size of the OASDI program in relation to the capacity of the national economy to sustain it.



In 2004, OASDI cost was about \$502 billion, which was about 4.3 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.1 percent of GDP in 2030 and then gradually increases to 6.4 percent of GDP in 2079. The increase will occur because baby boomers will become eligible for OASDI benefits, lower birth rates will result in fewer workers per beneficiary, and beneficiaries will continue to live longer.

***Ratio of Workers to Beneficiaries*** - Chart 4 below 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 on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2004 to 1.9 in 2079.



## Sensitivity Analysis

Projections of the future financial status of the OASDI program depend on many economic and demographic assumptions, including GDP, labor force, unemployment, average wages and self-employment earnings, interest rates on Treasury securities, productivity, inflation, fertility, mortality, net immigration, marriage, divorce, retirement patterns and disability incidence and termination. 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, 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, death rate, 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 2005 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2005 and are based on estimates of income and cost during the 75-year projection period 2005-2079. In this section, for brevity, “income” means “income excluding interest.”

For each assumption analyzed, one table and two charts 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 first chart shows estimated annual OASDI net cashflow based on each of those values. The second chart, labeled with the suffix “A,” shows the present value of each net cashflow amount shown in the first chart and is included to facilitate interpreting net cashflow in terms of today’s dollar. Because the calculation of present values is a discounting process, the magnitude of the present value for each year in the second chart is lower than the corresponding net cashflow amount in the first chart—positive values are less positive and negative values are less negative.

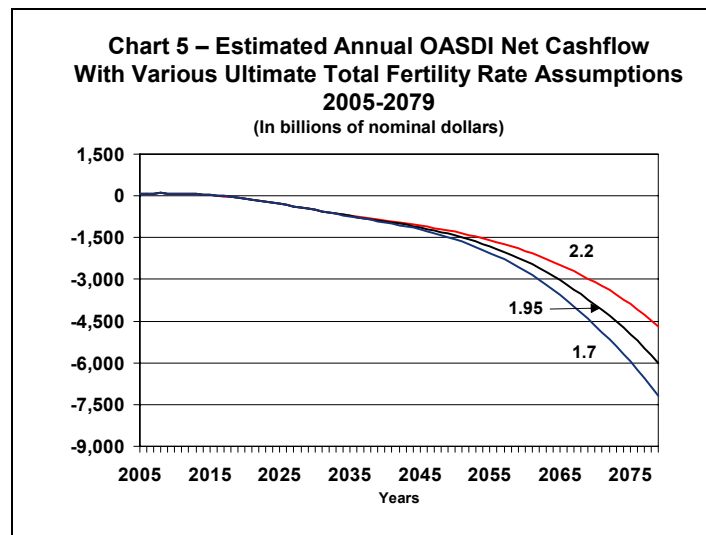
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Reports present high-cost and low-cost alternative assumption sets which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees have also recently added to their Annual Report an additional way of analyzing variability in assumptions and cost based on a stochastic model developed by the Office of the Chief Actuary.

**Total Fertility Rate** - Table 2 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 1.95 and 2.2 children per woman, where 1.95 is the intermediate assumption in the 2005 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2029.

Table 2 demonstrates that, if the ultimate total fertility rate is changed from 1.95 children per woman, the Trustees’ intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,260 billion, from \$5,704 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to \$5,144 billion.

<b>Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2005-2079</b>			
Ultimate Total Fertility Rate	1.7	1.95	2.2
Present Value of Estimated Excess (In billions)	-\$6,260	-\$5,704	-\$5,144

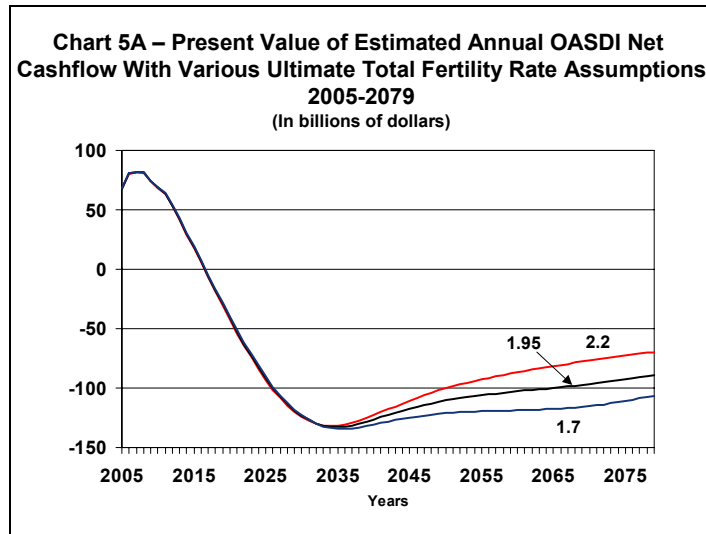
Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 2. Chart 5 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing slightly in the first three years, the net cashflow estimates decrease steadily through 2079. They remain positive through 2016 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 36 years before the OASDI trust funds are projected to become depleted under each of these fertility assumptions.

In the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2033 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from 2033 on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

Chart 5A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 5A are similar. After increasing for 2 years, the present values decrease rapidly through the mid 2030's. They remain positive through 2016 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2035 for a total fertility rate of 2.2, 2036 for a total fertility rate of 1.95, and 2037 for a total fertility rate of 1.7). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2037 than it would to cover the annual deficit in 2036.

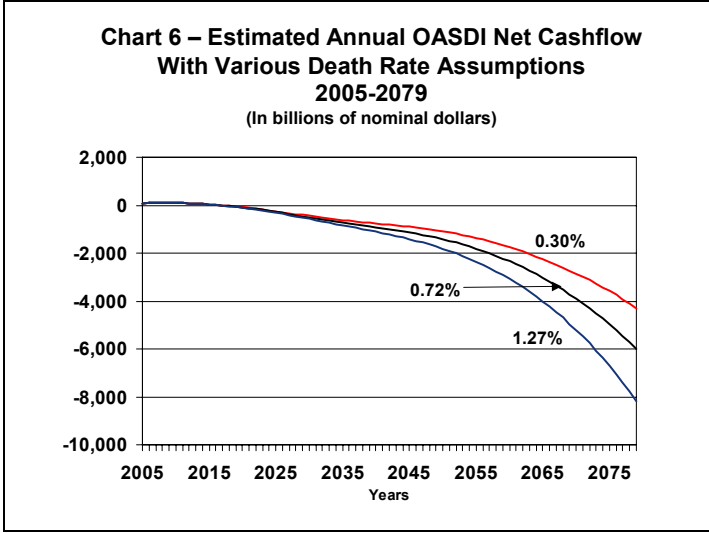
**Death Rates** - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2004-2079 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.30, 0.72 and 1.27 percent per year, where 0.72 percent is the intermediate assumption in the 2005 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 20, 42 and 62 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 77.0 in 2004 to 80.1, 83.4, and 87.6 in 2079 for average annual reductions in the age-sex-adjusted death rate of 0.30, 0.72 and 1.27 percent, respectively.

Table 3 demonstrates that, if the annual reduction in death rates is changed from 0.72 percent, the Trustees' intermediate assumption, to 0.30 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$4,376 billion, from \$5,704 billion; if the annual reduction were changed to 1.27 percent, meaning that people live longer, the shortfall would increase to \$7,303 billion.

<b>Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions</b>			
<b>Valuation Period: 2005-2079</b>			
Average Annual Reduction in Death Rates (from 2004 to 2079)	0.30 Percent	0.72 Percent	1.27 Percent
Present Value of Estimated Excess (In billions)	-\$4,376	-\$5,704	-\$7,303

Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 3. Chart 6 shows the estimated annual OASDI net cashflow.

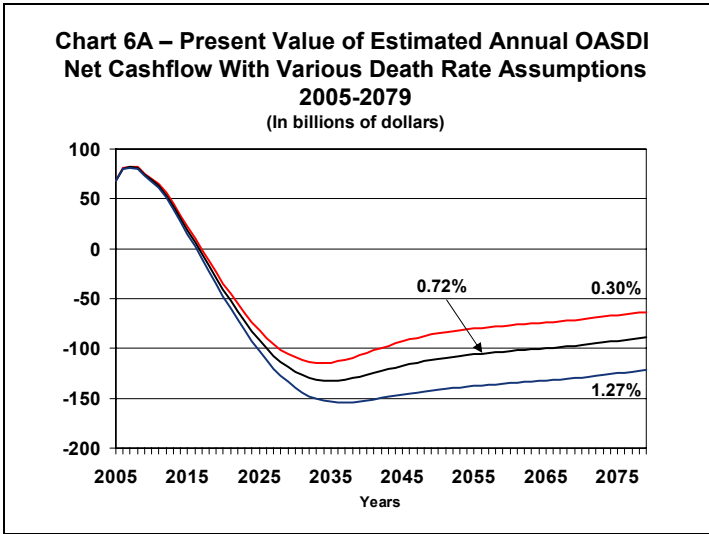




The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing slightly in the first 3 years, the net cashflow estimates decrease steadily through 2079. They remain positive through 2016 for all three assumptions, after which the annual net cashflow estimates are negative. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). Although reductions at ages 50 to 62 add significantly to the number of covered workers, the increased payroll tax income is not large enough to offset the additional retirement and disability benefits resulting from the increased number of people surviving to age 50 and over. At ages under 50, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

Chart 6A shows the present value of the estimated annual OASDI net cashflow.



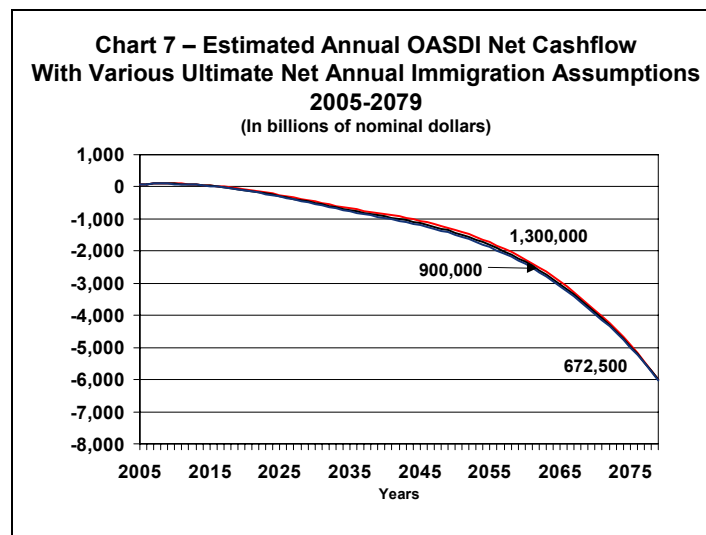
The three patterns of the present values shown in Chart 6A are similar. After increasing for 2 years, the present values decrease rapidly through the mid 2030's. They remain positive through 2016 under all three assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2034, 2036 and 2038 for assumptions of reductions of 0.30, 0.72 and 1.27 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

**Net Annual Immigration** - 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 magnitude of net annual immigration. These assumptions are that the ultimate net annual immigration (legal and other) will be 672,500 persons, 900,000 persons and 1,300,000 persons, where 900,000 persons is the intermediate assumption in the 2005 Trustees Report.

Table 4 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate ultimate assumption, to 672,500 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,010 billion, from \$5,704 billion. If the ultimate net annual immigration assumption were changed to 1,300,000 persons, the present value of the shortfall would decrease to \$5,270 billion.

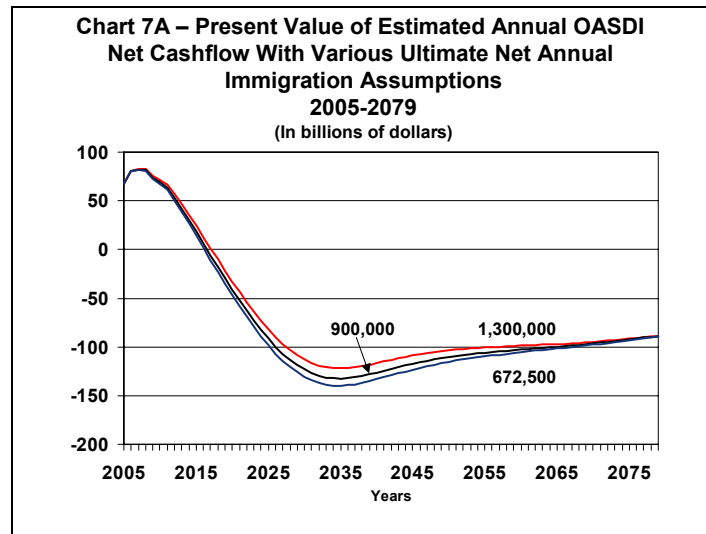
<b>Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Net Annual Immigration Assumptions Valuation Period: 2005-2079</b>			
Ultimate Net Annual Immigration	672,500 Persons	900,000 Persons	1,300,000 Persons
Present Value of Estimated Excess (In billions)	-\$6,010	-\$5,704	-\$5,270

Charts 7 and 7A show estimates using the same assumptions about net annual immigration used for the estimates in Table 4. Chart 7 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing slightly in the first 3 years, the net cashflow estimates decrease steadily through 2079. They remain positive through 2016 for the annual ultimate net immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons. Very little difference is discernible among the estimates of net cashflow based on the three assumptions about net annual immigration.

Chart 7A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 7A are similar. After increasing for a few years, the present values decrease rapidly through the mid 2030's. They remain positive through 2016 for the assumed ultimate net annual immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons, after which the present values are negative. Present values based on all three assumptions about net annual immigration begin to increase (become less negative) in 2036 for all three assumptions.

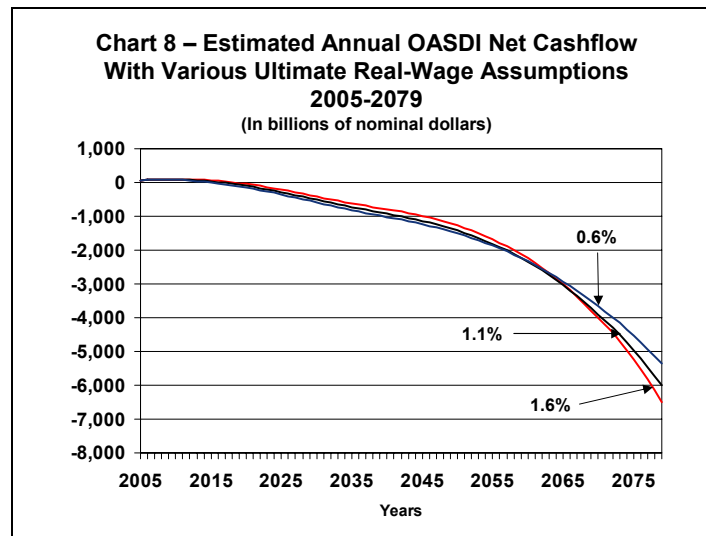
Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three assumptions about net annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more 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. Thus, even in the early years, the present values, year by year, are higher (less negative in later years) for higher net annual immigration. Because a constant number of net immigrants is assumed each year, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Thus, 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 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). 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 real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1 and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2005 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 3.9 and 4.4 percent, respectively.

Table 5 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,287 billion from \$5,704 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to \$4,887 billion.

<b>Table 5: Present Value of Estimated Excess of OASDI Income over Cost            With Various Ultimate Real-Wage Assumptions            Valuation Period: 2005-2079</b>			
Ultimate Annual Increase in Wages, CPI; <b>Real Wage Differential</b>	3.4% , 2.8%; <b>0.6%</b>	3.9% , 2.8%; <b>1.1%</b>	4.4% , 2.8%; <b>1.6%</b>
Present Value of Estimated Excess (In billions)	-\$6,287	-\$5,704	-\$4,887

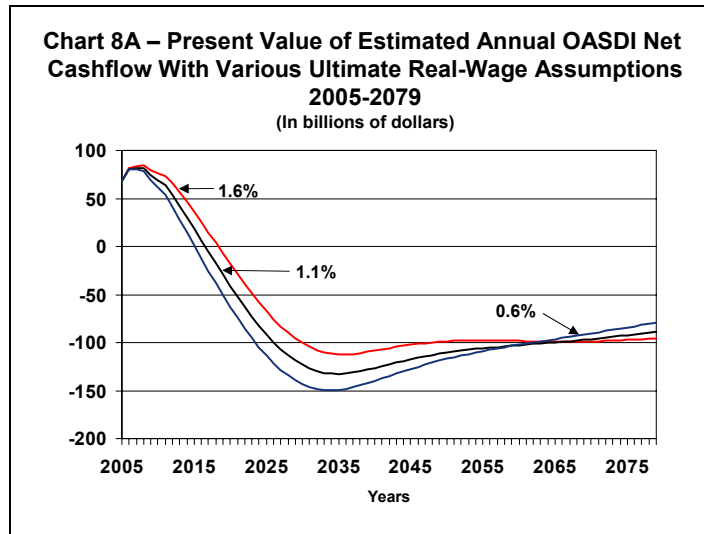
Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 5. Chart 8 shows the estimated annual OASDI net cashflow.



The three patterns of estimated net annual OASDI cashflow shown in Chart 8 increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and is negative thereafter.

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, around 2060, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

Chart 8A shows the present value of the estimated annual OASDI net cashflow.



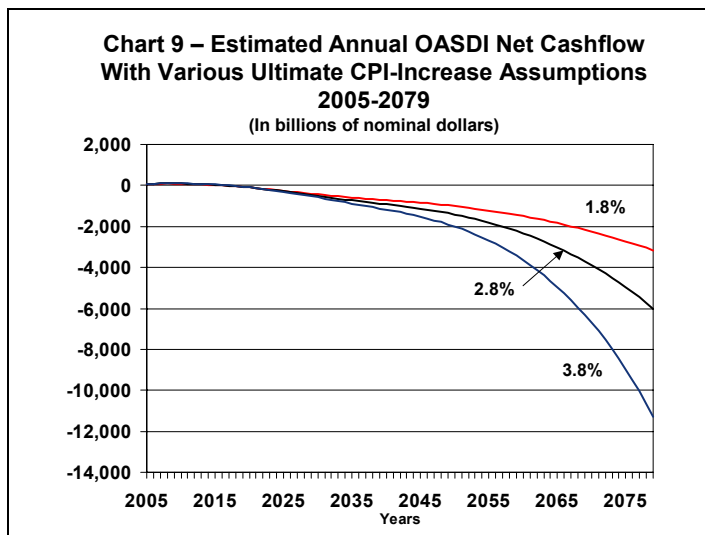
The three patterns of the present values shown in Chart 8A increase the first few years, and then, decrease rapidly through the mid 2030's. They remain positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2037 for an assumed ultimate real-wage differential of 0.6, 1.1 and 1.6 percentage points, respectively). Thus, 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 1.6 percentage points, the present values continue increasing temporarily until 2055 when decreases temporarily begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

**Consumer Price Index** - 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 rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8 and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2005 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.9, 3.9 and 4.9 percent, respectively.

Table 6 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,094 billion, from \$5,704 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to \$5,308 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

<b>Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2005-2079</b>			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	2.9% , 1.8%; 1.1%	3.9% , 2.8%; 1.1%	4.9% , 3.8%; 1.1%
Present Value of Estimated Excess (In billions)	-\$6,094	-\$5,704	-\$5,308

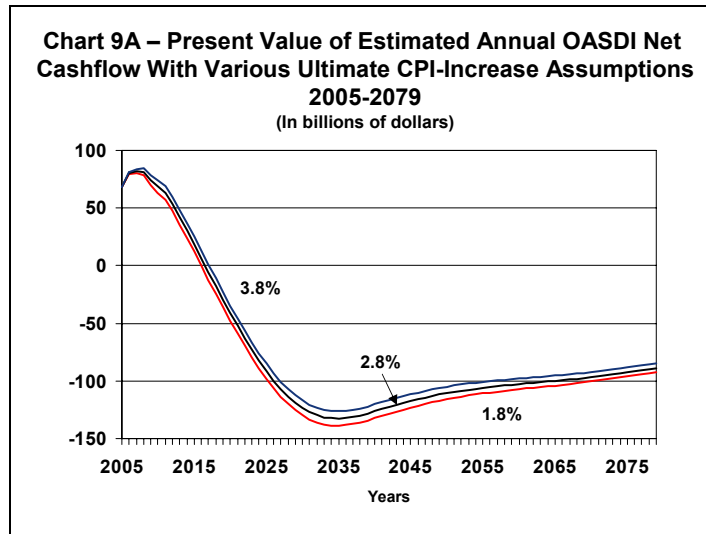
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 6. Chart 9 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2079. Annual net cashflow remains positive through 2015 for an assumed ultimate annual increase in the CPI of 1.8 percent; through 2016 for an assumed ultimate annual increase in the CPI of 2.8 percent; and through 2017 for an assumed ultimate annual increase in the CPI of 3.8 percent. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher initial benefits. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost in nominal dollars.

Larger increases in the CPI cause earnings and income to increase sooner, and thus by more in each year, than benefits and cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Initially (through 2020) the larger percentage increase in income also results in a larger nominal-dollar increase in income, so net cashflow is increased for higher inflation in Chart 9. However, shortly after 2020, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because program income begins to fall well below program cost, and thus the larger percentage increases in income eventually produce smaller nominal-dollar increases than for program cost.

Chart 9A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 9A are similar. After increasing for a few years, present values decrease rapidly through the mid 2030's before beginning to increase once again. They remain positive through 2016 (2017 for an assumed ultimate annual increase in the CPI of 3.8 percent) and are negative thereafter. Present values begin to increase (become less negative) after 2035 for all three assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

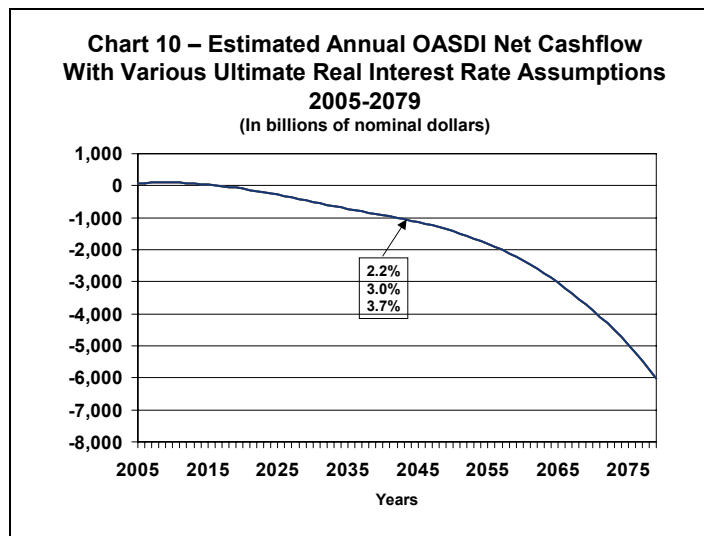
The magnitudes of the present values in Chart 9A are lower, year by year, than the amounts in Chart 9 because of the discounting process used for computing present values. This would be the case even if the nominal interest rates on which the present values are based were assumed to be the same for all three patterns of annual net cashflow. For this analysis, however, larger increases in the CPI are combined with the same assumed real interest rates, thereby producing higher nominal interest rates. The effect of these higher interest rates is to reduce the magnitudes of the present values of annual net cashflow even more--the present values of positive annual net cashflow become less positive, and the present values of negative annual net cashflow become less negative. The compounding effect of the higher interest rates is strong enough, relative to the factors increasing benefits, to reduce the magnitudes of the present values of the negative annual net cashflow of the later years sufficiently to eliminate the crossover of the patterns that occurred in Chart 9.

**Real Interest Rate** - Table 7 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 only to the trust funds. These assumptions are that the ultimate annual real interest rate will be 2.2, 3.0 and 3.7 percent, where 3.0 percent is the intermediate assumption in the 2005 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 7 demonstrates that, if the ultimate real interest rate is changed from 3.0 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to \$8,063 billion, from \$5,704 billion; if the ultimate annual real interest rate were changed to 3.7 percent, the present-value shortfall would decrease to \$4,246 billion.

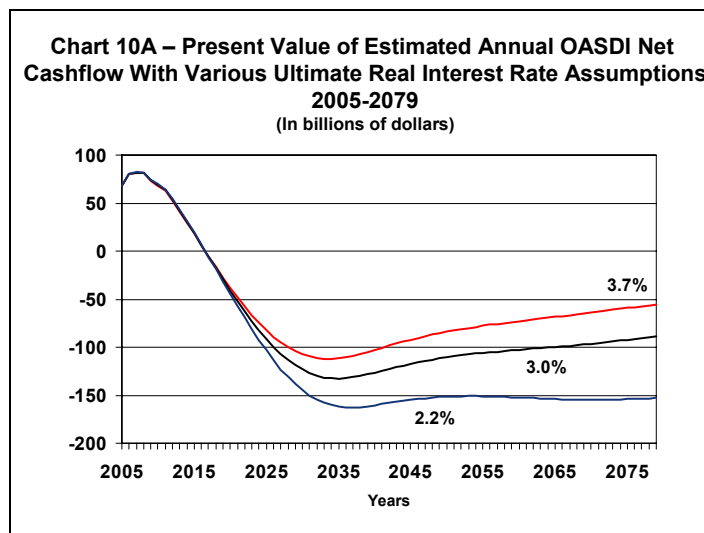
<b>Table 7: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Interest Assumptions Valuation Period: 2005-2079</b>			
Ultimate Annual Real Interest Rate	2.2 Percent	3.0 Percent	3.7 Percent
Present Value of Estimated Excess (In billions)	-\$8,063	-\$5,704	-\$4,246

Charts 10 and 10A show estimates using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 7. Chart 10 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow (which does not include interest) shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2008, the net cashflow estimates decrease steadily through 2079. They remain positive through 2016 and are negative thereafter.

Chart 10A shows the present value of the estimated annual OASDI net cashflow.





The three patterns of the present values shown in Chart 10A are similar. After increasing for 2 years, the present values decrease rapidly through the mid 2030's. They remain positive through 2016 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2038, 2036 and 2034 for assumed ultimate real interest rates of 2.2, 3.0 and 3.7 percent, respectively). Thus, 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 interest rate of 2.2 percent, the present values continue increasing temporarily, through 2053, then decrease through 2069, and increase thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Chart 10A shows a crossover in the patterns of the present values of the net cashflow. The crossover occurs at the time the net cashflow changes from positive to negative, which happens in 2017. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.



# Auditor's Reports



## SOCIAL SECURITY

November 9, 2005

To: The Honorable Jo Anne B. Barnhart  
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2005 and 2004 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements, Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance and Other Matters*.

### **Objective of a Financial Statement Audit**

The objective of a financial statement audit is to determine whether 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 assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

PwC's examination was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income (SSI) 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**

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2005 financial statements. PwC also audited the FY 2004 financial statements, presented in SSA's Performance and Accountability Report for FY 2005 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2005 and 2004 financial statements. PwC also reported

that SSA's assertion that its systems of accounting and internal control are in compliance with the internal control objective in OMB Bulletin 01-02 is fairly stated in all material respects.

Since 1997, SSA has had a reportable condition in its internal control concerning protection of information. Specifically, PwC found weaknesses in controls over access to SSA's electronic information, technical security configuration standards, suitability, and continuity of systems operations. Access to the information, or access control, is the most important of these factors. For the FY 2005 financial statement audit, PwC views the prior reportable condition in SSA's internal control, "SSA Needs to Further Strengthen Controls to Protect Its Information," as resolved. We applaud the extraordinary efforts SSA has taken to successfully address the key issues surrounding the reportable condition.

### **OIG Evaluation of PwC Audit Performance**

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2005 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin 01-02;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2005, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC'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 PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.  
Inspector General

## REPORT OF INDEPENDENT AUDITORS

To the Honorable Jo Anne B. Barnhart  
Commissioner  
Social Security Administration

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

- The consolidated balance sheets of SSA as of September 30, 2005 and 2004, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended 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 systems of accounting and internal control in place as of September 30, 2005, are in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requiring that (1) transactions be properly recorded, processed and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or Required Supplemental Stewardship Information (RSSI) and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02;
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

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

### OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2005 and 2004, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of SSA's management. 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 OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above and appearing on pages 116 through 135 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2005 and 2004, and its net cost of operations, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL**

We have examined management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (1) transactions be properly recorded, processed and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02 as of September 30, 2005. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal controls. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (1) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02, is fairly stated, in all material respects, as of September 30, 2005.

We did note other matters involving the internal control and its operation that we will communicate in a separate letter.

## **INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS AND RSSI**

With respect to internal control relevant to data that support reported performance measures on pages 16, 17 and 18 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on the internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

In addition, we considered SSA's internal control over RSSI by obtaining an understanding of SSA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls.

## REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA. However, 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 tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02 as of September 30, 2005.

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.

The results of our tests disclosed no instances in which SSA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph as of September 30, 2005.

## OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 6 and 58 Required Supplementary Information (RSI) included on pages 1 and 2, and 141 and 142, and Required Supplementary Stewardship Information (RSSI) included on pages 143 to 161 of this performance and accountability report, are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A, RSI and RSSI. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 141 of this performance and accountability report, is not a required part of the consolidated or combined financial statements but is supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 136 to 140 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the consolidated or combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.



The other accompanying information included on pages 3 to 5, 59 to 115, 162 to 164, and 169 to the end of this performance and accountability report, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

\* \* \* \* \*

This report is intended solely for the information and use of management and the Inspector General of SSA, 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.

*PriceWaterhouse Coopers LLP*

November 7, 2005





## SOCIAL SECURITY

The Commissioner

October 27, 2005

PricewaterhouseCoopers LLP  
1301 K Street, NW  
Washington, D.C. 20005

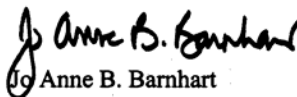
Ladies and Gentlemen:

We reviewed the draft Report of the Independent Auditors for the fiscal year 2005 financial statement audit of the Social Security Administration (SSA). This report contains PricewaterhouseCoopers' opinion on SSA's Financial Statements and on SSA management's assertion about the effectiveness of its internal control, and a report about SSA's compliance with laws and regulations. No findings or recommendations were contained in the report.

We are extremely pleased that, based on progress made since your last report, the reportable condition, "SSA Needs to Further Strengthen Controls to Protect Its Information," was eliminated from this year's report.

If your staff have any questions, they may contact Jeffrey C. Hild at (410) 965-0613.

Sincerely,

  
Jo Anne B. Barnhart

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

# Inspector General Statement on SSA's Major Management Challenges



## SOCIAL SECURITY

November 9, 2005

The Honorable Jo Anne B. Barnhart  
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the *Reports Consolidation Act of 2000 (Pub. L. No. 106-531)*, which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this Statement in the *Social Security Administration's Fiscal Year 2005 Performance and Accountability Report*.

In September 2004, we identified six significant management issues facing the Social Security Administration for Fiscal Year (FY) 2005.

- **Social Security Number Integrity and Protection**
- **Management of the Disability Process**
- **Improper Payments**
- **Internal Control Environment and Performance Measures**
- **Critical Infrastructure Protection/Systems Security**
- **Service Delivery**

I congratulate you on the progress you have made during FY 2005 in addressing these challenges. My office will continue to focus on these issues in the current FY. I look forward to working with you in continuing to improve the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the OIG assessment of these six management challenges.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick P. O'Carroll, Jr.'.

Patrick P. O'Carroll, Jr.  
Inspector General

*Inspector General Statement  
on the  
Social Security Administration's  
Major Management Challenges*



## Social Security Number Integrity and Protection

---

In Fiscal Year (FY) 2005, the Social Security Administration (SSA) issued over 17 million original and replacement Social Security number (SSN) cards and received approximately \$588 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

To do so, SSA must employ effective front-end controls in its enumeration process. We applaud the significant strides the Agency has made over the past several years to ensure SSN integrity. Nevertheless, throughout society, incidences of SSN misuse continue to rise. Accordingly, to further protect SSN integrity, we believe SSA should (1) encourage public and private entities to limit collection and use of the SSN as a personal identifier, (2) continue to address identified weaknesses in its information security environment to better safeguard SSNs, and (3) continue to coordinate with partner agencies to pursue any data sharing agreements that would increase data integrity.

Another important part of ensuring SSN integrity is the proper posting of earnings reported under SSNs. Properly posting earnings ensures eligible individuals receive the full retirement, survivor and/or disability benefits due them. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for which wage earners' names and SSNs fail to match SSA's records. As of October 2004, SSA had posted approximately 9 million wage items to its ESF for Tax Year 2002, which is the latest available data, representing about \$56 billion in wages. This was before some planned edits, which may have further reduced this number.

While SSA has limited control over the factors that cause the volume of erroneous wage reports submitted each year, there are still areas where the Agency can improve its processes. For example, SSA can improve wage reporting by encouraging greater use of the Agency's SSN verification programs. SSA also needs to coordinate with other Federal agencies with separate, yet related, mandates.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to noncitizens lacking appropriate work authorization only if they can provide evidence of a valid nonwork reason. In recent years, SSA has strictly limited the assignment of such numbers. Furthermore, SSA monitors noncitizens who show earnings under a nonwork SSN and reports this information to the Department of Homeland Security (DHS). Nonetheless, our audits have noted a number of issues related to nonwork SSNs, including (1) evidence provided to obtain a nonwork SSN, (2) reliability of nonwork SSN information in SSA's records, (3) the significant volume of wages reported under nonwork SSNs, and (4) the payment of benefits to noncitizens who qualified for their benefits while working in the country without proper authorization.

In March 2004, Congress placed new restrictions on receipt of SSA benefits by noncitizens who are not authorized to work in the United States. Under the *Social Security Protection Act (SSPA) of 2004* (Pub. L. No. 108-203), a noncitizen whose SSN was assigned on or after January 1, 2004, must have been issued a SSN for work purposes on or after this date or been admitted to the United States at any time as a nonimmigrant visitor for business or as an alien crewman to be entitled to Title II or End-Stage Renal Disease Medicare benefits based on the noncitizen's earnings.

### *SSA Has Taken Steps to Address this Challenge*

SSA has taken steps to improve controls within its enumeration process. SSA verifies all immigration documents before assigning SSNs to noncitizens. Additionally, SSA requires (1) mandatory interviews for all original SSN applicants age 12 and over (lowered from age 18) and (2) evidence of identity for all children, regardless of age. In addition, SSA established Enumeration Centers in Brooklyn, New York and Las Vegas, Nevada that focus exclusively on assigning SSNs and issuing SSN cards. Also, in FY 2005, SSA implemented new systems enhancements that simplified the interpretation of, and compliance with, SSA's complex enumeration policies.

In addition to these improvements, SSA is planning to implement several other enhancements that will better ensure SSN protection. These endeavors were required by the *Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004* (Pub. L. No. 108-458). SSA's plans include (1) restricting the issuance of multiple replacement Social

Security cards to 3 per year and 10 in a lifetime; (2) requiring independent verification of any birth record submitted by an original SSN applicant, other than for purposes of enumeration at birth; and (3) coordinating with DHS to further improve the security of Social Security cards and numbers.

SSA has also taken steps to reduce the size and growth of the ESF. In June 2005, the Agency expanded its voluntary *Social Security Number Verification Service* (SSNVS) to all interested employers nationwide. SSNVS allows employers to verify the names and SSNs of employees before reporting their wages to SSA.

SSA coordinates with other agencies to encourage improved wage reporting. For example, SSA participates in a joint program with DHS, called the Basic Pilot, which verifies the names and SSNs of employees as well as their citizenship and authorization to work in the economy. In December 2004, the Basic Pilot program was made available to employers nationwide. Furthermore, the Agency is also collaborating with the Internal Revenue Service to achieve more accurate wage reporting by employers with a high volume of wage items in the ESF.

SSA is also in the process of modifying the information it shares with employers. Under IRTPA, the Agency is required to add both death and fraud indicators to SSNVS for employers, State agencies issuing driver's licenses and identity cards, and to other verification routines as determined appropriate by the Commissioner of Social Security.

## Management of the Disability Process

---

SSA needs to improve critical parts of the disability process – determining disabilities, the accuracy of disability payments, and the integrity of the disability programs. In January 2003, the Government Accountability Office (GAO) added modernizing Federal disability programs—including SSA’s—to its high-risk list. GAO did this, in part, because of outmoded concepts of disability, lengthy processing times, and decisional inconsistencies.

SSA needs to continue to improve the process used to determine claimant disability by focusing on initiatives that will improve the timeliness and quality of its services. For example, the Office of Hearings and Appeals’ (OHA) average processing time has increased significantly from 308 days in FY 2001 to 415 days in FY 2005. Further, the hearings pending workload for FY 2005 was 708,164 cases, whereas it was 392,387 cases in FY 2001. This represents an 80 percent increase from FY 2001. SSA’s efforts to address its pending workload did not meet the goals established for FY 2005. In FY 2005, SSA processed 519,359 hearings, approximately 99 percent of its goal of 525,000. Lastly, SSA’s productivity goal in this area for FY 2005 was to process 103 hearings per work year. In FY 2005, it processed 101.7 hearings per work year, under its goal but over the 100.2 hearings processed per work year reached in FY 2004.

Another area SSA needs to improve is ensuring the correct benefits are paid to the correct individuals. Continuing disability reviews (CDR) are critical to determining whether a disabled beneficiary continues to be eligible for benefits. In an April 2005 report, we estimated that approximately \$12.4 million was overpaid to about 11,880 recipients because SSA did not previously consider all of their earnings when calculating Supplemental Security Income (SSI) payment amounts. We also estimated that, if the Agency resolved the earnings discrepancies, approximately an additional \$74.7 million in overpayments to about 61,380 recipients would have been recognized.

Fraud is an inherent risk in SSA’s disability programs. Key risk factors in the disability program are individuals who feign or exaggerate symptoms to become eligible for disability benefits or who, after becoming eligible to receive benefits, knowingly fail to report medical improvements or work activity. For example, one beneficiary with a diagnosis of affective disorders (a psychiatric impairment) started receiving disability benefits in 1997. Office of the Inspector General (OIG) investigators observed activities that seemed inconsistent with the beneficiary’s statements regarding limitations due to the beneficiary’s impairment; and therefore, we requested SSA conduct a CDR. As a result of this CDR, SSA found that medical improvement had occurred and stopped the benefits—resulting in 12 months of savings of \$6,948. If SSA had not conducted the CDR at the time of our request, benefits would have continued to be paid to this individual.

### *SSA Has Taken Steps to Address this Challenge*

On July 27, 2005, the Commissioner announced proposed regulations in the Federal Register which outlined her plan to improve the disability process. The proposed regulations would:

- Establish a Quick Disability Determination process through which State agencies will expedite initial determinations for claimants who are clearly disabled;
- Create a Federal Expert Unit to augment and strengthen medical and vocational expertise for disability adjudicators at all levels of the disability determination process;
- Eliminate the State agency reconsideration step and terminate the disability prototype that SSA is currently conducting in 10 States;
- Establish Federal reviewing officials to review State agency initial determinations upon the request of claimants;
- Preserve the right of claimants to request and be provided a “de novo” hearing, which will be conducted by an Administrative Law Judge (ALJ);
- Close the record after the ALJ issues a decision, but allow for the consideration of new and material evidence under certain circumstances;
- Gradually shift certain Appeals Council functions to a newly established Decision Review Board; and
- Strengthen in-line and end-of-line quality review mechanisms at the State agency, reviewing official, hearing, and Decision Review Board levels of the disability determination process.

In addition to the Commissioner's proposed improvements to the disability process, the Agency is in the process of transitioning to the electronic disability folder. The electronic disability folder allows disability claims information to be stored electronically and transmitted between field offices, hearing offices, and Disability Determination Services (DDS). As of August 2005, four State DDSs - Mississippi, Illinois, Hawaii, and Nevada - have been certified to operate fully in the electronic folder. By January 2007, SSA expects all DDSs and disability quality branches to be operating in the electronic disability folder.

SSA is addressing the integrity of its disability programs through the Cooperative Disability Investigations (CDI) program. The CDI program's mission is to obtain evidence that can resolve questions of fraud in SSA's disability programs. SSA's Offices of Operations and Disability Programs, along with the Office of the Inspector General, manage the CDI program. There are 19 CDI units operating in 17 States. Since the program's inception in FY 1998, CDI efforts have resulted in over \$533 million in projected savings to SSA's disability programs and over \$311 million in projected savings to non-SSA programs. During FY 2005, CDI units saved SSA over \$123 million by identifying fraud and abuse related to initial and continuing claims within the disability program.

## Improper Payments

---

Improper payments are defined as payments that should not have been made or were made for incorrect amounts. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, or payments to ineligible beneficiaries. Furthermore, the risk of improper payments increases in programs with a significant volume of transactions, complex criteria for computing payments, and an emphasis on expediting payments.

The President and Congress have expressed interest in measuring the universe of improper payments within the Government. In August 2001, the Office of Management and Budget (OMB) published the *FY 2002 President's Management Agenda* (PMA), which included a Government-wide initiative for improving financial performance, including reducing improper payments. As of the first quarter in FY 2005, OMB implemented a PMA program initiative (Eliminating Improper Payments) specifically targeting Agency action to reduce improper payments—and SSA was rated as making progress in this area as of June 2005. In November 2002, the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300) was enacted, and OMB issued guidance in May 2003 on implementing this law. Under the Act, SSA must estimate its annual amount of improper payments and report this information in the Agency's annual Performance and Accountability Report (PAR). OMB will then work with SSA to establish goals for reducing improper payments in its programs.

SSA issues billions of dollars in benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs; and some improper payments are unavoidable. In FY 2004, SSA issued about \$522 billion in benefit payments to about 52 million people. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of people, even the slightest error in the overall process can result in millions of dollars in over- or underpayments. In FY 2005, SSA reported that it detected over \$4 billion in overpayments.

In January 2005, OMB issued a report on *Improving the Accuracy and Integrity of Federal Payments* which noted that seven Federal programs—including SSA's OASDI and SSI programs—accounted for approximately 95 percent of the improper payments in FY 2004. SSA's OASDI and SSI programs represented 10 percent of this amount. However, this report also noted that SSA had reduced the amount of SSI improper payments by more than \$100 million since levels reported in FY 2003.

### *SSA Has Taken Steps to Address this Challenge*

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. For example, the Agency is continuing its efforts to prevent improper payments after a beneficiary dies through the use of Electronic Death Registration information. Also, the Agency's CDR process is in place to identify and prevent beneficiaries who are no longer disabled from receiving payments. Additionally, in FY 2005, SSA implemented eWork—a new automated system to control and process work related CDRs—which should strengthen SSA's ability to identify and prevent improper payments to disabled beneficiaries who are working.

SSA has worked with the OIG to prevent and recover improper payments.

- For the FY 2005 OIG report, *Individuals Receiving Benefits Under Multiple Social Security Numbers at the Same Address*, SSA worked with the OIG to identify and assess about \$9.2 million in overpayments—and 6 percent of these funds were recovered during the audit (as of April 2005), with SSA continuing to take action to recover the remaining funds.
- In another FY 2005 OIG report, *School Attendance by Student Beneficiaries over Age 18*, we estimated SSA disbursed about \$70 million in incorrect payments to 32,839 students. SSA agreed with our recommendation to ensure that the overpayments are established and that subsequent collection activities are initiated for those payments.



We have helped the Agency reduce improper payments to prisoners and improper SSI payments to fugitive felons. However, our work has shown that improper payments—such as those related to workers' compensation—continue to diminish the Social Security trust funds. For example, in the FY 2005 OIG report, *The Social Security Administration's Clean-up of Title II Disability Insurance Cases with a Workers' Compensation Offset*, we found under- and overpayment errors totaling over \$500 million continued to exist in 110,000 workers' compensation cases even after they were reviewed by SSA in an effort to determine the correct payment amount. Additionally, with the passage of SSPA, SSA has new opportunities to prevent improper payments and new challenges in implementing provisions of the law—such as OASDI benefits to fugitives.

## Internal Control Environment and Performance Measures

---

Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal controls help safeguard assets and prevent and detect errors and fraud. Assessing the internal control environment is important since internal control is a critical part of performance-based management. SSA's internal control environment helps its managers achieve desired results through effective stewardship of public resources.

Another important part of performance-based management is performance measurement. Congress, external interested parties, and the general public need sound data to monitor and evaluate SSA's performance. The necessity for good internal data Government wide has resulted in the passage of several laws, including the *Government Performance and Results Act of 1993* (Pub. L. No. 103-62). The Act, in part, requires the development of annual performance measures and goals. In addition to the legislation calling for greater accountability within the Government, the PMA has focused on the integration of the budget and performance measurement processes.

One of SSA's primary functions is the processing of disability claims. SSA is responsible for implementing policies for the development of disability claims under the Disability Insurance (DI) and SSI programs. Initial disability determinations under both DI and SSI are performed by DDSs in each State in accordance with Federal regulations. Each DDS is responsible for determining whether or not claimants are disabled and ensuring adequate evidence is available to support its determinations. To make proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

There are 52 DDSs located in each of the 50 States, the District of Columbia, and Puerto Rico. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2005, SSA allocated over \$1.7 billion to fund DDS operations. Given the amount of funds allocated, adequate controls are needed to ensure the funds are used in accordance with the applicable laws and policies, and to meet the programs' intended purposes.

During FY 2005, we conducted 10 DDS administrative cost audits. In 5 of the 10 audits, internal control weaknesses were identified. The control weaknesses identified addressed areas such as fund transfers between accounts, cash activities and physical security. The lack of effective internal controls and proper oversight of DDS cash management activities can result in the mismanagement of Federal resources and increase the risk of fraud.

In the 10 DDS administrative cost audits, we reported unallowable indirect costs of over \$3,989,000, as well as \$39,600 in unallowable direct costs. As a result, we concluded that SSA's Regional Offices needed to improve their oversight of the costs DDSs claimed.

We audited the performance data used to measure seven of SSA's annual performance measures.

- Number of Job Enrichment Opportunities
- Average Processing Times for Initial Disability Claims
- Average Processing Times for Hearings
- DDS Net Accuracy Rate
- Percent Improvement in Agency Productivity
- Supplemental Security Income Aged Claims Processed Per Work Year
- DDS Cases Processed Per Work Year

We concluded that the data used to measure one of the seven measures was reliable. We found the data used for another of the seven measures to be unreliable. We concluded that the data was unreliable since the controls in place to ensure the accuracy of the measure were not working as intended. We could not determine the reliability of the data used for the remaining five performance measures since there were data retention limitations for the detailed data used to calculate the performance measure results.

## *SSA Has Taken Steps to Address this Challenge*

The Agency has taken steps to address the internal control weaknesses, such as cash management and physical security, identified at the DDSs we reviewed. The DDS offices have consulted with regional SSA offices to address the issue of the transfer of funds. SSA has instituted a process to correct any future improprieties of this kind in a manner that will match cash draws to SSA disbursement records.

SSA has demonstrated a commitment to the production of comprehensive and accurate data on its financial statements, annual performance plans and reports, and individual performance measures. SSA is the only Federal agency that has received the Association of Government Accountant's Certificate of Excellence in Accountability Reporting for its Performance and Accountability Report every year since the award program began in FY 1998. Also, SSA obtained a "green" rating on the PMA Scorecard in the areas of financial management and budget and performance integration.

## **Critical Infrastructure Protection and Systems Security**

The information technology revolution has changed the way Governments and businesses operate, creating a greater reliance on computer systems. Unfortunately, in today's world, every computer system is a potential target. Any disruptions in the operation of information systems that are critical to the Nation's infrastructure should be infrequent, manageable, of minimal duration and cause the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures. Protection of these systems is essential to the operation of the telecommunications, energy, financial services, manufacturing, water, transportation, health care, and emergency service sectors.

SSA's information security challenge is to understand and mitigate system vulnerabilities. This means ensuring the security of its critical information infrastructure, such as access to the Internet and the Agency's networks. Since 1997, SSA has had an internal controls reportable condition concerning its protection of information based on weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations. Reportable conditions are matters that represent significant deficiencies in the design or operation of an internal control that could adversely affect SSA's ability to meet the internal control objectives. Access to the information, or access control, is the most important of these factors. This reportable condition was resolved on September 30, 2005.

While protecting its critical information infrastructure, the Agency is tasked with offering more electronic services to the public. The Expanded Electronic Government, or e-Government, initiative of the PMA calls for the expanded use of the Internet to provide faster and better access to government services and information. Specifically, e-Government calls for the Agency to help citizens find information and obtain services organized according to their needs, and not according to the divisions created by the Agency's organizational chart. SSA needs to ensure that the expansion of its electronic services does not increase the risks to its systems.

Additionally, SSA must address new Homeland Security Presidential Directives (HSPD). HSPD 7 requires all Federal departments and agency heads to identify, prioritize, assess, remediate, and protect their respective critical infrastructure and key resources. HSPD 12 mandates the development of a common identification 'Standard' for all Federal employees and contractors.

### ***SSA Has Taken Steps to Address this Challenge***

SSA successfully addressed the key issues surrounding the reportable condition. For example, the Agency developed and implemented configuration standards for its major operating system platforms and software components. Further, SSA began an extensive monitoring process to ensure that the Agency's over 100,000 servers and workstations were in compliance with the appropriate configuration standards. In addition, SSA established and implemented access controls to ensure appropriate segregation of duties and limited access to critical information on a need only basis.

This task was completed largely through its Standardized Security Profile Project (SSPP). An employee's profile is the tool used to control access to SSA's databases. SSPP is a full scale project begun several years ago to compare system user access assignments to job responsibilities. SSPP involved components throughout the Agency and the review of access to millions of sensitive records.

To prevent the reoccurrence of these issues, SSA needs to continue the procedures that resolved the reportable condition, such as:

- SSA needs to update and develop new configuration standards when appropriate.
- SSA should continue monitoring the Agency's devices for compliance with the configuration standards.
- SSA needs to continue the work of the SSPP and regularly monitor the level of access to significant data.

SSA took additional steps to protect its critical information infrastructure and systems security in a variety of ways. For example, SSA's Critical Infrastructure Protection workgroup continuously works to ensure Agency compliance

with various directives, such as HSPDs and the *Federal Information Security Management Act (FISMA) of 2002* (Pub. L. No. 107-347). To comply with HSPD 7, SSA submitted its *Critical Federal Infrastructure Protection Plan* to OMB in 2004; SSA continues to work with OMB to resolve any outstanding issues regarding its plan. The Agency recently created a workgroup, which coordinates with other agencies and OMB to address HSPD 12. Further, SSA routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA continues to improve its security program to better comply with FISMA and makes strides towards reaching green in the PMA e-Government initiative. Some of the specific steps the Agency has taken include:

- participating in *Pinnacle*, the Government-wide contingency test;
- improving its automated tool to better track security weaknesses and help monitor their resolution; and
- improving tracking of security training for SSA staff with significant security responsibilities.

## Service Delivery

---

One of SSA's strategic goals is to deliver high-quality "citizen-centered" service. This goal encompasses traditional and electronic services to applicants for benefits, beneficiaries and the general public. It includes services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. It also includes basic operational services including, the representative payee process, managing human capital and e-Government.

The integrity of the representative payee process is a specific challenge within this area. When SSA determines a beneficiary cannot manage his or her benefits, it selects a representative payee who manages and solely uses the payments for the beneficiary's needs. SSA reported that there are about 5.4 million representative payees who manage benefits for about 6.9 million beneficiaries. In March 2004, the President signed SSPA into law. The SSPA provides several new safeguards for those individuals who need a representative payee, while presenting significant challenges to SSA to ensure representative payees meet beneficiaries' needs.

During our review, *Nation-wide Review of Individual Representative Payees for the Social Security Administration (A-13-05-25006)*, we confirmed the existence of all beneficiaries that were in the care of the 275 representative payees included in our sample. We found, through personal observation and interviews, that the food, clothing and shelter needs of most beneficiaries were being met. We also found several representative payees did not comply with certain SSA policies. Specifically, we determined eight payees functioned as conduit payees. Further, we found five payees failed to report events that could have affected the amount of benefit payments the beneficiaries received or the beneficiaries' right to receive benefit payments. In some instances, more than one condition may have applied to the same payee.

As of January 2005, GAO continued to identify strategic human capital management on its list of high-risk Federal programs and operations. In addition, Strategic Management of Human Capital is one of five Government-wide initiatives contained in the PMA. As of June 30, 2005, SSA continued to score "green" for Human Capital on OMB's PMA Scorecard.

SSA is being challenged to address increasing workloads, due to the baby boom generation retiring and entering their disability prone years, at the same time its workforce is retiring. Improved productivity is essential for SSA to meet the increasing workload and retirement wave challenges ahead. Technology is essential to achieving efficiencies and enabling employees to deliver the kind of service that every claimant, beneficiary and citizen needs and deserves.

The e-Government initiative of the PMA directs the expanded use of the Internet to provide faster and better access to Government services and information. Specifically, e-Government instructs SSA to help citizens find information and obtain information organized according to their needs.

### ***SSA Has Taken Steps to Address this Challenge***

SSA has taken various actions regarding its representative payee process. It has established workgroups to implement each section of SSPA related to representative payees and has issued two reports in FY 2005 to Congress:

- *Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews* (January 2005), and
- *Report on the Sufficiency of the Social Security Administration's Representative Payee Procedures in the Prevention of Misuse of Benefits* (November 2004).

SSA also issued to Congress a preliminary report from the National Academies as required by Section 107 of SSPA. SSA contracted with the National Academies to determine (1) the extent to which representative payees are not performing their duties as payees in accordance with SSA standards for payees, (2) which types of payees have the highest risk of misuse of benefits, (3) ways to reduce those risks and better protect beneficiaries, (4) observations

about the adequacy of payee's actions, and (5) recommendations for change or further review. The National Academies plans to submit its final report to SSA in early 2007.

Regarding human capital, SSA reports developing and implementing competency-based training for "front-line" employees; implementing a national recruitment strategy to bring the "best and brightest" individuals to the Agency; and developing a Human Capital Plan to respond to the challenge of hiring, developing and retaining a highly skilled, high performing and diverse workforce.

According to SSA, its e-Government strategy is based on the deployment of high volume, high payoff applications, for both the public and the Agency's business partners. To meet increasing public demands, SSA has aggressively pursued a portfolio of services that enable online transactions and increase opportunities for the public to conduct SSA business electronically in a private and secure environment. Over the past 6 years, SSA has launched the Internet Social Security Benefit Application and created on-line requests for Social Security Statements, replacement Medicare cards, proof of income letters and changes of address. In FY 2005, SSA accomplished such e-Government enhancements as releasing software to enable the public to confidentially input data regarding their resources to determine eligibility and/or apply for Medicare Part D subsidy, a program that will reduce out of pocket costs for prescription drugs for those who have limited income and resources. Another enhancement was the implementation of software to improve the usability and common look and feel of the SSA.gov WebPages.

# Other Statutory Information

## Anti-Fraud Activities

SSA is committed to improving financial management by preventing fraudulent and improper payments (see Agency Challenges section for more information). Section 206 (g) of the Social Security Independence and Program Improvements Act, Public Law 103-296 requires SSA to report annually on the extent to which cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI) benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

### Entitlement Reviews

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. Cases are selected and reviews undertaken, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. Listed below are major entitlement reviews conducted by the Agency:

#### Disability Quality Assurance Reviews

SSA performs quality assurance reviews to measure the level of decisional accuracy for the State Disability Determination Services (DDSs) against standards mandated by regulations. These reviews are conducted prior to effectuation of the DDS determinations and cover initial claims, reconsiderations and determinations of continuing eligibility. The following table shows that the State DDSs have consistently made the correct decision to allow benefits.

Quality Assurance Review					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
% of accurate decisions to allow or continue benefits by State DDSs	96.8%	96.3%	96.2%	96.4%	96.3%
No. of cases reviewed	39,515	39,188	39,066	40,323	37,101
No. of cases returned to DDS due to error or inadequate documentation	1,281	1,455	1,499	1,454	1,389

SSA also performs preeffectuation reviews of favorable DDS initial and reconsideration determinations using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. SSA also reviews a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. The table on the following page shows that approximately 96 percent of the decisions made on preeffectuation reviews are accurate.



Preeffectuation Reviews					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
% of State DDS decisions not returned to DDS due to error or inadequate documentation	96.8%	96.3%	96.2%	96.3%	95.9%
No. of cases reviewed	298,466	310,683	318,505	334,774	328,183
No. of cases returned to DDS due to error or inadequate documentation	9,438	11,186	12,090	12,498	13,513

Continuing Disability Reviews (CDRs)

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews through which SSA determines whether beneficiaries continue to be entitled to benefits because of their medical conditions. Once an individual becomes entitled to Social Security or SSI benefits, any changes in their circumstances may affect the amount or continuation of payment and thus must be reflected in SSA's records. The performance accuracy of these CDRs is displayed below.

CDR Performance Accuracy					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Overall Average	96.1%	95.2%	94.2%	94.7%	94.9%
Continuances	96.4%	95.5%	94.4%	95.0%	95.3%
Cessations	93.8%	93.5%	93.5%	93.0%	93.3%

OASI and SSI Quality Assurance Reviews

One of SSA's four Government Performance and Results Act (GPRA) strategic goals is 'to ensure superior stewardship of Social Security programs and resources'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the Performance Section of this report on pages 87-88, 89-90, and 110.

SSI Redeterminations

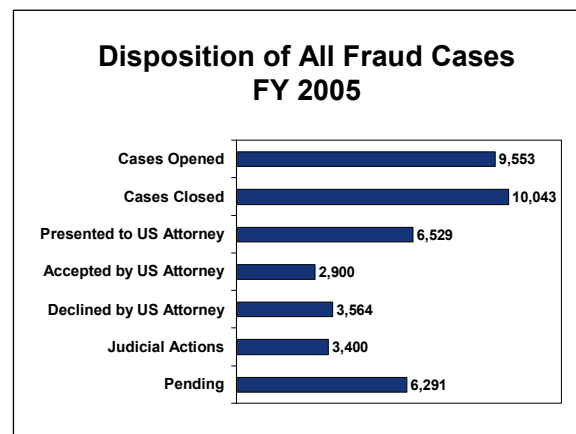
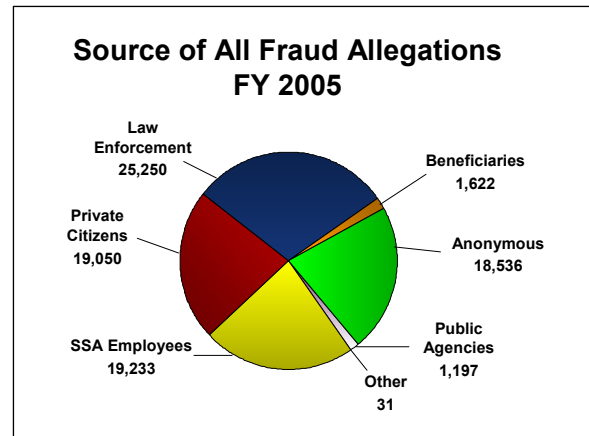
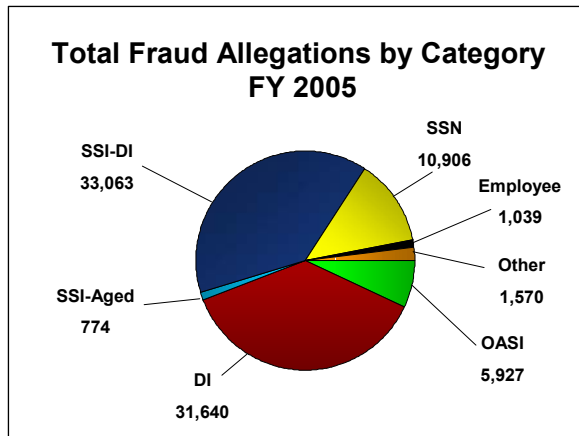
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA set a goal for the number of SSI redeterminations to be processed in FY 2005. Detailed discussion on SSI redetermination performance can be found in the Performance Section of this report on page 85.

Payment Safeguards Activities

Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In continuing efforts to improve payment accuracy, SSA invested nearly \$1.2 billion in processing over 8.8 million alerts in FY 2004. Current estimates indicate that these payment safeguard activities provided benefits to the trust funds of more than \$8.2 billion in overpayments detected and/or prevented. The FY 2005 results of these payment safeguard activities will be available in 2006.

## OIG's Anti-Fraud Activities

In FY 2005, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts below summarize OIG's involvement in fraud activities throughout the FY.



## Biennial Review of User Fee Charges

### Summary of Fees

User fee revenues of \$285 and \$305 million in FY 2004 and FY 2005, respectively, accounted for less than .1 percent of SSA's total financing sources. Over 89 percent of user fee revenues are derived from agreements with 22 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2005, SSA charged a fee of \$9.06 per payment for the cost of administering State supplemental SSI payments. This fee will increase to \$9.29 for FY 2006. The user fee will be adjusted annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. SSA charges full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

## Biennial Review

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal Agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law and periodically adjust these fees to reflect current costs or market value. SSA's review of fees during FY 2004 did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed. SSA is planning to perform a review of these fees during FY 2006.

## **Debt Management**

During FY 2005, SSA continued its comprehensive debt collection program. SSA employs its own internal debt collection methods, as well as other authorized, aggressive methods which in some cases make use of external entities. SSA's internal debt collection methods include benefit withholding to collect overpayments from monthly benefits when the person is still on the rolls. In FY 2005, SSA collected \$2.0 billion in overpayments by this method. When the person is no longer on the rolls, SSA uses its own billing and follow-up system to collect overpayments. Using that system, SSA sends a series of progressively stronger notices requesting repayment and makes telephone calls to negotiate repayment. The Agency collects several hundred million dollars a year by this method. In addition, SSA used the following aggressive debt collection tools authorized for the Agency:

- Tax Refund Offset which is the collection of a delinquent debt from a Federal tax refund.
- Administrative Offset which is the collection of a delinquent debt from a Federal payment other than a tax refund.
- Mandatory Cross-Program Recovery which is the collection of a former SSI recipient's debt from any Old-Age, Survivors and Disability Insurance (OASDI) benefits due that person.
- Credit Bureau Reporting which acts as an incentive for individuals to repay their delinquent debts, or face the consequences of a bad credit report.
- Administrative Wage Garnishment which is the collection of delinquent debts from the wages of overpaid individuals.

These tools continue to demonstrate their significance in the collection of delinquent program debt. In FY 2005, SSA surpassed cumulative collections of \$1 billion as a result of the use of tax refund offset and administrative offset since 1992. In FY 2005 alone, SSA collected over \$110 million as a result of the Treasury Offset Program. Since implementation of mandatory cross program recovery in February 2002, SSA has collected over \$207 million by that method.

In FY 2005, SSA also implemented administrative wage garnishment (AWG), or the collection of delinquent OASDI and SSI debts from wages of people working in the private sector. This collection technique promises to be a significant addition to SSA's debt collection program. We estimate \$105 million in debt collections as a result of the use of AWG.

Future plans include an expansion of the AWG program as well as implementation of Federal Salary Offset (FSO), Non-Entitled Debtors, Interest Charging, and private collection agencies, as explained below:

- AWG Expansion will include many more delinquent debtors.
- Federal Salary Offset, which will collect overpayments from the salaries of Federal employees who owe program debts, and
- Non-Entitled Debtors, which will collect overpayments made to representative payees after the death of the beneficiary.

In addition, SSA continues to use the system developed in FY 2002 to analyze and monitor its debt portfolio. The system is instrumental in creating and tracking a performance measure for debt collection. This measure is the percent of outstanding OASDI and SSI debt that is scheduled for collection by benefit withholding or installment payment. SSA recognizes that these performance indicators can be improved by focusing overpayment recovery efforts on those overpayments most likely to result in collections. SSA has underway a series of initiatives that will prioritize the overpayments that are not in a collection arrangement based on their potential for collection. This is expected to lead to an increase in the rate of collection and more efficient use of available resources.

The following collection data includes all the program debt owed to SSA and is presented on a combined basis without intra-Agency eliminations. Collection data shown in the GPRA performance report only includes legally defined overpayments in which beneficiaries have certain due process rights.

<b>SSA Debt Management Activities</b>					
	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
Total debt outstanding end of FY (millions)	\$11,437.1	\$12,531.0	\$13,418.4	\$12,260.2	\$13,154.8
% of outstanding debt					
- Delinquent	9.3%	16.5%	18.9%	20.3%	21.8%
- Estimated to be uncollectible	25.3%	18.9%	21.1%	24.6%	24.2%
New debt as a % of benefit outlays	1.7%	0.9%	0.8%	0.8%	0.8%
% of debt collected	19.9%	18.5%	17.2%	18.3%	18.5%
Cost to collect \$1	\$0.11	\$0.11	\$0.10	\$0.09	\$0.09
% change in collections from prior FY	(4.4%)	1.5%	(0.3%)	(2.5%)	9.5%
% change in delinquencies from prior FY	(3.5%)	94.4% <sup>1</sup>	22.4%	(2.1%)	15.3%
Collections & write-offs as a % of Total Debt	21.5%	21.0%	19.4%	18.0%	19.3%
Collections as a % of clearances	70.8%	70.8%	71.5%	71.6%	74.3%
Total write-offs of debt (in millions)	\$941.3	\$954.0	\$918.7	\$892.7	\$841.8
Average number of months to clear receivables:					
- OASI	14	14	18	22	20
- DI	32	34	33	38	30
- SSI	4	26	52	47	42

1. In September 2001, SSA implemented a new process FY 2002 that identifies, ages, and reports delinquent debt on an individual debt basis in the SSI program. This new process increased the amount of delinquent SSI debt reported from about \$61 million at the close of FY 2001 to about \$1.1 billion at the close of FY 2002.

<b>FY 2005 Quarterly Debt Management Activities (In Millions)</b>				
	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
Total receivables (cumulative)	\$13,014.7	\$12,809.7	12,934.2	\$13,154.8
Total collections (cumulative)	(590.4)	(1,145.9)	(1,765.5)	(2,437.3)
Total write-offs (cumulative)	(182.1)	(346.4)	(594.3)	(841.8)
TOP collections (cumulative)	(1.7)	(45.4)	(70.8)	(73.7)
Aging schedule of delinquent debts:				
- 180 days or less	839.0	764.0	750.1	844.8
- 181 days to 10 years	1,865.2	1,864.5	1,890.6	1,943.3
- Over 10 years	<u>39.8</u>	<u>40.7</u>	<u>41.8</u>	<u>44.1</u>
- Total delinquent debt	\$2,744.0	\$2,669.2	\$2,682.5	\$2,832.2

