# FINANCIAL SECTION

# A Message from The Chief Financial Officer

The fiscal year (FY) 2010 audit resulted in the 17th consecutive unqualified opinion on our financial statements. We are proud of this sustained achievement as it demonstrates our ongoing successful efforts for excellence in financial reporting. The unqualified opinion attests to the fair presentation of our financial statements and demonstrates our commitment to accountability and fiscal discipline in our stewardship of the funds entrusted to us by the American people.

Our independent auditors also issued an unqualified opinion on our assertion that SSA's internal control over financial reporting for FY 2010 operated effectively. The auditors determined that we had no material weaknesses but did cite an ongoing significant deficiency in internal control. The significant deficiency from FY 2009 relating to strengthening controls to protect our information is not fully resolved, as the correction is a multi-year effort. In addition, the auditors identified new elements under the existing deficiency that will require us to further improve the controls over protecting our information. We are taking all steps necessary to correct the identified deficiency so that we minimize risks and eliminate potential problems. Additional discussion of the significant deficiency may be found in the Systems and Controls and the Auditor's Reports sections of this report.

We continued our tradition of implementing, developing, and using information technology advancements that will provide relevant, reliable, and timely accounting and management information. In FY 2010, we upgraded our accounting system to the highest standard for our commercial off-the-shelf software. This upgrade represents a significant step toward incorporating the Common Governmentwide Accounting Classification structure, which establishes a standard method for classifying financial effects of government business activities. We also continued planning the implementation of an improved cost accounting system, which will better manage and account for resources and enhance decision-making.

With our strategic emphasis on the identification and recovery of improper payments, we launched an aggressive initiative to reduce improper payments and maintain high payment accuracy rates. In addition, we developed a new website (www.socialsecurity.gov/improperpayments/) to report our goals and performance. We also continue to maintain effective internal controls over the funds provided to us under the *American Recovery and Reinvestment Act of 2009* (ARRA). As the Senior Accountable Official, it is my responsibility to monitor the use of these funds (see our plan at www.socialsecurity.gov/recovery/) and to ensure that we make progress toward achieving our ARRA goals. In support of the Office of Management and Budget's Open Government directive, we report spending data, including grant, contract, and Federal Assistance payments on www.USAspending.gov to improve the quality of information available to the public.

In recognition of our commitment to the President's twin goals of transparency and accountability, we received the Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants for our FY 2009 Performance and Accountability Report. SSA has received the CEAR award for 12 consecutive years.

The success of our financial stewardship is due to the efforts of our employees who practice sound fiscal policies supporting SSA's mission, programs, and systems. We are responsible stewards of the Social Security funds.

Michael G. Gallagher

Michael G. Gallagher
Chief Financial Officer
November 8, 2010

# Financial Statements and Additional Information

The agency's financial statements and additional information for fiscal years (FY) 2010 and 2009 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2010 and 2009, 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, 2010 and 2009. 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, 2010 and 2009. 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, 2010 and 2009. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.

- The **Statement of Social Insurance** presents the actuarial present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future income and cost expected to arise from the formulas specified in current law for current and future program participants. The difference between these values is presented, both including and excluding the value of the combined OASI and DI Trust Fund assets at the beginning of the period, in order to provide an indication of the program's financial status.

- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated, and an interpretive analysis of trends revealed by the data.

## Consolidated Balance Sheets as of September 30, 2010 and 2009
**(Dollars in Millions)**

| Assets | 2010 | 2009 |
|---|---|---|
| Intragovernmental: | | |
| Fund Balance with Treasury (Notes 3 and 4) | $ 6,187 | $ 7,286 |
| Investments (Note 5) | 2,586,333 | 2,504,248 |
| Interest Receivable, Net (Note 5) | 28,893 | 29,382 |
| Accounts Receivable, Net (Note 6) | 915 | 565 |
| Other | 2 | 0 |
| Total Intragovernmental | 2,622,330 | 2,541,481 |
| Accounts Receivable, Net (Notes 3 and 6) | 10,369 | 9,694 |
| Property, Plant, and Equipment, Net (Notes 3 and 7) | 2,825 | 2,455 |
| Other | 3 | 4 |
| **Total Assets** | $ 2,635,527 | $ 2,553,634 |
| **Liabilities (Note 8)** | | |
| Intragovernmental: | | |
| Accrued Railroad Retirement Interchange | $ 4,418 | $ 4,310 |
| Accounts Payable | 8,525 | 8,512 |
| Other | 269 | 286 |
| Total Intragovernmental | 13,212 | 13,108 |
| Benefits Due and Payable | 80,785 | 79,859 |
| Accounts Payable | 473 | 453 |
| Other | 1,467 | 1,389 |
| Total Liabilities | 95,937 | 94,809 |
| **Net Position** | | |
| Unexpended Appropriations-Earmarked Funds (Note 9) | 61 | 58 |
| Unexpended Appropriations-Other Funds | 412 | 680 |
| Cumulative Results of Operations-Earmarked Funds (Note 9) | 2,537,480 | 2,456,852 |
| Cumulative Results of Operations-Other Funds | 1,637 | 1,235 |
| Total Net Position | 2,539,590 | 2,458,825 |
| **Total Liabilities and Net Position** | $ 2,635,527 | $ 2,553,634 |

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

## Consolidated Statements of Net Cost for the Years Ended September 30, 2010 and 2009
**(Dollars in Millions)**

| | 2010 | 2009 |
|---|---|---|
| **OASI Program** | | |
| Benefit Payments | $ 574,223 | $ 548,695 |
| Operating Expenses (Note 10) | 3,584 | 3,559 |
| Total Cost of OASI Program | 577,807 | 552,254 |
| Less: Exchange Revenues (Notes 11 and 12) | (15) | (16) |
| **Net Cost of OASI Program** | 577,792 | 552,238 |
| **DI Program** | | |
| Benefit Payments | 121,598 | 116,120 |
| Operating Expenses (Note 10) | 3,028 | 2,856 |
| Total Cost of DI Program | 124,626 | 118,976 |
| Less: Exchange Revenues (Notes 11 and 12) | (42) | (40) |
| **Net Cost of DI Program** | 124,584 | 118,936 |
| **SSI Program** | | |
| Benefit Payments | 43,844 | 42,114 |
| Operating Expenses (Note 10) | 3,798 | 3,486 |
| Total Cost of SSI Program | 47,642 | 45,600 |
| Less: Exchange Revenues (Notes 11 and 12) | (301) | (347) |
| **Net Cost of SSI Program** | 47,341 | 45,253 |
| **Other** | | |
| Benefit Payments | 8 | 9 |
| Operating Expenses (Note 10) | 2,546 | 15,222 |
| Total Cost of Other Program | 2,554 | 15,231 |
| Less: Exchange Revenues (Notes 11 and 12) | (10) | (10) |
| **Net Cost of Other** | 2,544 | 15,221 |
| **Total Net Cost** | | |
| Benefit Payments | 739,673 | 706,938 |
| Operating Expenses (Note 10) | 12,956 | 25,123 |
| Total Cost | 752,629 | 732,061 |
| Less: Exchange Revenues (Notes 11 and 12) | (368) | (413) |
| **Total Net Cost** | $ 752,261 | $ 731,648 |

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

## Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2010 and 2009

**(Dollars in Millions)**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Earmarked Funds** | **All Other Funds** | **Total** | Earmarked Funds | All Other Funds | Total |
| **Cumulative Results of Operations:** | | | | | | |
| **Beginning Balances** | **$ 2,456,852** | **$ 1,235** | **$ 2,458,087** | $ 2,325,293 | $ 421 | $ 2,325,714 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Used | **22,845** | **50,975** | **73,820** | 20,822 | 62,178 | 83,000 |
| Tax Revenues (Note 13) | **646,673** | **0** | **646,673** | 668,186 | 0 | 668,186 |
| Interest Revenues | **118,014** | **0** | **118,014** | 118,230 | 0 | 118,230 |
| Transfers-In/Out - Without Reimbursement | **(5,952)** | **7,841** | **1,889** | (5,561) | 7,509 | 1,948 |
| Railroad Retirement Interchange | **(4,500)** | **0** | **(4,500)** | (4,510) | 0 | (4,510) |
| Net Transfers-In/Out | **(10,452)** | **7,841** | **(2,611)** | (10,071) | 7,509 | (2,562) |
| Other Budgetary Financing Sources | **63** | **0** | **63** | 59 | 0 | 59 |
| **Other Financing Sources (Non-Exchange)** | | | | | | |
| Imputed Financing Sources (Note 14) | **0** | **709** | **709** | 0 | 578 | 578 |
| Other | **0** | **(3,377)** | **(3,377)** | 0 | (3,470) | (3,470) |
| **Total Financing Sources** | **777,143** | **56,148** | **833,291** | 797,226 | 66,795 | 864,021 |
| **Net Cost of Operations** | **696,515** | **55,746** | **752,261** | 665,667 | 65,981 | 731,648 |
| **Net Change** | **80,628** | **402** | **81,030** | 131,559 | 814 | 132,373 |
| **Cumulative Results of Operations** | **$ 2,537,480** | **$ 1,637** | **$ 2,539,117** | $ 2,456,852 | $ 1,235 | $ 2,458,087 |
| **Unexpended Appropriations:** | | | | | | |
| **Beginning Balances** | **$ 58** | **$ 680** | **$ 738** | $ 54 | $ 1,724 | $ 1,778 |
| Adjustments | | | | | | |
| Corrections of Errors | **5** | **0** | **5** | 0 | 0 | 0 |
| **Beginning Balances, as Adjusted** | **$ 63** | **$ 680** | **$ 743** | $ 54 | $ 1,724 | $ 1,778 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Received | **22,851** | **51,480** | **74,331** | 20,833 | 61,821 | 82,654 |
| Other Adjustments | **(8)** | **(773)** | **(781)** | (7) | (687) | (694) |
| Appropriations Used | **(22,845)** | **(50,975)** | **(73,820)** | (20,822) | (62,178) | (83,000) |
| **Total Budgetary Financing Sources** | **(2)** | **(268)** | **(270)** | 4 | (1,044) | (1,040) |
| **Total Unexpended Appropriations** | **61** | **412** | **473** | 58 | 680 | 738 |
| **Net Position** | **$ 2,537,541** | **$ 2,049** | **$ 2,539,590** | $ 2,456,910 | $ 1,915 | $ 2,458,825 |

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

## Combined Statements of Budgetary Resources for the Years Ended September 30, 2010 and 2009

**(Dollars in Millions)**

| | 2010 | 2009 |
|---|---|---|
| **Budgetary Resources (Note 15)** | | |
| Unobligated Balance, Brought Forward, October 1 | **$ 2,584** | $ 2,860 |
| Recoveries of Prior Year Unpaid Obligations | **411** | 490 |
| Budget Authority | | |
| Appropriation | **882,359** | 899,939 |
| Spending Authority from Offsetting Collections | | |
| Earned | | |
| Collected | **3,650** | 4,233 |
| Change in Receivable | **2** | (7) |
| Change in Unfilled Customer Orders | | |
| Advance Received | **(14)** | (56) |
| Expenditure Transfers from Trust Funds | **11,466** | 11,629 |
| Subtotal | **897,463** | 915,738 |
| Nonexpenditure Transfers, Net | **(18)** | 38 |
| Temporarily Not Available Pursuant to Public Law | **(101,020)** | (141,431) |
| Permanently Not Available | **(786)** | (700) |
| **Total Budgetary Resources** | **$ 798,634** | $ 776,995 |
| **Status of Budgetary Resources (Note 15)** | | |
| **Obligations Incurred** | | |
| Direct | **$ 792,886** | $ 770,188 |
| Reimbursable | **3,653** | 4,223 |
| Subtotal | **796,539** | 774,411 |
| **Unobligated Balances** | | |
| Apportioned | **861** | 728 |
| **Unobligated Balance - Not Available** | **1,234** | 1,856 |
| **Total Status of Budgetary Resources** | **$ 798,634** | $ 776,995 |
| **Change in Obligated Balance** | | |
| **Obligated Balances, Net** | | |
| Unpaid Obligations, Brought Forward, October 1 | **$ 87,128** | $ 79,950 |
| Uncollected Customer Payments, Brought Forward, October 1 | **(3,743)** | (2,522) |
| Total Unpaid Obligated Balance, Net | **83,385** | 77,428 |
| **Obligations Incurred, Net** | **796,539** | 774,411 |
| **Gross Outlays** | **(795,652)** | (766,743) |
| **Recoveries of Prior Year Unpaid Obligations, Actual** | **(411)** | (490) |
| **Change in Uncollected Customer Payments** | **(87)** | (1,221) |
| **Obligated Balance, Net, End of Period** | | |
| Unpaid Obligations | **87,604** | 87,128 |
| Uncollected Customer Payments | **(3,830)** | (3,743) |
| Total Unpaid Obligated Balance, Net, End of Period | **$ 83,774** | $ 83,385 |
| **Net Outlays** | | |
| Net Outlays | | |
| Gross Outlays | **$ 795,652** | $ 766,743 |
| Offsetting Collections | **(15,016)** | (14,575) |
| Distributed Offsetting Receipts | **(26,455)** | (24,554) |
| **Net Outlays** | **$ 754,181** | $ 727,614 |

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

# Statement of Social Insurance
# Old-Age, Survivors and Disability Insurance
# as of January 1, 2010
**(In billions)**

| | | Estimates from Prior Years | | | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2007** | **2006** |
| ***Actuarial present value for the 75-year projection period of estimated future tax income received from or on behalf of: (Note 17)*** | | | | | |
| Current participants who, in the starting year of the projection period: | | | | | |
| Have not yet attained retirement eligibility age (Ages 15-61) | $19,914 | $18,559 | $18,249 | $17,515 | $16,568 |
| Have attained retirement eligibility age (Age 62 and over) | 672 | 575 | 542 | 477 | 533 |
| Those expected to become participants (Under age 15) | 19,532 | 18,082 | 17,566 | 16,121 | 15,006 |
| All current and future participants | 40,118 | 37,217 | 36,357 | 34,113 | 32,107 |
| ***Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of: (Note 17)*** | | | | | |
| Current participants who, in the starting year of the projection period: | | | | | |
| Have not yet attained retirement eligibility age (Ages 15-61) | 32,225 | 30,207 | 29,021 | 27,928 | 26,211 |
| Have attained retirement eligibility age (Age 62 and over) | 8,096 | 7,465 | 6,958 | 6,329 | 5,866 |
| Those expected to become participants (Under age 15) | 7,744 | 7,223 | 6,933 | 6,619 | 6,480 |
| All current and future participants | 48,065 | 44,894 | 42,911 | 40,876 | 38,557 |
| ***Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost (Note 17)*** | -$7,947 | -$7,677 | -$6,555 | -$6,763 | -$6,449 |
| **Additional Information** | | | | | |
| ***Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost (Note 17)*** | -$7,947 | -$7,677 | -$6,555 | -$6,763 | -$6,449 |
| ***Combined OASI and DI Trust Fund assets at start of period*** | 2,540 | 2,419 | 2,238 | 2,048 | 1,859 |
| ***Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost, plus the combined OASI and DI Trust Fund assets at start of period (Note 17)*** | -$5,406 | -$5,258 | -$4,316 | -$4,715 | -$4,591 |

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

# NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

(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 the actuarial present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America for Federal entities and the form and content for entity financial statements specified by OMB in Circular No. A-136. The Combined Statements of Budgetary Resources and related disclosures provide information about how budgetary resources were made available as well as the status at the end of the period. It is the only statement predominately derived from an entity's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal Government. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (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 liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds, and four general fund appropriations. Starting in the second quarter of FY 2009, SSA's financial statements also include new appropriations related to the *American Recovery and Reinvestment Act* (ARRA) of 2009.

LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The 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.

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

## Property, Plant, and Equipment

SSA's property, plant, and equipment (PP&E) are recorded in the LAE program, but represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. HI/SMI’s share of capital assets is considered Non-Entity Assets. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, requires the capitalization of internally-developed, contractor-developed, and commercial off-the-shelf (COTS) software. The capitalization threshold for most PP&E categories is $100 thousand. Automated Data Processing (ADP) and Telecommunications Site Preparation, buildings, and other structures are capitalized with no threshold.

The change in PP&E from one reporting period to the next is presented on the chart in Note 16, Reconciliation of Net Cost of Operations to Budget, on the Resources that Finance the Acquisition of Assets line. This line item represents the capital assets purchased by the OASI, DI, and HI/SMI Trust Funds that affect budgetary obligations. However, HI/SMI’s share of capital assets is considered a Non-Entity Asset.

## Benefits Due and Payable

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

## Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a Federally-recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

## Administrative Expenses and Obligations

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the *Social Security Act* requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate OASI, DI, HI, and SMI Trust Fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. Obligations are incurred in each of the financing sources (OASI, DI, SSI, and Other) once LAE’s authority is recorded. Since LAE is reported with its financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE’s obligations are recorded twice. This presentation is in conformance with OMB Circular No. A-136 to have the Combined Statement of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

## Recognition of Financing Sources

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

Appropriations Used includes payments and accruals for the SSI program and for the OIG and PTF appropriations, which are funded from Treasury's General Fund. The new ARRA appropriations are also funded by Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 13, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State Supplementation of Federal SSI benefits. Refer to Note 11, Exchange Revenues. 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 Consolidated 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

SFFAS No. 27, *Identifying and Reporting Earmarked Funds,* requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically-identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

SSA's earmarked funds are the OASI and DI Trust Funds, PTF, and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 9, Earmarked Funds, for additional information.

## American Recovery and Reinvestment Act

Under the ARRA of 2009 (Public Law 111-5), SSA received appropriated funds to provide Title II and Title XVI recipients with a one-time economic recovery payment (ERP). Since these payments are ruled one-time payments and are to have no association with SSA's Trust Funds, they have been classified as operating expenses under the Other program on the financial statements. The appropriations received included funds to cover the expenses for administering these ERP payments. The agency also received funds for:

- Constructing and equipping a replacement for SSA's current National Computer Center;
- Processing OASI and DI workload and related health information technology costs; and
- Auditing and oversight of SSA's activities under the ARRA.

Refer to Note 10, Operating Expenses.

### Medicare Improvements for Patients and Providers Act of 2008

In FY 2009, SSA received funding under the *Medicare Improvements for Patients and Providers Act of 2008* (Public Law 110-275). This funding covers SSA administrative expenses for the Medicare Saving Program and the Low Income Subsidy Program. Refer to Note 10, Operating Expenses.

### Food, Conservation, and Energy Act of 2008 (Farm Bill)

In FY 2008, Congress passed the *Food, Conservation, and Energy Act of 2008* (Public Law 110-246). This provided the exclusion of Conservation Reserve Program payments from self-employment income for the purposes of the SECA tax in the case of individuals who receive Social Security retirement or disability benefits. The bill also provides the transfer of funds by the Department of the Treasury from general revenues to the OASI and DI Trust Funds in order to ensure that the assets of the Trust Funds are not reduced because of the enactment. SSA transferred FY 2009 and FY 2010 amounts totaling $14 million in May 2010. The $5 million related to FY 2009 is recorded as corrections of errors on the Statement of Changes in Net Position due to an oversight of facts available at the time of the FY 2009 statements, as SSA was unaware of this activity until FY 2010.

### Presentation Change

Effective for the third quarter FY 2010, the Statement of Changes in Net Position will be presented in the columnar format. This change has been made in order to facilitate understanding of the statement and to comply with the columnar format in OMB’s Circular A-136. FY 2009 balances have been presented in the new format for comparison purposes to the reformatted statement.

## 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 $92 and $97 million for the years ended September 30, 2010 and 2009. SSA contributions to the basic FERS plan were $375 and $335 million for the years ended September 30, 2010 and 2009. 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 $135 and $117 million for the years ended September 30, 2010 and 2009. 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 shown in Chart 3. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments classified as SSI Accounts Receivable; (2) SSI overpayments collected; (3) General Fund's portion of fees collected to administer SSI State Supplementation; (4) General Fund's portion of fees collected to administer Title VIII State Supplementation; (5) SSI Attorney Fees that are returned to the Department of the Treasury General Fund; and (6) portions of SSA's PP&E that were purchased with HI/SMI funds.

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

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Non-Entity Assets | Intra-agency Elimination | Net Assets | Non-Entity Assets | Intra-agency Elimination | Net Assets |
| SSI Fed/State A/R | $ 5,544 | $ (592) | $ 4,952 | $ 5,322 | $ (824) | $ 4,498 |
| SSI Overpayment Coll | 3,237 | 0 | 3,237 | 3,381 | 0 | 3,381 |
| SSI State Supp Fees (GF) | 132 | 0 | 132 | 154 | 0 | 154 |
| Title VIII State Supp Fees (GF) | 2 | 0 | 2 | 2 | 0 | 2 |
| SSI Attorney Fees (GF) | 8 | 0 | 8 | 6 | 0 | 6 |
| PP&E (CMS) | 29 | 0 | 29 | 31 | 0 | 31 |
| Total | $ 8,952 | $ (592) | $ 8,360 | $ 8,896 | $ (824) | $ 8,072 |

The SSI Accounts Receivable, Net, has been reduced by intra-agency eliminations. SSI Federal overpayment collections are included as a part of the Fund Balance with Treasury on the Consolidated Balance Sheet. Public Law 101-517 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 an SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets. SSI State overpayment collections are used to offset reimbursements due from the States to SSA.

The Fund Balance with Treasury includes the General Fund's portion of fees collected to administer SSI State Supplementation. The fee collection is classified as exchange revenue. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative Fees. In addition, the Fund Balance with Treasury also includes the General Fund's cumulative portion of fees related to Title VIII State Supplementation and SSI Attorney fees.

The Centers for Medicare and Medicaid Services (CMS) portion of PP&E included as part of Property, Plant, and Equipment, Net on the Consolidated Balance Sheet is also recognized as a non-entity asset. The HI/SMI Trust Funds were part of SSA until CMS became a separate agency. Since a portion of HI/SMI funds were used to purchase some of the buildings SSA acquired, HI/SMI retains that portion of assets. Refer to Note 7, Property, Plant, and Equipment, for the major classes of PP&E reported on SSA's financial statements.

# 4. Fund Balance with Treasury

The Fund Balance with Treasury (FBWT), shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI, DI, and LAE Trust Fund budgetary accounts are not used in Chart 4b since OASI and DI Trust Fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in Chart 4b will not match corresponding activity on the combined SBR.

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

| | 2010 | 2009 |
|---|---|---|
| Trust Funds* | | |
| OASI | $ (463) | $ (210) |
| DI | (384) | (263) |
| LAE | 19 | 29 |
| General Funds | | |
| SSI | 2,948 | 3,102 |
| Other | 621 | 1,028 |
| Other Funds | | |
| SSI | 205 | 216 |
| Other | 3,241 | 3,384 |
| Total | $ 6,187 | $ 7,286 |

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

| | 2010 | 2009 |
|---|---|---|
| Unobligated Balance | | |
| Available | $ 298 | $ 304 |
| Unavailable | 401 | 675 |
| Obligated Balance Not Yet Disbursed | 2,870 | 3,151 |
| OASI, DI and LAE | (828) | (444) |
| Non-Budgetary FBWT | 3,446 | 3,600 |
| Total | $ 6,187 | $ 7,286 |

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

The negative fund balances reported for the OASI and DI Trust Funds as of September 30, 2010 and 2009 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

# 5. Investments and Interest Receivable

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest bearing securities backed by the full faith and credit of the Federal Government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Treasury Secretary to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. Therefore, there are no premiums or discounts associated with the redemption of these securities.

SSA's investments in Special-Issue U.S. Treasury Securities are $2,586,333 and $2,504,248 million as of September 30, 2010 and 2009, respectively. The interest rates on these investments range from 2⅞ to 7 percent and the accrued interest is paid on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the present to the year 2025. Accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury is an Intragovernmental Interest Receivable, Net, reported on the Consolidated Balance Sheets. Interest receivable amounts are $28,893 and $29,382 million as of September 30, 2010 and 2009.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the U.S. Treasury. Because the OASI and DI Trust Funds and the U.S. Treasury are both part of the Government, these assets and liabilities offset each other for consolidation purposes in the U.S. Governmentwide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. Governmentwide financial statements.

The U.S. Treasury does not set aside financial assets to cover its liabilities associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the U.S. Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

## 6. Accounts Receivable, Net

### Intragovernmental

Intragovernmental Accounts Receivable, Net, reported on the Consolidated Balance Sheets in the amounts of $915 and $565 million as of September 30, 2010 and 2009 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The gross accounts receivable has been reduced by $2,926 and $3,181 million as of September 30, 2010 and 2009 as an intra-agency elimination. This elimination is primarily to offset SSA's LAE receivable to be paid from the appropriate funds with corresponding payables set up for anticipated LAE disbursements.

An allowance for doubtful accounts was not applied to determine the net value of Intragovernmental Accounts Receivable. According to SFFAS No. 1, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

### With the Public

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

| Chart 6 - Accounts Receivable with the Public by Major Program as of September 30: ($ in millions) | | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Gross Receivable | Allowance for Doubtful Accounts | Net Receivable | Gross Receivable | Allowance for Doubtful Accounts | Net Receivable |
| OASI | $ 2,144 | $ (208) | $ 1,936 | $ 2,457 | $ (204) | $ 2,253 |
| DI | 5,450 | (2,062) | 3,388 | 5,224 | (2,049) | 3,175 |
| SSI* | 7,603 | (1,947) | 5,656 | 7,307 | (1,878) | 5,429 |
| LAE | 15 | 0 | 15 | 11 | 0 | 11 |
| Subtotal | 15,212 | (4,217) | 10,995 | 14,999 | (4,131) | 10,868 |
| Less: | | | | | | |
| Eliminations** | (626) | 0 | (626) | (1,174) | 0 | (1,174) |
| Total | $ 14,586 | $ (4,217) | $ 10,369 | $ 13,825 | $ (4,131) | $ 9,694 |

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

Chart 6 shows that in FY 2010 and 2009, gross accounts receivable was reduced by $626 and $1,174 million as an intra-agency elimination. This intra-agency activity results primarily from Windfall Offset and Special Disability Workload (SDW) cases. Windfall Offset is the amount of Supplemental Security Income that would not have been paid if retroactive Title II benefits had been paid timely to eligible beneficiaries. SSA recognizes a receivable in the SSI program with offsetting payables for both the OASI and DI programs. In a prior period, SSA determined that a group of SSI recipients who were eligible to receive DI benefits were paid either SSI or OASI benefits. For the SDW cases, the agency recognized and established receivables for both the OASI and SSI programs with an offsetting payable in the DI program.

SSA continues to identify and settle SDW cases and current estimates indicate that there are about 17,000 SDW cases remaining for which SSA expects to incur a net accrued liability for the combined OASI and DI Trust Funds and an offsetting SSI receivable. OASI SDW receivables are $32 and $349 million as of September 30, 2010 and 2009. DI SDW receivables are $1 million as of September 30, 2010 and 2009. SSI SDW net receivables are $140 and $306 million as of September 30, 2010 and 2009.

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, NET

Property, Plant, and Equipment, Net, as reported on the Consolidated Balance Sheets is reflected by major class in Chart 7.

Chart 7 - Property, Plant and Equipment as of September 30:
($ in millions)

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| Major Classes: | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Land | $ 4 | $ 0 | $ 4 | $ 4 | $ 0 | $ 4 |
| Construction in Progress | 2 | 0 | 2 | 0 | 0 | 0 |
| Buildings | 536 | (301) | 235 | 522 | (290) | 232 |
| Equipment (incl. ADP Hardware) | 685 | (546) | 139 | 582 | (494) | 88 |
| Internal Use Software | 4,284 | (1,895) | 2,389 | 3,558 | (1,475) | 2,083 |
| Leasehold Improvements | 260 | (204) | 56 | 241 | (193) | 48 |
| Total | $ 5,771 | $ (2,946) | $ 2,825 | $ 4,907 | $ (2,452) | $ 2,455 |

| Major Classes: | Estimated Useful Life | Method of Depreciation |
|---|---|---|
| Land | N/A | N/A |
| Construction in Progress | N/A | N/A |
| Buildings | 50 years | Straight Line |
| Equipment (incl. ADP Hardware) | 3-10 years | Straight Line |
| Internal Use Software | 10 years | Straight Line |
| Leasehold Improvements | 6 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)

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Covered | Not Covered | Total | Covered | Not Covered | Total |
| Intragovernmental: | | | | | | |
| Accrued RRI | $ 4,418 | $ 0 | $ 4,418 | $ 4,310 | $ 0 | $ 4,310 |
| Accounts Payable | 67 | 8,458 | 8,525 | 124 | 8,388 | 8,512 |
| Other | 68 | 201 | 269 | 64 | 222 | 286 |
| Total Intragovernmental | 4,553 | 8,659 | 13,212 | 4,498 | 8,610 | 13,108 |
| Benefits Due and Payable | 77,056 | 3,729 | 80,785 | 76,123 | 3,736 | 79,859 |
| Accounts Payable | 37 | 436 | 473 | 33 | 420 | 453 |
| Other | 751 | 716 | 1,467 | 717 | 672 | 1,389 |
| Total | $ 82,397 | $ 13,540 | $ 95,937 | $ 81,371 | $ 13,438 | $ 94,809 |

## Intragovernmental Accrued Railroad Retirement Interchange

The Intragovernmental 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.

## Intragovernmental Other Liabilities

Intragovernmental Other Liabilities includes amounts Covered by budgetary resources for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts Not Covered by budgetary resources for SSI State Administrative Fee Collections and amounts for *Federal Employees' Compensation Act* (FECA), administered by the Department of Labor (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. The current portion represents SSA's accrued liability due to DOL's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is $59 and $60 million as of September 30, 2010 and 2009. Intragovernmental Other Not Covered amounts include $132 and $154 million as of

September 30, 2010 and 2009 for SSI State Fees payable to the Department of the Treasury General Fund. Refer to Note 3, Non-Entity Assets and Note 11, Exchange Revenues, for a discussion of the SSI State Administrative Fees.

## Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2010 and 2009. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

Chart 8b - Benefits Due and Payable as of September 30:
($ in millions)

| | 2010 | 2009 |
|---|---|---|
| OASI | $ 51,651 | $ 50,273 |
| DI | 24,329 | 25,450 |
| SSI | 5,431 | 5,310 |
| Subtotal | 81,411 | 81,033 |
| Less: Intra-agency eliminations | (626) | (1,174) |
| Total | $ 80,785 | $ 79,859 |

Included in the Benefits Due and Payable for OASI, DI, and SSI are the estimated liabilities related to the settlement of Martinez, et. al v. Astrue case. The case generally concerns the ineligibility of certain individuals for cash benefits due to their status as "fleeing felons." The agency reached final approval of the settlement on September 24, 2009. The settlement order will restore benefits and eliminate overpayments for certain class members as defined in the settlement agreement. SSA developed reasonable estimates of the amount of restored benefits and the amount of overpayments to be eliminated. Estimated OASI payables are $1 and $66 million as of September 30, 2010 and 2009. Estimated DI payables are $2 and $146 million as of September 30, 2010 and 2009. Estimated SSI payables are $208 and $255 million as of September 30, 2010 and 2009. Estimates related to this case for overpayment reductions for OASI, DI, and SSI are $2, $4, and $39 million, respectively, as of September 30, 2010 and $35, $65 and $126 million, respectively, as of September 30, 2009. The estimated overpayment reductions are not included on SSA's consolidated financial statements; but rather, disclosed in this footnote.

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, Accounts Receivable, Net. OASI payables are $64 and $224 million as of September 30, 2010 and 2009. DI payables are $282 and $1,182 million as of September 30, 2010 and 2009. In FY 2010, the DI SDW payable has decreased by the excess of discharged liabilities for adjudicated cases over continued benefit accrual for previously identified cases not yet adjudicated.

Chart 8b also shows that as of FY 2010 and 2009, gross Benefits Due and Payable was reduced by $626 and $1,174 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Refer to Note 6, Accounts Receivable, Net. 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, 2010 and 2009.

| Chart 8c - Net SDW Liability as of September 30: ($ in millions) | | |
| --- | --- | --- |
| | 2010 | 2009 |
| Net DI Liability | $ 281 | $ 1,182 |
| Net OASI Payable | 32 | (125) |
| Net SSI Receivable | (140) | (306) |
| Net Liability Due to the Public | $ 173 | $ 751 |

## 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, which is an actuarial liability. The non-current portion of $319 and $311 million as of September 30, 2010 and 2009 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

## Contingent Liabilities

For several years, the Department of Justice (Tax Division) handled litigation concerning whether medical residents are subject to FICA taxation. FICA taxes are collected by the U.S. Treasury and then transferred to the OASI and DI Trust Funds. On March 2, 2010, the Internal Revenue Service (IRS) announced plans to refund medical residents FICA taxes for the period from 1995 to April 1, 2005. SSA anticipates that the IRS refund program will result in dismissal of pending cases covering the period before April 1, 2005. The IRS will disperse refunds to the institutions, as well as to employees who sought or consented to receive a refund. At this time, SSA is not able to make a reasonable estimate for the refund of medical resident FICA taxes due to the applicable institutions and employees. For the period from April 1, 2005, additional suits challenged IRS regulations, which precluded medical residents from qualifying for the student exception. The Eighth Circuit Court of Appeals upheld the appropriateness of the regulations. However, on June 1, 2010, the Supreme Court agreed to hear a challenge to the validity of the regulations during the term, which begins in FY 2011. SSA is not able to make a reasonable estimate of the potential loss at this time.

In addition to the matters identified above, there is one other pending matter. The case concerns the interpretation of provisions of the Social Security Act that permit the agency to suspend certain benefits to parole and probation violators. Plaintiffs are seeking certification of a nationwide class action seeking payments as early as 1996; the Government is opposing class certification. SSA is not able to make an estimate of the possible liability at this time.

# 9. Earmarked Funds

The OASI and DI Trust Funds, PTF, and SSI State Administrative Fees are classified as earmarked funds. These funds obtain revenues primarily through earmarked receipts, such as Social Security payroll taxes, and, to a lesser extent, offsetting collections.

## OASI and DI Trust Funds

The OASI Trust Fund provides assistance and protection against loss of earnings due to retirement or death and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

The OASI and DI Trust Funds are primarily funded by payroll and self-employment taxes. Additional income is provided to these funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 13, Tax Revenues, for a discussion on employment taxes credited to the OASI and DI Trust Funds and Note 5, Investments and Interest Receivable, for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments and Interest Receivable, for a discussion on Treasury securities.

## PTF

PTF consists of transfers authorized by law between the Department of Treasury General Fund and the OASI and DI Trust Funds. PTF activity includes Income Tax on Social Security Benefits, Reimbursable Union Activity, Coal Industry Retiree Health Benefits, Pension Reform, Special Age 72 Benefits, Income Tax Credit Reimbursement, and Unnegotiated Check Reimbursement. PTF funds are warranted from the general fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, PTF is considered earmarked from the point that it is transferred into SSA and reported as Appropriations Received on the Statement of Changes in Net Position.

## SSI State Administrative Fees

Administrative Fees collected from States are also classified as earmarked funds. Section 42 U.S.C. 1616 authorizes the Commissioner of Social Security to assess each State an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the State for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 9 for balances of earmarked funds as reported in the Consolidated Financial Statements for the years ended September 30, 2010 and 2009.

Chart 9 - Earmarked Funds as of September 30:
Consolidating Schedule
($ in millions)

| | 2010 | | | | |
|---|---|---|---|---|---|
| | OASI Trust Fund | DI Trust Fund | Other Earmarked Funds | Eliminations | Total Earmarked Funds |
| **Balance Sheet** | | | | | |
| ASSETS | | | | | |
| Fund Balance with Treasury | $ (463) | $ (384) | $ 82 | $ 0 | $ (765) |
| Investments | 2,399,111 | 187,222 | 0 | 0 | 2,586,333 |
| Interest Receivable | 26,666 | 2,227 | 0 | 0 | 28,893 |
| Accounts Receivables -Federal | 2 | 1 | 0 | 0 | 3 |
| Accounts Receivables - Non-Federal | 1,936 | 3,388 | 0 | (33) | 5,291 |
| Total Assets | $ 2,427,252 | $ 192,454 | $ 82 | $ (33) | $ 2,619,755 |
| LIABILITIES and NET POSITION | | | | | |
| Accrued Railroad Retirement | $ 3,909 | $ 509 | $ 0 | $ 0 | $ 4,418 |
| Accounts Payable, Federal | 950 | 890 | 2 | 0 | 1,842 |
| Benefits Due and Payable | 51,651 | 24,329 | 0 | (33) | 75,947 |
| Other - Non Federal Liabilities | 0 | 7 | 0 | 0 | 7 |
| Total Liabilities | 56,510 | 25,735 | 2 | (33) | 82,214 |
| Unexpended Appropriations | 0 | 0 | 61 | 0 | 61 |
| Cumulative Results of Operations | 2,370,742 | 166,719 | 19 | 0 | 2,537,480 |
| Total Liabilities and Net Position | $ 2,427,252 | $ 192,454 | $ 82 | $ (33) | $ 2,619,755 |
| **Statement of Net Cost** | | | | | |
| Program Costs | $ 574,223 | $ 121,598 | $ 0 | $ 0 | $ 695,821 |
| Operating Expenses | 640 | 227 | 0 | 0 | 867 |
| Less Earned Revenue | (1) | (29) | (143) | 0 | (173) |
| Net Cost of Operations | $ 574,862 | $ 121,796 | $ (143) | $ 0 | $ 696,515 |
| **Statement of Changes in Net Position** | | | | | |
| Net Position Beginning of Period | $ 2,270,181 | $ 186,635 | $ 94 | $ 0 | $ 2,456,910 |
| Adjustments | 0 | 0 | 5 | 0 | 5 |
| Beginning Balances, Adjusted | $ 2,270,181 | $ 186,635 | $ 99 | $ 0 | $ 2,456,915 |
| Tax Revenue | 552,804 | 93,869 | 0 | 0 | 646,673 |
| Interest Revenue | 108,424 | 9,590 | 0 | 0 | 118,014 |
| Net Transfers In/Out | 14,179 | (1,626) | (23,005) | 0 | (10,452) |
| Other | 16 | 47 | 22,843 | 0 | 22,906 |
| Total Financing Sources | 675,423 | 101,880 | (162) | 0 | 777,141 |
| Net Cost of Operations | 574,862 | 121,796 | (143) | 0 | 696,515 |
| Net Change | 100,561 | (19,916) | (19) | 0 | 80,626 |
| Net Position End of Period | $ 2,370,742 | $ 166,719 | $ 80 | $ 0 | $ 2,537,541 |

Chart 9 includes eliminations between SSA's earmarked funds which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, $2,427 million of liabilities in the earmarked funds for the year ended September 30, 2010 need to be eliminated against LAE (Accounts Payable, Federal) and SSI (Benefits Due and Payable), which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in Chart 9.

Chart 9 - Earmarked Funds as of September 30:
Consolidating Schedule
($ in millions)

| | 2009 | | | | |
|---|---|---|---|---|---|
| | OASI Trust Fund | DI Trust Fund | Other Earmarked Funds | Eliminations | Total Earmarked Funds |
| **Balance Sheet** | | | | | |
| ASSETS | | | | | |
| Fund Balance with Treasury | $ (210) | $ (263) | $ 96 | $ 0 | $ (377) |
| Investments | 2,296,316 | 207,932 | 0 | 0 | 2,504,248 |
| Interest Receivable | 26,843 | 2,539 | 0 | 0 | 29,382 |
| Accounts Receivables -Federal | 1 | 1 | 0 | 0 | 2 |
| Accounts Receivables - Non-Federal | 2,253 | 3,175 | 0 | (350) | 5,078 |
| Total Assets | $ 2,325,203 | $ 213,384 | $ 96 | $ (350) | $ 2,538,333 |
| LIABILITIES and NET POSITION | | | | | |
| Accrued Railroad Retirement | $ 3,817 | $ 493 | $ 0 | $ 0 | $ 4,310 |
| Accounts Payable, Federal | 932 | 800 | 2 | (350) | 1,384 |
| Benefits Due and Payable | 50,273 | 25,450 | 0 | 0 | 75,723 |
| Other - Non Federal Liabilities | 0 | 6 | 0 | 0 | 6 |
| Total Liabilities | 55,022 | 26,749 | 2 | (350) | 81,423 |
| Unexpended Appropriations | 0 | 0 | 58 | 0 | 58 |
| Cumulative Results of Operations | 2,270,181 | 186,635 | 36 | 0 | 2,456,852 |
| Total Liabilities and Net Position | $ 2,325,203 | $ 213,384 | $ 96 | $ (350) | $ 2,538,333 |
| **Statement of Net Cost** | | | | | |
| Program Costs | $ 548,695 | $ 116,120 | $ 0 | $ 0 | $ 664,815 |
| Operating Expenses | 777 | 271 | 0 | 0 | 1,048 |
| Less Earned Revenue | 1 | 26 | 169 | 0 | 196 |
| Net Cost of Operations | $ 549,471 | $ 116,365 | $ (169) | $ 0 | $ 665,667 |
| **Statement of Changes in Net Position** | | | | | |
| Net Position Beginning of Period | $ 2,128,633 | $ 196,648 | $ 66 | $ 0 | $ 2,325,347 |
| Tax Revenue | 571,185 | 97,001 | 0 | 0 | 668,186 |
| Interest Revenue | 107,673 | 10,557 | 0 | 0 | 118,230 |
| Net Transfers In/Out | 12,147 | (1,251) | (20,967) | 0 | (10,071) |
| Other | 14 | 45 | 20,826 | 0 | 20,885 |
| Total Financing Sources | 691,019 | 106,352 | (141) | 0 | 797,230 |
| Net Cost of Operations | 549,471 | 116,365 | (169) | 0 | 665,667 |
| Net Change | 141,548 | (10,013) | 28 | 0 | 131,563 |
| Net Position End of Period | $ 2,270,181 | $ 186,635 | $ 94 | $ 0 | $ 2,456,910 |

Chart 9 includes eliminations between SSA's earmarked funds, which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, $2,500 million of liabilities in the earmarked funds for the year ended September 30, 2009 need to be eliminated against LAE and SSI, which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in Chart 9.

# 10. Operating Expenses

## Classification of Operating Expenses by Major Program

Chart 10a displays SSA's operating expenses for each major program. LAE SSA operating expenses recorded in Other represent (1) HI/SMI trust funds' shares of SSA's operating expenses including the Medicare Prescription Drug Program and (2) SSA's administrative expense for the Medicare Saving Program and the Low Income Subsidy Program. The FY 2010 Chart 10a shows two categories added last year, LAE ARRA and Program ERP. LAE ARRA operating expenses recorded in the Other program represent administrative costs attributable to ERP, expenses associated with the construction and setup of the new National Support Center (NSC), and costs related to the retirement and disability workload backlog. Program ERP amounts reported in Other represent the one-time payments made to eligible Title II and Title XVI beneficiaries. OASI and DI 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 10a - SSA's Operating Expenses by Major Program as of September 30:
($ in millions)

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | LAE | | | | | | |
| | SSA | OIG | ARRA | OASI and DI Trust Fund Operations | Vocational Rehabilitation & Other | Program ERP | Total |
| OASI | $ 2,906 | $ 38 | $ 0 | $ 637 | $ 3 | $ 0 | $ 3,584 |
| DI | 2,765 | 36 | 0 | 120 | 107 | 0 | 3,028 |
| SSI | 3,668 | 0 | 0 | 0 | 130 | 0 | 3,798 |
| Other | 2,050 | 28 | 345 | 0 | 5 | 118 | 2,546 |
| | $ 11,389 | $ 102 | $ 345 | $ 757 | $ 245 | $ 118 | $ 12,956 |

Chart 10a - SSA's Operating Expenses by Major Program as of September 30:
($ in millions)

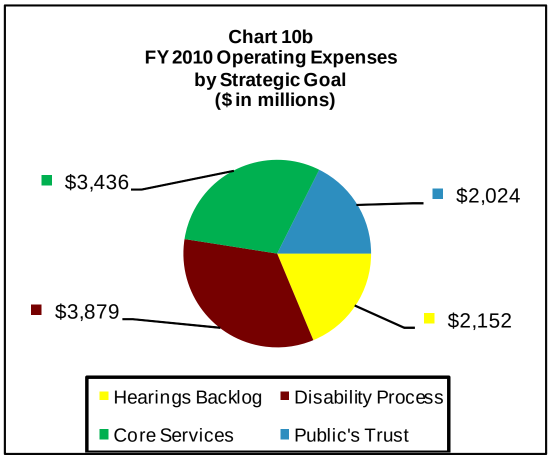
| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | LAE | | | | | | |
| | SSA | OIG | ARRA | OASI and DI Trust Fund Operations | Vocational Rehabilitation & Other | Program ERP | Total |
| OASI | $ 2,746 | $ 36 | $ 0 | $ 774 | $ 3 | $ 0 | $ 3,559 |
| DI | 2,551 | 34 | 0 | 144 | 127 | 0 | 2,856 |
| SSI | 3,354 | 0 | 0 | 0 | 132 | 0 | 3,486 |
| Other | 1,938 | 27 | 173 | 0 | 5 | 13,079 | 15,222 |
| | $ 10,589 | $ 97 | $ 173 | $ 918 | $ 267 | $ 13,079 | $ 25,123 |

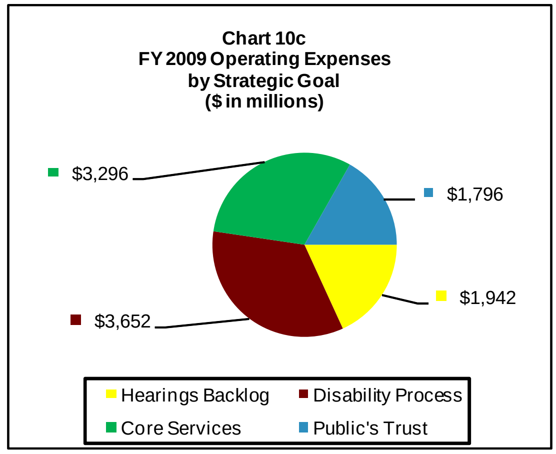
## Classification of Operating Expenses by Strategic Goal

The Annual Performance Plan (APP) sets forth expected levels of performance the agency is committed to achieving, as well as includes proposed levels of performance for future fiscal years. SSA's APP is characterized by broad-based strategic goals that are supported by the entire agency. The four goals are:

- Eliminate our hearings backlog and prevent its recurrence;
- Improve the speed and quality of our disability process;
- Improve our retiree and other core services; and
- Preserve the public's trust in our programs.

Charts 10b and 10c exhibit distribution of FY 2010 and 2009 SSA and OIG LAE operating expenses to the four APP Strategic goals which agree to the agency's LAE budget appropriation. LAE ARRA expenses are subtracted from total SSA LAE operating expenses before being distributed to SSA's APP Strategic goals in these two charts. OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see Chart 10a) are not included in LAE by strategic goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.




## 11. EXCHANGE REVENUES

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the agency's cost. Total exchange revenues are $368 and $413 million for the years ended September 30, 2010 and 2009. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 23 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional administrative fees are collected for administering Title VIII State Supplementation and handling SSI attorney fees. SSA earned administrative fee revenue in the amount of $283 and $329 million for the years ended September 30, 2010 and 2009.

A portion of the administrative fees we earn are non-entity assets. These fees are included within Fund Balance with Treasury in the amount of $140 and $161 million as of September 30, 2010 and 2009. The portion of these non-entity asset fees collected to administer SSI State Supplementation total $132 and $154 million as of September 30, 2010 and 2009. The fees are deposited directly to the Department of the Treasury General Fund 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. The remainder of the administrative fees, which meet the criteria of an earmarked fund, in the amount of $143 and $168 million for the years ended September 30, 2010 and 2009 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned $85 and $84 million for the years ended September 30, 2010 and 2009 in other exchange revenue.

## 12. Costs and Exchange Revenue Classifications

Chart 12 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks, employee benefits, and imputed financing costs. Refer to Note 14, Imputed Financing, for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments, SSI payments, ERP, 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. Other Program primarily reports the costs and revenues that SSA incurs in administering (1) a portion of the Medicare program, (2) the Medicare Saving Program and the Low Income Subsidy Program, and (3) ARRA activities.

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

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross Cost | Less Earned Revenue | Net Cost | Gross Cost | Less Earned Revenue | Net Cost |
| OASI Program | | | | | | |
| Intragovernmental | $ 1,472 | $ (11) | $ 1,461 | $ 1,555 | $ (11) | $ 1,544 |
| Public | 576,335 | (4) | 576,331 | 550,699 | (5) | 550,694 |
| OASI Subtotal | 577,807 | (15) | 577,792 | 552,254 | (16) | 552,238 |
| DI Program | | | | | | |
| Intragovernmental | 914 | (10) | 904 | 869 | (11) | 858 |
| Public | 123,712 | (32) | 123,680 | 118,107 | (29) | 118,078 |
| DI Subtotal | 124,626 | (42) | 124,584 | 118,976 | (40) | 118,936 |
| SSI Program | | | | | | |
| Intragovernmental | 1,079 | (13) | 1,066 | 978 | (13) | 965 |
| Public | 46,563 | (288) | 46,275 | 44,622 | (334) | 44,288 |
| SSI Subtotal | 47,642 | (301) | 47,341 | 45,600 | (347) | 45,253 |
| Other Program | | | | | | |
| Intragovernmental | 589 | (7) | 582 | 550 | (7) | 543 |
| Public | 1,965 | (3) | 1,962 | 14,681 | (3) | 14,678 |
| Other Subtotal | 2,554 | (10) | 2,544 | 15,231 | (10) | 15,221 |
| Total | $ 752,629 | $ (368) | $ 752,261 | $ 732,061 | $ (413) | $ 731,648 |

## 13. 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 OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the IRS or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of $646,673 and $668,186 million for the years ended September 30, 2010 and 2009.

## 14. Imputed Financing

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of $1,148 and $982 million for the years ended September 30, 2010 and 2009 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 $709 and $578 million for the years ended September 30, 2010 and 2009 that primarily represents annual service cost not paid by SSA.

## 15. Budgetary Resources

### Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of $882,359 and $899,939 million for the years ended September 30, 2010 and 2009. Appropriations Received on the Consolidated Statements of Changes in Net Position are $74,331 and $82,654 million for the same years. The primary differences of $808,028 and $817,285 million represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated 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 Circular A-136 to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

## Apportionment Categories of Obligations Incurred

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 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Categories A, B, and Exempt from Apportionment.

Chart 15a - Apportionment Categories of Obligations Incurred as of September 30:
($ in millions)

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Direct | Reimbursable | Total | Direct | Reimbursable | Total |
| Category A | $ 44 | $ 0 | $ 44 | $ 0 | $ 0 | $ 0 |
| Category B | 63,088 | 3,650 | 66,738 | 73,573 | 4,219 | 77,792 |
| Exempt | 729,754 | 3 | 729,757 | 696,615 | 4 | 696,619 |
| Total | $ 792,886 | $ 3,653 | $ 796,539 | $ 770,188 | $ 4,223 | $ 774,411 |

## 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, the veterans' SSI benefits would terminate the month after leaving 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 OASI and DI 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 OASI and DI Trust Funds. The portion of OASI and DI 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 OASI and DI Trust Funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 15b displays OASI and DI Trust Fund activities and balances. The OASI and DI Trust Fund Balances, Ending, are included in Investments on the Consolidated Balance Sheets.

Chart 15b - OASI and DI Trust Fund Activities as of September 30:
($ in millions)

| | 2010 | 2009 |
|---|---|---|
| Beginning Balance | $ 2,433,305 | $ 2,291,874 |
| Receipts | 807,879 | 817,185 |
| Less Obligations | 706,859 | 675,754 |
| Excess of Receipts Over Obligations | 101,020 | 141,431 |
| Ending Balance | $ 2,534,325 | $ 2,433,305 |

## Undelivered Orders at the End of the Period

Undelivered orders consist of unpaid orders of goods and services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are $1,987 and $1,722 million for the years ended September 30, 2010 and 2009.

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

A reconciliation of budgetary resources, obligations incurred and outlays as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2009 has been conducted. There are no material differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.

Chart 15c presents a reconciliation of budgetary resources, obligations incurred, and outlays as presented in the SBR, to amounts included in the Budget of the United States Government for the year ended September 30, 2009. Budgetary resources and obligations incurred reconcile to Program and Financing (P & F) Schedule while outlays reconcile to the Analytical Perspectives of the Budget.

Chart 15c - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the United States Government for FY 2009:
($ in millions)

| | Budgetary Resources | Status of Resources | Outlays |
|---|---|---|---|
| Combined Statement of Budgetary Resources | $ 776,995 | $ 776,995 | $ 727,614 |
| Expired activity not on P & F | (505) | (470) | 0 |
| Offsetting Receipts activity not on P& F | 0 | 0 | 24,554 |
| Other | 9 | (26) | 1 |
| Budget of the United States Government | $ 776,499 | $ 776,499 | $ 752,169 |

A reconciliation has not been conducted for the year ended September 30, 2010 since this report is published in November 2010 and the actual budget data for FY 2010 will not be available until the President's Budget is published.

# 16. Reconciliation of Net Cost of Operations to Budget

## Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2010 and 2009 (Dollars in Millions)

| | 2010 | 2009 |
|---|---|---|
| **Resources Used to Finance Activities:** | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | **$ 796,539** | $ 774,411 |
| Offsetting Collections and Recoveries | **(15,515)** | (16,289) |
| Obligations Net of Offsetting Collections and Recoveries | **781,024** | 758,122 |
| Offsetting Receipts | **(26,455)** | (24,554) |
| Net Obligations | **754,569** | 733,568 |
| Other Resources | | |
| Imputed Financing | **709** | 578 |
| Other | **(283)** | (329) |
| Net Other Resources Used to Finance Activities | **426** | 249 |
| Total Resources Used to Finance Activities | **754,995** | 733,817 |
| **Resources Not Part of the Net Cost of Operations:** | | |
| Change in Budgetary Resources Obligated, Not Yet Provided | **(282)** | (227) |
| Resources that Fund Expenses Recognized in Prior Periods | **(8)** | 0 |
| Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations | **26,427** | 24,528 |
| Resources that Finance the Acquisition of Assets | **(865)** | (755) |
| Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations | **(28,429)** | (26,755) |
| Total Resources Not Part of the Net Cost of Operations | **(3,157)** | (3,209) |
| Total Resources Used to Finance the Net Cost of Operations | **751,838** | 730,608 |
| **Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:** | | |
| Components Requiring or Generating Resources in Future Periods | | |
| Increase in Annual Leave Liability | **11** | 18 |
| Other | **9** | 601 |
| Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods | **20** | 619 |
| Components Not Requiring or Generating Resources | | |
| Depreciation and Amortization | **494** | 421 |
| Revaluation of Assets and Liabilities | **0** | (1) |
| Other | **(91)** | 1 |
| Total Components of Net Cost of Operations that Will Not Require or Generate Resources | **403** | 421 |
| Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period | **423** | 1,040 |
| **Net Cost of Operations** | **$ 752,261** | $ 731,648 |

Chart 16, presents a reconciliation between SSA's budgetary and proprietary accounting. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Costs by identifying and explaining key items that affect one statement but not the other.

# 17. Social Insurance Disclosures

The Statement of Social Insurance discloses the actuarial present value for the 75-year projection period of the estimated future tax income, estimated future cost, and the excess of income over cost for the "open group" of participants. The open group of participants includes all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI Social Insurance program.

Actuarial present values are computed on the basis of the intermediate economic and demographic assumptions described in the 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Trustees Report) for the 75-year projection period beginning January 1, 2010. Similar actuarial present values are shown in the Statement of Social Insurance based on the prior four Trustees Reports reflecting actuarial present values at January 1 of the applicable year.

Estimated future tax income consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. It does not include interest income on assets held in the combined OASI and DI Trust Fund. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, and net transfers with the Railroad Retirement program.

In addition to the actuarial present value of estimated future excess of income excluding interest over cost, shown in the basic financial statements, for the open group of participants, it is possible to make a similar calculation for a "closed group" of participants. The closed group of participants considered here consists of those who, in the starting year of the projection period, have attained age 15 or higher. This closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. In order to calculate the actuarial present value of estimated future excess of income over cost for the closed group, one would subtract the actuarial present value of estimated future cost for or on behalf of the specified group of current participants from the actuarial present value of estimated future tax income for that group of participants.

Also included in the Statement of Social Insurance as "additional information" for the open group are: (1) the actuarial present value of the excess of estimated future income over the estimated future cost; (2) the combined OASI and DI Trust Fund assets at the start of the period; and (3) the sum of (1) and (2). While this additional information is not required by the applicable accounting standards, we believe its inclusion enhances evaluation of the financial status of the program.

Combined OASI and DI Trust Fund assets represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund assets, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund assets as of January 1, 2010 totaled $2,540 billion and were comprised entirely of investment securities which are backed by the full faith and credit of the Federal Government.

The actuarial present value, for a 75-year projection period, of estimated future excess of income over cost, plus the combined OASI and DI Trust Fund assets at the start of the period, is shown as a negative value, which represents the magnitude of what is commonly referred to as the "open group unfunded obligation" of the program over the 75-year projection period. This value is included in the applicable Trustees Report and is also shown in the Report as a percentage of taxable payroll and as a percentage of gross domestic product over the period.

Because the OASDI program lacks borrowing authority, the open group unfunded obligation represents the amount of benefits scheduled in the law that would not be payable in the years after the assets in the combined OASI and DI Trust Fund become exhausted. Thus, if reserves in the combined OASI and DI Trust Fund become depleted, the amount of money available to pay benefits and other expenses would be limited to current tax income. Therefore, barring legislative action, this unfunded obligation represents a financial shortfall that would be accommodated by either paying benefits that are less than the amount scheduled or by delaying the payment of scheduled benefits.

## Assumptions Used for the Statement of Social Insurance

The actuarial present values used in this presentation for the current year (2010) are based on the assumption that the income excluding interest and the benefit payments for the program would continue at the levels scheduled under current law, even after trust fund exhaustion. Estimates are also based on various economic and demographic assumptions, including those in the following table:

**Table 1: Significant Assumptions and Summary Measures Used for the Statement of Social Insurance 2010**

| | | | Period Life Expectancy At Birth[3] | | | | Annual Percentage Change In: | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Fertility Rate[1] | Age-Sex-Adjusted Death Rate[2] (per 100,000) | Male | Female | Net Annual Immigration (persons per year)[4] | Real-Wage Differential[5] (percentage points) | Average Annual Wage in Covered Employment[6] | CPI[7] | Total Employment[8] | Real GDP[9] | Average Annual Interest Rate[10] |
| 2010 | 2.08 | 784.4 | 75.8 | 80.4 | 1,215,000 | 3.1 | 5.1 | 2.0 | -0.9 | 2.3 | 3.4% |
| 2020 | 2.05 | 723.8 | 77.1 | 81.2 | 1,125,000 | 1.1 | 3.9 | 2.8 | 0.5 | 2.2 | 5.7% |
| 2030 | 2.01 | 661.8 | 78.3 | 82.2 | 1,085,000 | 1.2 | 4.0 | 2.8 | 0.5 | 2.1 | 5.7% |
| 2040 | 2.00 | 606.8 | 79.3 | 83.1 | 1,050,000 | 1.2 | 4.0 | 2.8 | 0.5 | 2.2 | 5.7% |
| 2050 | 2.00 | 558.6 | 80.3 | 84.0 | 1,035,000 | 1.2 | 4.0 | 2.8 | 0.5 | 2.1 | 5.7% |
| 2060 | 2.00 | 516.4 | 81.2 | 84.8 | 1,030,000 | 1.1 | 3.9 | 2.8 | 0.4 | 2.1 | 5.7% |
| 2070 | 2.00 | 479.1 | 82.1 | 85.6 | 1,025,000 | 1.1 | 3.9 | 2.8 | 0.4 | 2.1 | 5.7% |
| 2080 | 2.00 | 446.1 | 82.9 | 86.3 | 1,025,000 | 1.2 | 4.0 | 2.8 | 0.4 | 2.1 | 5.7% |

1. The total fertility rate for a 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 assumed for the selected year, and if she were to survive the entire childbearing period.
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 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 the selected 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 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. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
5. The real-wage differential is the difference between the percentage increases in the average annual wage in covered employment and the average annual Consumer Price Index (CPI).
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment is the sum of U.S. civilian and military employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real Gross Domestic Product (GDP) is the value of total output of goods and services produced in the U.S., expressed in 2005 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which are compounded semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

The actuarial present values used in the Statement of Social Insurance for the current year and in corresponding Statements in prior years are based on various economic and demographic assumptions. The values for each of these assumptions move from recently experienced levels or trends toward long-range ultimate values. These ultimate values are summarized in Table 2. Detailed information, similar to that denoted within Table 1, is available on the SSA website at: www.socialsecurity.gov/finance/ for the prior four years.

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

| Year of Statement | Total Fertility Rate[1] | Average Annual Percentage Reduction in the Age-Sex Adjusted Death Rates[2] | Net Annual Immigration (persons per year)[3] | Average Annual Real-Wage Differential[4] (percentage points) | Average Annual Percentage Change In: Average Annual Wage in Covered Employment[5] | Average Annual Percentage Change In: CPI[6] | Average Annual Percentage Change In: Total Employment[7] | Average Annual Real Interest Rate[8] |
|---|---|---|---|---|---|---|---|---|
| FY 2010 | 2.0 | 0.79 | 1,065,000 | 1.2 | 4.0 | 2.8 | 0.5 | 2.9 |
| FY 2009 | 2.0 | 0.79 | 1,065,000 | 1.1 | 3.9 | 2.8 | 0.5 | 2.9 |
| FY 2008 | 2.0 | 0.75 | 1,070,000 | 1.1 | 3.9 | 2.8 | 0.5 | 2.9 |
| FY 2007 | 2.0 | 0.71 | 900,000 | 1.1 | 3.9 | 2.8 | 0.4 | 2.9 |
| FY 2006 | 2.0 | 0.72 | 900,000 | 1.1 | 3.9 | 2.8 | 0.4 | 2.9 |

1. The total fertility rate for a 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 assumed for the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in the 25th year of the projection period.
2. The age-sex-adjusted death rate is computed as 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 for the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage reduction for each 75-year projection period. The annual rate of reduction declines gradually during the period, so no ultimate rate is achieved. For the 2008 estimates, the average annual percentage reduction in death rates increased largely due to the increased ultimate assumed rate of mortality reduction for ages 15-64. For the 2009 estimates, the average annual percentage reduction in death rates increased primarily due to the increased ultimate rates of decline in mortality assumed for ages 65 through 84. For the 2010 Statement, the average annual rate of reduction is computed based on death-rate levels, as shown in Table 1.
3. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. The value in the table is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. For the 2008 Statement, the ultimate level of net legal immigration was increased from 600,000 to 750,000 persons per year. In addition, the method for projecting annual net other immigration was changed and the annual level of net immigration now varies throughout the projection period. For the 2006-2007 Statements, the ultimate assumption is shown in the table and is reached by the 20th year of the projection period. For the 2008-2010 Statements, the value shown is the average net immigration level projected for the 75-year projection period. For the 2010 Statement, the value shown is consistent with the annual levels shown in Table 1.
4. The annual real-wage differential is the difference between (1) the annual percentage change in the average annual wage in covered employment and (2) the annual percentage change in the Consumer Price Index (CPI). The value presented is the average of annual real wage differentials for the last 65 years of the 75-year projection period. For the 2010 Statement, the average real wage differential increased from 1.1 to 1.2 percentage points. For the 2010 Statement, the average real-wage differential is consistent with the annual differentials shown in Table 1.
5. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage change from the 10th year of the 75-year projection period to the 75th year. For the 2010 Statement, the average annual percentage change increased from 3.9 to 4.0 percentage points.
6. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W). The ultimate assumption is reached within the first 10 years of the projection period.
7. Total employment is the sum of U.S. civilian and military employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2010 Statement, the average annual rate of change is consistent with the annual percentages shown in Table 1.
8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is assumed to be reached soon after the tenth year of the projection period. For the 2006 Statement, the assumption was decreased from 3.0 to 2.9 percent. For the 2010 Statement, the average annual real interest rate is consistent with the nominal interest rates shown in Table 1.

These assumptions and the other values on which Table 2 is based reflect the intermediate assumptions of the 2010-2006 Trustees Reports. 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.

Additional information on Social Insurance is contained in the *Required Supplementary Information: Social Insurance* of this report.

## 18. 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, SSA generally did not have procedures to recover Medicare premiums transferred to CMS. As a result, SSA estimates that approximately $800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002. SSA and Health and Human Services are currently conducting research to determine the most appropriate legal resolution to this issue.

## 19. Incidental Custodial Collections

SSA's custodial collections primarily consist of forfeiture of unclaimed money and property. In addition, other negligible custodial collections occur for interest, fines, and penalties. While these collections are considered custodial, they are not primary to the mission of SSA or material to the overall financial statements. SSA's total custodial revenues are less than $1 million and $1 million for the years ended September 30, 2010 and 2009.

## Other Accompanying Information: Balance Sheet by Major Program as of September 30, 2010
(Dollars in Millions)

| Assets | OASI | DI | SSI | Other | LAE | Intra-Agency Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Intragovernmental: | | | | | | | |
| Fund Balance with Treasury | $ (463) | $ (384) | $ 3,153 | $ 3,862 | $ 19 | $ 0 | $ 6,187 |
| Investments | 2,399,111 | 187,222 | 0 | 0 | 0 | 0 | 2,586,333 |
| Interest Receivable, Net | 26,666 | 2,227 | 0 | 0 | 0 | 0 | 28,893 |
| Accounts Receivable, Net | 2 | 1 | 0 | 0 | 3,838 | (2,926) | 915 |
| Other | 0 | 0 | 0 | 0 | 2 | 0 | 2 |
| Total Intragovernmental | 2,425,316 | 189,066 | 3,153 | 3,862 | 3,859 | (2,926) | 2,622,330 |
| Accounts Receivable, Net | 1,936 | 3,388 | 5,656 | 0 | 15 | (626) | 10,369 |
| Property, Plant, and Equipment, Net | 0 | 0 | 0 | 0 | 2,825 | 0 | 2,825 |
| Other | 0 | 0 | 0 | 0 | 3 | 0 | 3 |
| **Total Assets** | $ 2,427,252 | $ 192,454 | $ 8,809 | $ 3,862 | $ 6,702 | $ (3,552) | $ 2,635,527 |
| **Liabilities** | | | | | | | |
| Intragovernmental: | | | | | | | |
| Accrued Railroad Retirement Interchange | $ 3,909 | $ 509 | $ 0 | $ 0 | $ 0 | $ 0 | $ 4,418 |
| Accounts Payable | 950 | 890 | 5,773 | 3,778 | 60 | (2,926) | 8,525 |
| Other | 0 | 0 | 140 | 2 | 127 | 0 | 269 |
| Total Intragovernmental | 4,859 | 1,399 | 5,913 | 3,780 | 187 | (2,926) | 13,212 |
| Benefits Due and Payable | 51,651 | 24,329 | 5,431 | 0 | 0 | (626) | 80,785 |
| Accounts Payable | 0 | 7 | 446 | 0 | 20 | 0 | 473 |
| Other | 0 | 0 | 341 | 2 | 1,124 | 0 | 1,467 |
| Total Liabilities | 56,510 | 25,735 | 12,131 | 3,782 | 1,331 | (3,552) | 95,937 |
| **Net Position** | | | | | | | |
| Unexpended Appropriations-Earmarked Funds | 0 | 0 | 0 | 61 | 0 | 0 | 61 |
| Unexpended Appropriations-Other Funds | 0 | 0 | 388 | 19 | 5 | 0 | 412 |
| Cumulative Results of Operations-Earmarked Funds | 2,370,742 | 166,719 | 19 | 0 | 0 | 0 | 2,537,480 |
| Cumulative Results of Operations-Other Funds | 0 | 0 | (3,729) | 0 | 5,366 | 0 | 1,637 |
| Total Net Position | 2,370,742 | 166,719 | (3,322) | 80 | 5,371 | 0 | 2,539,590 |
| **Total Liabilities and Net Position** | $ 2,427,252 | $ 192,454 | $ 8,809 | $ 3,862 | $ 6,702 | $ (3,552) | $ 2,635,527 |

## Other Accompanying Information: Schedule of Net Cost for the Years Ended September 30, 2010

**(Dollars in Millions)**

| | Program | LAE | Total |
|---|---|---|---|
| **OASI Program** | | | |
| Benefit Payments | $ 574,223 | $ 0 | $ 574,223 |
| Operating Expenses | 640 | 2,944 | 3,584 |
| Total Cost of OASI Program | 574,863 | 2,944 | 577,807 |
| Less: Exchange Revenues | (1) | (14) | (15) |
| **Net Cost of OASI Program** | 574,862 | 2,930 | 577,792 |
| **DI Program** | | | |
| Benefit Payments | 121,598 | 0 | 121,598 |
| Operating Expenses | 227 | 2,801 | 3,028 |
| Total Cost of DI Program | 121,825 | 2,801 | 124,626 |
| Less: Exchange Revenues | (29) | (13) | (42) |
| **Net Cost of DI Program** | 121,796 | 2,788 | 124,584 |
| **SSI Program** | | | |
| Benefit Payments | 43,844 | 0 | 43,844 |
| Operating Expenses | 130 | 3,668 | 3,798 |
| Total Cost of SSI Program | 43,974 | 3,668 | 47,642 |
| Less: Exchange Revenues | (283) | (18) | (301) |
| **Net Cost of SSI Program** | 43,691 | 3,650 | 47,341 |
| **Other** | | | |
| Benefit Payments | 8 | 0 | 8 |
| Operating Expenses | 123 | 2,423 | 2,546 |
| Total Cost of Other | 131 | 2,423 | 2,554 |
| Less: Exchange Revenues | 0 | (10) | (10) |
| **Net Cost of Other Program** | 131 | 2,413 | 2,544 |
| **Total Net Cost** | | | |
| Benefit Payments | 739,673 | 0 | 739,673 |
| Operating Expenses | 1,120 | 11,836 | 12,956 |
| Total Cost | 740,793 | 11,836 | 752,629 |
| Less: Exchange Revenues | (313) | (55) | (368) |
| **Total Net Cost** | $ 740,480 | $ 11,781 | $ 752,261 |

## Other Accompanying Information: Schedule of Changes in Net Position for the Years Ended September 30, 2010
**(Dollars in Millions)**

| | OASI | DI | SSI | | Other | |
|---|---|---|---|---|---|---|
| | Earmarked | Earmarked | Earmarked | All Other Funds | Earmarked | All Other Funds |
| **Cumulative Results of Operations:** | | | | | | |
| Beginning Balances | $ 2,270,181 | $ 186,635 | $ 36 | $ (3,736) | $ 0 | $ 0 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Used | 0 | 0 | 0 | 50,862 | 22,845 | 84 |
| Tax Revenues (Note 13) | 552,804 | 93,869 | 0 | 0 | 0 | 0 |
| Interest Revenues | 108,424 | 9,590 | 0 | 0 | 0 | 0 |
| Transfers In/Out Without Reimbursement | 18,201 | (1,148) | (160) | (3,672) | (22,845) | 47 |
| Railroad Retirement Interchange | (4,022) | (478) | 0 | 0 | 0 | 0 |
| Net Transfers In/Out | 14,179 | (1,626) | (160) | (3,672) | (22,845) | 47 |
| Other Budgetary Financing Sources | 16 | 47 | 0 | 0 | 0 | 0 |
| **Other Financing Sources (Non-Exchange)** | | | | | | |
| Transfers-In/Out | 0 | 0 | 0 | (3,237) | 0 | 3,237 |
| Imputed Financing Sources | 0 | 0 | 0 | 28 | 0 | 0 |
| Other | 0 | 0 | 0 | (140) | 0 | (3,237) |
| **Total Financing Sources** | 675,423 | 101,880 | (160) | 43,841 | 0 | 131 |
| **Net Cost of Operations** | 574,862 | 121,796 | (143) | 43,834 | 0 | 131 |
| **Net Change** | 100,561 | (19,916) | (17) | 7 | 0 | 0 |
| **Cumulative Results of Operations** | $ 2,370,742 | $ 166,719 | $ 19 | $ (3,729) | $ 0 | $ 0 |
| **Unexpended Appropriations:** | | | | | | |
| Beginning Balances | $ 0 | $ 0 | $ 0 | $ 650 | $ 58 | $ 24 |
| Adjustments | | | | | | |
| Corrections of Errors | 0 | 0 | 0 | 0 | 5 | 0 |
| **Beginning Balances, As Adjusted** | $ 0 | $ 0 | $ 0 | $ 650 | $ 63 | $ 24 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Received | 0 | 0 | 0 | 51,142 | 22,851 | 309 |
| Other Adjustments | 0 | 0 | 0 | (542) | (8) | (230) |
| Appropriations Used | 0 | 0 | 0 | (50,862) | (22,845) | (84) |
| **Total Budgetary Financing Sources** | 0 | 0 | 0 | (262) | (2) | (5) |
| **Total Unexpended Appropriations** | 0 | 0 | 0 | 388 | 61 | 19 |
| **Net Position** | $ 2,370,742 | $ 166,719 | $ 19 | $ (3,341) | $ 61 | $ 19 |

## Other Accompanying Information: Schedule of Changes in Net Position for the Years Ended September 30, 2010 (Continued)
**(Dollars in Millions)**

| | LAE | CONSOLIDATED | | |
|---|---|---|---|---|
| | All Other Funds | Earmarked | All Other Funds | CONSOLIDATED TOTAL |
| **Cumulative Results of Operations:** | | | | |
| Beginning Balances | $ 4,971 | $ 2,456,852 | $ 1,235 | $ 2,458,087 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Used | 29 | 22,845 | 50,975 | 73,820 |
| Tax Revenues (Note 13) | 0 | 646,673 | 0 | 646,673 |
| Interest Revenues | 0 | 118,014 | 0 | 118,014 |
| Transfers In/Out Without Reimbursement | 11,466 | (5,952) | 7,841 | 1,889 |
| Railroad Retirement Interchange | 0 | (4,500) | 0 | (4,500) |
| Net Transfers In/Out | 11,466 | (10,452) | 7,841 | (2,611) |
| Other Budgetary Financing Sources | 0 | 63 | 0 | 63 |
| **Other Financing Sources (Non-Exchange)** | | | | |
| Transfers-In/Out | 0 | 0 | 0 | 0 |
| Imputed Financing Sources | 681 | 0 | 709 | 709 |
| Other | 0 | 0 | (3,377) | (3,377) |
| **Total Financing Sources** | 12,176 | 777,143 | 56,148 | 833,291 |
| **Net Cost of Operations** | 11,781 | 696,515 | 55,746 | 752,261 |
| **Net Change** | 395 | 80,628 | 402 | 81,030 |
| **Cumulative Results of Operations** | $ 5,366 | $ 2,537,480 | $ 1,637 | $ 2,539,117 |
| **Unexpended Appropriations:** | | | | |
| Beginning Balances | $ 6 | $ 58 | $ 680 | $ 738 |
| Adjustments | | | | |
| Corrections of Errors | 0 | 5 | 0 | 5 |
| **Beginning Balances, As Adjusted** | $ 6 | $ 63 | $ 680 | $ 743 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received | 29 | 22,851 | 51,480 | 74,331 |
| Other Adjustments | (1) | (8) | (773) | (781) |
| Appropriations Used | (29) | (22,845) | (50,975) | (73,820) |
| **Total Budgetary Financing Sources** | (1) | (2) | (268) | (270) |
| **Total Unexpended Appropriations** | 5 | 61 | 412 | 473 |
| **Net Position** | $ 5,371 | $ 2,537,541 | $ 2,049 | $ 2,539,590 |

## Required Supplementary Information: Schedule of Budgetary Resources for the Years Ended September 30, 2010

**(Dollars in Millions)**

| | OASI | DI | SSI | Other | LAE | Combined |
|---|---|---|---|---|---|---|
| **Budgetary Resources** | | | | | | |
| **Unobligated Balances, Brought Forward, October 1** | $ 0 | $ 0 | $ 896 | $ 83 | $ 1,605 | $ 2,584 |
| **Recoveries of Prior Year Unpaid Obligations** | 36 | 2 | 3 | 47 | 323 | 411 |
| **Budget Authority** | | | | | | |
| Appropriations | 682,472 | 125,392 | 51,302 | 23,164 | 29 | 882,359 |
| Spending Authority from Offsetting Collections | | | | | | |
| Earned | | | | | | |
| Collected | 0 | 0 | 3,592 | 3 | 55 | 3,650 |
| Change in Receivable | 0 | 0 | 0 | 0 | 2 | 2 |
| Change in Unfilled Customer Orders | | | | | | |
| Advance Received | 0 | 0 | (10) | 0 | (4) | (14) |
| Expenditure Transfers from Trust Funds | 0 | 0 | 0 | 0 | 11,466 | 11,466 |
| Subtotal | 682,472 | 125,392 | 54,884 | 23,167 | 11,548 | 897,463 |
| **Nonexpenditure Transfers, Net** | (33) | 15 | 0 | 0 | 0 | (18) |
| **Temporarily Not Available Pursuant to Public Law** | (101,020) | 0 | 0 | 0 | 0 | (101,020) |
| **Permanently Not Available** | (3) | (2) | (542) | (238) | (1) | (786) |
| **Total Budgetary Resources** | $ 581,452 | $ 125,407 | $ 55,241 | $ 23,059 | $ 13,475 | $ 798,634 |
| **Status of Budgetary Resources** | | | | | | |
| **Obligations Incurred** | | | | | | |
| Direct | $ 581,452 | $ 125,407 | $ 51,030 | $ 22,976 | $ 12,021 | $ 792,886 |
| Reimbursable | 0 | 0 | 3,592 | 3 | 58 | 3,653 |
| Subtotal | 581,452 | 125,407 | 54,622 | 22,979 | 12,079 | 796,539 |
| **Unobligated Balances** | | | | | | |
| Apportioned | 0 | 0 | 255 | 43 | 563 | 861 |
| **Unobligated Balances - Not Available** | 0 | 0 | 364 | 37 | 833 | 1,234 |
| **Total Status of Budgetary Resources** | $ 581,452 | $ 125,407 | $ 55,241 | $ 23,059 | $ 13,475 | $ 798,634 |
| **Change in Obligated Balances** | | | | | | |
| **Obligated Balances, Net** | | | | | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 55,022 | $ 26,789 | $ 2,206 | $ 945 | $ 2,166 | $ 87,128 |
| Uncollected Customer Payments, Brought Forward, October 1 | 0 | 0 | 0 | 0 | (3,743) | (3,743) |
| Total Unpaid Obligated Balance, Net | 55,022 | 26,789 | 2,206 | 945 | (1,577) | 83,385 |
| **Obligations Incurred, Net** | 581,452 | 125,407 | 54,622 | 22,979 | 12,079 | 796,539 |
| **Gross Outlays** | (579,928) | (126,423) | (54,495) | (23,337) | (11,469) | (795,652) |
| **Obligated Balance Transferred, Net** | | | | | | |
| **Recoveries of Prior Year Unpaid Obligations, Actual** | (36) | (2) | (3) | (47) | (323) | (411) |
| **Change in Uncollected Customer Payments** | 0 | 0 | 0 | 0 | (87) | (87) |
| **Obligated Balance, Net, End of Period** | | | | | | |
| Unpaid Obligations | 56,510 | 25,771 | 2,330 | 540 | 2,453 | 87,604 |
| Uncollected Customer Payments | 0 | 0 | 0 | 0 | (3,830) | (3,830) |
| Total Unpaid Obligated Balance, Net, End of Period | $ 56,510 | $ 25,771 | $ 2,330 | $ 540 | $ (1,377) | $ 83,774 |
| **Net Outlays** | | | | | | |
| Net Outlays | | | | | | |
| Gross Outlays | $ 579,928 | $ 126,423 | $ 54,495 | $ 23,337 | $ 11,469 | $ 795,652 |
| Offsetting Collections | 0 | 0 | (3,582) | (3) | (11,431) | (15,016) |
| Distributed Offsetting Receipts | (21,107) | (1,828) | (283) | (3,237) | 0 | (26,455) |
| **Net Outlays** | $ 558,821 | $ 124,595 | $ 50,630 | $ 20,097 | $ 38 | $ 754,181 |

# Required Supplementary Information: Social Insurance

## Program Description

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as "Social Security," provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2009, OASDI benefits were paid to almost 53 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 $75 billion as of September 30, 2010 and September 30, 2009 is included in "Benefits Due and Payable" on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2010. Also, an asset of $2,586 billion as of September 30, 2010 ($2,504 billion as of September 30, 2009) is recognized for the "investments in Treasury securities." These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investment and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2010. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are nonexchange transactions and are not considered deferred compensation, as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

**Required Supplementary Information -** While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial 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 OASI and DI 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 OASI and DI Trust Funds;
- **Cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **Cashflow:** 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 obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2010 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

(1) 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

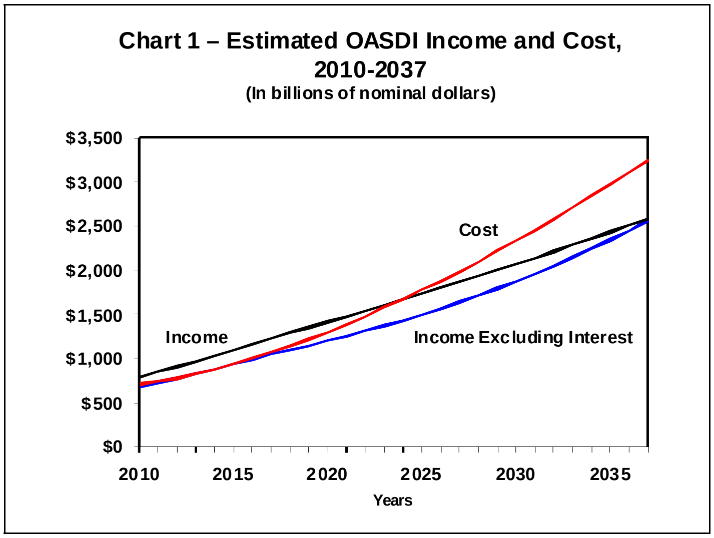
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

**Sustainable Solvency -** Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits in full on a timely basis and maintain assets in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the assets in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

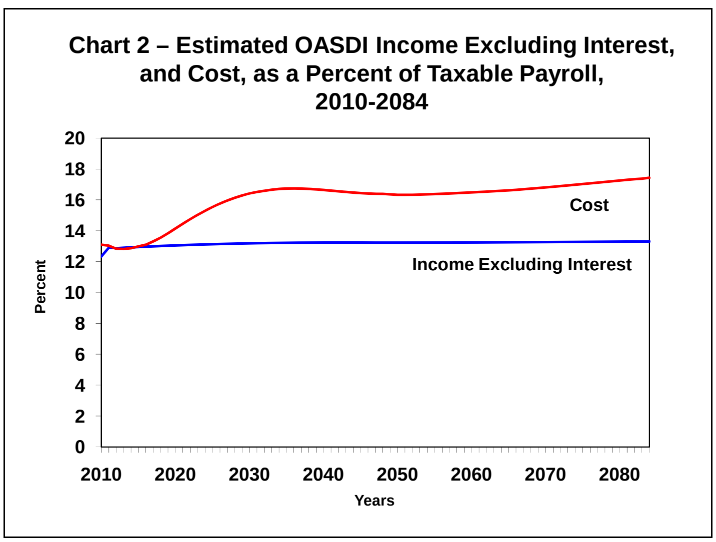
**Cashflow Projections -** Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2010-2037 in nominal dollars. These estimates are only displayed through 2037, the year that the combined OASI and DI Trust Funds are projected to become exhausted. After the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this chart, which is intended to illustrate the tax revenue and interest accruals available to meet the cost of scheduled benefit obligations under the program, beyond the point of combined OASI and DI Trust Fund exhaustion, would be inappropriate unless the cost of scheduled benefits was replaced by the amount of benefits that would be payable.

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 for such workers and their dependents during that period.

As Chart 1 shows, estimated cost starts to exceed income (including interest) in 2025. This occurs because of a variety of factors including the retirement of the "baby boom" generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed income excluding interest in 2010 and 2011, to be less than income excluding interest in 2012 through 2014, and to exceed income excluding interest in 2015 and later. In 2010, 2011, and years after 2014, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption will differ from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. 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. In years 2012-14, estimated annual cost is less than estimated annual income, excluding interest, whereas in all other years it is more. After 2015, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2035 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 75 percent of the estimated cost.




**Actuarial Balance -** The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$7,947 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2010), it is -$5,406 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 combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76th year of the period.

One interpretation of this negative actuarial balance (-1.92 percent of taxable payroll) is that it represents the magnitude of an increase in the combined payroll tax rate for the entire 75-year period that would allow the combined trust funds to remain solvent throughout the period with a small amount of assets remaining in the combined trust funds at the end of the period. 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 for 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 benefits during this period could be reduced by about 12.0 percent on average (or there could be some combination of both tax increases and benefit reductions) to achieve solvency throughout the period.

**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 cost of the OASDI program in relation to the size of the national economy that must finance it.

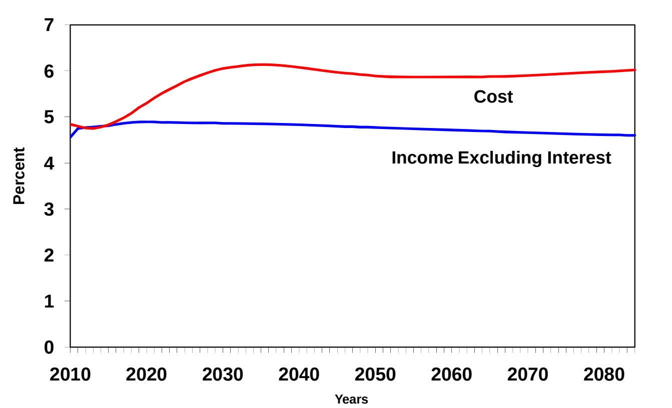
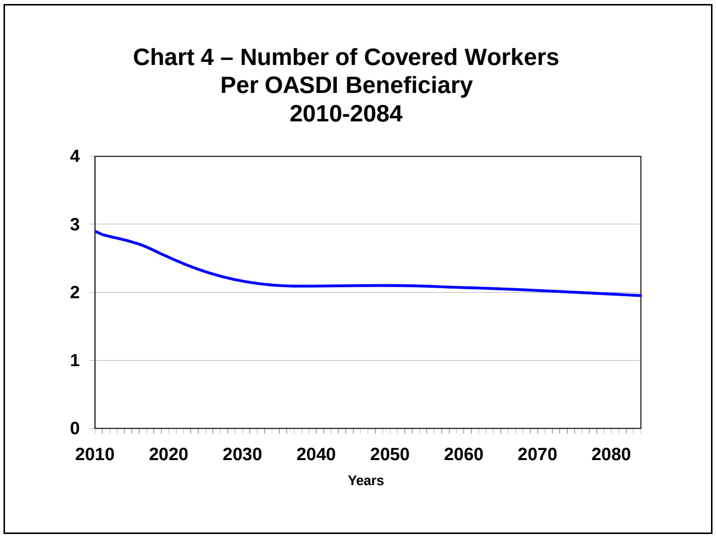


**Chart 3 – Estimated OASDI Income Excluding Interest, and Cost, as a Percent of GDP, 2010-2084**

In 2009, OASDI cost was about $686 billion, which was about 4.8 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.0 percent of GDP in 2030, hits a peak of 6.1 percent of GDP in 2035, declines to a low of 5.9 percent in 2055, and then slowly increases, reaching 6.0 percent of GDP by 2084. The rapid increase from 2010 to 2027 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 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 3.0 in 2009 to 2.0 in 2084.




## SENSITIVITY ANALYSIS

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury securities. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2010 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2010, and are based on estimates of income and cost during the 75-year projection period 2010-2084. 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 annual net cashflow amount shown in the first chart and is included to facilitate interpreting net cashflow in terms of today's dollars. 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 Report presents high-cost and low-cost alternative assumption sets which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees, in their annual report, also include estimates using a stochastic model developed by the Office of the Chief Actuary. These estimates provide an additional way of analyzing variability in assumptions, income, and cost.

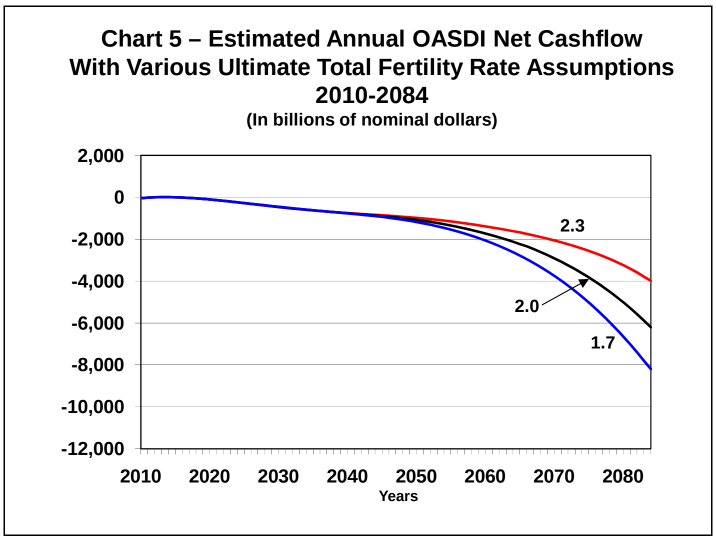
**Total Fertility Rate -** Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0, and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2010 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2034.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to $8,892 billion, from $7,947 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to $6,978 billion.

**Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2010-2084**

| Ultimate Total Fertility Rate | 1.7 | 2.0 | 2.3 |
|---|---|---|---|
| Present Value of Estimated Excess (In billions) | -$8,892 | -$7,947 | -$6,978 |

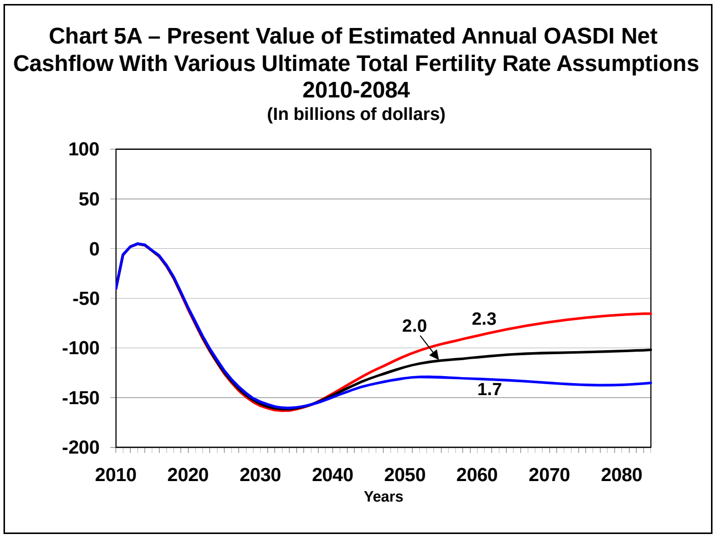
Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 1. Chart 5 shows the estimated annual OASDI net cashflow.




The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing in years 2011-13, the net cashflow estimates decrease steadily through 2084. The net cashflow estimates corresponding to all three ultimate total fertility rates are negative in years 2010-11 and increasingly negative in all years after 2014. 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 years before the combined OASI and DI Trust Funds are projected to become depleted under each of these fertility assumptions. The combined trust funds are projected to be depleted in 2037 using a 2.0 or 2.3 ultimate fertility rate and in 2038 using a 1.7 ultimate fertility rate.

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 2038 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from 2038 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. The present values based on all three ultimate total fertility rates are negative in years 2010-11 and negative in all years after 2014. The net cashflow estimates corresponding to a 2.0 and 2.3 ultimate fertility rate increase in years 2011-13, decrease in years 2014-33, and increase (become less negative) thereafter. The net cashflow estimates corresponding to a 1.7 ultimate fertility rate increase in years 2011-13, decrease in years 2014-34, and increase (become less negative) through 2053. For an ultimate assumed total fertility rate of 1.7, the present values are fairly stable after 2050. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2035 than it would to cover the annual deficit in 2034.

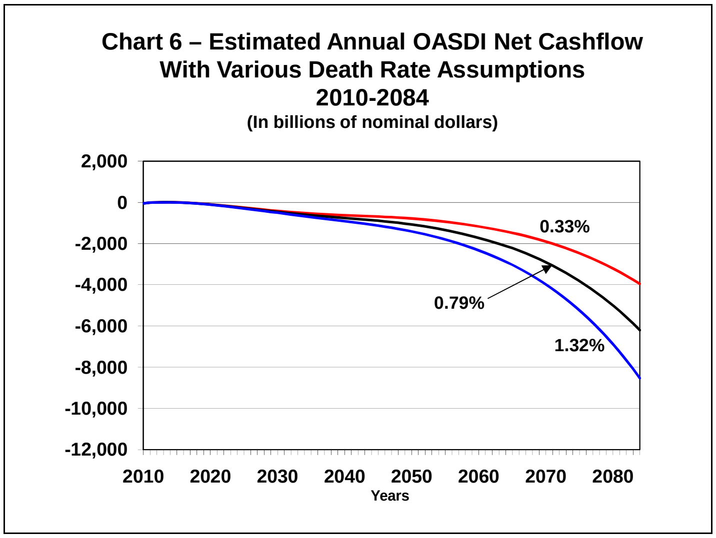
**Mortality -** Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2009-2084 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.33, 0.79, and 1.32 percent per year, where 0.79 percent is the intermediate assumption in the 2010 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 22, 45, and 63 percent, respectively). The life expectancy at birth, on a unisex period life table basis, is projected to rise from 77.9 in 2009 to 81.1, 84.9, and 88.8 in 2084 for average annual reductions in the age-sex-adjusted death rate of 0.33, 0.79, and 1.32 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.79 percent, the Trustees' intermediate assumption, to 0.33 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $6,076 billion, from $7,947 billion; if the annual reduction were changed to 1.32 percent, meaning that people live longer, the shortfall would increase to $9,991 billion.

**Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2010-2084**

| Average Annual Reduction in Death Rates (from 2009 to 2084) | 0.33 Percent | 0.79 Percent | 1.32 Percent |
|---|---|---|---|
| Present Value of Estimated Excess (In billions) | -$6,076 | -$7,947 | -$9,991 |

Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 2. Chart 6 shows the estimated annual OASDI net cashflow.

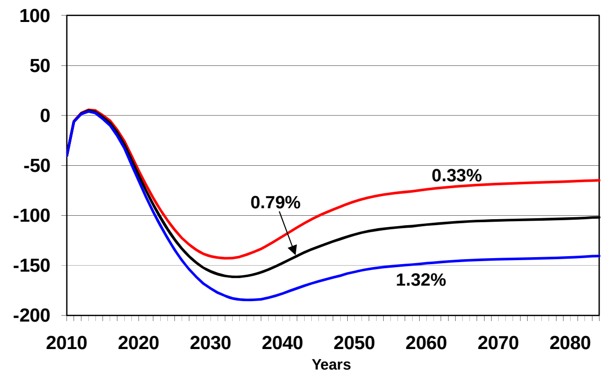



The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing in years 2011-13, the net cashflow estimates decrease steadily through 2084. The annual net cashflow estimates for all three sets of assumptions are negative in 2010 and 2011, positive in 2012-14, and increasingly negative thereafter. 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). At young ages, 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.

**Chart 6A – Present Value of Estimated Annual OASDI Net Cashflow With Various Death Rate Assumptions 2010-2084**
(In billions of dollars)




The three patterns of the present values shown in Chart 6A are similar. After increasing in years 2011-13, the present values decrease rapidly until around 2030. Under all three sets of assumptions the net cashflow estimates are negative in years 2010-11 and positive in years 2012-14. The net cashflow estimates remain positive in 2015 only for projected reductions of 0.33 percent. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2033, 2034, and 2036 for projected reductions of 0.33, 0.79, and 1.32 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, and continues to increase through 2084.

**Net Annual Immigration -** Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on these levels, it is projected that net annual immigration (legal and other) will average 780,000 persons, 1,065,000 persons, and 1,370,000 persons over the 75-year valuation period, where 1,065,000 persons is the average value based on the intermediate assumptions in the 2010 Trustees Report.

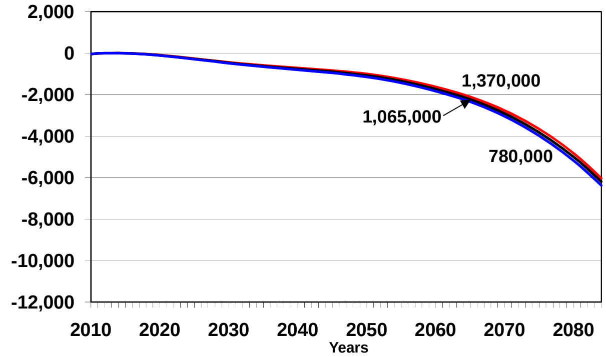
Table 3 demonstrates that, if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,065,000 persons to 780,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $8,394 billion, from $7,947 billion. If instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,370,000 persons, the present value of the shortfall would decrease to $7,475 billion.

**Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2010-2084**

| 75-Year Average Net Annual Immigration | 780,000 Persons | 1,065,000 Persons | 1,370,000 Persons |
|---|---|---|---|
| Present Value of Estimated Excess (In billions) | -$8,394 | -$7,947 | -$7,475 |

Charts 7 and 7A show estimates using the same assumptions about net annual immigration used for the estimates in Table 3. Chart 7 shows the estimated annual OASDI net cashflow.

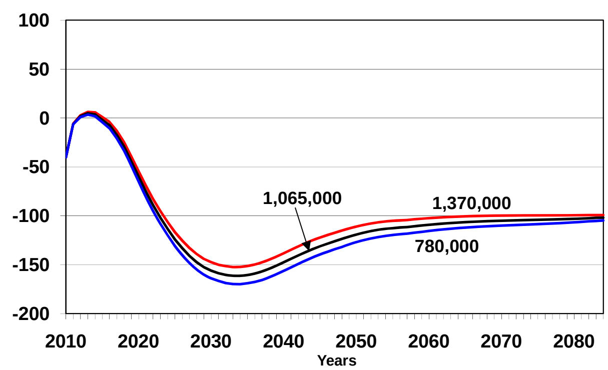
**Chart 7 – Estimated Annual OASDI Net Cashflow With Various Net Annual Immigration Assumptions 2010-2084**
(In billions of nominal dollars)




The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing in years 2011-13, the net cashflow estimates decrease steadily through 2084. The net cashflow estimates for all three sets of assumptions are negative in 2010 and 2011 and positive in years 2012-14. Only the net cashflow estimates corresponding to a net annual immigration level of 1,370,000 remain positive in 2015. A consistent, but slight, difference is discernible after the first few years of the projection period among the estimates of net cashflow based on the three assumptions about average annual immigration.

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

**Chart 7A – Present Value of Estimated Annual OASDI Net Cashflow With Various Net Annual Immigration Assumptions 2010-2084**
(In billions of dollars)




The three patterns of the present values shown in Chart 7A are similar. After increasing in years 2011-13, the net cashflow estimates decrease steadily through 2033 for an average net annual immigration level of 1,065,000 and 1,370,000, and through 2034 for an average net annual immigration level of 780,000. The net cashflow estimates corresponding to all three sets of assumptions are negative in 2010 and 2011 and positive in years 2012-14. Only the net cashflow estimates corresponding to a net annual immigration level of 1,370,000 remain positive in 2015. Present values based on all three assumptions about net annual immigration increase (are less negative) from 2035 through the end of the projection period.

Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Thus, even in the early years, the present values, year by year, are generally higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. 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 annual real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). The ultimate real-wage differential is the average of the annual real-wage differential for the last 65 years of the 75-year projection period. Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.2, and 1.8 percentage points, where 1.2 percentage point is the intermediate assumption in the 2010 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, 4.0, and 4.6 percent, respectively.

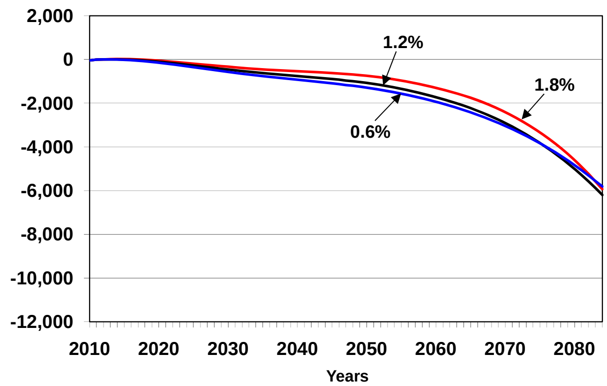
Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.2 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $9,312 billion from $7,947 billion; if the ultimate real-wage differential were changed from 1.2 to 1.8 percentage points, the shortfall would decrease to $5,893 billion.

**Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2010-2084**

| Ultimate Annual Increase in Wages, CPI; **Real Wage Differential** | 3.4% , 2.8%; **0.6%** | 4.0% , 2.8%; **1.2%** | 4.6% , 2.8%; **1.8%** |
|---|---|---|---|
| Present Value of Estimated Excess (In billions) | -$9,312 | -$7,947 | -$5,893 |

Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4. Chart 8 shows the estimated annual OASDI net cashflow.

**Chart 8 – Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2010-2084**
(In billions of nominal dollars)

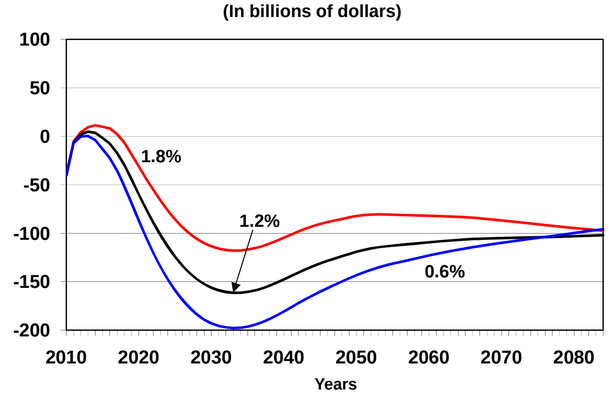



The three patterns of estimated net annual OASDI cashflow shown in Chart 8 increase in the first three years, and then generally decrease steadily thereafter. Estimated net cashflows are positive in years 2012-17, and 2012-14 for assumed ultimate real-wage differentials of 1.8, and 1.2 percentage points, respectively, and are negative thereafter. Estimated net cashflows are negative for all years for an assumed ultimate real-wage differential of 0.6 percentage point.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, toward the end of projection period, 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.

**Chart 8A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2010-2084**
(In billions of dollars)



After increasing in years 2011-13, the present values shown in Chart 8A decrease through 2033. Estimated net cashflows are positive in years 2012-17, and 2012-14 for assumed ultimate real-wage differentials of 1.8, and 1.2 percentage points, respectively, and are negative thereafter. Estimated net cashflows are negative for all years for an assumed ultimate real-wage differential of 0.6 percentage points. Present values based on all three assumptions begin to increase (become less negative) in 2034. 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 1.8 percentage points, the present values continue increasing until 2055 when decreases 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 value patterns.

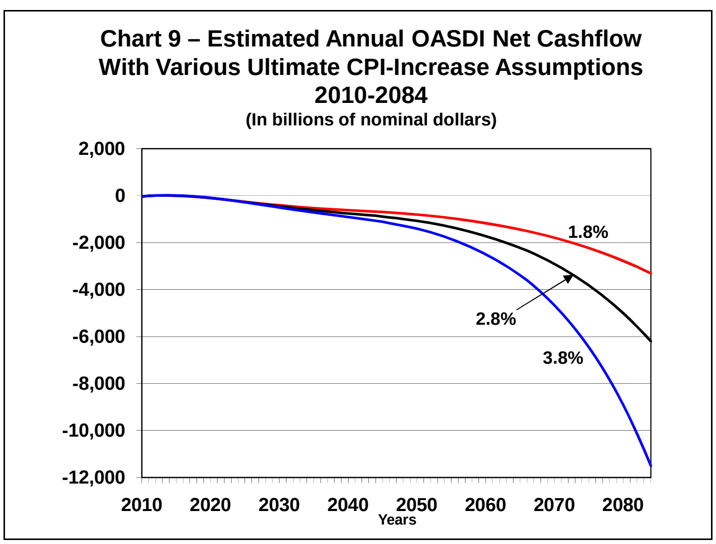
**Consumer Price Index -** Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8, and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2010 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.2 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.0, 4.0, and 5.0 percent, respectively.

Table 5 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 $8,444 billion, from $7,947 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to $7,400 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

**Table 5: Present Value of Estimated Excess of OASDI Income over Cost**
**With Various Ultimate CPI-Increase Assumptions**
**Valuation Period: 2010-2084**

| Ultimate Annual Increase in Wages, **CPI**; Real Wage Differential | 3.0% , **1.8%**; 1.2% | 4.0% , **2.8%**; 1.2% | 5.0% , **3.8%**; 1.2% |
|---|---|---|---|
| Present Value of Estimated Excess (In billions) | -$8,444 | -$7,947 | -$7,400 |

Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.

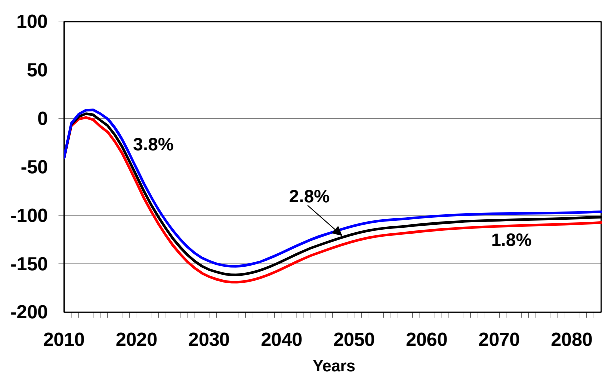


The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the first three years, the net cashflow estimates generally decrease steadily through 2084. Annual net cashflow is positive for years 2013, 2012-14, and 2012-15 for assumed ultimate annual increases in the CPI of 1.8 percent, 2.8 percent, and 3.8 percent respectively. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher benefits based on these higher wages. 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 2021) the larger percentage increase in CPI results in a larger nominal-dollar increase in income, so net cashflow is increased for higher inflation in Chart 9. However, shortly after 2021, 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 CPI eventually produce smaller nominal-dollar increases in income than in program cost.

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

**Chart 9A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate CPI-Increase Assumptions 2010-2084**
**(In billions of dollars)**




The three patterns of the present values shown in Chart 9A are similar. After increasing in the first three years, the net cashflow estimates generally decrease through 2033. Annual net cashflow is positive for years 2013, 2012-14, and 2012-15 for assumed ultimate annual increases in the CPI of 1.8 percent, 2.8 percent, and 3.8 percent respectively. Present values begin to increase (become less negative) in 2034 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, and continue to increase through 2084.

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 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.1, 2.9, and 3.6 percent, where 2.9 percent is the intermediate assumption in the 2010 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

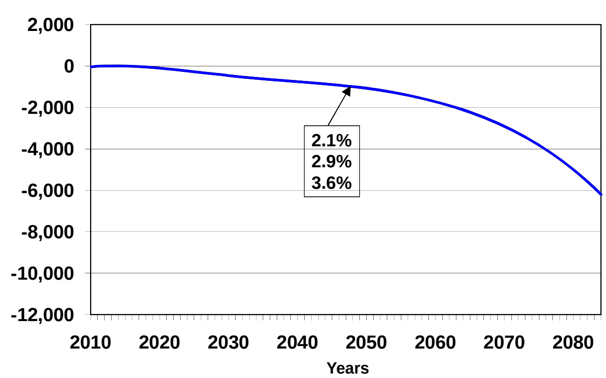
Table 6 demonstrates that, if the ultimate real interest rate is changed from 2.9 percent, the Trustees' intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to $10,579 billion, from $7,947 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to $6,303 billion.

**Table 6: Present Value of Estimated Excess of OASDI Income over Cost**
**With Various Ultimate Real-Interest Assumptions**
**Valuation Period: 2010-2084**

| Ultimate Annual Real Interest Rate | 2.1 Percent | 2.9 Percent | 3.6 Percent |
|---|---|---|---|
| Present Value of Estimated Excess (In billions) | -$10,579 | -$7,947 | -$6,303 |

Charts 10 and 10A show estimates using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6. Chart 10 shows the estimated annual OASDI net cashflow.

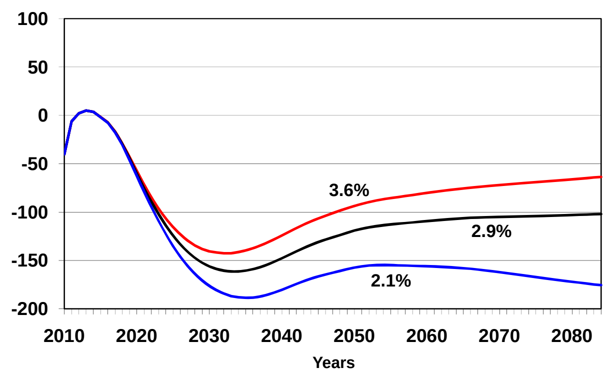
**Chart 10 – Estimated Annual OASDI Net Cashflow**
**With Various Ultimate Real Interest Rate Assumptions**
**2010-2084**
**(In billions of nominal dollars)**




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 in years 2011-13, the present values decrease steadily through 2084. Annual cashflows are only positive in years 2012-14.

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

**Chart 10A – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real Interest Rate Assumptions 2010-2084**
**(In billions of dollars)**




The three patterns of the present values shown in Chart 10A are similar. After increasing in years 2011-13, the present values decrease rapidly until around 2030. Annual cashflows are only positive in years 2012-14. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2036, 2034, and 2033 for assumed ultimate real interest rates of 2.1, 2.9, and 3.6 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 2.1 percent, the present values continue increasing through 2054, then decrease thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

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# Auditor's Reports

## Social Security

November 8, 2010

The Honorable Michael J. Astrue
Commissioner

The *Chief Financial Officers (CFO) Act of 1990* (P.L. 101-576), as amended, requires that the Social Security Administration's (SSA) Inspector General (IG) or an independent external auditor, as determined by the IG, audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), Grant Thornton, LLP, an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2010 financial statements. This letter transmits Grant Thornton's *Independent Auditor's Report* on the audit of SSA's FY 2010 financial statements. Grant Thornton's Report includes the following:

- Opinion on Financial Statements;
- Opinion 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.

Grant Thornton's audit was conducted in accordance with auditing standards generally accepted in the United States; Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. The audit included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as considered necessary under the circumstances. Because of inherent limitations in any internal control, misstatements because of error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

## Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations

OIG audited SSA's FY 2009 financial statements and issued an unqualified opinion on the statements. In its audit of the FY 2010 financial statements, Grant Thornton issued an unqualified opinion. Grant Thornton also reported that SSA had effective internal control over financial reporting based on criteria under OMB Circular A-123, *Management's Responsibility for Internal Control* and SSA's financial management systems substantially complied with the requirements of the *Federal Financial Management Improvement Act of 1996*.

However, Grant Thornton did identify three deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to a weakness in controls over information security. Specifically, Grant Thornton testing:

1. Disclosed that policies and procedures to reassess periodically the content of security access profiles had not been complied with consistently throughout the Agency.
2. Disclosed evidence that security permissions provided to some employees and contractors were in excess of access required to complete their job responsibilities.
3. Identified configurations that increased the risk of unauthorized access to key financial data and programs during our testing of the mainframe operating system

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

## OIG Evaluation of GT Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored Grant Thornton's audit of SSA's FY 2010 financial statements by

- reviewing Grant Thornton'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, assessing SSA's internal control, and substantive testing;
- reviewing Grant Thornton's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 07-04;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Grant Thornton is responsible for the auditor's report, dated November 8, 2010, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Grant Thornton's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where Grant Thornton did not comply with applicable auditing standards.

Patrick P. O'Carroll, Jr.
Inspector General

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To the Honorable Michael J. Astrue
Commissioner
Social Security Administration

# Independent Auditor's Report

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

- The consolidated balance sheet of SSA as of September 30, 2010, and the related consolidated statement of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended and the statement of social insurance as of January 1, 2010 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2010;
- No reportable instances of noncompliance with laws, regulations or other matters tested.

## OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of the SSA as of September 30, 2010, and the related consolidated statement of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended, and the statement of social insurance as of January 1, 2010. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The consolidated balance sheet of SSA as of September 30, 2009, and the related consolidated statement of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended were audited by other auditors whose report dated November 9, 2009 expressed an unqualified opinion on those statements. The statements of social insurance as of January 1, 2009, 2008, 2007, and 2006 were also audited by other auditors whose reports dated November 9, 2009 and November 7, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.* 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and presented on pages 100 through 130 of this *Performance and Accountability Report* (PAR), present fairly, in all material respects, the financial position of SSA as of September 30, 2010, and its net cost of operations, changes in net position, and budgetary resources for the year then ended, and the financial condition of its social insurance program as of January 1, 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements taken as a whole. The Additional Information presented on the statement of social insurance as of January 1, 2010 is presented for purposes of additional analysis and is not a required part of the consolidated and 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, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

As discussed in Note 17 to the financial statements, the statement of social insurance presents the actuarial present value of the SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

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

We have also audited management's assertion, included in the accompanying *Federal Managers' Financial Integrity Act* (FMFIA) Assurance Statement on page 43 of this PAR that SSA's internal control over financial reporting was operating effectively as of September 30, 2010 based on criteria established under OMB Circular No. A-123, *Management's Responsibility for Internal Control.* We did not test all internal controls, relevant to the operating objectives broadly, defined by the *Federal Managers' Financial Integrity Act of 1982.* SSA's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the operating effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit 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. 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An agency's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles. An agency's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the agency;

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(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the agency are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the agency's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2010, is fairly stated, in all material respects based on criteria established under OMB Circular No. A-123.

## Other Internal Control Matters

Our work identified the need to improve certain internal controls, as described below and in a separate, limited-distribution management letter. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our audit was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. We identified the following deficiencies that we consider, in combination, to be a significant deficiency in SSA's internal control over financial reporting.

## Significant Deficiency

### Weakness in Controls Over Information Security

Our testing disclosed that policies and procedures to periodically reassess the content of security access profiles had not been complied with consistently throughout the Agency. Our testing also disclosed evidence that security permissions provided to some employees and contractors were in excess of access required to complete their job responsibilities. Additionally, we identified configurations that increased the risk of unauthorized access to key financial data and programs during our testing of the mainframe operating system.

Specific disclosure of detailed information about these exposures might further compromise controls and are therefore not provided within this report. Rather, the specific details of weaknesses noted are presented in a separate, limited-distribution management letter.

### Recommendations

We recommend that SSA management implement policies and procedures that require a periodic review of the content of all security profiles. These policies and procedures should enforce a consistent approach for profile review and should require auditable artifacts to evidence the completion of these reviews. If designed appropriately and implemented effectively, management should be able to decrease the risk of personnel and contractors maintaining excessive access to transactions and data.

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We also recommend that management implement controls to test and monitor configurations on the mainframe to identify and address inherent security risks. This should include a comprehensive procedure to test new software and updates to existing software on the mainframe prior to implementation. Management must also implement procedures that require on-going monitoring of implemented mainframe configurations to identify and address security risks.

More specific recommendations focused on the individual exposures we identified are included in a separate limited-distribution management letter, which also includes management's response and their planned corrective actions.

## 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 the compliance with laws and regulations, including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under the *Federal Financial Management Improvement Act of 1996* (FFMIA), we are required to report whether the SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We did not test compliance with all laws and regulations applicable to SSA. We limited our tests of compliance to the provisions of laws and regulations cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 and no instances of substantial noncompliance that are required to be reported under FFMIA.

## OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 5 through 46 and the Required Supplementary Information (RSI) included on pages 136 through 151 of this PAR are not a required part of the consolidated and combined financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular No. 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 and RSI. 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 taken as a whole. The Schedule of Budgetary Resources included on page 135 of this PAR is not a required part of the consolidated and combined financial statements but is supplementary information required by OMB Circular No. A-136. This schedule and the consolidating and combining information included on pages 131 to 134 of this PAR are not a required part of the consolidated and 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, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

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The Commissioner's Message on page 1 and the other accompanying information included on pages 2 through 4, 47 through 96 and 163 to the end of this PAR is presented for purposes of additional analysis and is also 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.

Our report is intended solely for the information and use of management of SSA, the Office of the Inspector General, the OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Alexandria, Virginia
November 8, 2010

SOCIAL SECURITY ADMINISTRATION 75 YEARS

SOCIAL SECURITY
The Commissioner

November 1, 2010

Grant Thornton LLP
333 John Carlyle
Alexandria, VA 22314

Ladies and Gentlemen:

We have reviewed the draft Independent Auditor's Report concerning your audit of our fiscal year 2010 financial statements. We are extremely pleased that we received our 17th consecutive unqualified opinion on our financial statements, an unqualified opinion on management's assertion that our internal controls were operating effectively, and that there were no reportable instances of noncompliance with laws or regulations.

Your report did identify a significant deficiency regarding the need to improve certain internal controls. We concur with this finding and will implement the necessary corrective actions to strengthen our internal controls. We have enclosed a more detailed explanation of our plans.

If you have questions, please do not hesitate to contact me or have your staff contact Carla Krabbe at (410) 965-0759.

Sincerely,

Michael J. Astrue

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Enclosure - Page 1 - Grant Thornton LLP

Comments of the Social Security Administration (SSA) on Grant Thornton LLP's Draft Independent Auditor's Report

General Comments

Thank you for the opportunity to comment on the draft Independent Auditor's Report concerning our fiscal year (FY) 2010 financial statements.

We are pleased that your report indicates our internal control over financial reporting is operating effectively. However, the report did note the need for additional improvements over certain internal controls and contained related recommendations.

The agency continues to strengthen our already robust security program. We utilize a layered approach to securing our information and systems. Access controls, including mainframe security profiles, limit access based upon the security principles of "least privileged access" and "need to know." We also capture audit and integrity review information to detect inappropriate or suspicious activity, and train our security officers to monitor security violation reports. Additionally, we provide security awareness training and warnings to employees reminding them of their obligation not to access unauthorized information.

We will continue to work to improve the overall effectiveness of our security controls. We agree with your recommendations and offer the following comments.

Recommendation 1

We recommend that SSA management implement policies and procedures that require a periodic review of the content of all security profiles. These policies and procedures should enforce a consistent approach for profile review and should require auditable artifacts to evidence the completion of these reviews. If designed appropriately and implemented effectively, management should be able to decrease the risk of personnel and contractors maintaining excessive access to transactions and data.

Comment

We agree with the recommendation. In January 2010, an agency workgroup convened to develop new policies and procedures for conducting periodic reviews of the content of our security profiles. We plan to implement these new policies and procedures in FY 2011. We also initiated a project to develop and implement a commercial off-the-shelf (COTS) based software solution to automate the process of reviewing security profile content. The Office of the Chief Information Officer is working with the Office of Systems to define the functional and technical requirements for this automated solution. This solution will provide improved tools to assist security officers with reviewing security profile content and provide auditable evidence of the completion of these reviews. This solution helps ensure that both agency-wide and locally managed

Enclosure – Page 2 – Grant Thornton LLP

security profiles are reviewed consistently throughout the agency and will provide management information for monitoring the progress of profile reviews. We will base the automated COTS solution on the procedures drafted by the agency workgroup. Additionally, the COTS solution will improve our Triennial Certification program by providing meaningful information to managers needed for conducting reviews of access granted to employees and contractors.

Recommendation 2

We also recommend that management implement controls to test and monitor configurations on the mainframe to identify and address inherent security risks. This should include a comprehensive procedure to test new software and updates to existing software on the mainframe prior to implementation. Management must also implement procedures that require ongoing monitoring of implemented mainframe configurations to identify and address security risks.

Comment

We agree with the recommendation. While the mainframe configuration increased the risk of unauthorized access, the likelihood of this happening was extremely low. As soon as we became aware of the weakness, we took remedial action that addressed the weakness. We implemented specific controls to identify and address security risks of this nature, and we are expanding current procedures to identify and address mainframe security risks.