FINANCIAL SECTION

A Message from the Chief Financial Officer

In fiscal year (FY) 2011, we upheld our strong commitment to accountability and fiscal discipline, as we received our 18th consecutive unqualified audit opinion on our financial statements. The unqualified opinion confirms that our financial statements present fairly, in all material respects, the financial position of the Social Security Administration (SSA). Our dedication to excellence in financial reporting demonstrates our commitment to be responsible stewards of the funds the American people entrust to us.

We also received an unqualified opinion from our auditors on our assertion that our internal control over financial reporting operated effectively in FY 2011. The auditors found no material weaknesses; however, they continued to cite an ongoing significant deficiency related to internal controls over information security. Since the auditors first noted this deficiency, we have worked diligently to correct all known issues to further strengthen our control environment and mitigate risks. Our corrective actions will span multiple years as we are making comprehensive changes to strengthen our security platform. Additional information about our progress in addressing the significant deficiency is available in the *Systems and Controls* and the *Auditor's Reports* sections of this report.

During this past year, we continued to pursue information technology advancements that ensure relevant, reliable, and timely accounting and management information. We upgraded our accounting system by implementing new software tools that improve application controls, prevent potential security violations, and strengthen user access policies and internal controls. We also piloted the Internet Payment Platform, which provides a paperless workflow for accounting information and documents. Finally, we continued work on modernizing the cost analysis system, which will better manage and account for resources and enhance decision-making.

Given current budget constraints, we found new ways to reduce our costs so that we could maintain our most critical services. To support the President's Accountable Government Initiative, we scrutinized our real estate infrastructure and made cost-effective choices to consolidate offices where it made good business sense and encourage people to use our highly rated electronic services. We also focused our efforts on achieving savings in our acquisition process. We will continue to pursue initiatives to reduce costs, improve our efficiency, and operate effectively.

In acknowledgment of our commitment to transparency and accountability for our *Performance and Accountability Report* for FY 2010, we received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. We have received this honor for 13 consecutive years.

Our achievements are directly attributable to our employees who are committed to our mission and to serving the public. We are dedicated to strong stewardship of the Social Security Trust Funds.

Michael G. Gallagher
Chief Financial Officer
November 7, 2011

Financial Statements and Additional Information

The agency's financial statements and additional information for fiscal years (FY) 2011 and 2010 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2011 and 2010, 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, 2011 and 2010. 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, 2011 and 2010. 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, 2011 and 2010. 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 present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future noninterest income and cost expected to arise from the formulas specified in current law for current and future program participants. The difference between these values is presented on both an open group and a closed group basis, both including and excluding the value of the combined OASI and DI Trust Fund assets at the beginning of the period.
- The **Statement of Changes in Social Insurance Amounts** reconciles the change (between the current valuation and the prior valuation) in the present value of future noninterest income less future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies several components of the change that are significant and provides reasons for the changes.
- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries, and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated, and an interpretive analysis of trends revealed by the data.

Consolidated Balance Sheets as of September 30, 2011 and 2010
(Dollars in Millions)

Assets	**2011**	2010
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	**$ 5,115**	$ 6,187
Investments (Note 5)	**2,654,496**	2,586,333
Interest Receivable, Net (Note 5)	**28,085**	28,893
Accounts Receivable, Net (Note 6)	**625**	915
Other	**23**	2
Total Intragovernmental	**2,688,344**	2,622,330
Accounts Receivable, Net (Notes 3 and 6)	**11,089**	10,369
Property, Plant, and Equipment, Net (Notes 3 and 7)	**2,909**	2,825
Other	**2**	3
Total Assets	**$ 2,702,344**	$ 2,635,527
Liabilities (Note 8)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	**$ 4,227**	$ 4,418
Accounts Payable	**8,357**	8,525
Other	**259**	269
Total Intragovernmental	**12,843**	13,212
Benefits Due and Payable	**82,218**	80,785
Accounts Payable	**485**	473
Other	**1,060**	1,467
Total Liabilities	**96,606**	95,937
Net Position		
Unexpended Appropriations-Earmarked Funds (Note 9)	**61**	61
Unexpended Appropriations-Other Funds	**376**	412
Cumulative Results of Operations-Earmarked Funds (Note 9)	**2,604,111**	2,537,480
Cumulative Results of Operations-Other Funds	**1,190**	1,637
Total Net Position	**2,605,738**	2,539,590
Total Liabilities and Net Position	**$ 2,702,344**	$ 2,635,527

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2011 and 2010

(Dollars in Millions)

	2011	2010
OASI Program		
Benefit Payments	**$ 593,047**	$ 574,223
Operating Expenses (Note 10)	**3,858**	3,584
Total Cost of OASI Program	**596,905**	577,807
Less: Exchange Revenues (Notes 11 and 12)	**(14)**	(15)
Net Cost of OASI Program	**596,891**	577,792
DI Program		
Benefit Payments	**127,471**	121,598
Operating Expenses (Note 10)	**3,282**	3,028
Total Cost of DI Program	**130,753**	124,626
Less: Exchange Revenues (Notes 11 and 12)	**(43)**	(42)
Net Cost of DI Program	**130,710**	124,584
SSI Program		
Benefit Payments	**49,041**	43,844
Operating Expenses (Note 10)	**4,216**	3,798
Total Cost of SSI Program	**53,257**	47,642
Less: Exchange Revenues (Notes 11 and 12)	**(358)**	(301)
Net Cost of SSI Program	**52,899**	47,341
Other		
Benefit Payments	**7**	8
Operating Expenses (Note 10)	**2,230**	2,546
Total Cost of Other Program	**2,237**	2,554
Less: Exchange Revenues (Notes 11 and 12)	**(9)**	(10)
Net Cost of Other	**2,228**	2,544
Total Net Cost		
Benefit Payments	**769,566**	739,673
Operating Expenses (Note 10)	**13,586**	12,956
Total Cost	**783,152**	752,629
Less: Exchange Revenues (Notes 11 and 12)	**(424)**	(368)
Total Net Cost	**$ 782,728**	$ 752,261

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2011 and 2010

(Dollars in Millions)

	2011			2010		
	Earmarked Funds	**All Other Funds**	**Total**	Earmarked Funds	All Other Funds	Total
Cumulative Results of Operations:						
Beginning Balances	**$ 2,537,480**	**$ 1,637**	**$ 2,539,117**	$ 2,456,852	$ 1,235	$ 2,458,087
Budgetary Financing Sources						
Appropriations Used	**101,998**	**55,974**	**157,972**	22,845	50,975	73,820
Tax Revenues (Note 13)	**580,886**	**0**	**580,886**	646,673	0	646,673
Interest Revenues	**115,169**	**0**	**115,169**	118,014	0	118,014
Transfers-In/Out - Without Reimbursement	**(5,858)**	**7,641**	**1,783**	(5,952)	7,841	1,889
Railroad Retirement Interchange	**(4,383)**	**0**	**(4,383)**	(4,500)	0	(4,500)
Net Transfers-In/Out	**(10,241)**	**7,641**	**(2,600)**	(10,452)	7,841	(2,611)
Other Budgetary Financing Sources	**67**	**0**	**67**	63	0	63
Other Financing Sources (Non-Exchange)						
Imputed Financing Sources (Note 14)	**0**	**680**	**680**	0	709	709
Other	**0**	**(3,262)**	**(3,262)**	0	(3,377)	(3,377)
Total Financing Sources	**787,879**	**61,033**	**848,912**	777,143	56,148	833,291
Net Cost of Operations	**721,248**	**61,480**	**782,728**	696,515	55,746	752,261
Net Change	**66,631**	**(447)**	**66,184**	80,628	402	81,030
Cumulative Results of Operations	**$ 2,604,111**	**$ 1,190**	**$ 2,605,301**	$ 2,537,480	$ 1,637	$ 2,539,117
Unexpended Appropriations:						
Beginning Balances	**$ 61**	**$ 412**	**$ 473**	$ 58	$ 680	$ 738
Adjustments						
Corrections of Errors	**0**	**0**	**0**	5	0	5
Beginning Balances, as Adjusted	**$ 61**	**$ 412**	**$ 473**	$ 63	$ 680	$ 743
Budgetary Financing Sources						
Appropriations Received	**102,008**	**56,351**	**158,359**	22,851	51,480	74,331
Other Adjustments	**(10)**	**(413)**	**(423)**	(8)	(773)	(781)
Appropriations Used	**(101,998)**	**(55,974)**	**(157,972)**	(22,845)	(50,975)	(73,820)
Total Budgetary Financing Sources	**0**	**(36)**	**(36)**	(2)	(268)	(270)
Total Unexpended Appropriations	**61**	**376**	**437**	61	412	473
Net Position	**$ 2,604,172**	**$ 1,566**	**$ 2,605,738**	$ 2,537,541	$ 2,049	$ 2,539,590

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2011 and 2010
(Dollars in Millions)

	2011	2010
Budgetary Resources (Note 15)		
Unobligated Balance, Brought Forward, October 1	**$ 2,095**	$ 2,584
Recoveries of Prior Year Unpaid Obligations	**410**	411
Budget Authority		
Appropriation	**982,487**	882,359
Spending Authority from Offsetting Collections		
Earned		
Collected	**3,914**	3,650
Change in Receivable	**0**	2
Change in Unfilled Customer Orders		
Advance Received	**(287)**	(14)
Expenditure Transfers from Trust Funds	**11,214**	11,466
Subtotal	**997,328**	897,463
Nonexpenditure Transfers, Net	**(76)**	(18)
Temporarily Not Available Pursuant to Public Law	**(92,033)**	(101,020)
Permanently Not Available	**(426)**	(786)
Total Budgetary Resources	**$ 907,298**	$ 798,634
Status of Budgetary Resources (Note 15)		
Obligations Incurred		
Direct	**$ 902,516**	$ 792,886
Reimbursable	**3,912**	3,653
Subtotal	**906,428**	796,539
Unobligated Balances		
Apportioned	**291**	861
Unobligated Balance - Not Available	**579**	1,234
Total Status of Budgetary Resources	**$ 907,298**	$ 798,634
Change in Obligated Balance		
Obligated Balances, Net		
Unpaid Obligations, Brought Forward, October 1	**$ 87,604**	$ 87,128
Uncollected Customer Payments, Brought Forward, October 1	**(3,830)**	(3,743)
Total Unpaid Obligated Balance, Net	**83,774**	83,385
Obligations Incurred, Net	**906,428**	796,539
Gross Outlays	**(905,296)**	(795,652)
Recoveries of Prior Year Unpaid Obligations, Actual	**(410)**	(411)
Change in Uncollected Customer Payments	**755**	(87)
Obligated Balance, Net, End of Period		
Unpaid Obligations	**88,326**	87,604
Uncollected Customer Payments	**(3,075)**	(3,830)
Total Unpaid Obligated Balance, Net, End of Period	**$ 85,251**	$ 83,774
Net Outlays		
Net Outlays		
Gross Outlays	**$ 905,296**	$ 795,652
Offsetting Collections	**(15,596)**	(15,016)
Distributed Offsetting Receipts	**(105,395)**	(26,455)
Net Outlays	**$ 784,305**	$ 754,181

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, 2011
(Dollars in Billions)

		Estimates from Prior Years			
	2011	**2010**	**2009**	**2008**	**2007**
Present value for the 75-year projection period from or on behalf of: (Note 17)					
Participants who, in the starting year of the projection period, have attained eligibility age (age 62 and over):					
Noninterest income	$ 726	$ 672	$ 575	$ 542	$ 477
Cost for scheduled future benefits	8,618	8,096	7,465	6,958	6,329
Future noninterest income less future cost	-7,892	-7,424	-6,890	-6,416	-5,851
Participants who have not yet attained retirement eligibility age (ages 15-61):					
Noninterest income	20,734	19,914	18,559	18,249	17,515
Cost for scheduled future benefits	34,042	32,225	30,207	29,021	27,928
Future noninterest income less future cost	-13,309	-12,311	-11,647	-10,772	-10,413
Present value of future noninterest income less future cost for current participants (closed group measure)	-21,201	-19,735	-18,537	-17,188	-16,264
Combined OASI and DI Trust Fund assets at start of period	2,609	2,540	2,419	2,238	2,048
Closed group - Present value of future noninterest income less future cost for current participants *plus* combined OASI and DI Trust Fund assets at start of period	-$ 18,592	-$ 17,195	-$ 16,118	-$ 14,949	-$ 14,216
Present value for the 75-year projection period from or on behalf of: (Note 17)					
Future participants (those under age 15 and to be born and to immigrate during period):					
Noninterest income	20,144	19,532	18,082	17,566	16,121
Cost for scheduled future benefits	8,100	7,744	7,223	6,933	6,619
Future noninterest income less future cost	12,044	11,789	10,860	10,633	9,501
Present value of future noninterest income less future cost for current and future participants (open group measure)	-9,157	-7,947	-7,677	-6,555	-6,763
Combined OASI and DI Trust Fund assets at start of period	2,609	2,540	2,419	2,238	2,048
Open group - Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund assets at start of period	-$ 6,548	-$ 5,406	-$ 5,258	-$ 4,316	-$ 4,715

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

Statement of Changes in Social Insurance Amounts
Old-Age, Survivors and Disability Insurance
For Changing the 75-Year Valuation Period from
Beginning on January 1, 2010 to January 1, 2011
(Dollars in Billions)

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund assets at start of period
As of January 1, 2010	-$ 7,947	$ 2,540	-$ 5,406
Reasons for changes between January 1, 2010 and January 1, 2011 (Note 17)			
Change in the valuation period	-436	77	-359
Changes in demographic data, assumptions, and methods	-688	0	-688
Changes in economic data, assumptions, and methods	-143	0	-143
Changes in methodology and programmatic data	56	-8	48
Net change between January 1, 2010 and January 1, 2011	-$ 1,211	$ 69	-$ 1,142
As of January 1, 2011	-$ 9,157	$ 2,609	-$ 6,548

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, 2011 AND 2010

(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 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 OASI and DI Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds, and six general fund appropriations. SSA's financial statements also include appropriations related to the *American Recovery and Reinvestment Act of 2009* (ARRA).

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 six general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program, Payments for Credits Against Social Security Contributions, Medicare Savings Program, and Children's Health Insurance Program. SSA's financial statements also include OASI and DI investment activities performed by the Department of the Treasury (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 SSI overpayment collections and other non-material activities.

Fund Balance with Treasury

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 3, Non-Entity Assets, and Note 4, Fund Balance with Treasury.

Investments

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the *Social Security Act*. These investments consist of U.S. Treasury special-issue bonds. Special-issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets. Refer to Note 5, Investments and Interest Receivable.

Property, Plant, and Equipment

SSA's property, plant, and equipment (PP&E) are recorded in the LAE program, but represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, requires the capitalization of internally-developed, contractor-developed, and commercial off-the-shelf software. The capitalization threshold for most PP&E categories is $100 thousand. Automated Data Processing (ADP), Telecommunications Site Preparation, and Buildings and Other Structures are capitalized with no threshold. Refer to Note 3, Non-Entity Assets, and Note 7, Property, Plant, and Equipment, Net.

The change in PP&E from one reporting period to the next is presented on the chart in Note 16, Reconciliation of Net Cost of Operations to Budget, on the Resources that Finance the Acquisition of Assets line. This line item represents the capital assets that affect budgetary obligations.

Benefits Due and Payable

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

Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a federally-recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day. Since October 1, 2011 falls on a Saturday, the October 2011 SSI benefit payments are accelerated into September. The related amounts have been recorded as outlays and expenditures in the financial statements.

Administrative Expenses and Obligations

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

Obligations are incurred in the LAE accounts as activity is processed. Obligations are incurred in each of the financing sources (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 activities that are funded from Treasury's General Fund, including the ARRA appropriations.

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.

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.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Payroll Tax Holiday)

In FY 2011, Congress passed the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (Public Law 111-312). This provides employees a one-year reduction in FICA tax withholdings, reducing rates from 6.2% to 4.2% for the 2011 tax year (January-December). Employers will continue to pay the full 6.2% rate. Self-employed persons, who pay both halves of the Social Security tax through self-employment tax, will pay 10.4%. In order to avoid harming the OASI and DI Trust Funds, the bill also provides the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. This activity will result in decreased tax revenues and increased transfers on the financial statements. Refer to Note 13, Tax Revenues, for additional information.

Statement of Social Insurance and Statement of Changes in Social Insurance Amounts

Effective for FY 2011, the Statement of Social Insurance is revised to reflect a new summary section as required by FASAB SFFAS No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements.* Also included as part of the new reporting requirements, is a new basic financial statement, Statement of Changes in Social Insurance Amounts, that presents the reasons for changes during the reporting period in the open group measure reported on the Statement of Social Insurance.

Application of Critical Accounting Estimates

The Statement of Social Insurance and Statement of Changes in Social Insurance Amounts are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. Each statement includes information to assist in understanding the effect of changes in assumptions to the related information. Refer to Note 17, Social Insurance Disclosures.

OASI and DI Trust Fund Buildings

For a number of years, SSA and the General Services Administration (GSA) have disagreed over who would receive the proceeds from the sale of buildings acquired with money from the OASI and DI Trust Funds. In the past, SSA contended that since the buildings were acquired with money from the OASI and DI Trust Funds, the buildings and related proceeds belonged to SSA. However, in December 2010, the Department of Justice (DOJ) issued an opinion stating that the proceeds belonged to GSA based on Section 412 of the *Consolidated Appropriation Act of 2005*. In reviewing this ruling, SSA has reevaluated its recording of these buildings as assets. Effective this year, we removed the Net Book Value of the original buildings. This activity has resulted in an increase in Operating Expense of $118 million on the Statement of Net Costs. Refer to Note 7, Property, Plant, and Equipment, Net, for additional information.

Reclassifications

Certain FY 2010 balances have been reclassified to conform to FY 2011 Financial Statement Note presentations, the effect of which is immaterial. The change occurs in Note 7 in regards to the Buildings and Leasehold Improvement accounts. These changes are attributable to DOJ's ruling on the proceeds of buildings acquired with money from the OASI and DI Trust Funds.

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.

GSA, using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. 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 $81 and $92 million for the years ended September 30, 2011 and 2010. SSA contributions to the basic FERS plan were $418 and $375 million for the years ended September 30, 2011 and 2010. 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 $146 and $135 million for the years ended September 30, 2011 and 2010. 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 and underpayments 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 Treasury's 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)

	2011			2010		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
SSI Fed/State A/R	$ 5,791	$ (316)	$ 5,475	$ 5,544	$ (592)	$ 4,952
SSI Overpayment Collections	2,961	0	2,961	3,237	0	3,237
SSI State Supp Fees (GF)	157	0	157	132	0	132
Title VIII State Supp Fees (GF)	2	0	2	2	0	2
SSI Attorney Fees (GF)	9	0	9	8	0	8
PP&E (CMS)	0	0	0	29	0	29
Total	$ 8,920	$ (316)	$ 8,604	$ 8,952	$ (592)	$ 8,360

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 Treasury's General Fund. These funds, upon deposit, are assets of Treasury's General Fund and shall not be used by SSA as an SSI budgetary resource to pay SSI benefits or administrative costs. 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. When a beneficiary does not receive their full SSI State Supplemental benefit, SSA establishes an underpayment receivable. This receivable reflects the reimbursement due to SSA from the States to cover the unpaid benefit. SSA recognizes this receivable due from the States as a non-entity asset since the amount owed is due to the beneficiary.

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 was also recognized as a non-entity asset as of September 30, 2010. 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 retained that portion of assets. Since SSA removed these buildings, HI/SMI's portion of these assets are no longer on SSA's Balance Sheet as of September 30, 2011. 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 Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI, DI, and LAE Trust Fund budgetary accounts are not used in Chart 4b since OASI and DI Trust Fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in Chart 4b will not match corresponding activity on the combined Statements of Budgetary Resources.

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

	2011	2010
Trust Funds*		
OASI	$ (606)	$ (463)
DI	(391)	(384)
LAE	(3)	19
General Funds		
SSI	2,372	2,948
Other	586	621
Other Funds		
SSI	191	205
Other	2,966	3,241
Total	$ 5,115	$ 6,187

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

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

	2011	2010
Unobligated Balance		
Available	$ 200	$ 298
Unavailable	177	401
Obligated Balance Not Yet Disbursed	2,581	2,870
OASI, DI, and LAE	(1,000)	(828)
Non-Budgetary FBWT	3,157	3,446
Total	$ 5,115	$ 6,187

The negative fund balances reported for the OASI, DI, and LAE Trust Funds as of September 30, 2011 and 2010 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 $2,654,496 and $2,586,333 million as of September 30, 2011 and 2010, respectively. The interest rates on these investments range from 1⅞ to 6⅞ 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 2026. 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 $28,085 and $28,893 million as of September 30, 2011 and 2010.

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 $625 and $915 million as of September 30, 2011 and 2010 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The gross accounts receivable has been reduced by $2,453 and $2,926 million as of September 30, 2011 and 2010 as an intra-agency elimination. This elimination is primarily to offset SSA's LAE receivable to be paid from the appropriate funds with corresponding payables set up for anticipated LAE disbursements.

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

With the Public

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

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

	2011			2010		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 2,095	$ (206)	$ 1,889	$ 2,144	$ (208)	$ 1,936
DI	5,955	(2,194)	3,761	5,450	(2,062)	3,388
SSI*	7,800	(2,009)	5,791	7,603	(1,947)	5,656
LAE	4	0	4	15	0	15
Subtotal	15,854	(4,409)	11,445	15,212	(4,217)	10,995
Less:						
Eliminations**	(356)	0	(356)	(626)	0	(626)
Total	$ 15,498	$ (4,409)	$ 11,089	$ 14,586	$ (4,217)	$ 10,369

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

Chart 6 shows that in FY 2011 and 2010, gross accounts receivable was reduced by $356 and $626 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset in FY 2011 and Special Disability Workload cases and Windfall Offset in FY 2010. Windfall Offset is the amount of SSI 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 Special Disability Workload cases, the agency recognized and established receivables for both the OASI and SSI programs with an offsetting payable in the DI program. As of September 30, 2011, the majority of the Special Disability Workload cases have been resolved and no longer require elimination.

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

7. PROPERTY, PLANT, AND EQUIPMENT, NET

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

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

	2011			2010		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 0	$ 0	$ 0	$ 4	$ 0	$ 4
Construction in Progress	26	0	26	2	0	2
Buildings and Other Structures	59	(16)	43	442	(273)	169
Equipment (incl. ADP Hardware)	752	(613)	139	685	(546)	139
Internal Use Software	4,843	(2,315)	2,528	4,284	(1,895)	2,389
Leasehold Improvements	425	(252)	173	354	(232)	122
Total	$ 6,105	$ (3,196)	$ 2,909	$ 5,771	$ (2,946)	$ 2,825

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	6-33 years	Straight Line

As of September 30, 2011, SSA removed the buildings acquired with money from the OASI, DI, HI and SMI Trust Funds and the related depreciation from SSA's assets on the Balance Sheet.

In December 2010, DOJ issued an opinion on who was entitled to the proceeds from the sale of buildings acquired with money from the OASI and DI Trust Funds. Due to DOJ's decision, SSA reevaluated its position that the buildings acquired with money from the OASI and DI Trust Funds belonged as an asset on SSA's financial statement. Based on DOJ's opinion, SSA removed the original costs of the buildings, worth $381 million, and its related accumulated depreciation, worth $263 million, by increasing Operating Expenses on the Statement of Net Costs by $118 million as of September 30, 2011. The Land asset was also affected and reduced as a result of DOJ's opinion.

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)

	2011			2010		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	$ 4,227	$ 0	$ 4,227	$ 4,418	$ 0	$ 4,418
Accounts Payable	41	8,316	8,357	67	8,458	8,525
Other	29	230	259	68	201	269
Total Intragovernmental	4,297	8,546	12,843	4,553	8,659	13,212
Benefits Due and Payable	78,602	3,616	82,218	77,056	3,729	80,785
Accounts Payable	49	436	485	37	436	473
Other	360	700	1,060	751	716	1,467
Total	$ 83,308	$ 13,298	$ 96,606	$ 82,397	$ 13,540	$ 95,937

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 Treasury's General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. 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. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to Department of Labor's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is $61 and $59 million as of September 30, 2011 and 2010. Intragovernmental Other Not Covered amounts include $157 and $132 million as of September 30, 2011 and 2010 for SSI State Fees payable to Treasury's 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, 2011 and 2010. 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)		
	2011	2010
OASI	$ 53,161	$ 51,651
DI	24,169	24,329
SSI	5,244	5,431
Subtotal	82,574	81,411
Less: Intra-agency eliminations	(356)	(626)
Total	$ 82,218	$ 80,785

Chart 8b also shows that as of FY 2011 and 2010, gross Benefits Due and Payable was reduced by $356 and $626 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset in FY 2011 and from Special Disability Workload cases in FY 2010. Refer to Note 6, Accounts Receivable, Net.

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 $334 and $319 million as of September 30, 2011 and 2010 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

Contingent Liabilities

For several years, the Department of Justice (Tax Division) handled litigation concerning whether medical residents are subject to FICA taxation. FICA taxes are collected by the U.S. Treasury and then transferred to the OASI and DI Trust Funds. On March 2, 2010, the Internal Revenue Service (IRS) announced plans to refund medical residents FICA taxes for periods ending before April 1, 2005 to institutions and individuals with timely filed refund claims. 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.

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. 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 the OASI and DI Trust Funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. 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.

Payments to Social Security Trust Funds

PTF consists of transfers authorized by law between Treasury's 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, Unnegotiated Check Reimbursement, Payroll Tax Holiday, and *Food, Conservation, and Energy Act* 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, 2011 and 2010.

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

	2011				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (606)	$ (391)	$ 75	$ 0	$ (922)
Investments	2,492,531	161,965	0	0	2,654,496
Interest Receivable	26,186	1,899	0	0	28,085
Accounts Receivables - Federal	2	2	0	(4)	0
Accounts Receivables - Non-Federal	1,889	3,761	0	(40)	5,610
Total Assets	$ 2,520,002	$ 167,236	$ 75	$ (44)	$ 2,687,269
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 3,778	$ 449	$ 0	$ 0	$ 4,227
Accounts Payable, Federal	869	704	5	(4)	1,574
Benefits Due and Payable	53,161	24,169	0	(40)	77,290
Other - Non-Federal Liabilities	0	6	0	0	6
Total Liabilities	57,808	25,328	5	(44)	83,097
Unexpended Appropriations	0	0	61	0	61
Cumulative Results of Operations	2,462,194	141,908	9	0	2,604,111
Total Liabilities and Net Position	$ 2,520,002	$ 167,236	$ 75	$ (44)	$ 2,687,269
Statement of Net Cost					
Program Costs	$ 593,047	$ 127,471	$ 0	$ 0	$ 720,518
Operating Expenses	715	221	0	0	936
Less Earned Revenue	(1)	(30)	(175)	0	(206)
Net Cost of Operations	$ 593,761	$ 127,662	$ (175)	$ 0	$ 721,248
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,370,742	$ 166,719	$ 80	$ 0	$ 2,537,541
Tax Revenue	496,590	84,296	0	0	580,886
Interest Revenue	106,931	8,238	0	0	115,169
Net Transfers In/Out	81,673	10,269	(102,183)	0	(10,241)
Other	19	48	101,998	0	102,065
Total Financing Sources	685,213	102,851	(185)	0	787,879
Net Cost of Operations	593,761	127,662	(175)	0	721,248
Net Change	91,452	(24,811)	(10)	0	66,631
Net Position End of Period	$ 2,462,194	$ 141,908	$ 70	$ 0	$ 2,604,172

Chart 9 includes eliminations between SSA's earmarked funds which primarily represent eliminations for activity between the OASI and DI Trust Funds; however, $1,882 million of liabilities in the earmarked funds for the year ended September 30, 2011 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)

	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 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.

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. LAE ARRA operating expenses recorded in the Other program represent administrative costs attributable to Economic Recovery Payment (ERP), expenses associated with the construction and setup of the new National Support Center, 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 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)

	2011						
	LAE						
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Program ERP	Total
OASI	$ 3,106	$ 37	$ 0	$ 713	$ 2	$ 0	$ 3,858
DI	3,025	36	0	133	88	0	3,282
SSI	4,091	0	0	0	125	0	4,216
Other	2,173	29	10	0	1	17	2,230
	$ 12,395	$ 102	$ 10	$ 846	$ 216	$ 17	$ 13,586

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

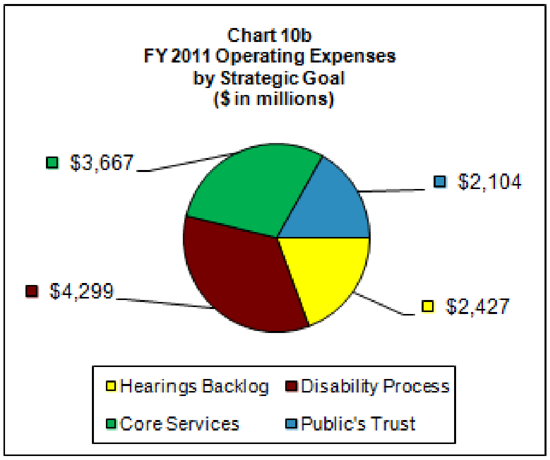
	2010						
	LAE						
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Program ERP	Total
OASI	$ 2,906	$ 38	$ 0	$ 637	$ 3	$ 0	$ 3,584
DI	2,765	36	0	120	107	0	3,028
SSI	3,668	0	0	0	130	0	3,798
Other	2,050	28	345	0	5	118	2,546
	$ 11,389	$ 102	$ 345	$ 757	$ 245	$ 118	$ 12,956

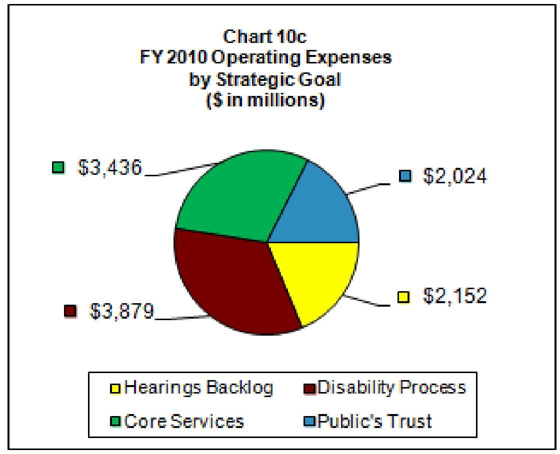
Classification of Operating Expenses by Strategic Goal

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 2011 and 2010 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 $424 and $368 million for the years ended September 30, 2011 and 2010. SSA's 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 $341 and $283 million for the years ended September 30, 2011 and 2010.

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 $166 and $140 million as of September 30, 2011 and 2010. The portion of these non-entity asset fees collected to administer SSI State Supplementation total $157 and $132 million as of September 30, 2011 and 2010. The fees are deposited directly to Treasury's General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to Treasury's 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 $175 and $143 million for the years ended September 30, 2011 and 2010 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned $83 and $85 million for the years ended September 30, 2011 and 2010 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)

	2011			2010		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	$ 1,566	$ (12)	$ 1,554	$ 1,472	$ (11)	$ 1,461
Public	595,339	(2)	595,337	576,335	(4)	576,331
OASI Subtotal	596,905	(14)	596,891	577,807	(15)	577,792
DI Program						
Intragovernmental	963	(12)	951	914	(10)	904
Public	129,790	(31)	129,759	123,712	(32)	123,680
DI Subtotal	130,753	(43)	130,710	124,626	(42)	124,584
SSI Program						
Intragovernmental	1,150	(15)	1,135	1,079	(13)	1,066
Public	52,107	(343)	51,764	46,563	(288)	46,275
SSI Subtotal	53,257	(358)	52,899	47,642	(301)	47,341
Other Program						
Intragovernmental	597	(8)	589	589	(7)	582
Public	1,640	(1)	1,639	1,965	(3)	1,962
Other Subtotal	2,237	(9)	2,228	2,554	(10)	2,544
Total	$ 783,152	$ (424)	$ 782,728	$ 752,629	$ (368)	$ 752,261

13. Tax Revenues

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

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the IRS or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of $580,886 and $646,673 million for the years ended September 30, 2011 and 2010.

The 2011 tax revenue is reduced as a result of a new one-year tax bill signed into law in December 2010. The *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* provides employees a one-year reduction in FICA tax withholdings, reducing rates from 6.2% to 4.2% for the 2011 tax year (January-December). In order to avoid harming the OASI and DI Trust Funds, the bill also provides the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. The total transferred amount is $78,915 million for the year ended September 30, 2011.

14. Imputed Financing

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of $1,169 and $1,148 million for the years ended September 30, 2011 and 2010 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 $680 and $709 million for the years ended September 30, 2011 and 2010 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 $982,487 and $882,359 million for the years ended September 30, 2011 and 2010. Appropriations Received on the Consolidated Statements of Changes in Net Position are $158,359 and $74,331 million for the same periods. The differences of $824,128 and $808,028 million primarily represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated 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 No. A-136 to have the Combined Statements of

Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

Apportionment Categories of Obligations Incurred

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)

	2011			2010		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 32	$ 0	$ 32	$ 44	$ 0	$ 44
Category B	68,476	3,910	72,386	63,088	3,650	66,738
Exempt	834,008	2	834,010	729,754	3	729,757
Total	$ 902,516	$ 3,912	$ 906,428	$ 792,886	$ 3,653	$ 796,539

Permanent Indefinite Appropriation

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

The Title VIII Program was established as part of Public Law 106-169, *Foster Care Independence Act of 1999*. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of Public Law 106-169, the veterans' SSI benefits would terminate the month after leaving the 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 fiscal year are reported as new budget authority on the Combined Statements of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated in the OASI and DI Trust Funds. The portion of OASI and DI Trust Fund receipts collected in the fiscal year that exceeds the amount needed to pay benefits and other valid obligations in that fiscal year is precluded by law from being available for obligation. At the end of the fiscal year, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the Statements of Budgetary Resources; therefore, it is not classified as budgetary resources in the fiscal year 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)

	2011	2010
Beginning Balance	$ 2,534,325	$ 2,433,305
Receipts	823,946	807,879
Less Obligations	731,913	706,859
Excess of Receipts Over Obligations	92,033	101,020
Ending Balance	$ 2,626,358	$ 2,534,325

Undelivered Orders at the End of the Period

Undelivered orders consist of unpaid orders of goods and services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are $2,239 and $1,987 million for the years ended September 30, 2011 and 2010.

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, 2010 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 Combined Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2010. 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 2010:
($ in millions)

	Budgetary Resources	Status of Resources	Outlays
Combined Statement of Budgetary Resources	$ 798,634	$ 798,634	$ 754,181
Expired activity not on P&F	(515)	(478)	0
Offsetting Receipts activity not on P&F	0	0	26,455
Other	0	(37)	(2)
Budget of the United States Government	$ 798,119	$ 798,119	$ 780,634

A reconciliation has not been conducted for the year ended September 30, 2011 since this report is published in November 2011 and the actual budget data for FY 2011 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, 2011 and 2010
(Dollars in Millions)

	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	**$ 906,428**	$ 796,539
Offsetting Collections and Recoveries	**(15,251)**	(15,515)
Obligations Net of Offsetting Collections and Recoveries	**891,177**	781,024
Offsetting Receipts	**(105,395)**	(26,455)
Net Obligations	**785,782**	754,569
Other Resources		
Imputed Financing	**680**	709
Other	**(340)**	(283)
Net Other Resources Used to Finance Activities	**340**	426
Total Resources Used to Finance Activities	**786,122**	754,995
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**(560)**	(282)
Resources that Fund Expenses Recognized in Prior Periods	**(116)**	(8)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	**105,365**	26,427
Resources that Finance the Acquisition of Assets	**(337)**	(865)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(107,559)**	(28,429)
Total Resources Not Part of the Net Cost of Operations	**(3,207)**	(3,157)
Total Resources Used to Finance the Net Cost of Operations	**782,915**	751,838
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	**0**	11
Other	**16**	9
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	**16**	20
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**253**	494
Other	**(456)**	(91)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**(203)**	403
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**(187)**	423
Net Cost of Operations	**$ 782,728**	$ 752,261

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

17. SOCIAL INSURANCE DISCLOSURES

Statement of Social Insurance

The Statement of Social Insurance discloses the present value for the 75-year projection period of the estimated future noninterest income, estimated future cost, and the excess of income over cost for both the "open group" and "closed group" of participants. The open group of participants includes all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI Social Insurance program. The closed group of participants includes only current participants: those who attain age 15 or older in the first year of the projection period. The closed group disclosure is not relevant to the financial status because the program is financed largely on a pay-as-you-go basis.

Present values are computed based on the intermediate economic and demographic assumptions described in the *2011 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, 2011. Similar present values are shown in the Statement of Social Insurance based on the prior four Trustees Reports reflecting present values at January 1 of the applicable year.

Estimated future noninterest income consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. It does not include interest income on 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.

The present value of future excess of noninterest income over cost is shown in the Statement of Social Insurance, not only for the open group of participants, but also for the "closed group" of participants. The closed group of participants consists of those who, in the starting year of the projection period, have attained age 15 or 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. The Statement of Social Insurance also presents the present value of future noninterest income less future cost *plus* the combined OASI and DI Trust Fund assets at the start of the period, on both an open and closed group basis.

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, 2011 totaled $2,609 billion and were comprised entirely of investment securities that are backed by the full faith and credit of the Federal Government.

The present value for a 75-year projection period of estimated future excess of noninterest income over cost, plus the combined OASI and DI Trust Fund assets at the start of the period, is shown as a negative value. This negative value 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 noninterest income. Therefore, barring legislative action, this unfunded obligation represents a financial shortfall that would be accommodated by either paying benefits that are less than the amount scheduled or by delaying the payment of scheduled benefits.

Assumptions Used for the Statement of Social Insurance

The present values used in this presentation for the current year (2011) are based on the assumption that the noninterest income and the benefit payments for the program would continue at the levels scheduled under current law, even after OASI and DI 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 2011

	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000)	Period Life Expectancy At Birth[3]		Net Annual Immigration (persons per year)[4]	Real-Wage Differential[5] (percentage points)	Annual Percentage Change In:				Average Annual Interest Rate[10]
			Male	Female			Average Annual Wage in Covered Employment[6]	CPI[7]	Total Employment[8]	Real GDP[9]	
2011	2.07	766.5	75.9	80.6	895,000	2.9	4.1	1.2	0.7	2.7	3.1%
2020	2.05	707.8	77.1	81.4	1,195,000	1.1	3.9	2.8	0.5	2.1	5.7%
2030	2.02	648.7	78.2	82.4	1,115,000	1.2	4.0	2.8	0.5	2.2	5.7%
2040	2.00	596.6	79.3	83.3	1,070,000	1.2	4.0	2.8	0.5	2.2	5.7%
2050	2.00	550.8	80.3	84.1	1,050,000	1.2	4.0	2.8	0.5	2.2	5.7%
2060	2.00	510.5	81.3	84.9	1,040,000	1.1	3.9	2.8	0.5	2.1	5.7%
2070	2.00	474.9	82.1	85.7	1,030,000	1.1	3.9	2.8	0.4	2.1	5.7%
2080	2.00	443.2	82.9	86.4	1,030,000	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 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]	CPI[6]	Total Employment[7]	Average Annual Real Interest Rate[8]
FY 2011	2.0	0.78	1,075,000	1.2	4.0	2.8	0.5	2.9
FY 2010	2.0	0.79	1,065,000	1.2	4.0	2.8	0.5	2.9
FY 2009	2.0	0.79	1,065,000	1.1	3.9	2.8	0.5	2.9
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

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 2011 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 2007 Statement, the ultimate assumption is shown in the table and is reached by the 20th year of the projection period. For the 2008-2011 Statements, the value shown is the average net immigration level projected for the 75-year projection period. For the 2011 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 2011 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 2011 Statement, the average annual rate of change is consistent with the annual percentages shown in Table 1.
8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is assumed to be reached soon after the 10th year of the projection period. For the 2011 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 2007-2011 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* section of this report.

Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts reconciles the change (between the current valuation and the prior valuation) in the (1) present value of future noninterest income less future cost for current and future participants (the open group measure) over the next 75 years; (2) assets of the combined OASI and DI Trust Funds; and (3) present value of future noninterest income less future cost for current and future over the next 75 years plus the assets of the combined OASI and DI Trust Funds. These values are included in the Statement of Social Insurance. The reconciliation identifies several components of the change that are significant and provides reasons for the changes.

The five changes considered in the Statement of Changes in Social Insurance Amounts are, in order:

- change in the valuation period;
- changes in demographic data, assumptions, and methods;
- changes in economic data, assumptions, and methods;
- changes in methodology and programmatic data; and
- changes in law or policy.

All estimates in the table are presented as incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods, represent the additional effect that these new data, assumptions, and methods have, once the effects from demography and the change in the valuation period have been considered.

Assumptions Used for the Statement of Changes in Social Insurance Amounts

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Trustees Reports for those years. Table 1 summarizes these assumptions for the current year. Assumptions for the prior year are identified in a similar manner on the SSA website.

Present values as of January 1, 2010 are calculated using interest rates from the intermediate assumptions of the 2010 Trustees Report. All other present values in the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2011. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2010 Trustees Report. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in the Statement are calculated using the interest rates under the intermediate assumptions of the 2011 Trustees Report.

The remainder of this note provides details on the changes in these present values of future noninterest income less future cost (net cashflows) between the prior and current valuation periods.

Change in the Valuation Period

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2010-84) to the current valuation period (2011-85) is measured by using the assumptions for the prior valuation period and applying them, in the absence of any other changes, to the current valuation period. Changing the valuation period removes a small negative net cashflow for 2010 and replaces it with a much larger negative net cashflow for 2085.

The present value of future net cashflows (including or excluding the combined OASI and DI Trust Fund assets at the start of the period) was therefore decreased (made more negative) when the valuation period the 75-year valuation period changed from 2010-84 to 2011-85. In addition, the effect on the level of assets in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2010 are realized. The change in valuation period increased the level of assets in the combined OASI and DI Trust Funds.

Changes in Demographic Data, Assumptions, and Methods

The ultimate demographic assumptions for the current valuation period are the same as those for the prior valuation period. However, the starting demographic values were changed.

- The inclusion of final mortality data for 2007 results in lower starting death rates and faster near-term declines in death rates at older ages for the current valuation period.
- Revised historical estimates of net other immigration and final data on legal immigration for 2009 are also used in the current valuation. Based on estimates from the Department of Homeland Security for 2007 and 2008 and due to the weak U.S. economy since 2008, net other immigration levels for 2007-10 are assumed negative for the current valuation period. These levels are significantly lower than the positive estimates used in the prior valuation period.
- Birth rates projected through 2026 are slightly lower in the current valuation; preliminary birth data for 2008 and 2009 was lower than was expected for the prior valuation.
- Updated starting values of population levels were incorporated in the current valuation.

Except for updating starting values of population levels, inclusion of each of these demographic data sets decreases the present value of future net cashflows.

The following demographic methods were changed in the current valuation.

- The method for determining the initial projected rates of mortality decline was changed to place greater emphasis on recent experience. These initial rates of decline are now determined using the most recent 10 years of historical data, rather than the most recent 20 years. This change increased the rate of decline in death rates at older ages for years following the year of final data (2007) up to the year the ultimate rates of decline are fully in effect (2035).
- The historical estimates of the other immigrant population by age and sex were improved, resulting in greater consistency between the other immigrant population and the total population.

Both of these changes to demographic methods decrease the present value of future net cashflows.

Changes in Economic Data, Assumptions, and Methods

The ultimate economic assumptions for the current valuation period are the same as those for the prior valuation period. However, the starting economic values and near-term economic growth rate assumptions were changed. The economic recovery has been slower than was assumed for the prior valuation period.

- For the current valuation period, OASDI taxable earnings are considerably lower for the starting year, 2010, than were projected for the prior valuation period. Even though earnings grow faster after 2010 through 2019, the projected level of earnings is lower through 2018 for the current valuation period.
- Unemployment rates are slightly higher over first few years of the projection for the current valuation period.
- The real interest rate is lower over first few years of the projection for the current valuation period.

Inclusion of each of these economic revisions decreases the present value of future net cashflows.

A change to the methodology for projecting labor force participation was implemented in the current valuation period. The assumed effect of gains in life expectancy on labor force participation for persons over 40 was doubled, significantly increasing projected participation rates at higher ages. Disability prevalence was added as an input variable to the labor force model for persons over normal retirement age, partially offsetting increases in the labor force due to changes in life expectancy. Inclusion of these changes to labor force participation projections increase the present value of future net cashflows.

Changes in Methodology and Programmatic Data

Several methodological improvements and updates of program-specific data are included in the current valuation and the most significant are identified below.

- Disabled worker mortality and termination rates were updated to reflect a more recent historical period. Inclusion of these updates decrease the present value of future net cashflows.
- The historical sample of new beneficiaries, which serves as the basis of average benefit levels, was updated from a 2006 sample to a 2007 sample. Inclusion of this update increases the present value of future net cashflows.
- Actual experience of the combined OASI and DI Trust Funds between January 1, 2010 and January 1, 2011 is incorporated in the current valuation and is slightly less than projected in the prior valuation.

Changes in Law or Policy

There were no legislative changes, included in the current valuation and not in the prior valuation, that are projected to have a significant effect on the present value of the 75-year net cashflows.

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.

Other Accompanying Information: Balance Sheet by Major Program as of September 30, 2011 (Dollars in Millions)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (606)	$ (391)	$ 2,563	$ 3,552	$ (3)	$ 0	$ 5,115
Investments	2,492,531	161,965	0	0	0	0	2,654,496
Interest Receivable, Net	26,186	1,899	0	0	0	0	28,085
Accounts Receivable, Net	2	2	0	0	3,074	(2,453)	625
Other	0	0	0	0	23	0	23
Total Intragovernmental	2,518,113	163,475	2,563	3,552	3,094	(2,453)	2,688,344
Accounts Receivable, Net	1,889	3,761	5,791	0	4	(356)	11,089
Property, Plant, and Equipment, Net	0	0	0	0	2,909	0	2,909
Other	0	0	0	0	2	0	2
Total Assets	$ 2,520,002	$ 167,236	$ 8,354	$ 3,552	$ 6,009	$ (2,809)	$ 2,702,344
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 3,778	$ 449	$ 0	$ 0	$ 0	$ 0	$ 4,227
Accounts Payable	869	704	5,736	3,468	33	(2,453)	8,357
Other	0	0	165	2	92	0	259
Total Intragovernmental	4,647	1,153	5,901	3,470	125	(2,453)	12,843
Benefits Due and Payable	53,161	24,169	5,244	0	0	(356)	82,218
Accounts Payable	0	6	440	0	39	0	485
Other	0	0	23	2	1,035	0	1,060
Total Liabilities	57,808	25,328	11,608	3,472	1,199	(2,809)	96,606
Net Position							
Unexpended Appropriations-Earmarked Funds	0	0	0	61	0	0	61
Unexpended Appropriations-Other Funds	0	0	353	19	4	0	376
Cumulative Results of Operations-Earmarked Funds	2,462,194	141,908	9	0	0	0	2,604,111
Cumulative Results of Operations-Other Funds	0	0	(3,616)	0	4,806	0	1,190
Total Net Position	2,462,194	141,908	(3,254)	80	4,810	0	2,605,738
Total Liabilities and Net Position	$ 2,520,002	$ 167,236	$ 8,354	$ 3,552	$ 6,009	$ (2,809)	$ 2,702,344

Other Accompanying Information: Schedule of Net Cost for the Years Ended September 30, 2011
(Dollars in Millions)

	Program	LAE	Total
OASI Program			
Benefit Payments	$ 593,047	$ 0	$ 593,047
Operating Expenses	715	3,143	3,858
Total Cost of OASI Program	593,762	3,143	596,905
Less: Exchange Revenues	(1)	(13)	(14)
Net Cost of OASI Program	593,761	3,130	596,891
DI Program			
Benefit Payments	127,471	0	127,471
Operating Expenses	221	3,061	3,282
Total Cost of DI Program	127,692	3,061	130,753
Less: Exchange Revenues	(30)	(13)	(43)
Net Cost of DI Program	127,662	3,048	130,710
SSI Program			
Benefit Payments	49,041	0	49,041
Operating Expenses	125	4,091	4,216
Total Cost of SSI Program	49,166	4,091	53,257
Less: Exchange Revenues	(341)	(17)	(358)
Net Cost of SSI Program	48,825	4,074	52,899
Other			
Benefit Payments	7	0	7
Operating Expenses	18	2,212	2,230
Total Cost of Other	25	2,212	2,237
Less: Exchange Revenues	0	(9)	(9)
Net Cost of Other Program	25	2,203	2,228
Total Net Cost			
Benefit Payments	769,566	0	769,566
Operating Expenses	1,079	12,507	13,586
Total Cost	770,645	12,507	783,152
Less: Exchange Revenues	(372)	(52)	(424)
Total Net Cost	$ 770,273	$ 12,455	$ 782,728

Other Accompanying Information: Schedule of Changes in Net Position for the Years Ended September 30, 2011

(Dollars in Millions)

	OASI	DI	SSI		Other	
-	Earmarked	Earmarked	Earmarked	All Other Funds	Earmarked	All Other Funds
Cumulative Results of Operations:						
Beginning Balances	$ 2,370,742	$ 166,719	$ 19	$ (3,729)	$ 0	$ 0
Budgetary Financing Sources						
Appropriations Used	0	0	0	55,920	101,998	25
Tax Revenues (Note 13)	496,590	84,296	0	0	0	0
Interest Revenues	106,931	8,238	0	0	0	0
Transfers In/Out Without Reimbursement	85,651	10,674	(185)	(3,572)	(101,998)	0
Railroad Retirement Interchange	(3,978)	(405)	0	0	0	0
Net Transfers In/Out	81,673	10,269	(185)	(3,572)	(101,998)	0
Other Budgetary Financing Sources	19	48	0	0	0	0
Other Financing Sources (Non-Exchange)						
Transfers-In/Out	0	0	0	(2,962)	0	2,962
Imputed Financing Sources	0	0	0	27	0	0
Other	0	0	0	(300)	0	(2,962)
Total Financing Sources	685,213	102,851	(185)	49,113	0	25
Net Cost of Operations	593,761	127,662	(175)	49,000	0	25
Net Change	91,452	(24,811)	(10)	113	0	0
Cumulative Results of Operations	$ 2,462,194	$ 141,908	$ 9	$ (3,616)	$ 0	$ 0
Unexpended Appropriations:						
Beginning Balances	$ 0	$ 0	$ 0	$ 388	$ 61	$ 19
Budgetary Financing Sources						
Appropriations Received	0	0	0	56,284	102,008	38
Other Adjustments	0	0	0	(399)	(10)	(13)
Appropriations Used	0	0	0	(55,920)	(101,998)	(25)
Total Budgetary Financing Sources	0	0	0	(35)	0	0
Total Unexpended Appropriations	0	0	0	353	61	19
Net Position	$ 2,462,194	$ 141,908	$ 9	$ (3,263)	$ 61	$ 19

Other Accompanying Information: Schedule of Changes in Net Position for the Years Ended September 30, 2011 (Continued)

(Dollars in Millions)

	LAE	CONSOLIDATED		
	All Other Funds	Earmarked	All Other Funds	CONSOLIDATED TOTAL
Cumulative Results of Operations:				
Beginning Balances	$ 5,366	$ 2,537,480	$ 1,637	$ 2,539,117
Budgetary Financing Sources				
Appropriations Used	29	101,998	55,974	157,972
Tax Revenues (Note 13)	0	580,886	0	580,886
Interest Revenues	0	115,169	0	115,169
Transfers In/Out Without Reimbursement	11,213	(5,858)	7,641	1,783
Railroad Retirement Interchange	0	(4,383)	0	(4,383)
Net Transfers In/Out	11,213	(10,241)	7,641	(2,600)
Other Budgetary Financing Sources	0	67	0	67
Other Financing Sources (Non-Exchange)				
Transfers-In/Out	0	0	0	0
Imputed Financing Sources	653	0	680	680
Other	0	0	(3,262)	(3,262)
Total Financing Sources	11,895	787,879	61,033	848,912
Net Cost of Operations	12,455	721,248	61,480	782,728
Net Change	(560)	66,631	(447)	66,184
Cumulative Results of Operations	$ 4,806	$ 2,604,111	$ 1,190	$ 2,605,301
Unexpended Appropriations:				
Beginning Balances	$ 5	$ 61	$ 412	$ 473
Budgetary Financing Sources				
Appropriations Received	29	102,008	56,351	158,359
Other Adjustments	(1)	(10)	(413)	(423)
Appropriations Used	(29)	(101,998)	(55,974)	(157,972)
Total Budgetary Financing Sources	(1)	0	(36)	(36)
Total Unexpended Appropriations	4	61	376	437
Net Position	$ 4,810	$ 2,604,172	$ 1,566	$ 2,605,738

Required Supplementary Information: Schedule of Budgetary Resources for the Years Ended September 30, 2011

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources						
Unobligated Balances, Brought Forward, October 1	$ 0	$ 0	$ 619	$ 80	$ 1,396	$ 2,095
Recoveries of Prior Year Unpaid Obligations	23	59	92	0	236	410
Budget Authority						
Appropriations	692,652	131,291	56,469	102,046	29	982,487
Spending Authority from Offsetting Collections						
Earned						
Collected	0	0	3,845	2	67	3,914
Change in Unfilled Customer Orders						
Advance Received	0	0	(289)	0	2	(287)
Expenditure Transfers from Trust Funds	0	0	0	0	11,214	11,214
Subtotal	692,652	131,291	60,025	102,048	11,312	997,328
Nonexpenditure Transfers, Net	(22)	(54)	0	0	0	(76)
Temporarily Not Available Pursuant to Public Law	(91,959)	(74)	0	0	0	(92,033)
Permanently Not Available	(1)	(2)	(399)	(23)	(1)	(426)
Total Budgetary Resources	$ 600,693	$ 131,220	$ 60,337	$ 102,105	$ 12,943	$ 907,298
Status of Budgetary Resources						
Obligations Incurred						
Direct	$ 600,693	$ 131,220	$ 56,189	$ 102,024	$ 12,390	$ 902,516
Reimbursable	0	0	3,850	2	60	3,912
Subtotal	600,693	131,220	60,039	102,026	12,450	906,428
Unobligated Balances						
Apportioned	0	0	159	41	91	291
Unobligated Balances - Not Available	0	0	139	38	402	579
Total Status of Budgetary Resources	$ 600,693	$ 131,220	$ 60,337	$ 102,105	$ 12,943	$ 907,298
Change in Obligated Balances						
Obligated Balances, Net						
Unpaid Obligations, Brought Forward, October 1	$ 56,510	$ 25,771	$ 2,330	$ 540	$ 2,453	$ 87,604
Uncollected Customer Payments, Brought Forward, October 1	0	0	0	0	(3,830)	(3,830)
Total Unpaid Obligated Balance, Net	56,510	25,771	2,330	540	(1,377)	83,774
Obligations Incurred, Net	600,693	131,220	60,039	102,026	12,450	906,428
Gross Outlays	(599,372)	(131,571)	(60,203)	(102,059)	(12,091)	(905,296)
Obligated Balance Transferred, Net						
Recoveries of Prior Year Unpaid Obligations, Actual	(23)	(59)	(92)	0	(236)	(410)
Change in Uncollected Customer Payments	0	0	0	0	755	755
Obligated Balance, Net, End of Period						
Unpaid Obligations	57,808	25,361	2,074	507	2,576	88,326
Uncollected Customer Payments	0	0	0	0	(3,075)	(3,075)
Total Unpaid Obligated Balance, Net, End of Period	$ 57,808	$ 25,361	$ 2,074	$ 507	$ (499)	$ 85,251
Net Outlays						
Net Outlays						
Gross Outlays	$ 599,372	$ 131,571	$ 60,203	$ 102,059	$ 12,091	$ 905,296
Offsetting Collections	0	0	(3,556)	(2)	(12,038)	(15,596)
Distributed Offsetting Receipts	(88,647)	(13,445)	(341)	(2,962)	0	(105,395)
Net Outlays	$ 510,725	$ 118,126	$ 56,306	$ 99,095	$ 53	$ 784,305

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 2010, OASDI benefits were paid to almost 54 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 $77 billion as of September 30, 2011 ($75 billion as of September 30, 2010) 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 2011. Also, an asset of $2,654 billion as of September 30, 2011 ($2,586 billion as of September 30, 2010) 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 Investments and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2011. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are nonexchange transactions and are not considered deferred compensation, as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

Required Supplementary Information - While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial status of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **Income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-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 (Noninterest Income):** 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, noninterest income, or cost, depending on the context;
- **Net cashflow:** either income less cost or noninterest income less cost, however, net cashflow in this section refers to noninterest income less cost;

- **Present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2011 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

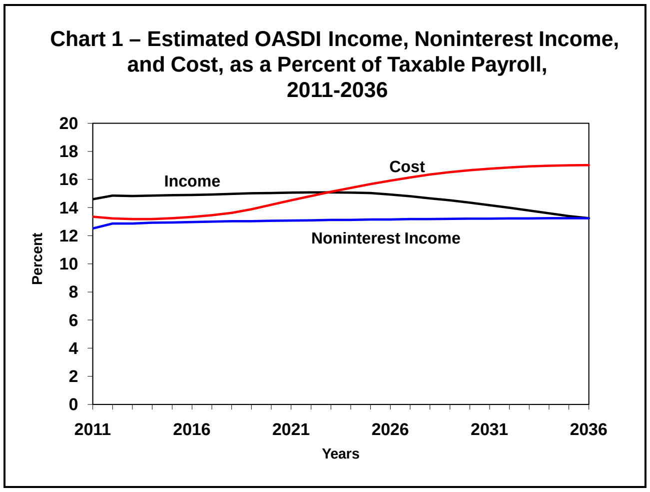
(1) present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
(2) estimated annual income, income (excluding interest), and cost as percentages of taxable payroll and gross domestic product (GDP);
(3) the ratio of estimated covered workers to estimated beneficiaries; and
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

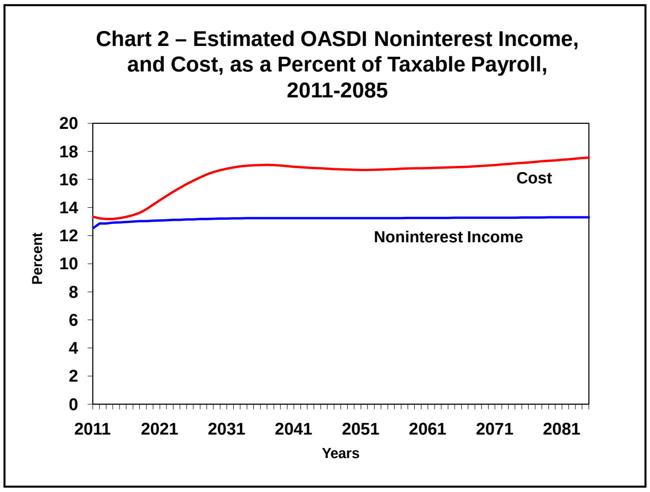
Sustainable Solvency - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits 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 - Charts 1 through 4 show annual cashflow projections for the OASDI program. OASDI noninterest income and cost are estimated for each year from 2011 through 2085. However, income including interest is only estimated through 2036, 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 (noninterest income). Thus, displaying annual income levels beyond the point of combined OASI and DI Trust Fund exhaustion would be inappropriate unless the cost of scheduled benefits were replaced by the amount of benefits that would be payable.

Estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. 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.

Amounts as a Percentage of Taxable Payroll - Chart 1 shows estimated annual income, noninterest income, and cost through 2036 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2085 expressed as percentages of taxable payroll.





As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. (For the year 2011, a 2 percent temporary reduction in the employee and the self-employment payroll tax rates will be made up by reimbursements from the General Fund of the Treasury.) In all years of the projection period, estimated annual cost is more than estimated annual income, excluding interest. After 2014, 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 74 percent of the estimated cost.

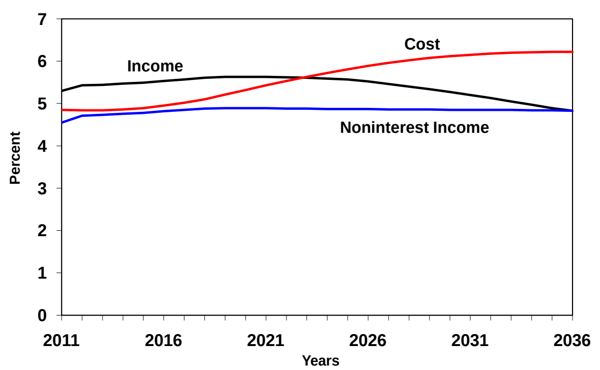
As Chart 1 shows, estimated cost starts to exceed income (including interest) in 2023. This occurs because of a variety of factors including the retirement of the “baby boom” generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed noninterest income in all years of the projection period. In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption 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.

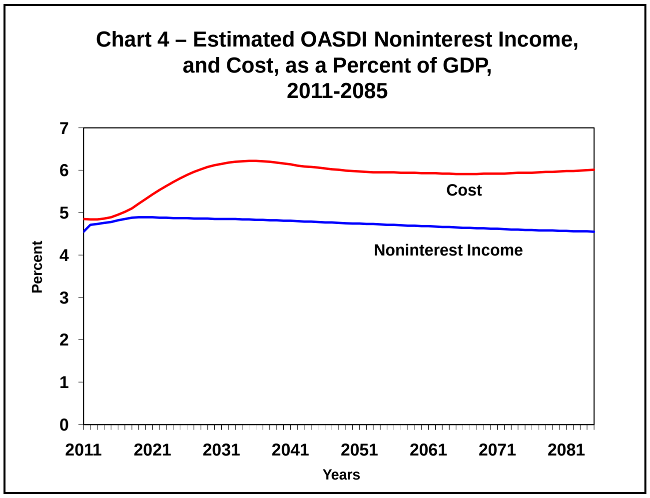
Actuarial Balance - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$9,157 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2011), it is -$6,548 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.22 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 (-2.22 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 OASI and DI Trust Funds to remain solvent throughout the period with a small amount of assets remaining in the combined OASI and DI Trust Funds at the end of the period. The combined payroll tax rate is 12.4 percent today (including reimbursements from the General Fund of the Treasury) and is currently scheduled to remain at that level. An increase of 2.22 percentage points in this rate for each year of the 75-year projection period (1.11 percentage points for employees and employers each, resulting in a total rate of 14.62 percent or a rate of 7.31 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 13.8 percent on average (or there could be some combination of both tax increases and benefit reductions) to achieve solvency throughout the period.

Amounts as a Percentage of Gross Domestic Product (GDP) - Chart 3 shows estimated annual income, noninterest income, and cost through 2036 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2085 expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.

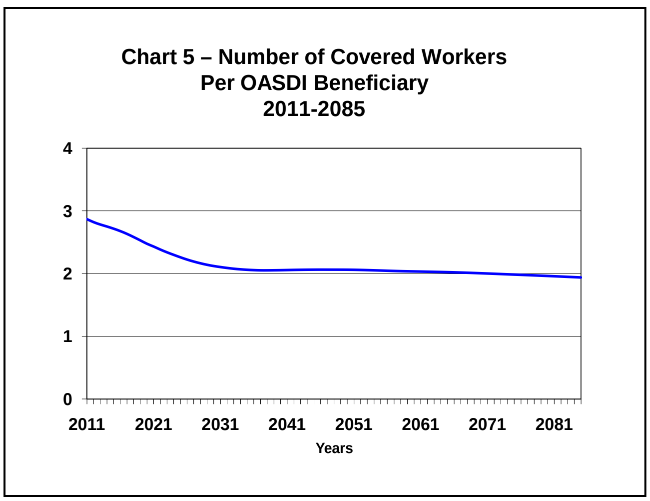
Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2011-2036





In 2010, OASDI cost was about $713 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.1 percent of GDP in 2030, hits a peak of 6.2 percent of GDP in 2036, declines to a low of 5.9 percent in 2067, and then slowly increases, reaching 6.0 percent of GDP by 2085. The rapid increase from 2012 to 2030 is projected to occur as baby boomers become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

Ratio of Workers to Beneficiaries - Chart 5 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes based on services for wages in covered employment and/or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.9 in 2010 to 1.9 in 2085.



SENSITIVITY ANALYSIS

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

For this analysis, the intermediate assumptions in the 2011 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2011, and are based on estimates of income and cost during the 75-year projection period 2011-2085. In this section, for brevity, "income" means "noninterest income."

For each assumption analyzed, one table and one chart are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The chart shows the present value of each annual net cashflow.

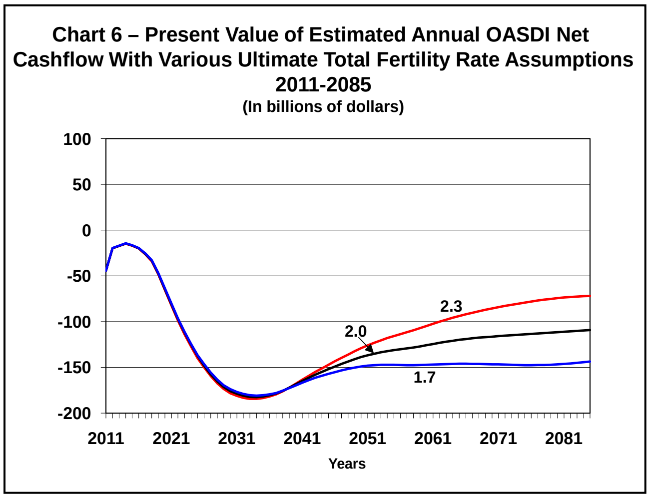
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more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

Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0, and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2011 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2035.

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 $10,130 billion, from $9,157 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to $8,179 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2011-2085			
Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-$10,130	-$9,157	-$8,179

Using the same total fertility rates used for the estimates in Table 1, Chart 6 shows the present value of the estimated annual OASDI net cashflow.



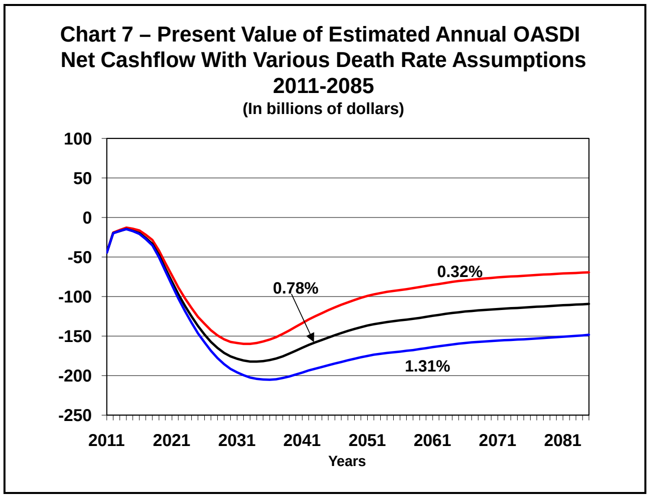
The three patterns of the present values shown in Chart 6 are similar. The present values based on all three ultimate total fertility rates are negative in all years of the 75-year projection period. The net cashflow estimates corresponding to a 1.7 ultimate total fertility rate increase (become less negative) in years 2012-14, decrease (become more negative) in years 2015-34, and then increase through 2054, remaining fairly stable thereafter. The net cashflow estimates corresponding to a 2.0 ultimate total fertility rate increase (become more negative) in years 2012-14, decrease (become less negative) in years 2015-34, and increase thereafter. The net cashflow estimates corresponding to a 2.3 ultimate fertility rate increase (become less negative) in years 2012-14, decrease (become more negative) in years 2015-33, and increase thereafter. 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 2010-2085 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 0.32, 0.78, and 1.31 percent per year, where 0.78 percent is the intermediate assumption in the 2011 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 78.1 in 2010 to 81.2, 85.0, and 88.9 in 2085 for average annual reductions in the age-sex-adjusted death rate of 0.32, 0.78, and 1.31 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.78 percent, the Trustees' intermediate assumption, to 0.32 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $7,017 billion, from $9,157 billion; if the annual reduction were changed to 1.31 percent, meaning that people live longer, the shortfall would increase to $11,244 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2011-2085			
Average Annual Reduction in Death Rates (from 2010 to 2085)	0.32 Percent	0.78 Percent	1.31 Percent
Present Value of Estimated Excess (In billions)	-$7,017	-$9,157	-$11,244

Using the same assumptions about future reductions in death rates used for the estimates in Table 2, Chart 7 shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cashflow estimates are negative in all years of the 75-year projection period. After increasing (becoming less negative) in years 2012-14, the present values decrease rapidly until around 2030. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2034, 2035, and 2037 for projected reductions of 0.32, 0.78, and 1.31 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 2085.

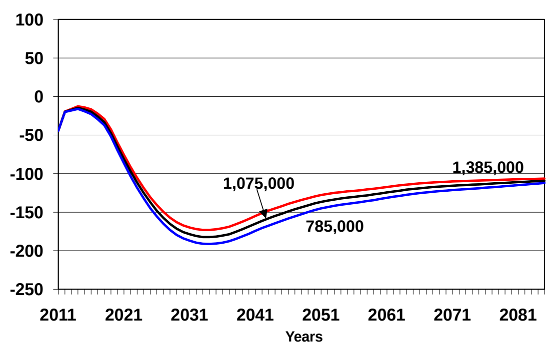
Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on these levels, it is projected that net annual immigration (legal and other) will average 785,000 persons, 1,075,000 persons, and 1,385,000 persons over the 75-year valuation period, where 1,075,000 persons is the average value based on the intermediate assumptions in the 2011 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 1,075,000 persons to 785,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $9,645 billion, from $9,157 billion. If instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,385,000 persons, the present value of the shortfall would decrease to $8,659 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2011-2085			
75-Year Average Net Annual Immigration	785,000 Persons	1,075,000 Persons	1,385,000 Persons
Present Value of Estimated Excess (In billions)	-$9,645	-$9,157	-$8,659

Using the same assumptions about net annual immigration used for the estimates in Table 3, Chart 8 shows the present value of the estimated annual OASDI net cashflow.

Chart 8 – Present Value of Estimated Annual OASDI Net Cashflow With Various Net Annual Immigration Assumptions 2011-2085
(In billions of dollars)



The three patterns of the present values shown in Chart 8 are similar. The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. After increasing (becoming less negative) in years 2012-14, the net cashflow estimates decrease steadily through 2033 for an average net annual immigration level of 1,385,000, and through 2034 for an average net annual immigration level of 1,075,000 and 785,000. Present values based, on all three assumptions about net annual immigration, increase (are less negative) from 2035 through the end of the projection period.

Very little difference is discernible in the first few years among the estimates of present values of net annual cashflow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. 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 2011 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.

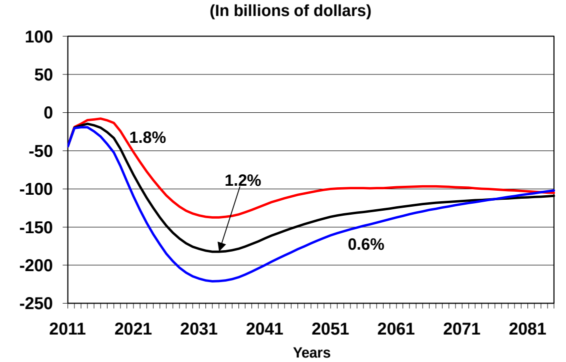
Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.2 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $10,554 billion from $9,157 billion; if the ultimate real-wage differential were changed from 1.2 to 1.8 percentage points, the shortfall would decrease to $7,099 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2011-2085

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)	-$10,554	-$9,157	-$7,099

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

Chart 9 – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real-Wage Assumptions 2011-2085
(In billions of dollars)



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Estimated net cashflows increase (become less negative) in years 2012-14 for assumed ultimate real-wage differentials of 0.6 and 1.2 percentage points and from 2012-16 for an assumed ultimate real-wage differential of 1.8. The present values then decrease through 2033 for assumed ultimate real wage differentials of 0.6 and 1.8, and through 2034 for an assumed ultimate real-wage differential of 1.2. Present values based on all three assumptions begin to increase (become less negative) by 2035. 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 generally continue to increase until 2066 when decreases begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, toward the end of projection period, annual net cashflow becomes more similar for all assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds noninterest income. These effects are depicted by the patterns in Chart 9 coming together at the end of the projection period.

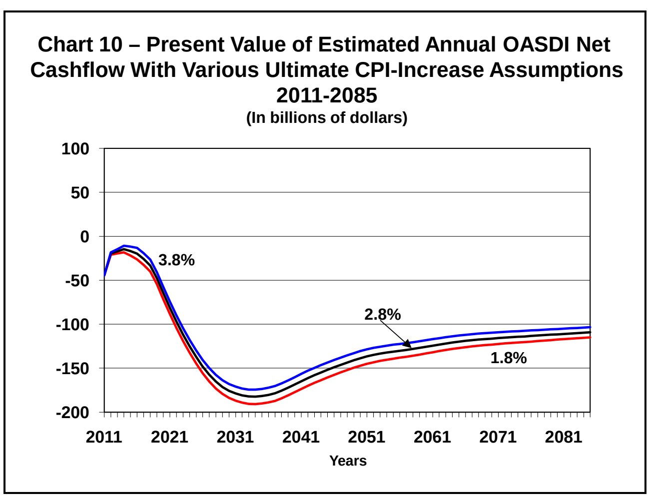
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8, and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2011 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 $9,696 billion, from $9,157 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to $8,634 billion. The seemingly counter-intuitive result that higher CPI increases result in decreased shortfalls (and vice versa) is explained by the time lag between the effects of the CPI changes on taxable payroll and on benefit payments. The effect on taxable payroll due to a greater increase in average wages is experienced immediately, while the effect on benefits is experienced with a lag of about 1 year. For this reason, larger increases in the CPI cause earnings and income to increase sooner, and thus by more each year, than benefits and cost.

Table 5: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate CPI-Increase Assumptions
Valuation Period: 2011-2085

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)	-$9,696	-$9,157	-$8,634

Using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5, Chart 10 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 10 are similar. After increasing (becoming less negative) in years 2012-14, the net cashflow estimates decrease through 2034. Present values begin to increase (become less negative) in 2035 for all three assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time, and continue to increase through 2085.

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 2011 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

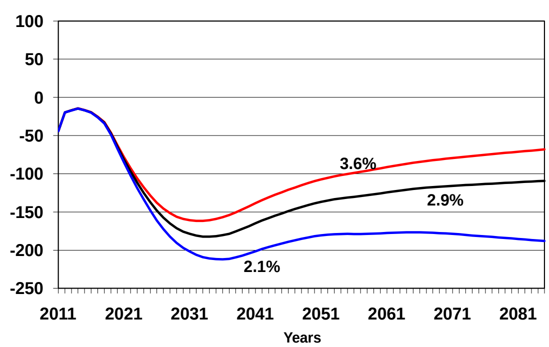
Table 6 demonstrates that, if the ultimate real interest rate is changed from 2.9 percent, the Trustees' intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to $12,103 billion, from $9,157 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to $7,313 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Interest Assumptions Valuation Period: 2011-2085

Ultimate Annual Real Interest Rate	2.1 Percent	2.9 Percent	3.6 Percent
Present Value of Estimated Excess (In billions)	-$12,103	-$9,157	-$7,313

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

Chart 11 – Present Value of Estimated Annual OASDI Net Cashflow With Various Ultimate Real Interest Rate Assumptions 2011-2085
(In billions of dollars)



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 11 are similar. After increasing (becoming less negative) in years 2012-14, the present values decrease rapidly until around 2030. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2037, 2035, and 2034 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 generally increasing through 2066, 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 7, 2011

The Honorable Michael J. Astrue
Commissioner

The *Chief Financial Officers Act of 1990 (CFO)* (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) 2011 financial statements. Grant Thornton also audited the FY 2010 financial statements, presented in SSA's FY 2011 Performance and Accountability Report for comparative purposes. This letter transmits the Grant Thornton *Independent Auditor's Report* on the audit of SSA's FY 2011 financial statements. Grant Thornton's Report includes the following:

- Opinion on Financial Statements;
- Report on Management's Assertion About the Effectiveness of Internal Control; and
- Report on Compliance and Other Matters.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to 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.

Grant Thornton conducted its audit in accordance with auditing standards generally accepted in the United States; Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 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 due to error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

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

Grant Thornton issued an unqualified opinion on SSA's FY 2011 and 2010 financial statements. 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's testing:

1. Disclosed that policies and procedures to periodically reassess 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 exceeded 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 various operating systems.

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 2011 financial statements by

- reviewing Grant Thornton's audit approach and planning;
- evaluating its auditors qualifications and independence;
- 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 attached auditor's report, dated November 7, 2011, 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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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 sheets of SSA as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the statements of social insurance as of January 1, 2011 and January 1, 2010 and statement of changes in social insurance amounts for the period January 1, 2010 to January 1, 2011 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, 2011;
- No reportable instances of noncompliance with laws, regulations, or other matters tested.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the statements of social insurance as of January 1, 2011 and January 1, 2010 and statement of changes in social insurance amounts for the period January 1, 2010 to January 1, 2011. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of social insurance as of January 1, 2009, 2008, and 2007 were audited by other auditors whose reports dated November 9, 2009 and November 7, 2008 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and presented on pages 100 through 132 of this *Performance and Accountability Report* (PAR), present fairly, in all material respects, the financial position of SSA as of September 30, 2011 and 2010, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, and the financial condition of its social insurance program as of January 1, 2011 and January 1, 2010 and changes in social insurance amounts for the period January 1, 2010 to January 1, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of 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 of 1982* (FMFIA) Assurance Statement on page 43 of this PAR, that SSA's internal control over financial reporting was operating effectively as of September 30, 2011, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control.* We did not test all internal controls, relevant to the operating objectives broadly, defined by FMFIA. SSA's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the 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 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 affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles. An agency's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the agency; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the agency are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the agency's assets that could have a material effect on the financial statements.

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

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2011 is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.

Other Internal Control Matters

Our audits 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. No material weaknesses were identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our audit was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. We identified certain deficiencies in internal control that when aggregated are considered to be a significant deficiency, reported below.

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 been developed but not implemented 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 operating systems and internal network.

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 improve policies and procedures that require a periodic review of the content of all security profiles. Management should enforce a consistent approach for profile review and should retain auditable artifacts to evidence the completion of these reviews.

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

Grant Thornton

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with laws and regulations, including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 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 SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

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

The results of our test of compliance disclosed no instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 and no instances of substantial noncompliance that 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 138 through 150 of this PAR are not a required part of the basic financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements.* 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 basic financial statements taken as a whole. The Schedule of Budgetary Resources included on page 137 of this PAR is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This schedule and the consolidating and combining information included on pages 133 to 136 of this PAR are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Commissioner's Message on page 1 and the other accompanying information included on pages 2 through 4, 47 through 99 and 161 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

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

Grant Thornton LLP

Alexandria, Virginia
November 7, 2011

SOCIAL SECURITY
The Commissioner

November 7, 2011

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 2011 financial statements. We are extremely pleased that we received our 18th 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 certain deficiencies in internal control, that when aggregated, you considered to be a significant deficiency. We concur with this finding, and we will implement the necessary corrective actions to address these deficiencies. We have enclosed a more detailed explanation of our plans.

If members of your staff have any questions, they may contact Carla Krabbe at (410) 965-0759.

Sincerely,

Michael J. Astrue

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

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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) 2011 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 conduct suitability background checks for all employees in public trust positions, and provide security awareness training to employees reminding them of their obligation not to access unauthorized information, as well as reminding employees of our sanctions policy for misusing agency information resources.

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 improve policies and procedures that require a periodic review of the content of all security profiles. Management should enforce a consistent approach for profile review and should retain auditable artifacts to evidence the completion of these reviews.

Comment

We agree with the recommendation. In FY 2010, we formed an agencywide workgroup to develop new policies and procedures for conducting periodic reviews of the content of our security profiles. We also instituted new profile naming standards and drafted new policies for managing profiles that address specific observations cited in the FY 2010 management letter. In FY 2011, we initiated a new project through our Strategic Information Technology Assessment and Review (SITAR) process to develop a commercial off-the-shelf (COTS) based software solution that will automate the process of reviewing security profile content. We plan implementation of this software for the second quarter of FY 2012. This solution will provide improved tools to assist security officers with reviewing security profile content and provide auditable evidence of the

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completion of these reviews. This solution helps ensure we review both agencywide and locally managed security profiles consistently throughout the agency, and will provide management information for monitoring the progress of profile reviews. 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 recommend that management improve controls to test and monitor configurations on the mainframe and network operating system environments to identify and address inherent security risks. This should include comprehensive procedures to test new software and updates to existing software prior to implementation. Management should also improve procedures that require ongoing monitoring of implemented configurations to identify and address additional 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.

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