# Agency Financial Report

## Fiscal Year 2018

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# A Message from the Acting Commissioner

It has been my honor to be Acting Commissioner of the Social Security Administration. I have dedicated my career to the mission of Social Security, having started my public service career over 40 years ago in a Social Security field office. I have seen firsthand the impact our programs have on the lives of individuals. Our programs affect nearly every person at some point: when they retire, after the onset of a disability, or following the death of a loved one. During my tenure, my emphasis has been, *mission focus, mission driven* and finding ways to best serve the public. To that end, I refocused our resources to our core mission and challenges.

I am pleased to present the Social Security Administration's fiscal year (FY) 2018 *Agency Financial Report*. This report describes how we managed our resources and administered our programs, and demonstrates our commitment to responsible stewardship. Our focus continues to be on achieving our Strategic Goals:

- Deliver Services Effectively;
- Improve the Way We Do Business; and
- Ensure Stewardship.

Information technology (IT) modernization is integral to all we do. During my time, we developed and have begun to deliver on our five-year *IT Modernization Plan*. We will replace our old legacy systems, modernize our business processes and develop a whole customer review to better serve the public. These changes are essential to reducing our backlogs in the processing centers (PC) and hearings operations as well as preventing improper payments.

We have plans in place to address these challenges, and have made substantial progress over the last year. We surpassed our goal to reduce the number of people waiting for a hearing decision to approximately 858,000 and we expect to eliminate our hearings backlog by the end of FY 2021, a year earlier than expected. We continued to address our PC backlogs to ensure we are making proper and timely payments to address the benefit changes that occur after individuals start receiving benefits. Finally, we continue to enhance our efforts to protect our program and systems, and efficiently manage our agency and improve service to the public.

For the 25th consecutive year, we received an unmodified opinion on our financial statements. Based on the results of our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable, and accurate. I am also pleased to announce that we have no material weaknesses in our internal controls.

For more than 80 years, we have been a steward of the public's investment by providing rigorous oversight over our programs and we will continue to deliver timely, quality service to the millions of people who depend on us.

Respectfully,

Nancy A. Berryhill

Baltimore, Maryland
November 9, 2018

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To access this report online, please visit our **Fiscal Year 2018 *Agency Financial Report* webpage (www.socialsecurity.gov/finance)**.

# Introduction

Our *Agency Financial Report* (AFR) provides financial management and high-level performance information that enables the President, Congress, and the public to assess how well we accomplished our mission, achieved our goals, and managed the financial resources entrusted to us. We organize our AFR into the following major sections:

**Management's Discussion and Analysis**: The *Management's Discussion and Analysis* section provides an overview of our mission, organization, Strategic Goals and Objectives, Priority Goals, and key fiscal year (FY) 2018 performance measures. We highlight the FY 2018 results of our key performance measures and discuss our accomplishments and plans to achieve our mission. We provide a summary of the financial information contained in subsequent sections of the AFR. We also include a synopsis of our systems, controls, and legal compliance.

**Financial Section**: The *Financial Section* contains the Chief Financial Officer's Message, our audited financial statements, the accompanying notes to those statements, and required supplementary information, including the Schedule of Budgetary Resources and information on Social Insurance. This section concludes with the *Report of Independent Certified Public Accountants* section.

**Other Information**: The *Other Information* section includes the *Fiscal Year 2018 Inspector General's Statement on the Social Security Administration's Major Management and Performance Challenges*, as well as our Summary of Financial Statement Audit and Management Assurances tables. We also provide information on our entitlement reviews and Office of the Inspector General anti-fraud activities, agency fraud reduction efforts, civil monetary penalties, biennial review of user fee charges, actions to comply with the Reduce the Footprint initiative, grants oversight, and debt collection and management activities. The *Payment Integrity* report concludes this section.

**Appendix**: The *Appendix* includes a glossary of acronyms, a list of our agency's top management officials, the members of the Board of Trustees, and the members of the Social Security Advisory Board.

***For the 20th year in a row, we received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting* (CEAR) *award. Receiving the CEAR for our FY 2017 Agency Financial Report is a significant accomplishment for a Federal agency.***

# Management's Discussion and Analysis

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

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

**The *Overview of Our Fiscal Year 2018 Goals and Results* provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2018 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and Objectives, and discuss how we plan to address the challenges we face.**

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

**Finally, *Systems, Controls, and Legal Compliance* describes the actions we have taken to address our management control responsibilities. The Management Assurances subsection provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*, as amended.**

# Overview of the Social Security Administration

## Our Mission

*Deliver quality Social Security services to the public.*

## Social Security Benefits America

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

- **Old-Age and Survivors Insurance**: Created in 1935, the Old-Age and Survivors Insurance (OASI) program provides retirement and survivors benefits to qualified workers and their family members. In fiscal year (FY) 2018, we paid OASI benefits to an average of about 52 million beneficiaries each month, and paid about $837 billion to OASI beneficiaries through the fiscal year.
- **Disability Insurance**: Established in 1956, the Disability Insurance (DI) program provides benefits for workers who become disabled and their families. In FY 2018, we paid DI benefits to an average of over 10 million beneficiaries each month, and paid about $141 billion in DI benefits through the fiscal year.
- **Supplemental Security Income**: Established in 1972, the Supplemental Security Income (SSI) program provides financial support to aged, blind, and disabled adults and children who have limited income and resources. In FY 2018, we paid SSI benefits to a monthly average of over 8 million recipients (about 2.7 million of whom concurrently receive DI benefits), and paid over $47 billion in SSI Federal benefits and State supplementary payments through the fiscal year.

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

We administer our programs in accordance with law and regulations. We have implemented enterprise risk management processes to improve the effectiveness of our organization and program administration. Our goals are informed by strategic opportunities as well as our assessment of identified risks.

### How Social Security Benefited America in Fiscal Year 2018

- A combined total of over $1 trillion was paid in Social Security and SSI benefits;
- As of June 30, 2018, about 88 percent of the American population age 65 and over received Social Security benefits;
- As of June 30, 2018, about 95 percent of individuals age 20–49 who worked in covered employment had survivors' protection for their young children and a surviving spouse caring for the children; and
- On average each month, almost 1.2 million blind or disabled children under age 18 received SSI benefits.

## HOW WE SERVED AMERICA IN FISCAL YEAR 2018

- Issued 16.5 million new and replacement Social Security cards;
- Performed over 2.2 billion automated Social Security number verifications;
- Posted 284.3 million earnings items to workers' records;
- Handled over 31.9 million calls on our National 800 Number;
- Assisted 43 million visitors in field offices;
- Mailed nearly 350 million notices;
- Registered over 6.1 million users for *my* Social Security, a personalized online account;
- Processed over 163 million online transactions;
- Completed 10 million claims for benefits;
- Completed nearly 766,000 hearing dispositions;
- Completed almost 156,000 Appeals Council requests for review;
- Received over 18,000 disability cases in Federal court;
- Completed almost 897,000 full medical continuing disability reviews (CDR);
- Performed over 2.9 million non-medical redeterminations of SSI eligibility;
- Conducted 23 computer matching agreements for data exchanges with various Federal partners, resulting in $7.1 billion in annual savings; and
- Provided access to the Social Security Benefit Statement (Statement), mailing 14.9 million paper Statements and allowing beneficiaries to access their Statements online more than 45 million times.

# Our Organization

Approximately 62,500 Federal employees and 15,000 State employees serve the public from a network of more than 1,200 offices across the country and around the world. Most of our employees serve the public directly or provide support to employees who do. Each day, approximately 170,000 people visit and 250,000 call one of our field offices nationwide for various reasons such as to file claims, ask questions, or update their information.

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

The public can also do business with us online. Our suite of online services is available 24 hours a day. They provide a convenient, safe option for anyone interested in conducting business with us online, viewing his or her Social Security records, or looking for information about our programs and services. In FY 2018, the public conducted over 163 million transactions through our online services.

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

For more information about our organization and its functions, visit our Organizational Structure webpage (www.socialsecurity.gov/org/).

# OVERVIEW OF OUR FISCAL YEAR 2018 GOALS AND RESULTS

## HOW WE MANAGE PERFORMANCE

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

Setting goals and measuring our performance is vital to our success. We define our performance framework in the *Fiscal Years* (FY) *2018-2022 Agency Strategic Plan* (www.socialsecurity.gov/asp). Our *Agency Strategic Plan* (ASP) defines our Strategic Goals and details underlying objectives, strategies, and relevant risks and mitigation plans.

Our Strategic Goals are:

Strategic Goal 1: Deliver Services Effectively;

Strategic Goal 2: Improve the Way We Do Business; and

Strategic Goal 3: Ensure Stewardship.

**Our Planned Performance**: In February 2018, we published our *Annual Performance Plan for FY 2019, Revised Performance Plan for FY 2018, and Annual Performance Report for FY 2017* (www.socialsecurity.gov/agency/performance), as part of the *President's FY 2019 Budget Request* (www.socialsecurity.gov/budget/). Collectively, we refer to this combined document as our *Annual Performance Report* (APR). The APR outlines our tactical plans for achieving the goals and objectives in our ASP, finalizes our performance commitments for FY 2018, and describes how we ensure data integrity of our performance information.

Each September, a draft of the APR accompanies our budget submission to the Office of Management and Budget. The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the *FY 2018 Operating Plan* (www.socialsecurity.gov/budget/).

**Our Actual Performance and Program Results**: We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR containing our actual FY 2018 results in February 2019. The final APR will be available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/).

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2018. The following table shows our operating expenses by Strategic Goal.

## FY 2018 Operating Expenses by Strategic Goal
**(Dollars in Millions)**

| | |
|---|---|
| **Deliver Services Effectively** | $ 8,557 |
| **Improve the Way We Do Business** | $ 1,405 |
| **Ensure Stewardship** | $ 2,986 |

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

For FYs 2018-2019, our APGs are:

1. Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision; and
2. Improve the integrity of the Supplemental Security Income program by focusing our efforts on reducing overpayments.

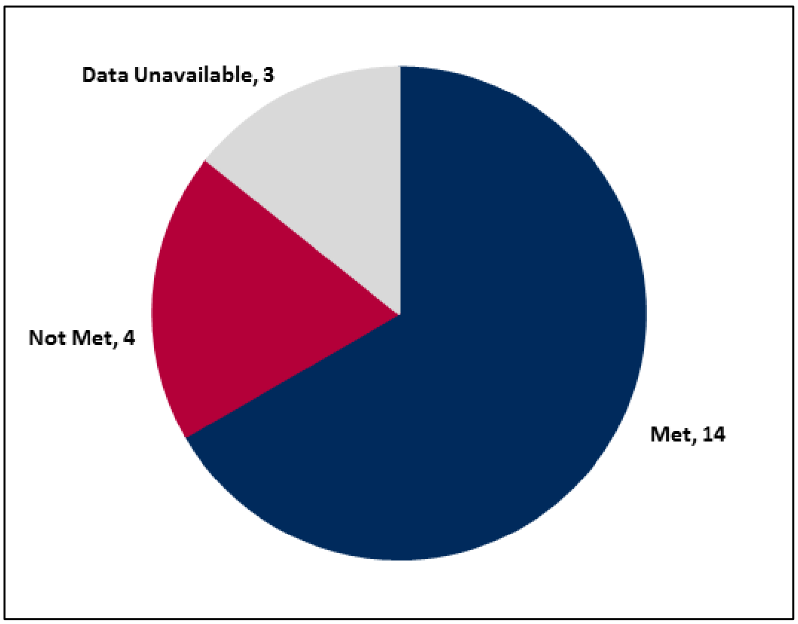
# Summary of Fiscal Year 2018 Performance

This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2018.  It also outlines some of the challenges we faced meeting these goals and analyzes our performance.  We base our planned performance measures and targets on the President's Budget request.  If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

Final data for 2 of the 9 performance measures and targets we highlighted in the *Management's Discussion and Analysis* were not available at the time we published this report.  We will include those overall results in our FY 2019 *Agency Financial Report*.  We met our targets for 5 of the 7 performance measures with available data.

Overall, we met our targets for 14 of the 21 total performance measures (including APGs) that we use to track agency progress towards meeting our Strategic Goals and objectives.  Final data for 3 of the 21 performance measures and targets were not available at the time we published this report.  Data on those performance measures will be published in our *Annual Performance Plan for FY 2020, Revised Performance Plan for FY 2019, and Annual Performance Report for FY 2018* in February 2019.

### Summary of Our FY 2018 Performance Measure Results



# STRATEGIC GOAL 1:
# DELIVER SERVICES EFFECTIVELY

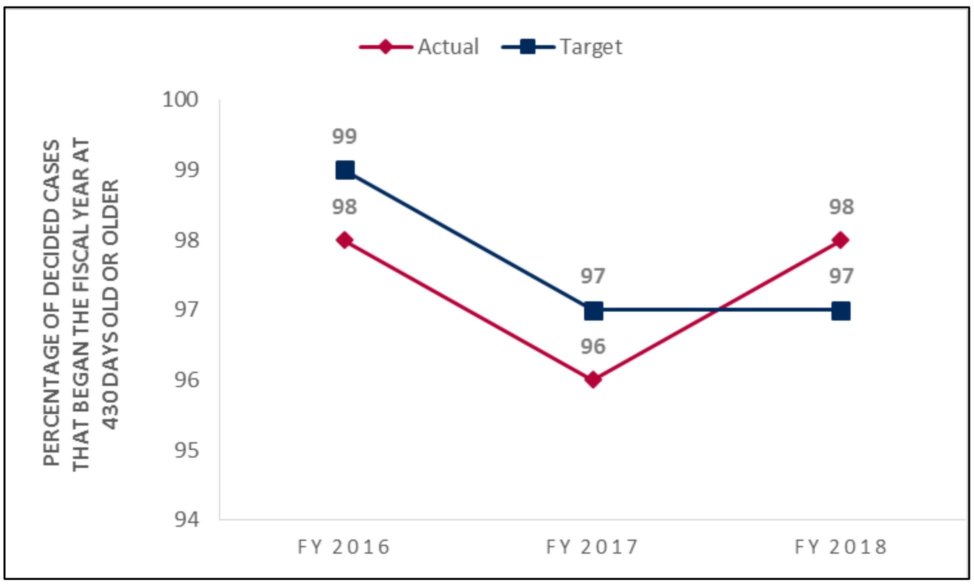
**<u>Strategic Objectives</u>**

- Improve Service Delivery
- Expand Service Delivery Options


Create an account:
www.socialsecurity.gov/myaccount

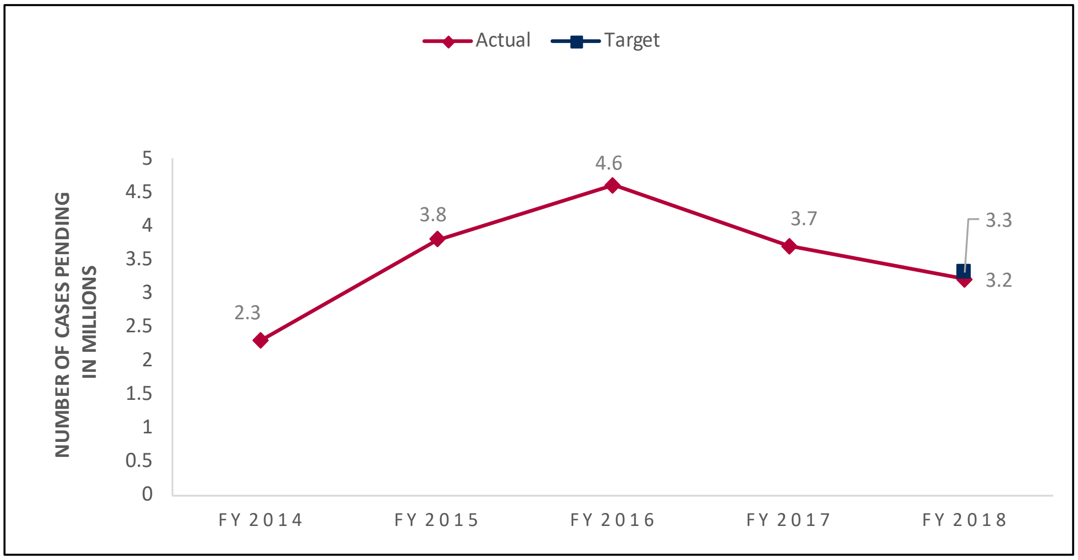
We selected the following performance measures to help demonstrate our progress in delivering services effectively:

### Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision (APG)



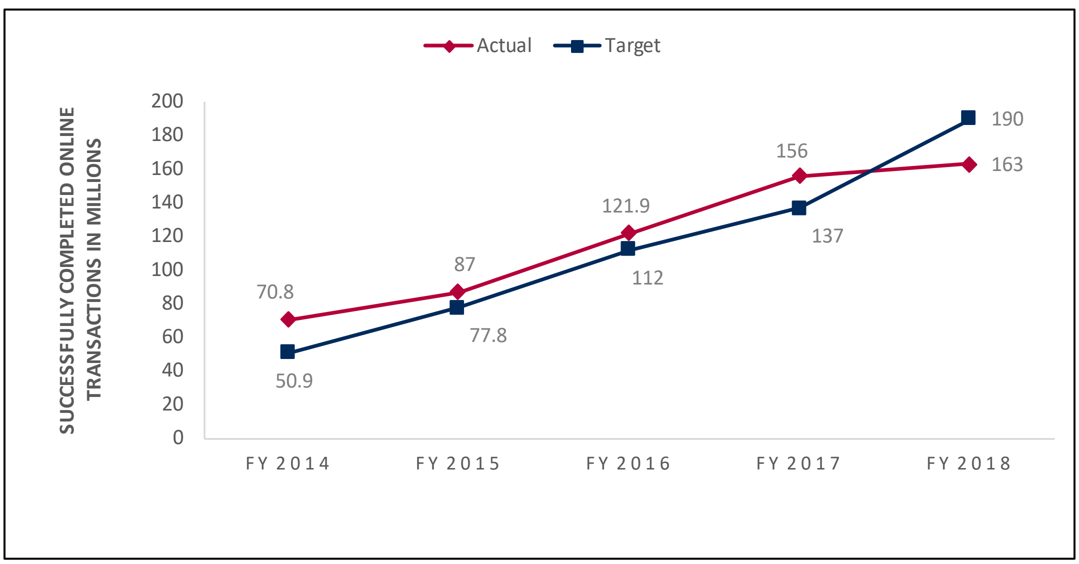

Analysis: Reducing our hearings pending remains our highest priority. In support of this effort, we have prioritized those individuals who have waited the longest for a hearing decision. In FY 2018, for the first time in 3 years, we were able to meet our goal by completing 98 percent of the cases that began the fiscal year 430 days old or older.

## Improve customer service by reducing the number of actions pending at the processing centers



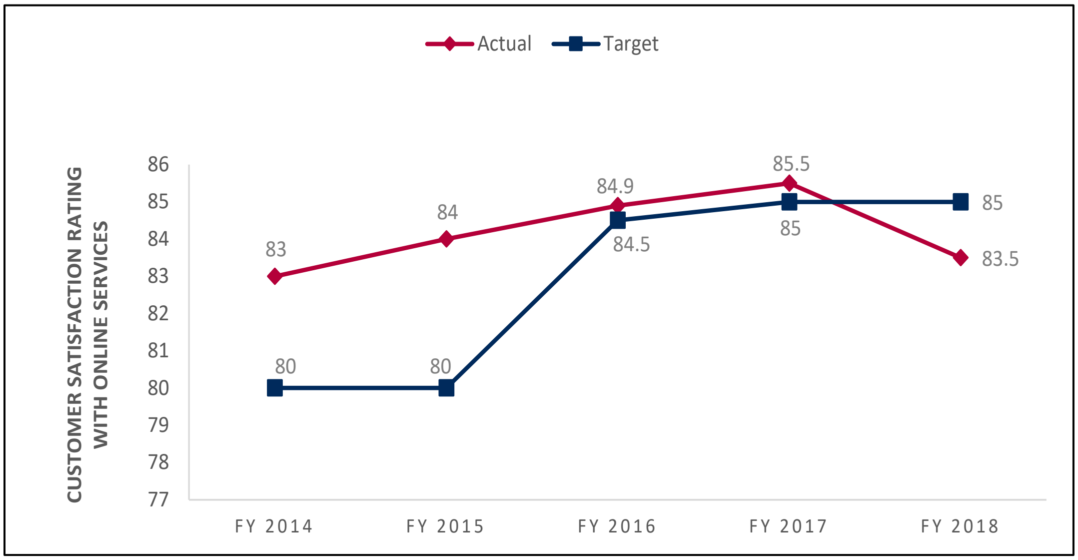

Analysis: In FY 2018, we established reducing the number of actions pending in our processing centers (PC) as a new performance measure. While this workload has always been a high priority for the agency, we wanted to emphasize our commitment to improving customer service. Since the end of FY 2017, we have reduced the PC backlog by over 500,000 actions.

## Increase the number of successfully completed online transactions




Analysis: While implementing new online services over the past four years, we realized significant increases in the volume of online transactions. As we realized these increases, we continued to set aggressive stretch targets. In FY 2016, we implemented Dynamic Help, which contributed more than 20 million transactions in its first year and in FY 2017, we implemented a web base-based application (myAPS) that allows claimants to view benefit claims that are currently pending or recently adjudicated, which contributed over 9 million transactions. In FY 2018, implementation of major online services for Supplemental Security Income (SSI) recipients and concurrent beneficiaries occurred in the late third and fourth quarter; making it impossible for them to substantially impact our transaction volumes in a sizable way until FY 2019. As a result, the volume of these new services are in the thousands and not the millions. We expect to see continued increased online transactions going forward as we implement new services.

### Increase customer satisfaction with our online services




Analysis: This goal measures overall customer satisfaction with eight agency online services, including [our main page (www.socialsecurity.gov)](http://www.socialsecurity.gov), based on the ForeSee E-Government Satisfaction Index. The FY 2018 target of 85 was based on data that included an error in the main page survey process, which led to inflated scores for the main page. The necessary correction was made mid-FY 2018 and the customer satisfaction score dropped significantly from the upper-70s to the mid-60s in most months. However, the FY 2018 target of 85 was not changed. The main page receives a disproportionate number of ratings from customers who are frustrated with some aspect of our service delivery (whether related to eServices or not) and cannot find another, readily available method for sharing their concerns, which substantially affect the overall score.

Our efforts to deliver services effectively include:

## Reduce the Hearings Backlog

We have made good progress, reducing the number of people awaiting a hearing decision for 21 consecutive months. In early March 2018, we reduced the number of hearings pending below one million for the first time since October 2014. In FY 2018, we reduced the number of people waiting for a hearing decision to 858,000--nearly a 19 percent reduction from FY 2017. The decrease in pending is a leading indicator to reduced wait times. We expect a significant decrease in the average wait over the next three years.

Our plan for Compassionate And REsponsive Service (CARES) is a multi-pronged approach to eliminate the hearings backlog through increased decisional capacity, business process efficiencies, and information technology (IT) innovations. We also plan to expand our video hearings network, create quality assurance tools to improve policy compliance of drafted decisions, and design a new hearings and appeals case process system.

## Reduce the Processing Center Backlog

Currently, the PCs are working off a backlog of pending actions. In FY 2018, our workload strategies involved screening cases that could be completed quickly and controlling the volume and age of our workloads. We also provided hiring and overtime in the PCs, and we began implementing new automation, workflow enhancements, and quality initiatives to improve performance.

In FY 2018, we reduced the PC backlog by over 500,000 actions from the end of FY 2017. PC pending actions were 36 percent lower at the end of FY 2018 compared to our all-time high of more than 5 million pending actions in January 2016. Our hiring, automation, business process, and quality initiatives will continue to decrease the pending actions.

### Provide Real-Time Assistance to Online Users

Improving the service experience for our customers is one of our highest priorities. Click-to-Chat is a new feature for *my* Social Security that will allow users to communicate with us online in real time. We launched this feature in June 2018 for 10 percent of *my* Social Security users, and in August, we increased it to 30 percent of users.

### Expand the Availability of the Online Social Security Replacement Card Application

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

Since we launched iSSNRC in November 2015, we have increased the number of States where people can request a replacement Social Security card. In FY 2018, we issued approximately 856,000 replacement cards through the iSSNRC application and currently offer iSSNRC in 31 States and the District of Columbia. In June 2018, we expanded iSSNRC to residents of Louisiana, Rhode Island, and Missouri. We will continue to expand iSSNRC nationwide.

### Enhance *my* Social Security

*my* Social Security is our online portal for the public. It is a convenient, safe online option for anyone interested in viewing his or her Social Security records or conducting business with us. With about 6 million people creating a new *my* Social Security account each year, we had nearly 39 million users registered at the end of FY 2018.

We continue to focus on improving the *my* Social Security user experience and adding service options. *my* Social Security has a user-friendly design to allow broad access from various devices. For example, we implemented an online tool, myWageReport (myWR), that allows users to report earnings electronically on computers, mobile devices, and smartphones.

# Strategic Goal 2:
# Improve the Way We Do Business

**<u>Strategic Objectives</u>**

- Streamline Policies and Processes
- Accelerate Information Technology Modernization

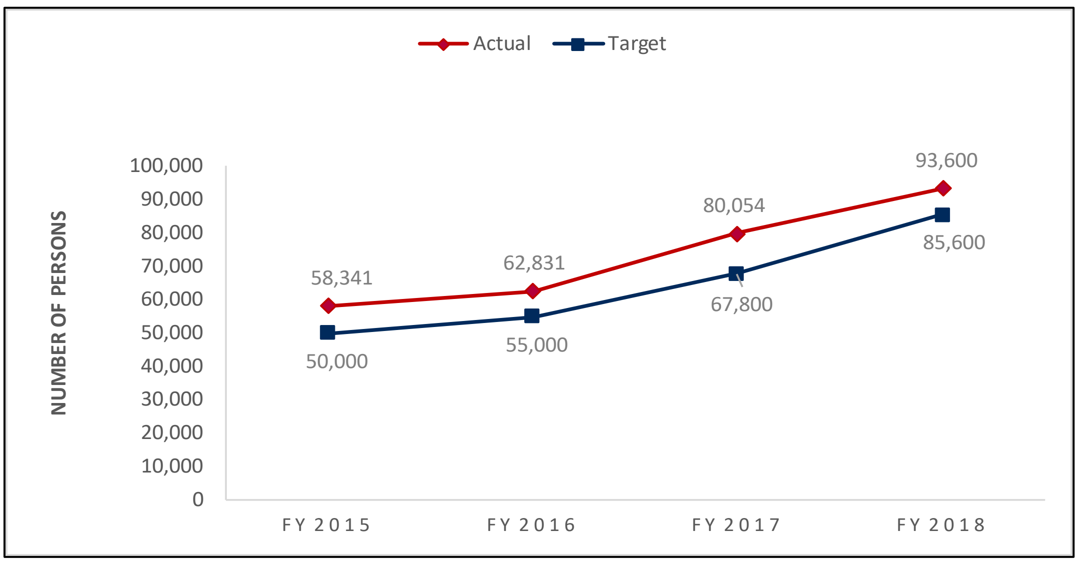
**Report Wages from Your Mobile Device**

SSI

Available now in
Google Play: play.google.com/store and
Apple app: www.apple.com/itunes/charts/free-apps/

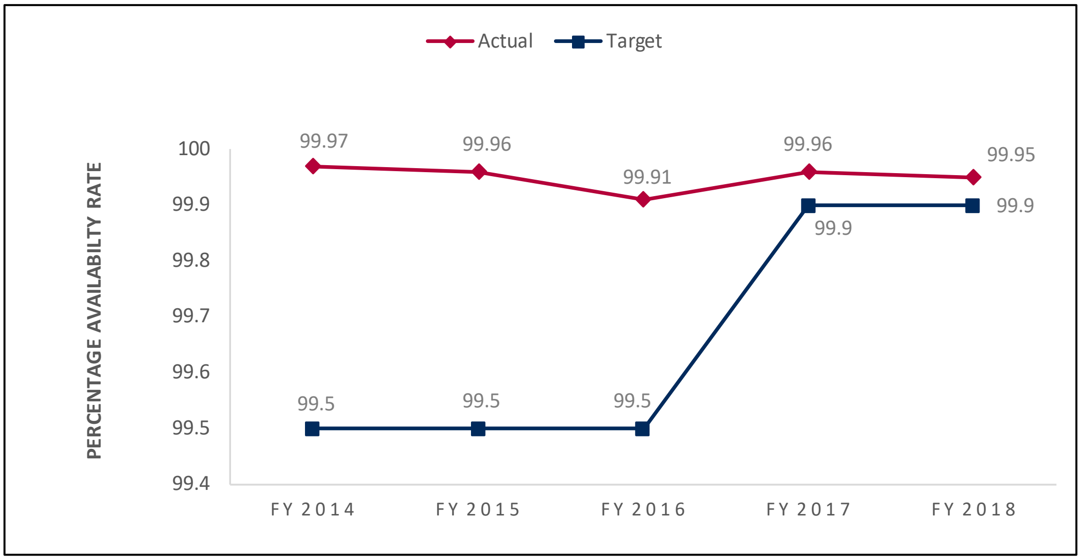
We selected the following performance measures to indicate our progress to improve the way we do business:

### Increase labor force participation: Increase the number of persons with disabilities receiving employment support services who achieve the consequential earnings threshold of the trial work level




Analysis: Our Ticket to Work and Vocational Rehabilitation (VR) cost reimbursement programs have helped beneficiaries transition to employment. In FY 2018, we continued to increase the number of persons with disabilities who returned to work. Over the past four years, we have realized continued growth in this program and exceeded our target.

## Provide uninterrupted access to our systems during scheduled times of operations




Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to meeting our obligation to the public. Since FY 2012, we have exceeded the target for this measure. We continue to surpass the agency's goal for Enterprise Availability of our critical services each year. In FY 2018, we achieved a systems availability rating of 99.95 percent, while processing higher volumes of transactions and deploying system changes for continual improvement as we constantly work to increase redundancy, stability, and scalability.

## Maintain an effective Cybersecurity Program

| | FY 2018 Actual | FY 2018 Target | Target Achieved |
|---|---|---|---|
| **Performance** | "Managing risk" score achieved | Achieve an overall score of "managing risk" on the Federal Cybersecurity risk Management Assessment | Met |

Analysis: Maintaining our cybersecurity is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. We continue to meet the Department of Homeland Security cybersecurity target, as well as achieve an overall score of "managing risk" on the Federal Cybersecurity Risk Management Assessment. Our annual results continue to demonstrate our commitment to protecting the data entrusted to us by the American public.

Some of the initiatives we are undertaking to improve how we do business include:

### Increase the Number of People with Disabilities who Return to Work

Many beneficiaries who are disabled want to work, and with adequate support, may attain self-sufficiency. The Ticket to Work and the VR cost reimbursement programs help beneficiaries transition to employment and progress towards reduced reliance on disability-related benefits. In FY 2018, over 350,000 beneficiaries worked with VR agencies and Employment Networks (EN) to attempt to return to the workforce. We will continue to enhance our Internet Ticket Operation Support System (iTOPSS), used by EN and VR service providers in their business with us. iTOPSS eliminates paper claims and streamlines the payment process. We will continue to improve our outreach to beneficiaries. Ongoing mailings, marketing efforts, monthly webinars, and interactive presence on social media have led to thousands of beneficiaries connecting with ENs and State VR agencies to get the services they need to return to work.

### Modernize the Social Security Statement

To improve customer service and the public's understanding of our programs, we are modernizing the Social Security Statement. Our focus is to enhance the online Social Security Statement available through *my* Social Security accounts. The modernized online Statement will not only continue to provide the public with their earnings records, Social Security and Medicare taxes paid, and future benefits estimates, it will also provide an interactive, customized user experience appropriate to age and earnings background. The public will have access to tools and calculators and applicable information in a central location to assist with retirement planning, benefit eligibility, and decisions on their benefit applications. We will modify the *my* Social Security online Statement to integrate it with additional benefit estimation tools and add new features.

### Strengthen Our Information Security Program and Modernize Our Cybersecurity Infrastructure

Continual improvement and strengthening of our cybersecurity program is imperative to maintaining the public's trust in our ability to protect the sensitive data housed in our systems. As cyberattacks continue to evolve and become increasingly aggressive, we must be vigilant and protect against network intrusions and improper access of data. Through constant assessment of the threat landscape and use of advanced cybersecurity controls in the creation of modernized IT systems and existing systems, we can better protect against cybersecurity incidents and risks.

We plan to implement new capabilities for identifying and mitigating vulnerabilities within our IT assets. We will enhance our identity management platform, further automate our response to security events, and improve data at rest encryption to further protect our information assets. We will deploy IT infrastructure, develop network models needed to enhance our network access controls, and strengthen our strategy to limit the impact of potential cyber attackers.

# **STRATEGIC GOAL 3:**
# **ENSURE STEWARDSHIP**

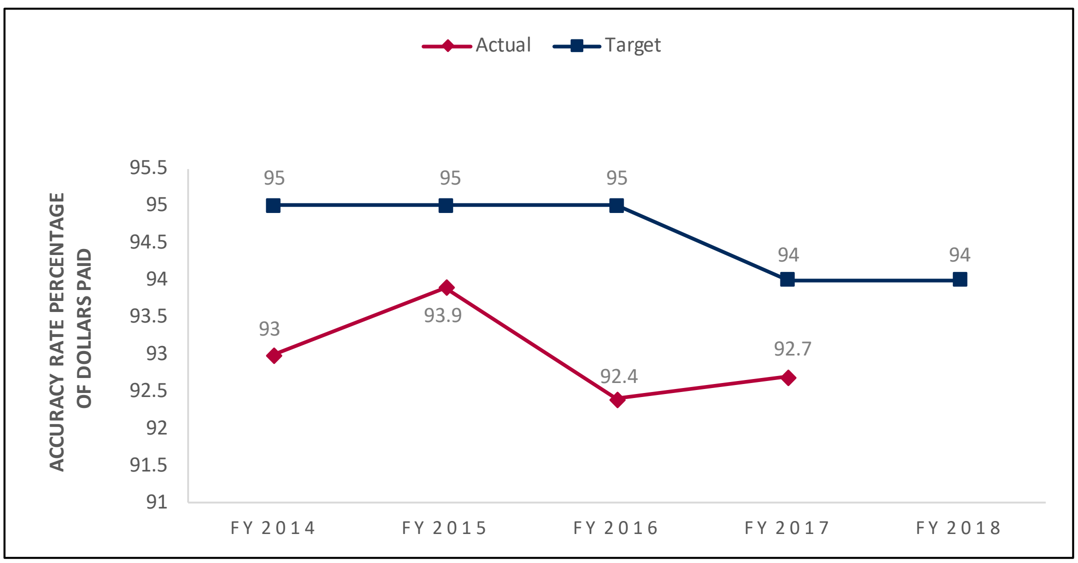
**Strategic Objectives**

- Improve Program Integrity
- Enhance Fraud Prevention and Detection Activities
- Improve Workforce Performance and Increase Accountability
- Improve Organizational Effectiveness and Reduce Costs

Antifraud facts:
www.socialsecurity.gov/antifraudfacts/

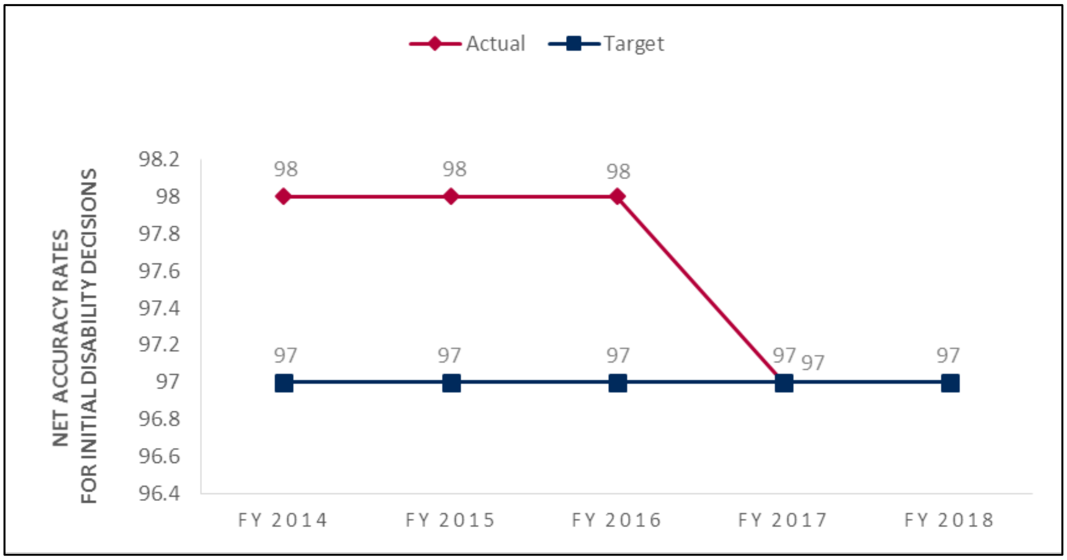
We selected the following performance measures to demonstrate our efforts to ensure stewardship:

## Improve the Integrity of the Supplemental Security Income program by focusing our efforts on reducing overpayments (APG)




Analysis: We depend on SSI recipients to timely report changes in income, resources, and living arrangements to accurately determine their eligibility for the program and payment amount. Without timely reports, we incur improper payments. We are actively working to increase our payment accuracy by using more data and technology, which include: providing an additional option for reporting earnings using authority from the *Bipartisan Budget Act of 2015*, Section 826, *Electronic Reporting of Earnings*, applying an automated process for receiving commercial records on real property ownership, and using the automated Access to Financial Institutions process during SSI initial applications. Funding for completion of program integrity activities also supports our ability to evaluate continued eligibility by conducting SSI non-medical redeterminations. Our IT modernization efforts should assist in reducing improper payments in this area. FY 2018 data is not available until summer 2019.

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




Note: Net accuracy is the percentage of correct initial State disability determinations and is based on the net error rate (i.e., the number of corrected deficient cases with changed disability decisions), plus the number of deficient cases not corrected within 90 days from the end of the period covered by the report, divided by the number of cases reviewed.

Analysis: The public expects us to make timely and accurate decisions. In FY 2017, we demonstrated the quality of our decisions by achieving the disability determination services (DDS) net accuracy of 97 percent for initial disability decisions. We have consistently met our target for this measure since FY 2010. FY 2018 data is not available until January 2019.

Some of the initiatives we are undertaking to ensure stewardship include:

### Promote the Use of myWageReport Online Reporting

Wages are a leading cause of improper payments in the SSI program. Currently, we use payroll data provider information from The Work Number to verify wage amounts that an individual alleges, however, this verification is a manual process.

We implemented an online tool, myWR, that allows users to report earnings electronically on computers, mobile devices, and smartphones. This application is an alternative to the existing downloadable wage reporting application and telephone wage reporting. In June 2018, we expanded the myWR application to allow SSI and concurrent beneficiaries, their representative payees, or their deemors (e.g., an ineligible spouse or parent living with the recipient) to have a convenient option to report earnings electronically. We plan to conduct user research and usability testing for obtaining cafeteria benefit plan information through myWR, which will expand the reporting population and reduce improper payments. A cafeteria plan is a written benefit plan offered by an employer, which consists of qualified benefits that the Internal Revenue Service does not consider part of an employee's gross income. In addition, we plan to allow customers to report when they have started working for a new employer on myWR. By automating this process, we expect to update our records more quickly and reduce a customer's need to visit a field office.

## Modernize our Debt Management System

We have multiple systems that manage programmatic debts. In FY 2018, we began a multi-year initiative to develop a modernized enterprise Debt Management System to help us better collect, store, monitor, and report our program debt activity. The primary goals are to use modern technology to create an enterprise authoritative source of debt management data, increase debt collections, more efficiently address our overpayment workloads, and resolve compliance and audit issues. We also plan to implement an online bill payment option for the public that uses the Department of the Treasury's Pay.gov portal.

## Expand our Cooperative Disability Investigations Program

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

We currently have 43 CDI units, covering 37 states, the District of Columbia, and the Commonwealth of Puerto Rico. In FY 2018, we expanded to Honolulu, Hawaii, Indianapolis, Indiana, and Albuquerque, New Mexico. Hawaii's CDI unit will provide CDI coverage for Guam, American Samoa, and the Northern Mariana Islands. We will continue expansion to cover all 50 States and U.S. territories.

## Enhanced Fraud Prevention and Detection Activities

Combatting fraud is an agency priority, and we take seriously our responsibility to prevent and detect fraud. In addition to our core program integrity efforts with the CDI units and assisting with fraud prosecutions, we have centralized our anti-fraud efforts to take advantage of data analytics and predictive models to prevent fraud, ensure consistent anti-fraud policies, refine employee training, and solidify relationships with other Federal, State, and private partners to identify individuals who wrongfully obtain Social Security and SSI payments.

We will focus on a holistic analytical approach to our fraud risk management and prioritize our anti-fraud efforts consistent with the *Fraud Reduction and Data Analytics Act of 2015* and the Government Accountability Office's framework. We will continue to expand the use of data analytics and predictive modeling to enhance fraud prevention and detection in our programs. We will integrate data from multiple sources and use industry-proven predictive analytics software to identify high-risk transactions for further review. With these models, we will better identify suspicious and evolving patterns of activities in our workloads and prevent fraudulent actions.

In FY 2018, we deployed a disability fraud model to identify anomalous relationships within disability claims at the hearings level. The model shows an initial success in using data analytics to detect potential fraud, and serves as a prototype for similar models in the future to target specific program risks. We plan to complete a fraud risk assessment of our electronic services, develop an additional fraud model to mitigate risks identified in our disability fraud risk assessment, and re-engineer the current fraud allegation referral process. We will also initiate additional risk assessment activities to expand beyond disability and online services.

# Looking Forward – Facing Our Challenges

The American public deserves a Social Security Administration that delivers timely, quality Social Security services, is an efficient and effective organization, and is a good steward of the taxpayers' dollars. For more than 80 years, we have been a steward of the public's investment by providing rigorous oversight over our programs while also offering competent service.

Our priorities and goals will focus on our efforts to reduce hearings and PC backlogs, and modernize our IT systems.

We have a complex disability program with a backlog of people waiting for a hearing decision. At the end of FY 2017, over 1 million people were waiting an average of 605 days for a decision on their hearing request. Eliminating the hearings backlog and reducing the time it takes to get a hearing decision remains one of our most critical priorities. With our CARES plan, combined with the dedicated hearings backlog funding, we plan to eliminate the hearings backlog and reduce the average wait for a hearing decision to 270 days by the end of FY 2021.

We have a backlog in our PCs, which among other workloads, address the changes that occur when people are receiving benefits—changes that are necessary to prevent improper payments. Our PCs handle actions that arise after we determine benefit eligibility and support our field and hearing offices by handling the most-complex benefit payment decisions, appeal decisions, collecting debt, correcting records, and performing program integrity work. We will improve service delivery by further prioritizing work and by using automation to reduce the PC backlog.

We maintain the benefit, earnings items, and certain vital records of nearly every member of the public on systems designed over 30 years ago. Technological change is accelerating at a relentless pace and offers us opportunities to change, transform, and improve the way we serve the public. Yet these newer technologies can be disruptive to legacy systems, business processes, and ultimately to the way we work. Our dated IT infrastructure has grown increasingly fragile, costlier to maintain, more challenging to secure, and it does not efficiently meet current demands for our services.

Our *IT Modernization Plan* will replace our core systems with new components and platforms, engineered for maximum usability, operability, and future adaptability. We have already begun laying the foundation for this effort by incorporating agile methodology in our engineering practices, redesigning the way we access our legacy data to efficiently match its intended uses, and running production workloads in the cloud.

Recent breaches at other Federal and State agencies and in the private sector underscore the importance of securing networks and sensitive data. While our cybersecurity program is comparable to that of other Federal agencies, it remains costly and difficult to integrate with our current legacy systems. We use knowledge of the threat landscape, advanced technologies, and skilled cyber professionals to secure our networks from threats, both foreign and domestic. Cyberattacks are ever changing, and we must remain vigilant to prevent any intrusion on our networks.

We will continue to work down our hearings and PC backlogs to ensure we are making proper and timely payments and improve service on our National 800 Number and in local field offices. Lastly, we will continue to enhance our efforts to protect our programs, systems, and beneficiaries and more efficiently manage our agency.

# HIGHLIGHTS OF FINANCIAL POSITION

## OVERVIEW OF FINANCIAL DATA

We received an unmodified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 39 through 96 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2016 through 2018 (excluding key amounts from our Statements of Social Insurance and Statements of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

### Table of Key Financial Measures[1]
**(Dollars in Billions)**

| Net Position (end of fiscal year) | | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Total Assets** | $2,939.3 | $2,934.8 | $2,888.4 |
| **Less Total Liabilities** | $117.0 | $115.3 | $113.7 |
| **Net Position (assets net of liabilities)** | $2,822.3 | $2,819.6 | $2,774.6 |
| **Change in Net Position (end of fiscal year)** | | | |
| | 2018 | 2017 | 2016 |
| **Net Costs** | $1,038.6 | $999.1 | $982.2 |
| **Total Financing Sources[2]** | $1,041.3 | $1,044.1 | $1,012.5 |
| **Change in Net Position** | $2.7 | $45.0 | $30.3 |

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position displayed on page 42.

**Balance Sheet**: The Balance Sheet displayed on page 40 presents, as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2018 are $2,939.3 billion, a 0.2 percent increase over the previous year. Of the total assets, $2,922.5 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.5 percent of our assets, increased $4.8 billion over the previous year.

Liabilities grew in FY 2018 by $1.7 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries, and the 2.0 percent cost of living adjustment (COLA) provided to beneficiaries in 2018. The majority of our liabilities (89.4 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew $2.7 billion to $2,822.3 billion, reflecting the higher growth in assets than liabilities.

**Statement of Net Cost**: The Statement of Net Cost displayed on page 41 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs, and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2018, our total net cost of operations increased $39.5 billion to $1,038.6 billion, primarily due to a 2.5 percent increase in the number of OASI beneficiaries. The OASI net cost increased by 5.5 percent, while the DI and SSI net cost decreased 0.2 percent and 7.6 percent respectively. Operating expenses increased for the OASI, DI, and SSI programs by 3.1 percent, 0.5 percent, and 1.7 percent, respectively.

In FY 2018, our total benefit payment expenses increased by $39.2 billion, a 4.0 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2018 and FY 2017 for each of our three major programs.

## Benefit Changes in Our Major Programs During Fiscal Years 2018 and 2017

| | FY 2018 | FY 2017 | % Change |
|---|---|---|---|
| **OASI** | | | |
| **Benefit Payment Expense** | $836,919 | $793,155 | 5.5% |
| **Average Monthly Benefit Payment** | $1,347.46 | $1,304.21 | 3.3% |
| **Number of Beneficiaries** | 52.45 | 51.19 | 2.5% |
| **DI** | | | |
| **Benefit Payment Expense** | $140,939 | $141,206 | (0.2)% |
| **Average Monthly Benefit Payment** | $1,066.01 | $1,037.89 | 2.7% |
| **Number of Beneficiaries** | 10.21 | 10.45 | (2.3)% |
| **SSI** | | | |
| **Benefit Payment Expense** | $47,027 | $51,355 | (8.4)% |
| **Average Monthly Benefit Payment** | $551.63 | $542.69 | 1.6% |
| **Number of Beneficiaries** | 8.15 | 8.23 | (1.0)% |

Notes:

1. Benefit payment expense and the number of beneficiaries are presented in millions.
2. The average monthly benefit payment for OASI, DI, and SSI programs are presented in actual dollars.

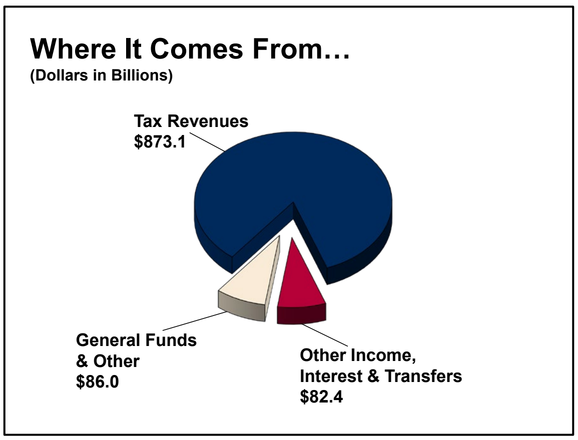
**Statement of Changes in Net Position**: The Statement of Changes in Net Position displayed on page 42 presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of $2.7 billion in the net position of our agency, which is attributable to financing sources in excess of our agency's net cost. At this time, the total of DI tax revenues and interest earned continue to exceed benefit payments made to beneficiaries, keeping the program solvent. OASI benefit payments exceeded tax revenues and interest earned in FY 2018, resulting in the program using Trust Fund reserves to cover the excess payments. The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, authorizes a temporary reallocation of the DI Trust Fund's portion of the *Federal Insurance Contributions*

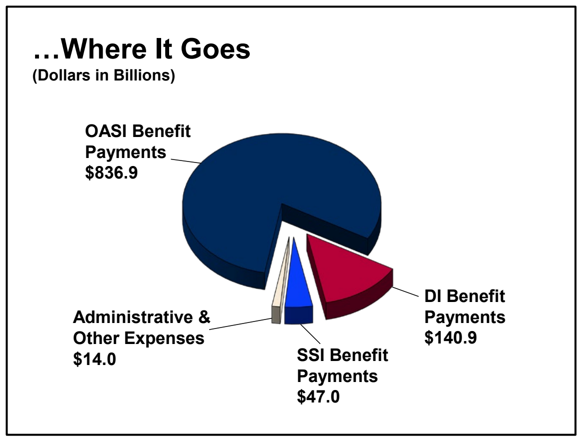
*Act* payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in increased tax revenue for the DI Trust Fund, which resulted in DI's net position increasing $26.7 billion from $46.2 billion to $72.9 billion.

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

In FY 2018, total financing sources, as shown in the Table of Key Financial Measures displayed on page 24, decreased by $2.8 billion to $1,041.3 billion. This is due primarily to a decrease in SSI authority received in FY 2018, due to 11 months of benefit payments in FY 2018 versus 12 months in FY 2017. The $1,041.3 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart "Where It Comes From…" as seen below. The activity reported in the chart includes $0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2018.




Note:

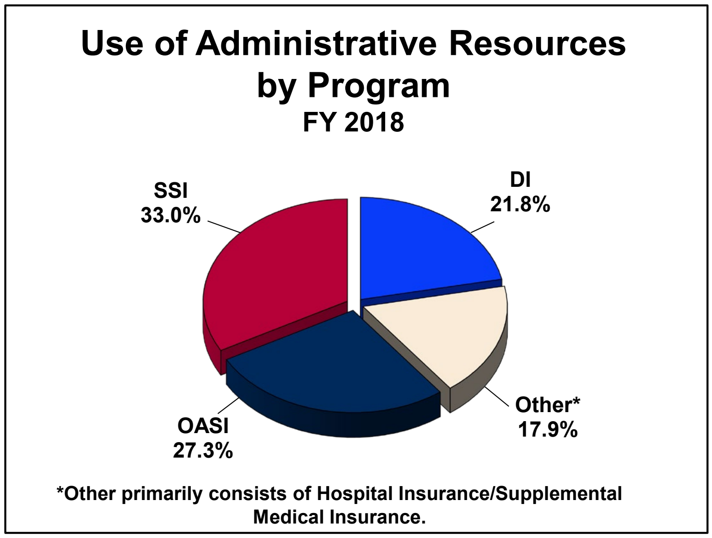
1. The individual items included in the "Where It Comes From…" chart total $1,041.5 billion. Of this total, 0.3 billion relates to exchange revenue, which is not included on the Statement of Changes in Net Position. The adjusted total of $1,041.2 does not tie to the total financing sources listed above, as the totals do not necessarily equal the sum of the rounded components.

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

**Statement of Budgetary Resources**: The Statement of Budgetary Resources displayed on page 43 provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2018. The Statement shows that we had $1,101.9 billion in budgetary resources, of which $4.6 billion remained unobligated at year-end. We recorded total net outlays of $1,039.9 billion by the end of the year. Budgetary resources increased $37.2 billion, or 3.5 percent, from FY 2017, while net outlays increased $39.1 billion, or 3.9 percent. The increase in budgetary resources is primarily due to the OASI Trust Fund using additional Trust Fund reserves to cover increased benefit payment obligations in FY 2018. The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries and the 2.0 percent COLA provided to beneficiaries in 2018.

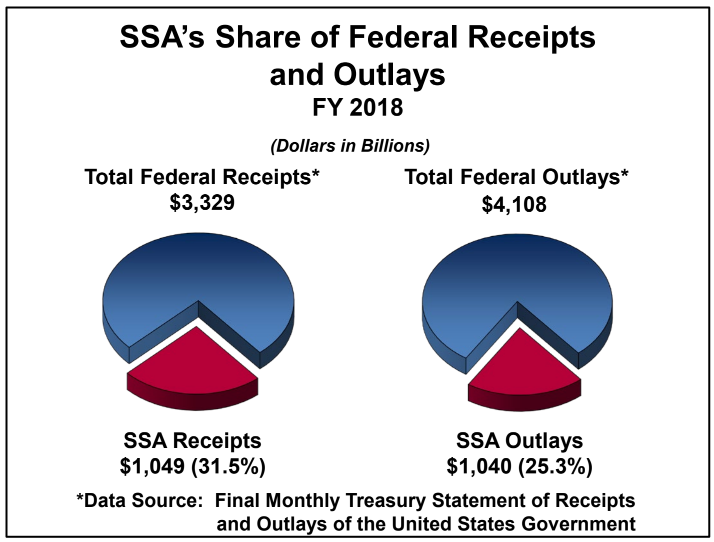
## USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2018 in terms of the programs we administer or support. Although the DI program comprises only 13.8 percent of the total benefit payments we make, it consumes 21.8 percent of annual administrative resources. Likewise, while the SSI program comprises only 4.6 percent of the total benefit payments we make, it consumes 33.0 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued eligibility for benefits. The FY 2017 use of administrative resources by program was 27.0 percent for the OASI program, 22.1 percent for the DI program, 33.2 percent for the SSI program, and 17.7 percent for Other.




## SSA'S SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2018 represented 31.5 percent of the $3.3 trillion in total Federal receipts, a decrease of 0.3 percent over last year. Outlays increased by 0.1 percent to 25.3 percent of Federal outlays.



# OVERVIEW OF SOCIAL INSURANCE DATA

## Table of Key Social Insurance Measures[1]
### (Dollars in Billions)

| Statements of Social Insurance<br>Old-Age, Survivors, and Disability Insurance<br>(calendar year basis) | | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), current year valuation** | -$16,057 | -$15,357 | -$14,169 |
| **Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), prior year valuation** | -$15,357 | -$14,169 | -$13,440 |
| **Change in present value** | -$701 | -$1,187 | -$730 |

Notes:

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

**Statements of Social Insurance**: As displayed on page 44, the Statements of Social Insurance present the following estimates:

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

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -$15.4 trillion, as of January 1, 2017, to -$16.1 trillion, as of January 1, 2018. The deficit, therefore, increased in magnitude by about $0.7 trillion. Including the asset reserves in the combined OASI and DI Trust Funds increases this open group measure by about $2.9 trillion, to -$13.2 trillion, for the 75-year valuation period.

The present value of estimated future net cash flows for all current participants (who attain age 15 or older in the first year of the projection period) over the next 75 years, *plus* the asset reserves in the combined OASI and DI Trust

Funds as of the beginning of the period, is -$31.9 trillion (closed group measure). Including future participants (those under age 15, and to be born during the projection period) over the next 75 years decreases the projected deficit by $18.8 trillion to the open group measure of -$13.2 trillion.

**Statements of Changes in Social Insurance Amounts**: The Statements of Changes in Social Insurance Amounts displayed on page 45 reconcile the change (between the current valuation period and the prior valuation period) in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

**From January 1, 2017 to January 1, 2018**: The present value as of January 1, 2018 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2092. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.5 trillion;
- Changes in programmatic data and methods increased the present value of estimated future net cash flows by $0.2 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- Eliminating a previously assumed temporary rise in the projected total fertility rate to a level above the ultimate rate;
- Incorporating recent mortality data, which led to higher projected death rates for all future years; and
- Updating the sample of newly-entitled worker beneficiaries used to project average benefit levels from a 2013 sample to a 2015 sample.

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

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

Significant changes made for this valuation included:

- Incorporating recent data led to higher death rates throughout the projection period and lower disabled worker incidence rates during the short-range period;
- Lower real-wage differential in the first 10 years of the projection period and lower near-term interest rates; and

- Reduction of the level of actual and potential gross domestic product by about 1 percent for all years after the short-range period.

## OASI and DI Trust Fund Solvency

### Pay-As-You-Go Financing

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

The following table shows that the combined OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 37.6 months at the end of FY 2014, to 36.8 months at the end of FY 2015, to 36.1 months at the end of FY 2016, and to estimated values of 35.0 and 33.1 months at the end of FY 2017 and FY 2018, respectively. The historical values shown in the table for the DI Trust Fund declined at the end of FY 2014 and FY 2015 because expenditures increasingly exceeded income. This trend began to reverse in FY 2016 due to the *Bipartisan Budget Act of 2015*, which reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund. The values for DI are projected to continue to increase through the end of FY 2018.

**Number of Months of Expenditures**
**Fiscal-Year-End Asset Reserves Can Pay[1,2]**

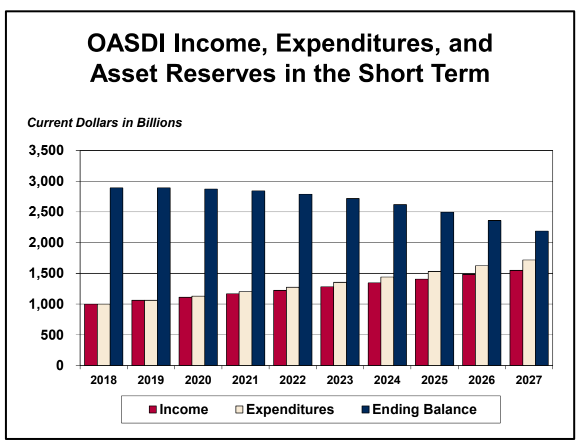
| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **OASI** | 43.9 | 43.1 | 42.0 | 40.2 | 37.5 |
| **DI** | 5.7 | 3.4 | 3.8 | 5.6 | 7.2 |
| **Combined** | 37.6 | 36.8 | 36.1 | 35.0 | 33.1 |

Notes:

1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.
2. Values for FY 2017 and FY 2018 are estimates based on the intermediate set of assumptions of the 2018 Trustees Report.

### Short-Term Financing

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program's obligations for the year. Estimates in the 2018 Trustees Report indicate that, on a hypothetical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate set of assumptions of the 2018 Trustees Report, OASDI estimated cost of $1,719 billion and income of $1,550 billion for 2027 are 80 percent and 55 percent higher than the corresponding amounts in 2017 ($952 billion and $997 billion, respectively). From the end of 2017 to the end of 2027, asset reserves are projected to decrease by 24 percent, from $2.9 trillion to $2.2 trillion.



## LONG-TERM FINANCING

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2034, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 79 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2034, declining to 74 percent of scheduled benefits in 2092.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers beginning their retirement. In present value terms, the 75-year shortfall is $13.2 trillion, which is 2.68 percent of taxable payroll and 1.0 percent of gross domestic product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

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

Significant uncertainty surrounds the estimates for the Statements of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, pages 84 through 96 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

# LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements beginning on page 39 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

# Systems, Controls, and Legal Compliance

## Management Assurances

### Federal Managers' Financial Integrity Act Assurance Statement
### Fiscal Year 2018

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018.

The agency's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. Generally Accepted Accounting Principles. Management is also responsible for designing, implementing, and maintaining effective internal control over financial reporting. An entity's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

We performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Based on that evaluation, we concluded that, as of September 30, 2018 SSA's internal control over financial reporting is effective.

Nancy A. Berryhill
Acting Commissioner
November 9, 2018

## Agency Federal Managers' Financial Integrity Act Program

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

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

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

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

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

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

For more information, please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report.

### MANAGEMENT CONTROL REVIEW PROGRAM

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

### FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a three-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2018, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

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

In FY 2018, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design, implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meet the GAO's standards.

## ENTERPRISE RISK MANAGEMENT

OMB Circular No. A-123 requires the agency to implement an Enterprise Risk Management (ERM) Strategy that incorporates our internal control system, strategic planning, and strategic review processes. We are in the beginning stages of implementing our ERM program by maintaining a risk profile, developing a framework document, and increasing risk awareness throughout the agency.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

**Federal Financial Management Improvement Act Assurance Statement**
**Fiscal Year 2018**

I have determined that the Social Security Administration's Financial Management Systems (FMS) are in substantial compliance with the *Federal Financial Management Improvement Act of 1996* for fiscal year (FY) 2018.

The Act requires Federal agencies to implement and maintain systems that comply substantially with: 1) Federal FMS requirements; 2) applicable Federal accounting standards; and 3) the Standard General Ledger at the transaction level.

In making this determination, I have considered all the information available to me, including the auditor's opinion on the agency's FY 2018 financial statements, the report on the effectiveness of internal controls over financial reporting, and the report on compliance with laws and regulations. I have also considered the results of the FMS reviews and management control reviews conducted by the agency and its independent contractor.

Nancy A. Berryhill
Acting Commissioner
November 9, 2018

For more information, please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report.

## FINANCIAL STATEMENT AUDIT

The Office of the Inspector General contracted with Grant Thornton, LLP for the audit of our FY 2018 financial statements. Grant Thornton found we present fairly the basic financial statements, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles for Federal entities.

Grant Thornton also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2018, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2017 to January 1, 2018, are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

Grant Thorton found we maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

In this year's financial statement audit, Grant Thornton continued to cite three significant deficiencies identified in prior years. These significant deficiencies concern internal control over certain financial information systems controls, the reliability of information used in certain control activities, and accounts receivable with the public (benefit overpayments). We are committed to resolving these deficiencies as quickly as possible through our risk-based corrective action plans, and to strengthening our control environment.

For more information on the auditors' findings and our plans to correct the findings, please refer to the *Report of Independent Certified Public Accountants* section of this report.

## FEDERAL INFORMATION SECURITY MODERNIZATION ACT

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. We submitted this year's report timely. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.

During FY 2018, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by the auditors in our prior year financial statement audit. The agency also expanded our Security Assessment and Authorization efforts by completing Authority to Operate assessments and certifications for new modern computing environments and systems.

We strengthened our anti-fraud and identity theft safeguards by implementing strong multi-factor authentication for the *my* Social Security website. We also implemented new Federal standards for email and internet security, and strengthened protections for our privileged user accounts. We established sanctions to enforce mandatory awareness training, and made it easier for our users to identify and report suspected phishing attacks. We enhanced our ability to detect attempted intrusions. The agency is constantly performing penetration and vulnerability testing and will continue to work with third parties and other Federal Government agencies to further assess our network defenses.

For the FY 2018 FISMA audit, Grant Thornton assessed our overall maturity at Level 2 – Defined, acknowledging improvements and maturity of our program with a Level 3 – Consistently Implemented rating in the Protect function and maintaining a Level 3 in the Recover function. Grant Thornton recognized that we made progress in improving our information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines, making incremental steps to reach the Department of Homeland Security goal of a Level 4 – Managed and Measurable program.

The agency will continue to pursue a comprehensive risk-based remediation plan to address the root-cause of the deficiencies, and further strengthen our information security program. As we continue to design and implement new security controls, it takes time for these controls to effectively mature. We remain vigilant in our efforts by evaluating risk, deploying security controls, and keeping abreast of the ever-evolving threat landscape to safeguard the personally identifiable information we have been entrusted with by every citizen and non-citizen. As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

## FINANCIAL MANAGEMENT SYSTEMS STRATEGY

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

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

In FY 2017, we continued to expand the functionality of the Social Security Electronic Remittance System to include the collection of programmatic debt. We completed the development phase and piloted the system in 20 field offices. Full system rollout to all field offices was completed in December 2017. We accept checks, money orders, and debit/credit cards for programmatic debt payments.

We currently have multiple systems that manage programmatic debts. In FY 2018, we began a multi-year initiative to develop a modernized enterprise Debt Management System to help us better collect, store, monitor, and report our program debt activity. The primary goals of this initiative are to use modern technology to create an enterprise authoritative source of debt management data, increase collection opportunities, more efficiently address our overpayment workloads, and resolve compliance and audit issues.

In FY 2019, we will implement an online debt collection payment option for the public that uses the Department of the Treasury's Pay.gov portal. In FY 2020, we will develop a public-facing overpayment waiver application for implementation in FY 2021.

For the Financial/Administrative systems category, OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*, provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

The agency submitted the required reports for the *Digital Accountability and Transparency Act of 2014* (DATA Act) for the fourth quarter of last fiscal year and the first, second, and third quarters of this fiscal year. The agency is continuing to engage with the DATA Act community in developing better data definitions. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.

## National Anti-Fraud Committee

The National Anti-Fraud Committee (NAFC), formed on April 3, 2014, provides a focal point for the agency's anti-fraud efforts. The NAFC is a visible demonstration of the agency's commitment to combatting fraud in its programs.

The NAFC's mission is to support national and regional strategies to combat fraud, waste, and abuse. The NAFC supports our goal to promote accountability to taxpayers by ensuring superior financial performance, budget management, and integrity in all payments, records, and processes.

As part of our efforts to prioritize initiatives and activities using a forward risk-based approach, the agency completed a comprehensive Disability Fraud Risk Assessment (DIB FRA). The assessment enables us to align our anti-fraud activities toward the assessed risks.

The NAFC directs our fraud risk management activities at the agency level by determining the levels of risk tolerance and the amount of investment we will commit to mitigate the identified risks. The Office of Anti-Fraud Programs coordinates all agency level activities related to the administration and execution of the NAFC and the DIB FRA.

The NAFC identified nine risks to address in FY 2018, appointed mitigation leads, and developed a strategy for reporting progress and status. The risk owners provide quarterly updates to the NAFC on the status of the mitigation actions. The NAFC will continue to monitor progress and recommend corrective action as appropriate to ensure our mitigation development activities achieve our stated objectives and our goal of establishing a mitigation plan for each selected risk.

# Financial Section

# A Message from the Chief Financial Officer

I am proud to report that for the 25th consecutive year, we received an unmodified audit opinion on our financial statements from our independent auditors, and I am honored to join Acting Commissioner Berryhill in issuing our fiscal year (FY) 2018 *Agency Financial Report*. This report highlights our achievements in delivering Social Security services to promote the economic security of the public, and demonstrates our responsible stewardship of taxpayer dollars.

Our unmodified audit opinion confirms that our statements present fairly the financial position of our agency and are free of material misstatement. Our independent auditors also issued an unmodified opinion on the effectiveness of our internal control over financial reporting. They determined that we had no material weaknesses but continued to cite three significant deficiencies identified in prior years. The significant deficiencies concern internal control over certain financial information systems controls, the reliability of information used in certain control activities, and accounts receivable with the public (benefit overpayments). While we are confident in the controls over our information, we have enhanced our processes to provide additional assurance, and we will continue to do so in the future, including for the process areas cited in the finding. We remain committed to resolve the deficiencies through risk-based corrective action plans to strengthen our control environment and mitigate risks. We provide additional information on the auditors' findings and our correct actions in the *Systems, Controls, and Legal Compliance* and *Report of Independent Certified Public Accountants* sections of this report.

In FY 2018, we began a multi-year initiative to develop a modernized enterprise Debt Management System to help us better collect, store, monitor, and report our program debt activity. The primary goals of this initiative are to use modern technology to create an enterprise authoritative source of debt management data, increase collection opportunities, more efficiently address our overpayment workloads, and resolve compliance and audit issues.
To provide the public with additional opportunities to repay their overpayments, we plan to implement in FY 2019 a public-facing, online bill payment option that uses the Department of the Treasury's Pay.gov portal.

During FY 2018, we also updated the agency's Enterprise Risk Management (ERM) risk profile. In FY 2019, we will continue to enhance our ERM program and further integrate ERM practices into our business processes.

In recognition of our commitment to transparency and accountability reporting, the Association of Government Accountants awarded us the prestigious Certificate of Excellence in Accountability Reporting (CEAR) for our FY 2017 *Agency Financial Report*. We have now been awarded the CEAR for 20 consecutive years, which is an unprecedented accomplishment reflecting the agency's outstanding accountability reporting.

Finally, the success of our financial stewardship is due to the diligent efforts of our employees who practice sound fiscal policies supporting our mission, programs, and systems. I want to thank our employees for the utmost commitment to our mission and compassionate service to those we serve each day.

Respectfully,

Michelle A. King

Michelle A. King

Baltimore, Maryland
November 9, 2018

# Financial Statements and Additional Information

Our agency's financial statements and additional information for fiscal years (FY) 2018 and 2017 consist of the following:

- The **Consolidated Balance Sheets** present, as of September 30, 2018 and 2017, amounts of economic benefits we owned or managed (assets), amounts we owed (liabilities), and residual amounts we retained, comprising the difference (net position). We provide a Balance Sheet by major program as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2018 and 2017. Our net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by our major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. We provide a Schedule of Net Cost to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2018 and 2017. Changes to the two components of net position, Unexpended Appropriations and Cumulative Results of Operations, affect its balance. The Statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. We provide a Schedule of Changes in Net Position to present the change in net position by major program as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to us, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2018 and 2017. We provide an additional Schedule of Budgetary Resources as Required Supplementary Information to present budgetary resources by major program.
- The **Statements of Social Insurance** present the present value for the 75-year projection period of the estimated 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. We present the difference between these values on both an open group and a closed group basis, both including and excluding the value of the combined OASI and DI Trust Fund asset reserves at the beginning of the period. This information is presented for the current year and for each of the four preceding years.
- The **Statements of Changes in Social Insurance Amounts** reconcile the changes, from one 75-year valuation period to the next, in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure). The Statements show two reconciliations: (1) change from the period beginning on January 1, 2017 to the period beginning on January 1, 2018; and (2) change from the period beginning on January 1, 2016 to the period beginning on January 1, 2017. The Statements identify several categories of changes and provide reasons for significant changes in the accompanying notes.
- The **Required Supplementary Information: Social Insurance** presents required long-range cash flow projections, the long-range projections of the ratio of contributors to beneficiaries, and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures include a narrative describing the program, including how the program is financed and how benefits are calculated, as well as an interpretive analysis of trends revealed by the data.

## Consolidated Balance Sheets as of September 30, 2018 and 2017
### (Dollars in Millions)

| **Assets** | **2018** | 2017 |
|---|---|---|
| Intragovernmental: | | |
| Fund Balance with Treasury (Notes 3 and 4) | **$ 6,558** | $ 8,248 |
| Investments (Note 5) | **2,894,654** | 2,889,869 |
| Interest Receivable (Note 5) | **20,594** | 20,852 |
| Accounts Receivable, Net (Note 6) | **735** | 22 |
| Other (Note 8) | **29** | 26 |
| Total Intragovernmental | **2,922,570** | 2,919,017 |
| Accounts Receivable, Net (Notes 3 and 6) | **13,244** | 12,442 |
| Property, Plant, and Equipment, Net (Note 7) | **3,483** | 3,371 |
| **Total Assets** | **$ 2,939,297** | $ 2,934,830 |
| **Liabilities (Note 9)** | | |
| Intragovernmental: | | |
| Accrued Railroad Retirement Interchange | **$ 4,754** | $ 4,788 |
| Accounts Payable | **5,899** | 5,352 |
| Other | **116** | 184 |
| Total Intragovernmental | **10,769** | 10,324 |
| Benefits Due and Payable | **104,649** | 103,506 |
| Accounts Payable | **482** | 437 |
| Federal Employee and Veteran Benefits | **314** | 319 |
| Other | **815** | 685 |
| Total Liabilities | **117,029** | 115,271 |
| Contingencies (Note 9) | | |
| **Net Position** | | |
| Unexpended Appropriations - All Other Funds | **3,576** | 4,813 |
| Cumulative Results of Operations - Funds from Dedicated Collections (Note 10) | **2,815,603** | 2,812,816 |
| Cumulative Results of Operations - All Other Funds | **3,089** | 1,930 |
| Total Net Position - Funds from Dedicated Collections (Note 10) | **2,815,603** | 2,812,816 |
| Total Net Position - All Other Funds | **6,665** | 6,743 |
| Total Net Position | **2,822,268** | 2,819,559 |
| **Total Liabilities and Net Position** | **$ 2,939,297** | $ 2,934,830 |

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

# Consolidated Statements of Net Cost for the Years Ended September 30, 2018 and 2017

**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| **OASI Program** | | |
| Benefit Payment Expense | **$ 836,919** | $ 793,155 |
| Operating Expenses (Note 11) | **3,817** | 3,701 |
| Total Cost of OASI Program | **840,736** | 796,856 |
| Less: Exchange Revenues (Note 12) | **(14)** | (12) |
| **Net Cost of OASI Program** | **840,722** | 796,844 |
| **DI Program** | | |
| Benefit Payment Expense | **140,939** | 141,206 |
| Operating Expenses (Note 11) | **3,044** | 3,028 |
| Total Cost of DI Program | **143,983** | 144,234 |
| Less: Exchange Revenues (Note 12) | **(35)** | (32) |
| **Net Cost of DI Program** | **143,948** | 144,202 |
| **SSI Program** | | |
| Benefit Payment Expense | **47,027** | 51,355 |
| Operating Expenses (Note 11) | **4,621** | 4,542 |
| Total Cost of SSI Program | **51,648** | 55,897 |
| Less: Exchange Revenues (Note 12) | **(222)** | (236) |
| **Net Cost of SSI Program** | **51,426** | 55,661 |
| **Other** | | |
| Benefit Payment Expense | **1** | 2 |
| Operating Expenses (Note 11) | **2,512** | 2,424 |
| Total Cost of Other Program | **2,513** | 2,426 |
| Less: Exchange Revenues (Note 12) | **(10)** | (8) |
| **Net Cost of Other Program** | **2,503** | 2,418 |
| **Total Net Cost** | | |
| Benefit Payment Expense | **1,024,886** | 985,718 |
| Operating Expenses (Note 11) | **13,994** | 13,695 |
| Total Cost | **1,038,880** | 999,413 |
| Less: Exchange Revenues (Note 12) | **(281)** | (288) |
| **Total Net Cost** | **$ 1,038,599** | $ 999,125 |

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

## Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2018 and 2017
### (Dollars in Millions)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Funds from Dedicated Collections** | **All Other Funds** | **Total** | Funds from Dedicated Collections | All Other Funds | Total |
| **Unexpended Appropriations:** | | | | | | |
| **Beginning Balances** | **$ 0** | **$ 4,813** | **$ 4,813** | $ 0 | $ 6,006 | $ 6,006 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Received | **35,718** | **53,553** | **89,271** | 37,367 | 58,179 | 95,546 |
| Other Adjustments | **0** | **(15)** | **(15)** | 0 | (9) | (9) |
| Appropriations Used | **(35,718)** | **(54,775)** | **(90,493)** | (37,367) | (59,363) | (96,730) |
| **Total Budgetary Financing Sources** | **0** | **(1,237)** | **(1,237)** | 0 | (1,193) | (1,193) |
| **Total Unexpended Appropriations** | **0** | **3,576** | **3,576** | 0 | 4,813 | 4,813 |
| **Cumulative Results of Operations:** | | | | | | |
| **Beginning Balances** | **$ 2,812,816** | **$ 1,930** | **$ 2,814,746** | $ 2,767,204 | $ 1,415 | $ 2,768,619 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Used | **35,718** | **54,775** | **90,493** | 37,367 | 59,363 | 96,730 |
| Tax Revenues (Note 13) | **873,171** | **0** | **873,171** | 868,034 | 0 | 868,034 |
| Interest Revenues | **83,550** | **0** | **83,550** | 85,781 | 0 | 85,781 |
| Transfers-In/Out - Without Reimbursement | **(6,272)** | **9,335** | **3,063** | (5,886) | 8,087 | 2,201 |
| Railroad Retirement Interchange | **(4,908)** | **0** | **(4,908)** | (4,760) | 0 | (4,760) |
| Other Budgetary Financing Sources | **51** | **0** | **51** | 54 | 0 | 54 |
| **Other Financing Sources (Non-Exchange)** | | | | | | |
| Imputed Financing Sources (Note 14) | **0** | **617** | **617** | 0 | 447 | 447 |
| Other | **0** | **(3,492)** | **(3,492)** | 0 | (3,235) | (3,235) |
| **Total Financing Sources** | **981,310** | **61,235** | **1,042,545** | 980,590 | 64,662 | 1,045,252 |
| **Net Cost of Operations** | **978,523** | **60,076** | **1,038,599** | 934,978 | 64,147 | 999,125 |
| **Net Change** | **2,787** | **1,159** | **3,946** | 45,612 | 515 | 46,127 |
| **Cumulative Results of Operations** | **$ 2,815,603** | **$ 3,089** | **$ 2,818,692** | $ 2,812,816 | $ 1,930 | $ 2,814,746 |
| **Net Position** | **$ 2,815,603** | **$ 6,665** | **$ 2,822,268** | $ 2,812,816 | $ 6,743 | $ 2,819,559 |

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

## Combined Statements of Budgetary Resources for the Years Ended September 30, 2018 and 2017
### (Dollars in Millions)

| | 2018 | 2017 |
|---|---|---|
| **Budgetary Resources (Note 15)** | | |
| Unobligated Balance From Prior Year Budget Authority, Net | **$ 7,156** | $ 7,489 |
| Appropriations (Discretionary and Mandatory) | **1,079,107** | 1,041,893 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | **15,621** | 15,255 |
| **Total Budgetary Resources** | **$ 1,101,884** | $ 1,064,637 |
| **Status of Budgetary Resources** | | |
| **New obligations and upward adjustments (Note 15)** | | |
| Direct | **$ 1,094,792** | $ 1,056,437 |
| Reimbursable | **2,464** | 2,709 |
| New obligations and upward adjustments (total) | **1,097,256** | 1,059,146 |
| Unobligated Balance, End of Year | | |
| Apportioned, unexpired accounts | **3,557** | 4,666 |
| Unapportioned, unexpired accounts | **833** | 595 |
| Unexpired unobligated balance, end of year | **4,390** | 5,261 |
| Expired unobligated balance, end of year | **238** | 230 |
| Unobligated balance, end of year (total) | **4,628** | 5,491 |
| **Total Budgetary Resources** | **$ 1,101,884** | $ 1,064,637 |
| **Outlays, Net** | | |
| Outlays, Net (Discretionary and Mandatory) | **$ 1,078,859** | $ 1,041,203 |
| Distributed Offsetting Receipts | **(38,956)** | (40,391) |
| **Agency Outlays, Net (Discretionary and Mandatory)** | **$ 1,039,903** | $ 1,000,812 |

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

# Statements of Social Insurance
# Old-Age, Survivors, and Disability Insurance
# as of January 1, 2018
## (Dollars in Billions)

| | | Estimates Reported in Prior Years | | | |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** |
| **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 | **$ 1,451** | $ 1,374 | $ 1,272 | $ 1,166 | $ 984 |
| Cost for scheduled future benefits | **15,862** | 14,668 | 13,602 | 12,833 | 11,852 |
| Future noninterest income less future cost | **-14,411** | -13,294 | -12,330 | -11,667 | -10,868 |
| *Participants who have not yet attained retirement eligibility age (ages 15–61):* | | | | | |
| Noninterest income | **31,849** | 30,305 | 29,273 | 27,791 | 25,391 |
| Cost for scheduled future benefits | **52,248** | 50,181 | 48,412 | 45,276 | 42,419 |
| Future noninterest income less future cost | **-20,399** | -19,876 | -19,138 | -17,486 | -17,028 |
| **Present value of future noninterest income less future cost for current participants (closed group measure)** | **-34,810** | -33,170 | -31,468 | -29,152 | -27,896 |
| **Combined OASI and DI Trust Fund asset reserves at start of period** | **2,892** | 2,848 | 2,813 | 2,789 | 2,764 |
| **Closed group - Present value of future noninterest income less future cost for current participants *plus* combined OASI and DI Trust Fund asset reserves at start of period** | **-$ 31,918** | -$ 30,322 | -$ 28,656 | -$ 26,363 | -$ 25,131 |
| **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 during period):* | | | | | |
| Noninterest income | **$ 31,788** | $ 30,452 | $ 29,687 | $ 26,580 | $ 24,594 |
| Cost for scheduled future benefits | **13,035** | 12,639 | 12,388 | 10,867 | 10,028 |
| Future noninterest income less future cost | **18,753** | 17,813 | 17,299 | 15,713 | 14,566 |
| **Present value of future noninterest income less future cost for current and future participants (open group measure)** | **-16,057** | -15,357 | -14,169 | -13,440 | -13,330 |
| **Combined OASI and DI Trust Fund asset reserves at start of period** | **2,892** | 2,848 | 2,813 | 2,789 | 2,764 |
| **Open group - Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period** | **-$ 13,166** | -$ 12,509 | -$ 11,357 | -$ 10,650 | -$ 10,565 |

Notes:

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

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

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

**January 1, 2017 to January 1, 2018**
**(Dollars in Billions)**

| | Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years | Combined OASI and DI Trust Fund Asset Reserves | Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period |
|---|---|---|---|
| As of January 1, 2017 | -$ 15,357 | $ 2,848 | -$ 12,509 |
| Reasons for changes between January 1, 2017 and January 1, 2018 (Note 17) | | | |
| Change in the valuation period | -629 | 59 | -570 |
| Changes in demographic data, assumptions, and methods | 111 | 0 | 111 |
| Changes in economic data, assumptions, and methods | -458 | 0 | -458 |
| Changes in programmatic data and methods | 243 | -14 | 228 |
| Changes in law or policy | 32 | 0 | 32 |
| Net change between January 1, 2017 and January 1, 2018 | -$ 701 | $ 44 | -$ 657 |
| **As of January 1, 2018** | **-$ 16,057** | **$ 2,892** | **-$ 13,166** |

**January 1, 2016 to January 1, 2017**
**(Dollars in Billions)**

| | Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years | Combined OASI and DI Trust Fund Asset Reserves | Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period |
|---|---|---|---|
| As of January 1, 2016 | -$ 14,169 | $ 2,813 | -$ 11,357 |
| Reasons for changes between January 1, 2016 and January 1, 2017 (Note 17) | | | |
| Change in the valuation period | -562 | 16 | -546 |
| Changes in demographic data, assumptions, and methods | -87 | 0 | -87 |
| Changes in economic data, assumptions, and methods | -576 | 0 | -576 |
| Changes in programmatic data and methods | -5 | 19 | 15 |
| Changes in law or policy | 42 | 0 | 42 |
| Net change between January 1, 2016 and January 1, 2017 | -$ 1,187 | $ 35 | -$ 1,152 |
| **As of January 1, 2017** | **-$ 15,357** | **$ 2,848** | **-$ 12,509** |

Notes:

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

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

# NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

The Social Security Administration (SSA), as an independent agency in the executive branch of the U.S. Government, is responsible for administering the Nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and our financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, the present value for the 75-year projection period for social insurance, and the changes in the present value between the current valuation period and prior valuation period, as required by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*.

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

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the OASI and DI Trust Funds, SSA's Limitation on Administrative Expenses (LAE), four general fund appropriations, three receipt accounts, and one special fund.

LAE is a mechanism to allow SSA to fund our administrative operations and is considered a subset of the OASI and DI Trust Funds. The four general funds are the Payments to Social Security Trust Funds (PTF), SSI Program, Office of the Inspector General (OIG), and Special Veterans Benefits (Title VIII) Program. The three receipt accounts are SSI Overpayment Collections, the General Fund's portion of the SSI State Supplementation fees, and SSI Attorney fees. The one special fund is SSA's portion of the SSI State Supplementation fees. SSA's financial statements also include OASI and DI investment activities performed by the Department of the Treasury (Treasury) and activity related to the *American Recovery and Reinvestment Act of 2009* (ARRA). SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE, and Other. Other consists primarily of PTF appropriations and ARRA activity, but also contains SSI Overpayment Collections and other non-material activities.

### FUND BALANCE WITH TREASURY

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

## Investments

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

## Accounts Receivable, Net

SSA accounts receivable represent unpaid amounts due to the agency. Intragovernmental Accounts Receivable, Net primarily represent amounts to be paid from the Hospital Insurance (HI) and Supplemental Medical Insurance (SMI) Trust Funds to the LAE Appropriation. Accounts Receivable, Net consist mainly of monies due to SSA from OASI, DI, and SSI beneficiaries who received benefits in excess of their entitlement, as well as amounts due from the States to cover underpayments due to the SSI recipients.

In accordance with Treasury's *Treasury Financial Manual* (TFM), Chapter 2-4700, SSA does not apply an allowance for doubtful accounts to determine the net value of Intragovernmental Accounts Receivable.

According to Statement of Federal Financial Accounting Standard (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. SSA annually recalculates a ratio of allowance for doubtful accounts on programmatic accounts receivable with the public. We apply a moving five-year average of uncollectable receivable ratios, based on comparing collections to new debt while considering program turnover rates, against outstanding receivables, by group, to compute the amount of allowance for doubtful accounts.

## Property, Plant, and Equipment

SSA records property, plant, and equipment (PP&E) in the LAE program, but the PP&E represent the capital assets purchased by its funding sources. SFFAS No. 10, *Accounting for Internal Use Software*, requires the capitalization of internally developed, contractor-developed, and commercial off-the-shelf software. SSA classifies PP&E into several categories. The capitalization threshold for most PP&E categories is $100 thousand. Deferred Charges, which includes fixtures, the Telephone Services Replacement Project, and bulk computer purchases, are capitalized with no threshold, $100 thousand, and $10 million, respectively. Site preparation for Automated Data Processing (ADP) and Telecommunications, and Buildings and Other Structures, are capitalized with no threshold. Refer to Note 7, Property, Plant, and Equipment, Net.

## Benefits Due and Payable

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

## Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a federally recognized holiday, SSA is required to make the payment on the preceding business day. In these situations, the beneficiary or recipient is deemed entitled to receive the payment as of the payment date, as they have met all payment and eligibility requirements.

## Administrative Expenses and Obligations

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

SSA incurs obligations in the LAE accounts as activity is processed. SSA incurs obligations in each of the financing sources once we record LAE's authority. The Centers for Medicare and Medicaid Services (CMS) reports obligations that SSA incurred in the HI and SMI Trust Funds. Because SSA reports LAE with our financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources and this Statement does not allow eliminations, we record LAE's obligations twice. This presentation is in conformance with OMB Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

## Recognition of Financing Sources

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

Appropriations Used includes payments and accruals for the activities that are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 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 12, Exchange Revenues. SSA may use exchange revenue financing sources to pay for current operating expenses as specified by law.

## FUNDS FROM DEDICATED COLLECTIONS

SFFAS No. 43, *Funds from Dedicated Collections*, requires separate presentation and disclosure of funds from dedicated collections balances in the financial statements. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. Funds from dedicated collections must meet the following criteria:

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

SSA's funds from dedicated collections are the OASI and DI Trust Funds, funds collected through the taxation of Social Security benefits, and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 10, Funds from Dedicated Collections, for additional information.

## USE OF ESTIMATES

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

## PRESENTATION CHANGE

Effective FY 2018, the Statements of Changes in Net Position, Statements of Budgetary Resources, Note 4, Fund Balance with Treasury, Note 9, Liabilities, and Note 15, Budgetary Resources presentations have been modified to comply with the required format in OMB's Circular No. A-136. With the exception of Note 15, Budgetary Resources, the FY 2017 balances have been presented in the new format for comparison purposes. The FY 2017 Note 15, Budgetary Resources balances are not required to be presented in the new format.

## RECLASSIFICATIONS

Certain amounts in the FY 2017 Note 16, Reconciliation of Net Cost of Operations to Budget have been reclassified to conform with the FY 2018 presentation.

## 2. Centralized Federal Financing Activities

SSA's financial activities interact with, and are dependent on, the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance, and health benefit programs. However, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statements of Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

SSA occupies buildings that have been leased by the General Services Administration (GSA) or have been constructed using Public Building Funds. These financial statements reflect SSA's payments to GSA for their lease, operations maintenance, and depreciation expenses associated with these buildings.

SSA's employees participate in the Office of Personnel Management (OPM) administered contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). SSA makes matching contributions to FERS. Pursuant to Public Law 99-335, *Federal Employees' Retirement System Act of 1986*, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS, while employees hired prior to that date could elect to either join FERS or remain in CSRS. Refer to Note 14, Imputed Financing, for additional information.

SSA contributions to CSRS were $27 and $32 million for the years ended September 30, 2018 and 2017. SSA contributions to the basic FERS plan were $612 and $593 million for the years ended September 30, 2018 and 2017. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute one percent of pay and match employee contributions up to an additional four percent of basic pay. SSA contributions to the FERS savings plan were $193 and $184 million for the years ended September 30, 2018 and 2017. All contributions include amounts paid and due and payable as of the end of the reporting period. These Statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by OPM.

## 3. Non-Entity Assets

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA displays our Non-Entity Assets in Chart 3a. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments and underpayments classified as SSI Accounts Receivable, Net; and (2) General Fund's portion of fees collected to administer Title VIII State Supplementation.

### Chart 3a - Non-Entity Assets as of September 30:
**(Dollars in Millions)**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Non-Entity Assets | Intra-agency Elimination | Net Assets | Non-Entity Assets | Intra-agency Elimination | Net Assets |
| Intragovernmental: | | | | | | |
| Title VIII State Supp Fees | $ 2 | $ 0 | $ 2 | $ 2 | $ 0 | $ 2 |
| SSI Fed/State Accounts Receivable, Net | 6,188 | (594) | 5,594 | 5,701 | (545) | 5,156 |
| Total | $ 6,190 | $ (594) | $ 5,596 | $ 5,703 | $ (545) | $ 5,158 |

SSA has reduced the SSI Accounts Receivable, Net, by intra-agency eliminations (see discussion in Note 6, Accounts Receivable, Net). SSI accounts receivable is recognized as a non-entity asset. Public Law 101-517, *Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 1991*, requires that collections from repayment of SSI Federal benefit overpayments be deposited in Treasury's General Fund. These funds, upon deposit, are assets of Treasury's General Fund, and will not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. When a beneficiary does not receive their full SSI State Supplemental benefit, SSA establishes an underpayment receivable. This receivable reflects the reimbursement due to SSA from the States to cover the unpaid benefit. SSA recognizes this receivable due from the States as a non-entity asset since the amount owed is due to the beneficiary.

Title VIII State Supplementation fee collections are classified as exchange revenue. These fees are included in the Fund Balance with Treasury as of September 30, 2018 and 2017.

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

**Chart 3b - Non-Entity/Entity Asset Breakdown as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| Non-Entity Assets | $ 5,596 | $ 5,158 |
| Entity Assets | 2,933,701 | 2,929,672 |
| Total Assets | $ 2,939,297 | $ 2,934,830 |

## 4. Fund Balance with Treasury

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with Treasury. Chart 4, 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 4 since OASI and DI Trust Fund cash balances are held in investments until needed and do not directly correspond with the budgetary lines shown in the chart. Therefore, amounts in Chart 4 will not match corresponding activity on the Combined Statements of Budgetary Resources.

**Chart 4 - Status of Fund Balances as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| Unobligated Balance | | |
| Available | $ 2,804 | $ 4,054 |
| Unavailable | 864 | 635 |
| Obligated Balance Not Yet Disbursed | 3,315 | 3,926 |
| OASI, DI, and LAE | (465) | (389) |
| Non-Budgetary Fund Balance with Treasury | 40 | 22 |
| Total Status of Fund Balances | $ 6,558 | $ 8,248 |

The negative fund balance reported for the OASI, DI, and LAE Trust Funds as of September 30, 2018 and 2017 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, SSA does not reclassify the negative balance as a liability on the Consolidated Balance Sheets.

## 5. INVESTMENTS AND INTEREST RECEIVABLE

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

SSA displays investments in Special-Issue U.S. Treasury Securities, as reported on the Consolidated Balance Sheets, in Chart 5a.

**Chart 5a - Investments as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| OASI | $ 2,801,254 | $ 2,820,200 |
| DI | 93,400 | 69,669 |
| Total Investments | $ 2,894,654 | $ 2,889,869 |

The interest rates on these investments range from 1.375 to 5.125 percent and the accrued interest is paid on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the year 2019 to the year 2033. Accrued interest receivable on the OASI and DI Trust Fund investments with the Treasury is an Intragovernmental Interest Receivable, reported on the Consolidated Balance Sheets. Interest Receivable, as reported on the Consolidated Balance Sheets is shown by program in Chart 5b.

**Chart 5b - Interest Receivable as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| OASI | $ 19,940 | $ 20,388 |
| DI | 654 | 464 |
| Total Interest Receivable | $ 20,594 | $ 20,852 |

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

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

## 6. Accounts Receivable, Net

### Intragovernmental

Intragovernmental Accounts Receivable, Net, reported on the Consolidated Balance Sheets in the amounts of $735 and $22 million as of September 30, 2018 and 2017 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. SSA reduced the gross accounts receivable by $3,067 and $3,342 million as of September 30, 2018 and 2017 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.

In accordance with the TFM, Chapter 2-4700, SSA does not apply an allowance for doubtful accounts to determine the net value of Intragovernmental Accounts Receivable.

### With the Public

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

**Chart 6 - Accounts Receivable with the Public by Major Program as of September 30:**
**(Dollars in Millions)**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Receivable | Allowance for Doubtful Accounts | Net Receivable | Gross Receivable | Allowance for Doubtful Accounts | Net Receivable |
| OASI | $ 3,057 | $ (475) | $ 2,582 | $ 2,943 | $ (406) | $ 2,537 |
| DI | 7,950 | (2,882) | 5,068 | 7,482 | (2,732) | 4,750 |
| SSI* | 13,474 | (7,286) | 6,188 | 12,217 | (6,516) | 5,701 |
| LAE | 3 | 0 | 3 | 2 | 0 | 2 |
| Subtotal | 24,484 | (10,643) | 13,841 | 22,644 | (9,654) | 12,990 |
| Less: Eliminations** | (597) | 0 | (597) | (548) | 0 | (548) |
| Total | $ 23,887 | $ (10,643) | $ 13,244 | $ 22,096 | $ (9,654) | $ 12,442 |

Notes:

*See discussion in Note 3, Non-Entity Assets

**Intra-Agency Eliminations

Chart 6 shows that in FY 2018 and FY 2017, SSA reduced gross accounts receivable by $597 and $548 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Windfall Offset is the amount of SSI that would not have been paid if retroactive OASI and DI benefits had been paid timely to eligible beneficiaries. The KZ Diary process identifies SSI recipients eligible for prior entitlement of OASI and DI benefits, and determines SSA's liability for retroactive benefits owed to beneficiaries. For each activity, SSA recognizes a receivable in the SSI program with offsetting payables for both the OASI and DI programs.

SSA annually recalculates a ratio of allowance for doubtful accounts on programmatic accounts receivable with the public. We apply a moving five-year average of uncollectable receivable ratios, based on comparing collections to new debt while considering program turnover rates, against outstanding receivables, by group, to compute the amount of allowance for doubtful accounts.

## Criminal Debt

Included in SSA's gross accounts receivable, in Chart 6, are debts that relate to criminal restitutions where SSA is identified as the payee, which are handled by the Department of Justice (DOJ). While SSA captures this activity in our accounts receivable activity, due to system limitations, we are currently unable to summarize this data for reporting purposes. However, we are able to estimate our gross and net receivables, after applying an allowance for doubtful accounts, based on historical data provided in previous years from DOJ to our agency. Based on this data, and assumptions on restitution collection activity, we estimate that our gross and net receivables for restitution activity are $507 and $64 million, respectively, as of September 30, 2018. In order to calculate the net receivable, we came up with an allowance for doubtful account methodology, similar to the methodology mentioned above. We calculated an uncollectable ratio for our restitution debt, based on comparing our estimated total collections to total restitutions to compute the amount of allowance for doubtful accounts. We subtracted this from our gross restitution receivable to obtain the net receivable amount.

## 2049 System Limitation

A Title II system design limitation exists concerning long-term withholding agreements that extend past the year 2049, where the Recovery of Overpayments, Accounting and Reporting system cannot capture and track debt scheduled for collection beyond the year 2049.

When the projected collection extends beyond December 2049, we perform a manual action to establish withholding through December 2049, causing the system to delete the remaining debt balance from the record. Current policy requires us to post an overpayment diary to control for follow-up of the remaining balance in December 2049. However, because our records do not reflect the post 2049 balance, subsequent correspondence to the debtor only presents the pre-2049 balance of the debt established for withholding. The only control mechanism in place for the post 2049 balance is the manual establishment of a diary.

These balances are not included in the Chart 6 gross receivable amounts. We estimate that the total gross value of the post year 2049 amount, currently not captured in our gross receivables, is approximately $688 million as of September 30, 2018. This amount is not material to the consolidated financial statements.

## 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:
(Dollars in Millions)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| Major Classes: | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Buildings and Other Structures | $ 59 | $ (24) | $ 35 | $ 59 | $ (23) | $ 36 |
| Equipment (incl. ADP Hardware) | 859 | (610) | 249 | 727 | (486) | 241 |
| Internal Use Software | 7,622 | (5,127) | 2,495 | 7,065 | (4,635) | 2,430 |
| Leasehold Improvements | 1,120 | (572) | 548 | 987 | (513) | 474 |
| Deferred Charges* | 1,173 | (1,017) | 156 | 1,134 | (944) | 190 |
| Total | $ 10,833 | $ (7,350) | $ 3,483 | $ 9,972 | $ (6,601) | $ 3,371 |

| Major Classes: | Estimated Useful Life | Method of Depreciation | Capitalization Threshold |
|---|---|---|---|
| Buildings and Other Structures | 50 years | Straight Line | $0 |
| Equipment (incl. ADP Hardware) | 5 years | Straight Line | $100 thousand |
| Internal Use Software | 5-10 years | Straight Line | $100 thousand |
| Leasehold Improvements | 6-33 years | Straight Line | $100 thousand |
| Deferred Charges* | 3-12 years | Straight Line | $0-10 million |

Note:

*Deferred Charges include fixtures (no threshold), the Telephone Services Replacement Project ($100 thousand), and bulk computer purchases ($10 million).

## 8. Other Assets

### Intragovernmental Other Assets

Intragovernmental Other Assets amounts include advances provided to Federal agencies for goods and services that will be furnished to SSA. Intragovernmental Other Assets are $29 and $26 million as of September 30, 2018 and 2017.

## 9. Liabilities

Liabilities of Federal agencies are classified as liabilities Covered by, Not Covered by, or Not Requiring budgetary resources and are recognized when incurred. Chart 9a discloses SSA's liabilities Covered by budgetary resources, Not Covered by budgetary resources, and Not Requiring budgetary resources. Liabilities Covered by budgetary resources use available budget authority when SSA incurs the liabilities. Liabilities Not Covered by budgetary resources do not use available budget authority in the current period. For SSA, these liabilities represent liabilities that will be funded in future periods. Liabilities Not Requiring budgetary resources represent cash or SSA receivables due to the General Fund and States, which do not require budgetary authority.

## Chart 9a - Liabilities as of September 30:
(Dollars in Millions)

| | 2018 | | | |
|---|---|---|---|---|
| | Covered | Not Covered | Not Requiring | Total |
| Intragovernmental: | | | | |
| Accrued RRI* | $ 4,754 | $ 0 | $ 0 | $ 4,754 |
| Accounts Payable | 82 | 0 | 5,817 | 5,899 |
| Other | 61 | 52 | 3 | 116 |
| Total Intragovernmental | 4,897 | 52 | 5,820 | 10,769 |
| Benefits Due and Payable | 101,619 | 3,030 | 0 | 104,649 |
| Accounts Payable | 112 | 82 | 288 | 482 |
| Federal Employee and Veteran Benefits | 0 | 314 | 0 | 314 |
| Other | 448 | 330 | 37 | 815 |
| Total Liabilities | $ 107,076 | $ 3,808 | $ 6,145 | $ 117,029 |

Note:

*Railroad Retirement Interchange

## Chart 9a - Liabilities as of September 30:
(Dollars in Millions)

| | 2017 | | | |
|---|---|---|---|---|
| | Covered | Not Covered | Not Requiring | Total |
| Intragovernmental: | | | | |
| Accrued RRI | $ 4,788 | $ 0 | $ 0 | $ 4,788 |
| Accounts Payable | 3 | 0 | 5,349 | 5,352 |
| Other | 127 | 54 | 3 | 184 |
| Total Intragovernmental | 4,918 | 54 | 5,352 | 10,324 |
| Benefits Due and Payable | 99,976 | 3,530 | 0 | 103,506 |
| Accounts Payable | 85 | 86 | 266 | 437 |
| Federal Employee and Veteran Benefits | 0 | 319 | 0 | 319 |
| Other | 341 | 325 | 19 | 685 |
| Total Liabilities | $ 105,320 | $ 4,314 | $ 5,637 | $ 115,271 |

### Intragovernmental Accrued Railroad Retirement Interchange

The Intragovernmental Accrued Railroad Retirement Interchange represents an accrued liability due to the Railroad Retirement Board for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if SSA had covered railroad employment. The *Railroad Retirement Act of 1974* requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

### Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable Not Requiring budgetary resources are amounts due to Treasury's General Fund. SSA records a payable equal to the SSI Federal benefit overpayments receivable when the agency identifies overpayments. Refer to Note 3, Non-Entity Assets, for additional information on the SSI receivables established for the repayment of SSI benefit overpayments.

## INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Other Liabilities include amounts Covered by budgetary resources for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. Intragovernmental Other Liabilities Covered, shown in Chart 9a, are current liabilities. Intragovernmental Other Liabilities also includes amounts Not Covered by budgetary resources for *Federal Employees' Compensation Act* (FECA), administered by the Department of Labor. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to the Department of Labor's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portions of FECA liability is $52 and $54 million as of September 30, 2018 and 2017. Intragovernmental Other Liabilities Not Requiring budgetary resources in Chart 9a represents non-current unapplied deposit account balances of $3 million as of September 30, 2018 and 2017.

## BENEFITS DUE AND PAYABLE

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 9b shows the amounts for SSA's major programs as of September 30, 2018 and 2017. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, budgetary resources cover the unadjudicated cases.

### Chart 9b - Benefits Due and Payable as of September 30:
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| OASI | $ 75,321 | $ 71,386 |
| DI | 25,050 | 27,330 |
| SSI | 4,875 | 5,338 |
| Subtotal | 105,246 | 104,054 |
| Less: Intra-agency eliminations | (597) | (548) |
| Total Benefits Due and Payable | $ 104,649 | $ 103,506 |

Chart 9b also shows that as of FY 2018 and FY 2017, SSA reduced gross Benefits Due and Payable by $597 and $548 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Refer to Note 6, Accounts Receivable, Net.

## ACCOUNTS PAYABLE

Accounts Payable Not Covered by budgetary resources consists of SSI State Supplemental overpayments due to States. States are entitled to any overpayment that SSA expects to collect because the States fund the actual payments made to the beneficiaries. SSI State Supplemental underpayments due to the SSI recipients are also included. These amounts are set up as an accounts payable until payment is made.

## FEDERAL EMPLOYEE AND VETERAN BENEFITS

Federal Employee and Veteran Benefits Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of $314 and $319 million as of September 30, 2018 and 2017 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated by the Department of Labor using historical payment data to project future costs.

## Other Liabilities

SSA's Other Liabilities consist of liabilities Covered by, Not Covered by, and Not Requiring budgetary resources. Other Liabilities Covered by budgetary resources is primarily comprised of accrued payroll and SSI State Supplemental amounts collected in advance. Other Liabilities Not Covered by budgetary resources primarily consists of leave earned but not taken. Other liabilities Not Requiring budgetary resources consists of unapplied deposit funds. Other Liabilities are current in nature with the exception of $18 million of Not Requiring unapplied deposit funds as of September 30, 2018 and 2017.

## Federal Leases

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

### Chart 9c - Future Operating Lease/Occupancy Agreement Commitments as of September 30:
**(Dollars in Millions)**

| Fiscal Year | GSA OAs | |
|---|---|---|
| 2019 | $ | 111 |
| 2020 | | 100 |
| 2021 | | 95 |
| 2022 | | 91 |
| 2023 | | 85 |
| 2024 and Thereafter (In total)* | | 472 |
| Total Future Lease Payments | $ | 954 |

Note:

*OAs go through the year 2034.

## Contingent Liabilities

SSA has certain litigations pending where the loss amount or range cannot be determined. These contingent liabilities are described below.

- A class action lawsuit is pending in a Federal district court in Ohio challenging SSA's calculation of retroactive benefits under the Windfall Offset Provision.
- Two cases are currently pending in the Federal district court in Puerto Rico where parties challenge the constitutionality of excluding residents of Puerto Rico from the SSI program.

- Various Federal district court cases are pending in different States challenging SSA's appointment of administrative law judges under the Appointments Clause of the U.S. Constitution.
- Various Federal district court cases in Kentucky are pending appeal before the Court of Appeals for the Sixth Circuit. The appeals challenge SSA's redetermination process in cases where there is a reason to believe that fraud or similar fault was involved in an individual's application for benefits.

## 10. Funds from Dedicated Collections

The OASI and DI Trust Funds, Taxation on Social Security benefits, and SSI State Administrative Fees are classified as funds from dedicated collections. These funds obtain revenues primarily through non-Federal receipts, such as Social Security payroll taxes and, to a lesser extent, offsetting collections.

### OASI and DI Trust Funds

The OASI Trust Fund provides retirement and survivors benefits to qualified workers and their families, and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

Payroll and self-employment taxes primarily fund the OASI and DI Trust Funds. Interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security benefits provide additional income to the OASI and DI Trust Funds. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 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.

### Taxation on Social Security Benefits

Taxation on Social Security Benefits is also classified as funds from dedicated collections. The *Social Security Amendments of 1983* (Public Law 98-21) provides that the OASI and DI Trust Funds receive income related to Federal income taxation of benefits. The taxes are collected as Federal income taxes, and a subsequent payment is then made to the OASI and DI Trust Funds from the General Fund of the Treasury. These collections are warranted from the General Fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, Taxation on Social Security Benefits is considered dedicated collections.

### SSI State Administrative Fees

Administrative Fees collected from States are also classified as funds from dedicated collections. Section 42 U.S.C. 1616 authorizes the Commissioner of Social Security to assess each State an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the State for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 12, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 10 for balances of funds from dedicated collections as reported in the Consolidated Financial Statements for the years ended September 30, 2018 and 2017. The Other Dedicated Funds column in Chart 10 consists of Taxation on Social Security Benefits and SSI State Administrative Fees activity.

## Chart 10 - Funds from Dedicated Collections as of September 30: Consolidating Schedule
### (Dollars in Millions)

| | 2018 | | | | |
|---|---|---|---|---|---|
| | OASI Trust Fund | DI Trust Fund | Other Dedicated Funds | Eliminations | Total Dedicated Funds |
| **Balance Sheet** | | | | | |
| **Assets** | | | | | |
| Fund Balance with Treasury | $ (187) | $ (259) | $ 0 | $ 0 | $ (446) |
| Investments | 2,801,254 | 93,400 | 0 | 0 | 2,894,654 |
| Interest Receivable | 19,940 | 654 | 0 | 0 | 20,594 |
| Accounts Receivables - Federal | 1 | 0 | 0 | 0 | 1 |
| Accounts Receivables - Non-Federal | 2,582 | 5,068 | 0 | (3) | 7,647 |
| **Total Assets** | $ 2,823,590 | $ 98,863 | $ 0 | $ (3) | $ 2,922,450 |
| **Liabilities and Net Position** | | | | | |
| Accrued Railroad Retirement | $ 4,690 | $ 64 | $ 0 | $ 0 | $ 4,754 |
| Accounts Payable, Federal | 880 | 841 | 0 | 0 | 1,721 |
| Benefits Due and Payable | 75,321 | 25,050 | 0 | (3) | 100,368 |
| Accounts Payable, Non-Federal | 0 | 4 | 0 | 0 | 4 |
| **Total Liabilities** | 80,891 | 25,959 | 0 | (3) | 106,847 |
| Cumulative Results of Operations | 2,742,699 | 72,904 | 0 | 0 | 2,815,603 |
| **Total Liabilities and Net Position** | $ 2,823,590 | $ 98,863 | $ 0 | $ (3) | $ 2,922,450 |
| **Statement of Net Cost** | | | | | |
| Program Costs | $ 836,919 | $ 140,939 | $ 0 | $ 0 | $ 977,858 |
| Operating Expenses | 519 | 285 | 0 | 0 | 804 |
| Less Earned Revenue | (1) | (24) | (114) | 0 | (139) |
| **Net Cost of Operations** | $ 837,437 | $ 141,200 | $ (114) | $ 0 | $ 978,523 |
| **Statement of Changes in Net Position** | | | | | |
| Net Position Beginning of Period | $ 2,766,567 | $ 46,249 | $ 0 | $ 0 | $ 2,812,816 |
| Tax Revenue | 706,128 | 167,043 | 0 | 0 | 873,171 |
| Interest Revenue | 81,135 | 2,415 | 0 | 0 | 83,550 |
| Net Transfers In/Out | 26,301 | (1,649) | (35,832) | 0 | (11,180) |
| Other | 5 | 46 | 35,718 | 0 | 35,769 |
| Total Financing Sources | 813,569 | 167,855 | (114) | 0 | 981,310 |
| Net Cost of Operations | 837,437 | 141,200 | (114) | 0 | 978,523 |
| Net Change | (23,868) | 26,655 | 0 | 0 | 2,787 |
| **Net Position End of Period** | $ 2,742,699 | $ 72,904 | $ 0 | $ 0 | $ 2,815,603 |

The above Chart 10 for FY 2018 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $2,313 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2018 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

## Chart 10 - Funds from Dedicated Collections as of September 30: Consolidating Schedule

### (Dollars in Millions)

| | 2017 | | | | |
|---|---|---|---|---|---|
| | OASI Trust Fund | DI Trust Fund | Other Dedicated Funds | Eliminations | Total Dedicated Funds |
| **Balance Sheet** | | | | | |
| **Assets** | | | | | |
| Fund Balance with Treasury | $ (99) | $ (225) | $ 0 | $ 0 | $ (324) |
| Investments | 2,820,200 | 69,669 | 0 | 0 | 2,889,869 |
| Interest Receivable | 20,388 | 464 | 0 | 0 | 20,852 |
| Accounts Receivables - Federal | 1 | 0 | 0 | 0 | 1 |
| Accounts Receivables - Non-Federal | 2,537 | 4,750 | 0 | (3) | 7,284 |
| **Total Assets** | $ 2,843,027 | $ 74,658 | $ 0 | $ (3) | $ 2,917,682 |
| **Liabilities and Net Position** | | | | | |
| Accrued Railroad Retirement | $ 4,618 | $ 170 | $ 0 | $ 0 | $ 4,788 |
| Accounts Payable, Federal | 455 | 903 | 0 | 0 | 1,358 |
| Benefits Due and Payable | 71,386 | 27,330 | 0 | (3) | 98,713 |
| Accounts Payable, Non-Federal | 1 | 6 | 0 | 0 | 7 |
| **Total Liabilities** | 76,460 | 28,409 | 0 | (3) | 104,866 |
| Cumulative Results of Operations | 2,766,567 | 46,249 | 0 | 0 | 2,812,816 |
| **Total Liabilities and Net Position** | $ 2,843,027 | $ 74,658 | $ 0 | $ (3) | $ 2,917,682 |
| **Statement of Net Cost** | | | | | |
| Program Costs | $ 793,155 | $ 141,206 | $ 0 | $ 0 | $ 934,361 |
| Operating Expenses | 520 | 242 | 0 | 0 | 762 |
| Less Earned Revenue | (1) | (22) | (122) | 0 | (145) |
| **Net Cost of Operations** | $ 793,674 | $ 141,426 | $ (122) | $ 0 | $ 934,978 |
| **Statement of Changes in Net Position** | | | | | |
| Net Position Beginning of Period | $ 2,746,389 | $ 20,815 | $ 0 | $ 0 | $ 2,767,204 |
| Tax Revenue | 702,132 | 165,902 | 0 | 0 | 868,034 |
| Interest Revenue | 84,040 | 1,741 | 0 | 0 | 85,781 |
| Net Transfers In/Out | 27,667 | (824) | (37,489) | 0 | (10,646) |
| Other | 13 | 41 | 37,367 | 0 | 37,421 |
| Total Financing Sources | 813,852 | 166,860 | (122) | 0 | 980,590 |
| Net Cost of Operations | 793,674 | 141,426 | (122) | 0 | 934,978 |
| Net Change | 20,178 | 25,434 | 0 | 0 | 45,612 |
| **Net Position End of Period** | $ 2,766,567 | $ 46,249 | $ 0 | $ 0 | $ 2,812,816 |

Chart 10 for FY 2017 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $1,900 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2017 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

## 11. Operating Expenses

### Classification of Operating Expenses by Major Program

Chart 11a displays SSA's operating expenses for each major program. LAE SSA operating expenses recorded in Other primarily represent the HI/SMI Trust Funds' shares of SSA's operating expenses, including the Medicare Prescription Drug Program. LAE ARRA operating expenses recorded in the Other program primarily represent expenses associated with the National Support Center. OASI and DI Trust Fund Operations include expenses of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of OASI, DI, and SSI beneficiaries.

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

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | LAE | | | | | |
| | SSA | OIG | ARRA | OASI and DI Trust Fund Operations | Vocational Rehabilitation & Other | Total |
| OASI | $ 3,258 | $ 40 | $ 0 | $ 510 | $ 9 | $ 3,817 |
| DI | 2,726 | 33 | 0 | 93 | 192 | 3,044 |
| SSI | 4,406 | 0 | 0 | 0 | 215 | 4,621 |
| Other | 2,456 | 29 | 27 | 0 | 0 | 2,512 |
| Total | $ 12,846 | $ 102 | $ 27 | $ 603 | $ 416 | $ 13,994 |

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

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | LAE | | | | | |
| | SSA | OIG | ARRA | OASI and DI Trust Fund Operations | Vocational Rehabilitation & Other | Total |
| OASI | $ 3,142 | $ 39 | $ 0 | $ 514 | $ 6 | $ 3,701 |
| DI | 2,751 | 35 | 0 | 98 | 144 | 3,028 |
| SSI | 4,367 | 0 | 0 | 0 | 175 | 4,542 |
| Other | 2,369 | 29 | 26 | 0 | 0 | 2,424 |
| Total | $ 12,629 | $ 103 | $ 26 | $ 612 | $ 325 | $ 13,695 |

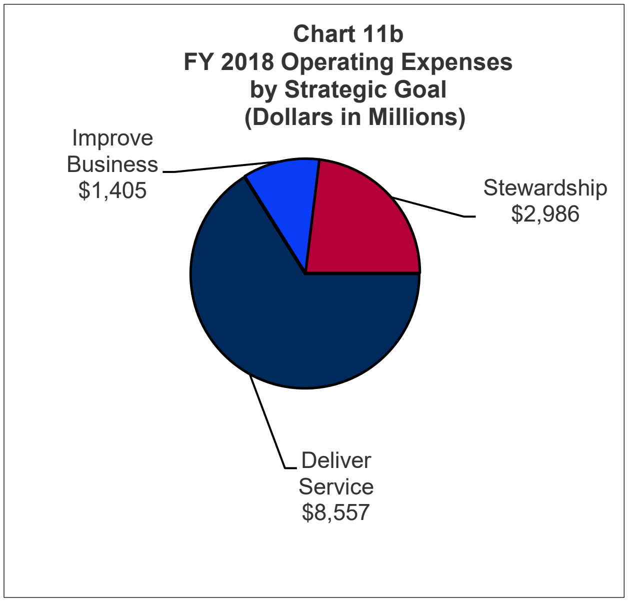
### Classification of Operating Expenses by Strategic Goal

SSA's *Annual Performance Plan* (APP) sets forth expected levels of performance the agency is committed to achieving, and includes proposed levels of performance for future fiscal years. Our APP is characterized by broad-based Strategic Goals that the entire agency supports. The three Strategic Goals are:

- Deliver Services Effectively (Deliver Service);
- Improve the Way We Do Business (Improve Business); and
- Ensure Stewardship (Stewardship).

Chart 11b exhibits the distribution of FY 2018 SSA and OIG LAE operating expenses to the three APP Strategic Goals, which agree to the agency's LAE budget appropriation. As noted earlier in this report, the agency revised its

Strategic Goals starting in FY 2018. Therefore, because the Strategic Goals are not comparable between FY 2018 and FY 2017, we did not include a chart showing the distribution of FY 2017 operating expenses by Strategic Goal.




For Chart 11b, we subtracted LAE ARRA expenses from total SSA LAE operating expenses before distributing the operating expenses to the agency's APP Strategic Goals. SSA does not include OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see Chart 11a) in LAE by Strategic Goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.

## 12. EXCHANGE REVENUES

SSA recognizes revenue from exchange transactions when goods and services are provided. The goods and services provided are priced so that charges do not exceed the agency's cost. Total exchange revenue is $281 and $288 million for the years ended September 30, 2018 and 2017. SSA's exchange revenue primarily consists of fees collected to administer SSI State Supplementation. The fees charged to the States are $11.87 and $11.68, per payment, for the years ended September 30, 2018 and 2017. SSA has agreements with 20 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional fees are collected for handling OASI and DI Trust Fund and SSI attorney fees. Other exchange revenue consists of reimbursement for performing non-mission work for Federal and non-Federal entities. Chart 12 discloses SSA's exchange revenue by activity.

**Chart 12 - Exchange Revenue as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| SSI State Supplementation Fees | $ 196 | $ 213 |
| SSI Attorney Fees | 8 | 8 |
| DI Attorney Fees | 24 | 22 |
| OASI Attorney Fees | 1 | 1 |
| Other Exchange Revenue | 52 | 44 |
| Total Exchange Revenue | $ 281 | $ 288 |

SSI administrative fees are split between fees that SSA can use and fees that are entitled to Treasury's General Fund. The General Fund's portion of these administrative fees are $90 and $99 million for the years ended

September 30, 2018 and 2017. Of these amounts, $82 and $91 million were collected to administer SSI State Supplementation for the years ended September 30, 2018 and 2017. The remainder of the SSI administrative fees, which meet the criteria of a fund from dedicated collections, in the amounts of $114 and $122 million for the years ended September 30, 2018 and 2017, are maintained by SSA to defray expenses in carrying out the SSI program.

## 13. Tax Revenues

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

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service (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.

Chart 13 displays SSA's Tax Revenue, as reported on the Consolidated Statements of Changes in Net Position, by major program.

**Chart 13 - Tax Revenue as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| OASI | $ 706,128 | $ 702,132 |
| DI | 167,043 | 165,902 |
| Total Tax Revenue | $ 873,171 | $ 868,034 |

The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, increased the DI Trust Fund's portion of the FICA payroll tax by 0.57 percentage points. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution.

## 14. Imputed Financing

SSA is required to incorporate the full cost of goods and services that we receive from other entities on our Consolidated Statements of Net Cost. In some instances, goods or services provided by one Federal entity to another may not be fully reimbursed by the receiving entity. The unreimbursed portion of these costs is considered an imputed cost, and must be recognized on the receiving entity's Statement of Net Cost. The funding for these imputed costs is recognized as an imputed financing source on the receiving entity's Statement of Changes in Net Position. SSA has activities with OPM, Treasury, and the Department of Homeland Security (DHS) that require imputed costs and financing sources to be recognized. While the imputed financing sources are shown on the face of the Consolidated Statements of Changes in Net Position, the imputed costs are included in the operating expense amounts reported on the Consolidated Statements of Net Cost.

OPM administers three earned benefit programs for civilian Federal employees: (1) the Retirement Program, comprised of the CSRS and the FERS; (2) the Federal Employees Health Benefits Program (FEHBP); and (3) the Federal Employee Group Life Insurance Program (FEGLI). The total service costs for SSA employee pensions, life, and health insurance are financed by contributions of SSA, participating employees, and OPM. The Consolidated Statements of Net Cost recognize post-employment benefit expenses of $1,237 and $1,050 million for the years ended September 30, 2018 and 2017, as a portion of operating expenses. The expense represents the current and estimated future costs of SSA and OPM for SSA employee pensions, life, and health insurance. SSA is responsible for a portion of the costs of each benefit program during the fiscal year, while the remaining costs are covered by OPM. SSA recognizes these costs on our financial statements as an imputed cost, with a corresponding imputed financing source.

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

DHS provides SSA with capabilities and tools that identify cybersecurity risks as part of their Continuous Diagnostics and Mitigation (CDM) program. Specifically, DHS has provided SSA with hardware and internal use software associated with this program.

Chart 14 discloses SSA's imputed financing sources by activity.

**Chart 14 - Imputed Financing Sources as of September 30:**
**(Dollars in Millions)**

| | 2018 | 2017 |
|---|---|---|
| Employee Benefits (OPM) | | |
| CSRS* | $ 90 | $ 84 |
| FERS | 63 | 0 |
| FEHBP | 444 | 340 |
| FEGLI | 1 | 1 |
| Total Employee Benefits | 598 | 425 |
| SSI Benefit Payments (Treasury) | 16 | 16 |
| Judgment Fund (Treasury) | 1 | 1 |
| CDM Program (DHS) | 2 | 5 |
| Total Imputed Financing Sources | $ 617 | $ 447 |

Note:

*The FY 2017 CSRS amounts are offset by $3 million of excess FY 2017 FERS employer contributions over program service cost.

## 15. Budgetary Resources

### Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of $1,079,107 and $1,041,893 million for the years ended September 30, 2018 and 2017. Appropriations Received on the Consolidated Statements of Changes in Net Position are $89,271 and $95,546 million for the same periods. The differences of $989,836 and $946,347 million primarily represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the General Fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Fiscal Service where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Because OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required SF-133. These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

## APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS: DIRECT VERSUS REIMBURSABLE OBLIGATIONS

Agency accounts or funds can receive budgetary resources from OMB through an apportionment or they can receive funds based on statutes, laws, legislation, etc. Apportionments issued for specific activities, projects, objects, or a combination of these categories are classified as Category B. If an account or fund receives its budgetary resources based on law or statute and does not receive an apportionment from OMB, it is classified as Exempt from Apportionment. Chart 15a reflects the amounts of direct and reimbursable new obligations and upward adjustments against Category B Apportionment and Exempt from Apportionment accounts.

### Chart 15a - Apportionment Categories of New Obligations and Upward Adjustments: Direct versus Reimbursable Obligations as of September 30:
**(Dollars in Millions)**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Direct | Reimbursable | Total | Direct | Reimbursable | Total |
| Category B | $ 68,792 | $ 2,463 | $ 71,255 | $ 72,537 | $ 2,708 | $ 75,245 |
| Exempt | 1,026,000 | 1 | 1,026,001 | 983,900 | 1 | 983,901 |
| Total | $1,094,792 | $ 2,464 | $1,097,256 | $1,056,437 | $ 2,709 | $1,059,146 |

## PERMANENT INDEFINITE APPROPRIATION

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

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

## LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Chart 15b provides an overview of fiscal year budgetary receipt and obligation information for the OASI and DI Trust Funds. SSA compares the current year receipts to the current year obligations incurred to determine the excess or shortfall for a fiscal year.

## Chart 15b - OASI and DI Trust Fund Activities as of September 30:
### (Dollars in Millions)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | OASI | DI | Total | OASI | DI | Total |
| Receipts | $ 822,452 | $170,347 | $ 992,799 | $ 822,530 | $ 169,559 | $ 992,089 |
| Less: Obligations | 845,922 | 144,416 | 990,338 | 801,604 | 144,974 | 946,578 |
| Excess of Receipts Over Obligations | $ (23,470) | $ 25,931 | $ 2,461 | $ 20,926 | $ 24,585 | $ 45,511 |

The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, increased the DI Trust Fund's portion of the FICA payroll tax by 0.57 percentage points. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. The overall Net Position of the OASI and DI Trust Funds, on the Consolidated Statements of Changes in Net Position, are $2,742,699 and $72,904 million for the year ended September 30, 2018, compared to $2,766,567 and $46,249 million for the year ended September 30, 2017.

## UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders consist of orders of goods and services that SSA has not actually or constructively received. The total undelivered orders contain unpaid undelivered orders and advances, with unpaid orders making up the majority of the total.

Chart 15c provides the FY 2018 undelivered orders amount by Federal, non-Federal, paid, and unpaid.

## Chart 15c – Undelivered Orders as of September 30:
### (Dollars in Millions)

| | 2018 | | |
|---|---|---|---|
| | Federal | Non-Federal | Total |
| Unpaid Undelivered Orders | $ 796 | $ 1,701 | $ 2,497 |
| Paid Undelivered Orders | 30 | 0 | 30 |
| Total Undelivered Orders | $ 826 | $ 1,701 | $ 2,527 |

SSA's total undelivered orders are $2,150 million for the year ended September 30, 2017. SSA's total unpaid undelivered orders are $2,125 million for the year ended September 30, 2017.

## EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

SSA conducted a reconciliation of budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the U.S. Government for the year ended September 30, 2017. All differences shown in the chart below are recognized as accepted differences. Expired activity is not included in the Budget of the U.S. Government, and distributed offsetting receipts are not included in the net outlay calculation within the Budget of the U.S. Government.

Chart 15d presents a reconciliation of budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the U.S. Government for the year ended September 30, 2017.

## Chart 15d - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the U.S. Government for FY 2017:
(Dollars in Millions)

| | Budgetary Resources | New Obligations and Upward Adjustments | Distributed Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| Combined Statement of Budgetary Resources | $ 1,064,637 | $ 1,059,146 | $ 40,391 | $ 1,000,812 |
| Expired activity not in President's Budget | (355) | (125) | 0 | 0 |
| Offsetting Receipts activity not in President's Budget | 0 | 0 | 0 | 40,391 |
| Other | 2 | 0 | 0 | 1 |
| Budget of the U.S. Government | $ 1,064,284 | $ 1,059,021 | $ 40,391 | $ 1,041,204 |

A reconciliation has not been conducted for the year ended September 30, 2018 since the actual budget data for FY 2018 will not be available until the President's Budget is published. Once available, the actual budget data will be located on OMB's Appendix website (https://www.whitehouse.gov/omb/appendix/).

## 16. Reconciliation of Net Cost of Operations to Budget

### Chart 16 - Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2018 and 2017
(Dollars in Millions)

| | 2018 | 2017 |
|---|---|---|
| **Resources Used to Finance Activities:** | | |
| Budgetary Resources Obligated | | |
| New Obligations and Upward Adjustments | **$ 1,097,256** | $ 1,059,146 |
| Offsetting Collections and Recoveries | **(17,145)** | (16,414) |
| Obligations Net of Offsetting Collections and Recoveries | **1,080,111** | 1,042,732 |
| Offsetting Receipts | **(38,956)** | (40,391) |
| Net Obligations | **1,041,155** | 1,002,341 |
| Other Resources | | |
| Imputed Financing | **617** | 447 |
| Total Resources Used to Finance Activities | **1,041,772** | 1,002,788 |
| **Resources Not Part of the Net Cost of Operations:** | | |
| Change in Budgetary Resources Obligated, Not Yet Provided | **(166)** | 35 |
| Resources that Fund Expenses Recognized in Prior Periods | **(506)** | (228) |
| Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations | **38,957** | 40,066 |
| Change in Resources that Finance Assets | **(861)** | (690) |
| Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations | **(40,521)** | (42,653) |
| Total Resources Not Part of the Net Cost of Operations | **(3,097)** | (3,470) |
| Total Resources Used to Finance the Net Cost of Operations | **1,038,675** | 999,318 |
| **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 | **4** | 0 |
| Components Not Requiring or Generating Resources | | |
| Change in Depreciation and Amortization | **750** | 667 |
| Revaluation of Assets and Liabilities | **0** | 70 |
| Other | **(830)** | (930) |
| Total Components of Net Cost of Operations that Will Not Require or Generate Resources | **(80)** | (193) |
| Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period | **(76)** | (193) |
| **Net Cost of Operations** | **$ 1,038,599** | $ 999,125 |

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

### STATEMENTS OF SOCIAL INSURANCE

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

Present values are computed based on the intermediate economic and demographic assumptions described in *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (the Trustees Report) for the 75-year projection period beginning January 1, 2018. These assumptions represent the Trustees' reasonable estimate of likely future economic and demographic conditions. Similar present values are shown in the Statements of Social Insurance based on the prior four Trustees Reports reflecting present values at January 1 of the applicable year.

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

The present value of the estimated future excess of noninterest income over cost is shown in the Statements of Social Insurance, not only for the open group of participants, but also for the "closed group" of participants. The closed group of participants consists of those who, in the starting year of the projection period, have attained age 15 or older. This closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. The Statements of Social Insurance also present the present value of estimated future noninterest income less estimated future cost *plus* the combined OASI and DI Trust Fund asset reserves at the start of the period on both an open and closed group basis.

Combined OASI and DI Trust Fund asset reserves represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund asset reserves, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund asset reserves as of January 1, 2018 totaled $2,892 billion and were comprised entirely of investment securities that are backed by the full faith and credit of the Federal Government.

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

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

## Assumptions Used for the Statements of Social Insurance

The present values used in this presentation for the current year (2018) are based on the full amounts of estimated noninterest income and the cost of providing benefits at the levels scheduled under current law, even after the OASI and DI Trust Fund asset reserves are depleted. Estimates are also based on various economic and demographic assumptions, including those in the following table:

### Table 1: Significant Assumptions and Summary Measures Used for the Statement of Social Insurance 2018

| | 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] | |
| 2018 | 1.81 | 776.4 | 76.9 | 81.5 | 1,678,000 | 1.59 | 3.82 | 2.23 | 1.1 | 2.7 | 2.7% |
| 2020 | 1.84 | 762.4 | 77.2 | 81.7 | 1,498,000 | 1.95 | 4.55 | 2.60 | 0.8 | 2.6 | 3.9% |
| 2030 | 2.00 | 697.7 | 78.4 | 82.7 | 1,321,000 | 1.28 | 3.88 | 2.60 | 0.5 | 2.1 | 5.3% |
| 2040 | 2.00 | 641.1 | 79.5 | 83.6 | 1,272,000 | 1.22 | 3.82 | 2.60 | 0.5 | 2.1 | 5.3% |
| 2050 | 2.00 | 591.5 | 80.5 | 84.5 | 1,247,000 | 1.23 | 3.83 | 2.60 | 0.5 | 2.1 | 5.3% |
| 2060 | 2.00 | 547.9 | 81.5 | 85.3 | 1,233,000 | 1.22 | 3.82 | 2.60 | 0.4 | 2.1 | 5.3% |
| 2070 | 2.00 | 509.4 | 82.4 | 86.0 | 1,225,000 | 1.15 | 3.75 | 2.60 | 0.4 | 2.1 | 5.3% |
| 2080 | 2.00 | 475.2 | 83.2 | 86.7 | 1,221,000 | 1.13 | 3.73 | 2.60 | 0.5 | 2.1 | 5.3% |
| 2090* | 2.00 | 444.7 | 84.0 | 87.3 | 1,218,000 | 1.15 | 3.75 | 2.60 | 0.4 | 2.1 | 5.3% |

* The valuation period used for the 2018 Statement of Social Insurance extends to 2092.

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy at birth for a given year is the average number of years expected prior to death for a person born on January 1 in that year, using the mortality rates for that year over the course of his or her remaining life. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both as lawful permanent residents and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
5. The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Values are rounded after all computations.
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is CPI-W.
8. Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real GDP is the value of the total output of goods and services in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, 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 our *Agency Financial Report* website (www.socialsecurity.gov/finance) for the prior four years.

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

| Year of Statement | Total Fertility Rate[1] | Average Annual Percentage Reduction in the Age-Sex-Adjusted Death Rates[2] | Average Annual Net Immigration (persons per year)[3] | Average Annual Real-Wage Differential[4] (percentage points) | Average Annual Percentage Change In: Average Annual Wage in Covered Employment[5] | Average Annual Percentage Change In: CPI[6] | Average Annual Percentage Change In: Total Employment[7] | Average Annual Real Interest Rate[8] |
|---|---|---|---|---|---|---|---|---|
| FY 2018 | 2.0 | 0.77 | 1,272,000 | 1.20 | 3.80 | 2.60 | 0.5 | 2.7 |
| FY 2017 | 2.0 | 0.77 | 1,286,000 | 1.20 | 3.80 | 2.60 | 0.5 | 2.7 |
| FY 2016 | 2.0 | 0.78 | 1,291,000 | 1.20 | 3.80 | 2.60 | 0.5 | 2.7 |
| FY 2015 | 2.0 | 0.78 | 1,155,000 | 1.17 | 3.87 | 2.70 | 0.5 | 2.9 |
| FY 2014 | 2.0 | 0.79 | 1,125,000 | 1.13 | 3.83 | 2.70 | 0.5 | 2.9 |

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. For the 2018 Statement, the ultimate total fertility rate is assumed to be reached in the 10th year of the projection period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of a standard date if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. For each of the listed Statements, the standard date was April 1, 2010. 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 2018 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 as lawful permanent residents and otherwise) minus the number of persons who leave during the year. The value in the table is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value shown is the average net immigration level projected for the 75-year projection period. For the 2018 Statement, the value shown is consistent with the annual levels shown in Table 1.
4. The annual real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the CPI-W. The value presented is the average of annual real-wage differentials for the last 65 years of the 75-year projection period. For the 2018 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 2018 Statement, the average annual percentage change is consistent with the annual percentages shown in Table 1.
6. The CPI is the CPI-W. The ultimate assumption is reached within the first 10 years of the projection period. For the 2018 Statement, the average annual rate of CPI is consistent with the annual differentials shown in Table 1.
7. Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2018 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 reached within the first 10 years of the projection period. For the 2018 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 2014–2018 Trustees Reports. Estimates made prior to this year may 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.

## Statements of Changes in Social Insurance Amounts

The Statements of Changes in Social Insurance Amounts reconcile changes, from the beginning of one 75-year valuation period to the next, in the: (1) present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years; (2) starting asset reserves of the combined OASI and DI Trust Funds; and (3) present value of estimated future noninterest income less estimated future cost for current and future participants over the next 75 years plus the asset reserves of the combined OASI and DI Trust Funds. These values are included in the Statements of Social Insurance. The Statements of Changes in Social Insurance Amounts show two reconciliations: (1) change from the period beginning on January 1, 2017 to the period beginning on January 1, 2018; and (2) change from the period beginning on January 1, 2016 to the period beginning on January 1, 2017. The reconciliation identifies several changes that are significant and provides reasons for the changes.

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

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

All estimates in the Statements of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods represent the additional effect of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period. In general, an increase in the present value of net cash flows represents a positive change (improving financing), while a decrease in the present value of net cash flows represents a negative change (worsening financing).

### Change in the Valuation Period

**From the period beginning on January 1, 2017 to the period beginning on January 1, 2018**

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2017–2091) to the current valuation period (2018–2092) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2017, replaces it with a much larger negative net cash flow for 2092, and measures the present values as of January 1, 2018, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2017–2091 to 2018–2092. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2017 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

**From the period beginning on January 1, 2016 to the period beginning on January 1, 2017**

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2016–2090) to the current valuation period (2017–2091) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2016, replaces it with a much larger negative net cash flow for 2091, and measures the present values as of January 1, 2017, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2016–2090 to 2017–2091. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2016 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

## Changes in Demographic Data, Assumptions, and Methods

**From the period beginning on January 1, 2017 to the period beginning on January 1, 2018**

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2018), with the exception of a small decrease of 10,000 lawful permanent resident (LPR) immigrants per annum in the future, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2016 indicated slightly lower birth rates than were assumed in the prior valuation.
- Recent fertility data suggests that the short-term increase in the total fertility rate used in the prior valuation to account for an assumed deferral in childbearing (resulting from the recent economic downturn) was no longer warranted. The observed persistent drop in the total fertility rate in recent years is now assumed to be a loss of potential births rather than just a deferral for this period.
- Incorporating 2015 mortality data obtained from the National Center for Health Statistics (NCHS) for ages under 65 and preliminary 2015 mortality data from Medicare experience for ages 65 and older resulted in higher death rates for all future years than were projected in the prior valuation.
- More recent LPR and other-than-LPR immigration data and historical population data were included.

Inclusion of the recent birth rate data, eliminating the short-term increase in fertility, and immigration data decreased the present value of estimated future net cash flows, while the inclusion of the recent mortality data and historical population data increased the present value of estimated future net cash flows.

There was one notable change in demographic methodology:

- Improved the method for projecting mortality rates by marital status by utilizing recent data from NCHS and the American Community Survey.

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

**From the period beginning on January 1, 2016 to the period beginning on January 1, 2017**

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2017) are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2015 indicated slightly lower birth rates than were assumed in the prior valuation.
- Incorporating 2014 mortality data obtained from the NCHS at ages under 65 and preliminary 2014 mortality data from Medicare experience at ages 65 and older resulted in higher death rates for all future years than were projected in the prior valuation.

- More recent legal and other-than-legal immigration data and historical population data were included.

Inclusion of the recent birth rate data and immigration data decreased the present value of estimated future net cash flows, while the inclusion of the recent mortality data increased the present value of estimated future net cash flows.

There were no notable changes in demographic methodology.

### CHANGES IN ECONOMIC DATA, ASSUMPTIONS, AND METHODS

**From the period beginning on January 1, 2017 to the period beginning on January 1, 2018**

The ultimate economic assumptions for the current valuation (beginning on January 1, 2018) are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- The estimated level of potential GDP was reduced by about 1 percent in 2017 and throughout the projection period, primarily due to the slow growth in labor productivity for 2010 through 2017 and low unemployment rates in 2017. This lower estimated level of potential GDP means that cumulative growth in actual GDP is 1 percent less over the remainder of the projected recovery than was assumed in the prior valuation.
- Near-term interest rates were decreased, reflecting a more gradual path for the rise to the ultimate real interest rate than was assumed in the prior valuation.
- New data from the Bureau of Economic Analysis (BEA) indicated lower-than-expected ratios of labor compensation to GDP for 2016 and 2017, while new data from the IRS indicated lower-than-expected ratios of taxable payroll to GDP for 2016 and 2017. This new data led to assumed extended recoveries in these ratios to the unchanged ultimate ratios.

The changes in near-term interest rates and GDP decreased the present value of estimated future net cash flows. The new data from BEA and IRS and the resulting extended recovery in the ratios of labor compensation to GDP and taxable payroll to GDP increased the present value of estimated future net cash flows.

There was one notable change in economic methodology:

- Improved the method for projecting educational attainment among women in age groups 45-49 and 50-54 in the labor force participation model.

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

**From the period beginning on January 1, 2016 to the period beginning on January 1, 2017**

For the current valuation (beginning on January 1, 2017), there was one change to the ultimate economic assumptions.

- The ultimate average real-wage differential is assumed to be 1.20 percent in the current valuation, which is close to a 0.01 percent decrease relative to the previous valuation (even though both ultimate average real-wage differentials are 1.20 when rounded to two decimal places).

In addition to this change in ultimate assumption, the assumed path of the real-wage differential in the first 10 years of the projection period was also lower than in the previous valuation. This led to 0.05 percent lower annual growth in the average annual wage in covered employment in the first 10 years. The lower long-term and near-term real-wage differential assumptions are based on new projections by the CMS of faster growth in employer sponsored group health insurance premiums. Because these premiums are not subject to the payroll tax, faster growth in these premiums means that a smaller share of employee compensation will be in the form of wages that are subject to the payroll tax. The lower real-wage differential decreased the present value of estimated future net cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed. The most notable change was updating the near-term interest rates. Also notable was an assumed weaker recovery from the recent recession than previously expected, which led to a reduction in the ultimate level of actual and potential GDP of about 1.0 percent for all years after the short-range period. The changes in near-term interest rates and GDP decreased the present value of estimated future net cash flows. Other, smaller changes in starting values and near-term growth assumptions combined to decrease the present value of estimated future net cash flows.

### CHANGES IN PROGRAMMATIC DATA AND METHODS

**From the period beginning on January 1, 2017 to the period beginning on January 1, 2018**

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2018). The most significant are identified below.

- The prior valuation assumed 99.0 percent of fully insured women (excluding those who are receiving a disability or widow benefit) were in receipt of a retired-worker benefit at age 70. The current valuation increases this percentage to 99.5 which is equivalent to the assumption for men.
- For the current valuation, a 10-percent sample of newly-entitled worker beneficiaries in 2015 was used to project average benefit levels of retired-worker and disabled-worker beneficiaries. This sample was updated from the 2013 sample used for the prior valuation. In addition, the method used to estimate earnings histories for retired-worker beneficiaries becoming newly entitled in each year after 2017 has been expanded to better match targeted average taxable earnings levels for each of nine birth cohorts (those becoming entitled at ages 62 through 70 in a year).
- Recent data and estimates provided by the Office of Tax Analysis (OTA) at the Department of the Treasury were incorporated, which indicate higher ultimate levels of revenue from taxation of OASDI benefits than assumed in the prior valuation. These higher levels are primarily due to changes OTA made in their modeling, resulting in a larger share of benefits being subject to income tax.
- The current valuation incorporates both a better data source for determining the total number of months of retroactive benefits for newly awarded disabled-worker beneficiaries and a new adjustment factor which better aligns projected months of disabled-worker retroactive benefit entitlement with observed historical experience.

Increasing the percentage of fully insured women who are in receipt of a retired-worker benefit at age 70 decreased the present value of estimated cash flows. Updating the sample year for average benefit level calculations, increasing the ultimate taxation of benefits ratios, and the changes to estimates of retroactive benefit payments increased the present value of estimated future net cash flows.

**From the period beginning on January 1, 2016 to the period beginning on January 1, 2017**

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2017). The most significant are identified below.

- Although ultimate disability assumptions for the current valuation (beginning on January 1, 2017) are the same as those for the prior valuation, recent data have shown significantly lower levels of disability applications and awards than expected in the prior valuation. Based on this experience, estimated disabled worker incidence rates are reduced in the current valuation over the short-range period.
- In the prior valuation, the method used for calculating the probability that aged spouses, widows, and widowers are or are not insured used the "total fully insured rate"—that is, the portion of the entire married, divorced, widow, and widower population that is fully insured—as one of the factors used to determine the fully insured status. The current valuation instead uses the "legal fully insured rate," thus eliminating the effects of shifts in the uninsured population due to changes in the other-than-legal population.

- The prior valuation captured the known shift in retirement to older ages as life expectancy and the normal retirement age increase by "shuttling" from their actual age in the 10 percent sample of all newly entitled retired-worker beneficiaries in 2013 to an older age. The prior valuation did not, however, account for the possibility of additional earnings in the year or years between the actual age and the shuttled age. The current valuation moved the shuttling procedure to an earlier stage of the model so that these additional earnings could be incorporated, improving consistency with revenue projections.
- The prior valuation projected both the number of dually entitled widows and widowers and their average excess benefit amounts using one regression for the entire group. The current valuation uses regressions for three age groups. Splitting the regressions allows for different independent and dependent variable relationships for age groups 62 to 74, 75 to 84, and 85 and older.

Inclusions of new disability data and the insured status methodological improvement increased the present value of estimated future net cash flows, while the "shuttling" change and the expanded regression for dually entitled categories decreased the present value of estimated cash flows.

### Changes in Law or Policy

**From the period beginning on January 1, 2017 to the period beginning on January 1, 2018**

Between the prior valuation (the period beginning on January 1, 2017) and the current valuation (the period beginning on January 1, 2018), no new laws, regulations, or policies were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, the current valuation does incorporate two notable changes with negligible effects on the present value of estimated cash flows.

- The 2012 Deferred Action for Childhood Arrivals (DACA) program is assumed to be phased out over the next 2 years, after having been rescinded by the Administration on September 5, 2017. The prior valuation assumed that the 2012 DACA program would continue indefinitely.
- Public Law 115-97, the *Tax Cuts and Jobs Act*, was enacted on December 22, 2017. There are two aspects of this law with notable effects on the OASDI program. The repeal of the individual mandate of the *Patient Protection and Affordable Care Act* is expected to cause some individuals to drop their employer-sponsored health insurance, which is estimated to increase OASDI covered wages and taxable payroll slightly. The changes to income tax rates and brackets are expected to have small effects, reducing income from taxation of benefits through 2025 and increasing it thereafter.

The assumed phase-out of the 2012 DACA program decreased the present value of estimated cash flows by a negligible amount, while including the effects of the *Tax Cuts and Jobs Act* increased the present value of estimated future net cash flows by a negligible amount.

**From the period beginning on January 1, 2016 to the period beginning on January 1, 2017**

Between the prior valuation (the period beginning on January 1, 2016) and the current valuation (the period beginning on January 1, 2017), no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, estimates in the current valuation, unlike in the prior valuation, reflect the assumption that parts of President Obama's 2014 executive actions on immigration will not be implemented. Specifically, the estimates now assume that the following two provisions will not be implemented: (1) granting legal work and residence status to an expanded group of individuals who entered the country as children (DACA) and (2) granting similar status to certain parents of children born in the United States or otherwise living in the country legally (Deferred Action for Parents of Americans). The prior valuation assumed that these two actions would become effective late in 2016, with individuals gaining authorization starting around the beginning of 2017.

The assumed non-implementation of these executive actions increased the present value of estimated future net cash flows.

## ASSUMPTIONS USED FOR THE STATEMENTS OF CHANGES IN SOCIAL INSURANCE AMOUNTS

The present values included in the Statements of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Trustees Reports for those years. Table 1 summarizes these assumptions for the current year. Our *Agency Financial Report* website (www.socialsecurity.gov/finance) provides tabulated assumptions for the prior year in a similar manner.

### PERIOD BEGINNING ON JANUARY 1, 2017 AND ENDING JANUARY 1, 2018

Present values as of January 1, 2017 are calculated using interest rates from the intermediate assumptions of the 2017 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2018. 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 2017 Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2018 Trustees Report.

### PERIOD BEGINNING ON JANUARY 1, 2016 AND ENDING JANUARY 1, 2017

Present values as of January 1, 2016 are calculated using interest rates from the intermediate assumptions of the 2016 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2017. 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 2016 Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2017 Trustees Report.

# Other Information: Balance Sheet by Major Program
## as of September 30, 2018
### (Dollars in Millions)

| Assets | OASI | DI | SSI | Other | LAE | Intra-Agency Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Intragovernmental: | | | | | | | |
| Fund Balance with Treasury | $ (187) | $ (259) | $ 6,923 | $ 100 | $ (19) | $ 0 | $ 6,558 |
| Investments | 2,801,254 | 93,400 | 0 | 0 | 0 | 0 | 2,894,654 |
| Interest Receivable | 19,940 | 654 | 0 | 0 | 0 | 0 | 20,594 |
| Accounts Receivable, Net | 1 | 0 | 0 | 0 | 3,801 | (3,067) | 735 |
| Other | 0 | 0 | 2 | 0 | 27 | 0 | 29 |
| Total Intragovernmental | 2,821,008 | 93,795 | 6,925 | 100 | 3,809 | (3,067) | 2,922,570 |
| Accounts Receivable, Net | 2,582 | 5,068 | 6,188 | 0 | 3 | (597) | 13,244 |
| Property, Plant, and Equipment, Net | 0 | 0 | 0 | 0 | 3,483 | 0 | 3,483 |
| **Total Assets** | $ 2,823,590 | $ 98,863 | $ 13,113 | $ 100 | $ 7,295 | $ (3,664) | $ 2,939,297 |
| **Liabilities** | | | | | | | |
| Intragovernmental: | | | | | | | |
| Accrued Railroad Retirement Interchange | $ 4,690 | $ 64 | $ 0 | $ 0 | $ 0 | $ 0 | $ 4,754 |
| Accounts Payable | 880 | 841 | 7,148 | 18 | 79 | (3,067) | 5,899 |
| Other | 0 | 0 | 0 | 3 | 113 | 0 | 116 |
| Total Intragovernmental | 5,570 | 905 | 7,148 | 21 | 192 | (3,067) | 10,769 |
| Benefits Due and Payable | 75,321 | 25,050 | 4,875 | 0 | 0 | (597) | 104,649 |
| Accounts Payable | 0 | 4 | 373 | 0 | 105 | 0 | 482 |
| Federal Employee and Veteran Benefits | 0 | 0 | 0 | 0 | 314 | 0 | 314 |
| Other | 0 | 0 | 252 | 1 | 562 | 0 | 815 |
| Total Liabilities | 80,891 | 25,959 | 12,648 | 22 | 1,173 | (3,664) | 117,029 |
| Contingencies (Note 9) | | | | | | | |
| **Net Position** | | | | | | | |
| Unexpended Appropriations - All Other Funds | 0 | 0 | 3,495 | 78 | 3 | 0 | 3,576 |
| Cumulative Results of Operations - Funds from Dedicated Collections | 2,742,699 | 72,904 | 0 | 0 | 0 | 0 | 2,815,603 |
| Cumulative Results of Operations - All Other Funds | 0 | 0 | (3,030) | 0 | 6,119 | 0 | 3,089 |
| Total Net Position - Funds from Dedicated Collections | 2,742,699 | 72,904 | 0 | 0 | 0 | 0 | 2,815,603 |
| Total Net Position - All Other Funds | 0 | 0 | 465 | 78 | 6,122 | 0 | 6,665 |
| Total Net Position | 2,742,699 | 72,904 | 465 | 78 | 6,122 | 0 | 2,822,268 |
| **Total Liabilities and Net Position** | $ 2,823,590 | $ 98,863 | $ 13,113 | $ 100 | $ 7,295 | $ (3,664) | $ 2,939,297 |

## Other Information: Schedule of Net Cost for the Year Ended September 30, 2018
### (Dollars in Millions)

| | Program | LAE | Total |
|---|---|---|---|
| **OASI Program** | | | |
| Benefit Payment Expense | $ 836,919 | $ 0 | $ 836,919 |
| Operating Expenses | 519 | 3,298 | 3,817 |
| Total Cost of OASI Program | 837,438 | 3,298 | 840,736 |
| Less: Exchange Revenues | (1) | (13) | (14) |
| **Net Cost of OASI Program** | 837,437 | 3,285 | 840,722 |
| **DI Program** | | | |
| Benefit Payment Expense | 140,939 | 0 | 140,939 |
| Operating Expenses | 285 | 2,759 | 3,044 |
| Total Cost of DI Program | 141,224 | 2,759 | 143,983 |
| Less: Exchange Revenues | (24) | (11) | (35) |
| **Net Cost of DI Program** | 141,200 | 2,748 | 143,948 |
| **SSI Program** | | | |
| Benefit Payment Expense | 47,027 | 0 | 47,027 |
| Operating Expenses | 215 | 4,406 | 4,621 |
| Total Cost of SSI Program | 47,242 | 4,406 | 51,648 |
| Less: Exchange Revenues | (204) | (18) | (222) |
| **Net Cost of SSI Program** | 47,038 | 4,388 | 51,426 |
| **Other** | | | |
| Benefit Payment Expense | 1 | 0 | 1 |
| Operating Expenses | 0 | 2,512 | 2,512 |
| Total Cost of Other | 1 | 2,512 | 2,513 |
| Less: Exchange Revenues | 0 | (10) | (10) |
| **Net Cost of Other Program** | 1 | 2,502 | 2,503 |
| **Total Net Cost** | | | |
| Benefit Payment Expense | 1,024,886 | 0 | 1,024,886 |
| Operating Expenses | 1,019 | 12,975 | 13,994 |
| Total Cost | 1,025,905 | 12,975 | 1,038,880 |
| Less: Exchange Revenues | (229) | (52) | (281) |
| **Total Net Cost** | $ 1,025,676 | $ 12,923 | $ 1,038,599 |

## Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2018
### (Dollars in Millions)

| | OASI | DI | SSI | | Other | |
|---|---|---|---|---|---|---|
| | Funds from Dedicated Collections | Funds from Dedicated Collections | Funds from Dedicated Collections | All Other Funds | Funds from Dedicated Collections | All Other Funds |
| **Unexpended Appropriations:** | | | | | | |
| Beginning Balances | $ 0 | $ 0 | $ 0 | $ 4,725 | $ 0 | $ 86 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Received | 0 | 0 | 0 | 53,487 | 35,718 | 36 |
| Other Adjustments | 0 | 0 | 0 | 0 | 0 | (15) |
| Appropriations Used | 0 | 0 | 0 | (54,717) | (35,718) | (29) |
| **Total Budgetary Financing Sources** | 0 | 0 | 0 | (1,230) | 0 | (8) |
| **Total Unexpended Appropriations** | 0 | 0 | 0 | 3,495 | 0 | 78 |
| **Cumulative Results of Operations:** | | | | | | |
| Beginning Balances | $ 2,766,567 | $ 46,249 | $ 0 | $ (3,530) | $ 0 | $ 0 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Used | 0 | 0 | 0 | 54,717 | 35,718 | 29 |
| Tax Revenues | 706,128 | 167,043 | 0 | 0 | 0 | 0 |
| Interest Revenues | 81,135 | 2,415 | 0 | 0 | 0 | 0 |
| Transfers In/Out - Without Reimbursement | 31,142 | (1,582) | (114) | (3,589) | (35,718) | (28) |
| Railroad Retirement Interchange | (4,841) | (67) | 0 | 0 | 0 | 0 |
| Other Budgetary Financing Sources | 5 | 46 | 0 | 0 | 0 | 0 |
| **Other Financing Sources (Non-Exchange)** | | | | | | |
| Transfers-In/Out - Without Reimbursement | 0 | 0 | 0 | (2,933) | 0 | 2,933 |
| Imputed Financing Sources | 0 | 0 | 0 | 16 | 0 | 0 |
| Other | 0 | 0 | 0 | (559) | 0 | (2,933) |
| **Total Financing Sources** | 813,569 | 167,855 | (114) | 47,652 | 0 | 1 |
| **Net Cost of Operations** | 837,437 | 141,200 | (114) | 47,152 | 0 | 1 |
| **Net Change** | (23,868) | 26,655 | 0 | 500 | 0 | 0 |
| **Cumulative Results of Operations** | $ 2,742,699 | $ 72,904 | $ 0 | $ (3,030) | $ 0 | $ 0 |
| **Net Position** | $ 2,742,699 | $ 72,904 | $ 0 | $ 465 | $ 0 | $ 78 |

## Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2018 (Continued)

### (Dollars in Millions)

| | LAE | Consolidated | | Consolidated |
|---|---|---|---|---|
| | All Other Funds | Funds from Dedicated Collections | All Other Funds | **Total** |
| **Unexpended Appropriations:** | | | | |
| Beginning Balances | $ 2 | $ 0 | $ 4,813 | $ 4,813 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received | 30 | 35,718 | 53,553 | 89,271 |
| Other Adjustments | 0 | 0 | (15) | (15) |
| Appropriations Used | (29) | (35,718) | (54,775) | (90,493) |
| **Total Budgetary Financing Sources** | 1 | 0 | (1,237) | (1,237) |
| **Total Unexpended Appropriations** | 3 | 0 | 3,576 | 3,576 |
| **Cumulative Results of Operations:** | | | | |
| Beginning Balances | $ 5,460 | $ 2,812,816 | $ 1,930 | $ 2,814,746 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Used | 29 | 35,718 | 54,775 | 90,493 |
| Tax Revenues | 0 | 873,171 | 0 | 873,171 |
| Interest Revenues | 0 | 83,550 | 0 | 83,550 |
| Transfers In/Out Without Reimbursement | 12,952 | (6,272) | 9,335 | 3,063 |
| Railroad Retirement Interchange | 0 | (4,908) | 0 | (4,908) |
| Other Budgetary Financing Sources | 0 | 51 | 0 | 51 |
| **Other Financing Sources (Non-Exchange)** | | | | |
| Transfers-In/Out | 0 | 0 | 0 | 0 |
| Imputed Financing Sources | 601 | 0 | 617 | 617 |
| Other | 0 | 0 | (3,492) | (3,492) |
| **Total Financing Sources** | 13,582 | 981,310 | 61,235 | 1,042,545 |
| **Net Cost of Operations** | 12,923 | 978,523 | 60,076 | 1,038,599 |
| **Net Change** | 659 | 2,787 | 1,159 | 3,946 |
| **Cumulative Results of Operations** | $ 6,119 | $ 2,815,603 | $ 3,089 | $ 2,818,692 |
| **Net Position** | $ 6,122 | $ 2,815,603 | $ 6,665 | $ 2,822,268 |

## Required Supplementary Information: Combining Schedule of Budgetary Resources for the Year Ended September 30, 2018

### (Dollars in Millions)

| | OASI | DI | SSI | Other | LAE | Combined |
|---|---|---|---|---|---|---|
| **Budgetary Resources** | | | | | | |
| Unobligated Balance From Prior Year Budget Authority, Net | $ 581 | $ 35 | $ 5,426 | $ 71 | $ 1,043 | $ 7,156 |
| Appropriations (Discretionary and Mandatory) | 845,341 | 144,381 | 53,601 | 35,754 | 30 | 1,079,107 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 0 | 0 | 2,612 | 1 | 13,008 | 15,621 |
| **Total Budgetary Resources** | $ 845,922 | $ 144,416 | $ 61,639 | $ 35,826 | $ 14,081 | $ 1,101,884 |
| **Status of Budgetary Resources** | | | | | | |
| **New obligations and upward adjustments (Note 15)** | | | | | | |
| Direct | $ 845,922 | $ 144,416 | $ 55,647 | $ 35,747 | $ 13,060 | $ 1,094,792 |
| Reimbursable | 0 | 0 | 2,402 | 1 | 61 | 2,464 |
| New obligations and upward adjustments (total) | 845,922 | 144,416 | 58,049 | 35,748 | 13,121 | 1,097,256 |
| Unobligated Balance , End of Year | | | | | | |
| Apportioned, unexpired accounts | 0 | 0 | 2,767 | 37 | 753 | 3,557 |
| Unapportioned, unexpired accounts | 0 | 0 | 822 | 0 | 11 | 833 |
| Unexpired unobligated balance, end of year | 0 | 0 | 3,589 | 37 | 764 | 4,390 |
| Expired unobligated balance, end of year | 0 | 0 | 1 | 41 | 196 | 238 |
| Unobligated balance, end of year (total) | 0 | 0 | 3,590 | 78 | 960 | 4,628 |
| **Total Budgetary Resources** | $ 845,922 | $ 144,416 | $ 61,639 | $ 35,826 | $ 14,081 | $ 1,101,884 |
| **Outlays, Net** | | | | | | |
| Outlays, Net (Discretionary and Mandatory) | $ 841,290 | $ 146,614 | $ 55,213 | $ 35,759 | $ (17) | $ 1,078,859 |
| Distributed Offsetting Receipts | (34,743) | (1,076) | (204) | (2,933) | 0 | (38,956) |
| **Agency Outlays, Net (Discretionary and Mandatory)** | $ 806,547 | $ 145,538 | $ 55,009 | $ 32,826 | $ (17) | $ 1,039,903 |

# 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 2017, the Social Security Administration paid OASDI benefits to about 62 million beneficiaries. The laws applicable for the period determine eligibility and benefit amounts. Current law provides that the amount of the monthly benefit payments for workers and their eligible dependents or survivors is based on the workers' lifetime earnings histories.

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

## PROGRAM FINANCES AND SUSTAINABILITY

As discussed in Note 9 to the Consolidated Financial Statements, a liability of approximately $100 billion as of September 30, 2018 ($98 billion as of September 30, 2017) 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 2018. Also, an asset of $2,895 billion as of September 30, 2018 ($2,890 billion as of September 30, 2017) is recognized for the "investments in Treasury securities." These investments are referred to as the combined OASI and DI Trust Fund asset reserves throughout the remainder of this required supplementary information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investments and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2018 because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid or are due to be paid because benefit payments are nonexchange transactions and are not considered deferred compensation as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

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

- **Income**: payroll taxes from employers, employees, and self-employed persons; revenue from Federal income tax on scheduled OASDI benefits; interest income from Treasury securities held as asset reserves of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;

- **Income excluding interest (Noninterest Income)**: income, as defined above, excluding the interest income from Treasury securities held as asset reserves of the OASI and DI Trust Funds;
- **Cost**: scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **Cash flow**: depending on the context, either income, noninterest income, or cost;
- **Net cash flow**: either income less cost or noninterest income less cost; however, net cash flow in this section refers to noninterest income less cost; and
- **Present value**: the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (2018 Trustees Report) (see Note 17 to the Statements of Social Insurance). The Statements of Social Insurance, the Statements 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

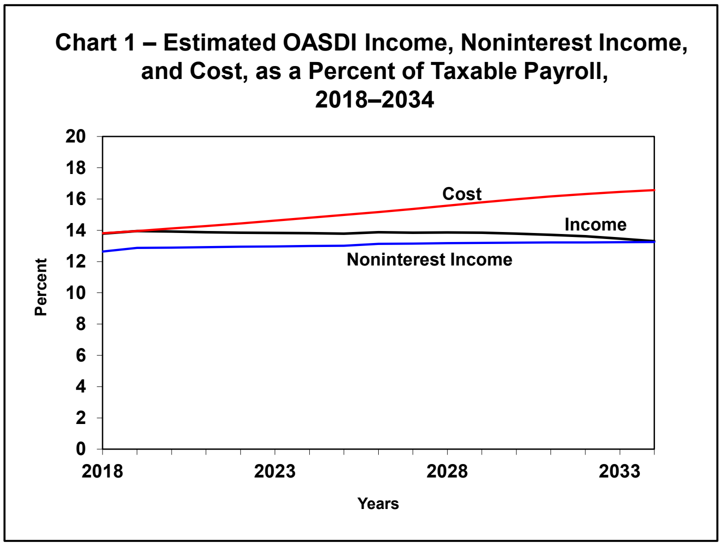
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

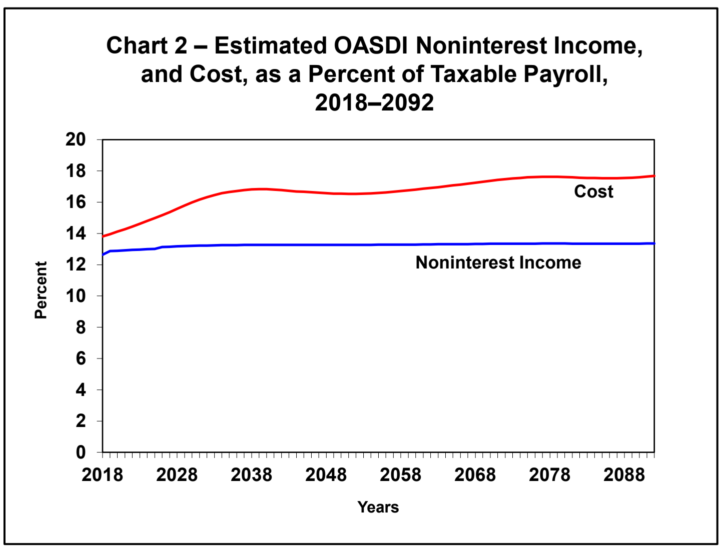
**Sustainable Solvency** - Based on the estimates of income and cost presented in the Statements of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits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

**Cash Flow Projections** - Charts 1 through 4 show annual cash flow projections for the OASDI program. OASDI noninterest income and cost are estimated for each year from 2018 through 2092. However, income including interest is only estimated through 2034, the year that the asset reserves in the combined OASI and DI Trust Funds are projected to deplete. After the point of such depletion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income (noninterest income). Therefore, displaying annual income levels beyond the point of combined OASI and DI Trust Fund depletion would be inappropriate unless the cost of scheduled benefits was replaced by the amount of benefits that would be payable.

Estimates are for the open-group population (i.e., all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both during that period). Therefore, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost for such workers and their dependents during that period.

**Amounts as a Percentage of Taxable Payroll** - Chart 1 shows estimated annual income, noninterest income, and cost through 2034 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2092 expressed as percentages of taxable payroll.




As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent) and the 12.4 percent that is paid on taxable self-employment income. In all years of the projection period, estimated annual cost is more than estimated annual income excluding interest. After 2018, 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 2018. This occurs because of a variety of factors including the retirement of the baby boom generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed noninterest income in all years of the projection period. In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption differs from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. The Government could finance this redemption by increasing its borrowing from the public, raising taxes (other than OASDI payroll taxes), and/or reducing expenditures (other than OASDI cost). Alternatively, the Government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.

**Actuarial Balance** - The Statements of Social Insurance show that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$16,057 billion. If augmented by the combined OASI and DI Trust Fund asset reserves at the start of the period (January 1, 2018), it is -$13,166 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.84 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76th year of the period.

For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.78 percentage points (from its current level of 12.40 percent to 15.18 percent). One interpretation of the actuarial balance is that its magnitude, 2.84 percent, should equal the necessary increase. However, the increase is different for two reasons. First, the necessary tax rate is the rate required to maintain solvency throughout the period that results in no asset reserves in the OASI and DI Trust Funds at the end of the period, whereas the actuarial balance incorporates an ending asset reserve in the OASI and DI Trust Funds equal to one year's cost. Second, the necessary tax rate reflects a behavioral response to tax rate changes, whereas the actuarial balance does not. In particular, the calculation of the necessary tax rate assumes that an increase in payroll taxes results in a small shift of wages and salaries to forms of employee compensation that are not subject to the payroll tax.

Alternatively, solvency could be achieved by reducing scheduled benefits by an amount equivalent to an immediate and permanent reduction of about 17 percent applied to all current and future beneficiaries, or about 21 percent if the reductions were applied only to newly entitled beneficiaries. Finally, some combination of both tax increases and benefit reductions could be adopted.

**Amounts as a Percentage of Gross Domestic Product** - Chart 3 shows estimated annual income, noninterest income, and cost through 2034 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2092 expressed as percentages of GDP. Analyzing these cash flows 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, 2018–2034**

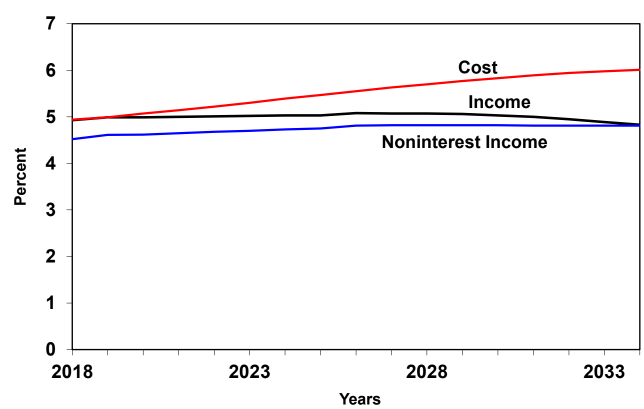
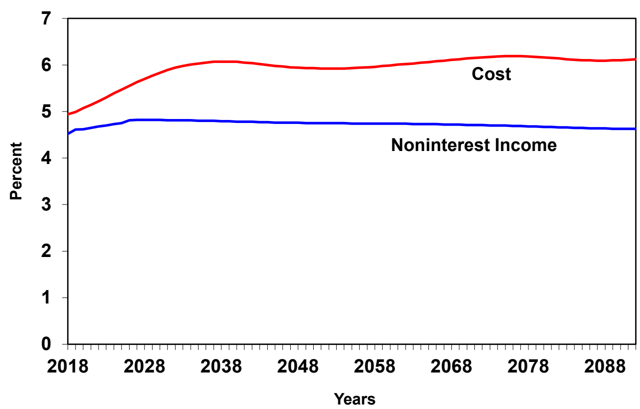


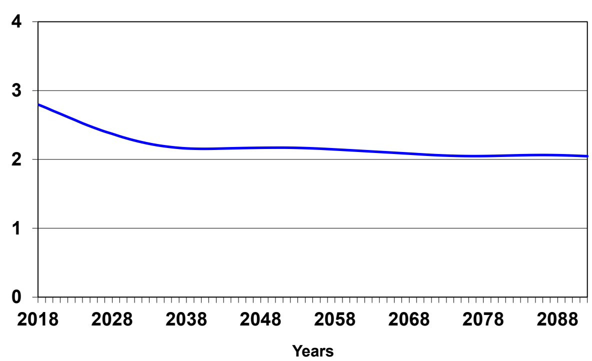
Chart 4 – Estimated OASDI Noninterest Income, and Cost, as a Percent of GDP, 2018–2092




In calendar year 2017, OASDI cost was about $952 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.1 percent by 2038, then declines to 5.9 percent by 2052, and then generally increases to 6.1 percent by 2092. The rapid increase from 2018 to 2035 is projected to occur as baby boomers become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

**Ratio of Workers to Beneficiaries** - Chart 5 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes based on services for wages in covered employment and/or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.8 in 2017 to 2.0 in 2092.

Chart 5 – Number of Covered Workers Per OASDI Beneficiary 2018–2092



# 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 (CPI), 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 2018 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2018 and are based on estimates of income and cost during the 75-year projection period 2018–2092. 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 cash flow.

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

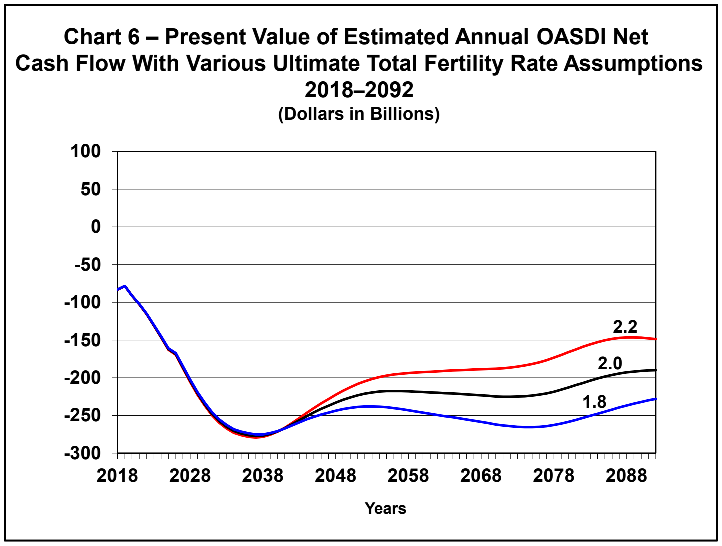
**Total Fertility Rate** - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.8, 2.0, and 2.2 children per woman, where 2.0 is the intermediate assumption in the 2018 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2023, 2027, and 2027 under the total fertility rate assumptions of 1.8, 2.0, and 2.2, respectively.

Table 1 demonstrates that if the ultimate total fertility rate were changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.8, the shortfall for the period of estimated OASDI income relative to cost would increase to $17,591 billion from $16,057 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to $14,509 billion.

## Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2018–2092

| Ultimate Total Fertility Rate | 1.8 | 2.0 | 2.2 |
|---|---|---|---|
| Present Value of Estimated Excess (Dollars in Billions) | -$17,591 | -$16,057 | -$14,509 |

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 cash flow.




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 cash flow estimates corresponding to all three ultimate fertility rates increase (become less negative) in 2019 before decreasing through 2037. Thereafter, the net cash flow estimates corresponding to a 2.2 ultimate total fertility rate increase until 2090 when decreasing present values begin again. The net cash flow estimates corresponding to a 1.8 and a 2.0 ultimate total fertility rate have another period of decreasing present values in years 2054–2075 and 2057–2072, respectively, but are otherwise increasing after 2037. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2092 than it would to cover the annual deficit in 2035.

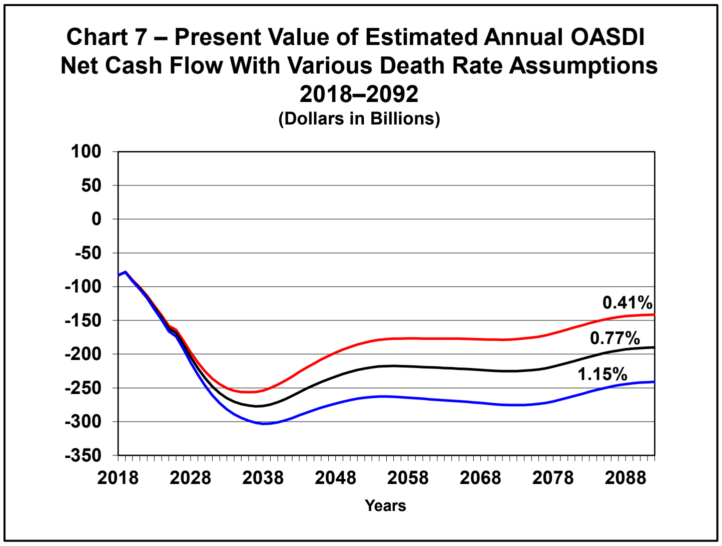
**Mortality** - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2017–2092 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.41, 0.77, and 1.15 percent per year, where 0.77 percent is the intermediate assumption in the 2018 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 27, 44, and 58 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 79.0 in 2017 to 82.7, 85.7, and 88.8 in 2092 for average annual reductions in the age-sex-adjusted death rate of 0.41, 0.77, and 1.15 percent, respectively.

Table 2 demonstrates that if the annual reduction in death rates were changed from 0.77 percent, the Trustees' intermediate assumption, to 0.41 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $13,574 billion from $16,057 billion; if the annual reduction were changed to 1.15 percent, meaning that people live longer, the shortfall would increase to $18,761 billion.

## Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2018–2092

| Average Annual Reduction in Death Rates (from 2017 to 2092) | 0.41 Percent | 0.77 Percent | 1.15 Percent |
|---|---|---|---|
| Present Value of Estimated Excess (Dollars in Billions) | -$13,574 | -$16,057 | -$18,761 |

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 cash flow.




The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cash flow estimates are negative in all years of the 75-year projection period. The present values are expected to increase (become less negative) in 2019 and then decrease rapidly into the 2030s. Present values based on all three sets of assumptions begin to increase by 2039. Therefore, in terms of today's investment dollar, annual OASDI net cash flow, although still negative, begins to increase (become less negative) at that time, and generally continues to increase through 2092. Under all three sets of assumptions net cash flows have one more period of gradual decreasing present values around years 2055–2075.

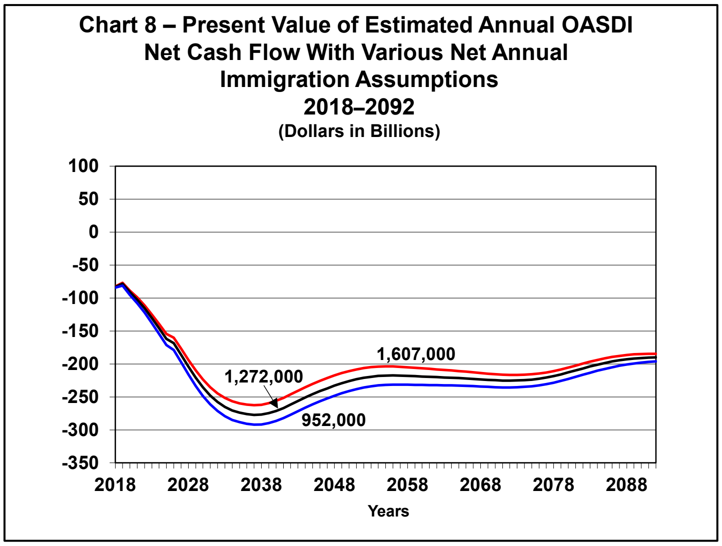
**Net Annual Immigration** - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of lawful permanent resident (LPR) immigration, legal emigration, other-than-LPR immigration, and other-than-LPR emigration. Based on these levels, it is projected that net annual immigration (LPR and other-than-LPR) will average 952,000 persons, 1,272,000 persons, and 1,607,000 persons over the 75-year valuation period, where 1,272,000 persons is the average value based on the intermediate assumptions in the 2018 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 1,272,000 persons to 952,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $16,914 billion from $16,057 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,607,000 persons, the present value of the shortfall would decrease to $15,274 billion.

## Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2018–2092

| 75-Year Average Net Annual Immigration | 952,000 Persons | 1,272,000 Persons | 1,607,000 Persons |
|---|---|---|---|
| Present Value of Estimated Excess (Dollars in Billions) | -$16,914 | -$16,057 | -$15,274 |

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 cash flow.




The three patterns of the present values shown in Chart 8 are similar. Under all three sets of assumptions, the net cash flow estimates are negative in all years of the 75-year projection period. The present values are expected to increase (become less negative) in 2019 and then decrease through 2037, and mostly increase thereafter. Under all three sets of assumptions net cash flows have another period of gradually decreasing present values from around 2055–2075.

Immigration generally occurs at relatively young adult ages, so there is no significant effect on beneficiaries (and, therefore, on benefits) in the early years of the projection period, but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Therefore, even in the early years, the present values, year by year, are generally higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Therefore, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

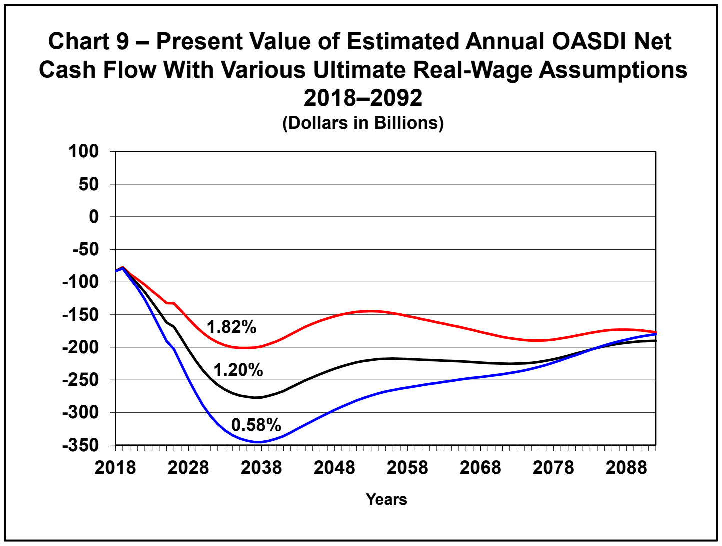
**Real-Wage Differential** - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual CPI. The ultimate real-wage differential is the average of the annual real-wage differential for the 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 0.58, 1.20, and 1.82 percentage points, where 1.20 percentage points is the intermediate assumption in the 2018 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.60 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.18, 3.80, and 4.42 percent, respectively.

Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.20 percentage point, the Trustees' intermediate assumption, to 0.58 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $18,489 billion from $16,057 billion; if the ultimate real-wage differential were changed from 1.20 to 1.82 percentage points, the shortfall would decrease to $12,378 billion.

### Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2018–2092

| Ultimate Annual Increase in Wages, CPI; **Real-Wage Differential** | 3.18%, 2.60%; **0.58%** | 3.80%, 2.60%; **1.20%** | 4.42%, 2.60%; **1.82%** |
|---|---|---|---|
| Present Value of Estimated Excess (Dollars in Billions) | -$18,489 | -$16,057 | -$12,378 |

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 cash flow.




The net cash flow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The present values based on all three sets of assumptions are expected to increase (become less negative) in 2019 and then decrease into the 2030s before increasing by 2039. Therefore, in terms of today's investment dollar, annual OASDI net cash flow, although still negative, begins to increase at that time. For the assumed real-wage differential of 1.82 percentage points, the present values continue to increase until 2054 when decreases begin again and continue throughout much of the remainder of the projection period. The present values for the other two assumptions generally continue increasing throughout the remaining projection period. Under the assumed real-wage differential of 1.20 percentage points, net cash flows have one more period of decreasing present values from 2057–2072.

Differences among the estimates of annual net cash flow 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 cash flow 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 cash flow based on the three assumptions diverge fairly rapidly. However, toward the end of the projection period, annual net cash flow becomes more similar for all assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds noninterest income. These effects are depicted by the patterns in Chart 9 coming together at the end of the projection period.

**Consumer Price Index** - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.00, 2.60, and 3.20 percent, where 2.60 percent is the intermediate assumption in the 2018 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.20 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.20, 3.80, and 4.40 percent, respectively.

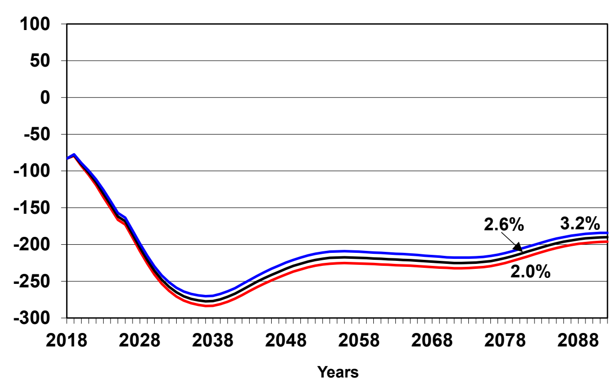
Table 5 demonstrates that if the ultimate annual increase in the CPI were changed from 2.60 percent, the Trustees' intermediate assumption, to 2.00 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $16,535 billion from $16,057 billion; if the ultimate annual increase in the CPI were changed to 3.20 percent, the shortfall would decrease to $15,551 billion. The seemingly counter-intuitive result that higher CPI increases result in decreased shortfalls (and vice versa) is explained by the time lag between the effects of the CPI changes on taxable payroll and on benefit payments. The effect on taxable payroll due to a greater increase in average wages is experienced immediately, while the effect on benefits is experienced with a lag of about one year. For this reason, larger increases in the CPI cause earnings and income to increase sooner and, therefore, by more each year, than benefits and cost.

## Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2018–2092

| Ultimate Annual Increase in Wages, **CPI**; Real-Wage Differential | 3.20%, **2.00%**; 1.20% | 3.80%, **2.60%**; 1.20% | 4.40%, **3.20%**; 1.20% |
|---|---|---|---|
| Present Value of Estimated Excess (Dollars in Billions) | -$16,535 | -$16,057 | -$15,551 |

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 cash flow.

**Chart 10 – Present Value of Estimated Annual OASDI Net Cash Flow With Various Ultimate CPI-Increase Assumptions 2018–2092**
(Dollars in Billions)




The net cash flow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The net cash flow estimates corresponding to all three ultimate CPI-increase assumptions increase (become less negative) in 2019 and then decrease through 2037 and mostly increase thereafter. Under all three sets of assumptions net cash flows have one more period of gradual decreasing present values each from around 2055–2075.

**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 2.2, 2.7, and 3.2 percent, where 2.7 percent is the intermediate assumption in the 2018 Trustees Report. Changes in real interest rates change the present value of cash flow, even though the cash flow itself does not change.

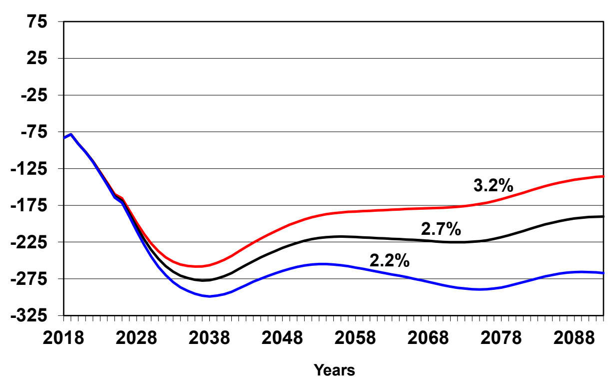
Table 6 demonstrates that if the ultimate real interest rate were changed from 2.7 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms would increase to $18,999 billion from $16,057 billion; if the ultimate annual real interest rate were changed to 3.2 percent, the present-value shortfall would decrease to $13,713 billion.

## Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real Interest Assumptions Valuation Period: 2018–2092

| Ultimate Annual Real Interest Rate | 2.2 Percent | 2.7 Percent | 3.2 Percent |
|---|---|---|---|
| Present Value of Estimated Excess (Dollars in Billions) | -$18,999 | -$16,057 | -$13,713 |

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 cash flow.

**Chart 11 – Present Value of Estimated Annual OASDI Net Cash Flow With Various Ultimate Real Interest Rate Assumptions 2018–2092**
(Dollars in Billions)




The net cash flow 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. The present values are expected to increase (become less negative) in 2019 and then decrease rapidly into the 2030s. Present values based on all three sets of assumptions begin to increase by 2039. Therefore, in terms of today's investment dollar, annual OASDI net cash flow, although still negative, begins to increase (become less negative) at that time. For the ultimate real interest rate of 3.2 percent, the increasing present values continue throughout the remainder of the projection period. For ultimate real interest rates of 2.2 percent and 2.7 percent, net cash flows have another period of gradual decreasing present values each from around 2055–2075. Net cash flow estimates corresponding to a 2.2 percent ultimate real interest rate have a final period of decreasing present values beginning in 2090.

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 9, 2018

Nancy A. Berryhill
Acting Commissioner

The *Chief Financial Officers Act of 1990* (Pub. L. No. 101-576), as amended, requires that the Social Security Administration's (SSA) Inspector General or an independent external auditor, as determined by the Inspector General, audit SSA's consolidated financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), Grant Thornton LLP (Grant Thornton), an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2018 consolidated financial statements. This letter transmits Grant Thornton's *Report of Independent Certified Public Accountants* on the audit of SSA's FY 2018 consolidated and sustainability financial statements. Grant Thornton's report includes the following.

- Opinions on the Financial Statements, including the Opinions on the Consolidated Financial Statements and Sustainability Financial Statements, and the Effectiveness of SSA's Internal Controls over Financial Reporting.
- Other Reporting Requirements Required by *Government Auditing Standards*.

## OBJECTIVES OF A FINANCIAL STATEMENT AND EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING AUDITS

Grant Thornton conducted its audit of the consolidated and sustainability financial statements and SSA's internal control over financial reporting 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. 19-01, *Audit Requirements for Federal Financial Statements*. Those Standards and Bulletin require that Grant Thornton plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of management's significant accounting estimates as well as evaluating the overall presentation of the financial statements.

The sustainability financial statements are based on management's assumptions and are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and meet obligations as they come due. The sustainability financial statements are not forecasts or predictions and are not intended to imply that current policy or law is sustainable. Given the number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, the estimates in the sustainability financial statements and the actual results will differ.

In addition, Grant Thornton audited SSA's internal control over financial reporting as of September 30, 2018 based on criteria established under 31 U.S.C. § 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act or "FMFIA") and in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. An audit of internal controls over financial reporting included performing procedures to obtain audit evidence about whether a material weakness exists, obtaining an understanding of internal control over financial reporting, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements.

# AUDIT OF FINANCIAL STATEMENTS, EFFECTIVENESS OF INTERNAL CONTROL, AND COMPLIANCE WITH LAWS AND REGULATIONS

KPMG LLP (KPMG) issued unmodified opinions on SSA's FY 2017 consolidated and sustainability financial statements. KPMG also issued an unmodified opinion that SSA maintained effective internal control over financial reporting as of September 30, 2017 based on criteria established under FMFIA and in the *Standards for Internal Control in the Federal Government* issued by the Comptroller of the United States. However, KPMG identified three significant deficiencies in internal controls as of September 30, 2017: (1) Certain Financial Information System Controls, (2) Controls over the Reliability of Information Used in Certain Control Activities, and (3) Accounts Receivable/Overpayments.

Grant Thornton issued unmodified opinions on SSA's FY 2018 consolidated financial statements, the sustainability financial statement as of January 1, 2018, and the changes in its social insurance amounts for the period January 1, 2017 to January 1, 2018. In addition, Grant Thornton issued an unmodified opinion that SSA maintained effective internal control over financial reporting as of September 30, 2018 based on criteria established under FMFIA and in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller of the United States. However, Grant Thornton did identify three significant deficiencies in internal controls as of September 30, 2018: (1) Certain Financial Information Systems Controls, (2) Controls over the Reliability of Information Used in Certain Control Activities, and (3) Accounts Receivable with the Public (Benefit Overpayments). These findings did not have a material impact on the financial statements.

## SIGNIFICANT DEFICIENCY – CERTAIN FINANCIAL INFORMATION SYSTEM CONTROLS

Grant Thornton identified a number of systems control deficiencies, when aggregated, are considered to be a significant deficiency in the area of Information Technology (IT) Systems Controls. The control deficiencies were mapped to four overall components that are described below. This significant deficiency is a repeat from prior years. Specifically, Grant Thornton's testing disclosed the following deficiencies.

1. **IT Oversight and Governance:** Grant Thornton continued to identify recurring issues associated with security management, physical and logical access controls, segregation of duties, information system contingency planning, and configuration management, including, in some cases, implementation and monitoring of appropriate security configurations on platforms. Further, there were areas where SSA's requirements and guidance were inconsistently implemented and / or locations were unaware of certain requirements. Finally, Grant Thornton cited control deficiencies related to the completeness and accuracy of information system inventories and boundaries, control inheritance considerations, and lack of completed requirements within security assessment and authorization packages.

2. **Access Controls:** Grant Thornton's testing identified control failures related to account management controls including access authorizations, re-certification of access, and the timely removal of logical access after termination. Further Grant Thornton noted issues with segregation of duties, privileged access, the review of mainframe profile content, and the review of security violation reports. Finally, Grant Thornton identified physical security control weaknesses that potentially allowed unauthorized individuals access to non-sensitive areas.

3. **Network Security Controls:** Grant Thornton identified inventory, configuration management, patch management, and access control deficiencies with network security controls, many of which continued to persist from prior audits.

4. **Change and Configuration Management:** Grant Thornton noted instances where management did not consistently comply with or implement SSA's change management directives, policies, and procedures for financially relevant system changes. In addition, Grant Thornton noted SSA needed to improve its controls over (1) establishing comprehensive security configuration baselines; (2) reviewing security configurations periodically; (3) hardening security guides; (4) adhering to these baselines and guides by periodically monitoring; and (5) assessing, remediating, and/or approving deviations (if applicable).

## Significant Deficiency – Controls over the Reliability of Information Used in Certain Control Activities

Grant Thornton found deficiencies in the control design and operating effectiveness related to information produced by entity (IPE). This significant deficiency is a repeat from last year.

Grant Thornton was not able to determine whether SSA's recently issued policy was implemented and effectuated agency-wide because it was not finalized until the last month of FY 2018 and evidence of implementation of the formal policy was not available. Lack of a formal policy being in place for the majority of the FY increased the likelihood that controls were not appropriately executed and inaccurate data may have been relied on.

In addition, Grant Thornton's testing of operating effectiveness identified that 2 of 18 scans were not completed. Because there were no routinely executing controls, there was an increased risk that management was relying on inaccurate data.

Grant Thornton only noted findings related to the completeness and accuracy of financially relevant IPE in the area of Accounts Receivable with the Public (Benefit Overpayments), as discussed below.

## Significant Deficiency – Accounts Receivable with the Public (Benefit Overpayments)

Grant Thornton identified four deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal controls over Accounts Receivable with the Public. This significant deficiency is a repeat from prior years. Specifically, Grant Thornton's testing disclosed the following deficiencies.

1. **Reconciliation of Accounts Receivable Ledgers:** Detailed beneficiary information for Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income overpayments did not agree with summary level reports from subsidiary ledgers, which are then relied upon to update the general ledger. Current system limitations prevent SSA from reconciling the differences between the detail and summary level information with subsidiary ledgers. SSA continues to design and implement additional controls to reconcile the information; however, these processes were not finalized by year-end.

2. **Overpayment Documentation and Calculations:** In approximately 40 percent of sample cases tested, Grant Thornton identified errors that affected the accuracy of the overpayment. In addition, testing continued to demonstrate insufficient documentation with overpayment records and waiver approvals.

3. **Overpayment Records and Tracking for Long-term Installment Payments:** SSA identified an IT system limitation where receivable installment payments extending past the Year 2049 were not tracked.

4. **Overpayment Prevention:** Grant Thornton conducted Computer Assisted Auditing Techniques and identified discrepancies between data fields as well as data indicating ineligibility for benefit payments based on SSA requirements. Grant Thornton categorized these discrepancies into those that resulted in an overpayment or did not impact the beneficiary's benefit payment but could lead to future overpayments.

Grant Thornton identified no reportable instances of non-compliance with the laws, regulations, contracts, grant agreements, or other matters tested.

## OIG Evaluation of Grant Thornton Audit Performance

To fulfill our responsibilities under the *Chief Financial Officers Act of 1990* and related legislation for ensuring the quality of the audit work performed, we monitored Grant Thornton's audit of SSA's FY 2018 consolidated and sustainability financial statements by

- reviewing Grant Thornton's audit approach and planning;
- evaluating its auditors' qualifications and independence;
- monitoring the audit's progress at key points;
- examining Grant Thornton's documentation related to planning the audit, assessing SSA's internal control, and substantive testing;
- reviewing Grant Thornton's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 19-01;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Grant Thornton is responsible for the attached auditors' report, dated November 9, 2018, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Grant Thornton's performance under the contract terms. 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 consolidated financial statements; sustainability financial statements; effectiveness of its internal control over financial reporting; or SSA's compliance with certain laws, regulations, contracts and grant agreements. However, our monitoring review, as qualified above, disclosed no instances where Grant Thornton did not comply with applicable auditing and attestation standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to congressional committees with oversight and appropriation responsibilities over SSA. In addition, we will post a copy of the report on our public Website.

Gale Stallworth Stone

Gale Stallworth Stone
Acting Inspector General

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Nancy A. Berryhill
Acting Commissioner
Social Security Administration

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

- The consolidated balance sheet of SSA as of September 30, 2018, the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- The sustainability financial statements which comprise the statement of social insurance as of January 1, 2018 and the statement of changes in social insurance amounts for the period January 1, 2017 to January 1, 2018 are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- Although internal controls could be improved, SSA management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018; and
- No reportable instances of noncompliance for Fiscal Year 2018, with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail our report on the financial statements and on internal control over financial reporting which includes a matter of emphasis paragraph related to the sustainability financial statements, required supplementary information (RSI) and other information included with the financial statements, our report on compliance with laws, regulations, contracts, and grant agreements, and the Agency's response to findings.

### Report on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying financial statements of the Social Security Administration (the "Agency"), which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the consolidated balance sheet as of September 30, 2018, the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

The sustainability financial statements comprise the statements of social insurance as of January 1, 2018, 2015, and 2014, the statement of changes in social insurance amounts for the period January 1, 2017 to January 1, 2018, and the related notes to the sustainability financial statements.

We also have audited the internal control over financial reporting of the Social Security Administration as of September 30, 2018, based on criteria established under 31 U.S.C. § 3512 (c),(d) (commonly known as the Federal Managers' Financial Integrity Act or "FMFIA") and in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

**Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting**

Agency management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA and its assessment about the effectiveness of internal control over financial reporting as of September 30, 2018, included in the accompanying FMFIA Assurance Statement.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements and an opinion on the entity's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Bulletin 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered the Agency's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Definition and Inherent Limitations of Internal Control over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting provides reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts and grant agreements, noncompliance with which 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 due to fraud or error. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Opinions on the Financial Statements**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Social Security Administration as of September 30, 2018, and its net cost, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Also, in our opinion, the sustainability financial statements referred to above present fairly, in all material respects the Social Security Administration's social insurance information as of January 1, 2018, 2015, and 2014 and its changes in social insurance amounts for the periods January 1, 2017 to January 1, 2018, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 17 to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the Agency's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion is not modified with respect to this matter.

**Opinion on Internal Control over Financial Reporting**

In our opinion, although certain internal controls could be improved, the Social Security Administration maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established under 31 U.S.C § 3512 (c),(d) (commonly known as FMFIA) and in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

As discussed in more detail, our 2018 audit identified deficiencies in the Agency's controls over Certain Financial Information Systems Controls, Controls over the Reliability of Information Used in Certain Control Activities and Accounts Receivable with the Public (Benefit Overpayments), described in the accompanying Appendix *Significant Deficiencies in Internal Control Over Financial Reporting*, that represent significant deficiencies in the Agency's internal control over financial reporting. We considered these significant deficiencies in determining the nature, timing, and extent of our audit procedures on the Agency's 2018 financial statements. Although the significant deficiencies in internal control did not affect our opinion on the Agency's 2018 financial statements, misstatements may occur in unaudited financial information reported internally and externally by the Agency because of these significant deficiencies.

In addition to the significant deficiencies in internal control over Certain Financial Information Systems Controls, Controls over the Reliability of Information Used in Certain Control Activities and Accounts Receivable with the Public (Benefit Overpayments), during our 2018 audits, we also identified deficiencies in the Agency's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant Agency management's attention. We have communicated these matters to Agency management and, where appropriate, will report on them separately.

**Other Matters**

The consolidated financial statements of the Agency as of and for the year ended September 30, 2017 and the sustainability financial statements as of and for the years ended January 1, 2017 and 2016 were audited by other auditors. Those auditors' report, dated November 9, 2017, expressed an unmodified opinion on those financial statements and included an emphasis of matter paragraph that described the assumptions upon which the sustainability financial statements are based discussed in Note 18 to the financial statements.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information in Management's Discussion and Analysis from pages 5 to 36 and the combining schedule of budgetary resources, and the required supplementary social insurance information from pages 83 to 95 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*, which consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management is responsible for preparing, measuring, and presenting the required supplementary information in accordance with accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Acting Commissioner's Message on page 1 and the other information on pages 2 through 4, 37 through 39, 79 through 82 and 116 through 226 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Management is responsible for preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and for ensuring the consistency of that information with the basic financial statements and the required supplementary information. We read the other information in order to identify material inconsistencies, if any, with 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 do not express an opinion or provide any assurance on it.

**Report on Compliance with Laws, Regulations, Contracts and Grant Agreements and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with the auditor's responsibility discussed below, in accordance with *Government Auditing Standards*. Noncompliance may occur that is not detected by these tests.

**Management's Responsibility**

Agency management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency.

**Auditor's Responsibility**

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and disclosures, and perform certain other limited procedures. We did not test compliance with all laws, regulations, contracts, and grant agreements.

**Results of our Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements**

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Agency. Accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act ("FFMIA"), we are required to report whether the Agency's financial management systems substantially comply with FFMIA Section 803(a) requirements. To meet this requirement, we performed tests of compliance with the federal financial management systems requirements, applicable federal accounting standards, and the *United States Government Standard General Ledger* ("USSGL") at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests of FFMIA Section 803(a) requirements disclosed no instances of substantial noncompliance that are required to be reported under FFMIA.

**Agency's Response to Findings**

The Agency's response to our findings, which is included on page115 of this Agency Financial Report, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Agency's response.

**Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Arlington, Virginia
November 9, 2018

APPENDIX – SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

**Significant Deficiency in Internal Control over Certain Financial Information Systems Controls**

**Overview**

Social Security Administration (SSA) management relies on information systems and information technology (IT) to administer and process the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) (collectively known as OASDI or Title II) and Supplemental Security Income (SSI or Title XVI) programs, to process and account for their expenditures, and for financial reporting. A lack of appropriately designed or implemented internal controls for these information systems and related IT increases the risk of unreliable data, the program's integrity, and misstatements whether due to fraud or error.

Our internal control testing covered both IT general control (ITGC) and application controls. ITGC testing encompassed the security management program, access controls (physical and logical), configuration and change management, segregation of duties, and service continuity/contingency planning. ITGCs provide the foundation for the integrity of systems including applications and the system software that comprise the general support systems for the major applications. General and application-level controls are critical to ensuring the accurate and complete processing of transactions and integrity of stored data. Application controls include controls over application-specific general controls, input, processing of data, and output of data as well as interface, master file, and other user controls. These controls provide assurance over the completeness, accuracy, and validity of data. Our audit included testing of the Agency's mainframe, networks, databases, applications, and other supporting systems and was conducted at Headquarters as well as off-site locations.

The Federal Information Processing Standards (FIPS) 199, Standards for Security Categorization of Federal Information and Information Systems, and 200, Minimum Security Requirements for Federal Information and Information Systems, are mandatory security standards required by the *Federal Information Security Modernization Act of 2014* (FISMA). These standards, in combination with the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, define a framework for Federal agencies to apply to develop, document, and implement an agency-wide information security program. The information security program is required to provide security protections commensurate with the risk and magnitude of the harm resulting from the unauthorized access, use, disclosure, disruption, modification, or destruction of agency information and information systems.

**Deficiencies in Control Design and/or Operational Effectiveness**

We noted control deficiencies in the areas of IT oversight and governance, access controls, network security controls, and change and configuration management that contribute to an aggregated significant deficiency in information system controls. While SSA continued strengthening controls over its information systems and IT, many of the control deficiencies from past audits continued to persist. We noted that SSA developed several plans, strategies, and initiatives to address control deficiencies noted in past audits. However, these deficiencies continued to exist because of one, or a combination, of the following.

- SSA relied on manually intensive processes.
- SSA had not thoroughly assessed the root cause(s) of deficiencies and prioritized corrective actions to address the highest areas of risk.

- The design of enhanced or newly designed controls did not completely address risks and recommendations provided in past audits.
- Agency management's oversight and governance was not sufficient.

**IT Oversight and Governance**

Appropriate IT governance and oversight provides assurance that risks are identified and assessed and controls are appropriately designed and are operating effectively across the Agency's information systems and locations. Through the Agency's security management program, SSA's risk management framework must include a continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. We noted as part of our field testing that issues had persisted from past audits because of limited remediation in the current fiscal year. Specifically, recurring issues continue to be cited associated with security management, physical and logical access controls, segregation of duties, information system contingency planning, and configuration management including, in some cases, implementation and monitoring of appropriate security configurations on platforms. Further, there were areas where SSA's requirements and guidance were inconsistently implemented and / or locations were unaware of certain requirements. Finally, we cited control deficiencies related to the completeness and accuracy of information system inventories and boundaries, control inheritance considerations, and a lack of completed requirements within security assessment and authorization (SA&A) packages. These issues could have such negative effects as inaccurate security categorization of systems and applications; inappropriate identification, implementation and documentation of required controls; inappropriate testing and monitoring of those controls; and approving authorization to operate (ATO) packages for the system without an appropriate understanding of risks.

**Access Controls**

Access controls provide assurance that critical information systems' assets are physically safeguarded and logical access to sensitive applications, system utilities, and data is provided only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately accessed and/or disclosed as well as modified by unauthorized persons, which may affect the accuracy of the financial statements. Our testing identified control failures related to account management controls including access authorizations, recertification of access, and the timely removal of logical access after termination. Further, we noted issues with segregation of duties, privileged access, the review of mainframe profile content, and the review of security violation reports. Finally, we identified physical security control weaknesses that potentially allowed unauthorized individuals access to non-sensitive areas.

**Network Security Controls**

Configuration, vulnerability, and patch management processes are examples of critical components to effective network security. Related processes and controls must be designed to prevent or detect such weaknesses as misconfigurations, weak credentials, and vulnerabilities and are essential in combating internal and external cyber-threats, exploitations, and unauthorized access. We identified certain inventory, configuration management, patch management, access control, and network security deficiencies, many of which continued to persist from prior audits. Information about these deficiencies was presented in a separate, limited-distribution management letter.

**Change and Configuration Management**

Change management processes provide assurance that software, data, and other changes associated with information systems are approved and tested so they do not introduce functional or security risks. Configuration management involves the identification and management of security features for hardware, software, and firmware components of an information system at a given point while controlling changes to that configuration as part of the systems' life cycle. A disciplined process for testing, approving, and migrating changes between environments, including into production, is essential to ensure that systems operate as intended, configurations align with security standards, and that no unauthorized changes are implemented to the source code, data, and/or configuration settings. We noted instances where management did not consistently comply or implement SSA's change management directives, policies and procedures for financially relevant system changes. In addition, we noted SSA needed to improve its controls over (1) establishing comprehensive security configuration baselines; (2) reviewing security configurations periodically; (3) hardening security guides; (4) adhering to these baselines and guides by periodically monitoring; and (5) assessing, remediating, and/or approving deviations (if applicable).

These findings did not have a material impact on the financial statements.

**Recommendations**

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

1. Analyze the resulting audit findings to identify root causes and trends, assess risk of control failures, and re-evaluate priorities for remediation. SSA should develop and/or review its risk-based approach and develop a roadmap of corrective actions. SSA should set attainable milestones for corrective actions and remediate these deficiencies timely.
2. Enhance its IT oversight, governance, and risk management processes—as they apply to SSA, DDS, contractor, and external systems—to ensure the Agency's IT risk management framework requirements are effectively and consistently implemented across the organization.
3. Strengthen SSA's internal control system for access controls, network security, and change and configuration management to improve its effectiveness in identifying, documenting, and linking these controls to business processing controls that support financial reporting; assessing the design and effectiveness of these controls; and remediating any identified IT control gaps.

**<u>Significant Deficiency in Internal Control over the Reliability of Information Used in Certain Control Activities</u>**

**Overview**

Given the nature of SSA operations, reliable system-generated information, also known as information produced by the entity (IPE), is essential to producing the Agency's financial statements as well as providing information for sound management decisions. SSA also relies on IPE when it performs manual internal controls. To rely on IPE, management must have internal controls in place to gain comfort over the completeness and accuracy of the reports and information. Considering the significant deficiency noted over Information Systems Controls, SSA should place additional diligence over their control processes related to the completeness and accuracy of IPE.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book) Principle No. 13, *Use Quality Information*, states "Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used."

**Deficiencies in Control Design**

Grant Thornton noted that SSA had executed a written policy over Financial Dataset and Job Completeness Scans, including requirements for maintaining a population of financially significant system-generated reports and requirements for periodically testing (scanning) to determine whether changes to the supporting report code were subject to appropriate change controls. However, because the procedures were refined through the fiscal year, the policy was not finalized until the last month of Fiscal Year 2018, and evidence the formal policy had been implemented was not available. As a result, we could not determine whether the policy was implemented and effectuated Agency-wide. Lack of a formal policy for the majority of the fiscal year increased the likelihood that controls were not appropriately executed and inaccurate data may have been relied on.

**Deficiencies in Control Operating Effectiveness**

As part of our initial testing of management's efforts over testing the completeness and accuracy of IPE we selected a preliminary sample of eighteen scans which should have been completed based on SSA's existing procedures. We noted two of eighteen scans had not been completed. These exceptions occurred because of staff turnover and there was no formal documentation of requirements for new staff. Because controls were not executed routinely, there was an increased risk management was relying on inaccurate data, as noted in our testing of operating effectiveness.

Throughout our testing of the completeness and accuracy of financially relevant IPE used in our audit procedures, we only noted findings in accounts receivable, as discussed in our Significant Deficiency in Internal Control over Accounts Receivable with the Public (Benefit Overpayments).

These findings did not have a material impact on the financial statements.

**Recommendations**

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

1. Full implementation of the written policy for Financial Dataset and Job Completeness Scanning.
2. Periodic review and updating of the population of IPE applicable to the Financial Dataset and Job Completeness Scanning policy.
3. Regular management review and monitoring over completed scans of IPE jobs and datasets.

**Significant Deficiency in Internal Control over Accounts Receivable with the Public (Benefit Overpayments)**

**Overview**

When SSA beneficiaries receive payments beyond their entitled amount, a benefit overpayment exists. When SSA detects an overpayment, SSA records an accounts receivable with the public to reflect the amount due to SSA from the beneficiary. Because of the nature of the benefit-payment programs, SSA has extensive operations geographically dispersed throughout the United States. Overpayment detection, calculation, and documentation can take place in various places, including approximately 1,200 field offices (FO), 8 Processing Centers (PC), or various function areas within the SSA central office. Therefore, SSA has specific policies, procedures, and internal controls in place to consistently detect, calculate, and document overpayments and the related accounts receivable balances. Since this process can be complex for some cases and relies on manual input, SSA's adherence to its internal controls is critical to accurately recording, documenting, and tracking overpayment balances.

Management also relies on its IT infrastructure, interfaces, and controls to record and prevent erroneous payments.

**Reconciliation of Accounts Receivable Ledgers**

Office of Management and Budget (OMB) Circular A-123, Appendix D, *Compliance with Federal Financial Management Improvement Act*, requires application of the U.S. Government Standard General Ledger (USSGL) at the transaction level. SSA tracks individual debtor overpayment transactions and accounts receivable balances in subsidiary ledger systems and adjusts the general ledger according to the balances reported from the subsidiary ledgers. Our testing revealed the detail level beneficiary information in the two primary accounts receivable subsidiary ledgers did not agree with the summary-level reports from the subsidiary ledgers.

SSA relies on these summary level reports to update the general ledger; therefore, the balances reported in the general ledger and subsequently the financial statements, differ from the supporting detail level beneficiary data in the subsidiary ledger systems, which could lead to misstatements of the accounts receivable with the public line item.

System limitations prevent SSA from reconciling the differences between the detail and summary-level information with subsidiary ledgers. However, the unreconciled differences are immaterial to the financial statements and the accounts receivable with the public line items.

In Fiscal Year 2018, SSA continued designing and implementing additional controls to reconcile the detail and summary level information; however, these processes had not been finalized by fiscal year-end.

**Deficiencies in Overpayment Documentation and Calculations**

We noted that prior audits identified significant deficiencies in internal controls related to SSA adhering to Program Operations Manual System (POMS) criteria regarding maintaining sufficient evidence to support overpayments balances or sufficient evidence to support approval of waived overpayments. POMS provides important policies, procedures, and internal controls over processing and documenting overpayments. Based on evidence obtained during our business process walkthroughs, we determined SSA had developed updated training for field and regional office personnel on obtaining and maintaining documentation necessary to support claims for overpayments and approval of waived overpayments.

However, based on inquiry with management, the timing of training deployment and time needed for the training to effectuate through the internal control environment, prevents improvements to be yielded in Fiscal Year 2018. Therefore, we did not test a separate sample of new overpayments identified in Fiscal Year 2018 for internal control effectiveness. Our internal control testing of overpayments waived in the fiscal year continued demonstrating insufficient documentation of waiver approvals as well as insufficient documentation of initial overpayment records. Insufficiently following established policy and lack of documentation to support overpayments can lead to difficulties in calculating and substantiating outstanding accounts receivable balances and potential misstatements to accounts receivable with the public balance presented on the financial statements.

In addition, we selected a statistical sample of outstanding overpayments balances and noted overpayment calculation errors in 27 out of 68 items sampled (or 40 percent). Although the statistically projected impact of these calculation errors was not material to the financial statements, these errors further evidence control weaknesses in the accounts receivable with the public processes, including inappropriate overpayment tracking that could lead to misstatements in the financial statements.

### Deficiencies in Overpayment Records and Tracking for Long-term Installment Payments

Upon beneficiary request, overpayment balances are often repaid to SSA in monthly installments as withholdings from monthly benefit payments. Depending on the amount of the overpayment balance and the amount of each installment, repayment periods can extend beyond the Year 2049.

According to Statement of Federal Financial Accounting Standards (SFFAS) 7 *Accounting for Revenue and Other Financial Sources*, revenue should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

We noted that SSA identified a systems limitation where receivable installments extending past the Year 2049 are not tracked and reported systematically. Therefore, the accounts receivable balances related to these overpayments are understated in the amount of the installment payments expected to be collected beyond Year 2049. The projected understatements are immaterial to the financial statements and the accounts receivable with the public balance. While the Agency is working on enhancing system capabilities to properly account for these receivables and updating policies to avoid longer term repayment programs, failure to resolve the Year 2049 issue will continue to understate accounts receivable balances. In addition, the impact of this issue will continue to grow as the Year 2049 approaches if other factors remain constant.

### Deficiencies in Overpayment Prevention

While conducting Computer Assisted Auditing Techniques (CAATs) over SSA's records, we identified instances of discrepancies between data fields as well as data indicating ineligibility for benefit payments based on SSA requirements. These discrepancies were categorized into two types: those that (1) resulted in an overpayment or (2) did not impact a beneficiary's benefit payment but could lead to future overpayments. The discrepancies specific to type (1) included beneficiaries not being transferred to the correct program timely and beneficiaries' secondary records not being considered when calculating the payment amount. The discrepancies specific to type (2) included beneficiaries for which certain data fields, such as Quarters of Coverage requirements and marital information, were inaccurate.

While these cases were clearly immaterial to SSA's financial statements, they were indicative of a control failure where SSA internal processes did not detect and correct potential overpayments or data discrepancies in a timely manner. While overpayments occur for many reasons, SSA should take actions under their control to prevent and detect such payments. Failure to detect overpayments results in continued erroneous benefit payments and unrecorded corresponding accounts receivable. Further, the longer an overpayment goes undetected, the greater the overpayment balance becomes while the probability of accounts receivable collection decreases.

These findings did not have a material impact on the financial statements.

### Recommendations

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

### Reconciliation of Accounts Receivable Ledgers

1. Continue implementing and executing reconciliation internal controls between subsidiary ledgers at the detail level and the general ledger, through summary reports. Investigate and document reconciling differences on a periodic and timely manner.
2. Investigate potential system reporting enhancements to reduce unreconciled differences between summary and detail level data produced by subsidiary ledgers.

**Deficiencies in Overpayment Documentation and Calculations**

1. Continue to explore opportunities to improve overpayment accuracy and document retention through engaging field office and payment center employees in trainings related to common weaknesses and more complex over payment cases.
2. Enhance management review of overpayment processing considering risk based factors such as current overpayment balances, manual intervention required and age.
3. Consider implementation of new overpayment documentation tools to ensure overpayments are documented completely, accurately, and timely by FOs or PCs within the appropriate systems of record.

**Deficiencies in Overpayment Records and Tracking for Long-term Installment Payments**

1. Continue to work towards updated debt management systems without the technical limitations over the length of time repayment installments can be recorded.
2. Continue pursuing changes in repayment policy to minimize future extended repayment plans.
3. Continue to analyze and track the impact of the current Year 2049 issue on the financial statements.

**Deficiencies in Overpayment Prevention**

1. Continue evaluating beneficiary data on a recurring basis to identify instances where beneficiaries do not meet eligibility requirements.
2. Enhance periodic reconciliations between various SSA systems.

SOCIAL SECURITY
The Commissioner

November 9, 2018

Grant Thornton LLP
1000 Wilson Boulevard
Suite 1400
Arlington, VA 22209

Ladies and Gentlemen:

We have reviewed the Independent Auditors' Report concerning your audit of our fiscal year (FY) 2018 financial statements. We are extremely pleased that we received our 25th consecutive unmodified opinion on our financial statements, an unqualified opinion that our internal control over financial reporting was operating effectively, and we had no reportable instances of noncompliance with laws, regulations, or other matters tested.

In this year's financial statement audit, you continued to cite three significant deficiencies identified in prior years. These significant deficiencies concern internal control over certain financial information systems controls, the reliability of information used in certain control activities, and accounts receivable with the public (benefit overpayments).

We are committed to strengthening our control environment by resolving these deficiencies as quickly as possible through our risk-based corrective action plans.

If members of your staff have any questions, they may contact Joanne Gasparini at (410) 965-7340.

Sincerely,

Nancy A. Berryhill
Acting Commissioner

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

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# Other Information

**The *Other Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.**

**In accordance with the *Reports Consolidation Act of 2000*, the *Fiscal Year 2018 Inspector General's Statement on the Social Security Administration's Major Management and Performance Challenges* provides a summary and assessment of the most serious management and performance challenges we face as determined by the Office of the Inspector General (OIG). The Inspector General's Statement also describes the steps we have taken to address each of the challenges.**

**Next, in *Other Reporting Requirements*, we provide a summary of our financial statement audit and management assurances. We also provide information on our entitlement reviews and OIG anti-fraud activities, agency fraud reduction efforts, civil monetary penalties, biennial review of user fee charges, actions to comply with the Reduce the Footprint initiative, grants oversight, and debt collection and management activities.**

**Finally, the *Other Information* section concludes with the *Payment Integrity* report, where we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.**

# IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 9, 2018

Nancy A. Berryhill
Acting Commissioner

Dear Ms. Berryhill:

The *Reports Consolidation Act of 2000* (Pub. L. 106-531) requires that Inspectors General summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* also requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Agency Financial Report*.

## MANAGEMENT AND PERFORMANCE CHALLENGES

As we planned our audit work for Fiscal Year 2018, we identified the following seven management and performance challenges.

- Improve Administration of the Disability Programs
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Modernize Information Technology Infrastructure
- Secure Information Systems and Protect Sensitive Data
- Strengthen the Integrity and Protection of the Social Security Number
- Strengthen Planning, Transparency, and Accountability

We further discuss the management and performance challenges in the attached document. In the description of each challenge, we define the challenge, outline steps the Agency has taken to address it, and detail actions SSA still needs to take to fully mitigate the issue. We used multiple sources to determine the status of each of the identified challenges. For example, we used statistics SSA reported and Office of the Inspector General audits of SSA's operations. We also used the *Fiscal Year 2018 Report of Independent Certified Public Accounts*, which contained the results of SSA's financial statement audit. The report concluded that SSA had three significant deficiencies in internal controls over financial reporting.

The Office of Audit will continue focusing on these issues in Fiscal Year 2019 and assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Gale Stallworth Stone
Acting Inspector General

Enclosure

# *Fiscal Year 2018 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges*

SOCIAL SECURITY ADMINISTRATION

OIG

*November 2018*

# IMPROVE ADMINISTRATION OF THE DISABILITY PROGRAMS

## CHALLENGE

**The Agency still faces challenges with pending disability hearings and appeals. Continued focus is necessary to simplify work incentive regulations and create new opportunities for returning beneficiaries to work.**

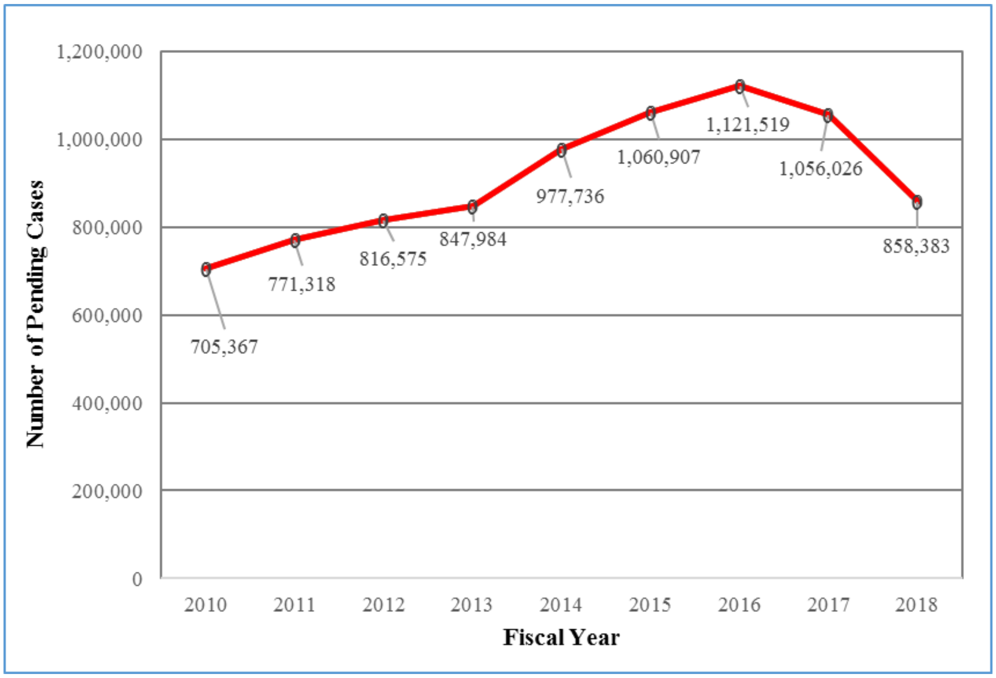
Field and regional offices, hearing offices, and the Appeals Council as well as State disability determination services (DDS) process the Social Security Administration's (SSA) disability workloads.

We previously raised concerns about various backlogs in SSA's disability workloads, including initial disability claims and continuing disability reviews (CDR). In recent years, SSA has made progress in reducing initial disability claims pending and backlogged CDRs. Specifically, initial disability claims pending went from over 759,000 in Fiscal Year (FY) 2011 to about 565,000 as of the end of FY 2018. Further, in FY 2018, SSA eliminated the backlog of CDRs that had existed since FY 2002. However, we still have concerns with pending disability hearings.

### PENDING DISABILITY HEARINGS

The hearings process has experienced worsening timeliness and growing backlogs. For instance, the average processing time for a hearing increased 40 percent from 426 days in FY 2010 to 595 days in FY 2018. Moreover, during the same period, the pending hearings backlog increased 22 percent, from 705,367 cases to 858,383 cases. However, over the last 2 years, the number of pending cases has decreased from over 1.1 million cases at the end of FY 2016 to 858,383 at the end of FY 2018, see Figure 1.

**Figure 1: Pending Hearings, FYs 2010-2018**



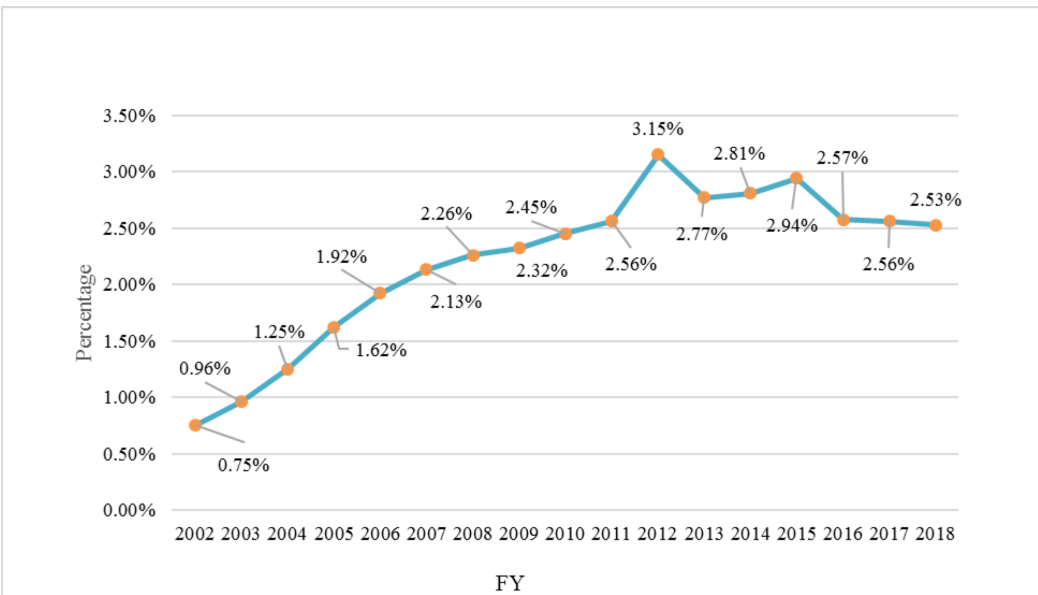
## RETURN TO WORK

The *Ticket to Work and Work Incentives Improvement Act of 1999* (Pub. L. No. 106-170) established the Ticket to Work and Self-Sufficiency Program (Ticket Program) to assist disabled beneficiaries in returning to work. Under the Ticket Program, SSA provides disabled beneficiaries a Ticket they can present to qualified organizations to obtain vocational rehabilitation or employment services.

Since the Ticket Program's inception in 2000, SSA has incurred costs over $2.8 billion to manage and evaluate the Program. These costs included a reduction in savings due to deferring CDRs for program participants. The Agency estimated that, as of Calendar Year 2016, it had realized $5.9 billion in savings from benefits it no longer paid Ticket Program participants who returned to work under the Program. Based on these data, we determined it cost SSA about $2,300, while benefits forgone was about $5,000, for each of the almost 1.2 million beneficiaries it served.

Although SSA reported significant savings for the Ticket Program, few Ticket-eligible beneficiaries used their Tickets for vocational or employment services. Specifically, less than 3 percent of Ticket-eligible beneficiaries assigned their Tickets or placed them in-use in FY 2018. While the number of initial Ticket assignments was low when the Ticket Program first began, it steadily increased until it peaked in 2012. The percent of individuals who assigned their Tickets decreased in recent years (see Figure 2).

**Figure 2: Percent of Ticket-eligible Beneficiaries with Tickets Assigned or In-use**




**Source:** SSA's Office of Research, Demonstration, and Employment Support

Additionally, a July 2013 Mathematica report found that the Ticket Program had a limited, but positive, effect on the employment of disabled individuals and motivated some beneficiaries to pursue employment. Moreover, although relatively few beneficiaries enrolled in SSA-funded employment support programs through the Ticket Program, those who used such employment services had better employment outcomes and were more likely to leave benefits than those who did not. Additionally, it reported that, although there was evidence the Ticket Program targeted individuals who were interested in returning to work, rigorous analyses failed to identify strong evidence of the Ticket Program's impact on employment outcome and found no consistent evidence that it affected employment and benefit receipt.

## Agency Actions

### Cooperative Disability Investigations

The Cooperative Disability Investigations (CDI) program continues to be one of the Agency's most successful joint initiatives by combining the efforts of the Office of the Inspector General (OIG), SSA, DDSs, and State or local law enforcement personnel. As of September 30, 2018, the CDI program had 43 units covering 37 States; Washington, D.C.; and the Commonwealth of Puerto Rico. The units work to obtain sufficient evidence to identify and resolve questions of fraud and abuse related to disability claims. From inception in FY 1998 through FY 2018, the CDI program's efforts nationwide have resulted in about $4 billion in projected savings to SSA's Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs and about $3 billion to non-SSA programs. In FY 2018, the CDI program's efforts nationwide resulted in $188.5 million in projected savings to SSA's OASDI and SSI disability programs and $219.4 million to non-SSA programs. In addition, in FY 2018, the CDI program's efforts led to 62 judicial actions, which include criminal convictions, pre-trial diversions, civil settlements, and civil monetary penalties.

### Return to Work

SSA reported it informs beneficiaries about its work incentive programs by mailing them paper tickets and eligibility notices and brochures when they begin receiving benefits. It also mails similar notices to beneficiaries after they have been receiving benefits for a year and after the 3-year anniversary of the date they began receiving benefits. SSA expects these mailings to increase program awareness and increase participation.

### Hearings and Appeals

In January 2016, SSA issued the *Compassionate And REsponsive Service* (CARES) plan to provide a framework of drivers and initiatives designed to address the growing number of pending hearings and increased wait times. According to the CARES plan, SSA planned to reach an average processing time of 270 days for hearings by the end of FY 2020. The CARES plan also included a goal to process requests for Appeals Council review in an average of 180 days.

In September 2017, the Office of Hearings Operations released the 2017 updated CARES and Anomaly Plan, which built on the initiatives discussed in the 2016 Plan, incorporated lessons learned, and introduced new initiatives. The 2017 CARES Plan reported that the Office of Hearings Operations expected to eliminate the hearings backlog by the end of FY 2022. It incorporated $90 million in dedicated 2-year funding provided in SSA's 2017 appropriation to address the disability hearings backlog. SSA dedicated $70 million of the anomaly funding to increase decisional capacity by hiring more administrative law judges (ALJ) and support staff and $20 million to information technology (IT). As part of its IT modernization plan, SSA began developing the Hearings and Appeals Case Processing System, which will eventually replace SSA's Case Processing and Management System. The first two releases of the new system occurred in June and September of 2018.

Also, in 2017, the Office of Appellate Operations created a software program called INSIGHT and began piloting the software at the Appeals Council. The INSIGHT software was designed to identify potential anomalies in hearing decisions. In FY 2018, the software was initially released to decision writers in five hearing offices and released to all hearing offices' decision writers by August 2018. We expect to issue a report on INSIGHT in FY 2019.

As part of its CARES plan, SSA hired 264 ALJs in FY 2016 and 132 ALJs in FY 2017 to increase the Agency's adjudicatory capacity. SSA did not hire new ALJs in FY 2018. Per SSA, its workload projections indicated that it could hire ALJs in FY 2019 and efficiently achieve a 270-day processing time by the end of FY 2021. As such, it revised the Office of Hearings Operations hiring plan, placing ALJ hiring in FY 2019. In addition, it continued focusing on decision quality through monitoring of potential anomalies in ALJ workload performance, and expansion of hearing office workload quality measures, such as the agreement rate associated with the percent of ALJ cases remanded or reversed in subsequent appeals.

## What the Agency Needs To Do

**Implement and monitor the CARES initiatives** designed to improve timeliness and reduce the hearings backlog.

**Focus resources on capacity issues** to better balance processing times and workloads in hearing offices.

**Continue hiring initiatives and implementing effective IT improvements.**

**Continue simplifying work incentive regulations and creating new opportunities for returning beneficiaries to work.**

## Key Related Performance Measures

Some of the key performance measures from SSA's revised FY 2018 *Annual Performance Plan* related to this challenge are listed below.

- Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision.
- Increase the number of persons with disabilities receiving employment support services who achieve the consequential earnings threshold of the trial work level.
- Improve the disability determination process by increasing the percentage of medical evidence received electronically.
- Ensure the quality of disability decisions by achieving the State DDS' net accuracy rate for initial disability decisions.
- Hearings receipts.
- Hearings completed.
- Hearings pending.
- Annual average processing time for hearings decision.
- Hearings production per workyear

## Key Related Links

Mathematica Report – *Executive Summary of the Seventh Ticket to Work Evaluation Report*, July 2013

OIG Report – *The Social Security Administration's Efforts to Eliminate the Hearings Backlog* (A-12-15-15005), September 2015

OIG Report – *Hearing Office Average Processing Times* (A-05-15-50083), September 2015

OIG Report – *Characteristics of Claimants in the Social Security Administration's Pending Hearings Backlog* (A-05-16-50207), September 2016

OIG Report – *Compassionate and Responsive Service Plan to Reduce Pending Hearings* (A-05-16-50167), September 2016

OIG Report – *The Ticket to Work Program* (A-02-17-50203), September 2016

OIG Report – *Pre-effectuation Reviews of Favorable Hearing Decisions* (A-12-15-50015), February 2017

OIG Report – *Oversight of Administrative Law Judge Decisional Quality* (A-12-16-50106), March 2017

OIG Report – *Reasons for Hearing-related Delays* (A-05-17-50268), June 2017

OIG Report – *Factors Related to Decreased Administrative Law Judge Productivity* (A-12-18-50289), September 2017

OIG Report – *Workload Review of the Office of Hearings Operations' Atlanta and New York Regions* (A-12-18-50285), May 2018

GAO Report – *Social Security Disability Better Timeliness Metrics Needed to Assess Transfers of Appeals Work* (GAO-18-501), July 2018

OIG Report – *The Social Security Administration's Programs and Projects that Assist Beneficiaries in Returning to Work* (A-04-18-50600), November 2018

OIG Report - *SSA's Use of Insight Software to Identify Potential Anomalies with Hearing Decisions* (A-12-18-50353), planned issued date – Fall 2018

SSA OIG Website - Reports related to addressing the management challenge on improving administration of the disability programs

# Reduce Improper Payments and Increase Overpayment Recoveries

## Challenge

**SSA is responsible for issuing over $1 trillion in benefit payments, annually, to about 70 million people. Given the large overall dollar amounts involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.**

SSA is one of several Federal agencies that have a high amount of improper payments. In its FY 2018 *Agency Financial Report*, SSA estimated it would make about $10.9 billion in improper payments in FY 2017, and incur an administrative cost of $0.07 for every overpayment dollar it collected. SSA also needs to adhere to the requirements of the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (Pub. L. No. 111-204) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (Pub. L. No. 112-248).

### Improper Payment Rates

Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

According to SSA, in FY 2017 (the most recent year for which data are available),

- the OASDI overpayment error was $5.9 billion, 0.64 percent of program outlays, and the underpayment error was $294 million, 0.03 percent of program outlays; and
- the SSI overpayment error was $4.1 billion, 7.29 percent of program outlays, and the underpayment error was $636 million, 1.13 percent of program outlays.

For FYs 2017 through 2018, SSA's goal was to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments. In these same years, SSA's goal was to achieve a 98.8-percent SSI underpayment accuracy rate and a 94-percent SSI overpayment accuracy rate.

SSA has not met its payment accuracy goals—as shown in Table 1. For example, the Agency's goal for SSI payment accuracy was 95 percent in FYs 2013 through 2016 and 94 percent in FY 2017. But, SSA fell short of these goals in each of the years. Similarly, SSA has not met its OASDI payment accuracy targets but came close to doing so in multiple years.

**Table 1: Rates and Targets for Proper Payments FYs 2013 Through 2017**

| FY | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Program | SSI | OASDI | SSI | OASDI | SSI | OASDI | SSI | OASDI | SSI | OASDI |
| Rate | 92.43 | 99.78 | 93.05 | 99.47 | 93.94 | 99.64 | 92.38 | 99.79 | 92.71 | 99.36 |
| Target | 95.00 | 99.80 | 95.00 | 99.80 | 95.00 | 99.80 | 95.00 | 99.80 | 94.00 | 99.80 |
| Met | No | No | No | No | No | No | No | No | No | No |

## Compliance with Improper Payment Legislative Requirements

In November 2002, the *Improper Payments Information Act of* 2002 was enacted; it was later amended by the *Improper Payments Elimination and Recovery Act of 2010* and *Improper Payments Elimination and Recovery Improvement Act of 2012* to refine steps agencies should take to address improper payments. As a result, all agencies with high-risk programs—those with significant improper payments—were required to intensify their efforts to eliminate payment errors. The Office of Management and Budget has designated SSA's programs as high-risk.

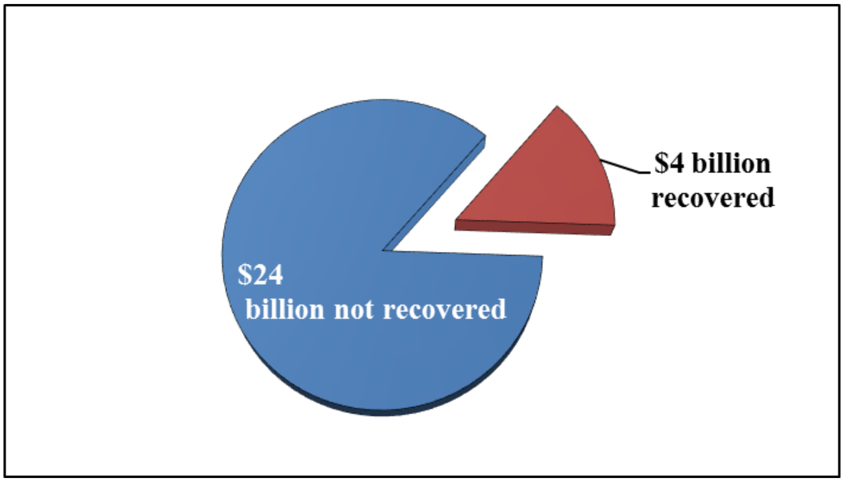
In our May 2018 report, *The Social Security Administration's Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 in the FY 2017 Agency Financial Report*, we noted that SSA was not in compliance with the *Improper Payments Elimination and Recovery Act of 2010* requirements for meeting its targeted payment accuracy rates (shown in Table 1). We also noted that

> . . . for financial accounts and wage reporting, actual SSI deficiency dollars did not significantly improve despite the implementation of Access to Financial Institutions . . . and SSI Telephone Wage Reporting/SSI Mobile Wage Reporting, respectively. SSA could not provide data that measured the success of these implemented corrective actions because of significant data challenges. While SSA had improved [Access to Financial Institutions] since it was implemented in FY 2011, the Agency had not developed new corrective actions to address financial accounts.
>
> SSA is several years from determining whether proposed corrective actions will help reduce improper payments in wage reporting deficiencies, as it has not fully implemented recent corrective actions. . . . We recommend SSA develop new initiatives to address improper payments. SSA agreed with our recommendation.

## Overpayment Recoveries

Once SSA determines an individual has been overpaid, it attempts to recover the overpayment. According to SSA, in FY 2018, it recovered about $4 billion in overpayments at an administrative cost of $0.07 for every dollar collected and ended the FY with a $24 billion uncollected overpayment balance (see Figure 3).

**Figure 3: Overpayments Recovered - FY 2018**

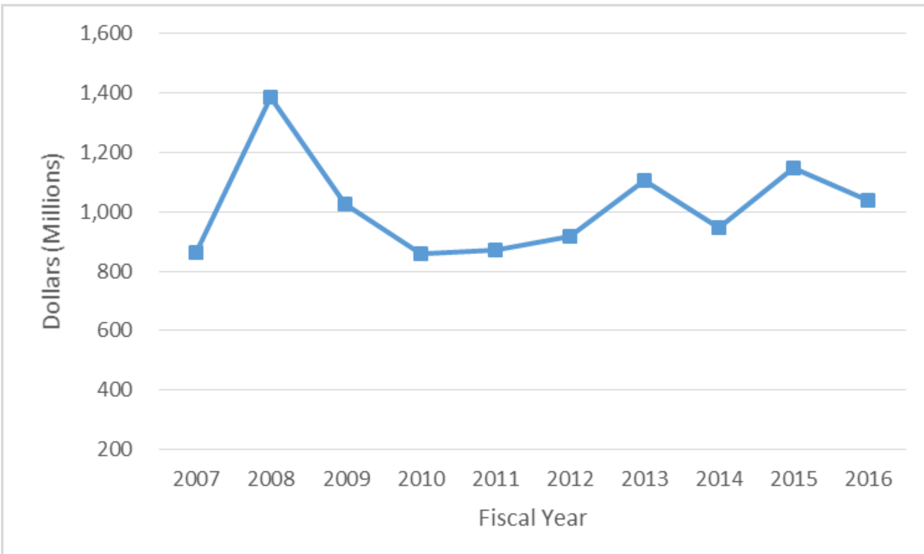


## Agency Actions

### Improper Payment Causes

One of the major causes of improper payments in the OASDI program is beneficiaries' failure to timely report earnings or SSA not timely withholding monthly benefit payments from beneficiaries who are engaging in substantial gainful activity. Similarly, a major cause of improper payments in the SSI program is recipients' failure to accurately and timely report financial accounts or wages. As we noted in our May 2018 report, SSA's overpayment deficiency dollars related to financial accounts decreased from nearly $1.4 billion in FY 2008; however, the deficiency dollars remained above $1 billion in FYs 2015 and 2016 (see Figure 4).

**Figure 4: Financial Account Overpayment Deficiency Dollars (FYs 2007 Through 2016)**




The *Bipartisan Budget Act of 2015* (Pub. L. No. 114-74) gave SSA a new tool to obtain wage data sooner. A provision in this new law allows SSA to enter into information exchanges with payroll data providers to obtain wage data (without the need for independent verification) to efficiently administer OASDI and SSI benefits and prevent improper payments. It also allows the Agency to require that individuals provide authorization to obtain payroll data. SSA continues taking steps to implement the legislation.

### Debt Collection Tools

SSA uses such methods as benefit withholding and billing with follow up to collect debt related to overpayments. In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts. These debt-collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal salary offset. According to SSA, in the future, it will ". . . analyze the implementation of the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect its current value." Also, according to SSA, it is working on a multi-year initiative to build a new comprehensive overpayment system that will enable it to record, track, collect, and report overpayments more efficiently.

## CDRs and Redeterminations

The CDR is a tool for reducing improper payments. Through completed CDRs, SSA periodically verifies individuals are still disabled and eligible for disability payments. SSA estimated that CDRs conducted in FY 2018 would yield net Federal program savings over the next 10 years of roughly $8 on average per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare, and Medicaid effects.

According to SSA, another important program integrity tool is SSI non-medical redeterminations, which are periodic reviews of such non-medical eligibility factors as income and resources. SSA estimated that non-medical redeterminations conducted in FY 2018 would yield a return on investment of about $3 on average of net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. However, budgetary constraints determine the number of redeterminations that SSA conducts each year.

### What the Agency Needs To Do

**Identify and prevent improper payments through automation and data analytics**. SSA needs to use available data to better identify changes that affect beneficiaries' and recipients' benefit payments.

**Expand efforts to collect data from reliable third-party sources that would aid SSA in mitigating discrepancies that can occur when SSI recipients self-report information.**

**Develop new initiatives to address improper payments.**

## Key Related Performance Measures

Some of the key performance measures from SSA's revised FY 2018 *Annual Performance Plan* related to this challenge are listed below.

- Improve the integrity of the SSI program by focusing efforts on reducing overpayments.
- Maintain a high payment accuracy rate by reducing overpayments in the OASDI program.
- Initiate the data-exchange process with new partners or expand existing data exchanges to improve operational efficiency and reduce improper payments.
- Periodic CDRs completed.
- Full medical CDRs.
- SSI non-medical redeterminations completed.

## Key Related Links

Federal Payment Accuracy Website – Payment Accuracy – An Official Website of the United States Government

Office of Management and Budget Circular No. A-123, Memorandum M-18-20, Appendix C, *Requirements for Payment Integrity Improvement*, June 26, 2018

OIG Report – *The Social Security Administration's Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 in the Fiscal Year 2017 Agency Financial Report* (A-15-18-50566), May 2018

SSA OIG Website - Reports related to reducing improper payments and increasing overpayment recoveries

# IMPROVE CUSTOMER SERVICE

## CHALLENGE

**SSA faces challenges as it pursues its mission to deliver quality services that meet the changing needs of the public, including growing workloads as experienced employees are expected to retire.**

### SSA'S GROWING WORKLOADS

SSA's robust workload is ever growing. In FY 2018, SSA paid about $978 billion in OASDI benefits to a monthly average of approximately 62 million beneficiaries and over $47 billion in SSI payments to a monthly average of about 8.2 million recipients. In March 2018, the Government Accountability Office reported that SSA's workloads were increasing because of 80 million baby boomers entering their retirement and disability-prone years. In addition to processing about 10 million benefit claims, during this period, the Agency also completed approximately

- 1.5 million appeals for claimants who disagreed with its decision,
- 284.3 million earnings items posted to workers' records,
- 16.5 million new and replacement Social Security number (SSN) cards,
- 2.9 million SSI redeterminations and almost 897,000 full medical CDRs, and
- 100 million post-entitlement actions.

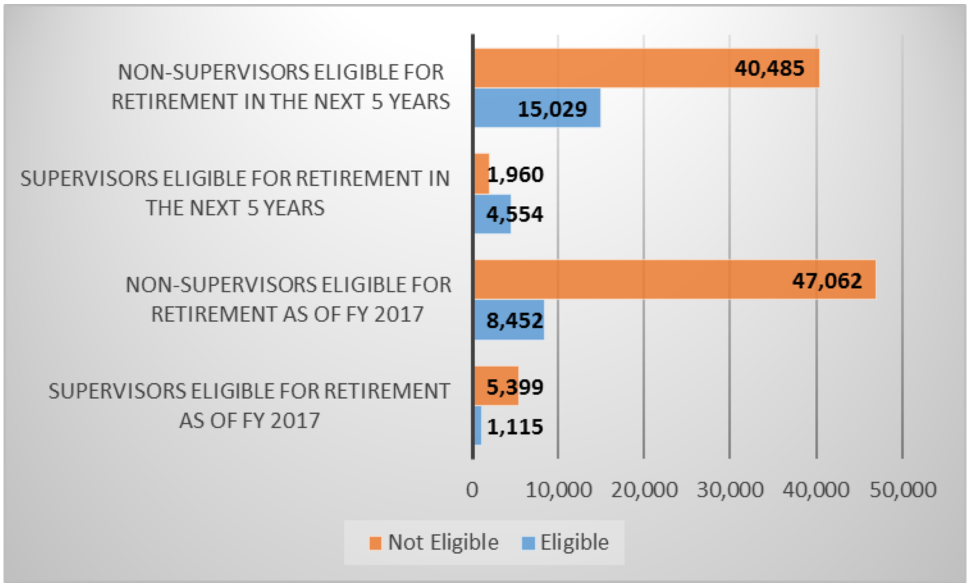
The Agency administers its programs and services through its field offices, National 800-Number, and processing centers. In FY 2018, field offices served about 43 million visitors, the National 800-Number handled about 32 million calls, and processing centers handled complex Social Security claims as well as provided support to the National 800-Number. Recent OIG audits found the following.

- SSA faced challenges in improving its level of services and needed to continue being proactive in managing field office wait times. In addition to the high volume of visitors, factors that affect field office wait times include complex workloads, staffing issues, and shortened operating hours.
- Pending workload items at certain processing centers more than tripled from approximately 1.1 million at the beginning of FY 2013 to about 3.5 million by the end of FY 2016 because of growth in new receipts and staffing issues. Work receipts increased 18 percent from about 16 million in FY 2013 to over 19 million in FY 2016.

### LOSS OF EXPERIENCED EMPLOYEES AND INSTITUTIONAL EXPERTISE

SSA continues to acknowledge that one of its greatest challenges is the loss of its most experienced employees. SSA projects that more than 21,000 employees will retire by the end of FY 2022. These retirements, along with regular, ongoing attrition, will cause a loss of institutional knowledge and potentially impair succession management and knowledge transfer. See Figure 5 for the number of supervisors and non-supervisors eligible for retirement as of FY 2017 and in the next 5 years.

**Figure 5: Retirement Eligibility**



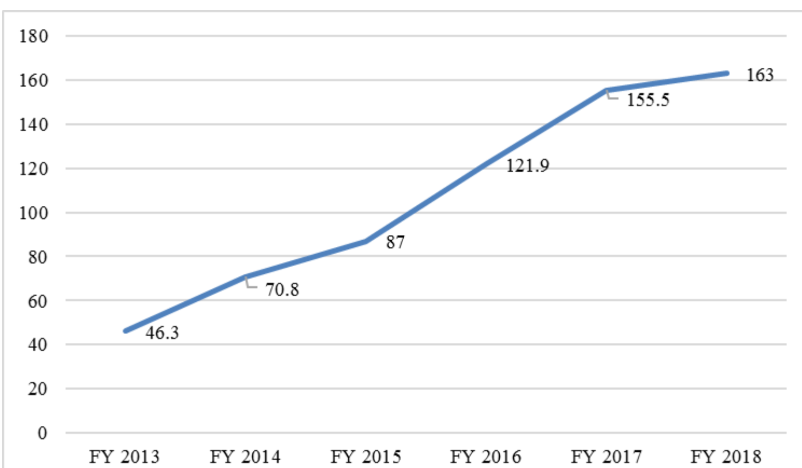

SSA also reported that, in FY 2018, about 40 percent of its senior executives and 30 percent of GS-15 employees were eligible to retire. Within 5 years, these figures will increase to almost 60 percent of senior executives and 45 percent of GS-15 employees. In addition to retirement concerns, the Agency is witnessing a rise in resignations and transfers across the workforce, including amongst supervisors. For example, resignations increased from 19 percent in 2014 to 26 percent in 2018. Transfers increased from 8 to 11 percent during the same timeframe.

Succession planning is so critical to the Agency's future that it was identified in *SSA's Vision 2025*, *2018-2022 Agency Strategic Plan*, and the *2018 Human Capital Operating Plan*. By planning for, and taking measures to close, the gaps faced over the coming years, the Agency will be in a better position to navigate through a challenging labor market.

## SERVICE DELIVERY

SSA relies on an expanded suite of automated and online options for its customers to conduct business with the Agency. In FY 2018, SSA customers conducted over 163 million transactions using the Agency's Website. The number of completed transactions has increased over time (see Figure 6).

**Figure 6: Growth of Online Transactions (in millions)**



SSA's biennial survey of future customers shows an increasing preference for conducting business online or by telephone. The Agency reports that it expects more people to take advantage of the convenience of online services as service options and functionality are expanded.

### Oversight of the Representative Payment Program

Individuals considered the Agency's most vulnerable beneficiaries—including the young, aged, and disabled—depend on representative payees to receive and manage their Social Security benefits. In January 2018, SSA issued its 2017 *Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews* and stated there were about 5.8 million representative payees managing $70 billion in annual benefits for 8.1 million beneficiaries.

In January 2018, the Social Security Advisory Board reported the number of beneficiaries with representative payees had grown over the past 30 years—from 4.7 million in 1984 to 8.4 million in 2016. The Board also reported that SSA estimates the demand for representative payees will continue to increase with the aging population. For example, the number of retired beneficiaries who have representative payees is projected to increase nearly 48 percent from 2013 to 2025 based entirely on the population aging. Furthermore, many adult children with disabilities have parents named as their representative payee. As the parents age, they may be unable to continue functioning effectively as a representative payee.

We continue to identify challenges with SSA's administration of the Representative Payment Program. Some of our most recent audits have found SSA needs to improve controls to ensure it

- identifies aged representative payees who are incapable of, or no longer, managing beneficiary funds and
- takes appropriate actions for beneficiaries whose payments it withheld pending the selection of a representative payee.

Additionally, we found the Agency's implementation of its criminal bar policy had not identified and barred convicted felons from serving as individual representative payees. Further, our investigations have identified various problems with representative payees. For example, we found representative payees

- fraudulently received and spent benefits for a deceased beneficiary for over 3 years, while continuing to file Representative Payee Accounting Reports;
- misused a disabled beneficiary's funds while outside the country without the beneficiary; and
- failed to report a recipient's incarceration to SSA and used the recipient's payments for personal expenses over a 3-year period.

## Agency Actions

SSA continues taking an array of actions intended to implement its mission of delivering quality services that meet the changing needs of the public. The Agency has taken steps to manage its growing workload and loss of experienced employees. In addition, it is expanding its online services and continuing to manage its Representative Payment Program.

### Managing Growing Workloads

SSA's processing centers handle actions that arise after the Agency determines benefit eligibility and support field offices and hearing offices. In January 2016, the number of actions pending in the processing centers hit an all-time high.

In FY 2017, the Agency reduced the processing center backlog by 1.4 million, which is an improvement from the high of more than 5 million in January 2016. In FY 2018, SSA reduced the backlog by another 500,000 actions. The Agency focused on tactical workload strategies by screening cases that could be completed quickly and controlling the volume and age of its workloads. Additionally, the Agency increased hiring and overtime in the processing centers and planned for future automation, workflow enhancements, and quality initiatives to improve processing center performance.  These efforts will continue into FY 2019.

### Leadership Development and Succession Planning

SSA reports that, without sound succession management, it faces a leadership crisis and significant drain in its institutional knowledge and expertise.  The Agency recognizes it is imperative to identify, develop, and prepare leaders to carry out critical functions.  To meet this need, the Agency plans to implement the following initiatives.

- Execute Senior Executive Service talent management and succession planning.
- Create a leadership succession strategy for the general workforce.
- Expand talent-management resources.
- Conduct supervisory training and assessments.
- Increase workforce development.
- Align leadership development programs with Agency succession planning.

### Service Delivery

SSA expresses its commitment to providing effective and efficient service to all individuals who visit its offices, call its National 800-Number, or access online services.  The Agency has set forth proposals intended to improve service delivery at the customer's first point of contact with the Agency and increase the timeliness of claims and post-entitlement actions.  The Agency plans to

- expand the use of self-help personal computers in SSA field offices to allow for about 100,000 more transactions in FY 2019 than in FY 2017;
- offer the use of the *Internet Social Security Number Replacement Card* application nationwide for individuals to request a replacement SSN card;
- work with external partners to increase video service access and participation;
- expand video services in field, hearing, and State DDS offices;
- expand services within *my* Social Security to additional user groups, including representative payees, appointed representatives, and business users; and
- expand "click-to-chat" on *my* Social Security.

### Representative Payment Program

SSA reports beneficiaries who need a representative payee are of particular concern because of their vulnerability. While SSA continues identifying representative payees that misuse funds, it reported the majority of payees was properly using beneficiaries' funds.  In its January 2018 report to Congress, SSA stated it found misuse in approximately 1.3 percent of the representative payees reviewed.  The Agency conducted 2,021 reviews and found that 27 representative payees misused beneficiaries' funds.  As a result of the reviews, the Agency removed 114 representative payees and either appointed a new representative payee or determined beneficiaries were capable of managing their own benefits.

New legislation will assist SSA in its oversight of the Representative Payment Program.  The *Strengthening Protections for Social Security Beneficiaries Act of 2018* (Pub. L. No. 115-165) was passed in April 2018.  This law

- requires that SSA make annual grants to State Protection and Advocacy groups to complete representative payee reviews;

- expands the required periodic onsite reviews to include individuals (including family members) and organizational payees based on the risk of potential misuse or unsuitability;
- exempts custodial parents of minor children and disabled individuals, as well as spouses, from annual payee accountings;
- requires that SSA enter into data exchange agreements with State foster care agencies to identify whether a beneficiary is in foster care;
- directs SSA to study how to improve data sharing with State Adult Protective Services to determine the need for and provide oversight of payees;
- holds State representative payees for minors in foster care responsible for repaying overpayments incurred while the State acted as payee;
- directs SSA to enter into an agreement with the Administrative Conference of the United States to conduct a study on opportunities for, and barriers to, information sharing with State courts;
- allows beneficiaries to designate their preferred payee in advance;
- requires SSA to assess the appropriateness of the order-of-preference list it uses to select payees;
- requires SSA policies that ban individuals with certain criminal convictions from serving as payees and allows SSA to disqualify current or prospective payees who do not consent to a background check; and
- requires current SSA policies to prohibit individuals who have payees from serving as a payee.

### What the Agency Needs To Do

**Continue developing and implementing strategies that will provide quality services to the public now and in the future while overcoming challenges related to growing workloads, loss of institutional knowledge, and an increase in online transactions.**

**Implement the changes brought forth in the *Strengthening Protections for Social Security Beneficiaries Act of 2018*.**

## Key Related Performance Measures

Some of the key performance measures from SSA's revised FY 2018 *Annual Performance Plan* related to this challenge are listed below.

- Increase the number of successfully completed online transactions.
- Increase customer satisfaction with SSA's online services.
- Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision.
- Improve customer service by reducing the number of cases pending at the processing centers.
- Ensure readiness of career senior executives for positions that align with Agency succession needs.

## KEY RELATED LINKS

SSA Strategic Plan - *SSA's Agency Strategic Plan Fiscal Years 2018-2022*

SSA Annual Performance Plan - *SSA's Annual Performance Plan for Fiscal Year 2019, Revised Performance Plan for Fiscal Year 2018, Annual Performance Report for FY 2017*

SSA Annual Report - *SSA's Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews, FY 2017*

SSA Budget Overviews - FY 2018 Budget Overview and FY 2019 Budget Overview

Social Security Advisory Board - *Improving Social Security's Representative Payee Program, January 2018*

OIG Report - *Payments to Aged Representative Payees* (A-09-17-50246), June 2018

OIG Report - *Beneficiaries in Suspended Payment Status Pending the Selection of a Representative Payee* (A-09-17-50202), June 2018

OIG Report - *Increases in Program Service Center Workloads* (A-05-17-50254), April 2018

OIG Report - *Customer Wait Times in the Social Security Administration's Field Offices* (A-04-18-50260), February 2018

OIG Report - *Representative Payee Criminal Bar Policy* (A-13-18-50154), August 2018

SSA OIG Website - Reports related to customer service

# Modernize Information Technology Infrastructure

## Challenge

**SSA must modernize its IT to accomplish its mission despite budget and resource constraints.**

Few Federal agencies touch as many people as SSA; and IT plays a critical role in SSA's day-to-day operations. However, SSA's aging IT infrastructure is increasingly difficult and expensive to maintain. The Agency continues relying on outdated applications and technologies to process its core workloads (for example, retirement and disability claims). Many of SSA's legacy applications were programmed with Common Business Oriented Language. SSA maintains more than 60 million lines of Common Business Oriented Language along with millions more lines of other legacy programming languages. According to the Agency, these legacy systems are not sustainable.

In FY 2018, SSA spent $1.9 billion on IT. SSA reports that budget constraints have forced it to use much of its IT funding to operate and maintain existing systems. To ensure SSA can keep pace with increasing workloads, it must maintain its legacy systems while developing their modern replacements.

Cloud technology can improve systems availability and performance at a lower cost. Many organizations have realized benefits by extending their technology offerings with a mix of public and on-premise cloud offerings that are tuned to meet customer, technology, and service demands. In line with this cloud strategy, SSA developed the Agency Cloud Initiative to supplement its legacy infrastructure using cloud technologies and automation. The Agency Cloud Initiative creates an infrastructure that enables SSA's overall IT modernization plans.

### Development and Implementation of Electronic Services

SSA launched *my* Social Security in 2012 and, through September 2018, over 38.8 million customers had created accounts. According to SSA, in FY 2018, customers completed over 163 million transactions using the Agency's Website. Further, SSA indicated that more than half of all Social Security retirement and disability applications were filed online. Still, the Agency saw about 43 million visitors in its field offices and handled about 32 million calls to its National 800-Number.

To reduce unnecessary field office visits by the public, SSA continues enhancing its online services to provide the public a secure, convenient self-service option. To support its increasing workloads, SSA has developed and implemented about 30 electronic services for the public, businesses, and other government agencies.

One of the Agency's priorities is to improve customer service and convenience by increasing online transactions. To achieve that goal, SSA continues enhancing its *my* Social Security online portal. For example, SSA plans to redesign the portal and expand the availability of *my* Social Security services to additional user groups, including representative payees, appointed representatives, and business users. In addition, the Agency will improve the portal's design to allow broader access from a variety of devices, such as smartphones and tablets. In September 2016, we recommended that SSA improve its access controls for *my* Social Security. The Agency is working to enhance the portal's security and online fraud detection capabilities.

### Implementation of Major IT Projects

SSA faces challenges in executing and implementing major IT projects and delivering expected functions on-schedule and within budget.

### Disability Case Processing System

To simplify system support and maintenance, improve the speed and quality of the disability process, and reduce the overall growth rate of infrastructure costs, SSA is developing the Disability Case Processing System (DCPS). Once implemented, all DDSs will use DCPS. Historically, the project has faced schedule delays and increasing stakeholder concerns.

In response to a request from the Chairman of the House Subcommittee on Social Security, Committee on Ways and Means, in FY 2018, we completed three reviews of the DCPS project. In the first, we evaluated the market research and analysis a contractor conducted for SSA on DCPS. We concluded that a number of factors—including Federal procurement requirements, the date by which SSA told the contractor it needed a new solution, and the short timeframe the Agency gave the contractor to conduct its analysis—limited the contractor's analysis of options for SSA's DCPS.

In the second review, we reported that SSA expected DCPS development would continue beyond October 2018. In addition, the Agency had not determined when it would resume deploying DCPS to additional DDSs. As of February 2018, SSA estimated its DCPS costs through FY 2022 would be about $140 million. However, given the uncertainty of when SSA will finish developing DCPS and rolling it out to all DDSs, we could not determine whether the Agency's cost estimate was reasonable.

In the most recent review, we gathered feedback from the State DDS administrators and their employees who had used DCPS. We concluded that, overall, users were satisfied with DCPS; however, they indicated they would like more functionality. In December 2017, the 10 participating DDSs completed 797 cases in DCPS (about 2 percent of their monthly workload). In May 2018, they had completed 1,543 cases (about 4 percent of their monthly workload).

### Agency Cloud Initiative

The Agency Cloud Initiative is a cross-component project within the Office of Systems that will provide on-premise and public cloud infrastructures, platforms, and applications/services to meet the Agency's service delivery and business operations requirements. SSA's traditional infrastructure was augmented with on-premise cloud services, which it hosted in its two national co-processing data centers, and public cloud services for availability, flexibility, and cost-efficiency. The strategic deployment and management of this broad initiative enables SSA to leverage the cloud-computing model as an IT services broker.

SSA positioned its Enterprise Data Warehouse and DCPS in its public cloud. Also, SSA attempted to add pieces of the *my* Social Security Message Center to the cloud in July 2018 but was unsuccessful because of unforeseen technical barriers. After resolving these barriers, SSA plans to re-add pieces of the Message Center to the cloud in early 2019.

## IT Investment Process

According to the Agency's post-implementation review reports, although SSA generally was able to verify and compare costs, functionality impact, and other areas, it could not quantify the benefits or calculate the return on investment for these projects.

# Agency Actions

## IT Modernization Plan

For several years, SSA has worked incrementally to modernize its IT infrastructure. However, the Agency's Chief Information Officer has acknowledged the Agency must undertake a larger, multi-year effort.

In FY 2016, SSA began reorganizing its data into a modern architecture and developing a framework to allow real-time updates (in contrast to legacy systems that batch transactions). According to SSA, it is also moving to modernize its software engineering tools and skills. However, SSA needs a sustained, long-term investment to make the changes needed to develop a fully modern IT infrastructure capable of supporting the Agency's vast and complex operations.

In October 2017, SSA published and began implementing its IT Modernization Plan. In FY 2018, SSA focused on improving the high-priority capabilities in its core business systems. According to the Agency, it made improvements to its enumeration, wages, and SSI systems, which enabled it to retire legacy code and achieve faster processing and improved accuracy.

## Development and Implementation of Electronic Services

SSA continued to expand the availability of its online application process for replacement Social Security number cards to other states in FY 2018, with the total number of states at 32, plus the District of Columbia. The Agency also added online capabilities for claimants to file a request for review of a hearing decision. In addition, SSA introduced the option for *my* Social Security users to receive help from an employee via live chat.

## Implementation of Major IT Projects

### *DCPS*

The Agency developed a risk management plan to reduce the effects of uncertainties on DCPS' success. Also, it recognized its inability to convince DDS users of the value and advantage of DCPS may negatively affect DDS adoption rates. To address this, SSA reported it continues working with the user community to develop and demonstrate working software.

Per SSA, at the end of FY 2018, 12 participating DDSs had used DCPS to process over 22,600 disability claims. In July 2018, SSA estimated DCPS costs—from the reset in FY 2015 through FY 2022—will total about $177 million. SSA resumed implementing DCPS at additional DDSs in September 2018.

### *Cloud Technology*

As SSA implements cloud technology, it expects to receive further flexibility to allocate systems resources to meet changing demands. In 2017, SSA completed the implementation of an on-premises cloud proof of concept. Further, the Agency has since reported it completed the design for an Agency hybrid cloud. This platform will allow applications to use resources in public clouds and the on-premise SSA cloud simultaneously. In FY 2019, the Agency plans to build and implement the hybrid cloud services.

## IT Investment Process

SSA developed a new IT Investment Process that it expects will improve how it manages and invests in IT. The IT Investment Process will focus on up-front project planning with outcomes tied to specific Agency goals. An enterprise-wide executive IT investment board will meet throughout the year to make funding decisions on projects that provide the greatest benefit to the Agency. As a result, SSA believes it will be better able to deliver the right project on time and within budget.

SSA has established policy and procedures for post-implementation review and has been performing post-implementation reviews for selected projects. During the post-implementation review, actual costs, benefits, schedule, and identified risks are compared to the original project estimates to assess the IT investment's performance and identify areas for improvement.

## WHAT THE AGENCY NEEDS TO DO

**Prioritize and adequately fund IT modernization activities.**

**Ensure its IT planning and investment control processes are effective.**

### KEY RELATED PERFORMANCE MEASURES

Some of the key performance measures from SSA's revised FY 2018 *Annual Performance Plan* related to this challenge are listed below.

- Increase the number of successfully completed online transactions.
- Increase customer satisfaction with online services.
- Modernize databases, replacing and retiring outdated technology and design.
- Modernize customer communications infrastructure.

### KEY RELATED LINKS

OIG Report - *The Social Security Administration's Management of Information Technology Projects* (A-14-07-17099), July 2007

OIG Report - *Congressional Response Report: The Social Security Administration's Analysis of Alternatives for the Disability Case Processing System* (A-14-16-50078), May 2016

OIG Report - *Access to the Social Security Administration's my Social Security Online Services* (Limited Distribution) (A-14-15-15010), September 2016

OIG Report - *Congressional Response Report: Contractor's Market Research and Analysis for the Disability Case Processing System* (A-14-18-50506), February 2018

OIG Report - *Congressional Response Report: Progress in Developing the Disability Case Processing System as of February 2018* (A-14-17-50291), March 2018

OIG Report - *Congressional Response Report: Use of the Disability Case Processing System as of May 2018* (A-14-18-50631), July 2018

SSA OIG Website - Reports related to modernizing IT infrastructure

# Secure Information Systems and Protect Sensitive Data

## Challenge

**SSA must ensure its information systems are secure and sensitive data are protected.**

Federal information systems—and the information they hold—are increasingly becoming targets of cyber-attacks. Breaches at several Federal agencies have underscored the importance of securing Federal systems and protecting sensitive information. The information SSA houses on nearly every U.S. citizen is invaluable to would-be hackers and potential identity thieves. Consequently, the Agency's information systems may be at particular risk of attack. Given the highly sensitive nature of the personal information in its systems, it is imperative that SSA have a robust information security program.

SSA continues expanding its online services to improve customer service. The Agency is also developing systems in the cloud, which creates security concerns with housing sensitive Agency information in public clouds. As SSA expands its services and systems, it is important that it implement security during the development process.

### Information Security Program

Our prior audit and investigative work has revealed a number of concerns with the security of SSA's information systems. Since FY 2012, auditors have identified weaknesses that, when aggregated, created a significant deficiency in SSA's overall information systems security program. Additionally, other audits and evaluations have identified serious concerns with SSA's information security program.

In our most recent report for the *Federal Information Security Modernization Act of 2014* (FISMA) (Pub. L. No. 113-283), Grant Thornton LLP determined that SSA had established an Agency-wide information security program. However, Grant Thornton identified a number of deficiencies that may limit the Agency's ability to protect the confidentiality, integrity, and availability of SSA's information systems and data. The deficiencies identified in each FISMA reporting metric domain—risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning—are consistent with those cited in our prior FISMA reports.

### Securing Online Services

As part of the Administration's *Cybersecurity National Action Plan*, agencies must take steps to safeguard personal data in online transactions between citizens and the Government, including adopting and using effective identity proofing and strong multi-factor authentication methods. One of the Agency's priorities is to develop and increase use of self-service options. To achieve that goal, SSA plans to expand the services available under its *my* Social Security online portal. For example, SSA plans to provide direct access to certain information and notices through its online services.

In September 2018, SSA released security enhancements to iClaim. We recognize online services are an important component of SSA's strategy to deliver services to the public during a period of increasing workloads and constrained resources. Still, we believe SSA's primary responsibility must be safeguarding the sensitive information the American public has entrusted to the Agency. To ensure citizens' sensitive information is adequately protected, we believe the Agency needs to implement security controls that meet Federal requirements and ensure individuals applying for benefits are who they claim to be.

### SECURING CLOUD COMPUTING SERVICES

Cloud computing is a general term for delivering hosted technology services over the Internet. It is SSA's policy that no sensitive, personally identifiable information or Federal tax information is stored in, transmitted to, or processed in external cloud environments without authorization from the Agency's Chief Information Security and Chief Information Officers. Cloud-based systems must comply with FISMA, the Federal Risk and Authorization Management Program, and any additional requirements in SSA's Information Security Policy.

In 2014, we evaluated SSA's cloud-computing technologies. We conducted the review early in SSA's cloud-adoption process and encouraged SSA to consult with the Office of Management and Budget on Federal requirements for cloud use. We are evaluating SSA's cloud environment to determine whether it is protecting the Agency's sensitive information and expect to issue our report in FY 2019.

## AGENCY ACTIONS

SSA acknowledges it must be mindful of potential cyber-threats and remain committed to protecting privacy and security. One of the Agency's goals is to ensure its IT services are reliable, secure, and efficient. As part of that effort, SSA plans to strengthen its information security program.

### INFORMATION SECURITY PROGRAM

SSA's Office of Information Security has developed its Cybersecurity Strategic and Cybersecurity Tactical plans that include many strategies and initiatives to address IT and cyber-security challenges within each functional area of the National Institute of Standards and Technology's Cybersecurity Framework for the next 3 to 4 years. SSA started some of these initiatives, including projects to address privileged user access issues, monitoring mainframe vulnerabilities, and network segmentation. However, SSA has yet to start some important projects that would further strengthen its security program.

### SECURING ONLINE SERVICES

In September 2016, we recommended SSA strengthen controls over access to *my* Social Security to ensure citizens' sensitive information is adequately protected. In June 2017, the Agency implemented multi-factor authentication; however, it could improve these controls. In addition, over the last several years, SSA has increased its ability to detect potentially fraudulent benefit claims received online. In September 2018, SSA introduced new controls for iClaim that it expects will help prevent fraud.

### WHAT THE AGENCY NEEDS TO DO

**Address the deficiencies identified by the independent auditor that, when aggregated, are considered to be a significant deficiency in SSA's information security program.**

**Ensure the electronic services the Agency provides are secure.**

### KEY RELATED PERFORMANCE MEASURES

The key performance measure from SSA's revised FY 2018 *Annual Performance Plan* related to this challenge is listed below.

- Maintain an effective cybersecurity program.

## KEY RELATED LINKS

OIG Report – *Congressional Response Report: The Security of Systems that Provide Access to Personally Identifiable Information* (Limited Distribution) (A-14-16-50173), August 2016

OIG Report - *Access to the Social Security Administration's my Social Security Online Services* (Limited Distribution) (A-14-15-15010), September 2016

OIG Report - *The Social Security Administration's Information Security Program and Practices for Fiscal Year 2018* (Limited Distribution) (A-14-18-50505), October 2018

OIG Report - *Security of the Social Security Administration's Public Web Applications* (Limited Distribution) (A-14-17-50152), April 2017

SSA OIG Website - Reports related to securing information systems

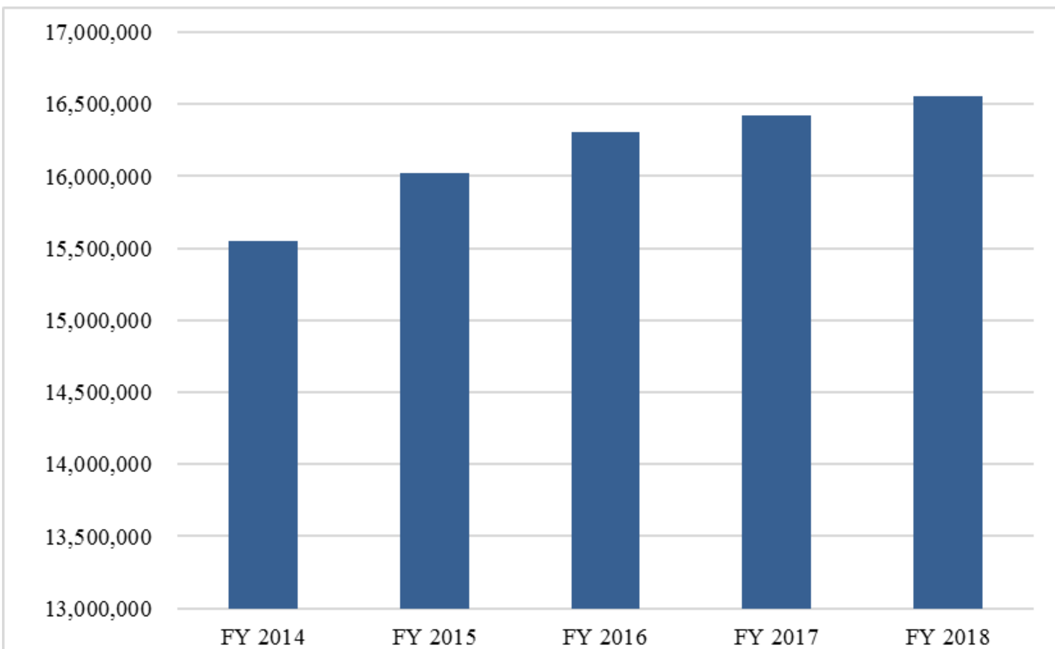
# Strengthen the Integrity and Protection of the Social Security Number

## Challenge

**Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.**

In FY 2018, SSA had issued about 16.5 million original and replacement SSN cards (see Figure 7). In addition, in FY 2018, the Agency processed about 284.3 million wage items. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and that eligible individuals receive the full benefits due them.

**Figure 7: Original and Replacement SSN Cards Issued**




## SSN Use

The SSN is relied on as an identifier in U.S. society and is valuable as an illegal commodity. Additionally, the SSN is critical in accurately recording workers' earnings on which future benefit payments are based. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

## SSN Misuse

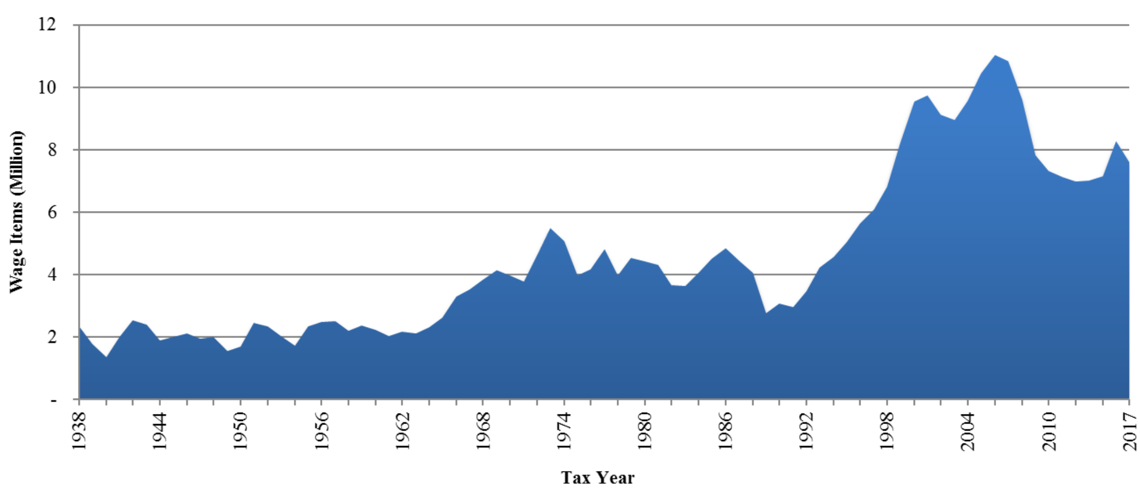
Given the preponderance of SSN misuse and identity theft in U.S. society, we continue to believe protecting this critical number is a considerable challenge for SSA as well as its millions of stakeholders. Unfortunately, once SSA assigns an SSN, it has no authority to control how other entities collect, use, and protect it. For example, some government and non-government organizations unnecessarily collect and use SSNs as a primary identifier. Yet, our audit and investigative work has shown that the more SSNs are unnecessarily used, the higher the probability individuals could improperly use them. In addition, we remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States. We are also concerned that some individuals misuse SSNs for identity theft purposes.

### EARNINGS

SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and calculate the amount of benefit payments. Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. If employers report earnings information incorrectly, or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated over $1.6 trillion in wages and about 367 million wage items for Tax Years 1938 through 2017. As shown in Figure 8, in Tax Year 2017 alone, SSA posted about 7.7 million wage items, representing $94.8 billion in wages, to the ESF.

**Figure 8: ESF Suspended Wage Items (1938 to 2017)**




## AGENCY ACTIONS

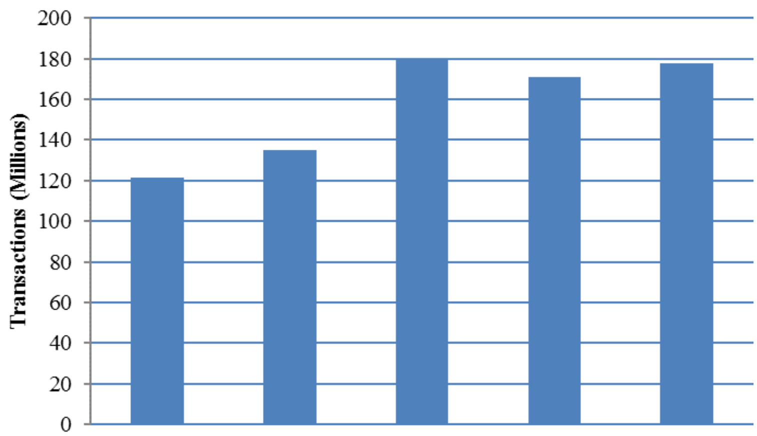
SSA has taken steps to further automate its enumeration process. For example, SSA released the *Internet Social Security Number Replacement Card* application in November 2015. This allows certain individuals to obtain a replacement SSN card online without the need to visit an SSA office, reducing the number of replacement card requests in field offices and Social Security Card Centers. As of September 30, 2018, SSA had processed over 1.4 million replacement card applications via the *Internet Social Security Number Replacement Card* application. While we believe this initiative may enhance customer service, SSA must ensure it takes necessary steps to minimize the risk of individuals fraudulently obtaining a replacement card.

In addition, SSA worked with the Centers for Medicare and Medicaid Services to remove SSNs from Medicare cards. SSA previously also eliminated issuance of the SSN printout, except in certain disaster situations. If an individual needs proof of his/her SSN and does not have an SSN card, he/she must request a replacement by completing an *Application for a Social Security Card* and providing the required documentation.

## SSN Verification Service

SSA has taken steps to reduce the size and growth of the ESF. The Agency has offered employers the ability to verify their employees' names and SSNs using the Agency's SSN Verification Service before reporting wages to SSA. The number of verification transactions for the SSN Verification Service has increased from 121.5 in FY 2014 to 177.8 million in FY 2018. As of the end of FY 2018, 33,654 employers were registered for the SSN Verification Service (see Figure 9).

**Figure 9: SSN Verification Service Verifications FYs 2014 Through 2018**

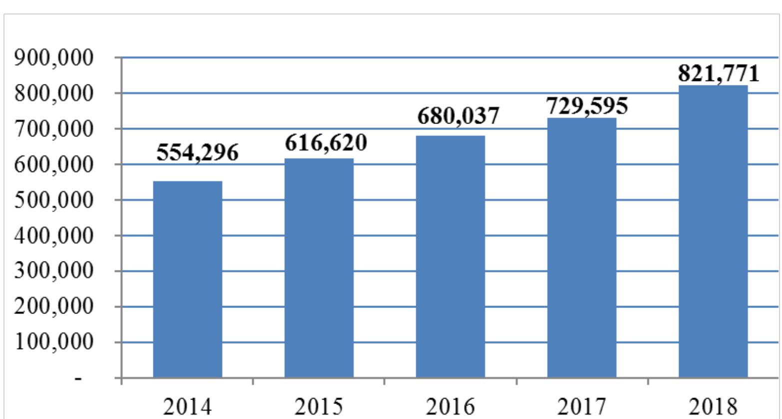



| Fiscal Year | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Transaction (Millions) | 121.5 | 134.8 | 179.4 | 171.1 | 177.8 |
| Employers | 36,712 | 34,496 | 34,352 | 33,692 | 33,654 |
| Mismatch Rate | 5.6 | 6.3 | 5.14 | 4.15 | 3.08 |

## E-Verify

SSA also supports the Department of Homeland Security in administering its E-Verify program, which assists employers in verifying electronically the employment eligibility of newly hired employees. According to the Department of Homeland Security, the number of registered users has steadily increased from approximately 554,000 in FY 2014 to about 822,000 in FY 2018, as shown in Figure 10. In FY 2018, users submitted more than 40 million queries.

**Figure 10: Enrollment in E-Verify**



## EARNINGS

To help reduce the number of items posted to the ESF, the Agency reported that it will resume sending educational correspondence letters to employers in Spring 2019 advising them when the wage information they submitted fail to match wage earners' names and SSNs in SSA's records. The Agency hopes these letters will help reduce the number of wages placed in the ESF in the future.

### WHAT THE AGENCY NEEDS TO DO

**Continue to be vigilant in protecting SSNs.** We remain concerned that some government and non-government organizations unnecessarily collect and use SSNs as a primary identifier. We also remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States as well as the misuse of SSNs for identity theft purposes.

**Continue to ensure any electronic applications related to SSN card issuance offered through** *my* Social Security **include an effective authentication process.**

**Continue improving wage reporting by informing employers about potential name and SSN mismatch cases, identifying and resolving employer reporting problems, re-examining the validity and integrity checks used to prevent suspicious W-2s, *Wages and Tax Statement*, from being posted, and encouraging greater use of the Agency's employee verification programs.** SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting

## KEY RELATED PERFORMANCE MEASURES

Some of the key performance measures from SSA's revised FY 2018 *Annual Performance Plan* related to this challenge are listed below.

- SSNs completed.
- Annual earnings items completed.
- Social Security Statements issued.

## KEY RELATED LINKS

OIG Report – *Improper Use of Children's Social Security Numbers* (A-03-12-21269), March 2014

OIG Report – *Access Controls over the Business Services Online* (Limited Distribution), (A-03-13-13015), June 2014.

OIG Report – *Internet Social Security Number Replacement Card Project* (Limited Distribution) (A-08-14-24096), July 2014

OIG Report – *The Social Security Administration's Authentication Risk Assessment for the Internet Social Security Number Replacement Card Project* (Limited Distribution) (A-14-14-24130), May 2015

OIG Report – *Status of the Social Security Administration's Earnings Suspense File* (A-03-15-50058), September 2015

OIG Report – *Social Security Administration Correspondence Containing Full Social Security Numbers* (A-04-15-50070), April 2016

OIG Report – *Improper Use of Elderly Individuals' Social Security Numbers* (A-03-16-24028), January 2017

OIG Report – *Social Security Numbers Assigned and Benefits Paid to Refugees, Parolees, and Asylees* (A-08-16-50142), July 2017

OIG Report – *Cross-referred Social Security Numbers* (A-06-13-23091), July 2017

OIG Report – *Removal of Self-employment Income and the Impact on Social Security Benefits* (A-03-16-50102), February 2018

OIG Report - *Implementation of the Internet Social Security Number Replacement Card Project* (Limited Distribution) (A-08-17-50241), July 2018

SSA OIG Website - Reports related to protecting social security numbers

# Strengthen Planning, Transparency, and Accountability

## Challenge

**Planning, transparency, and accountability are critical factors in effective management. Failure to plan properly to meet its mission and challenges will lessen the Agency's ability to provide its services efficiently and effectively now and in the future. Similarly, mismanagement and waste, as well as a lack of transparency for citizens in Government operations, can erode trust in SSA's ability to tackle the challenges it faces.**

### Planning

While SSA has created annual performance and multi-year strategic plans, we continue to be concerned with the quality of its longer-term vision needed to ensure it has the programs, processes, staff, and infrastructure required to provide needed services for the next 10 to 20 years and beyond. In FY 2015, SSA released its *Vision 2025*, which SSA stated is a critical first step in planning how it will serve the public in the future.

We question whether SSA's *Vision 2025* provides a clear path to the organization SSA will need to be in the future to meet its mission. For example, it does not include specific, measurable goals or outline the strategy needed to implement SSA's proposed vision. We believe SSA's long-term strategic vision should include specific, measurable goals that clearly outline the service delivery model SSA envisions in year 2025 and beyond. Also, while *Vision 2025* describes the Agency's future environmental drivers, it does not explain how those drivers will affect SSA's ability to provide services in the future. Additionally, SSA's plan did not choose one primary service delivery method as recommended by the National Academy of Public Administration, which SSA contracted for a long-range strategic review. Instead, *Vision 2025* promised a service delivery system to meet each customer's desire even though budget constraints may make such an approach unrealistic.

SSA worked with a contractor to develop an execution strategy and roadmap to cover the 10-year period addressed by *Vision 2025*. The roadmap includes a more specific description of a future SSA but does not discuss how SSA's budget uncertainty and other environmental factors could affect the envisioned roadmap. Also, the roadmap is not available publicly, so stakeholders cannot review how SSA plans to implement its vision or measure SSA's progress in its implementation.

Finally, while *Vision 2025* includes a crosswalk to SSA's previous *Agency Strategic Plan*, which helped show how the Agency's strategic goals aligned with *Vision 2025's* priorities, SSA's current *Agency Strategic Plan* makes no mention of *Vision 2025*. Without a description of how the current *Agency Strategic Plan* helps further SSA's progress toward its longer-term vision, stakeholders cannot easily see whether *Vision 2025* continues guiding SSA's future planning.

### Transparency

SSA releases annual performance plans and reports that include its annual performance measures, which provide a certain level of transparency on SSA's operations. Though, the quality of some of SSA's performance measures may limit the transparency they provide. The Agency has a mixture of outcome and output performance measures on which it publicly reports. The outcomes it measures include customer satisfaction, the timeliness of service or claims processing, and the accuracy of its payments. While these measures are helpful, SSA has more output-based performance measures than outcome-based ones. Output measures are less helpful in informing stakeholders on whether SSA is effectively using its resources to achieve its mission.

SSA refers to many of its output-based performance measures as budgeted workload measures, which SSA states are budget dependent. These measures include completing the budgeted number of full medical CDRs, SSI non-medical redeterminations, disability claims, and hearings requests. While measuring these workloads may be helpful for budgeting purposes, the performance measures do not inform whether completing the workloads results in positive outcomes. More useful performance measures would measure the outcomes of the workloads, like the dollars saved by identifying beneficiaries who were no longer disabled and ineligible for benefits through the completion of CDRs.

Finally, some of SSA's performance measures appear to measure outcomes but actually measure outputs. In these cases, SSA includes a desired outcome in the wording of the performance measures, while the intended target is output-based. For example, one of SSA's performance measures is to "Improve the disability determination process by increasing the percentage of medical evidence received electronically." The stated target is an increase in the percent of electronic medical evidence received. While receiving more medical evidence electronically may improve the process, it may not. To determine whether the increased use of electronic medical evidence improved the disability determination process, SSA should measure whether (1) cases with electronic medical records were processed more timely or accurately or (2) customers were more satisfied with the process.

## ACCOUNTABILITY

### *SSA'S ANTI-FRAUD PROGRAMS*

We have noted in past Statements that SSA needs a strong anti-fraud infrastructure to combat attempts to defraud its programs. In FY 2014, we hired a contractor to complete a fraud risk assessment of SSA's anti-fraud activities and found that SSA did not track all instances of fraud or use a risk-based approach for combatting fraud. The contractor also concluded that the Agency could be more proactive in addressing and mitigating new fraud schemes and improving the design and operating effectiveness of anti-fraud measures.

SSA also had to respond to new risk management requirements in Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, which became effective in FY 2017. The Circular states that management has overall responsibility for establishing internal controls to manage fraud risk. This includes reporting to the Agency's governance structure the actions the Agency has taken to manage fraud risks and the status of the Agency's Risk Profile. The Agency's Risk Profile must include an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative controls to mitigate identified material fraud risks.

SSA has taken some steps to strengthen its anti-fraud infrastructure. For example, in FY 2014, SSA re-established its National Anti-Fraud Committee, a group of senior level executives that serves as a focal point for SSA's anti-fraud efforts. That same year, the Agency established the Office of Anti-Fraud Programs to provide centralized oversight and accountability for initiatives to detect, deter, and mitigate fraud. In FY 2017, SSA completed a Disability Fraud Risk Assessment in response to the Office of Management and Budget's new risk management requirements. Additional risk assessments will further strengthen SSA's approach to combatting fraud.

Also, SSA's Office of Anti-Fraud Programs is developing the Anti-Fraud Enterprise Solution (AFES) to expand its anti-fraud systems and processes. SSA expects AFES will improve its ability to utilize data analytics to enhance fraud detection. When fully implemented, SSA expects AFES will improve real-time fraud risk analysis and integrate technology into the Agency's anti-fraud business processes. To further improve its ability to address fraud, SSA needs to ensure AFES is implemented timely and successfully.

### *Report of Independent Certified Public Accountants*

The *FY 2018 Report of Independent Certified Public Accountants* contained three significant deficiencies in internal control. The three significant deficiencies are summarized below (refer to SSA's FY 2018 *Agency Financial Report* for the full text of the report).

**Certain Financial Information System Controls.** The auditor identified a number of system control deficiencies, when aggregated, are considered to be a significant deficiency in the area of IT Systems Controls. The auditor mapped the control deficiencies to four overall components. This significant deficiency is a repeat from prior years.

- IT Oversight and Governance
- Access Controls
- Network Security Controls
- Change and Configuration Management

**Controls over the Reliability of Information Used in Certain Control Activities.** The auditor found deficiencies in the control design and operating effectiveness related to information produced by entity. This significant deficiency is a repeat from last year. The auditor noted findings related to the completeness and accuracy of financially relevant information produced by entity in the area of Accounts Receivable with the Public (Benefit Overpayments).

**Accounts Receivable with the Public (Benefit Overpayments).** The auditor identified four deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal controls related to Accounts Receivable with the Public. This significant deficiency is a repeat form prior years. Specifically, the auditor's testing disclosed the following deficiencies.

- Reconciliation of Accounts Receivable Ledgers
- Overpayment Documentation and Calculations
- Overpayment Records and Tracking for Long-term Installment Payments
- Overpayment Prevention

## Agency Actions

### Planning

SSA released a new strategic plan for FYs 2018 through 2022. While the strategic plan provides an understanding of SSA's goals over the next few years, it does not mention *Vision 2025* or include an addendum that aligns it with the longer-term vision.

### Transparency

SSA previously reported it provided its strategy and performance teams with performance measure development training. Additionally, it implemented a new process for developing performance measures, with the goal of identifying the best indicators where data are available to measure progress in achieving the desired outcome of strategic objectives.

## ACCOUNTABILITY

SSA's FY 2017 *Anti-Fraud Strategic Plan* aligns the Plan with the leading practices in the Government Accountability Office's *A Framework for Managing Fraud Risks in Federal Programs,* as well as SSA's *Agency Strategic Plan*. The anti-fraud plan describes how the Agency will develop and implement a comprehensive, unified anti-fraud program. SSA is currently updating its *Anti-Fraud Strategic Plan,* which will cover FYs 2019 through 2021.

In FY 2018, SSA executed the first disability fraud analytic model in AFES. The disability fraud analytic model identifies anomalous relationships within disability claims at the hearings level. Per SSA, the model shows initial success in using data analytics to detect potential fraud.

Also, in FY 2018, SSA began exploring additional controls to further mitigate key risks identified in the Disability Fraud Risk Assessment. Additionally, it began its second fraud risk assessment focused on key eServices, including *my* Social Security and iClaims. SSA is also developing a long-term strategy and schedule to conduct fraud risk assessments.

### WHAT THE AGENCY NEEDS TO DO

**Re-evaluate its *Vision 2025* to ensure it has a viable long-range plan.** Also, the Agency should develop performance measures that address its long-term desired outcomes, so SSA and the public can track SSA's efforts to transform into the Agency it needs to be in the future to meet its mission.

**Fully implement AFES.**

**Develop additional fraud risk assessments.**

**Address its three internal control significant deficiencies.**

## KEY RELATED AGENCY PERFORMANCE MEASURES

The key planning, transparency, and accountability related measures from SSA's revised FY 2018 *Annual Performance Plan* are listed below.

- Expand CDI coverage.
- Develop an AFES.
- Strengthen manager accountability for effective performance management.
- Ensure readiness of career senior executives for positions that align with Agency succession needs.
- Ensure timely guidance is provided to managers to address employee performance and conduct issues.
- Reduce real property footprint.

## KEY RELATED LINKS

GAO Review - *A Framework for Managing Fraud Risks in Federal Programs*, July 2015

Office of Management and Budget Circular No. A-123 - *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 2016

SSA Strategic Plans - *Agency Strategic Plan, Fiscal Years 2014-2018* and *Agency Strategic Plan, Fiscal Years 2014-2018, Update Addendum: Vision 2025 Alignment*

SSA's Annual Performance Plan - *Annual Performance Plan for FY 2017-FY 2018 (Annual Performance Plan for FY 2018, Revised Performance Plan for FY 2017, Annual Performance Report for FY 2017)*

SSA Document - *Vision 2025*

National Academy of Public Administration Report – *Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025-2030*, July 2014

OIG Report – *Fraud Risk Performance Audit of the Social Security Administration's Disability Programs* (Limited Distribution) (A-15-15-25002), April 2015

OIG Report – *Congressional Response Report: The Social Security Administration's Vision 2025 Plan* (A-02-16-50125), March 2016

OIG Report – *The Social Security Administration's Financial Report for Fiscal Year 2018* (A-15-18-50482), November 2018

SSA OIG Website - Reports related to strengthening planning, transparency, and accountability

# OTHER REPORTING REQUIREMENTS

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

### Summary of Financial Statement Audit Table

| Financial Statement Audit | | | | | |
|---|---|---|---|---|---|
| **Audit Opinion** | Unmodified | | | | |
| **Restatement** | No | | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Ending Balance** |
| **Total Material Weaknesses** | 0 | 0 | 0 | 0 | 0 |

### Summary of Management Assurances Table

| Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2) | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Assurance** | Unmodified | | | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| **Total Material Weaknesses** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Effectiveness of Internal Control over Operations (FMFIA Section 2)** | | | | | | |
| **Statement of Assurance** | Unmodified | | | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| **Total Material Weaknesses** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Conformance with Federal Financial Management System Requirements (FMFIA Section 4)** | | | | | | |
| **Statement of Assurance** | Federal Systems conform to financial management system requirements | | | | | |
| **Non-Conformances** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| **Total Non-Conformances** | 0 | 0 | 0 | 0 | 0 | 0 |

| Compliance with Section 803(a) of the Federal Financial Management Improvement Act | | |
|---|---|---|
| | **Agency** | **Auditor** |
| **1. Federal Financial Management System Requirements** | No lack of compliance noted | No lack of compliance noted |
| **2. Applicable Federal Accounting Standards** | No lack of compliance noted | No lack of compliance noted |
| **3. United States Standard General Ledger at Transaction Level** | No lack of compliance noted | No lack of compliance noted |

# Entitlement Reviews and Office of the Inspector General Anti-Fraud Activities

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Payment Integrity* report for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law (P.L.) 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

## Entitlement Reviews

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We conduct the following major entitlement reviews:

### Disability Quality Assurance Reviews

We perform quality assurance reviews of random samples of disability determination services (DDS) determinations to measure our level of accuracy against standards mandated by the regulations. We review initial claims, requests for reconsideration, and determinations of continuing eligibility, and conduct these reviews prior to the effectuation of the DDS determinations. The following table shows the quality assurance accuracy rates for fiscal year (FY) 2014 through FY 2018.

**Quality Assurance Reviews Table**

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Percent of State DDS decisions to allow or continue not returned to the DDS offices for correction** | 98.1% | 97.7% | 97.6% | 97.4% | 97.3% |
| **Number of cases reviewed** | 29,780 | 29,360 | 33,010 | 34,198 | 32,286 |
| **Number of cases returned to the DDS offices due to error or inadequate documentation** | 577 | 663 | 796 | 898 | 857 |

## DI Pre-Effectuation Reviews

We also perform pre-effectuation reviews of favorable DI and concurrent DI/SSI initial and reconsideration determinations using a profiling system to select cases for review. This profiling system helps ensure the cost-effectiveness of pre-effectuation reviews, and it satisfies the legislative requirement that the cases we review are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review (CDR) continuance determinations to ensure a high level of accuracy in those cases. The following table shows the DI pre-effectuation accuracy rates for FY 2014 through FY 2018.

### DI Pre-Effectuation Reviews Table

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Percent of State DDS decisions to allow or continue not returned to the DDS offices for correction** | 96.9% | 96.4% | 95.8% | 95.8% | 95.5% |
| **Number of cases reviewed** | 316,306 | 293,015 | 300,440 | 278,796 | 255,200 |
| **Number of cases returned to the DDS offices due to error or inadequate documentation** | 9,689 | 10,647 | 12,758 | 11,811 | 11,585 |

## SSI Pre-Effectuation Reviews

Following legislation enacted in February 2006, we began pre-effectuation reviews of favorable SSI initial and reconsideration adult determinations. As in DI cases, we also use a profiling system to select cases for review. The following table shows the SSI pre-effectuation accuracy rates for FY 2014 through FY 2018.

### SSI Pre-Effectuation Reviews Table

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Percent of State DDS decisions to allow not returned to the DDS offices for correction** | 97.6% | 97.1% | 96.9% | 96.9% | 96.7% |
| **Number of cases reviewed** | 105,628 | 104,808 | 112,875 | 106,777 | 98,540 |
| **Number of cases returned to the DDS offices due to error or inadequate documentation** | 2,562 | 2,988 | 3,508 | 3,288 | 3,297 |

## Continuing Disability Reviews

Periodic CDRs are a key activity in ensuring the integrity of the disability program. Through CDRs, we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. The following table shows the CDR accuracy rates for FY 2014 through FY 2018.

### CDR Accuracy Table

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Overall accuracy** | 97.6% | 96.7% | 97.1% | 96.7% | 96.9% |
| **Continuance accuracy** | 98.3% | 97.3% | 97.8% | 97.6% | 98.0% |
| **Cessation accuracy** | 95.5% | 95.0% | 94.9% | 93.5% | 92.9% |

## OASDI and SSI Quality Assurance Reviews

Quality assurance reviews assess the accuracy of benefit payments. The following tables show the OASDI and SSI accuracy rates for FY 2014 through FY 2017. Data for FY 2018 is not available at this time. We will report the FY 2018 data in our FY 2019 *Agency Financial Report*.

### OASDI Accuracy Table

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Overpayment accuracy** | 99.5% | 99.6% | 99.8% | 99.4% | Data not yet available |
| **Underpayment accuracy** | 99.9% | 99.9% | 99.9% | 99.9% | Data not yet available |

### SSI Accuracy Table

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Overpayment accuracy** | 93.0% | 93.9% | 92.4% | 92.7% | Data not yet available |
| **Underpayment accuracy** | 98.5% | 98.6% | 98.8% | 98.9% | Data not yet available |

## SSI Redeterminations

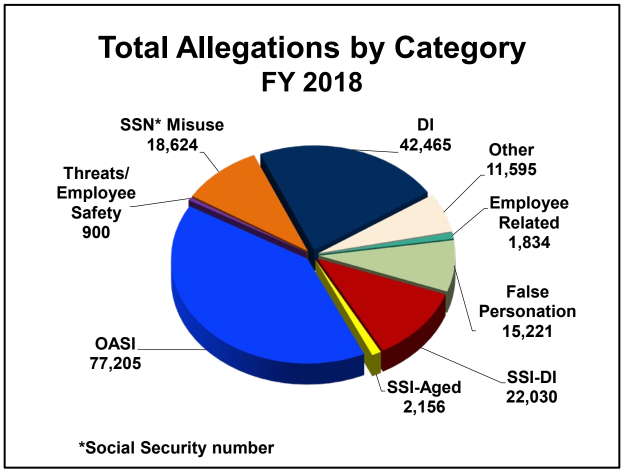
SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have paid and will continue to pay the recipient the correct amount. The following table shows the number of SSI redeterminations we completed for FY 2014 through FY 2018.

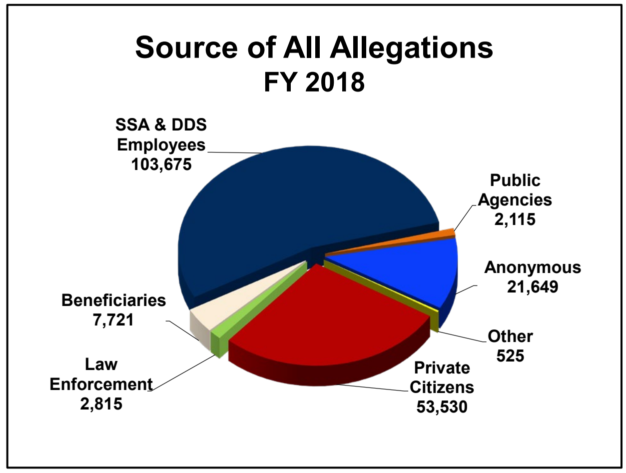
### SSI Redeterminations Table
**(In Millions)**

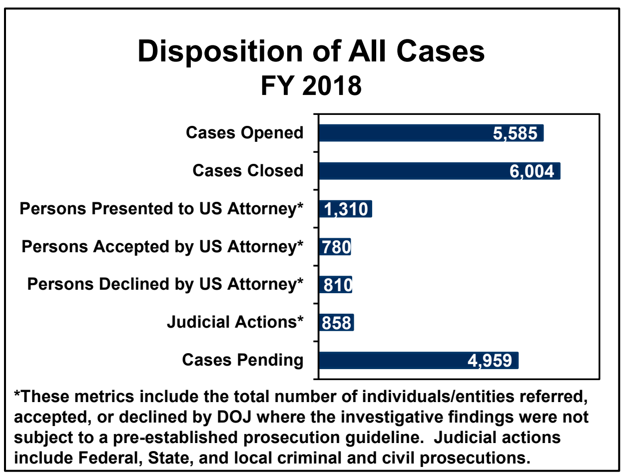
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Number of redeterminations completed** | 2.628 | 2.267 | 2.530 | 2.590 | 2.913 |

## The Office of the Inspector General's Anti-Fraud Activities

In FY 2018, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice (DOJ), and other Government agencies on cases involving fraud, waste, and abuse as part of our fraud detection and prevention program for safeguarding the agency's assets. The following charts provide information from our OIG concerning fraud.




# Fraud Reduction and Data Analytics Act Report

## Fraud Reduction and Data Analytics Act

The *Fraud Reduction and Data Analytics Act of 2015* (FRDAA) requires us to include in our annual financial report our progress in the financial and administrative controls and procedures to assess and mitigate fraud risks, as well as our development and use of data analytics to identify, prevent, and respond to fraud, including improper payments.

The report must include our progress in:

- Implementing financial and administrative controls, such as fraud risk principle 8 in the Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*, and Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, which calls for agencies to adhere to the leading practices for managing fraud risk;

- Identifying risks and vulnerabilities to fraud; and
- Establishing strategies, procedures, and other steps to curb fraud.

## Our Anti-Fraud Efforts

In FY 2018, the Acting Commissioner established a deputy commissioner-level organization, the Office of Analytics, Review, and Oversight (OARO). Under OARO, we realigned our anti-fraud programs, quality reviews, audits, appellate operations, business improvements, and advanced data analytics, allowing us to streamline collaborative efforts and increase effectiveness. Fraud threats are constantly evolving, and, in response, we must adapt our anti-fraud efforts. We continue to make changes to our processes to strengthen our ability to detect, deter, and prevent attempts to defraud agency programs. By realigning our organizational structure, we maximize our resources and better organize our efforts to centrally manage the oversight of the agency's anti-fraud efforts.

In coordination with OIG, we are making progress in our efforts to enhance an organizational culture and structure conducive to fraud risk management. Our anti-fraud efforts include:

- Continuing to expand our identification and mitigation of potential fraud risks by developing additional mitigation strategies for key risks identified in the disability fraud risk assessment and beginning a new fraud risk assessment for key eServices;
- Expanding Cooperative Disability Investigations (CDI) units;
- Hiring additional Special Assistant U.S. Attorney fraud prosecutors;
- Reviewing potential fraud cases in centralized Fraud Prevention Units (FPU) and the Special Review Cadre (SRC) in the Office of Hearings Operations;
- Delivering mandatory national anti-fraud training for all employees;
- Publishing new policy for anomalous iClaims prevention efforts;
- Increasing recovery efforts for funds lost due to fraud;
- Continuing efforts to prevent fraudulent redirection of direct deposits;
- Enhancing our data-analytic capabilities to detect potential fraud;
- Identifying anti-fraud metrics;
- Increasing the number of fraud allegation referrals to OIG and the number of cases resulting in prosecutions; and
- Engaging in inter-agency information sharing.

## FRDAA Reporting Requirements

### Implementing Financial and Administrative Controls

We are building on the accomplishments we reported in FY 2017, such as expanding our use of data analytics to enhance detection of potential fraud. In FY 2018, we deployed a new analytical model to detect potential fraud in disability claims. We also continued the use of data analytics to detect potential fraud within our iClaims workload, allowing us to detect and prevent fraudulent claims before a single payment is made. We continued our multi-year Anti-Fraud Communications Campaign, sharing information with the public regarding our anti-fraud capabilities. In July 2018, we released our annual, mandatory anti-fraud training to all of our employees.

In addition to these controls, we have financial and administrative controls in place to detect, deter, and mitigate fraud. Some examples of these controls are:

- CDI Units: CDI Units are joint efforts among SSA, OIG, and various State agencies to investigate potential fraud in the Title II and Title XVI disability programs. According to OIG, CDI units contributed more than $900 million to agency savings over the last 3 fiscal years. Currently, the CDI Program consists of 43 units covering 37 States, Washington, DC, and the Commonwealth of Puerto Rico. In FY 2019, we plan to add three additional CDI units. Our plan is to provide nationwide CDI coverage by the end of FY 2022.
- FPU: FPUs are specialized fraud units comprised of examiners dedicated to determining and acting on probable fraud cases and compiling data from the cases to help the agency further develop analytical tools to identify potential fraud.
- SRC: When OIG refers a cluster of cases in which there is a reason to believe that fraud or similar fault was involved, the SRC reviews and re-determines the identified hearing-level cases, consistent with the facts presented in the OIG referral, Office of the General Counsel advice, applicable laws, and agency policy.
- Sanctions: Administrative sanctions are penalties for making false or misleading statements or withholding material information in certain circumstances. Penalties are nonpayment of Title II benefits and ineligibility for Title XVI payments for specified periods.
- Civil Monetary Penalties (CMP): Section 1129 of the *Social Security Act* authorizes imposition of a CMP against anyone who makes false statements or misrepresentations, or materially withholds information in connection with obtaining or retaining benefits or payments under Titles II, VIII, or XVI of the *Social Security Act*. Additionally, OIG may impose CMPs against representative payees for wrongful conversion of payments for their own use or failure to notify us of a material change in a beneficiary's living arrangements or work activity.

## Identifying Risks and Vulnerabilities to Fraud

Preventing and combatting fraud is a core agency value, and we have various tools in place and under development to help us succeed.

In accordance with the requirements set forth in OMB Circular No. A-123, the agency updated the Enterprise Risk Management (ERM) risk profile in 2018. Implementation of an ERM framework improves strategic and risk mitigation decision-making throughout the agency by enabling managers to have a better understanding of inherent risks.

We continued to expand our identification and mitigation of fraud risks across the agency. In FY 2017, we conducted a fraud risk assessment of the disability program and identified several key fraud risks. In FY 2018, we convened a workgroup to develop strategies to mitigate the risks we identified. We also began a fraud risk assessment of key eServices, including *my* Social Security and iClaims. We are developing a long-term strategy and schedule to conduct fraud risk assessments, determine fraud risk tolerances, and document fraud risk profiles for major lines of business and services.

As noted in the FY 2017 report, we continue to expand our current anti-fraud systems and processes. Over a five-year phased period, we plan to develop, integrate, test, and implement additional fraud detecting data analytics to additional agency lines of business, focusing on the highest risk areas as identified by our fraud risk assessments and mitigation strategies.

In FY 2018, we executed the first disability fraud analytical model, to identify potential fraud in disability cases. We evaluated the model output of 36 clusters, comprised of approximately 3,000 cases, and made appropriate referrals to OIG for investigation. We began to redesign the e8551 allegation referral process to modernize the way agency and State DDS employees develop and refer allegations of potential fraud to OIG.

We use a variety of internal controls and techniques designed to deter the risk of fraud in the award and administration of contracts and grants, and to ensure the agency receives the services expected. To help mitigate the risk of fraud, we:

- Select contractors who have demonstrated abilities and a record of successful performance;
- Ensure that contract awardees and grantees are not on lists of excluded entities maintained by the government;
- Require contract review and approval at multiple levels;
- Require grantees to properly track the use of funds and maintain adequate supporting documentation;
- Require selected grantees to use grant funds in accordance with the terms of their grant agreements and to act with integrity when applying for and reporting their use of Federal funds; and
- Ensure that all contractor and grantee invoices are reviewed and approved by the client component that received the goods and services prior to payment.

## ESTABLISHING STEPS TO CURB FRAUD

In February 2018, the agency released the *Fiscal Years 2018-2022 Agency Strategic Plan* (www.socialsecurity.gov/asp), which serves as the agency's blueprint to achieve its mission through 2022.

As part of our Strategic Goal to "Ensure Stewardship," we centrally manage our anti-fraud efforts and develop consistent anti-fraud policies; refine employee training; and solidify relationships with other Federal, State, and private partners to identify individuals who wrongfully obtain Title II and Title XVI payments.

We continue to expand the use of data analytics and predictive modeling to enhance fraud prevention and detection in our programs. Despite an increase in attempted fraud within our iClaims workload, we have proactively detected and prevented the vast majority of these claims before a single payment is made. We will continue to develop and refine our predictive models, allowing us to better identify suspicious patterns of activities, and prevent fraudulent actions.

We will continue to develop and conduct regular fraud risk assessments of our programs, in alignment with the GAO Framework. In FY 2018, we began work on our second fraud risk assessment, related to key eServices such as *my* Social Security and iClaim. We are developing a long-term strategy and schedule to develop fraud risk assessments, determine fraud risk tolerances, and document fraud risk profiles for major lines of business and services (including payroll, grants, large contracts, asset safeguards, and purchase/travel cards), consistent with the GAO Framework, FRDAA, and OMB Circular No. A-123. We will use the results of monitoring and evaluations to improve the design and implementation of fraud-risk management activities. Regular reporting of our anti-fraud activities will further help identify trends and track progress.

# Civil Monetary Penalty Adjustment for Inflation

The *Social Security Act* authorizes the Commissioner to impose a CMP for certain specific violations. Section 1129 of the *Social Security Act* authorizes the imposition of a CMP against anyone who makes any material false statements or representations to the agency or knowingly withholds a material fact from the agency, to obtain or retain benefits or payments under Titles II, VIII, or XVI of the *Social Security Act*. A CMP may also be imposed against representative payees for the wrongful conversion of Social Security payments entrusted to their care. Section 1140 of the *Social Security Act* authorizes the imposition of a CMP to protect the public from advertisements, solicitations, and other communications (including Internet websites) that may convey the false impression that the communication is approved, endorsed, or authorized by the agency. Section 1140 also prohibits the reproduction and sale of Social Security publications and forms without the agency's authorization and places restrictions on the charging for services that the agency provides to the public without charge. The Commissioner delegated authority to enforce the agency's CMP program to the Inspector General.

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* expanded the categories of penalties that require adjustment for inflation to include CMPs under the *Social Security Act* and requires agencies to: (1) use an interim final rulemaking to adjust the level of CMPs in 2016 with an initial "catch-up" adjustment; (2) continue to make annual adjustments in future years; and (3) report on these adjustments annually. As required, we are providing information on our current CMPs; these amounts include the initial "catch-up" and annual adjustments. We will continue to make annual adjustments in future years and report on these adjustments annually.

## Civil Monetary Penalty Adjustments

| Statutory Authority | Penalty | Year Enacted | Last Year of Adjustment (via statute or regulation) | Current Penalty Date of Adjustment | Current Penalty Level | Sub-Agency/ Bureau/Unit | Location for Penalty Update Details |
|---|---|---|---|---|---|---|---|
| Section 206 (b), *Social Security Independence and Program Improvements Act of 1994*, P. L. 103-296, 108 Stat. 1509 | Flagrant Violation (Section 1129 of the *Social Security Act*, 42 U.S.C. 1320a-8(a)(1)) | 1994 | 2018 | 01/15/2018 | $0-$8,249 | SSA/OIG | Federal Register 83 (January 2018): 1654-1655. (www.federalregister.gov/documents/2018/01/12/2018-00487/penalty-inflation-adjustments-for-civil-monetary-penalties) |
| Section 813 (c), *Bipartisan Budget Act of 2015*, P. L. 114-74, 129 Stat. 603 | Flagrant Violation (Section 1129 of the *Social Security Act*, 42 U.S.C. 1320a-8(a)(1)) | 2015 | 2018 | 01/15/2018 | $0-$7,779 | SSA/OIG | Federal Register 83 (January 2018): 1654-1655. (www.federalregister.gov/documents/2018/01/12/2018-00487/penalty-inflation-adjustments-for-civil-monetary-penalties) |
| Section 428 (a), *Medicare Catastrophic Coverage Act of 1988*, P. L. 100-360, 102 Stat. 815 | Flagrant Violation (Section 1140 of the *Social Security Act*, 42 U.S.C. 1320b-10(b)(1)) | 1988 | 2018 | 01/15/2018 | $0-$10,260 | SSA/OIG | Federal Register 83 (January 2018): 1654-1655. (www.federalregister.gov/documents/2018/01/12/2018-00487/penalty-inflation-adjustments-for-civil-monetary-penalties) |
| Section 428 (a), *Medicare Catastrophic Coverage Act of 1988*, P. L. 100-360, 102 Stat. 815 | Flagrant Violation (Section 1140 of the *Social Security Act*, 42 U.S.C. 1320b-10(b)(2)) | 1988 | 2018 | 01/15/2018 | $0-$51,302 | SSA/OIG | Federal Register 83 (January 2018): 1654-1655. (www.federalregister.gov/documents/2018/01/12/2018-00487/penalty-inflation-adjustments-for-civil-monetary-penalties) |

# BIENNIAL REVIEW OF USER FEE CHARGES

## SUMMARY OF FEES

In FY 2017 and FY 2018, we earned $288 million and $281 million in user fees, respectively. This revenue accounted for less than one percent of our total financing sources. We derive over 74 percent of user fee revenues from agreements with 20 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2018, we charged a fee of $11.87 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $12.21 for FY 2019. We adjust the user fee annually based on the Consumer Price Index, unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity, such as earnings record requests from pension funds and individuals.

## BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our FY 2018 review, we identified updates to the uniform standard fee structure for non-programmatic workloads previously implemented in FY 2016. We are planning to perform another review of these fees during FY 2020.

# REDUCE THE FOOTPRINT

In 2015, OMB issued Management Procedures Memorandum 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, which calls for agencies to dispose of surplus properties, as well as make more efficient use of real property assets. This guidance requires agencies to reduce the total square footage of domestic office and warehouse inventory relative to a newly established 2015 baseline.

In accordance with Reduce the Footprint guidelines, we developed and implemented a *Real Property Efficiency Plan* to guide the agency in its efforts to comply with OMB's requirements. This plan only measures our reduction goals based on designated office and warehouse facilities, excluding many of our public-facing facilities from our reporting requirements. The agency monitors the continuing implementation and submits to OMB the annual plan, describing the overall approach in managing our real property footprint. The following information reflects the overall change in the agency's real property footprint from the FY 2015 baseline for Reduce the Footprint, as well as strategies we are pursuing to comply with the mandate.

### Reduce the Footprint Policy Baseline Comparison

| | FY 2015 Baseline | FY 2017 | Change from FY 2015 Baseline | FY 2018 | Change from FY 2015 Baseline |
|---|---|---|---|---|---|
| **Useable square footage** | 11,701,596 | 11,443,466 | -258,130 or -2.2% | Not Available[1] | Not Available[1] |

Note:

1. The agency works with the General Services Administration (GSA) to reconcile Reduce the Footprint useable square footage and it will not be available until the second quarter of FY 2019. We will report the FY 2018 data in our FY 2019 *Agency Financial Report*.

The agency does not own or directly lease any buildings in its inventory. Per Federal Management Regulation, Subchapter C, GSA acts as the landlord for the Federal civilian Government, and is charged with promulgating regulations governing the acquisition, use, and disposal of real property. We work closely with GSA to manage our portfolio given changing workloads and the best business case for the agency.

### Operation and Maintenance Cost – Owned and Direct Lease Buildings Table

| | FY 2015 Reported Cost | FY 2018 | Change |
|---|---|---|---|
| **Operation and maintenance cost** | Not Applicable | Not Applicable | Not Applicable |

We are pursuing the following strategies to comply with OMB's Reduce the Footprint policy:

- Analyzing rent trend projections, while evaluating market gap opportunities to identify locations where it makes sense to renegotiate lower rent rates with lessors;
- Optimizing space by identifying and improving the overall utilization rate in new projects;
- Reviewing field and hearing office Federal building occupancies to determine if the current space meets the agency's business and mission needs based on current space standards and staffing levels;
- Pursuing field and hearing office collocation opportunities when it makes business sense and does not adversely affect customer service; and
- Continuing to analyze our telework practices and seek opportunities to utilize our space more efficiently.

# GRANTS OVERSIGHT AND NEW EFFICIENCY ACT REPORTING

The *Grants Oversight and New Efficiency Act* requires agencies to report on Federal grant and cooperative agreement awards that have not yet been closed out and for which the period of performance, including any extensions, elapsed for more than two years. As noted in the following table, we have no such grants or cooperative agreements to report.

The agency has six grant programs monitored by Grants Management Officers (GMO). Each GMO is responsible for monitoring their workload to ensure timely grant closeouts. Although we currently do not have any expired grants that have exceeded the two-year timeframe for closeout, there are occasions when a GMO cannot immediately close a grant. In certain instances, closeout could be delayed by one year.

### Grants and Cooperative Agreements Summary Table

| Category | 2-3 Years | >3-5 Years | >5 Years |
|---|---|---|---|
| **Number of Grants/Cooperative Agreements with Zero Dollar Balances** | Not Applicable | Not Applicable | Not Applicable |
| **Number of Grants/Cooperative Agreements with Undisbursed Balances** | Not Applicable | Not Applicable | Not Applicable |
| **Total Amount of Undisbursed Balances** | Not Applicable | Not Applicable | Not Applicable |

# DEBT COLLECTION AND MANAGEMENT

## DEBT COLLECTION

We have a robust debt collection program to recover all types of overpayments. We use internal debt collection techniques (i.e., payment withholding and billing/follow-up), as well as external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts.

In FY 2018, we recovered approximately $3.931 billion using both our internal and external collection tools. Over the last 5 years (FY 2014 through FY 2018), we have collected a total of $17.788 billion. The following tables provide a description of each of our internal and external debt collection techniques for OASDI and SSI overpayments, and a summary of the results.

## INTERNAL COLLECTIONS

We utilize internal collection tools to recover payments of delinquent debt for individuals **in current pay**. In FY 2018, we recovered $3.731 billion using our internal collection tools, which accounted for about 95 percent of our total collections amount. Over the last 5 years (FY 2014 through FY 2018), we have collected a total of $16.807 billion using our internal collection tools. The following table provides a description of each of our internal debt collection techniques for OASDI and SSI overpayments, and a summary of the results.

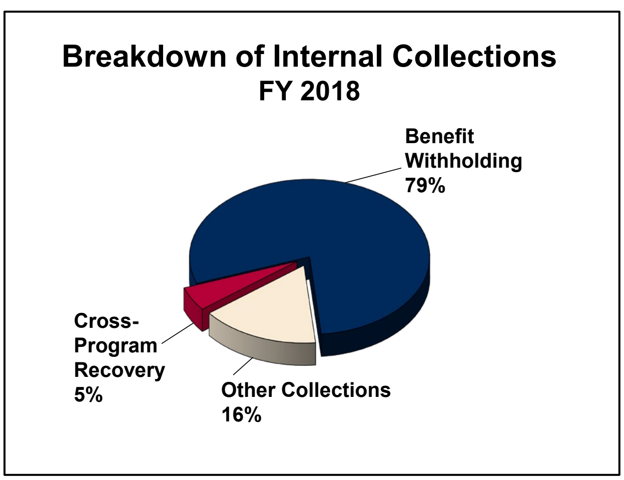
### Internal Collections During Fiscal Year 2018
**(Dollars in Billions)**

| Recovery Method | Description | OASDI | SSI | Total |
|---|---|---|---|---|
| **Benefit Withholding** | We withhold some or all benefit payments for Title II beneficiaries and Title XVI recipients in current pay. Benefit withholding typically accounts for the largest recovery of our total collections amount. | $2.098 | $0.851 | $2.949 |
| **Cross-Program Recovery (CPR)** | CPR collects OASDI overpayments from monthly SSI payments and underpayments, and SSI overpayments from monthly OASDI benefit payments and underpayments. | $0.026 | $0.167 | $0.193 |
| **Other Collections** | These are mostly voluntary payments received because of a notice requesting a refund of an overpayment. | $0.331 | $0.259 | $0.590 |
| **Total Internal Collections** | The total amount recovered by utilizing our internal collection tools. | $2.454 | $1.277 | $3.731 |

Notes:

1. Totals do not necessarily equal the sum of rounded components.

The following chart highlights the allocation of overpayments collected through our various internal collection tools as a proportion of the total FY 2018 $3.731 billion internal collections amount.



## EXTERNAL COLLECTIONS

We utilize external collection tools to recover payments of delinquent debt for beneficiaries and recipients **no longer in current pay**. In FY 2018, we recovered $199.783 million using our external collection tools, which accounted for about 5 percent of our total collections amount. Over the last 5 years (FY 2014 through FY 2018), we have collected a total of $1 billion using our external collection tools. The following table provides a description of each of our external debt collection techniques for OASDI and SSI overpayments, and a summary of the results.

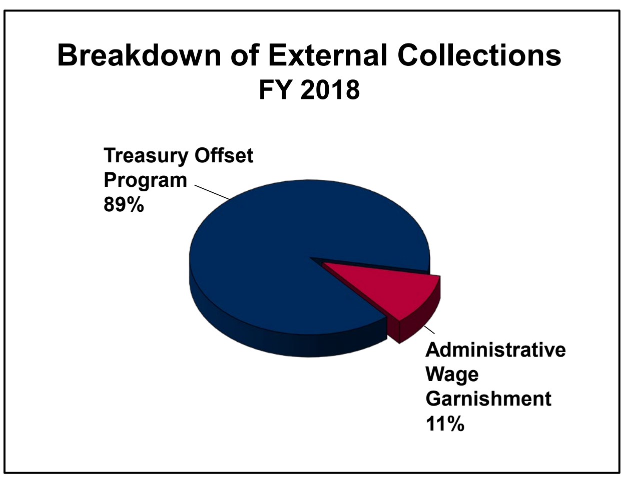
### External Collections During Fiscal Year 2018
**(Dollars in Billions)**

| Recovery Method | Description | OASDI | SSI | Total |
|---|---|---|---|---|
| **Treasury Offset Program (TOP)** | TOP allows us to collect delinquent debt by tax refund offset, administrative offset, and Federal salary offset. | $0.101 | $0.077 | $0.178 |
| **Administrative Wage Garnishment (AWG)** | AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private-sector disposable pay (i.e., that part of a worker's total compensation after deduction of health insurance premiums and required deductions). | $0.017 | $0.005 | $0.022 |
| **Total External Collections** | The total amount recovered by utilizing our external collection tools. | $0.118 | $0.082 | $0.200 |

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. For information on administrative overpayment collections, please refer to the Recapture of Improper Payments Reporting section of the *Payment Integrity* report.
3. We also use credit bureau reporting, non-entitled debtors, and automatic netting SSI as external collection tools. Collections derived from these recovery methods are subsets of the main recovery methods displayed in the table above. However, we still track these collections for informational and decision-making purposes.

The following chart highlights the allocation of overpayments collected through our various external collection tools as a proportion of the total FY 2018 $199.783 million external collections amount.



## DEBT MANAGEMENT

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the Debt Management Activities Program and Administrative Table. For more information on our agency's effort to curb overpayments, please refer to the *Payment Integrity* report immediately following this section.

We identified a system limitation in the processing of certain overpayments. In July 2011, GAO issued an audit report on the DI program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments*." In that audit, GAO identified an OASDI system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond the year 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes. We estimate that approximately 58,000 debts are affected by payment plans extending beyond the year 2049. We estimate the total gross value of the post year 2049 receivable amounts is approximately $688 million. This amount is not material to the consolidated financial statements.

The following tables do not include the amounts related to post year 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. We are working to address the system limitation; however, the accounts receivable balance reported on the financial statements are presented fairly in all material respects.

### FY 2018 Quarterly Debt Management Activities Program and Administrative Table
(Dollars in Millions)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| **Total receivables** | $22,828 | $23,177 | $23,623 | $24,484 |
| **New receivables** | 1,697 | 3,507 | 5,345 | 7,943 |
| **Total collections** | (993) | (1,954) | (2,876) | (3,992) |
| **Adjustments** | (325) | (647) | (915) | (1,333) |
| **Total write-offs** | (195) | (373) | (575) | (778) |
| **- Waivers** | (84) | (163) | (245) | (329) |
| **- Terminations** | (111) | (210) | (330) | (449) |
| **Aging schedule of debts:** | | | | |
| **- Non delinquent debt** | 13,102 | 13,475 | 13,741 | 14,272 |
| **- Delinquent debt** | | | | |
| **- 180 days or less** | 2,063 | 1,816 | 1,764 | 1,900 |
| **- 181 days to 10 years** | 6,685 | 6,881 | 7,076 | 7,233 |
| **- Over 10 years** | 978 | 1,005 | 1,042 | 1,079 |
| **- Total delinquent debt** | $9,726 | $9,702 | $9,882 | $10,212 |

## Debt Management Activities
## Program and Administrative Table
### (Dollars in Millions)

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| **Total receivables** | $18,252 | $19,361 | $21,014 | $22,644 | $24,484 |
| **New receivables** | 5,976 | 5,865 | 6,420 | 7,602 | 7,943 |
| **Total collections** | (3,686) | (3,692) | (3,604) | (3,888) | (3,992) |
| **Adjustments** | (309) | (446) | (536) | (1,297) | (1,333) |
| **Total write-offs** | (775) | (618) | (627) | (787) | (778) |
| **- Waivers** | (373) | (342) | (275) | (339) | (329) |
| **- Terminations** | (402) | (276) | (352) | (448) | (449) |
| **Non delinquent debt** | 11,895 | 12,210 | 12,984 | 13,628 | 14,272 |
| **Total delinquent debt** | $6,357 | $7,151 | $8,030 | $9,016 | $10,212 |
| **Percentage Analysis** | | | | | |
| **% of outstanding debt:** | | | | | |
| **- Non delinquent** | 65.2% | 63.1% | 61.8% | 60.2% | 58.3% |
| **- Delinquent** | 34.8% | 36.9% | 38.2% | 39.8% | 41.7% |
| **% of debt estimated to be uncollectible*** | 25.5% | 24.2% | 42.7% | 42.6% | 43.5% |
| **% of debt collected** | 20.2% | 19.1% | 17.2% | 17.2% | 16.3% |
| **% change in collections from prior fiscal year** | -3.4% | 0.2% | -2.4% | 7.9% | 2.7% |
| **% change in delinquencies from prior fiscal year** | 10.0% | 12.5% | 12.3% | 12.3% | 13.3% |
| **Clearances as a % of total receivables** | 24.4% | 22.3% | 20.1% | 20.6% | 19.5% |
| **- Collections as a % of clearances** | 82.6% | 85.7% | 85.2% | 83.2% | 83.7% |
| **- Write-offs as a % of clearances** | 17.4% | 14.3% | 14.8% | 16.8% | 16.3% |
| **Other Analysis** | | | | | |
| **Cost to collect $1** | $0.07 | $0.07 | $0.07 | $0.07 | $0.07 |
| **Average number of months to clear receivables:** | | | | | |
| **- OASI** | 15 | 16 | 17 | 15 | 16 |
| **- DI** | 55 | 62 | 55 | 44 | 45 |
| **- SSI** | 39 | 43 | 42 | 43 | 43 |

Note:

1. *The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

Definitions:

1. Adjustments – Program debt adjustments represent: (a) written-off debts, by way of terminations, that we reinstate for collections; (b) changes in debts when we update debtor accounts with new information; and (c) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (a) is without fault in causing the debt; and (b) recovery would either defeat the purpose of the act or be against

equity and good conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.

3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (a) the debtor will not repay the debt or alleges they cannot pay the debt; (b) we cannot locate the debtor after diligent search; or (c) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the TOP and AWG. If the debtor becomes entitled to OASDI benefits or eligible for SSI payments, we reinstate the debt and resume recovery through benefit/payment withholding.

4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (a) the date we establish an OASDI debt; (b) the date of the initial overpayment notice for a SSI debt; (c) the date of the last voluntary payment; (d) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (e) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

# PAYMENT INTEGRITY

## BACKGROUND

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring efficient programs and accurate payments. We take our responsibility to reduce improper payments seriously. As good stewards of our resources and taxpayer funds, we remain focused on the integrity of our programs, including minimizing improper payments. "Ensure Stewardship" is a Strategic Goal in our *Agency Strategic Plan for Fiscal Years* (FY) *2018-2022* (www.socialsecurity.gov/agency/asp). Each year, we report improper payment findings, both overpayments and underpayments, from our stewardship reviews of the non-medical aspects of the OASI, DI, and SSI programs. Regarding the medical aspects of our disability programs, we conduct continuing disability reviews (CDR) to determine whether disability beneficiaries continue to meet the programs' medical criteria. However, terminating disability benefits after a CDR does not necessarily mean that the original determination was incorrect; it may mean the beneficiary's medical condition has improved to the point he or she can work. Therefore, we consider the benefits he or she received before improvement to be proper.

In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), we report as improper those payments that result from:

- Our mistake in computing the payment;
- Our failure to obtain or act on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

As outlined in OMB's IPERIA guidance, effective FY 2018, any program with $2 billion in improper payments qualifies as a high-priority program, and agencies must report improper payments in those programs. For FYs 2014–2017, the annual threshold was $750 million. Two of our programs meet OMB's definition of high-priority programs: OASDI and SSI. More information about the improper payments in our high-priority programs for FY 2018 and previous years can be found on OMB's improper payment website (www.paymentaccuracy.gov).

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular No. A-136, *Financial Reporting Requirements*. This report provides general information that demonstrates our commitment to reducing improper payments. The report also describes our efforts in reducing, recovering, and preventing improper payments for our OASDI and SSI benefit programs and our administrative payments.

The President's Management Agenda, released by the White House in March 2018, identifies Cross-Agency Priority (CAP) Goals to target those areas where multiple agencies must collaborate to effect change and report progress in a manner the public can easily track. The CAP Goal entitled, "Getting Payments Right," will reduce the amount of cash lost to the taxpayer through incorrect payments; clarify and streamline reporting and compliance requirements to focus on actions that make a difference; and facilitate our partnership with the States to address improper payments in programs that they administer using Federal funds. The information in this report supports the CAP Goal.

We also fulfill the requirements of Executive Order 13520, *Reducing Improper Payments,* by providing additional information about our efforts to curb improper payments in our OASDI and SSI programs on [our public improper payments website (www.socialsecurity.gov/improperpayments)](www.socialsecurity.gov/improperpayments).

# PAYMENT REPORTING

## IMPROPER PAYMENTS STRATEGY

For FY 2018, we continued to align our improper payments strategy with our improper payments governance. We are collaborating with our Federal partners, stakeholders, and beneficiaries to attain our agency Strategic Goal to "Ensure Stewardship." To help ensure stewardship and efficient administration of our programs, we continue to focus our efforts on improving program integrity.

We have identified the following strategies to accomplish our Strategic Objective "Improve Program Integrity":

- Collaborate with partners to address improper payments;
- Address the root causes of improper payments to prevent their recurrence; and
- Modernize our debt management and debt collection business processes.

We do not intend for our key improper payment initiatives to be static. We periodically reassess our focus as it relates to reducing improper payments. One of our ongoing priorities is to enhance quality and payment accuracy for the public.

This fiscal year, based upon our stewardship reviews and other efforts, we identified the leading causes of improper payments and major quality issues and selected workloads where we can collectively make meaningful progress by the end of FY 2019, based on the FY 2019 President's Budget. Building on our current efforts and processes, we will focus on two key areas: (1) combating the leading cause of improper payments; and (2) improving quality and program integrity.

We have identified four priority initiatives to achieve our Strategic Objective:

- Promote the use of myWage Reporting;
- Improve the death reporting system process;
- Modernize the program overpayment remittance system; and
- Continue cost-effective program integrity work.

We discuss these initiatives and their relation to reducing improper payments in our OASDI and SSI programs in the Improper Payment Root Cause Categories and the Improper Payment Corrective Actions sections of this report. We also discuss initiatives that affect improper payments in both programs in the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section of this *Payment Integrity* report.

We identified the following three performance measures to help evaluate progress in accomplishing this Strategic Objective:

- Improve the integrity of the SSI program by focusing our efforts on reducing overpayments;
- Maintain a high payment accuracy rate by reducing overpayments in the OASDI program; and

- Ensure the quality of our decisions by achieving the State disability determination services (DDS) net accuracy rate for initial disability decisions.

We provide more information about our performance measures in our *Annual Performance Plan for FYs 2018-2019* (www.socialsecurity.gov/agency/performance).

## EXPERIENCE IN THE OASI, DI, OASDI, AND SSI PROGRAMS

OMB requires agencies that have programs or activities that are susceptible to significant improper payments to list the programs and related improper payment rates in one table. Table 1 shows the improper payment rates for the OASI, DI, OASDI, and SSI programs for FY 2017. In Table 1, we also include our improper payment rates for funds we spent to support Hurricane Sandy recovery activity, since they are also considered susceptible to significant improper payments by the *Disaster Relief Appropriations Act of 2013* (DRAA). We calculate the overpayment rate by dividing overpayment dollars by total dollars paid, and the underpayment rate by dividing underpayment dollars by total dollars paid. We calculate the improper payment rate by adding overpayment and underpayment dollars and dividing by the sum total of dollars paid.

Please see Table 1.1 for more details about our improper payment rates for the OASI and DI programs for FYs 2015, 2016, and 2017. For our SSI program, please see Table 1.2 for more details about our improper payment rates for the SSI program for FYs 2015, 2016, and 2017.

### Table 1: Improper Payments Experience FY 2017 (Dollars in Millions)

| | OASI | DI | OASDI | SSI | DRAA | Total |
|---|---|---|---|---|---|---|
| **FY 2017 Outlays** | $780,787.23 | $129,222.32 | $910,009.54 | $56,495.45 | $0.00 | $966,504.99 |
| **FY 2017 Proper Payment $** | $778,229.98 | $125,621.74 | $903,851.72 | $51,738.00 | $0.00 | $955,589.72 |
| **FY 2017 Proper Payment %** | 99.67% | 97.21% | 99.32% | 91.58% | 100.00% | 98.87% |
| **FY 2017 Improper Payment $** | $2,557.24 | $3,600.57 | $6,157.82 | $4,757.44 | $0.00 | $10,915.26 |
| **FY 2017 Improper Payment %** | 0.33% | 2.79% | 0.68% | 8.42% | 0.00% | 1.13% |
| **FY 2017 Overpayment $** | $2,458.54 | $3,405.49 | $5,864.03 | $4,121.02 | $0.00 | $9,985.05 |
| **FY 2017 Overpayment %** | 0.31% | 2.64% | 0.64% | 7.29% | 0.00% | 1.03% |
| **FY 2017 Underpayment $** | $98.71 | $195.08 | $293.79 | $636.42 | $0.00 | $930.21 |
| **FY 2017 Underpayment %** | 0.01% | 0.15% | 0.03% | 1.13% | 0.00% | 0.10% |

Notes:

1. Total OASDI and SSI outlays for FY 2017 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. OASDI outlays are estimates based on limited sample sizes.
3. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive percentages from unrounded source data.

## OASDI Experience

Over the last 5 years (FYs 2013-2017), based on our stewardship reviews, we estimate that we paid approximately $3.7 trillion to OASI beneficiaries. Of that total, we estimate $9.3 billion were overpayments, representing approximately 0.25 percent of outlays. We estimate that underpayments during this same period were $2.1 billion, the equivalent of approximately 0.06 percent of outlays.

Applying the same analysis to the DI program, we estimate that we paid $684.8 billion to DI beneficiaries over the last 5 years (FYs 2013-2017). Of that total, we estimate $8.0 billion were overpayments, representing approximately 1.16 percent of outlays. We estimate underpayments during this same period totaled $1.0 billion, the equivalent of approximately 0.15 percent of outlays.

Table 1.1 shows the estimated improper payment rates for the OASI and DI programs for FYs 2015, 2016, and 2017.

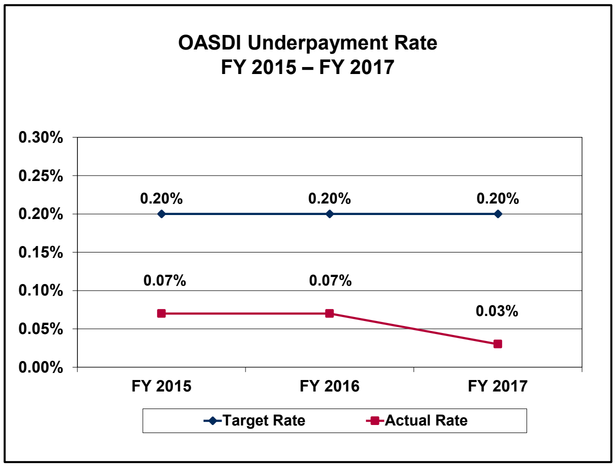
## Table 1.1: OASDI Improper Payments Experience
## FY 2015 – FY 2017
### (Dollars in Millions)

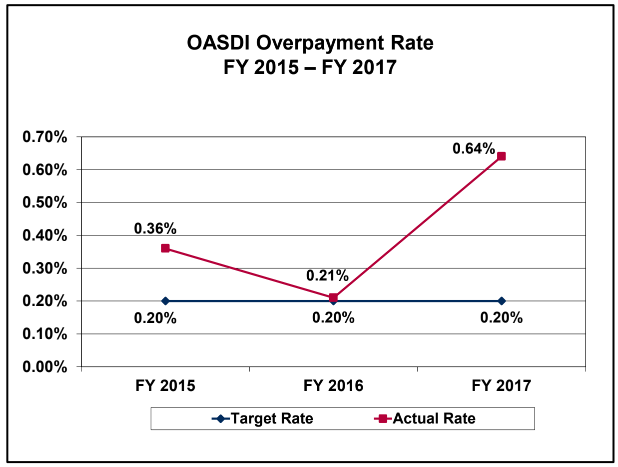
| | FY 2015 | | FY 2016 | | FY 2017 | |
|---|---|---|---|---|---|---|
| | Dollars | Rate | Dollars | Rate | Dollars | Rate |
| **OASI** | | | | | | |
| **Total Benefit Payments** | $712,644.02 | | $770,538.77 | | $780,787.23 | |
| **Underpayment Error** | $371.62 | 0.05% | $628.44 | 0.08% | $98.71 | 0.01% |
| **Overpayment Error** | $1,575.47 | 0.22% | $1,210.73 | 0.16% | $2,458.54 | 0.31% |
| **DI** | | | | | | |
| **Total Benefit Payments** | $141,045.42 | | $140,661.52 | | $129,222.32 | |
| **Underpayment Error** | $200.14 | 0.14% | $41.62 | 0.03% | $195.08 | 0.15% |
| **Overpayment Error** | $1,524.93 | 1.08% | $697.60 | 0.50% | $3,405.49 | 2.64% |
| **Combined OASDI** | | | | | | |
| **Total Benefit Payments** | $853,689.44 | | $911,200.29 | | $910,009.54 | |
| **Underpayment Error** | $571.76 | 0.07% | $670.06 | 0.07% | $293.79 | 0.03% |
| **Underpayment Target** | | ≤0.20% | | ≤0.20% | | ≤0.20% |
| **Overpayment Error** | $3,100.40 | 0.36% | $1,908.33 | 0.21% | $5,864.03 | 0.64% |
| **Overpayment Target** | | ≤0.20% | | ≤0.20% | | ≤0.20% |

Notes:

1. Total benefit payments for FYs 2015-2017 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. Total benefit payments for OASDI are estimates based on limited sample sizes, which may cause them to vary from year to year.
3. FY 2018 data will not be available until summer 2019.
4. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
5. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2015, +0.03 percent and –0.04 percent for underpayments and +0.14 percent and –0.15 percent for overpayments; for FY 2016, +0.07 percent and –0.10 percent for underpayments and +0.13 percent and –0.12 percent for overpayments; and for FY 2017, +0.01 percent and –0.01 percent for underpayments and +0.30 percent and –0.33 percent for overpayments.
6. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2015, +0.13 percent and –0.25 percent for underpayments and +1.07 percent and –1.18 percent for overpayments; for FY 2016, +0.02 percent and –0.06 percent for underpayments and +0.49 percent and –0.53 percent for overpayments; and for FY 2017, +0.14 percent and –0.27 percent for underpayments and +2.6 percent and –2.6 percent for overpayments.
7. OASDI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2015, +0.23 percent and –0.24 percent for underpayments and +0.05 percent and –0.04 percent for overpayments; for FY 2016, +0.06 percent and –0.09 percent for underpayments and +0.12 percent and –0.12 percent for overpayments; and for FY 2017, +0.02 percent and –0.06 percent for underpayments and +0.36 percent and –0.37 percent for overpayments.
8. Changes in the OASDI error rates from FY 2015 to 2016 are not statistically significant. The change in the OASDI underpayment error rate from FY 2016 to FY 2017 is not statistically significant. The change in the OASDI overpayment error rate from FY 2016 to FY 2017 is statistically significant.
9. We strive to reduce improper payments within the constraints of statutory and regulatory requirements and limited resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our OASDI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to reduce improper payments, outcomes must be significant to affect our error rate. To have an effect on improper payments, for FY 2017 each tenth of a percentage point in payment accuracy represents about $910 million in program outlays for the OASDI program.

The following graphs show our estimated OASDI underpayment and overpayment rates for the last three years.




The increase in the FY 2017 overpayment error rate was primarily caused by Substantial Gainful Activity (SGA) (a definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html) and Government Pension Offset (GPO) (a definition of GPO is available at: www.socialsecurity.gov/pubs/EN-05-10007.pdf) errors and is statistically significant. The SGA errors primarily occurred due to the beneficiaries' failure to report his or her work activity. GPO errors occur due to the beneficiaries' failure to report the receipt of or changes in their pension. GPO errors also occurred when we did not take proper action to impose the offset.

## SSI Experience

Over the last 5 years (FYs 2013-2017), based on our stewardship reviews, we estimate that we paid approximately $281.7 billion to SSI recipients. Of that total, we estimate $20 billion were overpayments, representing about 7 percent of outlays. We estimate that underpayments during this same period were $3.9 billion, the equivalent of approximately 1.4 percent of outlays.

Table 1.2 shows the estimated improper payment rates for the SSI program for FYs 2015, 2016, and 2017.

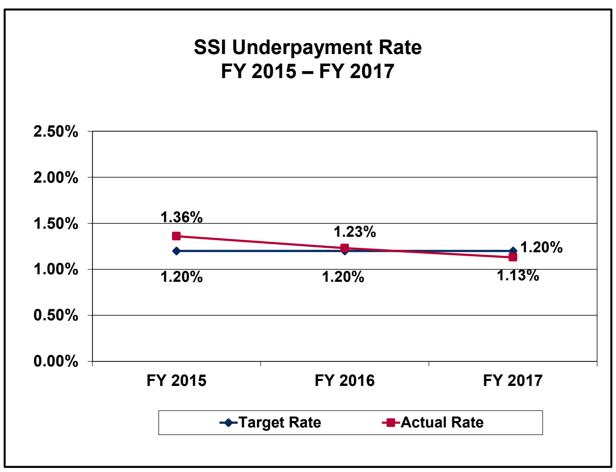
## Table 1.2: SSI Improper Payments Experience
## FY 2015 - FY 2017
### (Dollars in Millions)

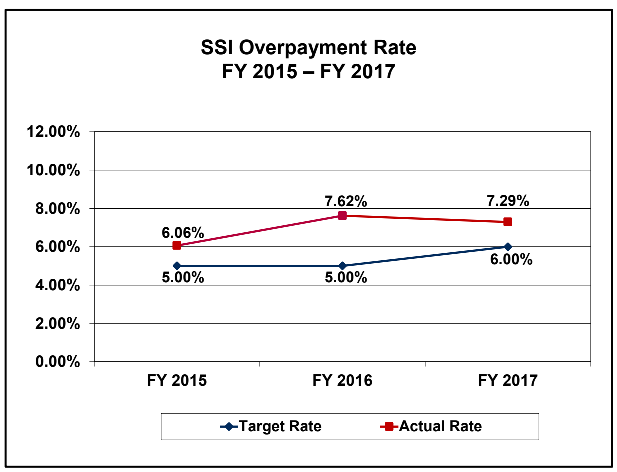
| | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|
| **Total Federally Administered Payments** | | | |
| **Dollars** | $56,625.58 | $56,754.07 | $56,495.45 |
| **Underpayments** | | | |
| **Dollars** | $770.20 | $696.01 | $636.42 |
| **Target Rate** | ≤1.20% | ≤1.20% | ≤1.20% |
| **Actual Rate** | 1.36% | 1.23% | 1.13% |
| **Overpayments** | | | |
| **Dollars** | $3,431.29 | $4,323.93 | $4,121.02 |
| **Target Rate** | ≤5.00% | ≤5.00% | ≤6.00% |
| **Actual Rate** | 6.06% | 7.62% | 7.29% |

Notes:

1. Total federally-administered payments represent estimated program outlays while conducting the annual stewardship reviews and may vary from actual outlays.
2. FY 2018 data will not be available until summer 2019.
3. The percentages and dollar amounts presented in Table 1.2 are based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.
4. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2015, ±0.51 percent for underpayments and ±0.64 percent for overpayments; for FY 2016, ±0.31 percent for underpayments and ±1.08 percent for overpayments; and for FY 2017, ±0.30 percent for underpayments and ±1.04 percent for overpayments.
5. Please note that year-to-year differences from changes in the SSI overpayment error rates from FY 2015 to FY 2016 are statistically significant. The change in the SSI overpayment and underpayment error rates from FY 2016 to FY 2017 are not statistically significant.
6. We strive to reduce improper payments within the constraints of statutory and regulatory requirements and limited resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our SSI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to reduce improper payments, outcomes must be significant to affect our error rate. To have an effect on improper payments, for FY 2017, each tenth of a percentage point in payment accuracy represents about $56.4 million in program outlays for the SSI program.

The graphs below show our estimated SSI underpayment and overpayment rates for the last three years.



## Improper Payment Root Cause Categories

Table 2 lists the major causes of improper payments (overpayments and underpayments) in the OASDI and SSI programs using OMB's seven categories of error.

## Table 2: Improper Payment Root Cause Category Matrix for FY 2017
(Dollars in Millions)

| | OASDI Program | | SSI Program | | DRAA | |
|---|---|---|---|---|---|---|
| Reason for Improper Payment | Overpayment | Underpayment | Overpayment | Underpayment | Overpayment | Underpayment |
| **Program Design or Structural Issue** | $0 | $0 | $0 | $0 | $0 | $0 |
| **Inability to Authenticate Eligibility** | | | | | | |
| Inability to Access Data | $460.36 | $0 | $3,540.68 | $278.50 | $0 | $0 |
| Data Needed Does Not Exist | $0 | $0 | $303.53 | $241.82 | $0 | $0 |
| **Failure to Verify:** | | | | | | |
| Death Data | $795.53 | $0 | $8.23 | $0 | $0 | $0 |
| Financial Data | $0 | $0 | $43.94 | $29.04 | $0 | $0 |
| Excluded Party Data | $0 | $0 | $0 | $0 | $0 | $0 |
| Prisoner Data | $0 | $0 | $0 | $0 | $0 | $0 |
| Other Eligibility Data | $4,031.55 | $30.26 | $40.81 | $40.00 | $0 | $0 |
| **Administrative or Process Error Made by:** | | | | | | |
| Federal Agency | $576.59 | $263.53 | $183.83 | $47.06 | $0 | $0 |
| State or Local Agency | $0 | $0 | $0 | $0 | $0 | $0 |
| Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars) | $0 | $0 | $0 | $0 | $0 | $0 |
| **Medical Necessity** | $0 | $0 | $0 | $0 | $0 | $0 |
| **Insufficient Documentation to Determine** | $0 | $0 | $0 | $0 | $0 | $0 |
| **Other Reason (explain)** | $0 | $0 | $0 | $0 | $0 | $0 |
| **TOTAL** | $5,864.03 | $293.79 | $4,121.02 | $636.42 | $0 | $0 |

Notes:

1. Data Source: FY 2017 OASDI and SSI stewardship reviews. FY 2018 data will not be available until summer 2019.
2. There may be slight variances in the dollar amounts reported due to rounding of source data.
3. Because the amount of death overpayment is small, the estimated amount of error found in our samples varies from year to year.
4. Beginning in 2015, OMB required us to categorize improper payments in our programs into seven categories as defined below:
   - **Program Design or Structural Issue** – Improper payments resulting from the design of the program or a structural issue.
   - **Inability to Authenticate Eligibility** – Improper payments issued because the agency is unable to authenticate eligibility criteria.
     - **Inability to Access Data** – The data needed to authenticate eligibility exists but the agency is unable to access the data prior to making the payment. For our OASDI corrective action related to this improper payment category, refer to the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section; Marital Status Information. For our SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; Financial Accounts (Table 2.7), Wages (Table 2.9), and Other Real Property (Table 2.13).
     - **Data Needed Does Not Exist** – No database or dataset currently exists that the agency can use to check eligibility prior to making the payment. For our SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; In-kind Support and Maintenance (ISM) (Table 2.11).
   - **Failure to Verify Data** – Improper payments issued because the agency or another party administering Federal dollars fails to verify appropriate data to determine whether or not a recipient should be receiving a payment, even though such data exists in government or third-party databases.
     - **Death Data** – Failure to verify that an individual is deceased and the agency pays that individual. For more information, see the Additional Comments section.
     - **Financial Data** – Failure to verify that an individual's or household's financial resources (e.g., current income or assets) do not meet the threshold to qualify him or her for a benefit, and the agency makes a benefit payment to that individual or household. For our corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; Financial Accounts (Table 2.7) and Other Real Property (Table 2.13).
     - **Excluded Party Data** – Failure to verify that an individual or entity has been excluded from receiving Federal payments and the agency pays that individual or entity.
     - **Prisoner Data** – Failure to verify that an individual is incarcerated and ineligible for receiving a payment and the agency pays that individual. For our corrective actions related to this improper payment category, refer to the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section; Prisoner Information.
     - **Other Eligibility Data** – Any other failure to verify data not already listed above, causing the agency to make an improper payment as a result. For OASDI, the leading root causes are SGA and GPO. For SSI, the leading root causes are Living Arrangement and ISM. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; SGA (Table 2.2). For SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; ISM (Table 2.11).
   - **Administrative or Process Errors Made** – Improper payments caused by incorrect data entry, classifying, or processing of applications or payments made by Federal, State, local agencies, or other organizations that administer Federal dollars. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; Increase Post-Entitlement Accuracy (Table 2.4) and Potential Entitlements (Table 2.5). For SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; ISM (Table 2.11).
   - **Medical Necessity**– Improper payments issued to a medical provider who delivers a service or item that does not meet coverage requirements for medical necessity.
   - **Insufficient Documentation to Determine** – Improper payments issued when there is a lack of supporting documentation necessary to verify accuracy of a payment identified in the improper payment testing sample.
   - **Other Reason** – Improper payments caused by payment errors that do not fit in the above categories.

## Improper Payment Corrective Actions

### Major Causes and Corrective Actions for OASDI Improper Payments

Our stewardship review findings over the last five years show that the major causes of overpayments in the OASDI program are SGA and errors in computations. The major cause of underpayments is errors in computations.

#### Substantial Gainful Activity

**Description:**

When disability beneficiaries work, several factors determine whether they can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely, or we do not take the proper actions to process work reports. The following graph shows the five-year rolling average of SGA overpayment deficiency dollars. Please note that year-to-year differences are not statistically significant.

**Historical Figures:**

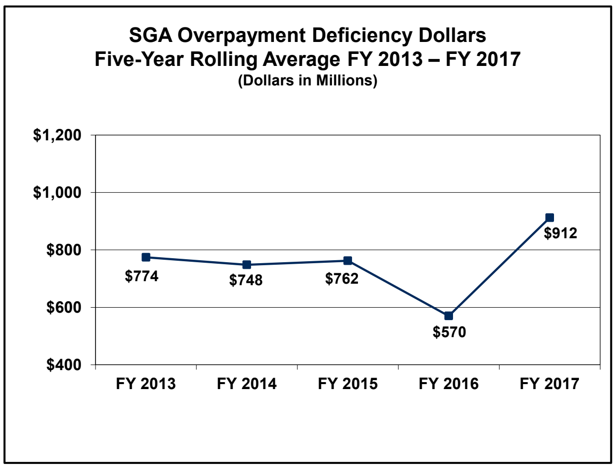



**Table 2.1: SGA Overpayment Deficiency Dollars**
**FY 2013 – FY 2017**
**(Dollars in Millions)**

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| **Overpayments** | $774 | $748 | $762 | $570 | $912 |

**Corrective Actions:**

Table 2.2 shows our actions to ensure timely processing of beneficiaries' earnings. Payment errors based on SGA correspond to the "Failure to Verify: Other Eligibility Data" categories in Table 2.

## Table 2.2: SGA – Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| **Audit Recommendation** | | |
| To help minimize improper payments, we agreed with an audit recommendation to prioritize identifying cases where we failed to terminate the disability payments following medical cessation determinations. | Ongoing | We continue to have ongoing discussions with appropriate stakeholders to enhance our automated solutions to prevent such errors in the future; however, since November 2015, we have released approximately 26,270 cases for corrective action and cessation. This workload continues to be a priority for the agency and once automation is fully implemented, we will see a significant reduction in the workload. |
| **Predictive Model** | | |
| We have developed Work Smart to identify DI beneficiaries who are working and require a work CDR to determine if they should remain in current pay. This process builds on the existing Continuing Disability Review Enforcement Operation (CDREO) by integrating quarterly work CDR alerts using quarterly earnings from the Office of Child Support Enforcement (OCSE). We receive quarterly alerts up to one year earlier than the annual earnings data from the Internal Revenue Service (IRS). This allows us to identify beneficiaries working above SGA up to one year in advance compared to annual earnings. We have also incorporated a Monthly Earnings Pilot (MEP) project, which will use monthly earnings reported by Sections 824 and 826 of the *Bipartisan Budget Act of 2015*. Work Smart includes a national screening program that removes select cases that do not require a work CDR. Using monthly earnings data, we are developing an Auto CDR process that will complete work CDRs for beneficiaries whose monthly earnings remain below SGA during the entire year. | Ongoing | In FY 2018, the Quarterly Earnings Project selected over 30,000 cases requiring a work CDR using OCSE data. These cases were completed up to one year in advance of the annual earnings data.<br><br>In FY 2018, MEP selected about 7,000 cases requiring a work CDR.<br><br>When we implement Section 824 of the *Bipartisan Budget Act of 2015,* we will introduce monthly earnings into Work Smart as another form of earnings data that will allow us to identify beneficiaries working above SGA. Implementation of the information exchange is contingent on awarding a new contract and contract negotiations are currently on hold. Therefore, the target implementation date of Section 824 of the *Bipartisan Budget Act of 2015* information exchange is yet to be determined. |

| Description | Target Completion | Status |
|---|---|---|
| **Legislation and Legislative Proposals** | | |
| Section 826 of the *Bipartisan Budget Act of 2015* requires the Commissioner to establish and implement a system permitting DI beneficiaries to report their earnings electronically. | Completed FY 2017<br><br>Completed FY 2018 | In September 2017, we implemented a new online wage reporting application where Social Security DI beneficiaries and their representative payees can report wages online through their *my* Social Security account.<br><br>In June 2018, we released myWageReport (myWR) for SSI and concurrent beneficiaries to allow recipients, their representative payees, or deemors (e.g., an ineligible spouse or parent living with the recipient) to have a convenient option to report earnings electronically.<br><br>In September 2018, we added new software to perform monthly analysis of paystub information entered into our systems to alert field offices of cases that require a work review. We capture this new alert in our management information to allow management to quickly identify, assign, and monitor. The results will allow us to respond to earnings at the earliest possible point to improve CDR processing times and reduce improper payments. |
| Section 824 of the *Bipartisan Budget Act of 2015* authorizes the Commissioner to establish information exchanges with payroll data providers to obtain wage data to administer the DI and SSI programs and to prevent improper payments. DI and SSI applicants and beneficiaries who give us their authorization to obtain wage information through such an exchange will be exempt from certain statutory penalties for any omission or error in the wages provided by the payroll data provider. | To be determined (TBD) | To implement the *Bipartisan Budget Act of 2015* authority, we obtained executive approval on the business process document and began systems planning and analysis in November 2016. We convened a cross-agency project team to collaborate on implementing Section 824 of the *Bipartisan Budget Act of 2015* and other wage-related provisions.<br><br>In September 2017, we implemented the first phase of Section 824 of the *Bipartisan Budget Act of 2015,* which allows the agency to collect and store authorization from DI and SSI applicants and beneficiaries to obtain their payroll data via the information exchange. Additionally, we have made enhancements to the application we use to process wage determinations for DI to support the information exchange. For example, we added help pages and created notifications of earnings discrepancies. In September 2018, we implemented additional enhancements, such as creating alerts to notify employees that wage data indicates the need for a review.<br><br>For the information exchange under Section 824 of the *Bipartisan Budget Act of 2015*, we are moving forward to develop the agency's requirements and conducting market research needed to announce a contracting opportunity for payroll data providers. Implementation of the information exchange is contingent on awarding a contract. |

## COMPUTATIONS

**Description:**

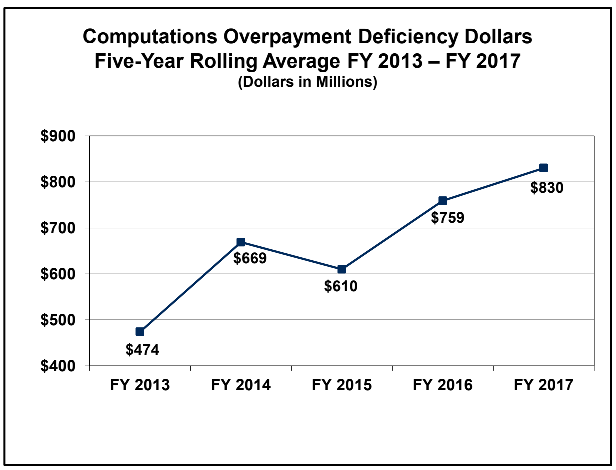
Errors in computations are a major cause of both OASDI overpayments and underpayments. Our goal is to correct and prevent instances where a recipient or beneficiary has potential entitlement to, but is not receiving, a new or higher benefit.

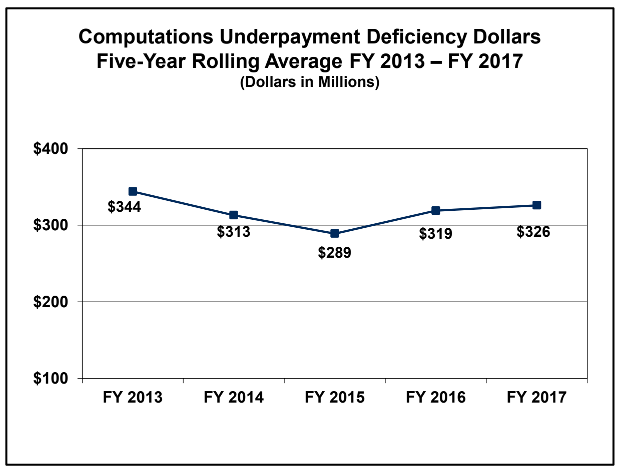
We determine a person's benefit amount based on several factors, including age, earnings history, and the type of benefit awarded.

Inaccurate information or administrative mistakes can cause errors in calculating benefits. For FYs 2013-2017, approximately 72 percent of the computation error dollars resulted in overpayments, with the leading causes being the Windfall Elimination Provision or WEP (a defintion of WEP is available at: www.socialsecurity.gov/pubs/EN-05-10045.pdf), failure to apply the Retirement Insurance Benefit Limitation (RIB-LIM) when applicable, and adjustment of the family maximum or FMAX (an explanation of FMAX is available at: https://www.ssa.gov/OACT/COLA/familymax.html). RIB-LIM applies when a deceased beneficiary would have received a reduced retirement benefit. Under RIB-LIM, the maximum benefit for a surviving spouse or surviving divorced spouse is limited to the larger of 82.5 percent of the deceased beneficiary's death Primary Insurance Amount or the benefit amount that the deceased beneficiary would receive if he or she were still alive. WEP accounted for 63 percent of computation error dollars for the 5-year period, while RIB-LIM and FMAX, respectively, accounted for 9 percent and 8 percent of these error dollars.

**Historical Figures:**

Please note that year-to-year differences are not statistically significant.




### Table 2.3: Computations Deficiency Dollars FY 2013 – FY 2017 (Dollars in Millions)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| **Overpayments** | $474 | $669 | $610 | $759 | $830 |
| **Underpayments** | $344 | $313 | $289 | $319 | $326 |

**Corrective Actions - Increase Post-Entitlement Accuracy**

Recent studies indicate that we can improve accuracy in the areas of processing OASDI work CDRs and other changes to a beneficiary's record after they are already entitled to benefits. To address this issue, we developed

Work Smart. The Work Smart process identifies DI beneficiaries whose earnings put them at risk of being overpaid. The process builds on the current CDREO by integrating quarterly work CDR alerts based on quarterly earnings from OCSE into the CDREO process. We receive quarterly alerts up to one year earlier than the current CDREO alerts, meaning we learn of unreported work more quickly and reduce work-related overpayments. Work Smart will also include a national screening program that removes unproductive work CDRs from the CDREO process so technicians can evaluate cases where a beneficiary is working over SGA.

By addressing post-entitlement accuracy and identifying potential entitlements, we will reduce improper overpayments and underpayments.

Table 2.4 shows our actions to increase our post-entitlement accuracy. Post-entitlement accuracy errors correspond to the "Administrative or Process Error Made by: Federal Agency" category in Table 2.

## Table 2.4: Increase Post-Entitlement Accuracy – Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| Provide better descriptive definitions of the OASDI systems alert, exception, and processing limitation codes to give technicians more precise information on actions needed. | Ongoing | We completed planning and analysis in September 2016. We began updating problematic OASDI system alerts, exceptions, and processing limitation codes with better descriptive definitions in FY 2017. The updates are released on an ongoing basis. We meet monthly to discuss and approve the language of the updates. |
| Review the most problematic overpayment cases being completed in our Office of Disability Operations. Our objective is to determine the root causes of overpayment errors and provide recommendations to address improved processing. | Ongoing | This project is ongoing. We began a national processing center overpayment study in April 2016. In FY 2016, we focused on overpayments due to disability cessation or extended period of eligibility. We published the report in November 2017. Based on our review, we recommended training and a systems enhancement to improve processing. In FY 2017, we focused on overpayments due to annual retirement test permanent deductions and completed a draft report August 2018. Based on our review, we recommended issuing annual earnings test processing reminders to technicians to improve processing. The FY 2018 review of disability overpayments was completed in September 2018 and we expect to issue a report in December 2018. |

Our studies also show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2013, we established a dedicated workgroup and process for evaluating and addressing potential entitlement workloads. To date, we have:

- Initiated four outreach efforts dealing with vulnerable populations such as widows, veterans, the aged, and disabled children.
- Implemented systems changes for three projects dealing with widows, children, and the aged.
- Developed a community outreach plan to promote OASDI surviving parent's benefits.
- Completed analysis on projects involving potential entitlement situations for minor children, Medicare only beneficiaries, military service retirees, and disabled children.
- Selected projects to address in FY 2018. Please see the Corrective Actions in Table 2.5 for a complete list.

Table 2.5 shows our further actions to pursue potential entitlement workloads. Some corrective actions in the table will be implemented over more than one fiscal year. We will identify cases and develop a strategy to prevent recurrences. Payment errors related to potential entitlements correspond to the "Administrative or Process Error Made by: Federal Agency" category in Table 2.

### Table 2.5: Potential Entitlements – Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| Pursue potential entitlement workloads. | Completed FY 2018 | • In FY 2018, key potential entitlement efforts included:<br>○ Completing the processing of 1,249 cases involving childhood disability beneficiaries (CDB) incorrectly charged with a 5-month waiting period in March 2018.<br>○ Processing cases involving 13,934 SSI recipients currently on our rolls who are eligible for CDB benefits. We completed these cases in June 2018.<br>○ Paying veterans who were not given full credit for their military service (i.e., analyzing and preparing military service cases to credit appropriate wages).<br>○ Identifying individuals incorrectly denied retirement benefits due to lack of insured status.<br>○ Identifying Federal employees eligible for benefits and/or Medicare entitlement. |
| | FY 2019 | • In FY 2019, key potential entitlement efforts will include:<br>○ Resuming benefits to 6,365 spouses and children due underpayments because we resumed benefits to the number holder, but did not resume benefits to the auxiliaries following a termination. We completed these cases in October 2018.<br>○ Processing 27,565 cases involving SSI recipients entitled to child benefits on the record of a parent. We expect to complete these cases by March 2019.<br>○ Preparing to conduct outreach to notify at least 20,000 disabled beneficiaries who listed children on their benefit applications, but no application or closeout is present for them, that the children may be due benefits.<br>○ Releasing approximately 12,000 updated outreach notices to Medicare-only beneficiaries who are eligible for retirement benefits, but have not filed an application.<br>○ Conducting outreach to approximately 9,000 workers who were previously denied retirement benefits due to lack of insured status, but are now insured.<br>○ Conducting outreach to approximately 17,000 workers with Medicare Qualified Government Earnings that are eligible for retirement benefits or Medicare coverage that they are not receiving. |

## Major Causes and Corrective Actions for SSI Improper Payments

Our greatest payment accuracy challenges occur within the SSI program. The program's complexities stem from legislation that requires us to determine SSI eligibility and to calculate SSI payments. We generally make SSI payments on the first day of the month for eligibility in that month. Many factors influence SSI payment accuracy. Even if the payment is correct when paid, any changes that may occur during the month can affect the payment due, which can result in an overpayment or underpayment. Thus, the program requirements themselves sometimes cause improper payments. We remain committed to simplifying the SSI program, and we are exploring ways to do this in a fair and equitable manner.

SSI is a means-tested program for individuals with limited income and resources who are blind, disabled, or aged. This program is complex because fluctuations in monthly income, resources, and living arrangements may affect eligibility and monthly payment amounts. Improper payments often occur if recipients (or their representative payees on their behalf) fail to timely report changes in any of these factors (e.g., an increase of their resources or a change in their wages). Failure to report such changes is the primary cause of both overpayment and underpayment errors.

Our stewardship findings over the last five years show that the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial accounts (e.g., bank savings or checking accounts, or credit union accounts);
- Wages;
- In-kind Support and Maintenance (ISM); and
- Other real property (i.e., ownership of non-home real property).

Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in the following:

- ISM;
- Living arrangements; and
- Wages.

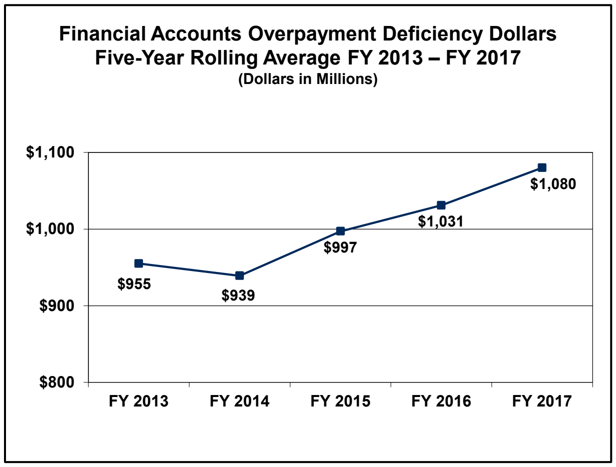
Later in this section, we provide information on our corrective actions for living arrangements under the corrective action for wages.

### Financial Accounts

**Description:**

Financial accounts with countable resources in excess of the allowable resource limits are the leading cause of SSI overpayment errors. When an applicant, recipient, or deemor has financial accounts with values exceeding the allowable resource limits, these accounts may result in periods of SSI ineligibility, which is the leading cause of SSI overpayments.

**Historical Figures:**




## Table 2.6: Financial Accounts Overpayment Deficiency Dollars FY 2013 – FY 2017 (Dollars in Millions)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| **Overpayments** | $955 | $939 | $997 | $1,031 | $1,080 |

**Corrective Actions:**

A claimant, recipient, or deemor must give us permission to request his or her financial records from any financial institution (i.e., financial permission) as an eligibility requirement for SSI. We developed the Access to Financial Institutions (AFI) program to address overpayment errors related to financial accounts. AFI is an automated process that verifies alleged bank account balances with financial institutions to identify potential excess resources in financial accounts held by SSI applicants, recipients, and deemors. In addition to verifying alleged bank accounts, AFI detects undisclosed accounts using unique search criteria called geographic searches. We conduct up to 10 geographic searches per individual for each review. We use AFI to verify financial accounts during the SSI application process, as well as when we conduct periodic redeterminations of continued eligibility, thereby detecting excess resources and deterring reoccurrence.

In an effort to streamline and continue the use of the AFI process, in a future release of our debt management system modernization we plan to implement three AFI systems enhancements that will improve our current process for initiating AFI and reducing improper payments.

Table 2.7 shows our actions to reduce errors related to financial accounts. Payment errors related to financial accounts correspond to the “Inability to Authenticate Eligibility: Inability to Access Data” and “Failure to Verify: Financial Data” categories in Table 2.

## Table 2.7: Financial Accounts – Corrective Actions

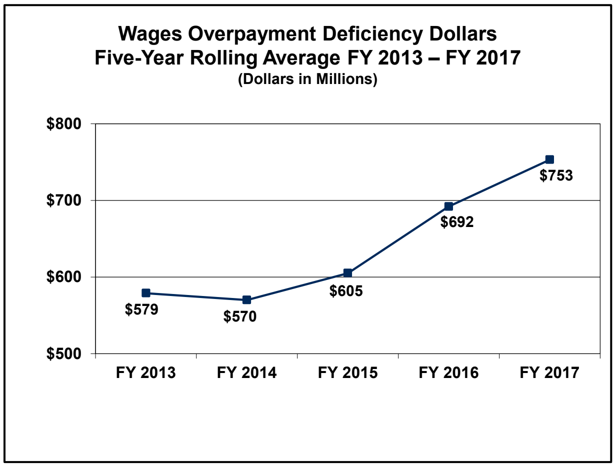
| Description | Target Completion | Status |
|---|---|---|
| Evaluate the effect of increased undisclosed bank account searches and a lowered tolerance that we implemented in October 2013. | Completed FY 2016 | We completed evaluations in the first quarter of FY 2016. Based on these findings, we are recommending that it would not be the most efficient use of our limited program integrity resources to conduct additional AFI searches or to make any additional changes to the process at this time. |
| Conduct study to evaluate benefits of automatically initiating AFI requests during the period between redeterminations of SSI eligibility. This proposal would enable us to prevent improper payments earlier and limit the amount of any overpayments. | Completed FY 2016 | Our study found that it would not be the most efficient use of program integrity resources to use AFI between SSI redeterminations. |
| Implement two AFI systems enhancements that will improve our current process for initiating AFI. | Completed FY 2016 | In October 2015, we added functionality to allow an address, other than the current residence address, for geographic searches in AFI to search the prior address when a person moves.<br>In January 2016, we added functionality to search for financial institutions by the routing transit number when initiating AFI requests. |
| Implement three AFI systems enhancements that will improve our current process for initiating AFI and reducing improper payments. | FY 2020 through FY 2021 | Planning and analysis is to begin in FY 2019. We will implement the following key AFI systems enhancements:<br>• Create an automatic trigger of AFI requests; scheduled for development in FY 2020.<br>• Enhance ability to view attachments from financial institutions; scheduled for development and release in FY 2021.<br>• Automate splitting of co-owned bank account balances; scheduled for development and release in FY 2021. |

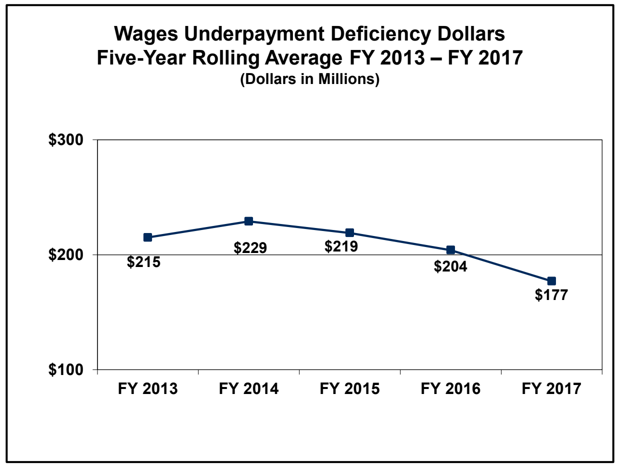
### WAGES

**Description:**

For more than a decade, wage discrepancies have been one of the leading causes of SSI overpayment and underpayment errors. Wage discrepancies occur when the recipient or his or her deemor has actual wages that differ from the wage amount used to calculate the SSI payment.

**Historical Figures:**




## Table 2.8: Wages Deficiency Dollars FY 2013 – FY 2017 (Dollars in Millions)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| **Overpayments** | $579 | $570 | $605 | $692 | $753 |
| **Underpayments** | $215 | $229 | $219 | $204 | $177 |

**Corrective Actions:**

We rely on individuals to self-report wages to us on time. However, we know that they may fail to report or not report wages in time to prevent an improper payment. Section 824 of the *Bipartisan Budget Act of 2015* gives the agency authority to conduct information exchanges with payroll providers to obtain accurate, up-to-date, and relevant wage information to help determine SSI eligibility and to help prevent improper payments. Please see Table 2.9 for more information about the implementation of Section 824 of the *Bipartisan Budget Act of 2015*.

We developed several communication initiatives to help encourage recipients not only to remember to report events that can affect eligibility or payment amounts, such as changes in living arrangements, but also to make it easier for them to comply with reporting requirements. For example, we created a business card that contains information on reporting requirements that field offices give recipients during claims and redeterminations. Recipients can keep this card for future use when reporting wages to us.

Other examples of our corrective actions to address the root causes of wage-related errors include options for recipients (or representative payee on their behalf) or their deemors to report their wages via telephone or a mobile application. Since October 2013, certain recipients, representative payees, and deemors have been able to use these automated reporting tools to report the preceding month's wages at any time in the current month.

- Supplemental Security Income Telephone Wage Reporting (SSITWR)

  In FY 2008, we implemented SSITWR, which allows recipients, representative payees, and deemors to report the prior month's gross wages via an automated telephone system. SSITWR ensures we post the wage amounts to the individual's record timely from the date we received the reported wages.

- Supplemental Security Income Mobile Wage Reporting Application

  Beginning in December 2012, 50 field offices across all 10 regions began a pilot for mobile wage reporting. This initiative allowed certain SSI recipients, representative payees, and deemors to use their smart devices (e.g., smartphone) to report the prior month's gross wages, using an application they can download at no cost from the Google Play and Apple App stores.  The initial pilot was successful, and we expanded it to nearly 270 participating field offices in March 2013.  The expanded phase of the pilot was successful as well, with more than 9,000 wage reports submitted using the mobile application during the entire pilot.  We rolled out the initiative nationally on August 1, 2013, following the release of some minor system improvements made as the result of feedback received during the pilot.

- Automated Reminder

  In September 2013, we implemented an automated SSI wage reporting reminder.  Individuals can voluntarily sign up to receive a monthly email or text message reminder to report wages for the prior month.

- myWageReport

  In September 2017, we released the myWR online application, which allows DI beneficiaries and representative payees to report wages to us and provides a receipt for the report that the reporter can view, print, and save.  DI self-reporters and their representative payees can report wages that occurred within a two-year timeframe from the reporting date.  In June 2018, we added functionality to myWR that allows SSI and concurrent (SSI and DI) wage reporting.  SSI recipients, their representative payees, and deemors have a convenient option to report the preceding month's wages electronically.  Wage receipts generated by myWR are stored in the Online Retrieval System, which provides online retrieval of our notices and other documents.  In an effort to increase use of the myWR application, we will continue to promote the online service to beneficiaries, representative payees, and advocacy groups.

We continue to increase the number of successful wage reports received using our automated SSI wage reporting systems.  We processed 350,000 Telephone Wage reports, which is a decrease of 12 percent compared to the number in FY 2017.  Additionally, in FY 2018, we processed over 856,000 successful SSI Mobile Wage reports, which is an increase of 24 percent over the number in FY 2017.

Table 2.9 shows our actions to reduce errors related to wages.  Payment errors related to wages correspond to the "Inability to Authenticate Eligibility:  Inability to Access Data" category in Table 2.

## Table 2.9: Wages – Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| Request that SSI applicants and recipients provide their consent for us to obtain information from other sources. | Completed FY 2015 | We now capture the SSI recipient's authorization for us to contact commercial entities, including payroll providers, for evidence related to SSI eligibility and payment amount. In addition, we added new print options to allow the claims representative to provide a printed copy of the authorization information to the person who provided the authorization or to any third parties that require proof of authorization prior to releasing personal information to us. |
| Perform a proof of concept (POC) to test whether automated posting of income information available through commercial wage databases offered by private payroll providers would allow us to reduce wage-related improper payments and save administrative resources. | Completed FY 2015 | We gathered data through the POC. The findings revealed that there is value in monthly matching with a payroll provider as wage information is available for the majority of the sample. |
| Section 826 of the *Bipartisan Budget Act of 2015* requires the Commissioner to establish and implement a system permitting DI beneficiaries to report their earnings electronically. | Completed FY 2017 | In September 2017, we implemented a new online wage report application where Social Security DI beneficiaries and their representative payees can report wages online through their *my* Social Security account. |
| Provide an additional option for reporting earnings using authority from Section 826 of the *Bipartisan Budget Act of 2015.* | Completed FY 2018 | In June 2018, we gave SSI recipients, representative payees, and deemors the option of reporting their wages electronically to encourage timely reporting. Receiving timely wage reports will help reduce wage-related improper payments. |

| Description | Target Completion | Status |
|---|---|---|
| Section 824 of the *Bipartisan Budget Act of 2015* authorizes the Commissioner to establish information exchanges with payroll data providers to obtain wage data to administer the DI and SSI programs and to prevent improper payments. DI and SSI applicants and beneficiaries who give us their authorization to obtain wage information through such an exchange will be exempt from certain statutory penalties for any omission or error in the wages provided by the payroll data provider. | TBD | To implement the *Bipartisan Budget Act of 2015* authority, we obtained executive approval on the business process document and began systems planning and analysis in November 2016. We convened a cross-agency project team to collaborate on implementing Section 824 of the *Bipartisan Budget Act of 2015* and other wage-related provisions.<br><br>In September 2017, we implemented the first phase of Section 824 of the *Bipartisan Budget Act of 2015*, which allows the agency to collect and store authorization from DI and SSI applicants and beneficiaries to obtain their payroll data via the information exchange. Additionally, we have made enhancements to the application we use to process wage determinations for DI to support the information exchange. For example, we added help pages and created notifications of earnings discrepancies. In September 2018, we implemented additional enhancements, such as creating alerts to notify employees that wage data indicates the need for a review.<br><br>For the information exchange under Section 824 of the *Bipartisan Budget Act of 2015*, we are moving forward to develop the agency's requirements and conducting market research needed to announce a contracting opportunity for payroll data providers. Implementation of the information exchange is contingent on awarding a contract. |

### IN-KIND SUPPORT AND MAINTENANCE

**Description:**

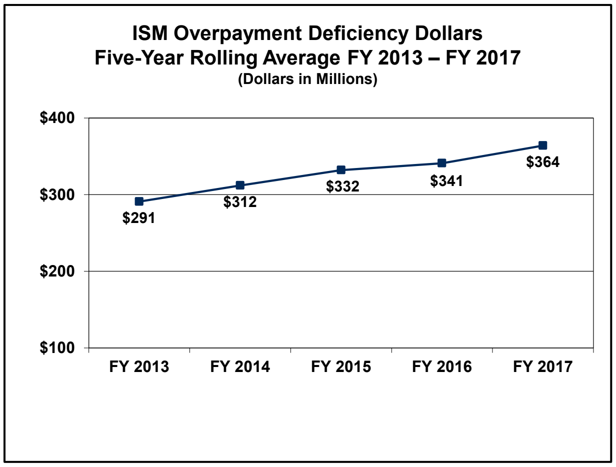
We must develop for ISM under the law. The basis for charging ISM is found in Section 1612(a)(2)(A) of the *Social Security Act* (www.socialsecurity.gov/OP_Home/ssact/title16b/1612.htm). ISM refers to the SSI policy for reducing benefit amounts for recipients who receive support in the form of food, shelter, or both from family, friends, or other third party sources. The law requires us to reduce an individual's benefit amount by one-third when he or she is living in another person's household and receiving support and maintenance, which for our purposes is food and shelter. Determining whether an individual receives ISM requires that claimants and recipients report changes in their living arrangement in a timely manner and answer detailed questions about whom they live with, what their household expenses are, how they divide those expenses among household members, and what help they receive from outside of the household.

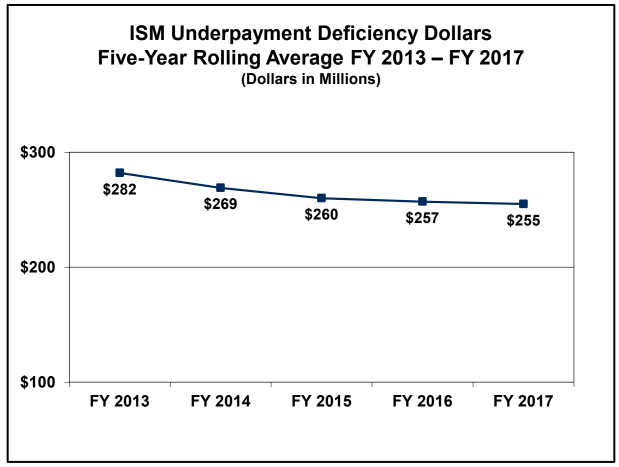
Every time we process an application for SSI benefits, develop a redetermination of eligibility for SSI benefits, or receive a change of address report, and the recipient alleges a living arrangement change that is not documented in our claims system, we need to develop and possibly recalculate for ISM.

In certain situations, our development may be retroactive up to a period of two years depending on the redetermination review period. We must develop for the possibility of ISM from the first change in living arrangement reported by the recipient to the present living arrangement. In addition, if a recipient reports a change in living arrangement and we discover that a prior living arrangement change was not reported, we must develop and possibly recalculate ISM from the first change in living arrangement reported by the recipient to the present living arrangement. These situations, along with the lack of reports of livings arrangements by claimants and recipients, may create overpayments and underpayments.

We ask questions to help us determine if claimants or recipients are paying their share of the household expenses. If they are not paying their fair share, we generally count the difference between the fair share amount and the actual contribution as income to the claimant in the form of ISM.

**Historical Figures:**




## Table 2.10: ISM Deficiency Dollars
## FY 2013 – FY 2017
### (Dollars in Millions)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| **Overpayments** | $291 | $312 | $332 | $341 | $364 |
| **Underpayments** | $282 | $269 | $260 | $257 | $255 |

**Corrective Actions:**

Table 2.11 shows our actions to reduce errors stemming from ISM. Payment errors stemming from ISM correspond to the “Inability to Authenticate Eligibility: Data Need Does Not Exist,” “Failure to Verify: Other Eligibility Data,” and the “Administrative or Process Error Made By: Federal Agency” categories in Table 2.

## Table 2.11: ISM – Corrective Actions

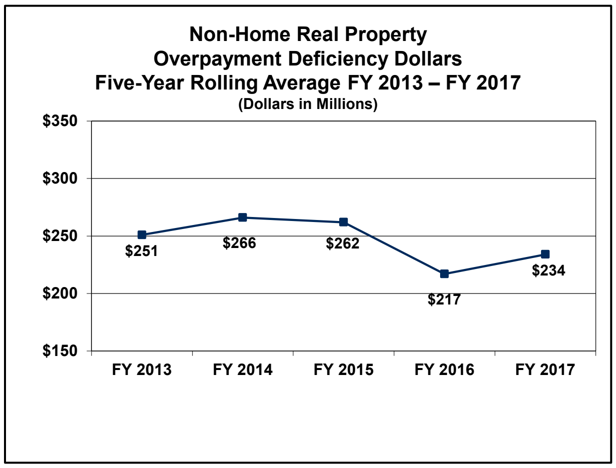
| Description | Target Completion | Status |
|---|---|---|
| **Statutory, Regulatory, Policy and Procedure Review** | | |
| We frequently review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes. | Ongoing | Based on our reviews, we issue periodic reminders and policy clarifications, as needed. We will continue to work with Congress and other stakeholders to identify possible statutory/regulatory/policy changes. |
| **Legislative Proposal** | | |
| Currently, SSI recipients can receive lower benefits if they are earning, or otherwise receiving, income. This includes non-cash income, such as assistance by a roommate or family member in paying the recipient's share of the household expenses such as food and shelter. This type of income is called ISM and is difficult to accurately value, because it can fluctuate each month as household expenses and composition and the type of assistance provided may change. The FY 2019 President's Budget includes a proposal that would replace ISM with a flat-rate benefit reduction for adults living with other adults.<br><br>This proposal would make two additional changes to simplify the program and reduce the burden on recipients and representative payees. It would eliminate the holding out policy, which requires our agency to ask invasive questions to determine whether two unrelated adults who live together, and are not married, are holding themselves out to their community as being married. It would also eliminate the dedicated account policy, which requires representative payees to open separate accounts to receive SSI underpayments and limits how funds in the accounts can be used. These requirements confuse representative payees, who are often parents, and restrict their ability to decide which expenditures are in the best interests of their disabled children. | Pending | No congressional action to date. |

## Other Real Property

**Description:**

SSI ineligibility may result if a recipient owns real property (generally land and the building, such as a house, on the land) other than his or her principal place of residence (referred to as "non-home real property"), and the current equity value exceeds the resource limit. Undisclosed non-home real property is a leading cause of improper overpayments in the SSI program. For the five-year period from FY 2013-2017, our FY 2017 stewardship reviews identified non-home real property as the fourth leading cause of SSI overpayments, with average projected improper payments of $234 million in SSI overpayments. We currently rely on the applicant or recipient to report ownership of non-home real property. Our corrective actions, discussed on the following page, require our technicians to identify undisclosed property owned by the claimant, recipient, or deemor via an electronic process.

**Historical Figures:**




### Table 2.12: Non-Home Real Property Overpayment Deficiency Dollars FY 2013 – FY 2017 (Dollars in Millions)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| **Overpayments** | $251 | $266 | $262 | $217 | $234 |

**Corrective Actions:**

Real property ownership information is available publicly for all 50 States through commercial data providers (e.g., *LexisNexis/Accurint*). To test the value of using a commercial provider to identify undisclosed real property, we studied the use of *LexisNexis/Accurint* in SSI claims and redeterminations. This study indicated that the use of this data could reduce SSI overpayments associated with the ownership of undisclosed property by SSI claimants and recipients. In November 2015, we began pursuing nationwide expansion of non-home real property integration with the SSI Claims System. The process integrates third-party, non-home real property ownership data directly into the SSI Claims System path as a lead for further development. We implemented the process nationwide at the end of FY 2017.

Table 2.13 shows our actions to reduce errors related to non-home real property. Payment errors related to non-home real property correspond to the “Inability to Authenticate Eligibility: Inability to Access Data” and “Failure to Verify: Financial Data” categories in Table 2.

## Table 2.13: Other Real Property – Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| Fully integrate third-party, non-home real property data with SSI systems for mandatory use during initial claims, initial claim appeal reversals, denied claim reopenings, and high-error redetermination interviews and optional use during other open claim events. | Completed FY 2017<br><br>Completed FY 2018 | In September 2017, we fully implemented the process nationwide for initial claims and high-error redeterminations interviews.<br><br>In August 2018, we fully implemented the process nationwide for initial claim appeal reversals and denied claim reopenings. |
| Apply an automated process for receiving commercial records on real property ownership and integrate with SSI systems. | Completed FY 2018<br><br>FY 2019 | We are currently using commercial records on real property ownership to determine if an individual owns non-home real property that may count as an excess resource. Receiving timely real property ownership data will help reduce non-home real property-related overpayments.<br><br>Evaluate outcomes for integrating third party, non-home real property data with SSI systems. Define a plan and baseline for measuring effectiveness. |

## Other Major Causes and Corrective Actions in the OASDI and SSI Programs

The following key initiatives enhance our program integrity efforts.

### Windfall Elimination Provision and Government Pension Offset

**Description:**

WEP and GPO are benefit reductions/offsets that apply to Social Security benefits of those individuals who worked in non-covered employment (i.e., did not pay Social Security taxes on their earnings) and who receive a pension based on those non-covered earnings. The majority of these non-covered workers are in Federal, State, or local government service.

In total, WEP and GPO errors lead to a large dollar value of improper payments. There are several reasons for this; the root causes for the problems are the lack of:

- Accurate data to administer the WEP and GPO provisions;
- Automation to minimize human error and ensure timely action in response to existing alerts;
- Understanding among agency technicians of how non-covered pensions work (e.g., whether the payments are recurring or issued in a lump sum or whether there may be a cost-of-living adjustment, which is key to correctly administering the WEP and GPO provisions); and
- Understanding among agency technicians of how to administer the WEP and GPO provisions, in terms of computations and any exceptions.

We have a multi-pronged approach to address each of the underlying causes of improper payments:

- Pursue new data;
- Enhance automation;

- Clarify policy instructions; and
- Enhance training specific to the more common WEP/GPO errors.

We formed a cross-agency work group to:

1. Review all Office of the Inspector General (OIG) and internal studies over the past five years to compile a comprehensive list of identified changes in WEP/GPO implementation;
2. Assess the root causes of improper payments based on these changes; and
3. Develop policy, data, systems, or training solutions in line with each of the root causes of improper payments.

## Table 2.14: Windfall Elimination Provision and Government Pension Offset Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| Policy Clarification | Completed FY 2017 | We updated and modified policy and process documentation to focus on those areas of WEP/GPO administration that have been most error prone, such as beneficiaries who are dually-entitled. We made the last policy clarification in May 2017. |
| Targeted Training | Completed FY 2017 | We developed and conducted a series of videos on demand on WEP and GPO that specifically target the error prone areas. We aired the last video series broadcast to a nationwide audience in April 2017. |
| Enhanced Automation | Completed FY 2018 | We are pursuing a series of systems changes that will automate calculations for non-covered pensions. Our goal is to reduce human error, prompt additional questions of likely non-covered pension recipients to encourage accurate self-reporting, and automate notices to claimants to obtain updated pension information more timely. We proposed 7 automation enhancements and successfully implemented 3 in FY 2017, and the remaining 4 in FY 2018.<br><br>We implemented new WEP and GPO alerts that identify dual-entitlement cases. These alerts occur when the beneficiary may be subject to both the WEP and GPO provisions, but either WEP information is missing from the primary numberholder record or GPO information is missing on the secondary (spousal) record. In FY 2017, we completed a one-time run and released the alerts to our processing centers. In FY 2018, we converted the one-time run into a cyclical process. Beginning in FY 2019, there will be annual alerts generated to the processing centers. |
| Pursuit of New Data | FY 2019 | We have been in ongoing discussions with the IRS to obtain non-covered pension information. |

### DATA EXCHANGES

We developed a strategic initiative focused on making further use of data exchanges to further use data from outside sources to improve program administration and prevent improper payments.

**Description:**

Our objective is to continue current computer matching agreements (CMA) that yield a positive cost benefit analysis, expand effective CMAs to meet additional program needs, research current programs, work with internal stakeholders to identify data exchange needs, and pursue new data exchanges with potential partners.

Currently, we conduct 23 CMAs with various Federal partners to obtain benefit payment data, wage data, unemployment data, fugitive felon identification, savings securities, workers' compensation, residency information, and nursing facility admission data that we use to determine eligibility and offset benefits for our programs.

The total annual savings attributed to these CMAs is approximately $7.2 billion, with an annual cost of approximately $216 million yielding a positive benefit-to-cost ratio of 33 to 1.

Table 2.15 shows our efforts to pursue additional data exchanges to improve our OASDI and SSI improper payment identification and prevention efforts.

## Table 2.15: Data Exchanges – Corrective Actions

| Description | Target Completion | Status |
|---|---|---|
| Establish a data exchange agreement with the Department of Homeland Security (DHS) to obtain information necessary to identify when SSI recipients and OASDI beneficiaries are out of the country. SSI recipients are ineligible for payments if they are out of the country 30 or more consecutive days or for an entire calendar month. Generally, U.S. citizens can receive OASDI benefits regardless of place of residence. Non-citizens may be subject to additional residency requirements. | FY 2019 | We conducted a pilot study that focused on the use of the travel data for the SSI program. We compared travel data in the DHS Arrival and Departure Information System (ADIS) to travel data on SSI records for a random sample of SSI non-citizens who traveled outside of the United States for 30 consecutive days or more. Results of the pilot study showed positive program savings from utilizing the ADIS data. When fully implemented, we estimate around $45 million in potential detectable or preventable SSI overpayments if we had access to citizen and non-citizen travel data. We expect to complete the CMA in FY 2019 and implement this initiative in a phased approach, starting with DHS' web service, then moving to a fully automated exchange. |

### Prisoner Information

We completed two of our three initiatives to diminish improper payments in the prisoner suspension area. First, because of our efforts in FY 2017 to reemphasize the prisoner program suspension and reinstatement requirements to our technicians, we suspended monthly benefits to nearly 42,000 OASDI beneficiaries and slightly more than 73,000 SSI recipients. Second, our monitoring process tracks and controls the return of incorrectly paid incentive payments from overpaid correctional institutions. When incorrectly paid incentive payments are identified, we recoup the payment and credit it back to our combined OASDI Trust Funds and General fund. We could not implement our third initiative to capture inmate population files from the largest State correctional institutions. Our reporting agreements with our State correctional institutions required revisions to capture this specific inmate information. We have recently revised our model reporting agreements, and we will begin renegotiating agreements with current reporters in FY 2019 to request State and local correctional inmate population reports. Obtaining this inmate data will help us determine if we are receiving complete prisoner information from each of these State correctional reporters.

### Marital Status Information

Currently, we rely on OASDI beneficiaries and SSI recipients to self-report marriages and divorces because these events can be material to their entitlement to benefits. When beneficiaries fail to report a marriage or divorce timely, improper payments can occur. An exchange with the National Association for Public Health Statistics and Information Systems to obtain electronic marriage and divorce data from the States is among our long-term data exchange strategies to help us reduce improper payments in the OASDI and SSI programs due to unreported or untimely reported marriage and divorce events.

Marital status information errors correspond to the "Inability to Authenticate Eligibility: Inability to Access Data" categories in Table 2.

## Major Causes and Corrective Actions for Improper Administrative Payments

The major causes of improper administrative payments (overpayments and underpayments) include:

- Incorrect amounts paid to vendors and employee for travel (including duplicate payments);
- Health benefit debts due to insufficient employee pay (e.g., in a non-pay status); and
- Employee salary overpayment due to processing retroactive timesheet corrections and personnel actions.

Corrective actions include:

- The majority of the incorrect amounts paid in FY 2017 (for vendor and travel payments) were due to two errors. The first error occurred with an *Equal Access to Justice Act* payment request that was submitted for the wrong amount. The second error occurred during the processing of a payment where a dollar sign on the invoice amount was mistaken as a number. We recovered both overpayments within one month of the incorrect payments. To prevent similar occurrences, we reviewed our internal procedures, notified the appropriate personnel involved in the improper payment, and determined that existing internal controls are adequate.
- Health benefit debts are a major cause of payroll and benefits improper payments. These debts automatically occur when an employee, who has health benefits coverage, is in a non-pay status for the entire pay period or if there are insufficient funds to make the current pay period deduction. The employee now becomes indebted to the agency because we paid both the employee and agency's share.
- Retroactive timesheet corrections are another major cause of payroll and benefits improper payments. Timesheets sometimes need to be adjusted retroactively due to normal business processes, such as early closeouts (e.g., an employee is paid based on estimated hours of work, but the employee then requests to change leave without pay to paid leave or advanced leave to leave without pay), late approval of overtime or compensatory time requests, and other appropriate reasons for retroactive changes.
- Retroactive personnel actions are another major cause of payroll and benefits improper payments. Personnel actions are sometimes delayed, and actions must be backdated to the appropriate point in time. Retroactive timesheet corrections and personnel actions also sometimes occur due to coding errors. In those cases, additional training is provided for appropriate personnel, and internal controls are reviewed to ensure they are adequate.

  For timesheet and personnel action corrections, we recalculate the employee's record for the earliest pay period affected for actions that occurred within the last 52 pay periods. A negative result indicates that the employee was overpaid, and the system automatically creates a debt. An action that exceeds 52 pay periods cannot be processed through the electronic system; therefore, we must enter the debt manually.

  To address the major causes of payroll and benefits improper payments, we are implementing recent updates to OMB Circular No. A-123, which will:

  - Broaden our efforts to identify improper payments;
  - Train staff on new data querying tools; and
  - Develop new baseline metrics.

Please note that for government-wide reporting purposes, we treat our FY 2017 findings as FY 2018 data. We will not have FY 2018 data until January 2019. We will report our findings from the FY 2018 reviews in next year's *Payment Integrity* report.

## Reduction Targets

Table 3 below presents our accuracy targets for FYs 2018 and 2019 for the OASDI program. In the OASDI program, our goal is to maintain a 99.8 percent payment accuracy rate.

### Table 3: OASDI Improper Payments Reduction Outlook FY 2018 – FY 2019 (Dollars in Millions)

| | FY 2018 Target | | FY 2019 Target | |
|---|---|---|---|---|
| **OASDI** | **Dollars** | **Rate** | **Dollars** | **Rate** |
| **Total Benefit Payments** | $976,472.32 | | $1,036,287.72 | |
| **Underpayments** | $1,952.94 | ≤0.20% | $2,072.58 | ≤0.20% |
| **Overpayments** | $1,952.94 | ≤0.20% | $2,072.58 | ≤0.20% |

Notes:

1. Total OASDI benefit payments for FYs 2018-2019 are estimates consistent with projections for the Mid-Session Review of the FY 2019 President's Budget.
2. FY 2018 data will not be available until summer 2019; therefore, the rates shown for FY 2018 are targets.
3. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.

Table 3.1 presents our target accuracy goals for FYs 2018 and 2019 for the SSI program.

### Table 3.1: SSI Improper Payments Reduction Outlook FY 2018 – FY 2019 (Dollars in Millions)

| | FY 2018 Target | | FY 2019 Target | |
|---|---|---|---|---|
| **SSI** | **Dollars** | **Rate** | **Dollars** | **Rate** |
| **Total Federally Administered Payments** | $57,403.53 | | $58,392.90 | |
| **Underpayments** | $688.84 | ≤1.20% | $700.71 | ≤1.20% |
| **Overpayments** | $3,444.21 | ≤6.00% | $3,503.57 | ≤6.00% |

Notes:

1. Total federally administered SSI payments for FYs 2018-2019 are estimates consistent with projections for the Mid-Session Review of the FY 2019 President's Budget, adjusted to be presented on a constant 12-month per year payment basis.
2. FY 2018 data will not be available until summer 2019; therefore, the rates shown for FY 2018 are targets.

# RECAPTURE OF IMPROPER PAYMENTS REPORTING

## INFORMATION ON PAYMENT RECAPTURE AUDIT PROGRAM

In this section, we discuss how we meet the payment recapture audit requirements of IPERA for our OASDI and SSI programs and administrative payments.

### PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136 requires agencies that have programs or activities that are susceptible to significant improper payments to report about their payment recapture audit activities. However, we are unable to segregate our improper payments from our total overpayment aggregate for our OASDI and SSI benefit payments since some overpayments are not improper according to the definition of improper payments in IPIA. Certain overpayments are unavoidable and not improper if statute, regulation, or court order requires these payments (such as continued payments required by due process procedures). Table 4 shows our OASDI and SSI overpayment experience, inclusive of improper payments.

In addition, some overpayments are uncollectable. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards based on the following criteria:

- The cost of collection does not justify the enforced collection of the full amount;
- The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
- The debt has been discharged in bankruptcy; or
- The debtor has requested a waiver or review of the debt and the agency determines that such request is credible.

### PROGRAM RECOVERY TARGETS

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). As shown in Table 4, we determine our payment recapture recovery targets for benefit payments for FY 2019 and FY 2020 based on our FY 2018 experience. Certain uncontrollable factors affect our payment recapture recovery targets. For example, the state of the economy affects the availability of employment. We generally experience greater collections from our external debt collection tools when employment is abundant and former OASDI beneficiaries and SSI recipients are working.

Table 4 shows our results from our payment accuracy reviews for our OASDI and SSI programs and administrative payments.

## Table 4: Overpayment Payment Recaptures with and without Recapture Audit Programs
### (Dollars in Millions)

| Overpayments Recaptured through Payment Recapture Audits | | | | | |
|---|---|---|---|---|---|
| Program or Activity | Benefits | | Other | | Total |
| | OASDI | SSI | Payroll and Benefits | Vendor and Travel | |
| **Amount Identified (FY 2018)** | $13,846.98 | $14,379.25 | $4.42 | $0.50 | $28,231.15 |
| **Amount Recaptured (FY 2018)** | $2,572.25 | $1,358.73 | $2.42 | $0.48 | $3,933.88 |
| **FY 2018 Recapture Rate** | 19% | 9% | 55% | 96% | 14% |
| **FY 2019 Recapture Rate Target** | 21% | 11% | 100% | 100% | 14% |
| **FY 2020 Recapture Rate Target** | 21% | 11% | 100% | 100% | 14% |

| Overpayments Recaptured outside of Payment Recapture Audits | | | | | |
|---|---|---|---|---|---|
| Program or Activity | Benefits | | Other | | Total |
| | OASDI | SSI | Payroll and Benefits | Vendor and Travel | |
| **Amounts Identified (FY 2018)** | $0.00 | $0.00 | We do not have separate totals for payroll and benefits or vendor and travel. See Total column. | We do not have separate totals for payroll and benefits or vendor and travel. See Total column. | $2.20 |
| **Amounts Recaptured (FY 2018)** | $0.00 | $0.00 | We do not have separate totals for payroll and benefits or vendor and travel. See Total column. | We do not have separate totals for payroll and benefits or vendor and travel. See Total column. | $0.98 |

Notes:

1. This table comprises all identified and recovered benefit program overpayments from our benefit payment recapture audit program for the specified fiscal year. Overpayments identified or recovered in a specified year include debt established in prior years. We do not recapture benefit overpayments outside of our payment recapture audits for benefit payments.
2. The Amounts Identified for benefit payments are debt available for recovery in FY 2018. These amounts include debts identified in previous fiscal years that were not recovered or were determined to be uncollectible.
3. The Amounts Recaptured for benefit payments are FY 2018 recoveries from debt we had available for recovery in FY 2018, which include debts identified in prior years.
4. We do not consider every overpayment improper according to the definition contained in IPIA.
5. We based the recapture rate target for benefit payments on FY 2018 and prior years' experience and the anticipated growth of our benefit payments in FY 2019 and FY 2020.
6. This table comprises all identified and recovered administrative overpayments from our internal payment recapture audit program for administrative payments. We include these administrative payments under the table heading titled, "Other."
7. Totals for Amount Identified (FY 2018) and Amount Recaptured (FY 2018) for administrative payments are from our internal payment recapture audit in FY 2017. Overpayments identified or recaptured in FY 2017 include debt established in prior years.
8. For the overpayments recaptured outside of payment recapture audits, the totals are derived from multiple sources and mainly include identified and recovered administrative overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which we discuss in the Recapture of Improper Payments Reporting section of this *Payment Integrity* report. We do not have separated totals for payroll and benefits or vendor and travel.
9. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2017 but could have occurred in a prior year.
10. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive dollar amounts and percentages from unrounded source data.
11. We return all amounts recaptured to the original appropriation from which the payment was made.

## Benefit Payments

### Payment Recapture Audit Program

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts. We have a multi-pronged approach to conducting payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, specialists with extensive expertise in our benefit programs and business processes conduct our stewardship reviews. These employees review a sample of OASDI and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, contact third parties as needed, and redevelop all non-medical factors of eligibility and payment amount for the review period. We use these data to identify payment accuracy, as well as our strengths and weaknesses, which allows us to target our resources to take corrective actions that yield the highest return on investment.

In our field offices, processing centers, and State DDS, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. In August 2018, we reached a milestone by eliminating our medical CDR backlog with the release of all available medical CDRs for FY 2018. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first complete those CDRs and redeterminations that will likely result in the greatest savings. Please see the section of this *Payment Integrity* report titled, Agency Information Systems and Other Infrastructure, Human Capital, for information on savings.

CDRs and SSI redeterminations are our most effective payment recapture program integrity activities because they both identify cases where we should discontinue benefit payments. To support CDRs and redeterminations, we specifically request dedicated funding through the normal budget process.

## Administrative Payments

### Internal Payment Recapture Audit Program

As shown in Table 4.1, we segment administrative payments into several categories to analyze and determine the vulnerability of these outlays to improper payments.

**Table 4.1: FY 2017 Administrative Expenses**
**(Dollars in Millions)**

| | |
|---|---|
| **Payroll and Benefits** | $6,831 |
| **State DDS** | $1,889 |
| ***American Recovery and Reinvestment Act* (ARRA)[1]** | $6 |
| **Other Administrative Expenses[2]** | $3,582 |
| **Total Administrative Expenses** | $12,308 |

Notes:

1. ARRA expenses consist of National Support Center building costs only.
2. Other Administrative Expenses includes vendor, travel, transportation, rents, communications and utilities, printing and reproduction, other services, supplies and materials, equipment, land and structure, grants, subsidies and contributions, information technology systems, OASI and DI Trust Fund operations, other dedicated accounts, other reimbursable, interest and dividends, and insurance claims and indemnities.

We conduct annual payment accuracy reviews as part of our payment recapture audit program. Results from the audit program and quality review process continue to confirm that our administrative payments are well below the OMB threshold for reporting improper payments.

In the paragraphs below, we indicate the categories from Table 4.1 or payment types within a category that we did not review because it was not cost effective. As required by OMB Circular No. A-136, we notified OMB in September 2015 that certain categories and payment types within a category are not cost effective to review; and therefore, are excluded from our payment recapture audit program.

For FY 2017, the internal recovery audit program included a review of the following payment categories from Table 4.1: Payroll and Benefits and Other Administrative Expenses.

Payroll and benefits account for a majority of our total administrative expenses. For FY 2017, we found approximately $4.42 million in improper payroll overpayments out of $6,831 million payroll payments, which yielded a 0.06 percent improper overpayment rate. We return all amounts recovered to the original appropriation from which the overpayment was made.

From the Other Administrative Expenses category, we review vendor and employee travel payments using an existing internal recovery audit program that contains a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify duplicate payments made to the same vendor, with the same invoice date, and for the same amount;
- An annual payment accuracy review examining select criteria on a random sample of payments to identify improper payments or a weakness in the internal payment recapture audit program; and
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

In FY 2017, we reviewed $1.57 billion in vendor and travel payments out of $1.60 billion subject to review. We elected to exclude incomplete cost-type contracts from the scope of the recovery audit since they have payments that are interim, provisional, or otherwise subject to further adjustment by the Federal Government in accordance with the terms of the contract.

We identified total vendor and travel improper overpayments of $0.504 million, approximately 0.03 percent of total payments subject to review. As of the end of FY 2017, almost $41,000 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivables balance reflected the timing of when we issued the request for overpayment refund. Our recovery goal for all vendor and travel overpayments is 100 percent. We return all amounts recovered to the original appropriation from which the overpayment was made.

Within the Other Administrative Expenses category, we exclude, from our payment recapture audit program, payments made via electronic payment systems because they are not cost-effective to review for the following reasons:

- The excluded payments are not usually susceptible to improper payments because they utilize interfaced systems that require little manual intervention and include strong system controls to prevent improper payments.
- In November 2011, we awarded a contract to a vendor to perform a payment recapture audit of all our administrative payments, including the Other Administrative Payments category. Of $23,282 million in payments reviewed (spanning three fiscal years), the auditors identified, and we confirmed and recovered, improper payments totaling $29,191, approximately 0.00013 percent of the payments reviewed. The few improper payments identified were either vendor or DDS payments.

For State DDS payments, our 10 regional offices review amounts drawn against pre-approved DDS spending plans. For payment accuracy, our OIG reviews the DDS payments on a rotational basis. We use our OIG's findings, if any, to enhance our payment controls.

For ARRA payments, we rely on our OIG's audits of the ARRA funds as part of our payment recapture audit program for administrative payments. ARRA payments made up only 0.05 percent of our total administrative expenses in FY 2017.

Not all administrative overpayments are collectable. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards based on the following criteria:

- The cost of collection does not justify the enforced collection of the full amount;
- The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
- The debt has been discharged in bankruptcy; or
- The debtor has requested a waiver or review of the debt and the agency determines that the request is credible.

### ADMINISTRATIVE PAYMENTS RECOVERY TARGETS

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. Table 4 shows our targets for our administrative payment recapture audit program. We strive to recover all administrative overpayments, and established a 100 percent target. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former employees and duplicate payments to vendors. We use various tools for collection, including offset of subsequent vendor payments, the Treasury Offset Program (TOP), and Administrative Wage Garnishment (AWG).

## Disposition of Payment Recapture Funds

### Table 5: Disposition of Funds Recaptured Through Payment Recapture Audit Programs
(Dollars in Millions)

| Amount Recaptured | | Disposition of Recaptured Funds | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Program or Activity | Amount Recaptured | Agency Expenses to Administer the Program | Payment Recapture Auditor Fees | Financial Management Improvement Activities | Original Purpose | Office of the Inspector General | Returned to Treasury | Other[1] |
| **Benefit** | $3,930.98 | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not Applicable | $3,930.98 |
| **Administrative** | $2.90 | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not Applicable | $2.90 |

Note:

1. We return all amounts recaptured to the original appropriation from which the payment was made for our OASDI and SSI benefits and administrative payments.

## Aging of Outstanding Overpayments

OMB Circular No. A-136 requires agencies to develop an aging schedule of the amount of outstanding overpayments identified through their payment recapture audit program (i.e., overpayments that have been identified but not recaptured). Table 6 shows our aging schedule for our OASDI and SSI programs and our administrative payments.

## Table 6: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
### (Dollars in Millions)

| Program or Activity | | FY 2018 Amount Outstanding (0 to 6 Months) | FY 2018 Amount Outstanding (6 Months to 1 Year) | FY 2018 Amount Outstanding (Over 1 Year) | FY 2018 Amount Determined to not be Collectable |
|---|---|---|---|---|---|
| **OASDI** | **Overpayment Dollars** | $953.06 | $553.31 | $2,459.68 | $489.38 |
| | **Percent of Total Outstanding** | 24% | 14% | 62% | 12% |
| **SSI** | **Overpayment Dollars** | $939.49 | $616.43 | $4,680.01 | $280.08 |
| | **Percent of Total Outstanding** | 15% | 10% | 75% | 4% |
| **Payroll and Benefits** | **Overpayment Dollars** | $1.89 | $0.54 | $1.59 | $0.55 |
| | **Percent of Total Outstanding** | 47% | 13% | 40% | 14% |
| **Vendor and Travel** | **Overpayment Dollars** | $0.01 | $0.01 | $0.02 | $0.00 |
| | **Percent of Total Outstanding** | 25% | 25% | 50% | 0% |
| **TOTAL** | **Overpayment Dollars** | $1,894.45 | $1,170.29 | $7,141.30 | $770.01 |
| | **Percent of Total Outstanding** | 19% | 11% | 70% | 8% |

Notes:

1. The aging of outstanding overpayments begins when the overpayment is delinquent, which is generally when no voluntary payment has been made 30 days after the latest of the following dates:
   - The debt was established on our system for OASDI;
   - The initial overpayment notice for a debt established on the SSI system;
   - The last voluntary payment;
   - An installment arrangement;
   - A decision on an individual's request to reconsider the existence of the overpayment; or
   - A waiver denial.
2. Totals for payroll and benefits payments and vendor and travel payments are from our internal payment recapture audit in FY 2017.
3. Total Outstanding are overpayments that have not been recaptured, waived, or written-off through the end of FY 2018 for OASDI overpayments and SSI overpayments. For payroll and benefits overpayments and vendor and travel overpayments, Total Outstanding are overpayments that have not been recaptured, waived, or written-off through the end of FY 2017.
4. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive dollar amounts and percentages from unrounded source data.
5. FY 2018 Amount Determined to not be Collectable is not included in the amount outstanding or total outstanding.

## ADDITIONAL COMMENTS

### AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI, AND SSI PROGRAMS

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected $3.931 billion in OASDI and SSI benefit overpayments in FY 2018 at an administrative cost of $0.07 for every dollar collected. We collected $17.8 billion over a 5-year period (FYs 2014-2018). Since 2004, our cumulative recoveries are $45.5 billion for OASDI and SSI benefit overpayments. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as some external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts. From 1992–2018, our external collection techniques have yielded $2.9 billion in benefit overpayment recovery. For additional information about our external collection techniques, please refer to the Debt Collection and Management section of this FY 2018 *Agency Financial Report*.

We suspend or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards. Generally, we terminate or suspend collection action when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered. Terminating collection action is a temporary or conditional write-off and does not discharge the debt. The debt remains on the debtor's record. If the debtor becomes entitled to benefits in the future, we will collect the debt by appropriate and available methods.

We developed a system to handle TOP, credit bureau reporting, and AWG. Because the system includes more than TOP and is the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation (ECO) system.

We enhanced ECO to collect delinquent debts through Treasury's State Reciprocal Program. The State Reciprocal Program allows States to enter into reciprocal agreements with Treasury to collect unpaid debts owed to States by offset of Federal non-tax payments. In return, the agreements allow the Federal Government to collect delinquent, non-tax debts owed to the Federal Government by offset of State payments.

Continued improvement in other aspects of our debt collection program is underway. In FY 2018, we began efforts to build a new debt management system which, among many features, will also allow for electronic remittances for overpayments. The new information technology investment, the Debt Management Product, is a multi-year effort that will build a new comprehensive overpayment system enabling us to record, track, collect, and report our overpayments more efficiently.

The Debt Management Product will also expand the Non-Entitled Debtors (NED) program to collect debts from debtors who have never been entitled to OASDI benefits or SSI payments. Currently, NED captures payments made to representative payees after the death of an OASDI beneficiary and overpayments to representative payees prior to the death of the OASDI beneficiary for which the payee is responsible.

During the development of the new Debt Management Product, we will implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies for debt collection. Prior to implementing these additional debt recovery tools, we will need to address many factors, such as:

- The impact on our current collection policies and procedures;
- Post-entitlement notices, as well as the need for new notices; and
- Feasibility of resources to address development, implementation, and oversight from an information technology and operations impact perspective.

## COLLECTING DEBT

Our improper payments strategy includes focusing on enhancements to improve our OASDI and SSI debt recovery efforts. These changes also support debt management compliance and performance as required by OMB. Below are enhancements to improve our OASDI and SSI debt recovery efforts.

- Debt Management Product
  - Currently, multiple systems exist that record, track, notify, and manage our OASDI and SSI overpayments. Through modernization, we will create a single debt management universal view for our technicians to process overpayment transactions more effectively and efficiently. We will also automate overpayment waiver determinations, where appropriate, to enhance controls surrounding waiver determinations.
  - We will also pursue using online services for collecting OASDI and SSI overpayment remittances. In December 2017, we completed our initial initiative via the Social Security Electronic Remittance System to process remittances received in our field offices for program debt. In FY 2019, we plan to provide individuals the ability to electronically repay their OASDI or SSI overpayment using the Department of the Treasury's Pay.gov portal via SocialSecurity.gov.
- Treasury Report on Receivables enhancements for OASDI and SSI
  - We implemented systems enhancements to meet the reporting requirements of the *Digital Accountability and Transparency Act of 2014*.
  - We continued to analyze data to ensure we are accurately reporting our receivables.
  - Implementation of the new Debt Management Product will address our reporting limitations such as the number of OASDI debts that the system bundles and counts as a single debt when an individual has multiple debts.
- Policy Update
  - We are implementing a policy change in early FY 2019 that will enable delinquent debts we refer to TOP to remain in referred status until the individual repays the debt in full, requests a waiver, dies, or resumes receiving monthly benefits.

## RECOVERY OF OVERPAYMENTS DUE TO DEATH

The Federal Government uses the reclamation process to recover benefit payments paid via direct deposit to the financial account of a beneficiary who died, became legally incapacitated, or a beneficiary who died before the date of the payment(s). To recover OASDI and SSI payments from U.S. financial institutions, we must send reclamation requests within 120 days of the date we learned of a beneficiary's death. A financial institution may protest a recovery of funds if we did not initiate the reclamation timely.

We have procedures for recovering both OASDI and SSI improper payments caused by overpayments due to death where we paid the beneficiary by paper check. Below are examples of actions we take for OASDI and SSI beneficiaries:

If the overpaid OASDI beneficiary is deceased, we attempt to recover the overpayment by:

- Withholding any underpaid benefits due to the deceased beneficiary;
- Withholding any lump-sum death payment payable to individuals on the same earnings record;
- Proposing adjustment against any person who was living in the same household and receiving benefits on the overpaid individual's earnings record at the time the overpaid individual died; or
- Sending a letter to the endorser or the deceased's estate requesting repayment.

If the overpaid SSI recipient is deceased, we will notify the estate of the overpayment and seek recovery from:

- A liable representative payee;
- A liable spouse;
- A sponsor of an alien recipient (under certain circumstances); or
- Any individual who committed fraud to cause the overpayment.

Additionally, we have several initiatives we use to track and resolve discrepancies related to death, including:

- The Numident Death Match – This match identifies discrepancies between the Numident, which is our master file of assigned Social Security numbers, and our payment records, which results in monthly alerts that feed into the Death Alerts Tracking System (DATS). We use DATS to resolve these alerts and stop paying benefits, if appropriate.
- The Death Information Processing System (DIPS) – DIPS is an agency-wide, web-based system used to add, change, or remove death information on the Numident database for deceased individuals. DIPS replaced the Death Alert Control and Update System and the Customer Information Control System.
- The Electronic Death Registration (EDR) process – This State-sponsored initiative automates the paperbound death registration process and allows States to verify the name and Social Security number of a deceased person against our Numident before registering the death. This process results in the transmission of more accurate and timely death information electronically to us, allowing us to stop benefits for the deceased beneficiary. The EDR process supports the agency's Strategic Goal, "Ensure Stewardship." This includes minimizing improper payments by identifying and preventing erroneous payments after death, reducing erroneous death terminations, and improving our process of initial death reports. Death reports received timely greatly reduce the probability of improper payments to deceased beneficiaries States can incur significant costs when transitioning to EDR. However, we continue to work diligently with the four remaining States and one additional jurisdiction and will bring them on board as soon as possible.

# BARRIERS

Our processes and policies and our statutory and regulatory requirements are complicated, which poses challenges in our administration of our programs. To meet the challenges of our growing workloads and provide the best service possible, we continue to streamline our policies and procedures and automate more of our business processes. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The FY 2019 President's Budget includes several legislative proposals that can help simplify our programs and better identify, prevent, and recover improper payments. We discuss some of these proposals in the following paragraphs. More information on our legislative proposals can be found in our *FY 2019 Budget Overview* (www.socialsecurity.gov/budget/).

## OFFSET UNEMPLOYMENT INSURANCE-DISABILITY INSURANCE OVERLAPPING PAYMENTS

Under current law, concurrent receipt of DI benefits and Unemployment Insurance (UI) is allowable. This situation means that beneficiaries can receive the full disabled worker benefit, while also receiving UI, both of which are intended as income replacement. The Budget proposes to offset DI benefits to account for concurrent receipt of UI. This offset would eliminate duplicative benefits by ensuring, in effect, that the benefit the individual receives would not exceed the higher of the UI or DI benefits.

## Allow SSA to Use Commercial Databases to Verify Real Property

This proposal would reduce improper payments and lessen recipients' reporting burden by authorizing our agency to conduct data matches with private commercial databases that maintain data on ownership of real property (e.g., land and buildings), which can be a countable resource for SSI purposes. The proposal would authorize our agency to use that information to determine an individual's eligibility for benefits automatically, after proper notification. We would also be authorized to require recipients to consent to allow our agency to access these databases as a condition of benefit receipt. All current due process and appeal rights would be preserved.

## Government-wide Use of Customs and Border Protection Entry/Exit Data

This proposal would provide Federal agencies access to and use of Customs and Border Protection entry and exit data (i.e., when individuals enter and exit the United States). Generally, U.S. citizens can receive OASDI benefits regardless of place of residence. Non-citizens may be subject to additional residency requirements. However, an SSI beneficiary who is outside the United States for a full calendar month is not eligible for benefits that month. We would use this data match to prevent improper payments. These data have the potential to be useful across the Government to prevent improper payments.

## Authorize SSA to Use All Collection Tools to Recover Funds

Current law provides the agency only limited authority to recover certain incorrect payments that do not meet the statutory definition of an overpayment. Such incorrect payments occur, for example, when someone improperly cashes a beneficiary's check or improperly removes benefit funds from a joint account after a beneficiary's death. Because these incorrect payments are not considered overpayments, our recovery options are limited. This proposal would define these and other types of incorrect payments as overpayments, and would allow us to use all our overpayment collection tools, including benefit withholding, administrative offset, credit bureau reporting, and AWG, to recover the debts. The proposal would also allow us to recover court-ordered fraud judgments using our overpayment collection procedures, including full benefit withholding. These proposed changes would expand our agency's authority to recover improper payments, end disparate treatment of similar types of improper payments, and allow us to better fulfill our stewardship obligations to the trust funds.

## Increase the Overpayment Collection Threshold for OASDI

This proposal would change the minimum monthly withholding amount for recovery of OASDI benefit overpayments for the first time since the agency established the current minimum of $10 in 1960. By changing this amount from $10 to 10 percent of the monthly benefit payable, our agency would recover overpayments more quickly and better fulfill its stewardship obligations to the combined OASDI Trust Funds. The SSI program already uses a 10 percent recovery policy. If the beneficiary cannot afford to have the full monthly benefit amount withheld because he or she cannot meet ordinary and necessary living expenses, the beneficiary may request partial withholding. To determine a proper partial withholding amount, we negotiate (as well as re-negotiate at the overpaid beneficiary's request) a partial withholding rate.

## Improve SSI Youth Transition to Work

The SSI transition-age (ages 14 to 25) youth population, despite their disabilities, should have equal opportunities, as they become adults to work and achieve self-sufficiency. Unfortunately, a majority of each new generation of SSI youth move directly onto the adult SSI program at age 18 and those who do not remain on SSI (approximately 40 percent) have lives marked by low labor force participation in adulthood and persistent poverty.

The FY 2019 President's Budget proposes three areas of reform to improve the life outcomes and connect SSI youth to work.

First, the Budget would better identify medical improvement at the earliest point to increase oversight and signal the importance of SSI youth investing in their education and development. The Budget proposes to (a) institute age 6 and 12 initial disability reviews and (b) increase the frequency and effectiveness of CDRs by expanding the CDR diary system for all disability beneficiaries from three to four categories, allowing the agency to conduct CDRs more frequently for those medical impairments that are expected or likely to improve.

Second, the Budget would improve SSI youth work incentives by eliminating administrative barriers and increasing the value of work by proposing to disregard all earned income and eliminate income reporting requirements through age 20, provide a higher disregard of earnings with a gradual phase-down for SSI recipients between ages 21 and 25, and eliminate school enrollment reporting requirements.

Finally, the Budget would improve access to vocational rehabilitation services for SSI transition age youth by allowing the agency to make referrals to these services.

### SSI Simplification Reforms

Currently, SSI recipients can receive lower benefits if they are earning, or otherwise receiving, income. This includes non-cash income, such as assistance by a roommate or family member in paying the recipient's share of the household expenses such as food and shelter. This type of income is called ISM and is difficult to accurately value, because it can fluctuate each month as household expenses and composition and the type of assistance provided may change. This proposal would replace ISM with a flat-rate benefit reduction for adults living with other adults.

This proposal would make two additional changes to simplify the program and reduce the burden on recipients and representative payees. The proposal would eliminate the holding out policy, which requires our agency to ask invasive questions to determine whether two unrelated adults who live together, and are not married, are holding themselves out to their community as being married. The proposal would also eliminate the dedicated account policy, which requires representative payees to open separate accounts to receive SSI underpayments and limits how funds in the accounts can be used. These requirements confuse representative payees, who are often parents, and restrict their ability to decide which expenditures are in the best interests of their disabled children.

## Accountability

Effective FY 2012, as required by IPERA, we are holding managers, program officials, and senior executives accountable for reducing improper payments. For these employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments and meet targets to reduce improper payments.

## Agency Information Systems and Other Infrastructure

### Internal Controls

We have a strong internal control environment that has always included controls over our benefit payment and debt management processes. As a result, we are directly leveraging our existing internal control environment and assurance processes to provide reasonable assurance that our internal controls over improper payments are in place and operating effectively.

As part of our internal control environment, we have a well-established, agency-wide management control program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

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

We established the Improper Payments Oversight Board (IPOB) to ensure that we are focusing on improper payment prevention, formulating clear and innovative strategies, and driving timely results agency-wide. The IPOB's role is to serve as the corporate team to:

- Oversee all improper payment-related activities for the agency;
- Collaborate and shape strategy; and
- Resolve cross-component differences, address challenges encountered by staff, and drive timely results.

For additional information about our internal control environment, please refer to the *Systems, Controls and Legal Compliance* section of this FY 2018 *Agency Financial Report*.

The effective internal controls we incorporate into our business processes and financial management systems, as well as the program integrity efforts mentioned throughout this report, support our Acting Commissioner's annual assurance statement to the President and Congress that discusses whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;
- Financial management systems are in conformance with government-wide requirements; and
- Internal controls over financial reporting are operating effectively.

We include the Commissioner's annual assurance statement, additional information of our review program, and the financial statement audit, in the *Systems, Controls and Legal Compliance* section of this FY 2018 *Agency Financial Report*. For additional information on the financial statement audit, please see the *Report of Independent Certified Public Accountants* section of this FY 2018 *Agency Financial Report*.

Our strong overall internal control program contributes significantly to our efforts to reduce improper payments.

## Human Capital

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits and other mission-critical work.

Our stewardship responsibility includes conducting non-medical SSI redeterminations and full medical CDRs. These reviews save significant program dollars by avoiding improper payments. In FY 2017 and FY 2018, our budgets increased and, as a result, we were once again able to increase the number of full medical CDRs that we process. In FY 2017, we completed approximately 870,000 full medical CDRs and approximately 2.59 million SSI redeterminations. In addition, we completed approximately 313,500 work CDRs in FY 2017. In FY 2018, we completed approximately 896,500 full medical CDRs and approximately 2.91 million SSI redeterminations. In addition, we completed approximately 314,400 work CDRs in FY 2018.

In August 2018, we reached a milestone by eliminating our backlog of full medical CDRs with the release of all available full medical CDRs for FY 2018. The FY 2019 President's Budget will prevent a new backlog from developing, helping to ensure that only those eligible for OASDI and SSI disability benefits continue to receive them. Assessments of the return on investment from CDRs completed in FY 2014 and earlier, establish that we achieve significant program savings with this workload. The Budget proposes $1,683 million, which includes the

2019 cap adjustment amount of $1,410 million, as authorized in the *Bipartisan Budget Act of 2015*. The *Bipartisan Budget Act of 2015* authorized a net increase in new cap adjustment levels through 2021.

## INFORMATION SYSTEMS

The Comprehensive Integrity Review Process (CIRP) supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as FMFIA, which requires that we establish and maintain effective internal controls. CIRP automatically selects potentially suspicious transactions for management investigation based on predefined criteria. The selection criteria are focused on suspicious activity rather than improper payments. However, if the transaction involves an issued payment, the reviewer looks at the accuracy of the payment to ensure that we complied with proper procedures.

In August 2013, we implemented the Public Facing Integrity Review (PFIR) system to monitor potentially fraudulent online transactions. We use this tool to investigate suspicious direct deposit transactions made through *my* Social Security online accounts and to take steps to mitigate any losses to our agency and the public.
In November 2015, we released an update of the PFIR system that included measures intended to help secure our newest online service, Internet Social Security Number Replacement Card application. This enhancement to the PFIR system added new fraud prevention and detection processes specific to enumeration, in addition to established processes that safeguard *my* Social Security online accounts and direct deposit transactions.

We continue to collaborate with Treasury to identify and implement fraud detection activities. In April 2016, we launched a Direct Deposit Fraud Prevention (DDFP) enhancement, which assists in detecting and preventing unauthorized redirection of benefit payments. With this enhancement, an alert appears that allows the review of the record to determine whether to accept or cancel a pending direct deposit change. In May 2016, we executed an additional enhancement to DDFP to allow us to add a suspense code to a record to prevent the unauthorized redirection of benefits. We continue to take advantage of a fraud indicator flag to assist when beneficiaries indicate that they did not receive their direct deposit payment. The fraud indicator provides supporting evidence to assist with the recovery of misdirected payments.

The demands for our services continue to grow at a rate that will soon outpace our resources. To support the changing needs of our employees and the public we serve, we launched the Information Technology (IT) Investment Process - a more effective and efficient way of managing our IT Investments. We established an IT Investment Review Board, with senior executive level membership that meets regularly to evaluate IT proposals to ensure they meet the priorities of the agency.

## OTHER INFRASTRUCTURE

As required by law, we conduct pre-effectuation reviews on at least 50 percent of adult initial and reconsideration disability determination allowances made by the State DDS offices. We use a predictive statistical model to identify error-prone disability determinations, and we return deficient cases to the State DDS offices for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2016 cases will result in lifetime savings (after all appeals) of:

- $509 million in OASDI benefit payments;
- $65 million in SSI Federal payments;
- $218 million in Medicare benefits; and
- -$4 million in the Federal share of Medicaid payments (i.e., an increase in the Federal share of Medicaid costs).

# Sampling and Estimation

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a statistically valid sample of OASI, DI, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, contact third parties for additional information if needed, and redevelop all non-medical factors of eligibility as of the sample month to determine whether the payment was correct. We express any difference between what we actually paid and what the reviewer determines we should have paid as an overpayment or underpayment error. We based the data in the OASDI and SSI Improper Payments Experience tables on cases sampled in FY 2017. For government-wide reporting purposes, we treat our FY 2017 findings as FY 2018 data. We will not have FY 2018 data until summer 2019. We will report our findings from the FY 2018 stewardship reviews in next year's *Payment Integrity* report.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refer to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay more or less than we should have paid. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year rolling average for each type of deficiency to identify and rank error trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We base our corrective actions for our high-priority programs on the information we obtain from the stewardship reviews. We focus our efforts on major causes of improper payments, both overpayments and underpayments.

# Risk Assessment

## Risk Susceptible Program

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed $100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1.1 for details of our OASI and DI improper payments, and Table 1.2 for details of our SSI improper payments in the Payment Reporting section of this *Payment Integrity* report.

OMB's IPERA guidance requires us to evaluate all our payment outlays (i.e., payments from the OASI, DI, and SSI programs and other outlays, such as administrative payments). Since 2003, we have reviewed our administrative payments, including payroll disbursements and vendor payments. We found these payments were not susceptible to significant improper payments. As such, OMB guidance requires that we conduct a risk assessment at least once every three years. Below we provide additional information on the risk assessment of our administrative payments.

We evaluated our FY 2017 administrative expenses and determined they were not susceptible to significant improper payments as defined by IPIA.

## Benefit Payments

To comply with IPERA's risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our stewardship review is a cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs.

## ADMINISTRATIVE PAYMENTS

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that an agency's administrative payments are susceptible to significant improper payments, the agency is required to establish an annual improper payment measurement related to administrative payments.

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weakness in the administrative payment process;
- The size, stability, and complexity of our administrative payment processes;
- The historically low error rate for administrative payments;
- Extensive controls inherent in our administrative payment systems; and
- The current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We reviewed the agency's Travel and Purchase Card Management Plans required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs*. We also leveraged the results of an FY 2016 independent accounting firm's financial risk assessment in support of our FMFIA compliance program. This assessment found that our administrative expenses, accounts payables, human resources, and payroll management-related risks are low overall.

# Appendix

# Glossary of Acronyms

## A

| | |
|---|---|
| ADIS | Arrival and Departure Information System |
| ADP | Automated Data Processing |
| AFES | Anti-Fraud Enterprise Solution |
| AFI | Access to Financial Institutions |
| AFR | Agency Financial Report |
| ALJ | Administrative Law Judge |
| APG | Agency Priority Goal |
| APP | Annual Performance Plan |
| APR | Annual Performance Report |
| ARRA | American Recovery and Reinvestment Act of 2009 |
| ASP | Agency Strategic Plan |
| AWG | Administrative Wage Garnishment |

## B

| | |
|---|---|
| BEA | Bureau of Economic Analysis |

## C

| | |
|---|---|
| CAP | Cross-Agency Priority |
| CARES | Compassionate and REsponsive Service |
| CDB | Childhood Disability Beneficiary |
| CDI | Cooperative Disability Investigation |
| CDM | Continuous Diagnostics and Mitigation |
| CDR | Continuing Disability Review |
| CDREO | Continuing Disability Review Enforcement Operation |
| CEAR | Certificate of Excellence in Accountability Reporting |
| CIRP | Comprehensive Integrity Review Process |
| CMA | Computer Matching Agreement |
| CMP | Civil Monetary Penalty |
| CMS | Centers for Medicare and Medicaid Services |
| COLA | Cost of Living Adjustment |
| CPI | Consumer Price Index |
| CPI-W | Consumer Price Index for Urban Wage Earners and Clerical Workers |
| CPR | Cross-Program Recovery |
| CSRS | Civil Service Retirement System |

# D

| | |
|---|---|
| DACA | Deferred Action for Childhood Arrivals |
| DATA Act | Digital Accountability and Transparency Act of 2014 |
| DATS | Death Alerts Tracking System |
| DCPS | Disability Case Processing System |
| DDFP | Direct Deposit Fraud Prevention |
| DDS | Disability Determination Services |
| DHS | Department of Homeland Security |
| DI | Disability Insurance |
| DIB FRA | Disability Fraud Risk Assessment |
| DIPS | Death Information Processing System |
| DOJ | Department of Justice |
| DRAA | Disaster Relief Appropriations Act of 2013 |

# E

| | |
|---|---|
| ECO | External Collection Operation |
| EDR | Electronic Death Registration |
| EN | Employment Network |
| ERM | Enterprise Risk Management |
| ESF | Earnings Suspense File |

# F

| | |
|---|---|
| FASAB | Federal Accounting Standards Advisory Board |
| FECA | Federal Employees' Compensation Act |
| FEGLI | Federal Employee Group Life Insurance Program |
| FEHBP | Federal Employees Health Benefits Program |
| FERS | Federal Employees' Retirement System |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FICA | Federal Insurance Contributions Act |
| FISMA | Federal Information Security Management Act |
| FMAX | Family Maximum |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| FMS | Financial Management System |
| FPU | Fraud Prevention Unit |
| FRDAA | Fraud Reduction and Data Analytics Act of 2015 |
| FY | Fiscal Year |

## G

| | |
|---|---|
| GAAP | Generally Accepted Accounting Principles |
| GAO | Government Accountability Office |
| GDP | Gross Domestic Product |
| GMO | Grants Management Officer |
| GPO | Government Pension Offset |
| GPRMA | Government Performance and Results Modernization Act of 2010 |
| GSA | General Services Administration |

## H

| | |
|---|---|
| HI | Hospital Insurance |
| HI/SMI | Hospital Insurance/Supplemental Medical Insurance |

## I

| | |
|---|---|
| IPERA | Improper Payments Elimination and Recovery Act of 2010 |
| IPERIA | Improper Payments Elimination and Recovery Improvement Act of 2012 |
| IPIA | Improper Payments Information Act of 2002 |
| IPOB | Improper Payments Oversight Board |
| IRS | Internal Revenue Service |
| ISM | In-Kind Support and Maintenance |
| iSSNRC | Internet Social Security Number Replacement Card |
| iTOPSS | Internet Ticket Operation Support System |
| IT | Information Technology |

## L

| | |
|---|---|
| LAE | Limitation on Administrative Expenses |
| LPR | Lawful Permanent Resident |

## M

| | |
|---|---|
| MD&A | Management's Discussion and Analysis |
| MEP | Monthly Earnings Project |
| myWR | myWageReport |

## N

| | |
|---|---|
| NAFC | National Anti-Fraud Committee |
| NCHS | National Center for Health Statistics |
| NED | Non-Entitled Debtor |

# O

| | |
|---|---|
| OA | Occupancy Agreement |
| OARO | Office of Analytics, Review, and Oversight |
| OASDI | Old-Age, Survivors, and Disability Insurance |
| OASI | Old-Age and Survivors Insurance |
| OCSE | Office of Child Support Enforcement |
| OIG | Office of the Inspector General |
| OMB | Office of Management and Budget |
| O/P | Overpayment |
| OPM | Office of Personnel Management |
| OTA | Office of Tax Analysis |

# P

| | |
|---|---|
| PC | Processing Center |
| PFIR | Public Facing Integrity Review |
| P.L. | Public Law |
| POC | Proof of Concept |
| PP&E | Property, Plant, and Equipment |
| PTF | Payments to Social Security Trust Funds |
| Pub. L. No. | Public Law Number |

# R

| | |
|---|---|
| RIB-LIM | Retirement Insurance Benefit Limitation |
| RRI | Railroad Retirement Interchange |

# S

| | |
|---|---|
| SECA | Self Employment Contributions Act |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SF-133 | Budget Execution Reports |
| SGA | Substantial Gainful Activity |
| SMI | Supplemental Medical Insurance |
| SRC | Special Review Cadre |
| SSA | Social Security Administration |
| SSI | Supplemental Security Income |
| SSITWR | Supplemental Security Income Telephone Wage Reporting |
| SSN | Social Security Number |
| SSOARS | Social Security Online Accounting and Reporting System |
| Statement | Social Security Benefit Statement |

## T

| | |
|---|---|
| TBD | To Be Determined |
| TFM | Treasury Financial Manual |
| Ticket Program | Ticket to Work and Self-Sufficiency Program |
| Title VIII | Special Veterans Benefits |
| TOP | Treasury Offset Program |
| Treasury | Department of the Treasury |

## U

| | |
|---|---|
| U.S. | United States |
| U.S.C. | United States Code |
| UI | Unemployment Insurance |
| USSGL | United States Standard General Ledger |

## V

| | |
|---|---|
| VR | Vocational Rehabilitation |

## W

| | |
|---|---|
| WEP | Windfall Elimination Provision |

# SSA Management and Board Members

## Key Management Officials

| | |
|---|---|
| Acting Commissioner | Nancy A. Berryhill |
| Deputy Commissioner | Vacant |
| Chief Actuary | Stephen C. Goss |
| General Counsel | Asheesh Agarwal |
| Acting Inspector General | Gale S. Stone |
| Deputy Commissioner, Analytics, Review, and Oversight | B. Chad Bungard |
| Deputy Commissioner, Budget, Finance, and Management | Michelle A. King |
| Acting Deputy Commissioner, Communications | James C. Borland |
| Deputy Commissioner, Hearings Operations | Theresa L. Gruber |
| Deputy Commissioner, Human Resources | Marianna E. LaCanfora |
| Acting Deputy Commissioner, Legislation and Congressional Affairs | Royce B. Min |
| Acting Deputy Commissioner, Operations | Mary L. Horne |
| Deputy Commissioner, Retirement and Disability Policy | Mark J. Warshawsky |
| Deputy Commissioner, Systems/Chief Information Officer | Rajive K. Mathur |

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**SocialSecurity.gov/finance**