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			OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
	SSA	OIG	ARRA			
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			OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
	SSA	OIG	ARRA			
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

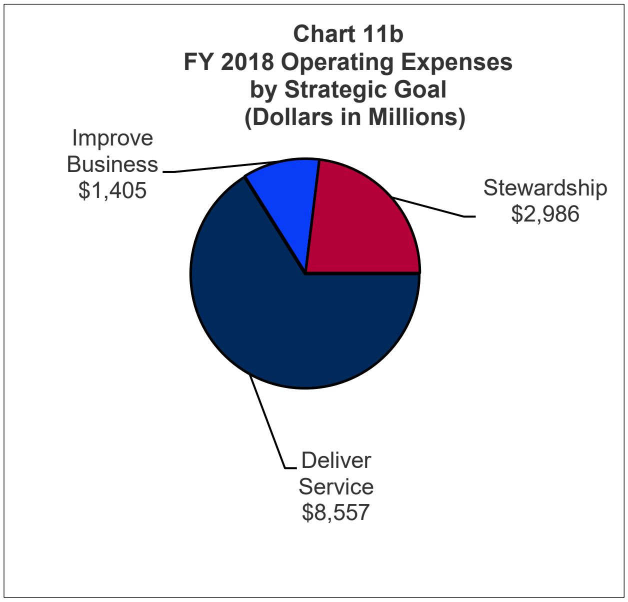
CLASSIFICATION OF OPERATING EXPENSES BY STRATEGIC GOAL

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]	CPI[6]	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

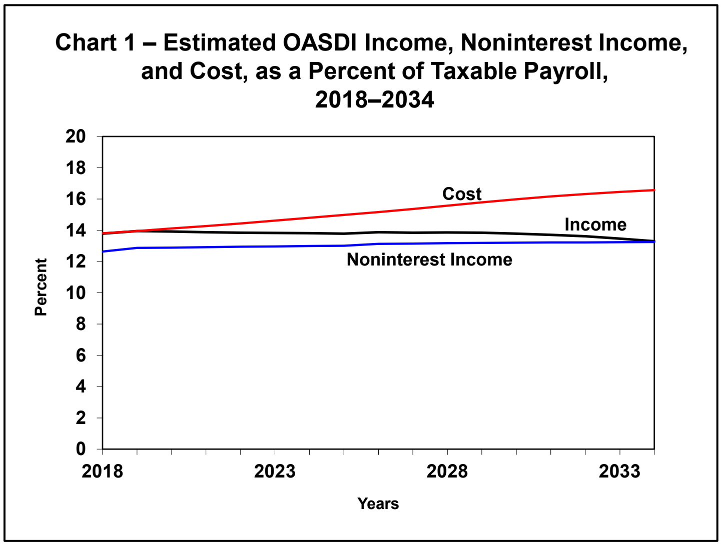
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

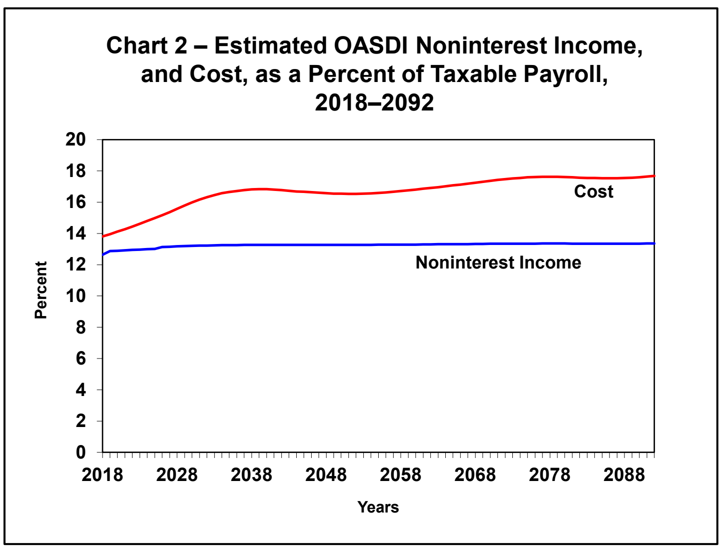
Sustainable Solvency - Based on the estimates of income and cost presented in the Statements of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits 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.

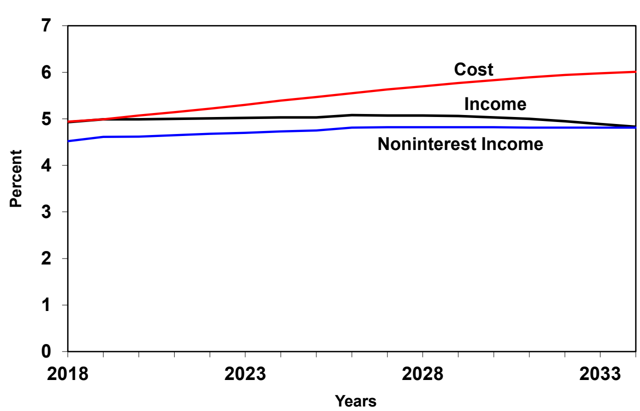
Actuarial Balance - The Statements of Social Insurance show that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$16,057 billion. If augmented by the combined OASI and DI Trust Fund asset reserves at the start of the period (January 1, 2018), it is -$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.

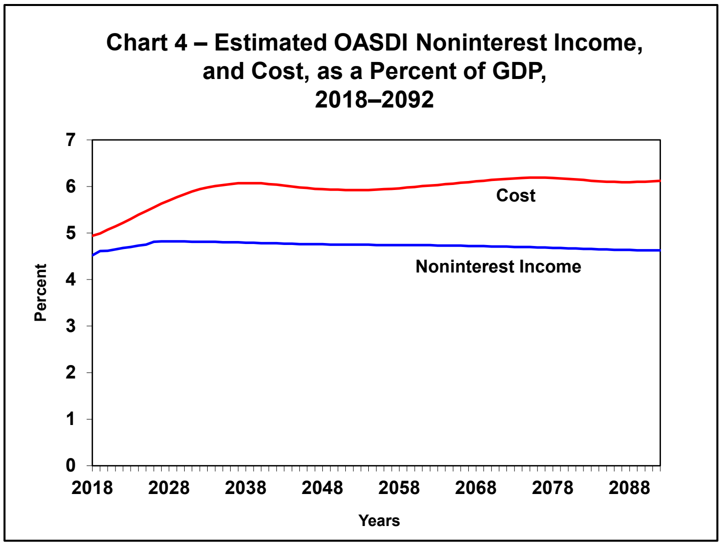
For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.78 percentage points (from its current level of 12.40 percent to 15.18 percent). One interpretation 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.

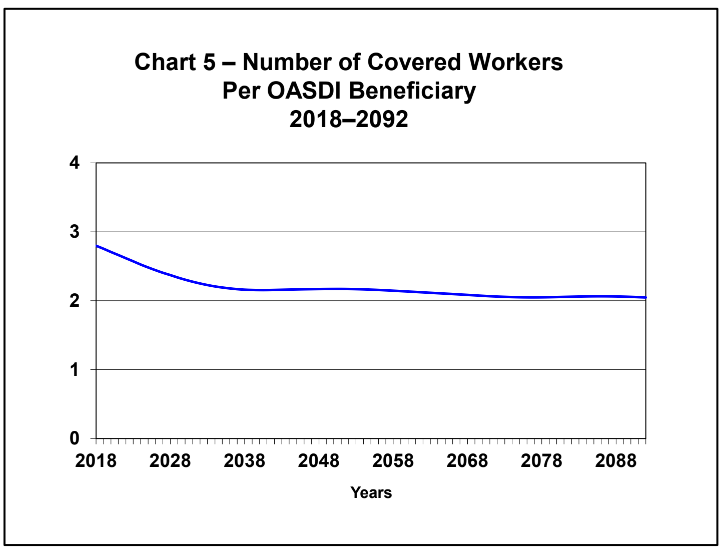
Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2018–2034





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.



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.

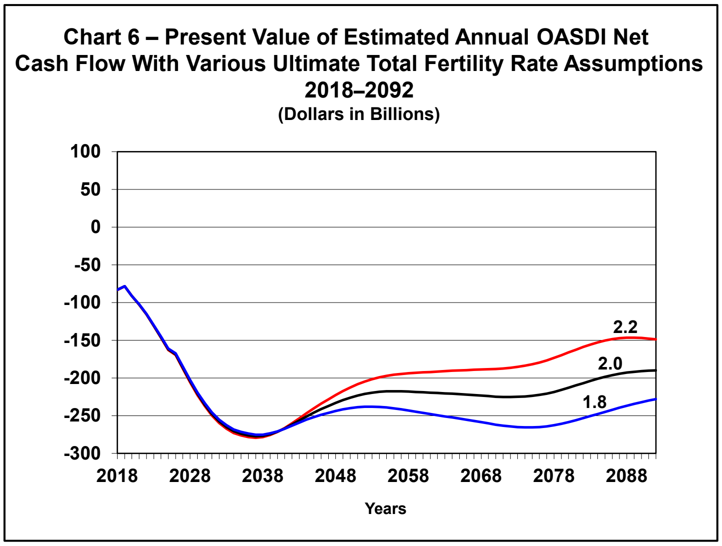
Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.8, 2.0, and 2.2 children per woman, where 2.0 is the intermediate assumption in 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.

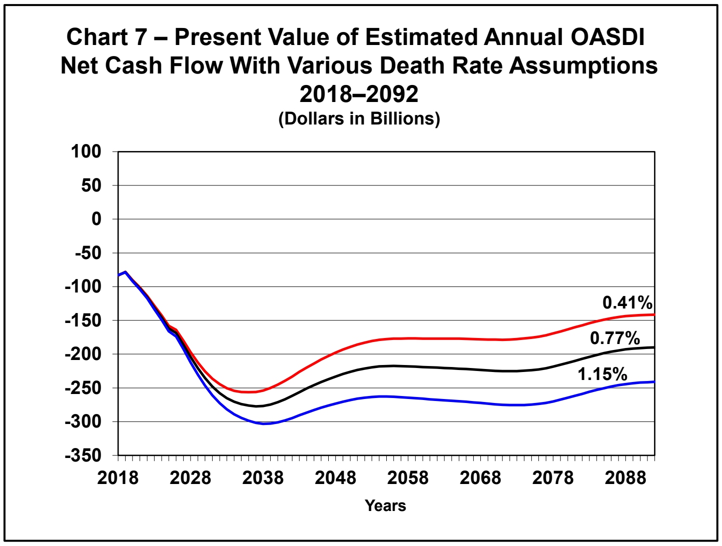
Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2017–2092 in death rates by age, sex, and 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.

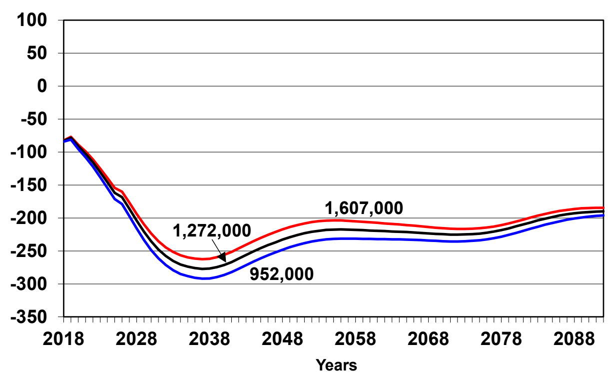
Table 3 demonstrates that if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,272,000 persons to 952,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase 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.

Chart 8 – Present Value of Estimated Annual OASDI Net Cash Flow With Various Net Annual Immigration Assumptions 2018–2092
(Dollars in Billions)



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.

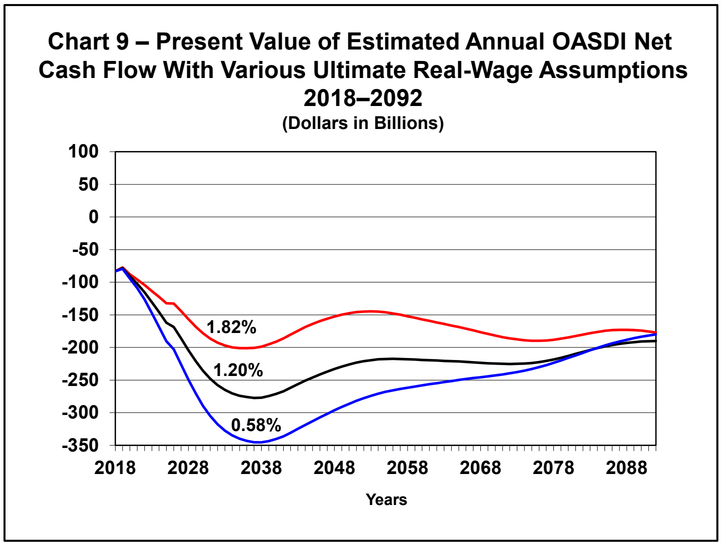
Real-Wage Differential - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual CPI. The ultimate real-wage differential is the average of the annual real-wage differential for the last 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.

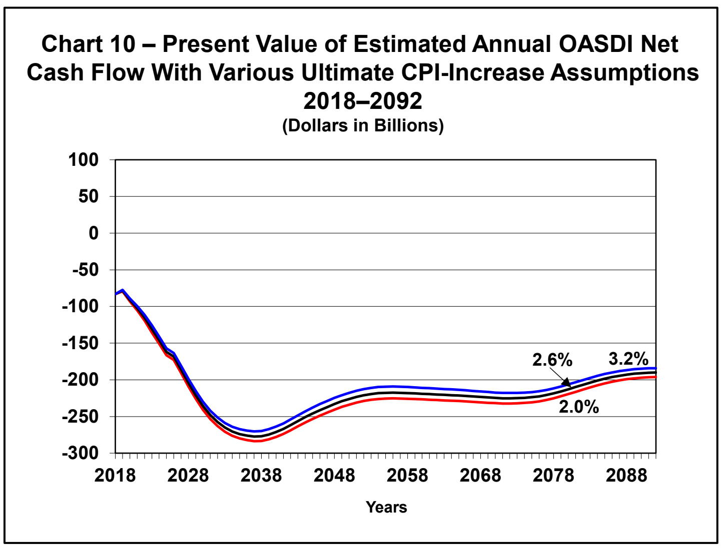
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.00, 2.60, and 3.20 percent, 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.



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.

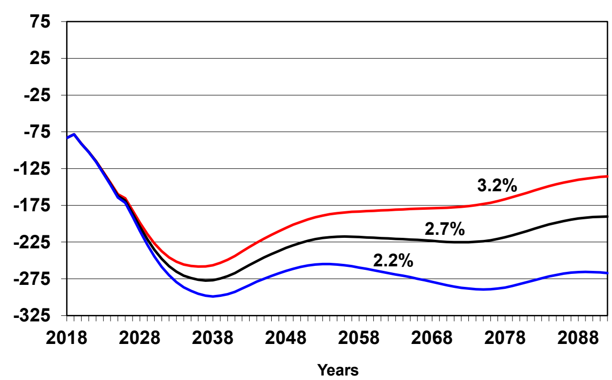
Table 6 demonstrates that if the ultimate real interest rate were changed from 2.7 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms would increase to $18,999 billion from $16,057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

Significant Deficiency in Internal Control over the Reliability of Information Used in Certain Control Activities

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
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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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