Agency Financial Report

Fiscal Year 2019

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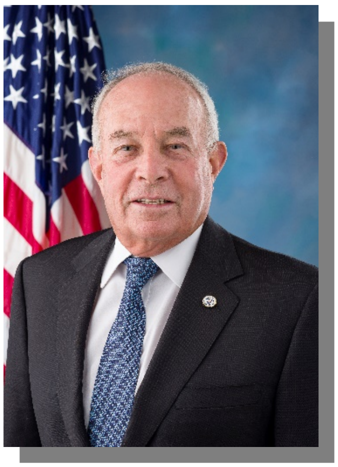
A Message from the Commissioner



I am pleased to present the fiscal year 2019 *Agency Financial Report*. I encourage you to review the report, which describes how our agency managed its resources and delivered critical services to the American people.

Managing an organization of this size and scope is a major undertaking that I welcome because I am acutely aware of how important our programs are. Nearly every American will interact with us, and I want that interaction to be a positive experience. People should not receive a busy signal when they call us or face a long wait when they come to our offices. We should provide helpful, accurate information and streamline the experience as much as possible. Public service must be the center of every decision we make.

The agency has focused its effort around three overarching Strategic Goals:

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

I am pleased to share that for the 26th consecutive year, we received an unmodified opinion on our financial statements. Based on the results of our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable, and accurate. We also have no material weaknesses in our internal controls.

This is good news and I congratulate the hard-working agency employees. While the agency has made progress in some areas, there is much more work ahead. My management team and I are accountable for ensuring a direct connection between resources and the public's experience with our agency.

I took this job to help the agency with its service challenges and the commitment to our mission I have witnessed thus far is encouraging. I look forward to demonstrating that our investments result in meaningful outcomes for the American people and that we continue to be good stewards of these vital programs.

Respectfully,

Andrew Saul

Baltimore, Maryland
November 12, 2019

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To access this report online, please visit our **Fiscal Year 2019 *Agency Financial Report* webpage (www.socialsecurity.gov/finance)**.

INTRODUCTION

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

Management's Discussion and Analysis: The *Management's Discussion and Analysis* section provides an overview of our mission, organization, Strategic Goals and Objectives, Priority Goals, and key fiscal year (FY) 2019 performance measures. We highlight the FY 2019 results of our key performance measures and discuss our accomplishments and plans to achieve our mission. We provide a summary of the financial information contained in subsequent sections of the AFR. We also include a synopsis of our systems, controls, and legal compliance.

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

Other Information: The *Other Information* section includes the *Fiscal Year 2019 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges*, as well as our Summary of Financial Statement Audit and Management Assurances tables. We also provide information on our entitlement reviews and Office of the Inspector General anti-fraud activities, agency fraud reduction efforts, civil monetary penalties, biennial review of user fee charges, actions to comply with the Reduce the Footprint initiative, and debt collection and management activities. The *Payment Integrity* report concludes this section.

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

For the 21st year in a row, we received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting* (CEAR) *award. Receiving the CEAR for our FY 2018 Agency Financial Report is a significant accomplishment for a Federal agency.

Management's Discussion and Analysis

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

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

The *Overview of Our Fiscal Year 2019 Goals and Results* provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2019 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and Objectives, and discuss how we plan to address the challenges we face.

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

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

Overview of the Social Security Administration

Our Mission

Deliver quality Social Security services to the public.

Social Security Benefits America

Few government agencies affects the lives of as many people as we do. In accordance with law and regulations, we administer three programs under the *Social Security Act*:

- **Old-Age and Survivors Insurance**: Established in 1935, the Old-Age and Survivors Insurance (OASI) program provides retirement and survivors benefits to qualified workers and their family members. In fiscal year (FY) 2019, we paid OASI benefits to an average of over 53 million beneficiaries each month, and paid about $893 billion to OASI beneficiaries through the fiscal year.
- **Disability Insurance**: Established in 1956, the Disability Insurance (DI) program provides benefits for workers who become disabled and their families. In FY 2019, we paid DI benefits to an average of approximately 10 million beneficiaries each month, and paid about $142 billion in DI benefits through the fiscal year.
- **Supplemental Security Income**: Established in 1972, the Supplemental Security Income (SSI) program provides financial support to aged, blind, and disabled adults and children who have limited income and resources. In FY 2019, we paid SSI benefits to a monthly average of approximately 8 million recipients (approximately 2.7 million of whom concurrently receive DI benefits), and paid about $52 billion in SSI Federal benefits and State supplementary payments through the fiscal year.

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

How Social Security Benefited America in Fiscal Year 2019

- We paid a combined total of over $1 trillion in Social Security and SSI benefits;
- As of June 30, 2019, approximately 88 percent of the American population age 65 and over received Social Security benefits; and
- On average each month, about 1.1 million blind or disabled children under age 18 received SSI benefits.

How We Served America in Fiscal Year 2019

- Completed over 17 million applications for new and replacement Social Security cards;
- Performed over 2.3 billion automated Social Security number verifications;
- Posted 288 million earnings items to workers' records;
- Handled over 33 million calls on our National 800 Number;
- Assisted 43.2 million visitors in field offices;
- Mailed nearly 255 million notices;
- Registered over 6.9 million users for *my* Social Security, a personalized online account;
- Processed over 184 million online transactions;
- Completed over 7 million claims for benefits;
- Completed nearly 794,000 hearing dispositions;
- Completed over 144,000 Appeals Council requests for review;
- Completed almost 17,000 disability cases in Federal court;
- Completed over 713,000 full medical continuing disability reviews (CDR);
- Performed nearly 2.67 million non-medical redeterminations of SSI eligibility;
- Conducted 22 computer matching agreements for data exchanges with various Federal partners, resulting in $7.6 billion in annual savings; and
- Provided access to the Social Security Statement (Statement), mailing over 11 million paper Statements and allowing beneficiaries to access their Statements online more than 56 million times.

OUR ORGANIZATION

Approximately 62,000 Federal employees and 15,000 State employees serve the public from a network of more than 1,500 offices across the country and around the world. Most of our employees serve the public directly or provide support to employees who do. Each day, approximately 173,000 people visit and 233,000 call one of our field offices nationwide for various reasons such as to file claims, ask questions, or update their information.

Our National 800 Number handles over 33 million calls each year. Callers can conduct various business transactions by speaking directly with a customer service representative or through our 24-hour automated services, which include requesting benefit verification letters, ordering replacement Medicare cards, and obtaining claim status updates.

The public can also do business with us online. Our suite of online services is available 24 hours a day. They provide a convenient, safe option for anyone interested in conducting business with us online, viewing his or her Social Security records, or looking for information about our programs and services. In FY 2019, the public conducted over 184 million transactions through our online services.

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

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

Overview of Our Fiscal Year 2019 Goals and Results

How We Manage Performance

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

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

Our Strategic Goals are:

Strategic Goal 1: Deliver Services Effectively;

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

Strategic Goal 3: Ensure Stewardship.

Our Planned Performance: In March 2019, we published our *Annual Performance Plan for FY 2020, Revised Performance Plan for FY 2019, and Annual Performance Report for FY 2018* (www.socialsecurity.gov/agency/performance), as part of the *President's FY 2020 Budget Request* (www.socialsecurity.gov/budget/). Collectively, we refer to this combined document as our *Annual Performance Report* (APR). The APR outlines our tactical plans for achieving the goals and objectives in our ASP, finalizes our performance commitments for FY 2019, and describes how we ensure data integrity of our performance information.

Each fall, a draft of the APR is submitted to the Office of Management and Budget. The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the *FY 2019 Operating Plan* (www.socialsecurity.gov/budget/).

Our Actual Performance and Program Results: We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR containing our actual FY 2019 results in February 2020. The final APR will be available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/).

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2019. The following table shows our operating expenses by Strategic Goal.

FY 2019 Operating Expenses by Strategic Goal
(Dollars in Millions)

Deliver Services Effectively	$8,906
Improve the Way We Do Business	$1,590
Ensure Stewardship	$2,968

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

For FYs 2018–2019, our APGs were:

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

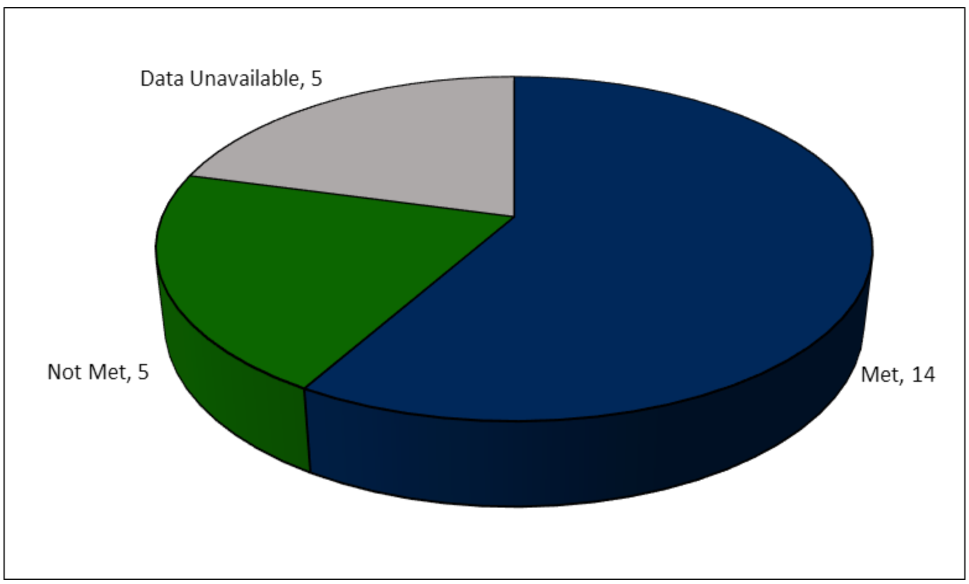
SUMMARY OF FISCAL YEAR 2019 PERFORMANCE

This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2019. It also outlines some of the challenges we faced meeting these goals and analyzes our performance. We base our planned performance measures and targets on the President's Budget request. If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

We have a total of 24 performance measures (including APGs) that we use to track agency progress towards meeting our Strategic Goals and objectives. Overall, we met our targets for 14 of the 24 performance measures. We selected nine performance measures and related key initiatives that highlight our progress, challenges, and priorities in support of our Strategic Goals and objectives. We met our targets for three of the five performance measures with available data. Final data for four of the nine performance measures and targets we highlighted were not available at the time we published this report.

Final data for all performance measures will be published in our *Annual Performance Plan for FY 2021, Revised Performance Plan for FY 2020, and Annual Performance Report for FY 2019* in February 2020.

Summary of Our FY 2019 Performance Measure Results



STRATEGIC GOAL 1:
DELIVER SERVICES EFFECTIVELY

Strategic Objectives

- Improve Service Delivery
- Expand Service Delivery Options

Create an account:
www.socialsecurity.gov/myaccount

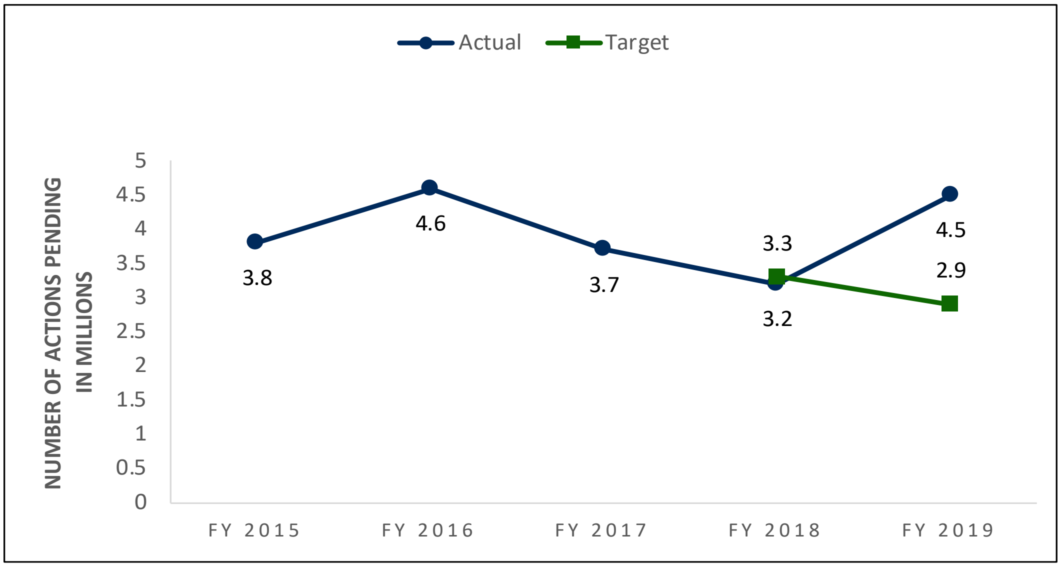
We selected the following performance measures to help demonstrate our progress in delivering services effectively:

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

	FY 2016	FY 2017	FY 2018	FY 2019
Target	Decide 99% of the cases that begin the fiscal year 430 days old or older	Decide 97% of the cases that begin the fiscal year 430 days old or older	Complete 97% of cases that begin the fiscal year 430 days old or older (~374,000 cases)	Complete 95% of cases that begin the fiscal year 350 days old or older (~355,000 cases)
Target Achieved	Not Met	Not Met	Met	Met
Performance	98%	96%	98%	98%

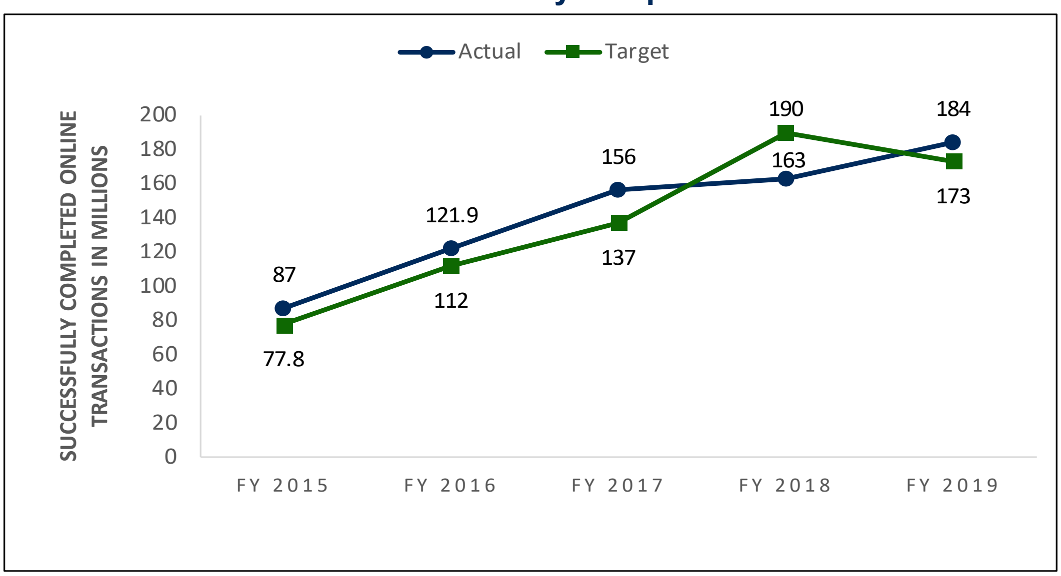
Analysis: Reducing our hearings pending and eliminating our hearings backlog remains our highest priority. In support of this effort, we have prioritized those individuals who have waited the longest for a hearing decision. In FY 2019, we met our goal by completing 98 percent of the cases that began the fiscal year 350 days old or older. Additionally, the number of people waiting for a hearing decision dropped by about 283,000, or nearly 33 percent, to the lowest level since FY 2004.

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



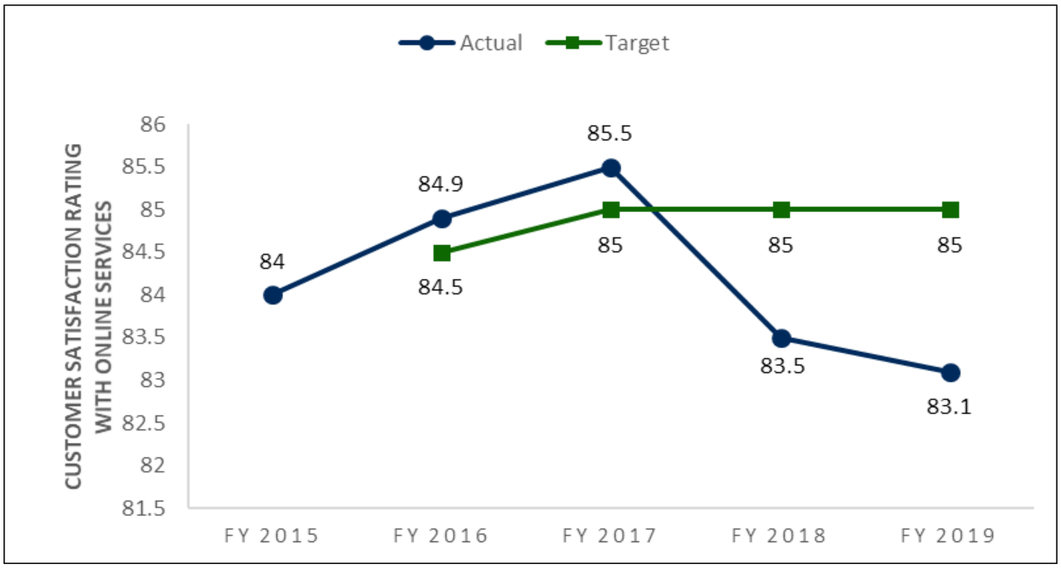
Analysis: Reducing the number of pending actions at the processing centers (PC) remains a focus area for improvement for the agency. We reduced the number of pending actions by 37 percent from January 2016 to September 2018. However, in FY 2019, the PCs had to rework a number of complex and time-consuming cases based on the outcome of the court case, *Steigerwald v. Berryhill*. Furthermore, the PCs provided additional assistance to our National 800 Number to help address high busy rates and wait times. These efforts contributed to an increase in the PC backlog.

Increase the number of successfully completed online transactions



Analysis: By implementing new online services over the past four years, we have significantly increased the volume of online transactions. As we realized these increases, we have continued to set aggressive stretch targets each year. In FY 2016, we implemented Dynamic Help, which contributed to more than 20 million transactions in its first year, and in FY 2017, we implemented My Application Status, a web-based application that allows claimants to view benefit claims that are currently pending or recently adjudicated, which contributed over 9 million transactions. We also implemented myWageReport (myWR), which allowed Disability Insurance (DI) beneficiaries to report earnings electronically on computers, mobile devices, and smartphones through *my* Social Security, and expanded it to Supplemental Security Income (SSI) recipients and concurrent (SSI and DI) beneficiaries, their representative payees or deemors (e.g., an ineligible spouse or parent living with the recipient) in FY 2018. In FY 2019, we enhanced online services to allow representative payees to conduct online wage reporting and direct deposit changes. These improvements contributed to a 13 percent increase in online transactions over FY 2018. We will continue to increase online transactions as we implement new services.

Maintain customer satisfaction with our online services above ForeSee's Threshold of Excellence (80)



Analysis: This performance measure targets overall customer satisfaction with eight agency online services, including our homepage (www.socialsecurity.gov), based on the ForeSee E-Government Satisfaction Index. During FY 2019, we encountered a drop in Business Services Online customer satisfaction due to additional steps required of customers to update their records. We provided training videos and instructions to assist the affected customers. For FY 2019, we exceeded the ForeSee Threshold of Excellence of 80. (The agency's ForeSee Threshold of Excellence target was established in FY 2016.)

To deliver services effectively, we will:

Reduce the Hearings Backlog

Eliminating the hearings backlog and reducing the time it takes to get a hearing decision remains one of our most critical priorities. Our plan for Compassionate And REsponsive Service (CARES) is a multi-pronged approach to eliminate the hearings backlog through increased decisional capacity, business process efficiencies, and information technology (IT) innovations. With our CARES plan, the special hearings backlog funding we have received, and our dedicated employees, we are reducing the average wait for a hearing decision. We expect to eliminate the backlog and reduce the wait for a decision to 240 days in FY 2021.

We have reduced the number of pending hearing requests each consecutive month since January 2017. In FY 2019, we reduced the backlog to about 575,000 cases, the lowest level since FY 2004. In addition, we have eliminated our decision writer backlog. As importantly, we have reduced the average wait time for a hearing decision to 506 days, a 25 percent improvement from the height of 633 days in September 2017. We continue to gain benefits of hires from previous years, focus on improving our business processes and accountability, and invest in automation improvements in our hearings operations. Building from our disability case processing systems work for the State disability determination services (DDS), we are developing a modern case processing system for hearings and appeals level cases that will improve case processing, decisional quality, and efficiency. Additionally, we will be conducting more video hearings in the future which should more quickly improve the wait times and efficiencies of our process.

Reduce the Processing Center Backlog

Our PCs reduced the number of pending actions to 3.2 million as of September 2018, a 37 percent decrease from an all-time high of more than 5 million in January 2016. While we planned to further reduce the backlog in FY 2019, we ended the year at 4.5 million. We encountered significant increases in the PC workload due to the outcome of the court case, *Steigerwald v. Berryhill*, and additional assistance the PCs provided to our National 800 Number. We continue to provide hiring and overtime in the PCs, and focus on automation, workflow enhancements, and quality initiatives to improve performance.

Expand Internet Replacement of Social Security Number Cards

Each year, we process over 11 million applications for Social Security number replacement cards in our field offices. Adult U.S. citizens with a *my* Social Security account, who meet certain criteria, may apply for the card through the Internet Social Security Number Replacement Card (iSSNRC) online application. We expanded the iSSNRC option to 8 additional States in FY 2019, making it available now in 40 States and the District of Columbia.

Enhance *my* Social Security

my Social Security is our online portal for the public that provides a convenient, safe online option for people interested in viewing their Social Security records or conducting business with us. We continue to focus on improving the *my* Social Security user experience and adding service options. *my* Social Security has a user-friendly design to allow broad access from various devices, and we had over 45.7 million registered users at the end of FY 2019.

Strategic Goal 2:
Improve the Way We Do Business

Strategic Objectives

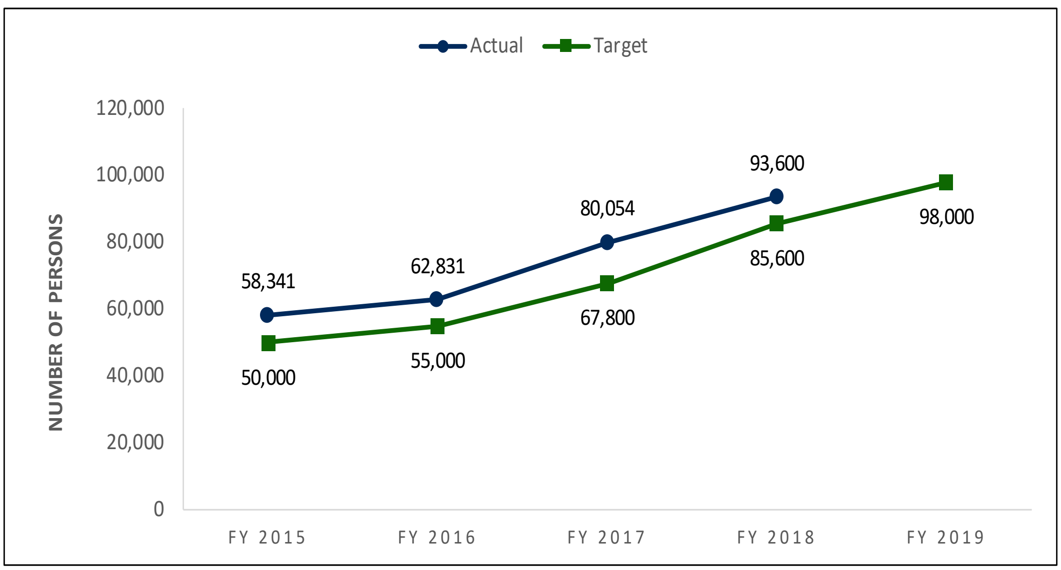
- Streamline Policies and Processes
- Accelerate Information Technology Modernization

myWageReport

Available online at www.socialsecurity.gov/myaccount/

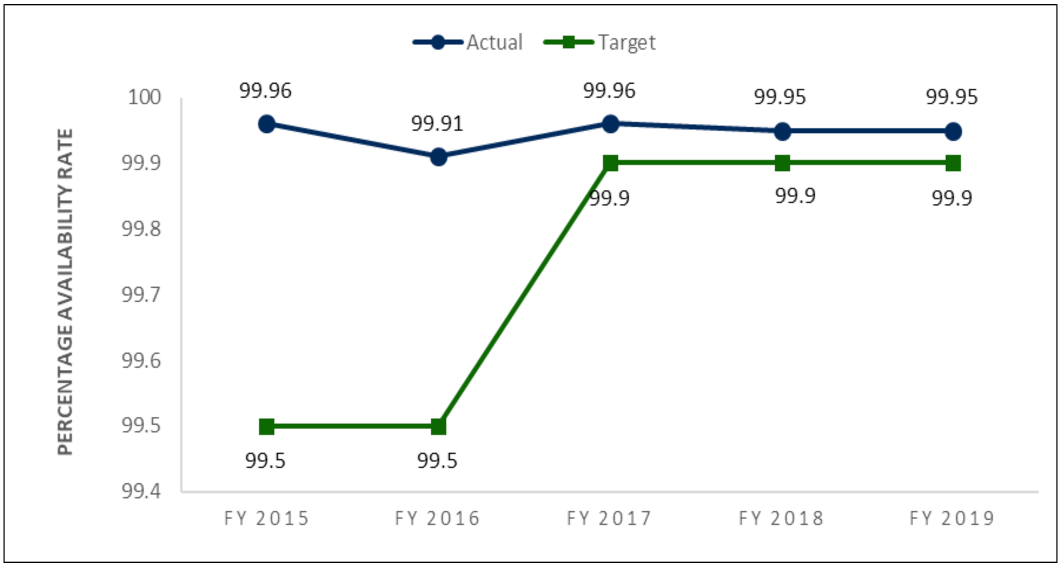
We selected the following performance measures to indicate our progress to improve the way we do business:

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



Analysis: Our Ticket to Work and Vocational Rehabilitation (VR) cost reimbursement programs have helped beneficiaries transition to employment. In FY 2019, we continued to increase the number of persons with disabilities who returned to work. Over the past four years, we have realized continued growth in this program and exceeded our target. FY 2019 data will not be available until April 2020.

Provide uninterrupted access to our systems during scheduled times of operations



Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to serving the public. Since FY 2012, we have exceeded the target for this measure. We continue to surpass the agency's goal for Enterprise Availability of our critical services each year. In FY 2019, we achieved a systems availability rating of 99.95 percent, while processing higher volumes of transactions and deploying system changes for continual improvement as we constantly work to increase redundancy, stability, and scalability.

Maintain an effective cybersecurity program

	FY 2018	FY 2019
Target	Achieve an overall score of "Managing Risk" on the Federal Cybersecurity Risk Management Assessment	Achieve an overall score of "Managing Risk" on the Federal Cybersecurity Risk Management Assessment
Target Achieved	Met	TBD
Performance	"Managing Risk" score achieved	TBD

Analysis: Maintaining our cybersecurity is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. We continue to meet the Department of Homeland Security cybersecurity target, as well as achieve an overall score of "Managing Risk" on the Federal Cybersecurity Risk Management Assessment. Our annual results continue to demonstrate our commitment to protecting the data the American public entrusts to us. FY 2019 data will not be available until January 2020.

To improve how we do business, we will:

Increase the Number of People with Disabilities who Return to Work

Many beneficiaries who are disabled want to work and may attain self-sufficiency with adequate support. The Ticket to Work program and the VR cost reimbursement program help beneficiaries transition to employment and progress towards reduced reliance on disability benefits. In FY 2019, over 344,174 beneficiaries worked with VR agencies and Employment Networks (EN) to attempt to return to the workforce. We will continue to improve our outreach to beneficiaries about employment support programs. Ongoing mailings, marketing efforts, monthly webinars, and an interactive presence on social media have led thousands of beneficiaries to connect with ENs and State VR agencies to get the services they need to return to work.

Modernize the Social Security Statement

To improve customer service and the public's understanding of our programs, we are modernizing the online Social Security Statement (Statement) available through the *my* Social Security portal. The modernized online Statement will not only continue to provide the public with their earnings records, Social Security and Medicare taxes paid, and future benefit estimates, it will also provide access to tools, calculators, supplemental fact sheets, and other applicable information in a central location. The information provided will be customized based on the user's age and earnings history, providing a more relevant experience. Together, it will assist individuals with retirement planning and learning about benefit eligibility. In FY 2019, we began modifying the *my* Social Security online Statement to integrate it with additional benefit estimation tools through the Benefit Entitlement Center, and we will continue to add new features.

Information Technology Modernization

Our staff rely on our IT infrastructure to serve the public and safeguard our programs. However, our infrastructure needs have evolved as technology has changed and the demands for our data and programs have increased. We developed some of our core business systems over 30 years ago, and we have struggled to keep pace as newer technologies advanced what is possible with the use of modern tools and emerging IT capabilities such as artificial intelligence. Our IT infrastructure has grown increasingly complex and costlier to maintain and secure as we applied incremental changes on top of prior revisions.

We initiated our *IT Modernization Plan* in FY 2018 to improve our service to the public. We will advance our IT infrastructure with 21st century technology and implement the technical flexibility necessary to adapt to future demands. To achieve our modernization goals, we will invest $691 million over 5 years, including the $325 million that the Congress provided in dedicated IT Modernization funding in FYs 2018 and 2019. In FY 2019, we modernized our database infrastructure and support capabilities; improved access to master file data to allow the eventual retirement of legacy software; consolidated and eliminated duplicate data; expanded our enterprise data warehouse; and delivered Old-Age, Survivors, and Disability Insurance Cost of Living Adjustment Notices online.

Strengthen Our Information Security Program and Modernize Our Cybersecurity Infrastructure

Maintaining the public's trust in our ability to protect sensitive data housed in our systems requires continuous monitoring of threats and continual improvement and strengthening of our cybersecurity program. Through constant assessment of the threat landscape and use of advanced cybersecurity controls, we can better protect against cybersecurity incidents and risks. We continue to emphasize the importance of information security through continual operational refinement and the maturation of security components in accordance with the standards set forth by government regulations.

In FY 2019, we mitigated vulnerabilities and enhanced our identity management platform to protect our IT assets. We enhanced our identity management platform, further automated our response to security events, and improved data at rest encryption to further protect our information assets. We deployed IT infrastructure, developed network models needed to enhance our network access controls, and strengthened our strategy to limit the impact of potential cyberattacks. We implemented new email and network safeguards to detect and prevent malware from entering our network. Additionally, we developed and implemented our plan to address key cybersecurity skill and knowledge gaps identified under the *Federal Cybersecurity Workforce Assessment Act*.

Strategic Goal 3: Ensure Stewardship

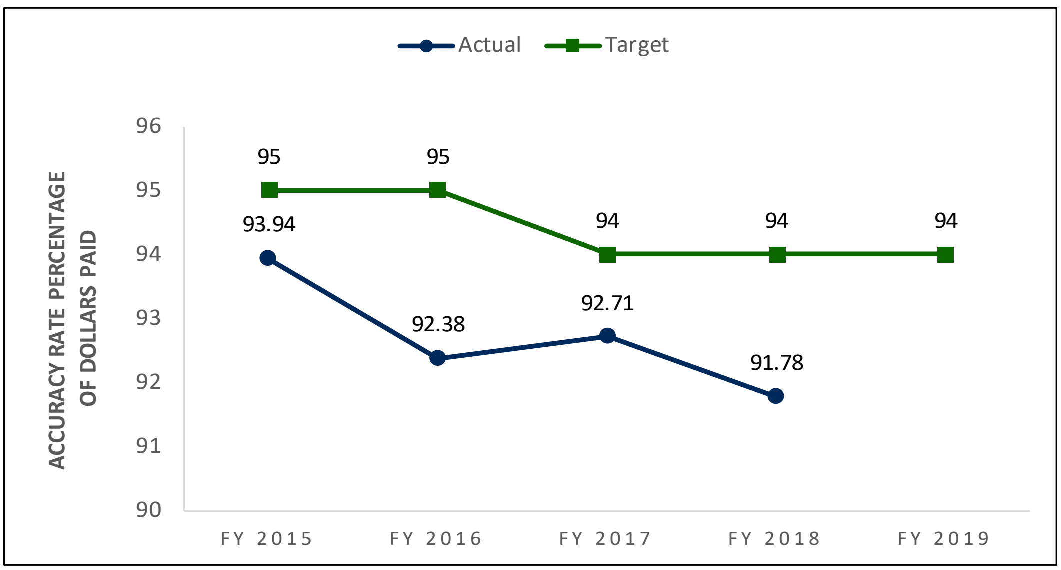
Strategic Objectives

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

[Antifraud facts: www.socialsecurity.gov/antifraudfacts/](http://www.socialsecurity.gov/antifraudfacts/)

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

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

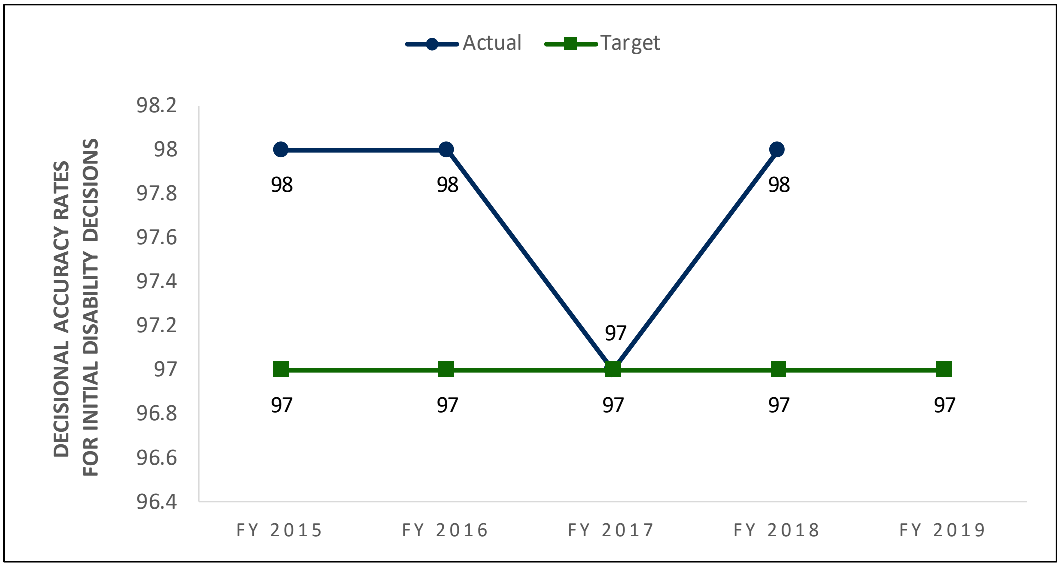


Analysis: We rely on SSI recipients to timely report changes in income, resources, and living arrangements in order to accurately determine their eligibility for the program and payment amount. Without timely reports, we incur improper payments.

In addition to our key program integrity workloads, we have an aggressive strategy, utilizing various initiatives, to reduce improper payments: Access to Financial Institutions program, identifying non-home real property, enhancing the SSI wage-reporting process, quality reviews, reducing underpayments to vulnerable populations, increasing post-entitlement accuracy, improving death data processing, expanding Benefit Payment Offset, conducting a debt risk assessment, modifying our Treasury Offset Program, developing a Debt Management Product, and additional data exchanges to prevent improper payments.

In support of our efforts to improve payment accuracy, we are making progress towards implementing an online debt collection application and creating an automated process to improve accuracy in our payment records. We will also modernize and simplify the waiver and appeal process. FY 2019 data will not be available until summer 2020.

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



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

Analysis: The public expects us to make timely and accurate decisions. In FY 2018, we demonstrated the quality of our decisions by achieving a decisional accuracy of 98 percent for initial disability decisions. We have consistently met our target for this measure since FY 2010. FY 2019 data will not be available until January 2020.

To ensure stewardship, we will:

Promote Timely Wage Reporting

Changes in a person's work and wages are a leading cause of improper payments in the DI and SSI programs. Currently, we use a number of sources to verify wage amounts, including pay stubs submitted by recipients, annual earnings data from the Internal Revenue Service, and payroll information from The Work Number. However, verifying wages is a manual process, and we continue to rely on beneficiaries to report wages.

In FY 2017, we implemented an online tool, myWR, which allows DI beneficiaries to report earnings electronically on computers, mobile devices, and smartphones through *my* Social Security. In FY 2018, we expanded myWR to allow SSI recipients and concurrent (SSI and DI) beneficiaries, their representative payees, or their deemors (e.g., an ineligible spouse or parent living with the recipient) to report earnings electronically.

In FY 2019, users successfully submitted over 99,000 myWRs. In addition, we developed requirements, conducted market research, and released the solicitation for a contracting opportunity for payroll data providers, which allowed us to collect over 11.8 million consent authorizations from applicants, beneficiaries, and recipients.

Modernize our Debt Management System

We have multiple systems that manage programmatic debts. We are engaged in 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 debt collections, more efficiently address our overpayment workloads, and resolve compliance and audit issues.

Enhance Fraud Prevention and Detection Activities

Combatting fraud is an agency priority, and we take seriously our responsibility to prevent and detect fraud. With the Office of the Inspector General, we jointly operate Cooperative Disability Investigations (CDI) units with State DDSs and State and local law enforcement. In FY 2019, we added 3 CDI units, resulting in 46 CDI units covering 40 states, all U.S. territories, and the District of Columbia. Generally, these units investigate suspected fraud before the agency awards benefits and during the continuing disability review process.

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

We are focused on a holistic analytical approach to our fraud risk management and prioritize our anti-fraud efforts consistent with the *Fraud Reduction and Data Analytics Act of 2015* and the Government Accountability Office's framework for managing fraud risks in Federal programs. We continue to expand the use of data analytics and predictive modeling to enhance fraud prevention and detection in our programs. We integrate data from multiple sources and use industry-proven predictive analytics software to identify high-risk transactions for further review. With these models, we better identify suspicious and evolving patterns of activities in our workloads and prevent fraudulent actions before payments are made. In FY 2019, we completed fraud risk assessments of our electronic services and administrative areas, and developed a fraud model to mitigate risks. We also plan to initiate additional risk assessment activities to expand beyond disability and online services.

LOOKING FORWARD – FACING OUR CHALLENGES

Public service drives every decision we make. Our top priorities are to improve public service – particularly reducing National 800 Number, field office, and hearings wait times, and modernizing our disability policies and our IT, including providing more digital and automated service options.

While the agency has made significant progress in addressing some key challenges in recent years, we have much more work to do. We are taking a hard look at how we spend our funding, what the public gains from our IT investments, and the effectiveness of our current business processes to look for efficiencies and process changes that will help us improve service to the public while we also maintain our stewardship responsibility.

With the special hearings backlog funding we received and our dedicated employees, we have made tremendous progress in reducing the hearings backlog and wait times. As of the end of FY 2019, we reduced the backlog to about 575,000 cases, the lowest level since FY 2004. In addition, the average wait time for a hearing decision is 506 days, a 25 percent improvement from the height of 633 days in September 2017. By the end of FY 2021, we expect to have an average wait time of 240 days.

While we are on a steady course to eliminate the hearings backlog, we are also committed to finding solutions to address service issues in our frontline operations. Our field offices are often the first point of contact for our customers and provide ongoing support in our communities. We will continue to explore ways to reduce wait times and pending workloads in our offices and improve our communications with the public. Taking a fresh view will help us identify and solve problems, including how we can drive effective change. We will focus our hiring on frontline operations to serve the public.

Millions of customers also depend on our National 800 Number technicians to answer critical and time sensitive questions. One of our first areas of improvement will be our National 800 Number, which has long wait times and high busy rates that are unacceptable. We have made hiring for the National 800 Number a top priority while also bringing in industry experts to help us look at how we can modernize our service and use our new unified communications platform to provide more automated solutions that can better serve the public and allow our staff to focus on the most complex work.

We cannot deliver timely and accurate services to the public in the future without modernizing our IT. We made tremendous progress in our modernization efforts, thanks to the support of the Administration, Congress, and the hard work of our employees. Technology has become valuable in optimizing resources and delivering on customer expectations, so we must continue to move forward and replace all of our outdated systems with modern systems that meet 21st century needs.

Streamlining agency policies is essential to gaining efficiencies. Over the course of time, policies have become more and more complicated leading to errors, complexity for our employees and the public, and the inability to automate. We will explore simplification opportunities and identify outdated rules and regulations that we will consider updating or removing.

We continue to be focused on our mission, and look forward to making the agency an even stronger, more responsive and modern organization.

Highlights of Financial Position

Overview of Financial Data

We received an unmodified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information are located in the *Financial Section* of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2017 through 2019 (excluding key amounts from our Statements of Social Insurance and Statements of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

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

Net Position (end of fiscal year)			
	2019	**2018**	**2017**
Total Assets	$2,945.9	$2,939.3	$2,934.8
Less Total Liabilities	$118.9	$117.0	$115.3
Net Position (assets net of liabilities)	$2,827.0	$2,822.3	$2,819.6
Change in Net Position (end of fiscal year)			
	2019	**2018**	**2017**
Net Costs	$1,101.3	$1,038.6	$999.1
Total Financing Sources[2]	$1,106.0	$1,041.3	$1,044.1
Change in Net Position	$4.7	$2.7	$45.0

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position located in the *Financial Section* of this report.

Balance Sheet: The Balance Sheet, located in the *Financial Section* of this report, presents as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2019 are $2,945.9 billion, a 0.2 percent increase over the previous year. Of the total assets, $2,928.2 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.5 percent of our assets, increased $6.3 billion over the previous year.

Liabilities grew in FY 2019 by $1.9 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries, and the 2.8 percent cost of living adjustment (COLA) provided to beneficiaries in 2019. The majority of our liabilities (89.2 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew $4.7 billion to $2,827.0 billion, reflecting the higher growth in assets than liabilities.

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

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2019, our total net cost of operations increased $62.7 billion to $1,101.3 billion, primarily due to a 2.6 percent increase in the number of OASI beneficiaries, and the 2.8 percent COLA provided to beneficiaries in 2019. The OASI, DI, and SSI net cost increased by 6.6 percent, 1.1 percent, and 10.2 percent respectively. Operating expenses increased for the OASI, DI, and SSI programs by 3.9 percent, 0.7 percent, and 6.2 percent, respectively.

In FY 2019, our total benefit payment expenses increased by $62.2 billion, a 6.1 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2019 and FY 2018 for each of our three major programs. The increase in SSI benefit payment expense is primarily due to 12 months of benefit payments in FY 2019 versus 11 months in FY 2018. The October 2017 payments were accelerated into FY 2017 since the October 1, 2017 disbursement date fell on a weekend. Refer to Note 1, Summary of Significant Accounting Policies, for additional information on SSI benefit payments.

Benefit Changes in Our Major Programs During Fiscal Years 2019 and 2018

	FY 2019	FY 2018	% Change
OASI			
Benefit Payment Expense	$892,619	$836,919	6.7%
Average Monthly Benefit Payment	$1,402.83	$1,347.46	4.1%
Number of Beneficiaries	53.81	52.45	2.6%
DI			
Benefit Payment Expense	$142,482	$140,939	1.1%
Average Monthly Benefit Payment	$1,103.77	$1,066.01	3.5%
Number of Beneficiaries	9.98	10.21	(2.3)%
SSI			
Benefit Payment Expense	$51,990	$47,027	10.6%
Average Monthly Benefit Payment	$566.71	$551.63	2.7%
Number of Beneficiaries	8.10	8.15	(0.6)%

Notes:

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

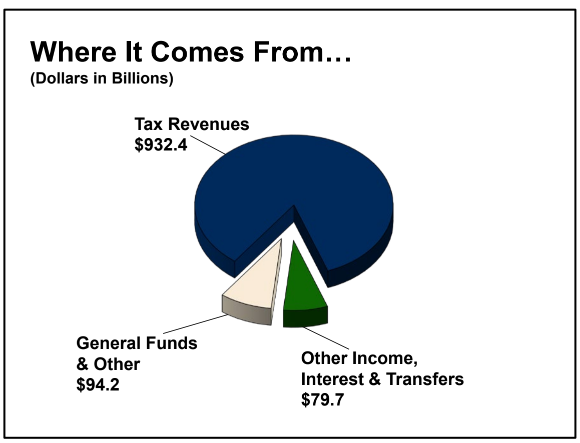
Statement of Changes in Net Position: The Statement of Changes in Net Position, located in the *Financial Section* of this report, presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of

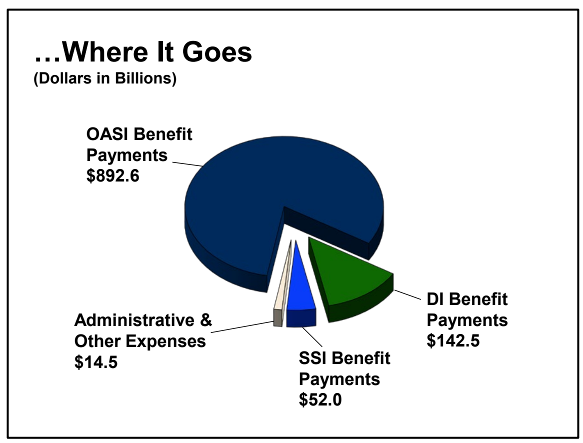
$4.7 billion in the net position of our agency, which is attributable to financing sources in excess of our agency's net cost. At this time, the total of DI tax revenues and interest earned continue to exceed benefit payments made to beneficiaries, keeping the program solvent. OASI benefit payments expense exceeded tax revenues and interest earned in FY 2019, resulting in the program using Trust Fund reserves to cover the excess payments. The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, authorized a temporary reallocation of the DI Trust Fund's portion of the *Federal Insurance Contributions Act* payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and continued through December 31, 2018, after which the allocation returned to the prior distribution. This reallocation of payroll taxes resulted in additional DI cumulative results of operations brought forward in FY 2019, which, when combined with the current year receipts less amounts used, resulted in DI's net position increasing $5.7 billion from $72.9 billion to $78.6 billion.

We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are 1.3 percent.

In FY 2019, total financing sources, as shown in the Table of Key Financial Measures displayed earlier in this section, increased by $64.7 billion to $1,106.0 billion. The primary source of this increase is additional OASI tax revenues received in FY 2019. The $1,106.0 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart "Where It Comes From…" as seen below. The activity reported in the chart includes $0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2019.





Note:

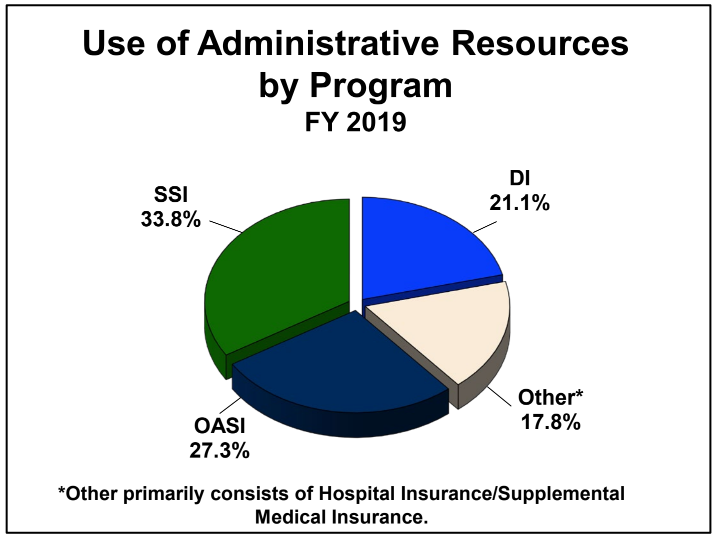
1. The individual items included in the "Where It Comes From…" chart total $1,106.3 billion. Of this total, 0.3 billion relates to exchange revenue, which is not included on the Statement of Changes in Net Position.

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

Statement of Budgetary Resources: The Statement of Budgetary Resources, located in the *Financial Section* of this report, provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2019. The Statement shows that we had $1,165.0 billion in budgetary resources, of which $5.5 billion remained unobligated at year-end. We recorded total net outlays of $1,101.8 billion by the end of the year. Budgetary resources increased $63.1 billion, or 5.7 percent, from FY 2018, while net outlays increased $61.9 billion, or 6.0 percent. The increase in budgetary resources is primarily due to an increase in OASI tax revenues in FY 2019. The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries and the 2.8 percent COLA provided to beneficiaries in 2019.

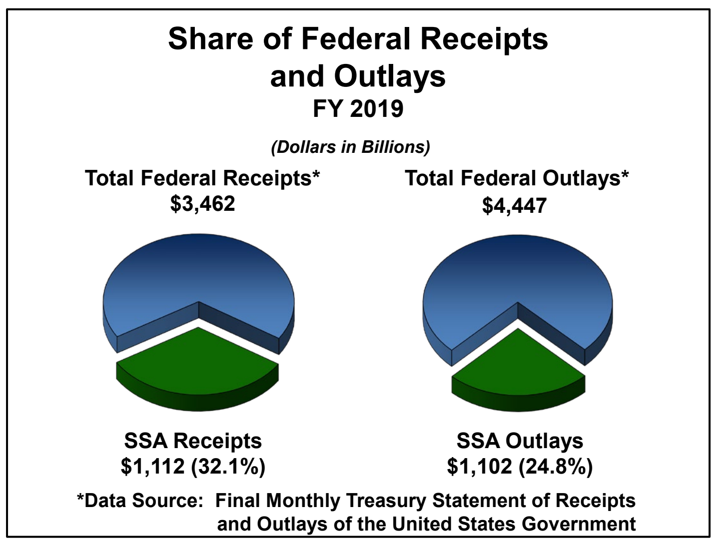
Use of Administrative Resources

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2019 in terms of the programs we administer or support. Although the DI program comprises only 13.1 percent of the total benefit payments we make, it consumes 21.1 percent of annual administrative resources. Likewise, while the SSI program comprises only 4.8 percent of the total benefit payments we make, it consumes 33.8 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued eligibility for benefits. The FY 2018 use of administrative resources by program was 27.3 percent for the OASI program, 21.8 percent for the DI program, 33.0 percent for the SSI program, and 17.9 percent for Other.



Share of Federal Operations

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2019 represented 32.1 percent of the $3.5 trillion in total Federal receipts, an increase of 0.6 percent over last year. Outlays decreased by 0.5 percent to 24.8 percent of Federal outlays.



OVERVIEW OF SOCIAL INSURANCE DATA

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

Statements of Social Insurance Old-Age, Survivors, and Disability Insurance (calendar year basis)			
	2019	2018	2017
Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), current year valuation	-$16,764	-$16,057	-$15,357
Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), prior year valuation	-$16,057	-$15,357	-$14,169
Change in present value	-$707	-$701	-$1,187

Notes:

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

Statements of Social Insurance: The Statements of Social Insurance, located in the *Financial Section* of this report, present the following estimates:

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

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -$16.1 trillion, as of January 1, 2018, to -$16.8 trillion, as of January 1, 2019. The deficit, therefore, increased in magnitude by about $0.7 trillion. Including the asset reserves in the combined OASI and DI Trust Funds increases this open group measure by about $2.9 trillion, to -$13.9 trillion, for the 75-year valuation period.

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

Funds as of the beginning of the period, is -$34.7 trillion (closed group measure). Including future participants (those under age 15, and to be born during the projection period) over the next 75 years decreases the projected deficit by $20.8 trillion to the open group measure of -$13.9 trillion.

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

From January 1, 2018 to January 1, 2019: The present value as of January 1, 2019 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2093. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.4 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $1.0 trillion;
- Changes in programmatic data and methods increased the present value of estimated future net cash flows by $0.5 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- Incorporating recent mortality data, which led to higher projected death rates for all future years;
- Lowering the ultimate annual rate of change in total-economy labor productivity from 1.68 percent to 1.63 percent, reflecting an expected slower rate of productivity growth in the long term;
- Decreasing the difference between the ultimate growth rates for the Consumer Price Index for Urban Wage Earners and Clerical Workers and the gross domestic product implicit price deflator (the "price differential") from 0.40 percentage point to 0.35 percentage point;
- Lowering the ultimate real interest rate by 0.2 percentage point, from 2.7 percent to 2.5 percent; and
- Lowering the ultimate disability incidence rate from 5.4 to 5.2 per thousand exposed, and incorporating recent disability data.

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

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

Significant changes made for this valuation included:

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

OASI and DI Trust Fund Solvency

Pay-As-You-Go Financing

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

The following table shows that the combined OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 36.8 months at the end of FY 2015, to 36.1 months at the end of FY 2016, to 35.1 months at the end of FY 2017, and to estimated values of 33.2 and 31.6 months at the end of FY 2018 and FY 2019, respectively. The historical values shown in the table for the DI Trust Fund had been declining through the end of FY 2015 because expenditures increasingly exceeded income. This trend began to reverse in FY 2016 due to the *Bipartisan Budget Act of 2015*, which reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund. The values for DI are projected to continue to increase through the end of FY 2019.

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

	2015	2016	2017	2018	2019
OASI	43.1	42.0	40.2	37.5	35.4
DI	3.4	3.8	5.7	7.5	7.6
Combined	36.8	36.1	35.1	33.2	31.6

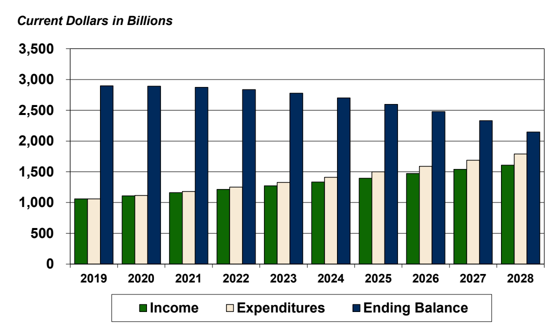
Notes:

1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.
2. Values for FY 2018 and FY 2019 are estimates based on the intermediate set of assumptions of the 2019 Trustees Report.

Short-Term Financing

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program's obligations for the year. Estimates in the 2019 Trustees Report indicate that, on a hypothetical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate set of assumptions of the 2019 Trustees Report, OASDI estimated cost of $1,789 billion and income of $1,606 billion for 2028 are 79 percent and 60 percent higher than the corresponding amounts in 2018 ($1,000 billion and $1,003 billion, respectively). From the end of 2018 to the end of 2028, asset reserves are projected to decrease by 26 percent, from $2.9 trillion to $2.1 trillion.

OASDI Income, Expenditures, and Asset Reserves in the Short Term



Long-Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2035, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 80 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2035, declining to 75 percent of scheduled benefits in 2093.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers beginning their retirement. In present value terms, the 75-year shortfall is $13.9 trillion, which is 2.61 percent of taxable payroll and 0.9 percent of gross domestic product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

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

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

Limitations of the Financial Statements

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

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

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

Fiscal Year 2019 Commissioner's Assurance Statement

SSA management is responsible for managing risks and maintaining effective internal control and financial management systems (FMS) to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* (FMFIA). We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Our assessment considered the design and operating effectiveness of our data quality controls to ensure they support *Digital Accountability and Transparency Act* reporting objectives as outlined in our *Data Quality Plan*. Based on the assessment results, we can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2019.

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

We conducted our assessment of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Based on the assessment results, we concluded that, as of September 30, 2019, SSA's internal control over financial reporting is effective.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires Federal agencies to implement and maintain FMSs that comply substantially with: 1) Federal FMS requirements; 2) applicable Federal accounting standards; and 3) the U.S. Standard General Ledger at the transaction level. We conducted an assessment of our FMSs in accordance with the requirements of OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. Based on the assessment results, we determined our FMSs substantially comply with FFMIA and conform to the objectives of FMFIA. In making this determination, we considered all available information, including the auditor's opinion on our fiscal year 2019 financial statements, the report on the effectiveness of internal controls over financial reporting, and the report on compliance with laws and regulations. We also considered the results of the FMS reviews and management control reviews conducted by the agency and its independent contractor.

Andrew Saul
Commissioner
November 12, 2019

Agency Federal Managers' Financial Integrity Act Program

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

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

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

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

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

We identify management control issues and weaknesses through audits, reviews, studies, and observations of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and FMSs. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance that our business processes are functioning as intended. The reviews also ensure management controls and FMSs comply with the standards established by FMFIA, the *Federal Financial Management Improvement Act of 1996*, and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

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

Management Control Review Program

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

Financial Management Systems Review Program

The agency maintains an FMS inventory and conducts reviews of the FMSs to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in the FMS inventory. On a three-year cycle, an independent contractor performs detailed reviews of our FMSs. During fiscal year (FY) 2019, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

Government Accountability Office's, Standards for Internal Control in the Federal Government

In FY 2019, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design, implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meets the GAO's standards.

Enterprise Risk Management

We continue to mature our Enterprise Risk Management (ERM) program in accordance with the requirements of OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. We are developing a multi-year strategy that will further integrate our existing internal control and risk management frameworks, and strategic planning and review processes. In FY 2020, we will continue enhancing our ERM program, further integrating business practices outlined in our ERM framework, and continue updating our risk profile and promoting risk awareness throughout the agency.

Financial Statement Audit

The Office of the Inspector General contracted with Grant Thornton LLP (Grant Thornton) for the audit of our FY 2019 financial statements. Grant Thornton found we present fairly the basic financial statements, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles for Federal entities.

Grant Thornton also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2019, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2018 to January 1, 2019, are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

Grant Thornton found we maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

In this year's financial statement audit, Grant Thornton cited three significant deficiencies, which contained elements identified in prior years. These significant deficiencies concern internal control over certain financial information systems controls, information systems risk management, and accounts receivable with the public (benefit overpayments). We successfully remediated the significant deficiency identified in prior years concerning the reliability of information used in certain control activities and are committed to resolving the remaining deficiencies through risk-based corrective action plans designed to strengthen our control environment.

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

Federal Information Security Modernization Act

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

For the FY 2019 FISMA audit, Grant Thornton assessed our overall maturity at Level 2 – Defined, acknowledging the agency's establishment of an agency-wide information security program, including our risk-based approach to strengthening controls over our information systems.

In FY 2019, we made substantial improvements in enhancing the overall effectiveness of our cybersecurity program by increasing application security controls, leveraging cloud platforms, making substantial improvements for our asset and vulnerability management programs, strengthening our network and incident response capabilities, and focusing on security training delivery and completeness. We also increased emphasis on governance and oversight of the cyber program at the executive level by involving subject matter experts and leaders from components outside our information technology (IT) department, creating greater awareness of overarching issues and the related risk mitigation activities, and establishing more accountability for completion of programs of objectives and milestones. We are conducting regular bi-weekly cyber dialogue with agency senior leadership and responsible managers from these components, and we will continue to accelerate activities to remediate identified risks, and elevate cybersecurity awareness and accountability across all levels. We believe cybersecurity is not just an IT function; it is a strategic imperative for the agency to create coordinated agency-level attention across all organizational components.

The agency handles all auditor findings with the utmost importance, and we will continue to aggressively pursue an accelerated risk-based remediation approach to address the remaining findings and mature the agency's security posture. The agency will continue to practice a defense in-depth cyber strategy that employs a strong set of security controls, technologies, policies, and procedures to manage risk reasonably and to protect the confidentiality, integrity, and availability of information system resources. Properly securing the agency's information systems and protecting the public's personally identifiable information is our highest priority.

To improve our processes and capabilities, we will continue to design and implement new and enhanced security controls; however, it takes time for these controls to mature and effectively achieve the next level of maturity in the agency's security posture. While undergoing this process, we remain vigilant in our efforts by evaluating risk, deploying security controls, and keeping abreast of the ever-evolving threat landscape to safeguard the personally identifiable information that we have been entrusted with by every citizen and non-citizen.

We look forward to elevating our cybersecurity program to Level 4 maturity through a holistic approach, demonstrating progress through planned improvements to our cybersecurity program, enhancing our security posture with risk based decisions, and aggressive remediation of significant audit findings and program deficiencies.

Financial Management Systems Strategy

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

Annually, we review and update our FMS inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of nine FMSs under the broad categories of Program Benefits, Debt Management, or Financial/Administrative and continue the long-term development of our FMSs following a defined strategy.

In FY 2018, we began a multi-year initiative to develop a modernized enterprise Debt Management System. The Debt Management Product will modernize our Debt Management Systems with a comprehensive build that will enable us to collect, store, monitor, manage, and report our program debt activity with accuracy and timeliness. This modernization effort is an agile investment using modern technology to create an enterprise authoritative source of debt management data; increase collection opportunities; bring efficiencies to and eliminate operational workloads; and resolve compliance and audit recommendations.

In FY 2019, we continued expanding the Debt Management System and began development of an Intranet Waiver application that provides technicians, via an intranet webpage, the capability to capture, document, and support processing waiver requests. In FY 2020, we will continue development of the Intranet Waiver application and prepare for deployment of the new Debt Management System in FY 2021.

For the Financial/Administrative systems category, the Social Security Online Accounting and Reporting System (SSOARS) has been the agency's accounting system of record since implementation in 2003. SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. We were the first Federal agency to successfully implement Oracle's Federal Financials Release 12. Release 12 contained important system software that helped us meet new, required Federal accounting functionality and standards.

In FY 2019, we began to implement three important upgrades to the SSOARS application and database. We are upgrading the application to Version 12.2.8 and the database to Version 12c. These upgrades are required to maintain adequate Oracle support for their products and to allow for critical quarterly software patching. Additionally, we are upgrading several Oracle software products that support SSOARS's ability to share data with other application systems. We will complete all upgrades in FY 2020.

Digital Accountability and Transparency Act

The agency submitted the required reports for the *Digital Accountability and Transparency Act of 2014* (DATA Act) for the fourth quarter of FY 2018 and the first, second, and third quarters of FY 2019. The agency is continuing to engage with the DATA Act community in developing better data definitions. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website (www.USAspending.gov) and additional data to Treasury.

In compliance with OMB Memorandum M-18-16, *Appendix A to OMB Circular No. A-123, Management of Reporting and Data Integrity Risk,* we have developed a *Data Quality Plan* to ensure we have effective internal controls over the input and validation of data submitted to USAspending.gov. We leverage our existing FMFIA program activities to identify critical risk points and corresponding mitigating controls, and assess the design and operating effectiveness of our data quality controls to ensure they support DATA Act reporting objectives. We also consider the results of our assessment in our FMFIA annual assurance statement process.

National Anti-Fraud Committee

Our National Anti-Fraud Committee (NAFC) provides a forum for senior leadership to collaborate and provide strategic oversight on fraud challenges and solutions. NAFC's mission is to support national and regional strategies to combat fraud, waste, and abuse. The committee directs our fraud risk management activities at the agency level by determining the levels of risk tolerance and the amount of investment we will commit to mitigate the identified risks. NAFC supports our goal to promote accountability to taxpayers by ensuring superior financial performance, budget management, and integrity in all payments, records, and processes.

For more information on NAFC, and our other anti-fraud efforts, please refer to the Fraud Reduction and Data Analytics Act Report located in the *Other Reporting Requirements* section of this report.

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Financial Section

SocialSecurity.gov

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report that for the 26th consecutive year, we received an unmodified audit opinion on our financial statements from our independent auditors, and I am honored to join Commissioner Saul in issuing our fiscal year (FY) 2019 *Agency Financial Report*. This report highlights our accomplishments in delivering Social Security services to promote the economic security of the public, and demonstrates our responsible stewardship of taxpayer dollars.

Our FY 2018 *Agency Financial Report* received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants in recognition of our commitment to financial reporting excellence. We have received this prestigious award for 21 consecutive years.

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 cited three significant deficiencies, which contained elements identified in prior years. The significant deficiencies concern internal control over certain financial information systems controls, information systems risk management, and accounts receivable with the public (benefit overpayments). In FY 2019, we successfully remediated the significant deficiency identified in prior years concerning the reliability of information used in certain control activities.

The agency handles audit findings with the utmost importance. We are committed to resolving the deficiencies through risk-based corrective action plans to strengthen our control environment and mitigate risks. We are increasing cross component collaboration by involving subject matter experts and leaders across the agency. We will create greater awareness of overarching issues and related risk mitigation activities and establish more accountability for completing milestones. We provide additional information on the auditors' findings and our corrective actions in the *Systems, Controls, and Legal Compliance* and *Report of Independent Certified Public Accountants* sections of this report.

We are proud of the accomplishments of our dedicated employees. They work hard every day to ensure the success of our financial stewardship and help advance our mission. For additional information on my office's contributions to accomplishing the agency's mission, please refer to the *Financial Management Initiatives Advancing Our Mission* section beginning on the following page. We will continue to implement even stronger policies and practices to provide the American people the maximum value for the resources entrusted to us.

Respectfully,

Michelle A. King

Michelle A. King

Baltimore, Maryland
November 12, 2019

Financial Management Initiatives Advancing Our Mission

Our Chief Financial Officer (CFO) also serves as the Performance Improvement Officer (PIO). This dual role provides a unique position overseeing the full life cycle of agency initiatives and goals—from the development of the *Agency Strategic Plan,* which drives budget decisions and annual performance plans, to the financial management of resources and performance reporting. The mission of the Office of the Chief Financial Officer (OCFO) is financial management excellence. The following are key financial management initiatives that advance this mission and the agency's mission, Strategic Goals, and objectives:

- **Compassionate And REsponsive Service (CARES) Plan**: In fiscal year (FY) 2019, as a result of CARES, our hearings pending initiative, the agency reduced the hearings backlog to about 575,000 cases, the lowest level since FY 2004. Over the last three years, Congress has provided $290 million in special funding dedicated to reduce the hearings backlog. In FY 2019, we received $100 million in dedicated funding for CARES, in addition to the $90 million and $100 million we received in FY 2017 and FY 2018, respectively. From budget planning, execution, and reporting, to providing ongoing medical and vocational contractual support for hearings cases, OCFO remains engaged, helping with the agency's commitment to improve the hearing process.
- **Cross-Agency Priority (CAP) Goals**: In the dual CFO-PIO role, our CFO also has enterprise-wide responsibility for coordinating strategic planning activities and tracking, monitoring, and reporting agency performance. This includes serving as our agency's executive lead for several CAP Goals including Sharing Quality Services, Getting Payments Right, Improve Management of Major Acquisitions, and Improving Customer Experience with Federal Services. For the Improving Customer Experience with Federal Services CAP Goal, the Office of Management and Budget (OMB) listed our agency as a high-impact service provider.
- **Data Quality Plan**: In compliance with OMB Memorandum M-18-16, *Appendix A to OMB Circular No. A-123, Management of Reporting and Data Integrity Risk,* OCFO developed a *Data Quality Plan* to ensure we have effective internal controls over the input and validation of data submitted to USAspending.gov. We leverage our existing *Federal Managers' Financial Integrity Act* (FMFIA) program activities to identify critical risk points and corresponding mitigating controls. We also assess the design and operating effectiveness of our data quality controls to ensure they support *Digital Accountability and Transparency Act of 2014* reporting objectives. We consider the results of our assessment in our FMFIA annual assurance statement process.
- **Debt Management System**: In FY 2018, OCFO began leading a multi-year initiative to develop a modernized enterprise Debt Management System. We completed development of the initial technical architecture, foundational debt view (screens), and basic search functionality of the new Debt Management System. In FY 2019, we continued expanding the Debt Management System and began development of an Intranet Waiver application that provides technicians, via an intranet webpage, the capability to capture, document, and support processing waiver requests. Upon full development, our modernized Debt Management System will help the agency better collect, store, monitor, and report our program debt activity.
- **Enterprise Risk Management (ERM)**: During FY 2019, OCFO continued to lead the maturity of the agency's ERM program. OCFO began integrating our ERM program with the Strategic Objective Review process while updating the agency's ERM risk profile, and established the agency's ERM framework document. The establishment of the framework document will ensure we consistently maintain effective ERM practices, including executive-level governance, as we mature the program. In FY 2020, OCFO will continue to enhance the ERM program and further integrate ERM practices into the agency's business processes.

- **Recovery of Program Funds**: Several years ago, OCFO established a collaborative partnership with other agency components and the Office of the Inspector General to block Routing and Transit Numbers for automated enrollments for direct deposit of benefits for certain financial institutions which involved a high potential for fraud. Due to a long-standing relationship with GreenDot (a multiple debit card provider), we learned of suspected fraudulent activity involving benefit payments. Through subsequent research, we identified that these payments resulted from iClaim transactions. We collaborated with the Department of the Treasury, GreenDot, and other agency components to verify iClaims that appeared fraudulent. This resulted in the return of $1.8 million of Title II and Title XVI payments from GreenDot.
- **Revised Space Allocation Standards**: OCFO revised the agency's Space Allocation Standards (SAS) and associated Space Computation Worksheets (SCW). The SAS and SCW incorporate many of the space optimization elements we have been implementing over the last year, including standardized offices and workstations, focus rooms, and employee personal storage. These changes result in space savings and ultimately a reduction to our real estate portfolio in compliance with OMB's Reduce the Footprint mandate and the *Federal Assets Sale and Transfer Act*.

Financial Statements and Additional Information

Our agency's financial statements and additional information for fiscal years (FY) 2019 and 2018 consist of the following:

- The **Consolidated Balance Sheets** present, as of September 30, 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018. 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, 2019 and 2018. 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, 2018 to the period beginning on January 1, 2019; and (2) change from the period beginning on January 1, 2017 to the period beginning on January 1, 2018. 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, 2019 and 2018
(Dollars in Millions)

Assets	2019	2018
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	**$ 7,408**	$ 6,558
Investments (Note 5)	**2,900,916**	2,894,654
Interest Receivable (Note 5)	**19,796**	20,594
Accounts Receivable, Net (Note 6)	**790**	735
Other (Note 8)	**56**	29
Total Intragovernmental	**2,928,966**	2,922,570
Accounts Receivable, Net (Notes 3 and 6)	**13,447**	13,244
Property, Plant, and Equipment, Net (Note 7)	**3,438**	3,483
Total Assets	**$ 2,945,851**	$ 2,939,297
Liabilities (Note 9)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	**$ 5,052**	$ 4,754
Accounts Payable	**6,085**	5,899
Other	**122**	116
Total Intragovernmental	**11,259**	10,769
Benefits Due and Payable	**106,046**	104,649
Accounts Payable	**430**	482
Federal Employee and Veteran Benefits	**300**	314
Other	**822**	815
Total Liabilities	**118,857**	117,029
Contingencies (Note 9)		
Net Position		
Unexpended Appropriations - All Other Funds	**4,416**	3,576
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	**2,818,817**	2,815,603
Cumulative Results of Operations - All Other Funds	**3,761**	3,089
Total Net Position - Funds from Dedicated Collections (Note 10)	**2,818,817**	2,815,603
Total Net Position - All Other Funds	**8,177**	6,665
Total Net Position	**2,826,994**	2,822,268
Total Liabilities and Net Position	**$ 2,945,851**	$ 2,939,297

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

Consolidated Statements of Net Cost for the Years Ended September 30, 2019 and 2018

(Dollars in Millions)

	2019	2018
OASI Program		
Benefit Payment Expense	**$ 892,619**	$ 836,919
Operating Expenses (Note 11)	**3,967**	3,817
Total Cost of OASI Program	**896,586**	840,736
Less: Exchange Revenues (Note 12)	**(13)**	(14)
Net Cost of OASI Program	**896,573**	840,722
DI Program		
Benefit Payment Expense	**142,482**	140,939
Operating Expenses (Note 11)	**3,065**	3,044
Total Cost of DI Program	**145,547**	143,983
Less: Exchange Revenues (Note 12)	**(35)**	(35)
Net Cost of DI Program	**145,512**	143,948
SSI Program		
Benefit Payment Expense	**51,990**	47,027
Operating Expenses (Note 11)	**4,908**	4,621
Total Cost of SSI Program	**56,898**	51,648
Less: Exchange Revenues (Note 12)	**(242)**	(222)
Net Cost of SSI Program	**56,656**	51,426
Other		
Benefit Payment Expense	**1**	1
Operating Expenses (Note 11)	**2,578**	2,512
Total Cost of Other Program	**2,579**	2,513
Less: Exchange Revenues (Note 12)	**(9)**	(10)
Net Cost of Other Program	**2,570**	2,503
Total Net Cost		
Benefit Payment Expense	**1,087,092**	1,024,886
Operating Expenses (Note 11)	**14,518**	13,994
Total Cost	**1,101,610**	1,038,880
Less: Exchange Revenues (Note 12)	**(299)**	(281)
Total Net Cost	**$ 1,101,311**	$ 1,038,599

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

Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2019 and 2018
(Dollars in Millions)

	2019			2018		
	Funds from Dedicated Collections	**All Other Funds**	**Total**	Funds from Dedicated Collections	All Other Funds	Total
Unexpended Appropriations:						
Beginning Balances	**$ 0**	**$ 3,576**	**$ 3,576**	$ 0	$ 4,813	$ 4,813
Budgetary Financing Sources						
Appropriations Received	**36,104**	**60,934**	**97,038**	35,718	53,553	89,271
Other Adjustments	**0**	**(14)**	**(14)**	0	(15)	(15)
Appropriations Used	**(36,104)**	**(60,080)**	**(96,184)**	(35,718)	(54,775)	(90,493)
Total Budgetary Financing Sources	**0**	**840**	**840**	0	(1,237)	(1,237)
Total Unexpended Appropriations	**0**	**4,416**	**4,416**	0	3,576	3,576
Cumulative Results of Operations:						
Beginning Balances	**$ 2,815,603**	**$ 3,089**	**$ 2,818,692**	$ 2,812,816	$ 1,930	$ 2,814,746
Budgetary Financing Sources						
Appropriations Used	**36,104**	**60,080**	**96,184**	35,718	54,775	90,493
Tax Revenues (Note 13)	**932,424**	**0**	**932,424**	873,171	0	873,171
Interest Revenues	**81,705**	**0**	**81,705**	83,550	0	83,550
Transfers-In/Out - Without Reimbursement	**(6,114)**	**8,639**	**2,525**	(6,272)	9,335	3,063
Railroad Retirement Interchange	**(5,245)**	**0**	**(5,245)**	(4,908)	0	(4,908)
Other Budgetary Financing Sources	**101**	**0**	**101**	51	0	51
Other Financing Sources (Non-Exchange)						
Imputed Financing Sources (Note 14)	**0**	**646**	**646**	0	617	617
Other	**0**	**(3,143)**	**(3,143)**	0	(3,492)	(3,492)
Total Financing Sources	**1,038,975**	**66,222**	**1,105,197**	981,310	61,235	1,042,545
Net Cost of Operations	**1,035,761**	**65,550**	**1,101,311**	978,523	60,076	1,038,599
Net Change	**3,214**	**672**	**3,886**	2,787	1,159	3,946
Cumulative Results of Operations	**$ 2,818,817**	**$ 3,761**	**$ 2,822,578**	$ 2,815,603	$ 3,089	$ 2,818,692
Net Position	**$ 2,818,817**	**$ 8,177**	**$ 2,826,994**	$ 2,815,603	$ 6,665	$ 2,822,268

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2019 and 2018
(Dollars in Millions)

	2019	2018
Budgetary Resources (Note 15)		
Unobligated Balance From Prior Year Budget Authority, Net	**$ 5,129**	$ 7,156
Appropriations (Discretionary and Mandatory)	**1,144,317**	1,079,107
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	**15,541**	15,621
Total Budgetary Resources	**$ 1,164,987**	$ 1,101,884
Status of Budgetary Resources		
New obligations and upward adjustments		
Direct	**$ 1,156,838**	$ 1,094,792
Reimbursable	**2,631**	2,464
New obligations and upward adjustments (total)	**1,159,469**	1,097,256
Unobligated Balance, End of Year		
Apportioned, unexpired accounts	**5,144**	3,557
Unapportioned, unexpired accounts	**48**	833
Unexpired unobligated balance, end of year	**5,192**	4,390
Expired unobligated balance, end of year	**326**	238
Unobligated balance, end of year (total)	**5,518**	4,628
Total Budgetary Resources	**$ 1,164,987**	$ 1,101,884
Outlays, Net		
Outlays, Net (Discretionary and Mandatory)	**$ 1,141,166**	$ 1,078,859
Distributed Offsetting Receipts	**(39,333)**	(38,956)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 1,101,833**	$ 1,039,903

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, 2019
(Dollars in Billions)

		Estimates Reported in Prior Years			
	2019	**2018**	**2017**	**2016**	**2015**
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	**$ 1,552**	$ 1,451	$ 1,374	$ 1,272	$ 1,166
Cost for scheduled future benefits	**16,895**	15,862	14,668	13,602	12,833
Future noninterest income less future cost	**-15,344**	-14,411	-13,294	-12,330	-11,667
Participants who have not yet attained retirement eligibility age (ages 15–61):					
Noninterest income	**33,602**	31,849	30,305	29,273	27,791
Cost for scheduled future benefits	**55,826**	52,248	50,181	48,412	45,276
Future noninterest income less future cost	**-22,224**	-20,399	-19,876	-19,138	-17,486
Present value of future noninterest income less future cost for current participants (closed group measure)	**-37,568**	-34,810	-33,170	-31,468	-29,152
Combined OASI and DI Trust Fund asset reserves at start of period	**2,895**	2,892	2,848	2,813	2,789
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	**-$ 34,673**	-$ 31,918	-$ 30,322	-$ 28,656	-$ 26,363
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	**$ 35,311**	$ 31,788	$ 30,452	$ 29,687	$ 26,580
Cost for scheduled future benefits	**14,508**	13,035	12,639	12,388	10,867
Future noninterest income less future cost	**20,804**	18,753	17,813	17,299	15,713
Present value of future noninterest income less future cost for current and future participants (open group measure)	**-16,764**	-16,057	-15,357	-14,169	-13,440
Combined OASI and DI Trust Fund asset reserves at start of period	**2,895**	2,892	2,848	2,813	2,789
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	**-$ 13,869**	-$ 13,166	-$ 12,509	-$ 11,357	-$ 10,650

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, 2018 to January 1, 2019
(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, 2018	-$ 16,057	$ 2,892	-$ 13,166
Reasons for changes between January 1, 2018 and January 1, 2019 (Note 17)			
Change in the valuation period	-576	-2	-577
Changes in demographic data, assumptions, and methods	392	0	392
Changes in economic data, assumptions, and methods	-1,027	0	-1,027
Changes in programmatic data and methods	484	5	489
Changes in law or policy	20	0	20
Net change between January 1, 2018 and January 1, 2019	-$ 707	$ 3	-$ 703
As of January 1, 2019	**-$ 16,764**	**$ 2,895**	**-$ 13,869**

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**

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, 2019 and 2018

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. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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). 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 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.

On May 24, 2018, Congress enacted the *Economic Growth, Regulatory Relief, and Consumer Protection Act*, or hereinafter referred to as the Banking Bill. Section 215 of the Banking Bill titled, "Reducing Identity Fraud," was passed to reduce synthetic identity fraud. Section 215 of the Banking Bill requires SSA to provide a "permitted entity" a confirmation (or non-confirmation) of fraud protection data (SSN verification) based on the number holder's written consent, including by electronic signature.

To meet the requirements of section 215 of the Banking Bill, SSA must either modify an existing system or develop a new system to perform SSN verifications for "permitted entities," as defined in the Banking Bill. The Banking Bill requires users of this system to reimburse SSA for the full cost of this work. SSA may not begin development of the verification system to carry out the Banking Bill until it collects at least 50 percent of the program start-up costs from users of the system.

In order to comply with the Banking Bill, SSA has incurred non-mission costs in our LAE account for planning, analysis, and other activities not associated with the development of the verification system. The Banking Bill requires SSA to fully recover all costs from the users of the verification process by way of advances, reimbursements, user fees, or other recoveries as determined by the Commissioner. SSA plans to recover these costs in future years and has accounted for this with a non-budgetary accounts receivable for the amount of costs incurred through September 30, 2019. Refer to Note 6, Accounts Receivable, Net.

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, Buildings and Other Structures, and Internal Use Software, excluding commercial off-the-shelf software are capitalized with no threshold. Refer to Note 7, Property, Plant, and Equipment, Net.

In FY 2019, while performing an internal review of PP&E, SSA discovered two issues with prior year internal use software activity, which resulted in a net over-capitalization of assets. We identified prior year contract-related overhead that had not been applied, as well as overhead on SSA employee developed internal use software that had been double counted in the capitalization process. The adjustments recorded to address both items resulted in a decrease in Net Book Value of $391 million as of September 30, 2018. SSA determined that this unintentional error was not material to the financial statements, and therefore, recorded the activity during FY 2019. This activity decreased SSA's FY 2019 Property, Plant, and Equipment and Total Assets line items on the Consolidated Balance Sheets. In addition, this activity increased SSA's FY 2019 Operating Expense and Total Net Cost line items on the Consolidated Statements of Net Cost. 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

In accordance with SFFAS No. 53, *Budget and Accrual Reconciliation*, SSA has modified the FY 2019 presentation of Note 16, Reconciliation of Net Cost to Net Outlays, to comply with the new reporting requirements. FY 2018 balances are not required to be presented in the new format.

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 $21 and $27 million for the years ended September 30, 2019 and 2018. SSA contributions to the basic FERS plan were $608 and $612 million for the years ended September 30, 2019 and 2018. 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 $192 and $193 million for the years ended September 30, 2019 and 2018. 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)

	2019			2018		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
Intragovernmental:						
Title VIII State Supp Fees	$ 3	$ 0	$ 3	$ 2	$ 0	$ 2
SSI Fed/State Accounts Receivable, Net	6,369	(488)	5,881	6,188	(594)	5,594
Total	$ 6,372	$ (488)	$ 5,884	$ 6,190	$ (594)	$ 5,596

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, 2019 and 2018.

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)

	2019	2018
Non-Entity Assets	$ 5,884	$ 5,596
Entity Assets	2,939,967	2,933,701
Total Assets	$ 2,945,851	$ 2,939,297

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)

	2019	2018
Unobligated Balance		
Available	$ 4,375	$ 2,804
Unavailable	78	864
Obligated Balance Not Yet Disbursed	3,052	3,315
OASI, DI, and LAE	(142)	(465)
Non-Budgetary Fund Balance with Treasury	45	40
Total Status of Fund Balances	$ 7,408	$ 6,558

The negative fund balance reported in Chart 4 for the total OASI, DI, and LAE Trust Funds as of September 30, 2019 and 2018 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)

	2019	2018
OASI	$ 2,804,396	$ 2,801,254
DI	96,520	93,400
Total Investments	$ 2,900,916	$ 2,894,654

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 2020 to the year 2034. 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)

	2019	2018
OASI	$ 19,094	$ 19,940
DI	702	654
Total Interest Receivable	$ 19,796	$ 20,594

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 $790 and $735 million as of September 30, 2019 and 2018 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. SSA reduced the gross accounts receivable by $3,066 and $3,067 million as of September 30, 2019 and 2018 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 6a. 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. To comply with the Banking Bill, SSA used its LAE account to cover non-mission costs, which did not include any development of the verification system, with the expectation that these costs will be fully recovered from the users of the verification process as required by law. To account for this SSA has recorded a non-budgetary accounts receivable of $8 million as of September 30, 2019, which is included in the LAE Gross and Net Receivable amounts in Chart 6a. Since the agency expects to fully recover these costs, SSA has not applied an allowance for doubtful accounts against this accounts receivable.

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

	2019			2018		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 3,175	$ (648)	$ 2,527	$ 3,057	$ (475)	$ 2,582
DI	8,272	(3,158)	5,114	7,950	(2,882)	5,068
SSI*	14,376	(8,007)	6,369	13,474	(7,286)	6,188
LAE	11	0	11	3	0	3
Subtotal	25,834	(11,813)	14,021	24,484	(10,643)	13,841
Less: Eliminations**	(574)	0	(574)	(597)	0	(597)
Total	$ 25,260	$ (11,813)	$ 13,447	$ 23,887	$ (10,643)	$ 13,244

Notes:

*See discussion in Note 3, Non-Entity Assets

**Intra-Agency Eliminations

Chart 6a shows that in FY 2019 and FY 2018, SSA reduced gross accounts receivable by $574 and $597 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 Receivable amounts, in Chart 6a, 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 overall accounts receivable balance, due to system limitations, we cannot specifically track criminal restitution accounts receivable in our system for reporting purposes. However, for OASI and DI, we are able to track gross fraudulent benefit payment accounts receivable. There is a relationship between fraud and criminal restitution activity, as court ordered (criminal) restitutions are issued when a fraud case is successfully prosecuted in criminal court. While we can track fraud related accounts receivable for OASI and DI, system limitations prevent us from tracking the same type of activity for SSI accounts receivable. We are able to estimate our SSI gross criminal restitution accounts receivable by calculating the percentage of OASDI fraudulent accounts receivable compared to the total OASDI accounts receivable in our Title II debt system, and then applying that percentage to the total SSI accounts receivable in our Title XVI debt system. SSA adopted this new methodology for calculating criminal restitution debt during FY 2019, as it uses SSA system accounts receivable data, and provides a more accurate estimate of the activity. We use the same allowance for doubtful accounts for criminal restitution accounts receivable as we do for our overall accounts receivables, as discussed above. Chart 6b provides our Gross Receivable, Allowance for Doubtful Accounts, and Net Receivable amounts for our criminal restitution activity.

Chart 6b - Criminal Restitution with the Public by Major Program as of September 30:
(Dollars in Millions)

	2019		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 150	$ (32)	$ 118
DI	200	(77)	123
SSI	435	(256)	179
Total	$ 785	$ (365)	$ 420

For FY 2018 we estimated 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 estimated that our gross and net receivables for restitution activity were $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 6a 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 $720 and $688 million as of September 30, 2019 and 2018. These amounts are 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)

	2019			2018		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings and Other Structures	$ 47	$ (20)	$ 27	$ 59	$ (24)	$ 35
Equipment (incl. ADP Hardware)	939	(727)	212	859	(610)	249
Internal Use Software	7,439	(5,050)	2,389	7,622	(5,127)	2,495
Leasehold Improvements	1,270	(643)	627	1,120	(572)	548
Deferred Charges*	1,238	(1,055)	183	1,173	(1,017)	156
Total	$ 10,933	$ (7,495)	$ 3,438	$ 10,833	$ (7,350)	$ 3,483

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	$0-100 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).

SSA's Internal Use Software decreased from September 30, 2018 to September 30, 2019, in part due to SSA previously overstating overhead for SSA staff developed internal use software, offset by previously unrecorded contractor-developed internal use software overhead activity. As a result of these activities, SSA's Internal Use Software's Cost, Accumulated Depreciation, and Net Book Value were decreased by $806, $415, and $391 million, respectively, as of September 30, 2019.

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 $56 and $29 million as of September 30, 2019 and 2018.

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)

	2019			
	Covered	Not Covered	Not Requiring	Total
Intragovernmental:				
Accrued RRI*	$ 5,052	$ 0	$ 0	$ 5,052
Accounts Payable	72	0	6,013	6,085
Other	67	52	3	122
Total Intragovernmental	5,191	52	6,016	11,259
Benefits Due and Payable	103,552	2,494	0	106,046
Accounts Payable	74	55	301	430
Federal Employee and Veteran Benefits	0	300	0	300
Other	447	333	42	822
Total Liabilities	$ 109,264	$ 3,234	$ 6,359	$ 118,857

Note:

*Railroad Retirement Interchange

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

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 million as of September 30, 2019 and 2018. Intragovernmental Other Liabilities Not Requiring budgetary resources in Chart 9a represents non-current unapplied deposit account balances of $3 million as of September 30, 2019 and 2018.

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, 2019 and 2018. 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)

	2019	2018
OASI	$ 79,818	$ 75,321
DI	22,728	25,050
SSI	4,074	4,875
Subtotal	106,620	105,246
Less: Intra-agency eliminations	(574)	(597)
Total Benefits Due and Payable	$ 106,046	$ 104,649

Chart 9b also shows that as of FY 2019 and FY 2018, SSA reduced gross Benefits Due and Payable by $574 and $597 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 Requiring 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. Accounts Payable Not Covered by budgetary resources consists of SSI State Supplemental underpayments due to the SSI recipients. 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 $300 and $314 million as of September 30, 2019 and 2018 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, 2019 and 2018.

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
2020	$ 125
2021	120
2022	116
2023	109
2024	104
2025 and Thereafter (In total)*	495
Total Future Lease Payments	$ 1,069

Note:

*OAs go through the year 2034.

Contingent Liabilities

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

- Various Federal district court cases are pending in different States and other cases are pending appeal in different Courts of Appeals challenging SSA's appointment of administrative law judges under the Appointments Clause of the U.S. Constitution. For these cases, the estimated amounts of potential loss are already included in SSA's estimates of unadjudicated pending claims in its financial statements, and present no other additional contingent liability. The estimates of unadjudicated pending claims are included as part of the liabilities calculated and recorded in the course of normal agency financial reporting.

- A putative class action lawsuit is pending in a Federal district court in Illinois challenging SSA's calculation of the workers' compensation offset to individuals' 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, 2019 and 2018. 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)

	2019				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
Assets					
Fund Balance with Treasury	$ (84)	$ (111)	$ 0	$ 0	$ (195)
Investments	2,804,396	96,520	0	0	2,900,916
Interest Receivable	19,094	702	0	0	19,796
Accounts Receivables - Federal	1	0	0	0	1
Accounts Receivables - Non-Federal	2,527	5,114	0	(4)	7,637
Total Assets	$ 2,825,934	$ 102,225	$ 0	$ (4)	$ 2,928,155
Liabilities and Net Position					
Accrued Railroad Retirement	$ 4,939	$ 113	$ 0	$ 0	$ 5,052
Accounts Payable, Federal	928	811	0	0	1,739
Benefits Due and Payable	79,818	22,728	0	(4)	102,542
Accounts Payable, Non-Federal	1	4	0	0	5
Total Liabilities	85,686	23,656	0	(4)	109,338
Cumulative Results of Operations	2,740,248	78,569	0	0	2,818,817
Total Liabilities and Net Position	$ 2,825,934	$ 102,225	$ 0	$ (4)	$ 2,928,155
Statement of Net Cost					
Program Costs	$ 892,619	$ 142,482	$ 0	$ 0	$ 1,035,101
Operating Expenses	548	266	0	0	814
Less Earned Revenue	(1)	(25)	(128)	0	(154)
Net Cost of Operations	$ 893,166	$ 142,723	$ (128)	$ 0	$ 1,035,761
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,742,699	$ 72,904	$ 0	$ 0	$ 2,815,603
Tax Revenue	785,576	146,848	0	0	932,424
Interest Revenue	78,742	2,963	0	0	81,705
Net Transfers In/Out	26,384	(1,511)	(36,232)	0	(11,359)
Other	13	88	36,104	0	36,205
Total Financing Sources	890,715	148,388	(128)	0	1,038,975
Net Cost of Operations	893,166	142,723	(128)	0	1,035,761
Net Change	(2,451)	5,665	0	0	3,214
Net Position End of Period	$ 2,740,248	$ 78,569	$ 0	$ 0	$ 2,818,817

The above Chart 10 for FY 2019 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $2,310 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2019 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)

	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

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.

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 operating expenses related to the *American Recovery and Reinvestment Act of 2009* (ARRA) are recorded in the Other program, and 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)

	2019					
	LAE			OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
	SSA	OIG	ARRA			
OASI	$ 3,377	$ 42	$ 0	$ 534	$ 14	$ 3,967
DI	2,764	35	0	96	170	3,065
SSI	4,685	0	0	0	223	4,908
Other	2,531	30	17	0	0	2,578
Total	$ 13,357	$ 107	$ 17	$ 630	$ 407	$ 14,518

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

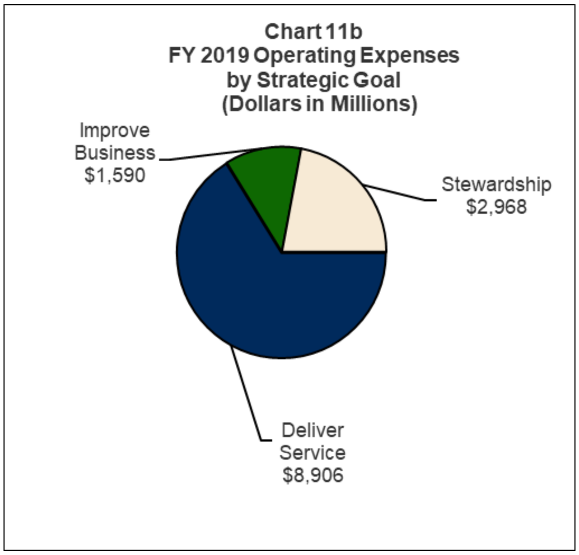
	2018					
	LAE			OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
	SSA	OIG	ARRA			
OASI	$ 3,258	$ 40	$ 0	$ 510	$ 9	$ 3,817
DI	2,726	33	0	93	192	3,044
SSI	4,406	0	0	0	215	4,621
Other	2,456	29	27	0	0	2,512
Total	$ 12,846	$ 102	$ 27	$ 603	$ 416	$ 13,994

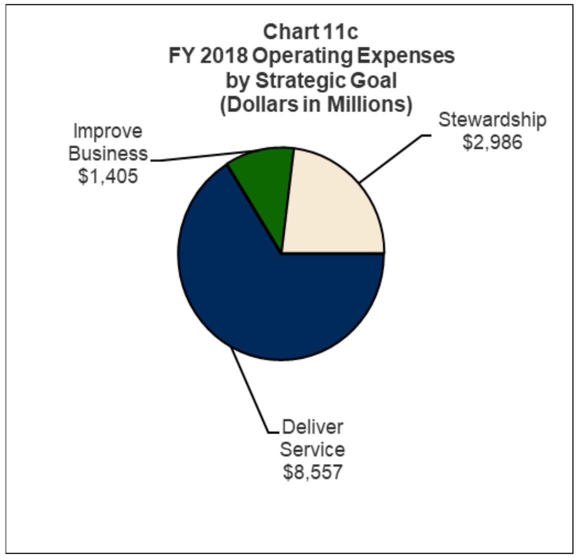
Classification of Operating Expenses by Strategic Goal

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).

Charts 11b and 11c exhibit the distribution of FY 2019 and FY 2018 SSA and OIG LAE operating expenses to the three APP Strategic Goals, which agree to the agency's LAE budget appropriation.





For Charts 11b and 11c, 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 $299 and $281 million for the years ended September 30, 2019 and 2018. SSA's exchange revenue primarily consists of fees collected to administer SSI State Supplementation. The fees charged to the States are $12.21 and $11.87, per payment, for the years ended September 30, 2019 and 2018. 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)

	2019	2018
SSI State Supplementation Fees	$ 217	$ 196
SSI Attorney Fees	8	8
DI Attorney Fees	25	24
OASI Attorney Fees	1	1
Other Exchange Revenue	48	52
Total Exchange Revenue	$ 299	$ 281

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 $97 and $90 million for the years ended September 30, 2019 and 2018. Of these amounts, $89 and $82 million were collected to administer SSI State Supplementation for the years ended September 30, 2019 and 2018. The remainder of the SSI administrative fees, which meet the criteria of a fund from dedicated collections, in the amounts of $128 and $114 million for the years ended September 30, 2019 and 2018, 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)

	2019	2018
OASI	$ 785,576	$ 706,128
DI	146,848	167,043
Total Tax Revenue	$ 932,424	$ 873,171

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 continued through December 31, 2018, after which the allocation returned to the prior distribution.

14. Imputed Financing

SSA recognizes 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 $1,286 and $1,237 million for the years ended September 30, 2019 and 2018, 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)

	2019	2018
Employee Benefits (OPM)		
CSRS	$ 77	$ 90
FERS	97	63
FEHBP	454	444
FEGLI	1	1
Total Employee Benefits	629	598
SSI Benefit Payments (Treasury)	16	16
Judgment Fund (Treasury)	1	1
CDM Program (DHS)	0	2
Total Imputed Financing Sources	$ 646	$ 617

15. Budgetary Resources

Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of $1,144,317 and $1,079,107 million for the years ended September 30, 2019 and 2018. Appropriations Received on the Consolidated Statements of Changes in Net Position are $97,038 and $89,271 million for the same periods. The differences of $1,047,279 and $989,836 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.

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

	2019			2018		
	OASI	DI	Total	OASI	DI	Total
Receipts	$ 900,093	$ 151,093	$ 1,051,186	$ 822,452	$ 170,347	$ 992,799
Less: Obligations	901,651	145,668	1,047,319	845,922	144,416	990,338
Excess of Receipts Over Obligations	$ (1,558)	$ 5,425	$ 3,867	$ (23,470)	$ 25,931	$ 2,461

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 continued through December 31, 2018, after which the allocation returned to the prior distribution. The overall Net Position of the OASI and DI Trust Funds included in Net Position, on the Consolidated Statements of Changes in Net Position, are $2,740,248 and $78,569 million for the year ended September 30, 2019, compared to $2,742,699 and $72,904 million for the year ended September 30, 2018.

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 15b provides the undelivered orders amount by Federal, non-Federal, paid, and unpaid.

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

	2019			2018		
	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Unpaid Undelivered Orders	$ 793	$ 1,775	$ 2,568	$ 796	$ 1,701	$ 2,497
Paid Undelivered Orders	55	0	55	30	0	30
Total Undelivered Orders	$ 848	$ 1,775	$ 2,623	$ 826	$ 1,701	$ 2,527

Explanation of Differences Between the Combined 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, 2018. 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 15c 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, 2018.

Chart 15c - Explanation of Differences Between Combined Statement of Budgetary Resources and the Budget of the U.S. Government for FY 2018:
(Dollars in Millions)

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 1,101,884	$ 1,097,256	$ 38,956	$ 1,039,903
Expired activity not in President's Budget	(325)	0	0	0
Offsetting Receipts activity not in President's Budget	0	0	0	38,956
Other	(1)	(1)	1	0
Budget of the U.S. Government	$ 1,101,558	$ 1,097,255	$ 38,957	$ 1,078,859

A reconciliation has not been conducted for the year ended September 30, 2019 since the actual budget data for FY 2019 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 to Net Outlays

Chart 16 presents a reconciliation between SSA's budgetary and financial accounting. Budgetary accounting is used for planning and spending control purposes. The net outlays portion of budgetary accounting focuses on the receipt and use of cash. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The net costs portion of financial accounting focuses on expenses and revenue.

The reconciliation below shows the relationship between SSA's net outlays, presented on a budgetary cash basis and derived from the Combined Statements of Budgetary Resources, and net costs, presented on an accrual basis and derived from the Consolidated Statements of Net Cost, by identifying and explaining key items that affect one statement but not the other. Examples of this include transfers of authority, which affect net outlays but not net cost, or depreciation of capitalized assets that affect net cost, but not net outlays.

Chart 16 - Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2019
(Dollars in Millions)

	2019		
	Intra-governmental	With the Public	Total
Net Cost	$ 4,390	$ 1,096,921	$ 1,101,311
Components of Net Cost That Are Not Part of Net Outlays:			
Property, plant, and equipment depreciation	0	(144)	(144)
Increase/(decrease) in assets:			
Accounts receivable	1	181	182
Other assets	25	0	25
(Increase)/decrease in liabilities not affecting budget outlays:			
Accounts payable	10	76	86
Benefits Due and Payable	0	(1,374)	(1,374)
Salaries and benefits	(7)	(21)	(28)
Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	(197)	12	(185)
Other financing sources			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(646)	0	(646)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (814)	$ (1,270)	$ (2,084)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of capital assets	138	(38)	100
Transfers out(in) without reimbursement	9	0	9
Expenditure Transfers Collected/Disbursed	2,469	0	2,469
Other	226	(198)	28
Total Components of Net Outlays That Are Not Part of Net Cost	$ 2,842	$ (236)	$ 2,606
Net Outlays	$ 6,418	$ 1,095,415	$ 1,101,833

The $1,374 million in Benefits Due and Payable in the reconciliation is primarily related to amounts owed to program recipients that have not yet been paid as of the balance sheet date. These accrued payables are included in net cost, but not included in net outlays. The $2,469 million in Expenditure Transfers Disbursed is primarily related to disbursements from the OASI/DI Trust Funds to cover SSA's costs of the Railroad Retirement Interchange. These disbursements are part of net outlays, but not part of net cost. Refer to Note 9, Liabilities, for additional information on the Railroad Retirement Interchange.

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 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (2019 Trustees Report) for the 75-year projection period beginning January 1, 2019. 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, 2019 totaled $2,895 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 (2019) 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 2019

	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]	
2019	1.75	785.9	76.6	81.3	1,409,000	2.19	4.02	1.83	1.0	2.8	3.3%
2020	1.76	779.9	76.7	81.4	1,413,000	2.08	4.71	2.63	0.6	2.4	3.5%
2030	2.00	716.5	77.9	82.4	1,329,000	1.29	3.89	2.60	0.4	2.0	5.1%
2040	2.00	657.7	79.0	83.3	1,280,000	1.20	3.80	2.60	0.4	2.0	5.1%
2050	2.00	606.0	80.1	84.2	1,251,000	1.25	3.85	2.60	0.5	2.1	5.1%
2060	2.00	560.6	81.1	85.0	1,236,000	1.25	3.85	2.60	0.4	2.0	5.1%
2070	2.00	520.6	82.0	85.7	1,227,000	1.19	3.79	2.60	0.4	2.0	5.1%
2080	2.00	485.1	82.8	86.4	1,221,000	1.16	3.76	2.60	0.5	2.1	5.1%
2090*	2.00	453.5	83.6	87.1	1,218,000	1.16	3.76	2.60	0.4	2.0	5.1%

Notes:

* The valuation period used for the 2019 Statement of Social Insurance extends to 2093.

1. The total fertility rate for any year is the average number of children that would be born to a woman 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 2012 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 2019	2.0	0.77	1,265,000	1.21	3.81	2.60	0.5	2.5
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

Notes:

1. The total fertility rate for any year is the average number of children that would be born to a woman 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 2019 Statement, the ultimate total fertility rate is assumed to be reached in the 9th 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 2019 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 2019 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 2019 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 2019 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 2019 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 2019 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 2019 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 2015–2019 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, 2018 to the period beginning on January 1, 2019; and (2) change from the period beginning on January 1, 2017 to the period beginning on January 1, 2018. 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, 2018 to the period beginning on January 1, 2019

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2018–2092) to the current valuation period (2019–2093) 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 2018, replaces it with a much larger negative net cash flow for 2093, and measures the present values as of January 1, 2019, 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 2018–2092 to 2019–2093. 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 2018 are realized. The change in valuation period decreased the starting level of asset reserves in the combined OASI and DI Trust Funds. As a result, the present value of the estimated future net cash flows decreased by $0.6 trillion.

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. As a result, the present value of the estimated net cash flows decreased by $0.6 trillion.

CHANGES IN DEMOGRAPHIC DATA, ASSUMPTIONS, AND METHODS

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2019) 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.

- The numbers of new lawful permanent residents (LPR) for calendar years 2018 and 2019 were assumed to be slightly lower than projected in the prior valuation period, due to recent lower annual refugee ceilings set by the Administration.
- The current valuation incorporated a gradual rise in 2017 and 2018 of other-than-LPR immigrants, reaching the ultimate assumed level in 2019. In contrast, the prior valuation incorporated a surge in the number of other-than-LPR immigrants for years 2016 through 2021.
- Final birth rate data for 2017 indicated slightly lower birth rates than were assumed in the prior valuation.
- Incorporating 2016 mortality data obtained from the National Center for Health Statistics (NCHS) for ages under 65 and 2016 and preliminary 2017 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.

Inclusion of the lower numbers of LPRs in the short-term, eliminating the surge in other-than-LPRs, and lower birth rates 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 two notable changes in demographic methodology:

- Improved the method for projecting fertility rates by better incorporating detailed provisional birth rate data available from NCHS.
- Incorporated more comprehensive Medicare mortality data from CMS.

Inclusion of the fertility change decreased the present value of estimated future cash flows, while the mortality change increased the present value of estimated future net cash flows. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to increase by $0.4 trillion.

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 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 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. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to increase by $0.1 trillion.

Changes in Economic Data, Assumptions, and Methods

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

For the current valuation (beginning on January 1, 2019), there were four changes to the ultimate economic assumptions.

- The ultimate annual rate of change in total-economy labor productivity was lowered from 1.68 percent in the prior valuation to 1.63 percent in the current valuation, reflecting an expected slower rate of productivity growth in the long term.
- The difference between the ultimate growth rates for the Consumer Price Index for Urban Wage Earners and Clerical Workers and the GDP implicit price deflator (the "price differential"), was decreased from 0.40 percentage point in the prior valuation to 0.35 percentage point in the current valuation.
- The ultimate average real-wage differential was increased from 1.20 percentage points in the prior valuation to 1.21 percentage points in the current valuation.
- The ultimate real interest rate was lowered by 0.2 percentage point, from 2.7 percent in the prior valuation to 2.5 percent in the current valuation.

The lower ultimate annual rate of change in total-economy labor productivity and the lower ultimate real interest rate decreased the present value of estimated future net cash flows, while the smaller price differential and the higher ultimate average real-wage differential increased the present value of estimated future net cash flows.

In addition to these changes in ultimate assumptions, the starting economic values and the way these values transition to the ultimate assumptions were changed. The most notable change was to include the July 2018 revisions in historical GDP estimated by the Bureau of Economic Analysis (BEA) of the Department of Commerce. This and other smaller changes in starting values and near-term growth assumptions combined to increase the present value of estimated future net cash flows.

There was one notable change in economic methodology:

- Incorporated more recent projections of disability prevalence in the labor force participation model.

Inclusion of this new method increased the present value of estimated future net cash flows. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to decrease by $1.0 trillion.

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 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. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to decrease by $0.5 trillion.

CHANGES IN PROGRAMMATIC DATA AND METHODS

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2019). The most significant are identified below.

- The ultimate disability incidence rate was lowered from 5.4 per thousand exposed in the prior valuation to 5.2 in the current valuation. In addition, recent levels of disability applications and awards are lower than expected in the prior valuation, and estimated disability incidence rates in the current valuation are assumed to increase more gradually toward the assumed ultimate level than in the prior valuation.
- As in the prior valuation, the current valuation uses a 10-percent sample of newly-entitled worker beneficiaries in 2015 to project average benefit levels of retired-worker and disabled-worker beneficiaries. For the current valuation, the model's projection of earnings for workers becoming newly entitled in future years was improved to better reflect the "dispersion" in taxable earnings levels observed from 1970 to 2010. Over this historical period, increases in taxable earnings were higher for workers with taxable earnings above the median than for workers with taxable earnings below the median.

- The current valuation includes an improvement in the method for calculating future benefit levels for those who are awarded benefits more than two years after their date of initial benefit entitlement. This improvement mainly affects DI benefit levels.
- The current valuation updated two sets of benefit adjustment factors based on new programmatic data: the post-entitlement adjustment factors and the Windfall Elimination Provision (WEP) factors.

Lowering the ultimate disability incidence rate and inclusion of recent disability data, reflecting earnings dispersion, and the change to benefit levels for those awarded more than two years after entitlement increased the present value of estimated future net cash flows. Updating the post-entitlement and WEP data decreased the present value of estimated cash flows. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to increase by $0.5 trillion.

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 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. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to increase by $0.2 trillion.

Changes in Law or Policy

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

Between the prior valuation (the period beginning on January 1, 2018) and the current valuation (the period beginning on January 1, 2019), 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 one notable policy change with small effects on the present value of estimated cash flows.

- The SSA started running the Disability Redesign Prototype model in ten states in 1999. Among other features, the prototype model eliminated the reconsideration step in the disability appeals process. Beginning in 2019, SSA is reinstating the reconsideration step in these states, which will make the process uniform nationwide. This reinstatement is expected to decrease disability incidence rates very slightly beginning in 2020.

The reinstatement of the reconsideration step in the disability appeals process in the ten states that had previously eliminated the step increased the present value of estimated future net cash flows by $0.02 trillion.

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 small 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, while including the effects of the *Tax Cuts and Jobs Act* increased the present value of estimated future net cash flows. Overall, changes to these assumptions caused the present value of the estimated future net cash flows to increase by $0.03 trillion.

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, 2018 and Ending January 1, 2019

Present values as of January 1, 2018 are calculated using interest rates from the intermediate assumptions of the 2018 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2019. 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 2018 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 2019 Trustees Report.

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.

18. Reclassification of the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for the Federal Financial Report Compilation Process

To prepare the *Financial Report of the U.S. Government* (FR), Treasury requires agencies to submit in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) an adjusted trial balance, which lists the amounts by U.S. Standard General Ledger accounts that appear in the agency financial statements. Treasury uses the trial balance reported in GTAS to develop a reclassified Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to compile to the FR statements. This note shows the Balance Sheet, Statement of Net Cost, and Statement of Net Position line items and the reclassified statement line items prior to Treasury's elimination of intragovernmental differences and aggregation of FR lines. The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments. A copy of the FY 2018 FR is available on Treasury's website (www.fiscal.treasury.gov/reports-statements/financial-report/) and a copy of the FY 2019 FR will be posted to this site as soon as it is released.

SSA's FY 2019 reconciliation of agency Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position amounts to Treasury's reclassified statements is included in Charts 18a, 18b, and 18c. The Reclassified Net Position in Chart 18a includes intradepartmental eliminations processed by Treasury to present the Net Position at a consolidated level. The Net Position is presented at a combined level in Agency Financial Reports.

Chart 18a - Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2019

(Dollars in Millions)

FY 2019 Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
Assets			**Assets**
Intragovernmental:			Intragovernmental:
Fund Balance with Treasury (Notes 3 and 4)	$ 7,408	$ 7,408	Fund Balance with Treasury
Investments (Note 5)	2,900,916	2,900,916	Federal Investments
Interest Receivable (Note 5)	19,796	19,796	Interest Receivable
Accounts Receivable, Net (Note 6)	790	19	Accounts Receivable
		771	Transfers Receivable
Total Accounts Receivable	790	790	Total Reclassified Accounts Receivable
Other (Note 8)	56	56	Advances to Others and Prepayments
Total Intragovernmental	2,928,966	2,928,966	Total Intragovernmental Assets
Accounts Receivable, Net (Notes 3 and 6)	13,447	13,447	Accounts and Taxes Receivable, Net
Property, Plant, and Equipment, Net (Note 7)	3,438	3,438	Property, Plant, and Equipment, Net
Total Assets	**$ 2,945,851**	**$ 2,945,851**	**Total Assets**
Liabilities (Note 9)			**Liabilities**
Intragovernmental:			Intragovernmental:
Accrued Railroad Retirement Interchange	$ 5,052	$ 5,052	Transfers Payable
Accounts Payable	6,085	6,013	Liability to the General Fund of the U.S. Government and Other Non-Entity Assets
		72	Accounts Payable
Total Accounts Payable	6,085	6,085	Total Reclassified Accounts Payable
Other	122	102	Benefit Program Contributions Payable
		2	Advances from Others and Deferred Credits
		3	Liability to the General Fund of the U.S. Government and Other Non-Entity Assets
		15	Other Liabilities
Total Other Liabilities	122	122	Total Reclassified Other Liabilities
Total Intragovernmental	11,259	11,259	Total Intragovernmental
Benefits Due and Payable	106,046	106,046	Benefits Due and Payable
Accounts Payable	430	430	Accounts Payable
Federal Employee and Veterans Benefits Payable	300	300	Federal Employee and Veterans Benefits Payable
Other	822	814	Other Liabilities
		8	Federal Employee and Veterans Benefits Payable
Total Other Liabilities	822	822	Total Reclassified Other Liabilities
Total Liabilities	**118,857**	**118,857**	**Total Liabilities**
Net Position			**Net Position**
Unexpended Appropriations - All Other Funds	4,416		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	2,818,817		
Cumulative Results of Operations - All Other Funds	3,761		
Total Net Position - Funds from Dedicated Collections (Note 10)	2,818,817	2,824,953	Net Position - Funds From Dedicated Collections
Total Net Position - All Other Funds	8,177	2,041	Net Position - Funds Other Than Those From Dedicated Collections
Total Net Position	2,826,994	2,826,994	Total Net Position
Total Liabilities and Net Position	**$ 2,945,851**	**$ 2,945,851**	**Total Liabilities and Net Position**

Chart 18b - Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2019

(Dollars in Millions)

FY 2019 Statement of Net Cost		Line Items Used to Prepare FY 2019 Government-wide Statement of Net Cost	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
Benefit Payment Expense	$ 1,087,092		
Operating Expenses (Note 11)	14,518		
		$ 1,097,184	Non-Federal Costs
			Intragovernmental Costs
		1,215	Benefit Program Costs
		646	Imputed Costs
		2,199	Buy/Sell Costs
		139	Purchase of Assets
		(139)	Purchase of Assets Offset
		366	Other Expenses (without Reciprocals)
		4,426	Total Intragovernmental Costs
Total Cost	1,101,610	1,101,610	Total Reclassified Gross Costs
		(263)	Non-Federal Earned Revenue
		(36)	Intragovernmental Buy/Sell Revenue (Exchange)
Less: Exchange Revenues (Note 12)	(299)	(299)	Total Reclassified Earned Revenue
Total Net Cost	$ 1,101,311	$ 1,101,311	**Net Cost**

Chart 18c - Reclassification of Statement of Changes in Net Position to Line Items Used for the Government-wide Statement of Changes in Net Position for the Year Ended September 30, 2019
(Dollars in Millions)

FY 2019 Statement of Changes in Net Position		Line Items Used to Prepare FY 2019 Government-wide Statement of Changes in Net Position	
Financial Statement Line	**Amount**	**Amount**	**Reclassified Financial Statement Line**
Unexpended Appropriations:			**Unexpended Appropriations:**
Beginning Balances	**$ 3,576**	**$ 3,576**	Net position, Beginning of Period
Budgetary Financing Sources			**Budgetary Financing Sources**
Appropriations Received	**97,038**	**97,038**	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments	**(14)**	**(14)**	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Appropriations Used	**(96,184)**	**(96,184)**	Appropriations Used
Total Budgetary Financing Sources	**840**	**840**	**Total Budgetary Financing Sources**
Total Unexpended Appropriations	**4,416**	**4,416**	**Total Unexpended Appropriations**
Cumulative Results of Operations:			**Cumulative Results of Operations:**
Beginning Balances	**$ 2,818,692**	**$ 2,818,692**	Net position, Beginning of Period
Budgetary Financing Sources			**Budgetary Financing Sources**
Appropriations Used	**96,184**	**96,184**	Appropriations Expended
			Intragovernmental Non-Exchange Revenues
Tax Revenues (Note 13)	**932,424**	**932,424**	Other Taxes and Receipts
Interest Revenues	**81,705**	**81,705**	Federal Securities Interest Revenue Including Associated Gains and Losses (Non-Exchange)
	1,014,129	**1,014,129**	**Total Intragovernmental Non-Exchange Revenue**
			Transfers-In and Out Without Reimbursement
Transfers-In/Out - Without Reimbursement	**2,525**	**2,526**	Expenditure Transfers-In of Financing Sources
		(1)	Expenditure Transfers-Out of Financing Sources
Total Transfers-In/Out - Without Reimbursement	**2,525**	**2,525**	**Total Reclassified Transfers-In/Out Without Reimbursement**
Railroad Retirement Interchange	**(5,245)**	**(5,245)**	Expenditure Transfers-Out of Financing Sources
			Non-Federal Non-Exchange Revenues
Other Budgetary Financing Sources	**101**	**101**	Other Taxes and Receipts
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 14)	**646**	**646**	Imputed Financing Sources
			Intragovernmental Other Financing Sources
Other	**(3,143)**	**(2,947)**	Non-entity collections transferred to the General Fund of the U.S. Government
		(196)	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government
Total Other	**(3,143)**	**(3,143)**	**Total Reclassified Intragovernmental Other Financing Sources**
Total Financing Sources	**1,105,197**	**1,105,197**	**Total Financing Sources**
Net Cost of Operations	**1,101,311**	**1,101,311**	**Net Cost of Operations**
Net Change	**3,886**	**3,886**	**Net Change**
Cumulative Results of Operations	**$ 2,822,578**	**$ 2,822,578**	**Reclassified Cumulative Results of Operations**
Net Position	**$ 2,826,994**	**$ 2,826,994**	**Total Reclassified Net Position**

Other Information: Balance Sheet by Major Program as of September 30, 2019
(Dollars in Millions)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (84)	$ (111)	$ 7,458	$ 92	$ 53	$ 0	$ 7,408
Investments	2,804,396	96,520	0	0	0	0	2,900,916
Interest Receivable	19,094	702	0	0	0	0	19,796
Accounts Receivable, Net	1	0	0	0	3,855	(3,066)	790
Other	0	0	28	0	28	0	56
Total Intragovernmental	2,823,407	97,111	7,486	92	3,936	(3,066)	2,928,966
Accounts Receivable, Net	2,527	5,114	6,369	0	11	(574)	13,447
Property, Plant, and Equipment, Net	0	0	0	0	3,438	0	3,438
Total Assets	$ 2,825,934	$ 102,225	$ 13,855	$ 92	$ 7,385	$ (3,640)	$ 2,945,851
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 4,939	$ 113	$ 0	$ 0	$ 0	$ 0	$ 5,052
Accounts Payable	928	811	7,323	16	73	(3,066)	6,085
Other	0	0	0	3	119	0	122
Total Intragovernmental	5,867	924	7,323	19	192	(3,066)	11,259
Benefits Due and Payable	79,818	22,728	4,074	0	0	(574)	106,046
Accounts Payable	1	4	358	0	67	0	430
Federal Employee and Veteran Benefits	0	0	0	0	300	0	300
Other	0	0	255	1	566	0	822
Total Liabilities	85,686	23,656	12,010	20	1,125	(3,640)	118,857
Contingencies (Note 9)							
Net Position							
Unexpended Appropriations - All Other Funds	0	0	4,339	72	5	0	4,416
Cumulative Results of Operations - Funds from Dedicated Collections	2,740,248	78,569	0	0	0	0	2,818,817
Cumulative Results of Operations - All Other Funds	0	0	(2,494)	0	6,255	0	3,761
Total Net Position - Funds from Dedicated Collections	2,740,248	78,569	0	0	0	0	2,818,817
Total Net Position - All Other Funds	0	0	1,845	72	6,260	0	8,177
Total Net Position	2,740,248	78,569	1,845	72	6,260	0	2,826,994
Total Liabilities and Net Position	$ 2,825,934	$ 102,225	$ 13,855	$ 92	$ 7,385	$ (3,640)	$ 2,945,851

Other Information: Schedule of Net Cost for the Year Ended September 30, 2019

(Dollars in Millions)

	Program	LAE	Total
OASI Program			
Benefit Payment Expense	$ 892,619	$ 0	$ 892,619
Operating Expenses	548	3,419	3,967
Total Cost of OASI Program	893,167	3,419	896,586
Less: Exchange Revenues	(1)	(12)	(13)
Net Cost of OASI Program	893,166	3,407	896,573
DI Program			
Benefit Payment Expense	142,482	0	142,482
Operating Expenses	266	2,799	3,065
Total Cost of DI Program	142,748	2,799	145,547
Less: Exchange Revenues	(25)	(10)	(35)
Net Cost of DI Program	142,723	2,789	145,512
SSI Program			
Benefit Payment Expense	51,990	0	51,990
Operating Expenses	223	4,685	4,908
Total Cost of SSI Program	52,213	4,685	56,898
Less: Exchange Revenues	(225)	(17)	(242)
Net Cost of SSI Program	51,988	4,668	56,656
Other			
Benefit Payment Expense	1	0	1
Operating Expenses	0	2,578	2,578
Total Cost of Other	1	2,578	2,579
Less: Exchange Revenues	0	(9)	(9)
Net Cost of Other Program	1	2,569	2,570
Total Net Cost			
Benefit Payment Expense	1,087,092	0	1,087,092
Operating Expenses	1,037	13,481	14,518
Total Cost	1,088,129	13,481	1,101,610
Less: Exchange Revenues	(251)	(48)	(299)
Total Net Cost	$ 1,087,878	$ 13,433	$ 1,101,311

Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2019

(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	$ 3,495	$ 0	$ 78
Budgetary Financing Sources						
Appropriations Received	0	0	0	60,866	36,104	38
Other Adjustments	0	0	0	0	0	(14)
Appropriations Used	0	0	0	(60,022)	(36,104)	(30)
Total Budgetary Financing Sources	0	0	0	844	0	(6)
Total Unexpended Appropriations	0	0	0	4,339	0	72
Cumulative Results of Operations:						
Beginning Balances	$ 2,742,699	$ 72,904	$ 0	$ (3,030)	$ 0	$ 0
Budgetary Financing Sources						
Appropriations Used	0	0	0	60,022	36,104	30
Tax Revenues	785,576	146,848	0	0	0	0
Interest Revenues	78,742	2,963	0	0	0	0
Transfers In/Out - Without Reimbursement	31,514	(1,396)	(128)	(4,243)	(36,104)	(29)
Railroad Retirement Interchange	(5,130)	(115)	0	0	0	0
Other Budgetary Financing Sources	13	88	0	0	0	0
Other Financing Sources (Non-Exchange)						
Transfers-In/Out - Without Reimbursement	0	0	0	(2,850)	0	2,850
Imputed Financing Sources	0	0	0	16	0	0
Other	0	0	0	(293)	0	(2,850)
Total Financing Sources	890,715	148,388	(128)	52,652	0	1
Net Cost of Operations	893,166	142,723	(128)	52,116	0	1
Net Change	(2,451)	5,665	0	536	0	0
Cumulative Results of Operations	$ 2,740,248	$ 78,569	$ 0	$ (2,494)	$ 0	$ 0
Net Position	$ 2,740,248	$ 78,569	$ 0	$ 1,845	$ 0	$ 72

Other Information: Schedule of Changes in Net Position for the Year Ended September 30, 2019 (Continued)

(Dollars in Millions)

	LAE	Consolidated		Consolidated
	All Other Funds	Funds from Dedicated Collections	All Other Funds	**Total**
Unexpended Appropriations:				
Beginning Balances	$ 3	$ 0	$ 3,576	$ 3,576
Budgetary Financing Sources				
Appropriations Received	30	36,104	60,934	97,038
Other Adjustments	0	0	(14)	(14)
Appropriations Used	(28)	(36,104)	(60,080)	(96,184)
Total Budgetary Financing Sources	2	0	840	840
Total Unexpended Appropriations	5	0	4,416	4,416
Cumulative Results of Operations:				
Beginning Balances	$ 6,119	$ 2,815,603	$ 3,089	$ 2,818,692
Budgetary Financing Sources				
Appropriations Used	28	36,104	60,080	96,184
Tax Revenues	0	932,424	0	932,424
Interest Revenues	0	81,705	0	81,705
Transfers In/Out Without Reimbursement	12,911	(6,114)	8,639	2,525
Railroad Retirement Interchange	0	(5,245)	0	(5,245)
Other Budgetary Financing Sources	0	101	0	101
Other Financing Sources (Non-Exchange)				
Transfers-In/Out	0	0	0	0
Imputed Financing Sources	630	0	646	646
Other	0	0	(3,143)	(3,143)
Total Financing Sources	13,569	1,038,975	66,222	1,105,197
Net Cost of Operations	13,433	1,035,761	65,550	1,101,311
Net Change	136	3,214	672	3,886
Cumulative Results of Operations	$ 6,255	$ 2,818,817	$ 3,761	$ 2,822,578
Net Position	$ 6,260	$ 2,818,817	$ 8,177	$ 2,826,994

Required Supplementary Information: Combining Schedule of Budgetary Resources for the Year Ended September 30, 2019

(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources (Note 15)						
Unobligated Balance From Prior Year Budget Authority, Net	$ 157	$ 11	$ 3,635	$ 65	$ 1,261	$ 5,129
Appropriations (Discretionary and Mandatory)	901,494	145,657	60,994	36,142	30	1,144,317
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	0	0	2,567	0	12,974	15,541
Total Budgetary Resources	$ 901,651	$ 145,668	$ 67,196	$ 36,207	$ 14,265	$ 1,164,987
Status of Budgetary Resources						
New obligations and upward adjustments						
Direct	$ 901,651	$ 145,668	$ 60,245	$ 36,135	$ 13,139	$ 1,156,838
Reimbursable	0	0	2,570	0	61	2,631
New obligations and upward adjustments (total)	901,651	145,668	62,815	36,135	13,200	1,159,469
Unobligated Balance , End of Year						
Apportioned, unexpired accounts	0	0	4,338	37	769	5,144
Unapportioned, unexpired accounts	0	0	42	0	6	48
Unexpired unobligated balance, end of year	0	0	4,380	37	775	5,192
Expired unobligated balance, end of year	0	0	1	35	290	326
Unobligated balance, end of year (total)	0	0	4,381	72	1,065	5,518
Total Budgetary Resources	$ 901,651	$ 145,668	$ 67,196	$ 36,207	$ 14,265	$ 1,164,987
Outlays, Net						
Outlays, Net (Discretionary and Mandatory)	$ 896,791	$ 147,815	$ 60,464	$ 36,137	$ (41)	$ 1,141,166
Distributed Offsetting Receipts	(34,930)	(1,328)	(225)	(2,850)	0	(39,333)
Agency Outlays, Net (Discretionary and Mandatory)	$ 861,861	$ 146,487	$ 60,239	$ 33,287	$ (41)	$ 1,101,833

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 2018, the Social Security Administration paid OASDI benefits to about 63 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 $102 billion as of September 30, 2019 ($100 billion as of September 30, 2018) 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 2019. Also, an asset of $2,901 billion as of September 30, 2019 ($2,895 billion as of September 30, 2018) 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, 2019 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 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (2019 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

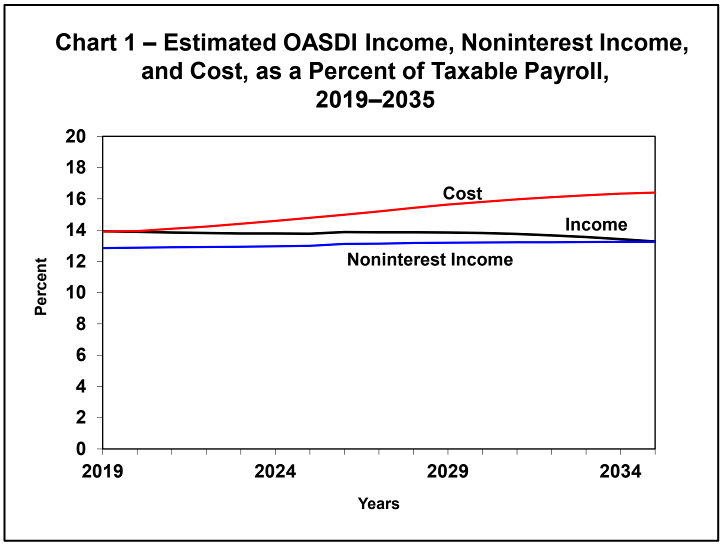
(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

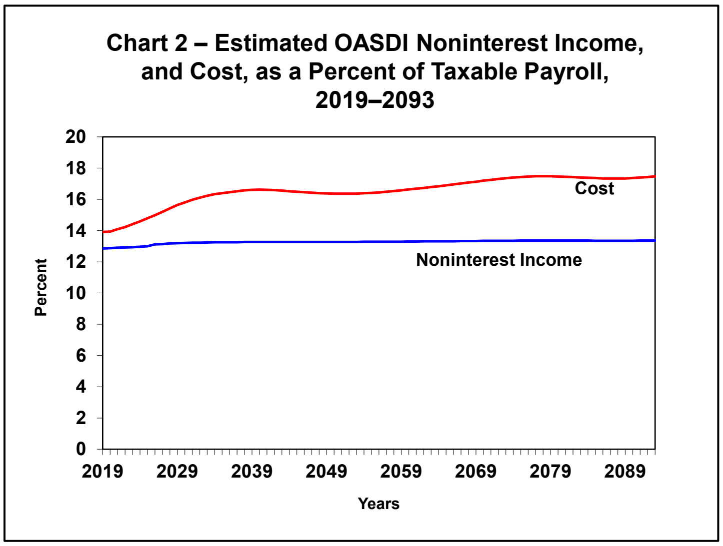
Sustainable Solvency - Based on the estimates of income and cost presented in the Statements of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits 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 2019 through 2093. However, income including interest is only estimated through 2035, 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 2035 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2093 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 2019, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2038 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 75 percent of the estimated cost.

As Chart 1 shows, estimated cost starts to exceed income including interest in 2020. 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 as needed.

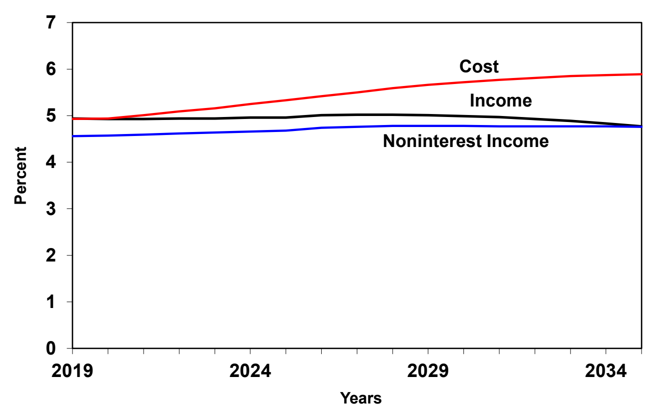
Actuarial Balance - The Statements of Social Insurance show that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$16,764 billion. If augmented by the combined OASI and DI Trust Fund asset reserves at the start of the period (January 1, 2019), it is -$13,869 billion. This excess does not equate to the actuarial balance in the 2019 Trustees Report of -2.78 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.

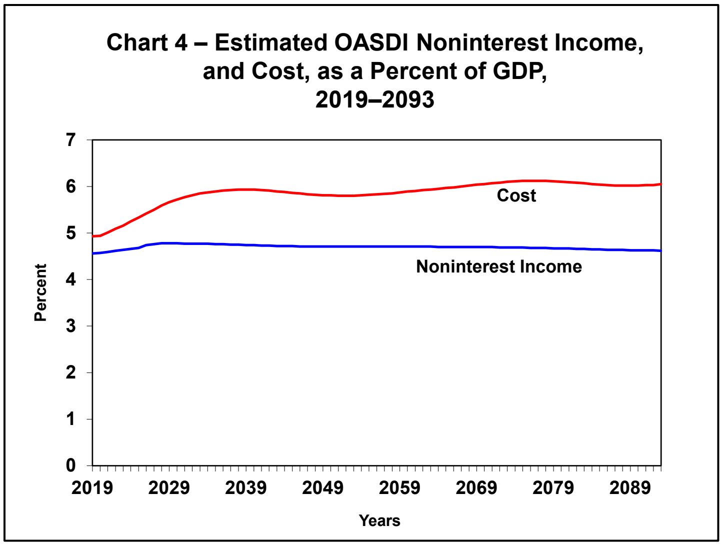
For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.70 percentage points (from its current level of 12.40 percent to 15.10 percent). One interpretation of the actuarial balance is that its magnitude, 2.78 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 20 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 2035 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2093 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.

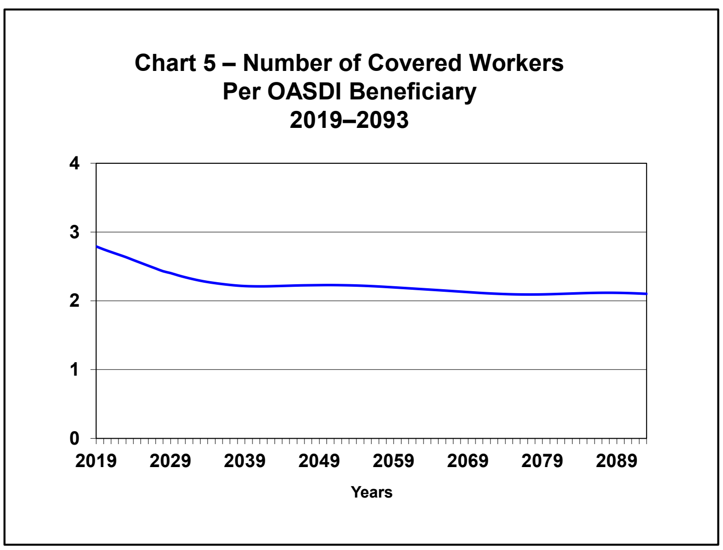
Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2019–2035





In calendar year 2018, OASDI cost was about $1,000 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises to 5.9 percent by 2039, then declines to 5.8 percent by 2052, and then generally increases to 6.0 percent by 2093. The rapid increase from 2019 to 2035 is projected to occur as baby boomers continue to 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 2018 to 2.1 in 2093.



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 2019 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2019 and are based on estimates of income and cost during the 75-year projection period 2019–2093. 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 2019 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.

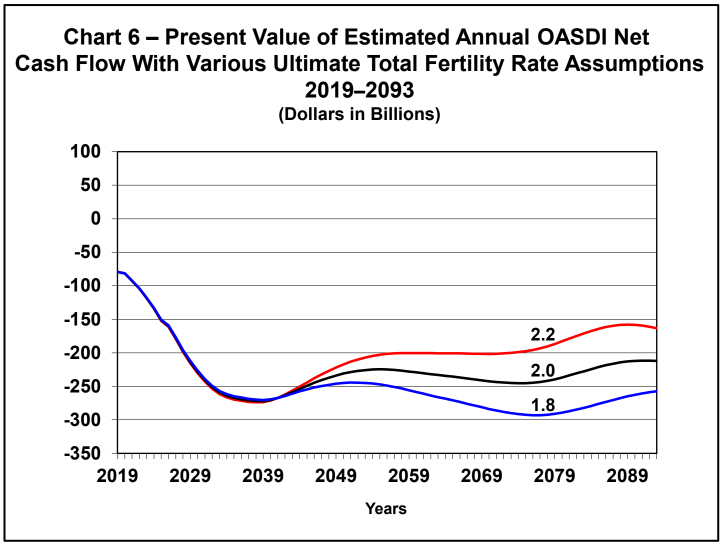
Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.8, 2.0, and 2.2 children per woman, where 2.0 is the intermediate assumption in the 2019 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2024, 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 $18,539 billion from $16,764 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to $14,959 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2019–2093

Ultimate Total Fertility Rate	1.8	2.0	2.2
Present Value of Estimated Excess (Dollars in Billions)	-$18,539	-$16,764	-$14,959

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 decrease rapidly into the 2030s and then begin to increase (become less negative) by 2040. The net cash flow estimates corresponding to a 1.8 ultimate total fertility rate increase in years 2040–2051, decrease again in years 2052–2077, and then increase through 2093. The net cash flow estimates corresponding to a 2.0 ultimate total fertility rate increase in years 2040–2055, decrease again in years 2056–2075, increase again in years 2076–2091, and finally decrease through 2093. The net cash flow estimates corresponding to a 2.2 ultimate total fertility rate increase in years 2039–2059, decrease again in years 2060–2070, increase again in years 2071–2089, and finally decrease through 2093. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2093 than it would to cover the annual deficit in 2035.

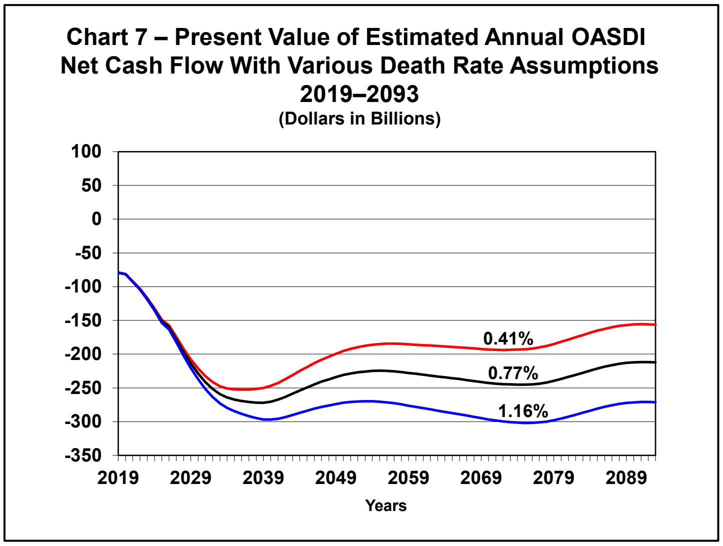
Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2018–2093 in death rates by age, sex, and 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 1.16 percent per year, where 0.77 percent is the intermediate assumption in the 2019 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 26, 44, and 58 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 78.8 in 2018 to 82.5, 85.5, and 88.5 in 2093 for average annual reductions in the age-sex-adjusted death rate of 0.41, 0.77, and 1.16 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 $14,147 billion from $16,764 billion; if the annual reduction were changed to 1.16 percent, meaning that people live longer, the shortfall would increase to $19,646 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2019–2093

Average Annual Reduction in Death Rates (from 2018 to 2093)	0.41 Percent	0.77 Percent	1.16 Percent
Present Value of Estimated Excess (Dollars in Billions)	-$14,147	-$16,764	-$19,646

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 net cash flow estimates corresponding to all three sets of assumptions decrease rapidly into the 2030s and then begin to increase (become less negative) by 2041. 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. Under all three sets of assumptions net cash flows have two more periods of decreasing present values, the first around years 2055–2075 and the second beginning at the very end of the 75-year projection period.

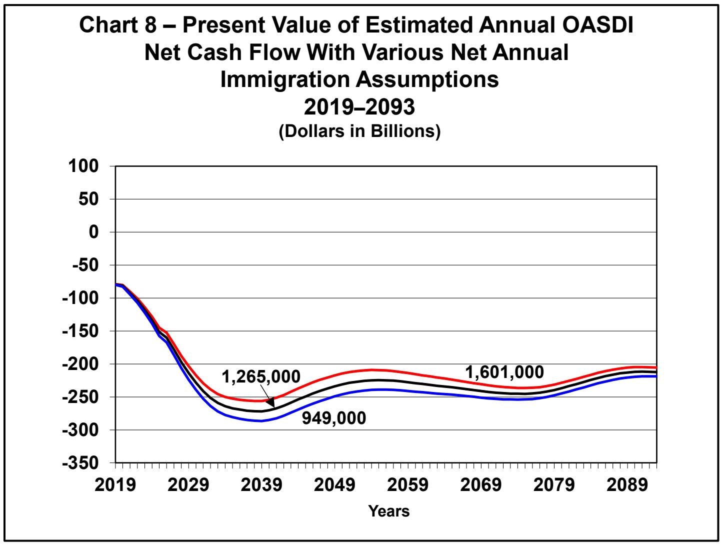
Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of lawful permanent resident (LPR) immigration, legal emigration, 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 949,000 persons, 1,265,000 persons, and 1,601,000 persons over the 75-year valuation period, where 1,265,000 persons is the average value based on the intermediate assumptions in the 2019 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 1,265,000 persons to 949,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $17,558 billion from $16,764 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,601,000 persons, the present value of the shortfall would decrease to $15,934 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2019–2093

75-Year Average Net Annual Immigration	949,000 Persons	1,265,000 Persons	1,601,000 Persons
Present Value of Estimated Excess (Dollars in Billions)	-$17,558	-$16,764	-$15,934

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



The three patterns of the present values shown in Chart 8 are similar. Under all three sets of assumptions, the net cash flow estimates are negative in all years of the 75-year projection period. The net cash flow estimates corresponding to all three sets of assumptions decrease rapidly into the 2030s and then begin to increase (become less negative) by 2040. Under all three sets of assumptions net cash flows have two more periods of decreasing present values, the first around years 2055–2075 and the second beginning at the very end of the 75-year projection period.

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.

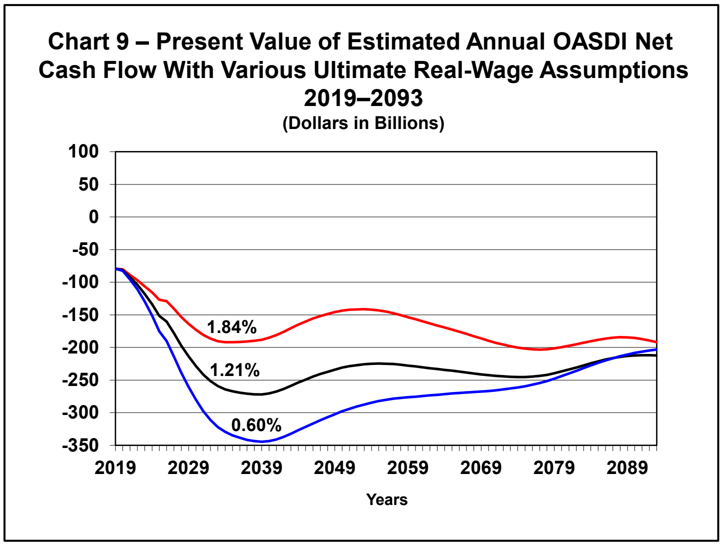
Real-Wage Differential - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual CPI. The ultimate real-wage differential is the average of the annual real-wage differential for the last 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 0.60, 1.21, and 1.84 percentage points, where 1.21 percentage points is the intermediate assumption in the 2019 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 3.20, 3.81, and 4.44 percent, respectively.

Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.21 percentage point, the Trustees' intermediate assumption, to 0.60 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $19,449 billion from $16,764 billion; if the ultimate real-wage differential were changed from 1.21 to 1.84 percentage points, the shortfall would decrease to $12,606 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2019–2093

Ultimate Annual Increase in Wages, CPI; **Real-Wage Differential**	3.20%, 2.60%; **0.60%**	3.81%, 2.60%; **1.21%**	4.44%, 2.60%; **1.84%**
Present Value of Estimated Excess (Dollars in Billions)	-$19,449	-$16,764	-$12,606

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 net cash flow estimates corresponding to all three sets of assumptions decrease rapidly into the 2030s and then begin to increase (become less negative) by 2040. 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 0.60 percentage points, the present values continue to increase throughout the remainder of the projection period. The net cash flows for the other two assumptions have two more periods of decreasing present values, the first around years 2055–2075 and the second beginning at the very end of the 75-year projection period.

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.

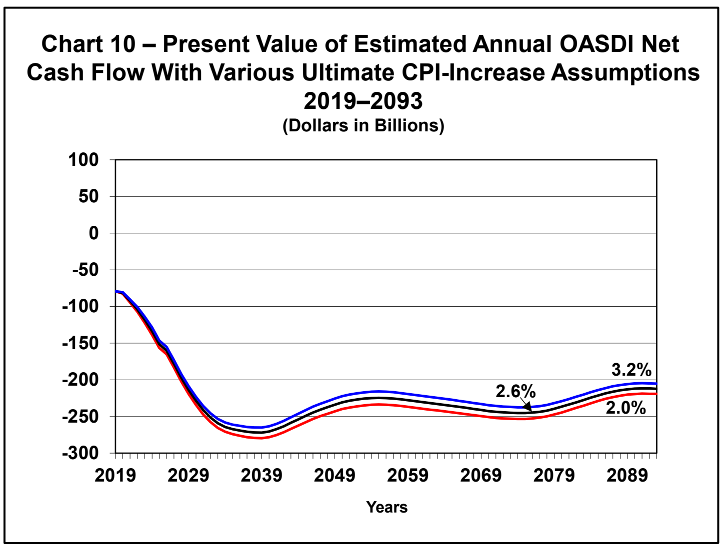
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.00, 2.60, and 3.20 percent, where 2.60 percent is the intermediate assumption in the 2019 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.21 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.21, 3.81, and 4.41 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 $17,320 billion from $16,764 billion; if the ultimate annual increase in the CPI were changed to 3.20 percent, the shortfall would decrease to $16,235 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: 2019–2093

Ultimate Annual Increase in Wages, **CPI**; Real-Wage Differential	3.21%, **2.00%**; 1.21%	3.81%, **2.60%**; 1.21%	4.41%, **3.20%**; 1.21%
Present Value of Estimated Excess (Dollars in Billions)	-$17,320	-$16,764	-$16,235

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 decrease through 2039 and then increase (become less negative) in years 2040–2055. Thereafter, net cash flows have one more period of increasing present values each from around 2075–2091, before decreasing again in the final two years of the projection period.

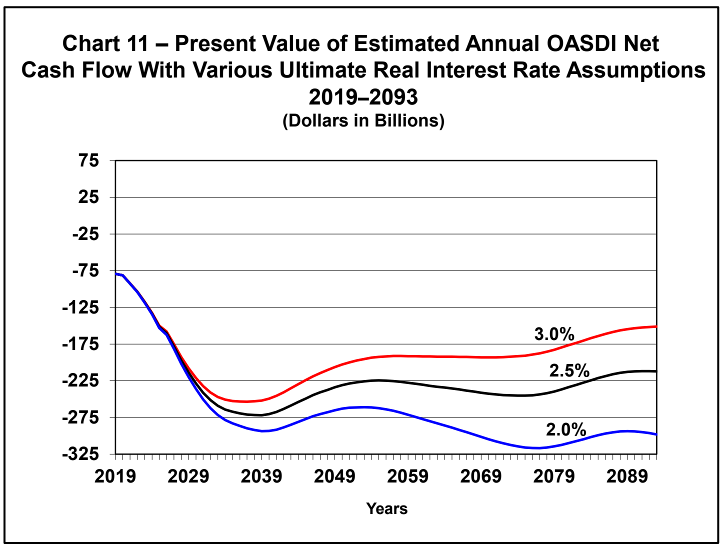
Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.0, 2.5, and 3.0 percent, where 2.5 percent is the intermediate assumption in the 2019 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 2.5 percent, the Trustees' intermediate assumption, to 2.0 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms would increase to $19,912 billion from $16,764 billion; if the ultimate annual real interest rate were changed to 3.0 percent, the present-value shortfall would decrease to $14,263 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real Interest Assumptions Valuation Period: 2019–2093

Ultimate Annual Real Interest Rate	2.0 Percent	2.5 Percent	3.0 Percent
Present Value of Estimated Excess (Dollars in Billions)	-$19,912	-$16,764	-$14,263

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.



The three patterns of the present values shown in Chart 11 are similar. 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 real interest rates decrease rapidly into the 2030s and then begin to increase (become less negative) by 2040. 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. The net cash flow estimates corresponding to an ultimate real interest rate of 2.0 increase in years 2040–2053, decrease again in years 2054–2077, increase again in years 2078–2089, and finally decrease through 2093. The net cash flow estimates corresponding to an ultimate real interest rate of 2.5 increase in years 2040–2055, decrease again in years 2056–2075, increase again in years 2076–2091, and finally decrease through 2093. The net cash flow estimates corresponding to an ultimate real interest rate of 3.0 increase in years 2038–2058, decrease again in years 2059–2070, and then increase thereafter.

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Report of Independent Certified Public Accountants

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 12, 2019

The Honorable Andrew Saul
Commissioner

The Office of the Inspector General (OIG) contracted with the independent certified public accounting firm Grant Thornton LLP (Grant Thornton). Under the contract, Grant Thornton audited (1) the Social Security Administration's (SSA) consolidated financial statements as of September 30, 2019 and 2018; (2) the sustainability financial statements, including the statements of social insurance as of January 1, 2019, 2018, and 2015; (3) the statements of changes in social insurance amounts for the periods January 1, 2018 to January 1, 2019 and January 1, 2017 to January 1, 2018; (4) and the related notes to the sustainability financial statements. We also contracted with Grant Thornton to provide a report on internal control over financial reporting and noncompliance with laws, regulations, contracts, grant agreements, and other matters, including the requirements of the *Federal Financial Management Improvement Act of 1996*. The contract requires that the audit be performed 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. 19-03, *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.

This letter transmits Grant Thornton's *Report of Independent Certified Public Accountants*. Grant Thornton found the following.

- The consolidated and sustainability financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- SSA management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019. However, Grant Thornton identified three significant deficiencies in internal control: (1) Certain Financial Information Systems Controls, (2) Information Systems Risk Management, and (3) Accounts Receivable with the Public (Benefit Overpayments).
- No instances of noncompliance with laws, regulations, contracts, grant agreements and other matters.

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 consolidated and sustainability financial statements by

- evaluating the independence, objectivity, and qualifications of the auditors and specialists;
- reviewing Grant Thornton's audit approach and planning;
- 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. 19-03;
- 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 12, 2019, 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; 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, in all material respects, with applicable auditing 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.

Gail S. Ennis

Gail S. Ennis
Inspector General

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Andrew Saul, Commissioner
Social Security Administration

Gail S. Ennis, Inspector General
Social Security Administration

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

- The consolidated balance sheets of SSA as of September 30, 2019 and 2018, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years 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 statements of social insurance as of January 1, 2019, 2018 and 2015 and the statements of changes in social insurance amounts for the period January 1, 2018 to January 1, 2019 and 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, 2019; and
- No reportable instances of noncompliance for fiscal year 2019, with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and 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, (2) our report on compliance with laws, regulations, contracts, and grant agreements, and (3) 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 sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years 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, 2019, 2018, and 2015, the statements of changes in social insurance amounts for the periods January 1, 2018 to January 1, 2019 and 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, 2019, 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

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, 2019, included in the accompanying Commissioner's Assurance Statement.

Auditor's 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 19-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin 19-03 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 affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with 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, 2019 and 2018, and its net cost, changes in net position, and budgetary resources for the years 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, 2019, 2018, and 2015 and its changes in social insurance amounts for the periods January 1, 2018 to January 1, 2019 and 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, 2019, 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 Fiscal Year 2019 audit identified deficiencies in the Agency's controls over Certain Financial Information Systems Controls, Information Systems Risk Management 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 Fiscal Year 2019 financial statements. Although the significant deficiencies in internal control did not affect our opinion on the Agency's Fiscal Year

2019 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, Information Systems Risk Management and Accounts Receivable with the Public (Benefit Overpayments) 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 management's attention. We have communicated these matters to management and, where appropriate, will report on them separately.

Other matters

The sustainability financial statements of the Agency 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 describe the assumptions upon which the sustainability financial statements are based discussed in Note 17 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 37 and the combining schedule of budgetary resources and the required supplementary social insurance information from pages 91 to 103 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 Commissioner's Message on page 1 and the other information on pages 2 through 4, 39 through 43, 87 through 90 and 123 through 230 are presented for purposes of additional analysis and are 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, 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

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 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 page 121 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

Baltimore, Maryland
November 12, 2019

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) and Supplemental Security Income (SSI) 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 and misstatements whether due to fraud or error and jeopardizes the integrity of the programs.

Our internal control testing covered both IT general and application controls. IT general controls testing encompassed the security management program, access controls (physical and logical), configuration and change management, segregation of duties, and service continuity/contingency planning. IT general controls 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 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 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*. These standards, in combination with National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, define a framework for Federal agencies 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 access controls, network security controls, 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 persisted. 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.

Access Controls

Access controls provide assurance that critical information systems' assets are physically safeguarded and logical access to sensitive applications, system utilities, and data are 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. We noted issues with segregation of duties, privileged access, the review of disability determination services user profile content, and the review of security violation reports and additional audit logs. Further, we noted exceptions related to controls to prevent programmer access to the production environment. More specifically, SSA implemented a secondary user ID process to allow programmers access to production data through a highly monitored, time-limited process. During testing, we determined this control was not operating effectively, as approvals and reviews of the access were not performed timely. 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, patch management, and network security deficiencies, many of which persisted from prior audits. We present information about these deficiencies in a separate management letter.

Configuration Management

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 is required so configurations align with security standards and to ensure no unauthorized changes are implemented to configuration settings. We noted instances where configurations were not monitored or aligned with best practices or SSA's standards. 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 through periodic 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 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. Strengthen SSA's internal control system for access controls, network security, 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 Information Systems Risk Management

Overview

A dynamic, flexible, and robust information system/IT risk management program is essential to manage security and privacy risk in SSA's diverse IT environment. As threats evolve and become more sophisticated, complex, and numerous, appropriate risk management is required to build security into new systems, mitigate existing and emerging threats, and ensure that essential mission support services are available. Further, it is needed to protect the confidentiality, integrity, and availability of SSA's financial and program information.

SSA must implement a risk management program that provides reasonable assurance that risks are identified and assessed, that controls are appropriately designed, and 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 developing and assessing the discipline and structure of its control environment, assessing risk, developing and implementing effective security procedures, communicating, and monitoring the effectiveness of those procedures.

IT risk management also must be integrated, deployed, and communicated throughout the entity, divisions, operating units and functions. SSA executive oversight, management and personnel are all responsible for information security and privacy. OMB Memorandum M-17-25, *Reporting Guidance for Executive Order on Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure* provides implementation guidance to Federal agencies for meeting risk management reporting requirements. The memorandum states: "An effective enterprise risk management program promotes a common understanding for recognizing and describing potential risks that can impact an agency's mission and the delivery of services to the public. Such risks include…cyber…and a broad range of operational risks such as information security…Effective management of cybersecurity risk requires that agencies align information security management processes with strategic, operational, and budgetary planning processes.…"

Deficiencies in Control Design and/or Operational Effectiveness

In Fiscal Year 2018, we noted deficiencies in IT oversight and governance, which had first been cited in Fiscal Year 2014 as part of the aggregated information system controls significant deficiency. We noted as part of our field work that issues persisted from past audits because of limited remediation of root causes. In addition, because of additional factors identified in the current year as part of our fieldwork at disability determination services and regional offices including an increase in the pervasiveness of prior year issues, failures noted with certain site's demonstration of integrity, oversight, and responsibility for their control environment, and to highlight this issue is not isolated to IT departments, we decided to extract the IT oversight and governance component of the aggregated significant deficiency into a stand-alone significant deficiency.

In Fiscal Year 2019 we noted recurring issues, in regards to processes, people and technology in place to support SSA's IT risk management function. More specifically:

- Process – We noted SSA's processes lacked the following.
- Repeatable and standardized risk management practices that were consistently applied and implemented across the organization at the entity, divisions, operating units and functions. For example, we noted several instances where SSA divisions, regional offices and disability determination services personnel did not document internal control design, retain evidence of control execution, and/or evidence of monitoring controls. We cited control deficiencies related to the completeness and accuracy of information system inventories and boundaries, common control inheritance considerations, and a lack of completed requirements within security assessment and authorization packages.
- A clear and concise security architecture function. Specifically, SSA did not consistently implement an information security architecture across the enterprise, business processes, and system levels necessary for maintaining a disciplined and structured methodology for managing risk.
- A proactive process to identify, block and/or remove unauthorized software and executable code, as well as, appropriate execution of the risk management function in the Agency's system development life cycle.
- People – Per the *Standards for Internal Control in the Federal Government* OV1.06, "People are what make internal control work. Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity's objectives, implements controls, and evaluates the internal control system. However, personnel throughout an entity play important roles in implementing and operating an effective internal control system." We noted as part of our field work that SSA lacked information security resources at various levels within the organization to effectively implement IT risk management functions. In addition, we noted instances where SSA and disability determination services personnel were not aware of *Standards for Internal Control in the Federal Government* requirements and requirements to document control design and activities as well as retain evidence of their execution. Finally, we noted SSA had not adequately identified individuals with significant information security responsibilities to provide role based security training.
- Technology – We noted that SSA did not consistently and/or effectively deploy technology to manage its IT risk management function. SSA has made progress in this area but was still implementing and/or tuning software in many instances. For example, we noted issues with information system hardware and software inventory management, a lack of network access control, automation and tools for managing security configurations, and comprehensive tools to evaluate and communicate risks.

These findings did not have a material impact on the financial statements; however, they could have such negative effects as inaccurate security categorization of systems and applications; ineffective identification, implementation and documentation of required controls; inappropriate testing and monitoring of those controls; and approving authorization to operate packages for the system without an appropriate understanding of risks.

Recommendations

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

1. Revise existing information system risk management framework(s) and strategy, using NIST 800-37 Rev. 2 “Risk Management Framework for Information Systems and Organizations: A System Life Cycle Approach for Security and Privacy” to consistently apply risk management practices throughout the Agency. In addition, develop and implement a consistent approach to risk management within its security architecture and system development life cycle processes.
2. Review and revise existing organizational structures to deploy information security resources at various levels within the organization to implement and monitor SSA’s revised risk management practices and provide the appropriate level of recurring training to individuals with internal control and information security responsibilities.
3. Review its current governance, risk, and compliance tools and software and consider additional tools and automation within its risk management practices and security controls.

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 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, 8 Processing Centers, 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 at the transaction level. For both its OASDI and SSI programs, 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. SSA implemented a new OASDI accounts receivable reconciliation process in Fiscal Year 2019 that has operated effectively in reconciling its OASDI accounts receivable subsidiary ledger activity to the general ledger. However, consistent with prior years, our testing revealed that the detail level beneficiary information in the SSI accounts receivable subsidiary ledger did not agree with the summary-level reports from the SSI subsidiary ledger.

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

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

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 criteria regarding maintaining sufficient evidence to support overpayments balances or sufficient evidence to support approval of waived overpayments. Program Operations Manual System provides important policies, procedures, and internal controls over processing and documenting overpayments. Based on evidence obtained during our business process walkthroughs, we determined in Fiscal Year 2018 that 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, prevented improvements to be yielded in Fiscal Year 2019. Additionally, our internal control testing of overpayments waived in the current fiscal year continued to demonstrate insufficient documentation of waiver approvals as well as insufficient documentation of initial overpayment records. Therefore, we did not test a separate sample of new overpayments identified in Fiscal Year 2019 for internal control effectiveness. 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 OASDI and SSI overpayment balances and noted overpayment calculation errors in 5 (16 percent) of 31 sampled OASDI items. 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 December 2049.

According to Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, a receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the amount is unknown, a reasonable estimate should be made. Further SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for*

Reconciling Budgetary and Financial Accounting states that accounts receivable should be recognized when a collecting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets through its established assessment processes to the extent the amount is measurable.

We noted that SSA identified a system design process limitation concerning long-term withholding agreements that extend past December 2049 where the system cannot capture and track debt scheduled for collection beyond December 2049. Therefore, the accounts receivable balances related to these overpayments are understated in the amount of the installment payments expected to be collected beyond December 2049. The projected understatements are immaterial to the financial statements and the accounts receivable with the public balance. While the Agency is enhancing system capabilities to properly account for these receivables and updating policies to avoid longer-term repayment programs, failure to resolve the system design process limitation will continue to understate accounts receivable balances. In addition, the impact of this issue will continue to grow as December 2049 approaches if other factors remain constant.

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 SSI 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 exploring 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 overpayment 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 field offices or Processing Centers within the appropriate systems of record.

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

1. Continue working toward 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 analyzing and tracking the impact of the December 2049 system design process limitation on the financial statements.

SOCIAL SECURITY

The Commissioner

November 12, 2019

Grant Thornton LLP
111 S. Calvert Street
Suite 2320
Baltimore, MD 21202

Dear Sir or Madam:

We have reviewed the Independent Auditors' Report concerning your audit of our fiscal year 2019 financial statements. We are extremely pleased that we received our 26th 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.

I am equally pleased your testing identified that we successfully mitigated the risks associated with the prior year significant deficiency concerning the reliability of information used in certain control activities. We will look to leverage our successful remediation approach to other areas of the audit.

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

We take your findings seriously and view them as opportunities to improve our stewardship of taxpayer dollars. We remain committed to mitigating each finding and the associated risk as quickly as possible through risk-based corrective action plans designed to strengthen our control environment. Our approach emphasizes cross component collaboration involving subject matter experts and leaders across the agency to identify and address the root cause of our most critical risks. Our goal is to create greater awareness of risk management and establish more accountability for the completion of corrective action milestones.

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

Sincerely,

Andrew Saul
Commissioner

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

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Other Information

SocialSecurity.gov

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

In accordance with the *Reports Consolidation Act of 2000*, the *Fiscal Year 2019 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges* provides a summary and assessment of the most serious management and performance challenges we face as determined by the Office of the Inspector General (OIG). The Inspector General Statement also describes the steps we have taken to address each of the challenges.

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

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

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

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 12, 2019

The Honorable Andrew Saul
Commissioner

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* also requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Agency Financial Report*.

Management and Performance Challenges

As we planned our audit work for Fiscal Year 2019, we identified the following seven management and performance challenges.

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

As we re-evaluated the Agency's challenges during Fiscal Year 2019, we refocused our list. As such, we plan to address the following challenges in this report.

- Improve Administration of the Disability Programs
- Minimize Payment Errors and Improve Management of Payment Workloads
- Improve the Prevention, Detection and Recovery of Improper Payments
- Improve Service Delivery
- Secure Information Systems and Protect Sensitive Data
- Modernize Information Technology

We further discuss the management and performance challenges in the attached document. In the discussion of each challenge, we define the challenge, outline steps the Agency has taken to address it, and detail actions SSA still needs to take to fully mitigate the issue. We used multiple sources to determine the status of each of the identified challenges, including statistics SSA reported and Office of the Inspector General audits of SSA's operations. We also used the Fiscal Year 2019 independent auditor's report, which contained the results of SSA's financial statement audit. The report concluded that SSA had three significant deficiencies in internal controls as of September 30, 2019.

We will continue focusing on identified management challenges in Fiscal Year 2020 and assessing SSA's operations and the environment in which SSA operates. I look forward to working with you to continue improving SSA's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Gail S. Ennis
Inspector General

Enclosure

Fiscal Year 2019
Inspector General's Statement
on the
Social Security Administration's
Major Management and Performance Challenges

November 2019

Improve Administration of the Disability Programs

Challenge

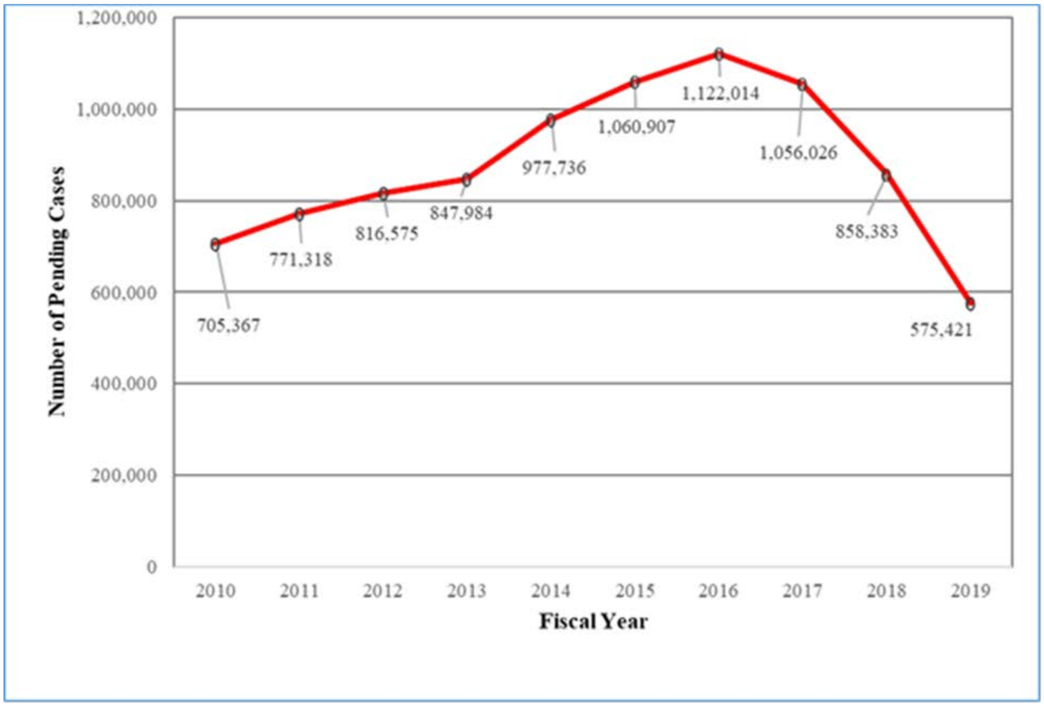
The Agency continues to face challenges with pending disability hearings and related processing times. Continued focus is necessary to simplify work incentive regulations and create new opportunities for returning beneficiaries to work.

Field and regional offices, hearing offices, the Appeals Council, and State disability determination services (DDS) process the Social Security Administration's (SSA) disability workloads. Specifically, State DDSs make disability determinations for initial claims, reconsiderations, and continuing disability reviews (CDR). Administrative law judges (ALJ) in hearing offices and administrative appeals judges in the Appeals Council decide appealed cases. Our previous reviews have raised concerns about backlogs in SSA's disability workloads, including initial disability claims and CDRs, but SSA has made progress in reducing the backlogs for both of these workloads. Specifically, initial disability claims pending decreased from almost 708,000 at the end of Fiscal Year (FY) 2012 to approximately 594,000 at the end of FY 2019. Further, in FY 2018, SSA eliminated the backlog of full medical CDRs that had existed since FY 2002.

Disability Hearings Pending and Processing Times

While hearings timeliness and pending levels have improved in recent years, SSA has not achieved its average processing time goal of 270 days. Average processing time for hearings increased 65 percent from 360 days in FY 2011 to 595 days in FY 2018, but it improved to 506 days in FY 2019. In addition, the number of pending hearings peaked at more than 1.1 million at the end of FY 2016 but was down to approximately 575,000 at the end of FY 2019. While pending levels were at their lowest in the last decade (see Figure 1), SSA considers any pending level that keeps the average processing time above 270 days as a "backlog." At the end of FY 2018, SSA considered over 460,000 hearings as "backlogged." SSA reported the number of "backlogged" cases dropped to approximately 240,000 hearings at the end of FY 2019.

Figure 1: Pending Hearings, FYs 2010 Through 2019



Return to Work

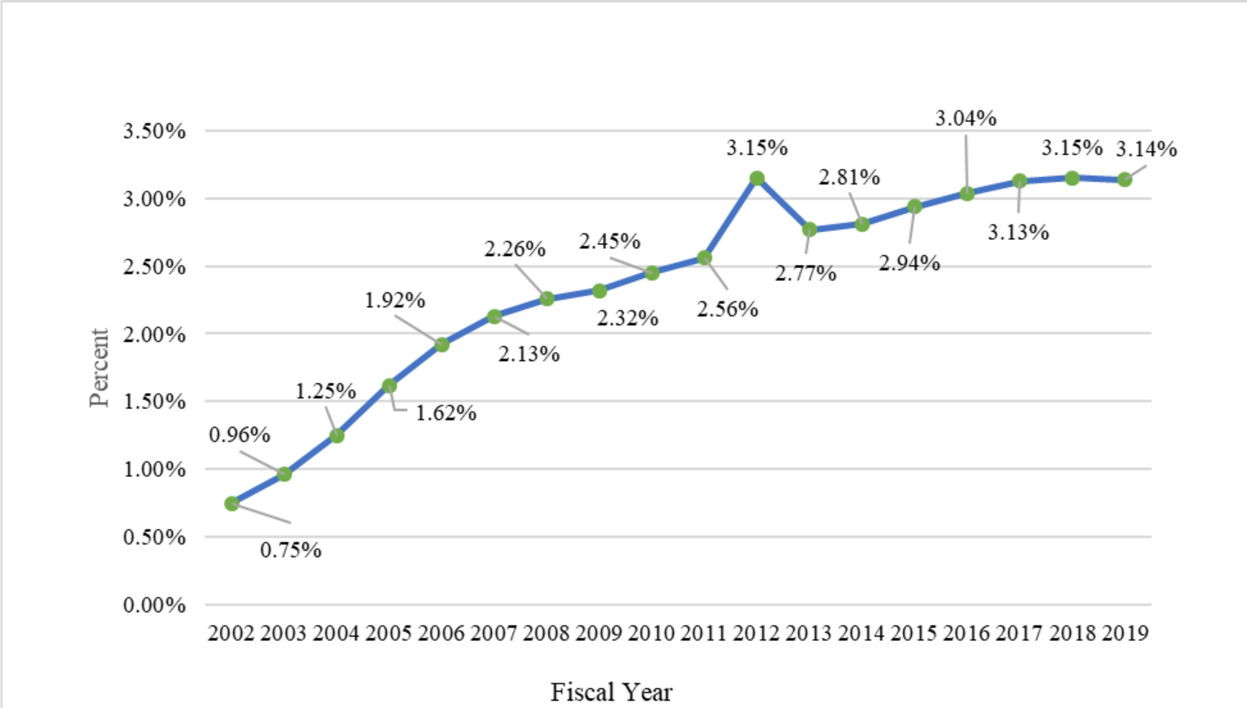
Congress directed SSA to implement employment support programs to help disabled individuals return to work. To date, these programs have helped only a small percentage of disabled individuals return to work.

- When Congress implemented the Supplemental Security Income (SSI) program in 1972, it established the Plan to Achieve Self-Support program to provide disabled individuals the assistance needed to return to work. Congress intended employment support provisions, such as the Plan to Achieve Self-Support, to assist disabled beneficiaries in moving from benefit dependence to independence.
- The *Ticket to Work and Work Incentives Improvement Act of 1999* (Pub. L. No. 106-170) established the Ticket to Work and Self-Sufficiency Program (Ticket Program) to assist disabled beneficiaries in returning to work. Under the Ticket Program, SSA provides disabled beneficiaries a Ticket they can present to qualified organizations to obtain vocational rehabilitation or employment services.

When we reviewed the Plan to Achieve Self-Support program in November 2018, SSA could not provide costs incurred, savings, or return-to-work participant outcomes even though SSA implemented the program in 1972. SSA told us it completed a longitudinal study at the end of FY 2018. When we requested the study, the Agency responded the draft report was undergoing internal executive-level review and clearance, and it expected to release the report in the first quarter of FY 2020.

Few Ticket-eligible beneficiaries used their Tickets for vocational or employment services. Specifically, 3 percent of Ticket-eligible beneficiaries assigned their Tickets or placed them in-use in FY 2019, similar to the percent of individuals who assigned their Tickets in recent years (see Figure 2).

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



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

Agency Actions

Cooperative Disability Investigations

The Cooperative Disability Investigations (CDI) program continues to be one of the Agency's most successful joint initiatives by combining the efforts of the Office of the Inspector General (OIG), SSA, DDSs, and State or local law enforcement personnel. The CDI units work to obtain evidence sufficient to resolve questions of potential fraud in SSA disability programs. As of September 2019, the CDI program had 46 units covering 40 States; Washington, DC; Guam; American Samoa; the Northern Mariana Islands; the U.S. Virgin Islands; and the Commonwealth of Puerto Rico. From inception in FY 1998 through September 2019, nationwide, the CDI program has resulted in approximately $4 billion in projected savings to SSA's Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs; $3 billion to non-SSA programs (such as Medicare); and $220 million in SSA monies to include recoveries, restitution, fines, penalties, judgments and settlements. As of September 2019, the CDI program's efforts in FY 2019 had led to 93 judicial actions, which include sentencings, pre-trial diversions, civil settlements, and civil monetary penalties, $177.8 million in projected savings to SSA's OASDI and SSI disability programs, $186.5 million to non-SSA programs, and $17.5 million in SSA monies.

Hearings and Appeals

In January 2016, SSA issued the *Compassionate And REsponsive Service* (CARES) plan to provide a framework of drivers and initiatives designed to address the growing number of pending hearings and increased wait times. In the original release of the CARES plan, SSA was projected to reach an average processing time of 270 days for hearings by the end of FY 2020. SSA attributes progress in reducing pending levels and processing times to ALJ and staff hiring, falling receipt levels, implementing improvements to the hearing process, modernizing its information technology (IT) infrastructure, implementing important policy changes, and rallying its workforce in serving the public.

In April 2019, SSA released the 2018-2019 CARES plan, which noted that SSA expected to reach the 270-day average processing time goal in 2021. SSA reduced the 21 initial CARES initiatives to 12 as it completed existing initiatives and identified new ones. The current initiatives relate to (1) business process efficiencies, (2) IT innovations and investments, and (3) accountability and oversight focus—a new initiative for 2019. Further, the Agency's Office of Hearings Operations is developing productivity metrics across the Office, including a productivity index to assess senior attorney advisor performance, which is in addition to the current established metric for decision writer performance.

As part of its CARES plan, SSA hired 264 ALJs in FY 2016 and 132 ALJs in FY 2017. However, SSA did not hire new ALJs in FYs 2018 or 2019. In addition, because of attrition, SSA reported it had 142 fewer ALJs and approximately 500 fewer support staff as of the end of FY 2019, compared to the end of FY 2018.

Additionally, the Agency's Office of Appellate Operations designed and piloted a software program called Insight to identify potential anomalies in hearing decisions. In FY 2018, the software was initially released to decisionwriters in five hearing offices and released to all hearing offices' decisionwriters by the end of FY 2018. We reviewed Insight in FY 2019 but could not determine whether it improved the quality of draft hearing decisions or reduced the number of remands. We could not make this determination because of limited information SSA tracked during the phased rollout. In addition, we reported the Office of Appellate Operations had not consulted with the Office of Retirement and Disability Policy about whether the quality flags Insight generated adequately identified policy-compliance errors at the hearing level.

Finally, in FY 2019, SSA restored the reconsideration step at the DDS level in six States, in part, to reduce the number of claimants waiting for an ALJ decision. Previously, claimants in 10 prototype States did not have the reconsideration step and appealed initial disability denials directly to an ALJ. SSA plans to return all States to a uniform administrative review process by the end of FY 2020. According to SSA, restoring the reconsideration step will help accelerate achievement of its hearings backlog reduction goal.

Return to Work

Per SSA, in FY 2019, beneficiaries assigned over 23,000 tickets to employment networks and over 72,000 tickets to State vocational rehabilitative agencies. Also, SSA reported there are 82 Work Incentive Planning and Assistance organizations nationwide providing specialized benefits counseling services to approximately 40,000 individuals per year.

Additionally, SSA reported it put into operation a wage reporting pilot to help strengthen the Ticket Program's integrity by minimizing improper payments caused by disabled beneficiaries' earnings. It also continued conducting a marketing pilot, which provided beneficiary data to participating employment networks so they could market their services to disabled beneficiaries. The Ticket Program Manager provided marketing and outreach to program stakeholders by managing two Ticket program-related Websites, operating the Ticket to Work Help Line, and hosting national teleconferences and webinars. It also conducted employment support related outreach to beneficiaries on Facebook and Twitter.

What the Agency Needs To Do

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

Focus resources on capacity issues to better balance processing times and hearing office workloads.

Continue to create new opportunities for returning beneficiaries to work and ensure measurement of costs, savings, and effectiveness are part of the design of such initiatives.

Key Related Performance Measures

Some of the key performance measures from SSA's revised FY 2019 *Annual Performance Plan* related to this challenge are listed below.

- Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision.
- Reinstate reconsideration to implement a national uniformed disability process at Step 2 of the appeal stage.
- Improve the disability determination process by increasing the percent of medical evidence received electronically.
- Increase the number of persons with disabilities receiving employment support services who achieve the consequential earnings threshold of the trial work level.
- Ensure the quality of disability decisions by achieving the State DDS' decisional accuracy rate for initial disability decisions.
- Expand CDI coverage.
- Initial disability claims receipts.
- Initial disability claims completed.
- Initial disability claims pending.
- Average processing time for initial disability claims.
- Hearings receipts.
- Hearings completed.
- Hearings pending.
- Annual average processing time for hearings decision.
- DDS production per workyear.
- Office of Hearings Operations production per workyear

KEY RELATED LINKS

OIG Report - *Oversight of the Benefit Offset National Demonstration Project*, (A-04-14-14078), September 2015

OIG Report - *The Social Security Administration's Plan to Achieve Self-Support Program*, (A-08-16-50030), September 2016

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

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

OIG Report - *Decision-writing Backlog in the Office of Hearings Operations*, (A-12-18-50579), March 2019

OIG Report - *The Social Security Administration's Use of Insight Software to Identify Potential Anomalies in Hearing Decisions*, (A-12-18-50353), April 2019

SSA OIG Website - Reports related to improving the administration of the disability programs

Minimize Payment Errors and Improve Management of Payment Workloads

Challenge

SSA issues monthly payments to approximately 70 million people and must be a responsible steward of the funds entrusted to its care by minimizing the risk of making improper payments and effectively recovering overpayments when they occur.

Payment Errors

Computation errors are a major cause of over-and underpayments. Inaccurate information or administrative mistakes can also cause errors when SSA calculates benefits. For FY 2018, SSA estimated that computational deficiencies resulted in $942 million in combined over-and underpayments. In 2019, we completed a number of reviews in this area. These reviews reported the following.

- As a result of a combination of employee and system errors, SSA did not provide due process to beneficiaries before it collected OASDI overpayments. As a result, we estimated SSA incorrectly recovered approximately $345 million in overpayments and will incorrectly recover an additional $671 million unless it corrects these errors.
- SSA did not always correctly process cases it identified as having a high risk of error in deferring payment of OASDI benefits. In a deferred OASDI case, SSA will withhold an individual's monthly benefit to collect prior incorrect payments or past-due Medicare premiums. An erroneous benefit deferral can occur if an SSA employee incorrectly updates a beneficiary's records. We estimated the errors resulted in approximately $40 million in incorrect payments to 11,000 beneficiaries.

Management of Payment Workloads

Improper payments can also result from inadequate management of payment workloads. For example, improper payments occur when SSA does not take proper actions to process disabled beneficiaries' work reports. For FY 2018, SSA estimated earnings verification deficiencies resulted in nearly $1 billion in overpayments. We have also completed a number of reviews in this area.

- In 2019, we reported that SSA employees did not always correctly process SSI alerts related to double-counted OASDI benefits. SSA systems generate alerts that prompt employees to ensure SSA does not reduce SSI payments incorrectly during OASDI overpayment collection periods. However, SSA employees did not always correctly process the alerts, which resulted in approximately $28 million in SSI underpayments.
- In 2018, we reported periodic system alerts SSA implemented in September 2016 did not identify all beneficiaries who received pensions based on Federal, State, or local government employment not covered by Social Security. SSA imposes windfall elimination provisions and government pension offsets on these individuals' benefits. We estimated SSA had issued approximately $232 million in improper payments since a 2013 audit we completed on the offsets.
- In 2012 and 2017, we identified approximately 102,000 beneficiaries/recipients to whom SSA continued issuing disability benefits more than 2 months after the Agency determined their disabilities had ceased. These processing errors resulted in approximately $131 million in improper payments. Establishing automation solutions to prevent improper payments due to unprocessed disability cessations continues to be an Agency priority.

In addition, the Steigerwald class action lawsuit identified approximately 130,000 cases where SSA may have improperly accounted for representatives' fees when it calculated past-due benefit payments to individuals who were subject to the windfall offset provision. SSA has a remediation plan for employees in its program service centers and field offices to recalculate each case's windfall offset and release any underpayments to the class action members.

Our planned work in these areas is designed to help the Agency further reduce computation errors and improve payment workload management.

Agency Actions

SSA has taken steps to minimize payment errors and improve management of payment workloads. SSA implemented an online tool to allow users to report earnings electronically on computers, mobile devices, and smartphones and expanded the electronic application to allow SSI recipients, their representative payees, or deemors to report earnings electronically. By automating this process, SSA expects to update its records sooner and reduce the need for customers to visit field offices.

What the Agency Needs To Do

Address the root causes of improper payments to prevent their occurrence.

Enhance accountability for managing performance through program and automation improvements and ensure any improvements include the measurement of their effectiveness.

Ensure staff have adequate training and technology.

Periodically review manual processes to determine whether they can be automated to reduce computation errors.

Key Related Performance Measures

Some of the key performance measures from SSA's *Annual Performance Plan for Fiscal Year 2020,* related to this challenge are listed below.

- Improve the integrity of the SSI program by focusing efforts on reducing overpayments.
- Maintain a high payment accuracy rate by reducing overpayments in the OASDI program.
- Strengthen manager accountability for effective performance management.
- Complete periodic CDRs and SSI non-medical redeterminations.

Key Related Links

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

OIG Website - Reports related to minimizing payment errors and improving management of payment workloads

Improve the Prevention, Detection, and Recovery of Improper Payments

Challenge

SSA is responsible for issuing approximately $1 trillion in benefit payments, annually. Given the amounts involved, even the slightest error in the overall payment process can result in millions of dollars in over- or underpayments. Preventing, detecting, and recovering improper payments continues to be a challenge.

In its FY 2019 *Agency Financial Report*, SSA estimated it had made approximately $8.2 billion in improper payments in FY 2018. The Agency continues collaborating with external partners to address the root causes of improper payments to prevent their recurrence, and modernize its debt management and collection processes. We also continue focusing our work on obtaining and using external data to recommend steps SSA could take to prevent, detect, and recover improper payments.

Prevention and Detection

Preventing improper payments is more advantageous than detecting them after they are made since additional resources are not spent in recovering the overpayments. Numerous factors affect OASDI and SSI eligibility and payment amounts—such as wages and income, resources, and living arrangements. Beneficiaries and recipients are required to report to SSA any change in circumstances that may affect their benefits; however, they do not always comply. Therefore, obtaining data from external sources, such as other Federal agencies, State agencies, and financial institutions, is critical to prevent and detect improper payments.

- Over the last few years, we have reviewed death data from several State and Federal agencies and identified $138 million in payments that SSA issued after individuals' deaths. SSA took action to post the death information on its records, terminate the OASDI and SSI benefits, and recover the funds. Additionally, SSA continues expanding its use of the electronic death registration process, which allows States to verify a deceased person's name and Social Security number (SSN) against SSA's records before registering the death. The electronic death registration process results in the transmission of more accurate and timely death information to SSA, which allows it to timely stop the deceased beneficiary's payments.
- In a February 2013 report, we estimated 35,068 SSI recipients had approximately $152 million in overpayments because of unreported absences from the United States between September 2009 and August 2011. We recommended SSA work with the Department of Homeland Security to create a process that provides the necessary information to identify SSI recipients who are outside the United States for longer than 30 days. (The Department of Homeland Security maintains travel data on individuals who enter and leave the United States.) This has been a long-term project. On June 17, 2019, SSA started using Department of Homeland Security foreign travel data during SSI redeterminations.
- Each quarter, SSA obtains wage data from the Office of Child Support Enforcement (under the Department of Health and Human Services), which is more timely than the annual earnings data the Internal Revenue Service provides SSA. This allows SSA to identify sooner beneficiaries who may be working above certain dollar thresholds to prevent large overpayments. SSA also continues developing plans to implement section 824 of the *Bipartisan Budget Act of 2015* to obtain wage data from payroll providers.

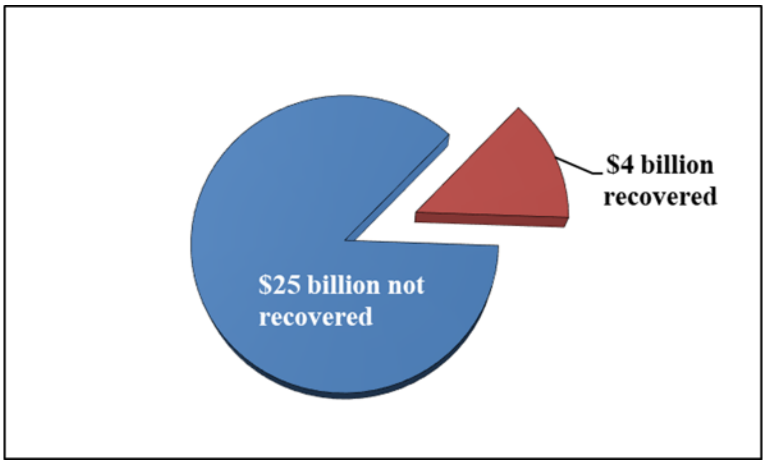
The CDR is a tool for reducing improper payments. Through completed CDRs, SSA periodically verifies individuals are still disabled and eligible for disability payments. SSA estimated that, over the next 10 years, CDRs conducted in FY 2019 will yield, on average, net Federal program savings of roughly $9 per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare, and Medicaid effects.

According to SSA, SSI non-medical redeterminations, which are periodic reviews of such non-medical eligibility factors as income and resources, are another important program integrity tool. SSA estimated that, over 10 years, non-medical redeterminations conducted in FY 2019 will yield, on average, a return on investment of about $4 of net Federal program savings per $1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. However, according to SSA, budgetary constraints determine how many redeterminations it conducts each year.

Recovery

Once SSA determines it has overpaid an individual, it attempts to recover the overpayment. According to SSA, in FY 2019, it recovered over $4 billion in overpayments at an administrative cost of $0.06 for every dollar collected and ended the FY with a $25-billion uncollected overpayment balance. See Figure 3.

Figure 3: Overpayments Recovered – FY 2019



Source: SSA's FY 2019 Agency Financial Report

To collect debt related to overpayments, SSA uses ". . . internal debt collection techniques ([that is], payment withholding and billing/follow-up), as well as external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts."

Agency Actions

SSA is taking actions to address improper payments. As noted above, SSA recovers a portion of overpayments, conducts CDRs and SSI redeterminations, and obtains data from other agencies and third parties to identify and prevent improper payments. In addition, SSA is updating its death reporting system to ensure it is collecting accurate data from national, State, and local agencies as well as from other countries with whom the United States has totalization agreements.

What the Agency Needs To Do

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

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

Develop new initiatives to address improper payments.

Key Related Performance Measures

SSA has three strategies in its *Annual Performance Report Fiscal Years 2018 – 2020* to improve payment integrity.

1. Collaborate with partners to address improper payments.
2. Address the root causes of improper payments to prevent their recurrence.
3. Modernize its debt management and debt collection business process.

Additionally, some of the key performance measures related to payment integrity include the following.

- Initiate the data-exchange process with new partners or expand existing data exchanges to improve operational efficiency and reduce improper payments.
- Complete CDRs and SSI non-medical redeterminations.

Key Related Links

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

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

SSA, OIG, Website - Reports related to improving the prevention, detection, and recovery of improper payments

Improve Service Delivery

Challenge

SSA faces challenges, including growing workloads as experienced employees are expected to retire, as it pursues its mission to deliver quality service to the public.

SSA's Growing Workloads

SSA estimates, in FY 2020, it will pay approximately $1 trillion in OASDI benefits to 65 million beneficiaries and $60 billion in SSI payments to 8 million recipients. In addition, SSA expects to process

- 8.7 million OASDI and SSI initial claims;
- 1.6 million appeals for claimants who disagreed with its determination or decision;
- 285 million earnings items posted to workers' records;
- 17 million new and replacement Social Security number (SSN) cards;
- 2.8 million SSI redeterminations and almost 674,000 full medical CDRs; and
- 100 million post-entitlement actions.

The Agency administers its programs and services through its field offices, National 800-Number, and processing centers. In FY 2019, field offices served approximately 43 million visitors, the National 800-Number handled over 33 million calls, and processing centers handled complex Social Security claims as well as supported the National 800-Number.

In an April 2018 audit, we found the pending workload items at SSA's processing centers more than tripled, from approximately 1.1 million at the beginning of FY 2013 to approximately 3.5 million by the end of FY 2016. Work receipts and staffing were among the factors that accounted for the growth in processing center pending workloads, as well as from the sharp decline in overall staff experience. We recommended SSA develop a plan to address the backlog of pending processing center workload items. In April 2018, SSA informed us that its FY 2018 National Processing Center Work Plan would address this recommendation.

Impostor Scams

We have seen a dramatic increase in reports of Social Security-related telephone scams, the most common of which involve callers threatening to arrest individuals unless they pay fines or fees using cash, retail gift cards, or wire transfers. In April 2019, the Federal Trade Commission announced that reports of Social Security employee imposter scams over the past year eclipsed reports of the Internal Revenue Service scam, another prevalent scam, in its peak year. Similarly, we have received more than 450,000 imposter allegations in FY 2019. Although these scams generally do not involve Social Security benefits or programs, they have the potential to decrease the public's trust in SSA, and they hinder the Agency's ability to communicate with its customers.

Loss of Experienced Employees and Institutional Expertise

SSA acknowledges that one of its greatest challenges is the loss of its most experienced employees. SSA expects that more than 10,000 of its almost 61,000 employees will retire within the next 5 years. These retirements, along with regular attrition, will cause a loss of institutional knowledge and potentially impair succession management and knowledge transfer.

SSA also reported that, in FY 2019, about 30 percent of its senior executives and 24 percent of GS-15 employees were eligible to retire. In addition to retirement concerns, resignations increased from 27 percent in 2015 to 30 percent in 2019. Transfers increased from 8 to 15 percent during the same timeframe.

SSA's Vision 2025, *2018-2022 Agency Strategic Plan,* and *2018 Human Capital Operating Plan* indicate that succession planning is critical to its future. By planning for, and taking measures to close, the leadership competency gaps it will face over the coming years, the Agency will be in a better position to ensure a continuity of leadership.

SERVICE DELIVERY

SSA continues expanding its suite of automated and online service options. Seven of its 8 online applications earned scores of at least 80 out of 100 in the ForeSee E-Government Satisfaction Index. In FY 2019, SSA estimated the public will conduct over 173 million transactions online. As of September 2019, SSA customers had completed approximately 184 million online transactions. In FY 2020, SSA expects this to increase to 194 million.

Approximately 6 million people create a new *my* Social Security account each year; SSA had nearly 46 million registered users at the end of FY 2019. SSA continues to focus on improving the *my* Social Security user experience and adding service options. However, we still have concerns with SSA's online services. In a November 2018 audit, we found the Agency's controls for the *my* Social Security portal had not prevented some individuals from fraudulently establishing accounts or submitting direct deposit transactions. Also, by using those same controls for Internet claims, SSA may not prevent individuals from fraudulently submitting Internet claims applications. SSA stated that, in FY 2020, it will expand *my* Social Security services and strengthen and modernize its methods to authenticate customers' identities and authorize their use of electronic services.

OVERSIGHT OF THE REPRESENTATIVE PAYMENT PROGRAM

Beneficiaries who cannot manage or direct the management of their benefits depend on representative payees to receive and manage their Social Security benefits. SSA's oversight of the Representative Payment Program is critical to ensuring beneficiaries receive the benefits and services they should. SSA reported in its *Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews for Fiscal Year 2018*, the most recent report available, that there were 6 million representative payees managing $70 billion in annual benefits for 8.3 million beneficiaries.

The *Strengthening Protections for Social Security Beneficiaries Act of 2018* (Pub. L. No. 115-165) should improve and strengthen SSA's Representative Payment Program. The Act requires that SSA

- make annual grants to State Protection and Advocacy groups to complete representative payee reviews;
- expand its site reviews to include individual and organizational representative payees based on risk of potential misuse or unsuitability;
- establish a monthly data exchange with State foster care agencies to identify beneficiaries with representative payees whose foster care arrangements have changed;
- study improving data sharing with State adult protective services to determine the need for, and oversight of, representative payees; and
- prohibit individuals convicted of certain crimes from serving as representative payees.

In an August 2018 audit, we found SSA did not always identify and bar convicted felons from serving as individual representative payees. We estimated 396 representative payees received approximately $13.7 million in benefit payments after their barred felony convictions. In addition, SSA had not yet implemented several recommendations from previous audits of its representative payment program. This includes recommendations to ensure it

- records individual representative payees' SSNs in its payment records,
- retains the application for representative payees who do not have SSNs, and

- develops a systems alert to identify when discrepant information is on the Master Beneficiary and Supplemental Security Records.

In January 2019, the Social Security Advisory Board noted that SSA's representative payee monitoring tool did not appear to obtain substantive performance information that would be useful in changing SSA's preference lists for selecting representative payees. The Board also noted that a database on representative payee performance would help SSA identify potential cases of representative payee misuse. Finally, the Board recommended that SSA strengthen its capacity to collect and use all appropriate program data to inform and support decisions about its Representative Payment Program.

Agency Actions

SSA has taken steps to manage its growing workloads and loss of experienced employees. In addition, it is expanding its online services and continuing to manage its Representative Payment Program.

Managing Growing Workloads

SSA's processing centers handle actions that arise after the Agency determines benefit eligibility, and support field and hearing offices. SSA prioritized hiring and overtime in the processing centers, and continues focusing on automation, workflow enhancements, and quality initiatives to improve processing center performance. In FY 2019, SSA's goal was to reduce the number of pending actions to 2.9 million by the end of the FY. However, as of September 2019, there were approximately 4.5 million pending workload items.

The average wait time for all field office visitors (with and without appointments) was 24.9 minutes in FY 2018 and 24.8 minutes in FY 2019. SSA has several initiatives to reduce field office wait times, including the SSAexpress computer station, which allows customers to create and log onto their *my* Social Security accounts to conduct business with SSA, and video service delivery, which allows customers to conduct business by video with SSA employees. In addition, local communities can install an SSA Express Desktop Icon, a specialized SSA.gov shortcut, on their public computers and Websites to increase awareness of SSA's online services and reduce field office visits.

Impostor Scams

To address the workload caused by beneficiaries contacting SSA after being contacted by possible scammers, SSA has partnered with other government agencies and organizations to notify individuals about impersonator scams. For example, it has partnered with the Federal Trade Commission to inform the public on how to avoid being scammed. Additionally, we, the OIG, have taken steps to address this fraud, including contacting major retailers and gift card distributors to discuss point-of-sale consumer education about the phone scams and partnering with other Federal and State law enforcement agencies to leverage resources in conducting investigations related to this scam.

Leadership Development and Succession Planning

SSA recognizes it is accountable for ensuring its employees have the training and technology they need to take timely, quality actions. In addition, SSA recognizes its managers need to understand how to maximize employee performance so SSA can serve the public. SSA's framework for comprehensive human capital management includes three major focus areas: workforce management, succession management, and performance management. Leadership development continues to be an imperative, both in terms of helping current leaders meet demands of the modern workplace and equipping next-in-line leaders to assume crucial responsibilities.

In 2019, SSA launched a redesigned national leadership development program that replaced previous programs and should link leadership development and succession planning. This should also ensure a continuity of trained leaders ready to fill critical positions. SSA also plans to expand developmental opportunities beyond component-based programs and strengthen core foundational competencies that support leadership. For FY 2020, SSA's goal is to reduce competency gaps among leadership development program graduates by at least 90 percent.

Online Services

SSA has several proposals to improve online services and its automated services. It also plans to continue investing in its staff to improve frontline service and reduce hearings and processing center backlogs.

SSA continues strengthening the security of its online services. SSA is improving its ability to prevent fraudulent activity associated with Internet claims. In FY 2019, SSA improved authentication controls for access to electronic services. For example, the Agency improved and expanded secure access to the electronic folder for medical experts, vocational experts, and appointed representatives, and enhanced existing security controls for account registration and password management for online services.

SSA continues to expand its *Internet Social Security Number Replacement Card* for individuals to request replacement SSN cards. In FY 2019, SSA added eight States, making this option available in 40 States and the District of Columbia.

In FY 2019, SSA acquired 139 video units, which it will place in its field offices, State DDSs, and in third-party sites. In addition, SSA relocated underused video units, added nine new Representative Video Project sites, and collaborated with the Department of Veterans Affairs to conduct video hearings for veterans and their families. In FY 2018, 179,315 hearings (29 percent of all hearings) were held by video. In FY 2019, 183,549 hearings, 30 percent of all hearings, were held by video.

Representative Payment Program

SSA reports beneficiaries who need representative payees are of particular concern because of their vulnerability. In its *Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews for Fiscal Year 2018*, SSA reported its reviews found the majority of representative payees was properly using beneficiaries' funds. SSA also reported it made determinations of misuse totaling over $1 million and identified an additional $3.5 million in suspected misused funds. As a result of the reviews, the Agency removed 139 representative payees and either appointed new representative payees or determined beneficiaries were capable of managing their own benefits.

The *Strengthening Protections for Social Security Beneficiaries Act of 2018* requires that SSA make annual grants, in an amount no less than $25 million, directly to State Protection and Advocacy groups to conduct site reviews of representative payees. As of September 2019, Protection and Advocacy groups had finished 1,168 of the required reviews.

SSA established a monthly data exchange with State foster care agencies as mandated by the *Strengthening Protections for Social Security Beneficiaries Act of 2018*. SSA is also working with States to secure Information Exchange Agreements to provide State foster care information to SSA. As of September 2019, SSA has Information Exchange Agreements with 26 States.

The *Strengthening Protections for Social Security Beneficiaries Act of 2018* requires that SSA test the feasibility of improving information sharing with State agencies that provide adult protective services. To accomplish this, SSA created a questionnaire to assess the data available from each State and determine whether the State is willing to share the data collected. SSA does not track nor report changes of representative payee or capability determinations specifically caused by abuse, neglect, and/or financial exploitation.

What the Agency Needs To Do

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

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

Key Related Performance Measures

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

- Increase the number of successfully completed online transactions.
- Maintain customer satisfaction with SSA's online services above ForeSee's Threshold of Excellence.
- Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision.
- Improve customer service by reducing the number of actions pending at the processing centers.
- Enhance the leadership pipeline through a modernized national leadership development program.

Key Related Links

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

SSA Annual Performance Plan - *Annual Performance Plan for Fiscal Year 2020, Revised Performance Plan for Fiscal Year 2019, and Annual Performance Report for Fiscal Year 2018*

SSA Annual Report - *Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews for Fiscal Year 2018*

SSA Budget Overview - *FY 2020 Budget Overview*

OIG Report - *The Social Security Administration's Application of Due-process Provisions for Old-Age, Survivors and Disability Insurance Overpayments* (A-07-18-50622), March 2019

OIG Report - *Follow-up on Deceased Representative Payees* (A-01-18-50350), July 2019

OIG Report - *U.S. Veteran Disability Claims Processing Time* (A-15-17-50227), July 2019

SSA, OIG Website - Reports related to improving service delivery

Secure Information Systems and Protect Sensitive Data

Challenge

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

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

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

Information Security Program

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

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

Securing Online Services

For systems that promote public access, agencies must ensure that identity proofing, registration, and authentication processes provide assurance of identity consistent with security and privacy requirements, in accordance with Executive Order 13681, Office of Management and Budget policy, and National Institute of Standards and Technology standards and guidelines. Pursuant to Executive Order 13681, *Improving the Security of Consumer Financial Transactions,* agencies that make personal data accessible to citizens through digital applications shall require multiple factors of authentication and an effective identity-proofing process, as appropriate. One of the Agency's priorities is to develop and increase the use of self-service options. To achieve that goal, SSA plans to expand the services available under its *my Social Security* online portal. For example, SSA plans to provide direct access to certain information and notices through its online services.

In September 2018, SSA released security enhancements to iClaim. We recognize online services are an important component of SSA's strategy to deliver services to the public during a period of increasing workloads and constrained resources. Still, we believe SSA's primary responsibility must be safeguarding the sensitive information the American public has entrusted to it. To ensure citizens' sensitive information is adequately protected, we believe the Agency needs to implement security controls that meet Federal requirements and ensure individuals applying for benefits are who they claim to be.

PROTECTING THE SSN

Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and eligible individuals receive the full benefits due them. The SSN is relied upon as an identifier and is valuable as an illegal commodity. Accuracy in recording workers' earnings is critical because SSA calculates benefit payments based on the earnings an individual accumulates over his/her lifetime. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA responsibilities. In FY 2019, SSA issued over 17 million original and replacement SSN cards. In addition, the Agency processed approximately 288 million wage items in FY 2019.

AGENCY ACTIONS

SSA acknowledges it must be mindful of potential cyber-threats and remain committed to protecting privacy and security. One of the Agency's goals is to ensure its IT services are reliable, secure, and efficient. As part of that effort, SSA plans to strengthen its information security program.

INFORMATION SECURITY PROGRAM

SSA's Office of Information Security (OIS) has continued implementing its Cybersecurity Strategic and Tactical plans, which include many strategies and initiatives to address IT and cyber-security challenges. In 2019, OIS developed and published its Cyber Risk Management Strategy that includes the processes, criteria, and responsibilities for information security risk acceptance decisions. In alignment with the Cybersecurity Strategic Plan, the Strategy includes the OIS risk management framework process and documents how OIS defines its risk appetite, tolerance, and scoring. However, OIS is still implementing the strategy.

In addition, to remediate prior-year risk management findings, SSA is implementing a strategy to revise system boundaries, control inheritance, and transition to on-going authorization as the Agency acquires and implements a Governance, Risk, and Compliance tool. As part of this effort, SSA redefined its common control structure. SSA defines its common controls as those that provide a security or privacy capability for multiple systems. SSA has completed assessments of common controls provided by its data centers and has plans to assess the remaining common controls.

SECURING ONLINE SERVICES

In September 2016, we recommended SSA strengthen controls over access to *my Social Security* to ensure citizens' sensitive information is adequately protected. SSA has made several enhancements to the authentication process since our September 2016 report. According to SSA, these changes will allow it to move toward compliance with National Institute of Standards and Technology Special Publication 800-63-3, *Digital Identity Guidelines*. SSA has also taken steps to increase its ability to detect potentially fraudulent benefit claims online. In September 2018, SSA introduced new controls for iClaim that it expects will help prevent fraud.

PROTECTING THE SSN

SSA has taken steps to automate its enumeration process. For example, SSA released the Internet-based Social Security Number Replacement Card application in November 2015. This will allow certain individuals to obtain a replacement SSN card online without the need to visit an SSA office, ultimately reducing the number of replacement card requests in field offices and Social Security Card Centers. In FYs 2016 through 2019, SSA issued approximately 2.8 million SSN replacement cards through the Social Security Number Replacement Card application. While we believe this may enhance customer service, SSA must ensure it takes all necessary steps to minimize the risk of individuals fraudulently obtaining SSN replacement cards.

SSA's programs depend on earnings information when they determine whether an individual is eligible for benefits and calculate their payment amounts. Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct amounts. SSA shares incorrect names/SSNs with employers when they submit their wage file to the Agency. Additionally, in March 2019, SSA resumed sending revised Educational Correspondence letters to employers whenever at least one name or SSN submitted on their employee's Forms W-2 could not be matched to SSA records. The letter includes instructions for viewing these no-matches online and how to correct them.

The Earnings Suspense File is the Agency's record of wage reports on which wage earners' names and SSNs fail to match SSA's records. The Earnings Suspense File has accumulated over $1.7 trillion in wages and 375 million wage items for Tax Years 1937 through 2018. In Tax Year 2018 alone, SSA posted approximately 8.6 million wage items, representing $101 billion in wages, to the Earnings Suspense File.

SSA has taken steps to reduce the Earnings Suspense File's size and growth. The Agency allows employers to verify their employees' names and SSNs using the Agency's online SSN Verification Service before reporting wages to SSA. The number of verification transactions processed by the SSN Verification Service increased from 121.5 million in 2014 to 179.4 million in 2018. As of September 30, 2019, approximately 56,000 registered employers had submitted approximately 186.3 million verifications.

SSA also supports the Department of Homeland Security's E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees. According to the Department of Homeland Security, approximately 891,000 employers had enrolled to use E-Verify as of September 30, 2019. According to the latest data available, in the first 3 quarters of FY 2019, the Department of Homeland Security processed 28 million E-Verify cases, of which 362,000 (1.29 percent) received a not authorized to work response.

While SSA cannot control all the factors associated with erroneous wage reports, it can improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, encouraging greater use of the Agency's SSN Verification Service, and enhancing SSN verification feedback to provide employers with sufficient information on potential employee issues.

What the Agency Needs To Do

Address the deficiencies identified by the independent auditor that, when aggregated, are considered to be a significant deficiency in SSA's information security program.

Ensure the electronic services the Agency provides are secure and comply with Federal security requirements.

Continue to be vigilant in protecting SSNs. We remain concerned that some government and non-government organizations unnecessarily collect and use SSNs as a primary identifier. We also remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States as well as the misuse of SSNs for identity theft purposes.

Ensure any electronic applications related to SSN card issuance offered through *my* Social Security include an effective authentication process.

Improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, re-examining the validity and integrity checks used to prevent suspicious W-2s from being posted, and encouraging greater use of the Agency's employee verification programs. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

Key Related Performance Measures

The key performance measures from SSA's revised FY 2019 *Annual Performance Plan* related to this challenge are listed below.

- Maintain an effective cybersecurity program.
- SSNs completed.
- Annual earnings items completed.
- Social Security Statements issued.

Key Related Links

OIG Report - *The Social Security Administration's Authentication Risk Assessment for the Internet Social Security Number Replacement Card Project* (Limited Distribution) (A-14-14-24130), May 2015

OIG Report - *Status of the Social Security Administration's Earnings Suspense File* (A-03-15-50058), September 2015

OIG Report - *Social Security Administration Correspondence Containing Full Social Security Numbers* (A-04-15-50070), April 2016

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

OIG Report - *Improper Use of Elderly Individuals' Social Security Numbers* (A-03-16-24028), January 2017

OIG Report - *Security of the Social Security Administration's Public Web Applications* (Limited Distribution) (A-14-17-50152), April 2017

OIG Report - *Social Security Numbers Assigned and Benefits Paid to Refugees, Parolees, and Asylees* (A-08-16-50142), July 2017

OIG Report - *Cross-referred Social Security Numbers* (A-06-13-23091), July 2017

OIG Report - *Removal of Self-employment Income and the Impact on Social Security Benefits* (A-03-16-50102), February 2018

OIG Report - *Implementation of the Internet Social Security Number Replacement Card Project* (Limited Distribution) (A-08-17-50241), July 2018

OIG Report - *The Social Security Administration's Comprehensive Integrity Review Process* (Limited Distribution) (A-14-17-50097), September 2018

OIG Report - *The Social Security Administration's Information Security Program and Practices for Fiscal Year 2018* (Limited Distribution) (A-14-18-50505), October 2018

OIG Report - *Verifying the Identities of Individuals Who File Internet Claims* (Limited Distribution) (A-14-18-50640), November 2018

OIG Report - *Security of the Social Security Administration's Cloud Environment* (Limited Distribution) (A-14-18-50498), August 2019

SSA, OIG Website - Reports related to securing information systems and protecting sensitive data

Modernize Information Technology

Challenge

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

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

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

Cloud computing enables convenient, on-demand access to shared computing resources, including networks, servers, storage, applications, and services. In the cloud environment, IT resources are available to users as needed. SSA has implemented an on-site-private cloud that is housed in the two data centers it uses for systems development.

As of September 2019, SSA deployed its on-site-private cloud environment and 30 systems in external cloud environments hosted by 16 cloud service providers. Seventeen of these systems collect, process, maintain, transfer, or store sensitive information, such as program data, personally identifiable information, and information on employees.

Development and Implementation of Electronic Services

SSA launched *my* Social Security in 2012 and, through September 2019, more than 45 million customers had created accounts. According to SSA, in FY 2019, customers completed over 184 million transactions using the Agency's Website. Further, SSA indicated that nearly half of all Social Security retirement and disability applications were filed online. Still, the Agency saw about 43 million visitors in its field offices and handled about 33 million calls to its National 800-Number.

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

One of the Agency's priorities is to improve customer service and convenience by increasing online transactions. To achieve that goal, SSA continues enhancing its *my* Social Security online portal. For example, SSA implemented myWageReport, which allows users to report wages electronically on computers, mobile devices, and smartphones. In FY 2019, SSA also expanded *my* Social Security services available to representative payees and created an option for registered users to opt out of receiving paper notices as they become available electronically. In FY 2020, SSA plans to continue to expand *my* Social Security services, and to take steps to strengthen and modernize its methods to authenticate its customers' identities and authorize their use of electronic services.

IMPLEMENTATION OF MAJOR IT PROJECTS

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

DISABILITY CASE PROCESSING SYSTEM

SSA is developing the Disability Case Processing System (DCPS) as a common case processing system for DDSs. The Agency expects DCPS to simplify system support and maintenance, improve the speed and quality of the disability process, and reduce the overall growth rate of infrastructure costs.

SSA is using an agile approach to develop and deploy DCPS. In December 2016, the Agency released its first working software to three DDSs, enabling them to process certain disability claims in the new system. Since 2016, the Agency has developed and implemented new releases that have provided additional functionality and had made the system available to users in 31 DDSs as of September 2019.

In response to a request from the Chairman of the House Subcommittee on Social Security, Committee on Ways and Means, we have completed nine reviews of the DCPS project and will release our 10th review in FY 2020. SSA's goal is for the DDSs to transition from their existing case processing systems 9 to 12 months after the DDS deploys DCPS or 9 to 12 months after October 1, 2019, whichever is later. SSA estimated its DCPS costs through FY 2022 would be approximately $178 million. However, the Agency still needs to develop functionality and implement DCPS in the remaining DDSs.

Further, until DDSs transfer fully to DCPS, they will continue incurring costs to operate and maintain their existing systems. According to the Agency, it costs approximately $31 million, annually, to operate and maintain the existing systems. In FY 2019, two DDSs transitioned claims processing to DCPS and discontinued contracts for their existing legacy systems. Cost savings are projected as additional DDSs discontinue existing legacy system contractual expenditures.

AGENCY CLOUD INITIATIVE

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

IT INVESTMENT PROCESS

Although SSA generally was able to verify and compare costs, functionality impact, and other areas in its post-implementation review reports, it could not quantify the benefits or calculate the return on investment for all the projects covered by those reports.

AGENCY ACTIONS

IT MODERNIZATION PLAN

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

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

In October 2017, SSA published and began implementing its IT Modernization Plan. In FY 2018, SSA focused on improving the high-priority capabilities in its core business systems. In FY 2019, SSA delivered OASDI Cost of Living Adjustment Notices online and removed over 3,000 lines of code to improve the timely posting of deaths to the Agency databases.

Development and Implementation of Electronic Services

SSA continued expanding the availability of its online application process for Social Security number replacement cards to other States in FY 2019, with the total number of States at 40, plus the District of Columbia. The Agency also enhanced online capabilities for claimants and appointed representatives to file appeals. SSA expanded the option for *my* Social Security users to receive help from an employee via live chat to 30 percent of users.

Implementation of Major IT Projects

DCPS

In FY 2019, SSA rolled out DCPS to 19 States, for a total of 31 DDSs. The Agency also added increased functionality, including the ability to process continuing disability reviews for adults and children. In FY 2020, SSA plans to roll out DCPS to more DDSs and to add more functionality, including the ability to interact with more State's fiscal systems.

Cloud Technology

As SSA implements cloud technology, it expects to receive further flexibility to allocate systems resources to meet changing demands. At the end of FY 2018, the Agency deployed its On-Premise cloud. In FY 2020, the Agency plans to migrate 50 percent of Agency email to the cloud platform.

IT Investment Process

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

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

What the Agency Needs To Do

Prioritize IT modernization activities to ensure available resources lead to improvements with the greatest impact on SSA's operations and the service it provides the public.

Ensure its IT planning and investment control processes are effective.

Key Related Performance Measures

Some of the key performance measures from SSA's revised FY 2019 *Annual Performance Plan* related to this challenge are listed below.

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

Key Related Links

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

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

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

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

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

OIG Report - *Security of the Social Security Administration's Cloud Environment* (Limited Distribution) (A-14-18-50498), September 2019

SSA, OIG Website - Reports related to modernizing IT infrastructure

Other Reporting Requirements

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit Table

Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances Table

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (FMFIA Section 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Non-Conformances	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. United States Standard General Ledger at Transaction Level	No lack of compliance noted	No lack of compliance noted

Entitlement Reviews and Office of the Inspector General Anti-Fraud Activities

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Payment Integrity* report for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law (P.L.) 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

Entitlement Reviews

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We conduct the following major entitlement reviews:

Disability Quality Assurance Reviews

We perform quality assurance reviews of random samples of disability determination services (DDS) determinations to measure our level of accuracy against standards mandated by the regulations. We review initial claims, requests for reconsideration, and determinations of continuing eligibility, and conduct these reviews prior to the effectuation of the DDS determinations. The following table shows the quality assurance accuracy rates for fiscal year (FY) 2015 through FY 2019.

Quality Assurance Reviews Table

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Percent of State DDS decisions to allow or continue not returned to the DDS offices for correction	97.7%	97.6%	97.4%	97.3%	97.2%
Number of cases reviewed	29,360	33,010	34,198	32,286	34,915
Number of cases returned to the DDS offices due to error or inadequate documentation	663	796	898	857	967

DI Pre-Effectuation Reviews

We also perform pre-effectuation reviews of favorable DI and concurrent DI/SSI initial and reconsideration determinations using a profiling system to select cases for review. This profiling system helps ensure the cost-effectiveness of pre-effectuation reviews, and it satisfies the legislative requirement that the cases we review are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review (CDR) continuance determinations to ensure a high level of accuracy in those cases. The following table shows the DI pre-effectuation accuracy rates for FY 2015 through FY 2019.

DI Pre-Effectuation Reviews Table

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Percent of State DDS decisions to allow or continue not returned to the DDS offices for correction	96.4%	95.8%	95.8%	95.5%	95.3%
Number of cases reviewed	293,015	300,440	278,796	255,200	266,474
Number of cases returned to the DDS offices due to error or inadequate documentation	10,647	12,758	11,811	11,585	12,641

SSI Pre-Effectuation Reviews

Following legislation enacted in February 2006, we began pre-effectuation reviews of favorable SSI initial and reconsideration adult determinations. As in DI cases, we also use a profiling system to select cases for review. The following table shows the SSI pre-effectuation accuracy rates for FY 2015 through FY 2019.

SSI Pre-Effectuation Reviews Table

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Percent of State DDS decisions to allow not returned to the DDS offices for correction	97.1%	96.9%	96.9%	96.7%	96.5%
Number of cases reviewed	104,808	112,875	106,777	98,540	105,729
Number of cases returned to the DDS offices due to error or inadequate documentation	2,988	3,508	3,288	3,297	3,734

Continuing Disability Reviews

Periodic CDRs are a key activity in ensuring the integrity of the disability program. Through CDRs, we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. The following table shows the CDR accuracy rates for FY 2015 through FY 2019.

CDR Accuracy Table

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Overall accuracy	96.7%	97.1%	96.7%	96.9%	96.7%
Continuance accuracy	97.3%	97.8%	97.6%	98.0%	97.9%
Cessation accuracy	95.0%	94.9%	93.5%	92.9%	92.0%

OASDI and SSI Quality Assurance Reviews

Quality assurance reviews assess the accuracy of benefit payments. The following tables show the OASDI and SSI accuracy rates for FY 2015 through FY 2018. Data for FY 2019 is not available at this time. We will report the FY 2019 data in our FY 2020 *Agency Financial Report*.

OASDI Accuracy Table

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Overpayment accuracy	99.6%	99.8%	99.4%	99.8%	Data not yet available
Underpayment accuracy	99.9%	99.9%	99.9%	99.9%	Data not yet available

SSI Accuracy Table

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Overpayment accuracy	93.9%	92.4%	92.7%	91.8%	Data not yet available
Underpayment accuracy	98.6%	98.8%	98.9%	98.5%	Data not yet available

SSI Redeterminations

SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have paid and will continue to pay the recipient the correct amount. The following table shows the number of SSI redeterminations we completed for FY 2014 through FY 2018.

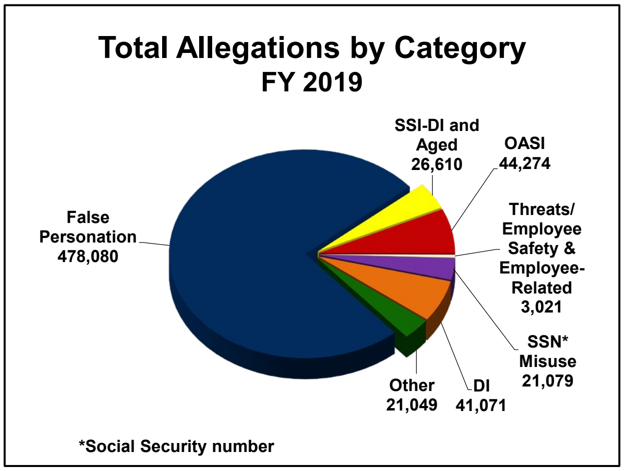
SSI Redeterminations Table

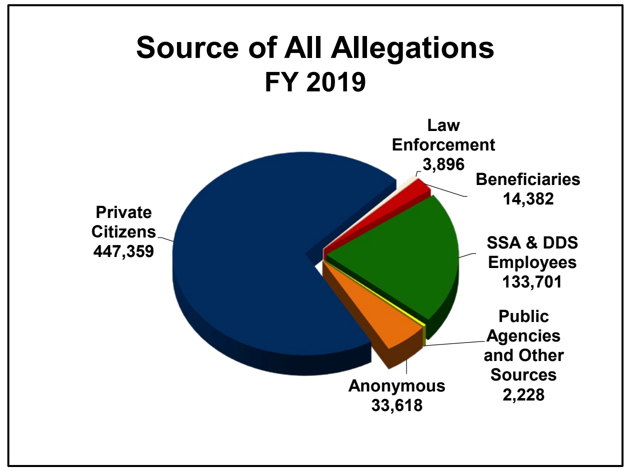
(In Millions)

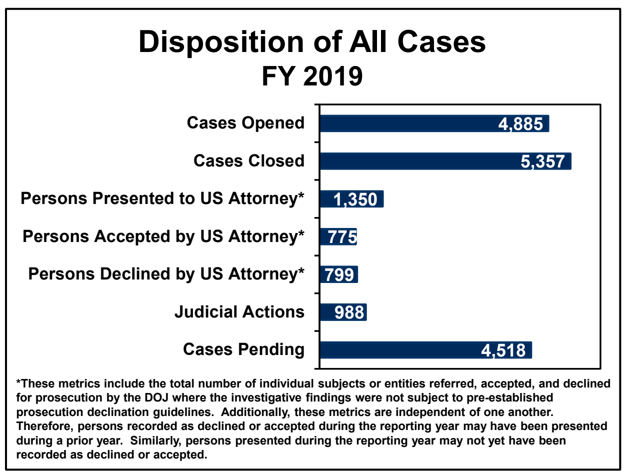
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Number of redeterminations completed	2.267	2.530	2.590	2.913	2.667

The Office of the Inspector General's Anti-Fraud Activities

In FY 2019, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice (DOJ), and other Government agencies on cases involving fraud, waste, and abuse as part of our fraud detection and prevention program for safeguarding the agency's assets. Due in part to a widespread telephone scam involving the agency, OIG received a substantially higher volume of allegations during FY 2019. The following charts provide information from our OIG concerning fraud.







Fraud Reduction and Data Analytics Act Report

Fraud Reduction and Data Analytics Act

The *Fraud Reduction and Data Analytics Act of 2015* (FRDAA) requires us to include in our annual financial report our progress in improving financial and administrative controls and procedures to assess and mitigate fraud risks, as well as our development and use of data analytics to identify, prevent, and respond to fraud, including improper payments.

The report must include our progress in implementing:

- Financial and administrative controls established pursuant to the FRDAA;

- The fraud risk principle 8 in the Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*; and
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, with respect to leading practices for managing fraud.

The report must also include information on the agency's progress in identifying risk and vulnerabilities to fraud, including with respect to payroll, beneficiary payments, grants, large contracts, and purchase and travel cards, as well as steps to curb fraud.

Our Anti-Fraud Efforts

Under the Office of Analytics, Review, and Oversight, our anti-fraud program continues to mature. We have demonstrated our commitment to combatting fraud by building an organizational culture and structure conducive to fraud risk management based on guidance from GAO's, *A Framework for Managing Fraud Risks in Federal Programs* (Framework). In FY 2015, we created the Office of Anti-Fraud Programs (OAFP) to serve as the focal point for our fraud risk management activities. At the same time, we re-established the National Anti-Fraud Committee (NAFC). Composed of the agency's senior leadership, NAFC provides a forum for collaboration and strategic oversight of fraud challenges and solutions. Together, OAFP and the NAFC provide robust structure and leadership to address our fraud risks.

In FY 2019, we approved our *Anti-Fraud Strategic Plan for FYs 2019–2021*. This plan aligns with the *Agency Strategic Plan* and outlines goals and objectives to enhance and expand anti-fraud activities and initiatives. The plan includes three major goals:

- Enhance our fraud risk management culture;
- Strengthen our programs through assessment and monitoring; and
- Conduct outreach and ongoing communication of our anti-fraud efforts.

In FY 2019, we continued our annual National Anti-Fraud Training (NAFT), which is mandatory for all agency and State DDS employees. The NAFT informs employees about the agency's current efforts to prevent, detect, deter, and mitigate fraud. It also serves as a reminder of our commitment to ensure consistent compliance with fraud policies and procedures, and encourages employees to remain vigilant in identifying potential fraud. By providing consistent anti-fraud training, we demonstrate our commitment to an anti-fraud tone that permeates our organizational culture. The FY 2019 NAFT's theme was, "Your Role in Preventing Fraud."

Other anti-fraud efforts include:

- Continuing the expansion of Cooperative Disability Investigations (CDI) units;
- Reviewing potential fraud cases in centralized Fraud Prevention Units (FPU) and the Special Review Cadre (SRC) in the Office of Hearings Operations;
- Publishing new policy for anomalous iClaims prevention efforts;
- Increasing recovery efforts for funds lost due to fraud;
- Continuing efforts to prevent fraudulent redirection of direct deposits; and
- Enhancing our data-analytic capabilities to detect potential fraud.

Fraud Reduction and Data Analytics Act Reporting Requirements

Implementing Financial and Administrative Controls

Principle 8 in GAO's, *Standards for Internal Control in the Federal Government,* directs agencies to adhere to leading practices for managing fraud risks. We have a strong history of implementing controls that deter, detect, mitigate, and prevent fraud.

In the last several years, we have expanded the use of data analytics to enhance our ability to detect fraud in our programs. For example, in FY 2018, our data analytics, combined with the administrative controls built into our iClaims process, helped us identify potentially fraudulent iClaims and abate 95 percent of those claims before they were processed and payments were issued. By proactively identifying and preventing these fraudulent claims, we estimate avoided losses of more than $400 million in FY 2018.[1]

We continue to refine and mature our analytics programs, helping us proactively detect potential fraud. We use the information from our current analytics to refine existing analytical models, improving model accuracy and efficiency. We also test new analytics theories to identify options for new analytical models. In FY 2018, we deployed a new analytical model to detect potentially fraudulent disability claims, and we are using the results of that model to develop ideas for other analytical models related to disability fraud. The exploratory nature of this work means that not all new models will prove to be viable, but the lessons learned from developing and testing these models will further enhance our knowledge and ability to develop additional model theories for testing.

Many administrative and financial controls are already in place to detect, deter, and mitigate specific fraud risks within our programs, and we are documenting those specific controls in the fraud risk assessments we are currently conducting. We have also implemented broader controls that apply to several agency programs. Examples include:

- CDI Units: CDI units are joint efforts among SSA, OIG, and various State agencies to investigate potential fraud in the Title II and Title XVI disability programs. According to OIG, CDI units contributed more than $580 million to agency savings over the last 3 fiscal years. At the conclusion of FY 2019, the CDI program consists of 46 units covering 40 States, Washington, DC, the Commonwealth of Puerto Rico, Guam, American Samoa, Northern Mariana Islands, and the U.S. Virgin Islands. In FY 2020, we plan to add four additional CDI units in Nebraska, New Hampshire, Nevada, and Wyoming. We plan to provide nationwide CDI coverage by the end of FY 2022.
- FPUs: FPUs are a national resource that enhance our capacity to provide expert programmatic support to disability fraud investigations.
- SRCs: When OIG refers a cluster of cases where there is a reason to believe that fraud or similar fault is involved, the SRC reviews and re-determines the identified hearing-level cases, consistent with the facts presented in the OIG referral, Office of the General Counsel advice, applicable laws, and agency policy.
- Sanctions: Administrative sanctions are penalties for making false or misleading statements, or withholding material information in certain circumstances. Penalties are nonpayment of benefits for specified periods.
- Civil Monetary Penalties (CMP): Section 1129 of the *Social Security Act* authorizes imposition of a CMP against anyone who makes false statements or misrepresentations, or materially withholds information in connection with obtaining or retaining benefits or payments under Titles II, VIII, or XVI of the *Social*

[1] FY 2019 data and figures for estimated avoided losses were not available at time of publication; however, they will be available at the beginning of calendar year 2020.

Security Act. Additionally, OIG may impose CMPs against representative payees for wrongful conversion of payments for their own use or failure to notify us of a material change in a beneficiary's living arrangements or work activity.

Identifying Risks and Vulnerabilities to Fraud

The GAO Framework provides leading practices for managing fraud risks. Central to this framework is the requirement to "plan regular fraud risk assessments and assess risks to determine a fraud risk profile." In FY 2018, we completed our first fraud risk assessment, which was focused on the disability program. In FY 2019, we developed a plan with specific mitigation strategies to reduce several risks identified in that first fraud risk assessment.

Based on our experience and the lessons learned from the first fraud risk assessment, NAFC approved the Enterprise Fraud Risk Management (EFRM) strategy in FY 2019. This strategy establishes a business process and long-term schedule for completing fraud risk assessments across our major program areas. The EFRM strategy ensures we will meet the requirements of FRDAA by incorporating leading practices for managing fraud risks established in the GAO Framework.

Our EFRM strategy also ensures we identify fraud risks and necessary financial and administrative controls as required by OMB Circular No. A-123.

- Our Administrative Areas Fraud Risk Assessment completed in FY 2019 assesses fraud risks and controls related to payroll, grants, contracts, and purchase and travel cards.
- Our eServices Fraud Risk Assessment completed in FY 2019 assesses fraud risks and controls related to key information technology.
- Our Disability Fraud Risk Assessment, completed in FY 2018, as well as future fraud risk assessments for Representative Payees, Title II, and Title XVI, assess fraud risks and controls related to program payments.

Each fraud risk assessment, combined with our tailored plans to mitigate specific risks, will form the fraud risk profile for each program area. Once we complete all initial fraud risk assessments, we will conduct regular reassessments of each area at least every three years.

Establishing Steps to Curb Fraud

We continue to take specific steps to improve our ability to curb fraud. In FY 2020, we will launch the Allegation Referral Intake System (ARIS), which will replace the current electronic form (SSA-e8551) used by agency and State DDS employees to report suspected programmatic fraud to the OIG. In addition to providing a modern, streamlined interface, ARIS will provide more structured data, enabling improved analysis of allegation data and provide new opportunities for the agency to respond rapidly and efficiently to allegations of fraud from front-line staff.

We continue to communicate with the public to promote awareness of external fraud schemes involving the agency. Technology has improved fraudsters' ability to impersonate legitimate businesses and Federal agencies, resulting in more people receiving calls from individuals claiming to be from SSA. In FY 2019, we launched a joint Public Service Announcement campaign with the OIG to address this nationwide telephone impersonation scheme. We also provide information on the socialsecurity.gov website about measures individuals can take to prevent fraud, such as being aware of phishing scams, creating a *my* Social Security account, and adding eServices or direct deposit fraud prevention blocks on their accounts.

Consistent with the GAO Framework, we use the results of our fraud risk assessments to develop and implement additional controls to mitigate key risks. Fraud risk assessments allow us to make informed management decisions and strategically allocate resources to address our most significant fraud risks.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Social Security Act* authorizes the Commissioner to impose a CMP for certain specific violations. Section 1129 of the *Social Security Act* authorizes the imposition of a CMP against anyone who makes any material false statements or representations to the agency or knowingly withholds a material fact from the agency, to obtain or retain benefits or payments under Titles II, VIII, or XVI of the *Social Security Act*. A CMP may also be imposed against representative payees for the wrongful conversion of Social Security payments entrusted to their care. Section 1140 of the *Social Security Act* authorizes the imposition of a CMP to protect the public from advertisements, solicitations, and other communications (including Internet websites) that may convey the false impression that the communication is approved, endorsed, or authorized by the agency. Section 1140 also prohibits the reproduction and sale of Social Security publications and forms without the agency's authorization and places restrictions on the charging for services that the agency provides to the public without charge. The Commissioner delegated authority to enforce the agency's CMP program to the Inspector General.

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* expanded the categories of penalties that require adjustment for inflation to include CMPs under the *Social Security Act* and requires agencies to: (1) use an interim final rulemaking to adjust the level of CMPs in 2016 with an initial "catch-up" adjustment; (2) continue to make annual adjustments in future years; and (3) report on these adjustments annually. As required, we are providing information on our current CMPs; these amounts include the initial "catch-up" and annual adjustments. We will continue to make annual adjustments in future years and report on these adjustments annually.

Civil Monetary Penalty Adjustments

Statutory Authority	Penalty	Year Enacted	Last Year of Adjustment (via statute or regulation)	Current Penalty Date of Adjustment	Current Penalty Level	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Section 206 (b), *Social Security Independence and Program Improvements Act of 1994*, P. L. 103-296, 108 Stat. 1509	Flagrant Violation (Section 1129 of the *Social Security Act*, 42 U.S.C. 1320a-8(a)(1))	1994	2019	01/15/2019	$0-$8,457	SSA/OIG	84 Federal Register 360 (January 2019); (www.federalregister.gov/documents/2019/01/24/2019-00091/notice-on-penalty-inflation-adjustments-for-civil-monetary-penalties)
Section 813 (c), *Bipartisan Budget Act of 2015*, P. L. 114-74, 129 Stat. 603	Flagrant Violation (Section 1129 of the *Social Security Act*, 42 U.S.C. 1320a-8(a)(1))	2015	2019	01/15/2019	$0-$7,975	SSA/OIG	84 Federal Register 360 (January 2019); (www.federalregister.gov/documents/2019/01/24/2019-00091/notice-on-penalty-inflation-adjustments-for-civil-monetary-penalties)
Section 428 (a), *Medicare Catastrophic Coverage Act of 1988*, P. L. 100-360, 102 Stat. 815	Flagrant Violation (Section 1140 of the *Social Security Act*, 42 U.S.C. 1320b-10(b)(1))	1988	2019	01/15/2019	$0-$10,519	SSA/OIG	84 Federal Register 360 (January 2019); (www.federalregister.gov/documents/2019/01/24/2019-00091/notice-on-penalty-inflation-adjustments-for-civil-monetary-penalties)
Section 428 (a), *Medicare Catastrophic Coverage Act of 1988*, P. L. 100-360, 102 Stat. 815	Flagrant Violation (Section 1140 of the *Social Security Act*, 42 U.S.C. 1320b-10(b)(2))	1988	2019	01/15/2019	$0-$52,596	SSA/OIG	84 Federal Register 360 (January 2019); (www.federalregister.gov/documents/2019/01/24/2019-00091/notice-on-penalty-inflation-adjustments-for-civil-monetary-penalties)

BIENNIAL REVIEW OF USER FEE CHARGES

SUMMARY OF FEES

In FY 2018 and FY 2019, we earned $281 million and $299 million in user fees, respectively. This revenue accounted for less than one percent of our total financing sources. We derive over 72 percent of user fee revenues from agreements with 20 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2019, we charged a fee of $12.21 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $12.41 for FY 2020. We adjust the user fee annually based on the Consumer Price Index, unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity, such as earnings record requests from pension funds and individuals.

BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our FY 2018 review, we identified updates to the uniform standard fee structure for non-programmatic workloads previously implemented in FY 2016. We are planning to perform another review of these fees during FY 2020.

REDUCE THE FOOTPRINT

In 2015, OMB issued Management Procedures Memorandum 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, which calls for agencies to dispose of surplus properties, as well as make more efficient use of real property assets. This guidance requires agencies to reduce the total square footage of domestic office and warehouse inventory relative to a newly established 2015 baseline.

In accordance with Reduce the Footprint guidelines, we developed and implemented a *Real Property Efficiency Plan* to guide the agency in its efforts to comply with OMB's requirements. This plan only measures our reduction goals based on designated office and warehouse facilities, excluding many of our public-facing facilities from our reporting requirements. The agency monitors the continuing implementation and submits to OMB the annual plan, describing the overall approach in managing our real property footprint. The following information reflects the overall change in the agency's real property footprint from the FY 2015 baseline for Reduce the Footprint, as well as strategies we are pursuing to comply with the mandate.

Reduce the Footprint Policy Baseline Comparison

	FY 2015 Baseline	FY 2018	Change from FY 2015 Baseline[2]	FY 2019	Change from FY 2015 Baseline
Useable square footage	11,701,596	11,261,426	-440,170 or -3.8%	Not Available[1]	Not Available[1]

Note:

1. The agency works with the General Services Administration (GSA) to reconcile Reduce the Footprint useable square footage and it will not be available until the second quarter of FY 2020. We will report the FY 2019 data in our FY 2020 *Agency Financial Report*.
2. The Altmeyer building is currently undergoing renovations and is unoccupied; therefore, GSA removed the building from the agency's portfolio until renovations are complete. If the Altmeyer building had remained in our inventory, our useable square footage reduction would have been 301,498 or 2.6 percent.

The agency does not own or directly lease any buildings in its inventory. Per Federal Management Regulation, Subchapter C, GSA acts as the landlord for the Federal civilian Government, and is charged with promulgating regulations governing the acquisition, use, and disposal of real property. We work closely with GSA to manage our portfolio given changing workloads and the best business case for the agency.

Operation and Maintenance Cost – Owned and Direct Lease Buildings Table

	FY 2015 Reported Cost	FY 2019	Change
Operation and maintenance cost	Not Applicable	Not Applicable	Not Applicable

We are pursuing the following strategies to comply with OMB's Reduce the Footprint policy:

- Optimizing space by identifying and improving the overall utilization rate in new projects;
- Applying revised Space Allocation Standards for office renovations and space actions, including existing and expiring leases; and
- Pursuing field and hearing office collocation opportunities when it makes business sense and does not adversely affect customer service.

Debt Collection and Management

Debt Collection

We have a robust debt collection program to recover all types of overpayments. We use internal debt collection techniques (i.e., payment withholding and billing/follow-up), as well as external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts.

In FY 2019, we recovered approximately $4.076 billion using both our internal and external collection tools. Over the last 5 years (FY 2015 through FY 2019), we have collected a total of $18.549 billion. The following tables provide a description of each of our internal and external debt collection techniques for OASDI and SSI overpayments, and a summary of the results.

Internal Collections

We utilize internal collection tools to recover payments of delinquent debt for individuals **in current pay**. In FY 2019, we recovered $3.752 billion using our internal collection tools, which accounted for about 92 percent of our total collections amount. Over the last 5 years (FY 2015 through FY 2019), we have collected a total of $17.466 billion using our internal collection tools. The following table provides a description of each of our internal debt collection techniques for OASDI and SSI overpayments, and a summary of the results.

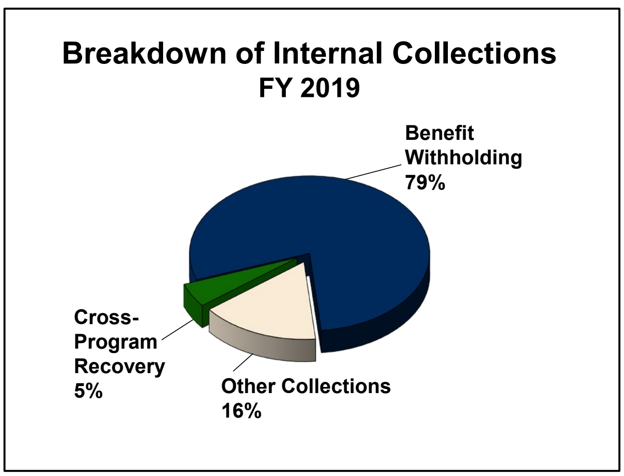
Internal Collections During Fiscal Year 2019
(Dollars in Billions)

Recovery Method	Description	OASDI	SSI	Total
Benefit Withholding	We withhold some or all benefit payments for Title II beneficiaries and Title XVI recipients in current pay. Benefit withholding typically accounts for the largest recovery of our total collections amount.	$2.084	$0.888	$2.972
Cross-Program Recovery (CPR)	CPR collects OASDI overpayments from monthly SSI payments and underpayments, and SSI overpayments from monthly OASDI benefit payments and underpayments.	$0.029	$0.170	$0.199
Other Collections	These are mostly voluntary payments received because of a notice requesting a refund of an overpayment.	$0.316	$0.265	$0.581
Total Internal Collections	The total amount recovered by utilizing our internal collection tools.	$2.429	$1.323	$3.752

Notes:

1. Totals do not necessarily equal the sum of rounded components.

The following chart highlights the allocation of overpayments collected through our various internal collection tools as a proportion of the total FY 2019 $3.752 billion internal collections amount.



External Collections

We utilize external collection tools to recover payments of delinquent debt for beneficiaries and recipients **no longer in current pay**. In FY 2019, we recovered $324.029 million using our external collection tools, which accounted for about 8 percent of our total collections amount. Over the last 5 years (FY 2015 through FY 2019), we have collected a total of $1.082 billion using our external collection tools. The following table provides a description of each of our external debt collection techniques for OASDI and SSI overpayments, and a summary of the results.

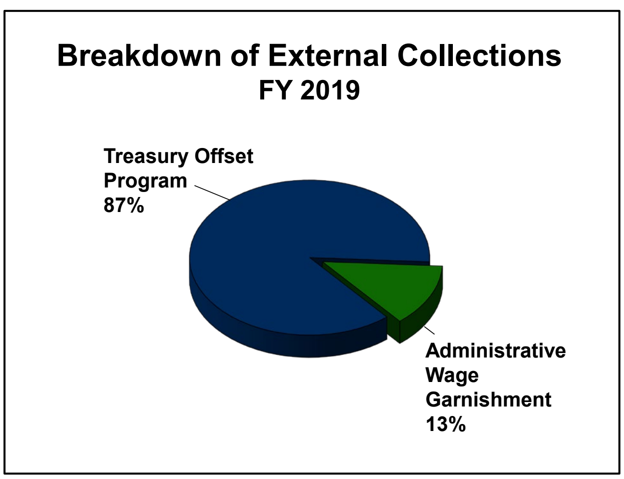
External Collections During Fiscal Year 2019
(Dollars in Billions)

Recovery Method	Description	OASDI	SSI	Total
Treasury Offset Program (TOP)	TOP allows us to collect delinquent debt by tax refund offset, administrative offset, and Federal salary offset.	$0.167	$0.116	$0.284
Administrative Wage Garnishment (AWG)	AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private-sector disposable pay (i.e., that part of a worker's total compensation after deduction of health insurance premiums and required deductions).	$0.030	$0.010	$0.041
Total External Collections	The total amount recovered by utilizing our external collection tools.	$0.198	$0.126	$0.324

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. For information on administrative overpayment collections, please refer to the Recapture of Improper Payments Reporting section of the *Payment Integrity* report.
3. We also use credit bureau reporting, non-entitled debtors, and automatic netting SSI as external collection tools. Collections derived from these recovery methods are subsets of the main recovery methods displayed in the table above. However, we still track these collections for informational and decision-making purposes.

The following chart highlights the allocation of overpayments collected through our various external collection tools as a proportion of the total FY 2019 $324.029 million external collections amount.



DEBT MANAGEMENT

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the Debt Management Activities Program and Administrative Table. For more information on our agency's effort to curb overpayments, please refer to the *Payment Integrity* report immediately following this section.

A Title II system design process 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. This limitation is noted in the July 2011 GAO audit report entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments*." When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond the year 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes. We estimate that approximately 60,400 debts are affected by payment plans extending beyond the year 2049. We estimate the total gross value of the post year 2049 receivable amounts is approximately $720 million. This amount is not material to the consolidated financial statements. The 2049 data limitation in our debt management systems will no longer exist with the implementation of the Debt Management Product in FY 2021.

The following tables do not include the amounts related to post year 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. We are working to address the system limitation; however, the accounts receivable balance reported on the financial statements are presented fairly in all material respects.

FY 2019 Quarterly Debt Management Activities Program and Administrative Table
(Dollars in Millions)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables	$24,640	$24,731	$25,068	$25,834
New receivables	1,695	3,396	5,339	7,899
Total collections	(1,036)	(2,084)	(3,056)	(4,215)
Adjustments	(297)	(653)	(991)	(1,431)
Total write-offs	(206)	(412)	(708)	(903)
- Waivers	(91)	(192)	(290)	(390)
- Terminations	(115)	(220)	(418)	(513)
Aging schedule of debts:				
- Non delinquent debt	13,576	13,828	14,053	14,445
- Delinquent debt				
- 120 days or less	1,824	1,563	1,624	1,737
- 121 days to 10 years	8,120	8,195	8,215	8,432
- Over 10 years	1,120	1,145	1,176	1,220
- Total delinquent debt	$11,064	$10,903	$11,015	$11,389

Debt Management Activities
Program and Administrative Table
(Dollars in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total receivables	$19,361	$21,014	$22,644	$24,484	$25,834
New receivables	5,865	6,420	7,602	7,943	7,899
Total collections	(3,692)	(3,604)	(3,888)	(3,992)	(4,215)
Adjustments	(446)	(536)	(1,297)	(1,333)	(1,431)
Total write-offs	(618)	(627)	(787)	(778)	(903)
- Waivers	(342)	(275)	(339)	(329)	(390)
- Terminations	(276)	(352)	(448)	(449)	(513)
Non delinquent debt	12,210	12,984	13,628	14,272	14,445
Total delinquent debt	$7,151	$8,030	$9,016	$10,212	$11,389
Percentage Analysis					
% of outstanding debt:					
- Non delinquent	63.1%	61.8%	60.2%	58.3%	55.9%
- Delinquent	36.9%	38.2%	39.8%	41.7%	44.1%
% of debt estimated to be uncollectible*	24.2%	42.7%	42.6%	43.5%	45.7%
% of debt collected	19.1%	17.2%	17.2%	16.3%	16.3%
% change in collections from prior fiscal year	0.2%	-2.4%	7.9%	2.7%	5.6%
% change in delinquencies from prior fiscal year	12.5%	12.3%	12.3%	13.3%	11.5%
Clearances as a % of total receivables	22.3%	20.1%	20.6%	19.5%	19.8%
- Collections as a % of clearances	85.7%	85.2%	83.2%	83.7%	82.4%
- Write-offs as a % of clearances	14.3%	14.8%	16.8%	16.3%	17.6%
Other Analysis					
Cost to collect $1	$0.07	$0.07	$0.07	$0.07	$0.06
Average number of months to clear receivables:					
- OASI	16	17	15	16	16
- DI	62	55	44	45	45
- SSI	43	42	43	43	49

Note:

1. *The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

Definitions:

1. Adjustments – Program debt adjustments represent: (a) written-off debts, by way of terminations, that we reinstate for collections; (b) changes in debts when we update debtor accounts with new information; and (c) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (a) is without fault in causing the debt; and (b) recovery would either defeat the purpose of the act or be against

equity and good conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.

3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (a) the debtor will not repay the debt or alleges they cannot pay the debt; (b) we cannot locate the debtor after diligent search; or (c) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the TOP and AWG. If the debtor becomes entitled to OASDI benefits or eligible for SSI payments, we reinstate the debt and resume recovery through benefit/payment withholding.

4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (a) the date we establish an OASDI debt; (b) the date of the initial overpayment notice for a SSI debt; (c) the date of the last voluntary payment; (d) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (e) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

PAYMENT INTEGRITY

BACKGROUND

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring efficient programs and accurate payments. We take our responsibility to reduce improper payments seriously. As good stewards of our resources and taxpayer funds, we remain focused on the integrity of our programs, including minimizing improper payments. "Ensure Stewardship" is a Strategic Goal in our *Agency Strategic Plan for Fiscal Years* (FY) *2018–2022* (www.socialsecurity.gov/agency/asp). Each year, we report improper payment findings, both overpayments and underpayments, from our stewardship reviews of the non-medical aspects of the OASI, DI, and SSI programs. Regarding the medical aspects of our disability programs, we conduct continuing disability reviews (CDR) to determine whether disability beneficiaries continue to meet the programs' medical criteria. Terminating disability benefits after a CDR does not necessarily mean that the original determination was incorrect; it may mean the beneficiary's medical condition has improved to the point he or she can work. Therefore, we consider the benefits he or she received before improvement to be proper.

In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), we report as improper those payments that resulted from:

- Our mistake in computing the payment;
- Our failure to obtain or act on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

As outlined in OMB's IPERIA guidance, effective FY 2018, any program with $2 billion in improper payments qualifies as a high-priority program, and agencies must report improper payments in those programs. For FYs 2016–2017, the annual threshold was $750 million. Two of our programs meet OMB's definition of high-priority programs: OASDI and SSI. More information about the improper payments in our high-priority programs for FY 2019 and previous years can be found on OMB's improper payment website (www.paymentaccuracy.gov).

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular No. A-136, *Financial Reporting Requirements*. This report provides general information that demonstrates our commitment to reducing improper payments; it also describes our efforts to reduce, recover, and prevent improper payments for our OASDI and SSI benefit programs and our administrative payments.

The President's Management Agenda, released by the White House in March 2018, identifies Cross-Agency Priority (CAP) Goals to target those areas where multiple agencies must collaborate to effect change and report progress in a manner the public can easily track. The CAP Goal entitled, Getting Payments Right, will reduce the amount of monetary loss to the taxpayer through incorrect payments; clarify and streamline reporting and compliance requirements to focus on actions that make a difference; and facilitate our partnership with the States to address improper payments in programs they administer using Federal funds. The information in this report supports the CAP Goal.

We also fulfill the requirements of Executive Order 13520, *Reducing Improper Payments,* by providing additional information about our efforts to curb improper payments in our OASDI and SSI programs on our public improper payments website (www.socialsecurity.gov/improperpayments).

PAYMENT REPORTING

IMPROPER PAYMENTS STRATEGY

In FY 2019, we continued aligning our enterprise investments with our improper payments prevention strategies and developed protocols to look at key workloads in more depth to understand better the underlying root causes of error. We collaborated with Federal partners, stakeholders, and beneficiaries to realize our agency Strategic Goal to "Ensure Stewardship," and we continue to focus our efforts on improving program integrity.

We identified the following strategies to accomplish our Strategic Objective, "Improve Program Integrity":

- Collaborate with partners to address improper payments;
- Address the root causes of improper payments to prevent their recurrence; and
- Modernize our debt management and debt collection business processes.

We continually investigate and assess root causes to ensure we focus our improper payment prevention strategies on actions that make a difference and facilitate our partnership with the States to address improper payments.

Based upon our stewardship reviews and other analyses, we identified the leading causes of improper payments and identified workloads on which we plan to focus our resources and improve performance by the end of FY 2020.

We identified the following initiatives to achieve our Strategic Objective:

- Promote timely wage reporting;
- Improve the death reporting system process; and
- Modernize our Debt Management System.

We discuss these initiatives and their relation to reducing improper payments in our OASDI and SSI programs in the Improper Payment Root Cause Categories and the Improper Payment Corrective Actions sections of this report. We also discuss initiatives that affect improper payments in both programs in the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section of this *Payment Integrity* report.

We identified the following four performance measures to help evaluate progress in accomplishing this Strategic Objective:

- Improve the integrity of the SSI program by focusing our efforts on reducing overpayments;
- Maintain a high payment accuracy rate by reducing overpayments in the OASDI program;
- Ensure the quality of our decisions by achieving the State disability determination services (DDS) decisional accuracy rate for initial disability decisions; and
- Modernize our Debt Management System.

In addition, improving the integrity of the SSI program is an Agency Priority Goal for FYs 2019–2020. We provide more information about our performance measures in our *Annual Performance Plan for FYs 2019–2020* (www.socialsecurity.gov/agency/performance).

Experience in the OASI, DI, OASDI, and SSI Programs

OMB requires agencies that have programs or activities that are susceptible to significant improper payments to list the programs and related improper payment rates in one table. Table 1 shows the improper payment rates for the OASI, DI, OASDI, and SSI programs for FY 2018. We calculate the overpayment rate by dividing overpayment dollars by total dollars paid, and the underpayment rate by dividing underpayment dollars by total dollars paid. We calculate the improper payment rate by adding overpayment and underpayment dollars and dividing by total dollars paid.

Please see Table 1.1 for more details about our improper payment rates for the OASI and DI programs for FYs 2016, 2017, and 2018. Please see Table 1.2 for more details about our improper payment rates for the SSI program for FYs 2016, 2017, and 2018.

Table 1: Improper Payments Experience
FY 2018
(Dollars in Millions)

	OASI	DI	OASDI	SSI	Total
FY 2018 Outlays	$808,695.11	$139,486.69	$948,181.79	$56,976.30	$1,005,158.09
FY 2018 Proper Payment $	$808,033.15	$137,497.38	$945,530.53	$51,447.54	$996,978.06
FY 2018 Proper Payment %	99.92%	98.57%	99.72%	90.30%	99.19%
FY 2018 Improper Payment $	$661.96	$1,989.31	$2,651.27	$5,528.77	$8,180.03
FY 2018 Monetary Loss $	$536.82	$1,679.64	$2,216.45	$4,686.31	$6,902.77
FY 2018 Non-Monetary Loss $	$125.14	$309.67	$434.81	$842.45	$1,277.26
FY 2018 Unknown $	$0	$0	$0	$0	$0
FY 2018 Improper Payment %	0.08%	1.43%	0.28%	9.70%	0.81%
FY 2018 Monetary Loss %	0.07%	1.20%	0.23%	8.23%	0.69%
FY 2018 Non-Monetary Loss %	0.02%	0.22%	0.05%	1.48%	0.13%
FY 2018 Unknown %	0%	0%	0%	0%	0%
FY 2018 Overpayment $	$536.82	$1,679.64	$2,216.45	$4,686.31	$6,902.77
FY 2018 Overpayment %	0.07%	1.20%	0.23%	8.23%	0.69%
FY 2018 Underpayment $	$125.14	$309.67	$434.81	$842.45	$1,277.26
FY 2018 Underpayment %	0.02%	0.22%	0.05%	1.48%	0.13%

Notes:

1. Total OASDI and SSI outlays for FY 2018 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. OASDI outlays are estimates based on limited sample sizes.
3. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive percentages from unrounded source data.
4. OASDI and SSI payments come directly from the Federal Government and do not involve third party payers.

OASDI Experience

Over the last 5 years (FYs 2014–2018), based on our stewardship reviews, we estimate that we paid approximately $3.8 trillion to OASI beneficiaries. Of that total, we estimate $8.7 billion were overpayments, representing approximately 0.23 percent of outlays. We estimate that underpayments during this same period were $1.5 billion, the equivalent of approximately 0.04 percent of outlays.

In the DI program, we estimate that we paid $692.8 billion to DI beneficiaries over the last 5 years (FYs 2014–2018). Of that total, we estimate $8.9 billion were overpayments, representing approximately 1.29 percent of outlays. We estimate underpayments during this same period totaled $0.9 billion, the equivalent of approximately 0.13 percent of outlays.

Table 1.1 shows the estimated improper payment rates for the OASI and DI programs for FYs 2016, 2017, and 2018.

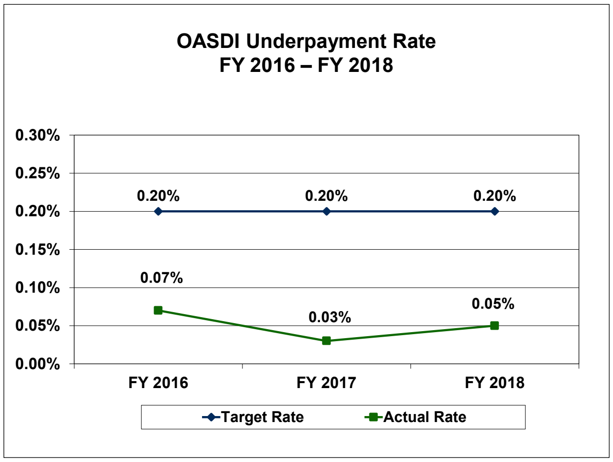
Table 1.1: OASDI Improper Payments Experience FY 2016 – FY 2018 (Dollars in Millions)

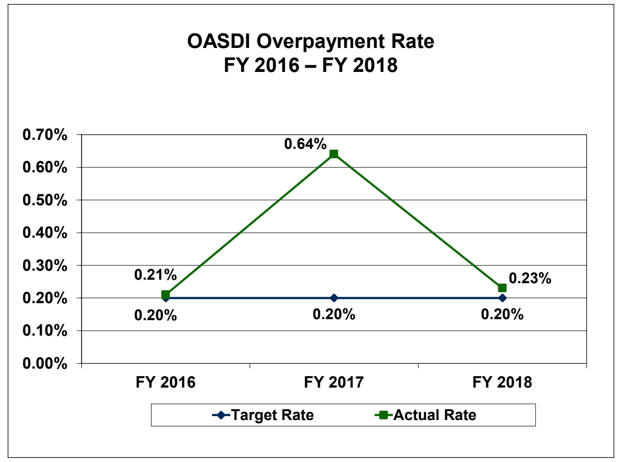
	FY 2016		FY 2017		FY 2018	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Benefit Payments	$770,538.77		$780,787.23		$808,695.11	
Underpayment Error	$628.44	0.08%	$98.71	0.01%	$125.14	0.02%
Overpayment Error	$1,210.73	0.16%	$2,458.54	0.31%	$536.82	0.07%
DI						
Total Benefit Payments	$140,661.52		$129,222.32		$139,486.69	
Underpayment Error	$41.62	0.03%	$195.08	0.15%	$309.67	0.22%
Overpayment Error	$697.60	0.50%	$3,405.49	2.64%	$1,679.64	1.20%
Combined OASDI						
Total Benefit Payments	$911,200.29		$910,009.54		$948,181.79	
Underpayment Error	$670.06	0.07%	$293.79	0.03%	$434.81	0.05%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	$1,908.33	0.21%	$5,864.03	0.64%	$2,216.45	0.23%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

1. Total benefit payments for FYs 2016–2018 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. Total benefit payments for OASDI are estimates based on limited sample sizes, which may cause them to vary from year to year.
3. FY 2019 data will be available in the summer of FY 2020.
4. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
5. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2016, +0.07 percent and –0.10 percent for underpayments and +0.13 percent and –0.12 percent for overpayments; for FY 2017, +0.01 percent and –0.01 percent for underpayments and +0.30 percent and –0.33 percent for overpayments; and for FY 2018, +0.01 percent and –0.02 percent for underpayments and +0.06 percent and –0.07 percent for overpayments.
6. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2016, +0.02 percent and –0.06 percent for underpayments and +0.49 percent and –0.53 percent for overpayments; for FY 2017, +0.14 percent and –0.27 percent for underpayments and +2.6 percent and –2.6 percent for overpayments; and for FY 2018, +0.21 percent and –0.33 percent for underpayments and +1.19 percent and –1.92 percent for overpayments.
7. OASDI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2016, +0.06 percent and –0.09 percent for underpayments and +0.12 percent and –0.12 percent for overpayments; for FY 2017, +0.02 percent and –0.06 percent for underpayments and +0.36 percent and –0.37 percent for overpayments; and for FY 2018, +0.05 percent and –0.05 percent for underpayments and +0.13 percent and –0.35 percent for overpayments.
8. The change in the OASDI underpayment error rate from FY 2016 to FY 2017 is not statistically significant. The change in the OASDI overpayment error rate from FY 2016 to FY 2017 is statistically significant. Changes in the OASDI error rates from FY 2017 to FY 2018 are not statistically significant.
9. We strive to reduce improper payments within the constraints of statutory and regulatory requirements and available resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our OASDI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to reduce improper payments, outcomes must be significant to affect our error rate. To have an effect on improper payments, for FY 2018 each tenth of a percentage point in payment accuracy represents about $948 million in program outlays for the OASDI program.
10. Our OASDI improper payment target rate of 0.40 percent is a combination of 0.20 percent for OASDI overpayments and 0.20 percent for OASDI underpayments. In FY 2019, we reported an actual OASDI overpayment rate of 0.23 percent (compared to a 0.20 percent target - a variance of 0.03 percent) and an actual OASDI underpayment rate of 0.05 percent (compared to a 0.20 percent target - a variance of 0.15 percent). We use a fixed, aggressive OASDI improper payment target rate of 0.40 percent to better monitor and account for historical fluctuations above and below 0.40 percent because of normal variability when performing statistical analysis to determine the yearly rate. Overall, our OASDI program has very high payment accuracy. The OASDI overpayment and underpayment accuracy rate, both separately and combined, has exceeded 99 percent for a number of years.

The following graphs show our estimated OASDI underpayment and overpayment rates for the last three years.





Substantial Gainful Activity (SGA), [1] Windfall Elimination Provision (WEP), [2] and Government Pension Offset (GPO)[3] errors continue to impact the overall error rates as the leading causes of error. SGA errors primarily occur due to beneficiaries' failure to report work activity. WEP and GPO errors occur due to beneficiaries' failure to report the receipt of or changes in pensions. WEP and GPO errors also occur when we do not take proper action to impose the offset.

SSI EXPERIENCE

Over the last 5 years (FYs 2014–2018), based on our stewardship reviews, we estimate that we paid approximately $283.3 billion to SSI recipients. Of that total, we estimate $23 billion were overpayments, representing about 8 percent of outlays. We estimate that underpayments during this same period were $4.5 billion, the equivalent of approximately 1.6 percent of outlays.

Table 1.2 shows the estimated improper payment rates for the SSI program for FYs 2016, 2017, and 2018.

[1] A definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html.
[2] A definition of WEP is available at: www.socialsecurity.gov/pubs/EN-05-10045.pdf.
[3] A definition of GPO is available at: www.socialsecurity.gov/pubs/EN-05-10007.pdf.

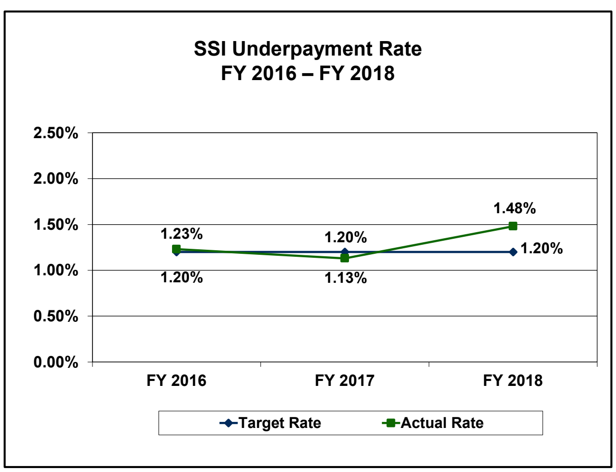
Table 1.2: SSI Improper Payments Experience
FY 2016 – FY 2018
(Dollars in Millions)

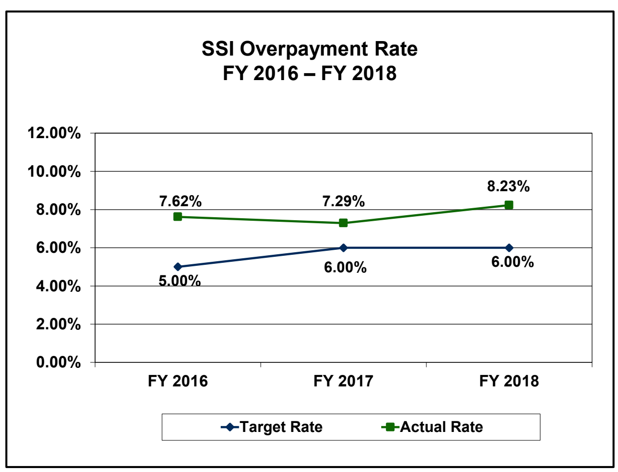
	FY 2016	FY 2017	FY 2018
Total Federally Administered Payments			
Dollars	$56,754.07	$56,495.45	$56,976.30
Underpayments			
Dollars	$696.01	$636.42	$842.45
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	1.23%	1.13%	1.48%
Overpayments			
Dollars	$4,323.93	$4,121.02	$4,686.31
Target Rate	≤5.00%	≤6.00%	≤6.00%
Actual Rate	7.62%	7.29%	8.23%

Notes:

1. Total federally administered payments represent estimated program outlays while conducting the annual stewardship reviews and may vary from actual outlays.
2. FY 2019 data will be available in the summer of FY 2020.
3. We base the percentages and dollar amounts presented in Table 1.2 on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.
4. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2016, ±0.31 percent for underpayments and ±1.07 percent for overpayments; for FY 2017, ±0.30 percent for underpayments and ±1.04 percent for overpayments; and for FY 2018, ±0.35 percent for underpayments and ±0.93 percent for overpayments.
5. Please note that year-to-year differences from changes in the SSI overpayment error rates from FY 2016 to FY 2017 are not statistically significant. The changes in the SSI overpayment and underpayment error rates from FY 2017 to FY 2018 are not statistically significant.
6. We strive to reduce improper payments within the constraints of statutory and regulatory requirements and available resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our SSI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to reduce improper payments, outcomes must be significant to affect our error rate. To have an effect on improper payments, for FY 2018, each tenth of a percentage point in payment accuracy represents about $56.9 million in program outlays for the SSI program.

The graphs below show our estimated SSI underpayment and overpayment rates for the last three years.





Improper Payment Root Cause Categories

Table 2 lists the major causes of improper payments (overpayments and underpayments) in the OASDI and SSI programs using OMB's seven categories of error.

Table 2: Improper Payment Root Cause Category Matrix FY 2018 (Dollars in Millions)

	OASDI Program			SSI Program		
Reason for Improper Payment	Overpayment		Underpayment	Overpayment		Underpayment
	Monetary Loss Within Agency Control	Monetary Loss Outside Agency Control		Monetary Loss Within Agency Control	Monetary Loss Outside Agency Control	
Program Design or Structural Issue	$0	$0	$0	$0	$0	$0
Inability to Authenticate Eligibility:						
Inability to Access Data	$3.94	$0	$0	$0	$3,972.85	$440.11
Data Needed Does Not Exist	$0	$0	$0	$0	$273.79	$176.16
Failure to Verify:						
Death Data	$0.00	$677.29	$0	$0	$53.03	$0
Financial Data	$0	$0	$0	$49.73	$0	$64.57
Excluded Party Data	$0	$0	$0	$0	$0	$0
Prisoner Data	$47.40	$76.04	$0	$0	$0	$0
Other Eligibility Data	$487.08	$572.81	$283.79	$92.78	$0	$32.66
Administrative or Process Error Made by:						
Federal Agency	$272.33	$79.57	$151.02	$244.13	$0	$128.95
State or Local Agency	$0	$0	$0	$0	$0	$0
Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	$0	$0	$0	$0	$0	$0
Medical Necessity	$0	$0	$0	$0	$0	$0
Insufficient Documentation to Determine	$0	$0	$0	$0	$0	$0
Other Reason (explain)	$0	$0	$0	$0	$0	$0
TOTAL	$810.74	$1,405.71	$434.81	$386.64	$4,299.67	$842.45

Notes:

1. Data Source: FY 2018 OASDI and SSI stewardship reviews. FY 2019 data will not be available until summer 2020.
2. There may be slight variances in the dollar amounts reported due to rounding of source data.
3. Because the number of death overpayments are small, the estimated amount of error found in our samples varies from year to year.
4. Beginning in 2015, OMB required us to categorize improper payments in our programs into seven categories, as defined below:

- **Program Design or Structural Issue** – Improper payments resulting from the design of the program or a structural issue.
- **Inability to Authenticate Eligibility** – Improper payments issued because the agency is unable to authenticate eligibility criteria.
  - **Inability to Access Data** – The data needed to authenticate eligibility exists but the agency is unable to access the data prior to making the payment. For our OASDI corrective action related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; Potential Entitlements (Table 2.5). For our SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; Financial Accounts (Table 2.7), Wages (Table 2.9), Other Real Property (Table 2.13), and Residency (Table 2.15).
  - **Data Needed Does Not Exist** – No database or dataset currently exists that the agency can use to check eligibility prior to making the payment. For our SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; In-kind Support and Maintenance (ISM) (Table 2.11).
- **Failure to Verify Data** – Improper payments issued because the agency or another party administering Federal dollars fails to verify appropriate data to determine whether or not a recipient should be receiving a payment, even though such data exists in government or third-party databases.
  - **Death Data** – Failure to verify that an individual is deceased and the agency pays that individual. For more information, see the Additional Comments section.
  - **Financial Data** – Failure to verify that an individual's or household's financial resources (e.g., current income or assets) do not meet the threshold to qualify him or her for a benefit, and the agency makes a benefit payment to that individual or household. For our corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; Financial Accounts (Table 2.7) and Other Real Property (Table 2.13).
  - **Excluded Party Data** – Failure to verify that an individual or entity has been excluded from receiving Federal payments and the agency pays that individual or entity.
  - **Prisoner Data** – Failure to verify that an individual is incarcerated and ineligible for receiving a payment and the agency pays that individual. For our corrective actions related to this improper payment category, refer to the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section; Prisoner Information.
  - **Other Eligibility Data** – Any other failure to verify data not already listed above, causing the agency to make an improper payment as a result. For OASDI, the leading root causes are SGA, WEP, and GPO. For SSI, the leading root causes are Living Arrangement and ISM. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; SGA (Table 2.2) and to the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section; WEP and GPO (Table 2.14). For SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; ISM (Table 2.11).
- **Administrative or Process Errors Made** – Improper payments caused by incorrect data entry, classifying, or processing of applications or payments made by Federal, State, local agencies, or other organizations that administer Federal dollars. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; Increase Post-Entitlement Accuracy (Table 2.4) and Potential Entitlements (Table 2.5). For SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; ISM (Table 2.11).
- **Medical Necessity**– Improper payments issued to a medical provider who delivers a service or item that does not meet coverage requirements for medical necessity.
- **Insufficient Documentation to Determine** – Improper payments issued when there is a lack of supporting documentation necessary to verify accuracy of a payment identified in the improper payment testing sample.
- **Other Reason** – Improper payments caused by payment errors that do not fit in the above categories.

Improper Payment Corrective Actions

Major Causes and Corrective Actions for OASDI Improper Payments

Our stewardship review findings over the last five years show that the major causes of overpayments in the OASDI program are SGA and errors in computations. The major cause of underpayments is errors in computations.

Substantial Gainful Activity

Description:

When disability beneficiaries work, several factors determine whether they can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely, or we do not take the proper actions to process work reports. The following graph shows the five-year rolling average of SGA overpayment deficiency dollars. Please note that year-to-year differences are not statistically significant.

Historical Figures:

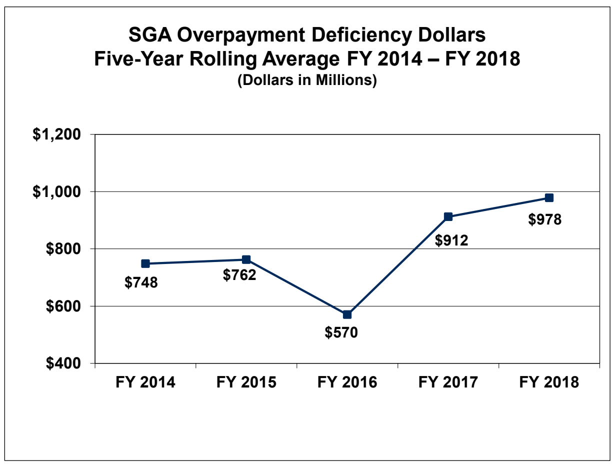


Table 2.1: SGA Overpayment Deficiency Dollars
FY 2014 – FY 2018
(Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Overpayments	$748	$762	$570	$912	$978

Corrective Actions:

Table 2.2 shows our actions to ensure timely processing of beneficiaries' earnings. Payment errors based on SGA correspond to the "Failure to Verify: Other Eligibility Data" category in Table 2.

Table 2.2: SGA – Corrective Actions

Description	Target Completion	Status
Audit Recommendation		
To help minimize improper payments, we agreed with an audit recommendation to prioritize identifying cases where we failed to terminate the disability payments following medical cessation determinations.	Ongoing	Since November 2015, we released approximately 33,500 cases to our front-line personnel for corrective action and cessation using manual and automated processes. Additionally, we received funding to create automated solutions for preventing errors from occurring in the future. In January 2019, we released 2,821 cases for corrective action and cessation. In September 2019, we released the final phase of the project, which allows technicians to not only track and control medical CDRs at the appeal level, but also verify that the cases have ceased timely. We continue to monitor the previously released cases for completion. This disability cessation workload continues to be a priority for the agency and once fully automated, we expect a significant reduction in improper payments.

Description	Target Completion	Status
Predictive Model		
Improper payments due to work activity result from beneficiaries failing to report earnings timely or our failure to identify/take action on earnings. We can reduce and prevent improper payments and complete work CDRs more efficiently by: • Identifying earnings earlier to reduce the amount of time a beneficiary is overpaid; • Identifying cases that have earnings above SGA and are still in current pay; and • Prioritizing cases that are most likely to end in an SGA cessation. We are targeting work CDRs to address improper payments via the WorkSmart project to increase the efficiency of agency processing, with the goal of reducing average processing times and average overpayments. WorkSmart consists of three parts: Continuing Disability Review Enforcement Operation (CDREO) Predictive Model (annual earnings), Quarterly Earnings Project (quarterly earnings), and Monthly Earnings Pilot (monthly earnings). WorkSmart is data driven and focuses on our three Strategic Goals: 1) Deliver Services Effectively; 2) Improve the Way We Do Business; and 3) Ensure Stewardship. WorkSmart will allow us to address key backlogs, support our frontline staff, and reduce improper payments.	Ongoing	In FY 2019, we identified 60,000 cases in need of a work CDR using the quarterly earnings from the Office of Child Support Enforcement (OCSE) data. We estimate that 80 percent of the completed cases will result in a cessation. In FY 2019, we identified work CDR cases using monthly earnings data from the myWageReport (myWR) and Ticket to Work reports. We identified approximately 20,000 cases in need of a Trial Work Period (TWP) or SGA determination. Of the cases identified, about 4,000 resulted in a SGA cessation. In FY 2019, we engaged in contract negotiations and awarded a contract to build an information exchange for monthly earnings data from third-party payroll data providers under Section 824 of the *Bipartisan Budget Act of 2015*. We will work with systems staff to identify a business process that would enable us to use the monthly earnings obtained from the payroll provider(s) to identify work CDRs.

Description	Target Completion	Status
	Legislation and Legislative Proposals	
Section 826 of the *Bipartisan Budget Act of 2015* requires the Commissioner to establish and implement a system permitting DI beneficiaries to report their earnings electronically.	Completed FY 2017	In September 2017, we released the myWR online application, which allows DI beneficiaries and representative payees to report wages to us and provides a receipt for the report that the wage reporter can view, print, and save. DI self-reporters and their representative payees can report wages that occurred within two years of the reporting date.
	Completed FY 2018	In June 2018, we added functionality to myWR that allows SSI and concurrent (SSI and DI) wage reporting. Wage receipts generated by myWR are stored in our online retrieval system. In an effort to increase use of the myWR application, we will continue to promote the online service to beneficiaries, representative payees, and advocacy groups. In September 2018, we updated our eWork system to send a priority alert to field offices for cases that have SGA earnings and require a work CDR. This alert allows management to quickly assign and monitor these cases and allows us to respond to earnings at the earliest possible point to improve CDR processing times and reduce improper payments. In FY 2019, we updated the management information systems to track the effectiveness of the new priority alert.

Description	Target Completion	Status
Section 824 of the *Bipartisan Budget Act of 2015* authorizes the Commissioner to establish information exchanges with payroll data providers to obtain wage data to administer the DI and SSI programs and to prevent improper payments. DI and SSI applicants and beneficiaries who give us their authorization to obtain wage information through such an exchange will be exempt from certain statutory penalties for any omission or error in the wages provided by the payroll data provider.	To be determined (TBD)	To implement the *Bipartisan Budget Act of 2015* authority, we obtained executive approval on the business process document and began systems planning and analysis in November 2016. We convened a cross-agency project team to collaborate on implementing Section 824 of the *Bipartisan Budget Act of 2015* and other wage-related provisions. In September 2017, we implemented the first phase of Section 824 of the *Bipartisan Budget Act of 2015*, which allows the agency to collect and store authorization from DI and SSI applicants and beneficiaries to obtain their payroll data via the information exchange. Additionally, we made enhancements to the application we use to process wage determinations for DI. The systems enhancements were made originally in support of Section 826 of the *Bipartisan Budget Act of 2015*. However, we made sure those system releases would also support the *Bipartisan Budget Act of 2015,* Section 824 business process. For example, we added help pages and created notifications of earnings discrepancies. In September 2018, we implemented additional enhancements, such as creating alerts to notify employees that wage data indicates the need for a review. For the information exchange under Section 824 of the *Bipartisan Budget Act of 2015*, in FY 2019, we engaged in contract negotiations and awarded a contract to build an information exchange for monthly earnings data from third-party payroll data providers. We will work with systems staff to identify a business process that would enable us to use the monthly earnings obtained from the payroll provider(s) to identify work CDRs. In October 2019, we developed a timeline, and in FY 2020, we will begin planning and integration of the information exchange within our systems.

COMPUTATIONS

Description:

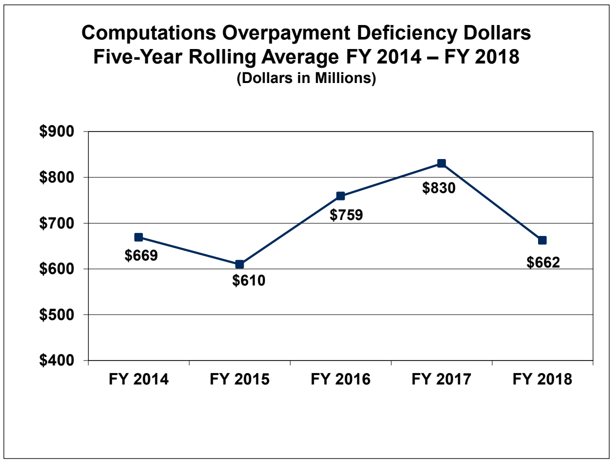
Errors in computations are a major cause of both OASDI overpayments and underpayments. Our goal is to correct and prevent instances where a recipient or beneficiary has potential entitlement to, but is not receiving, a new or higher benefit.

We determine a person's benefit amount based on several factors, including age, earnings history, and the type of benefit awarded.

Inaccurate information or administrative mistakes can cause errors in calculating benefits. For FYs 2014–2018, approximately 70 percent of computation error dollars resulted in overpayments, with the leading causes being WEP, failure to apply the Retirement Insurance Benefit Limitation (RIB-LIM) when applicable, and adjustment of the family maximum or FMAX.[4] RIB-LIM applies when a deceased beneficiary would have received a reduced retirement benefit. Under RIB-LIM, the maximum benefit for a surviving spouse or surviving divorced spouse is limited to the larger of 82.5 percent of the deceased beneficiary's death Primary Insurance Amount or the benefit amount that the deceased beneficiary would receive if he or she were still alive. WEP accounted for 60 percent of computation error dollars for the 5-year period, while RIB-LIM and FMAX, respectively, accounted for 11 percent and 10 percent of these error dollars.

Historical Figures:

Please note that year-to-year differences are not statistically significant.



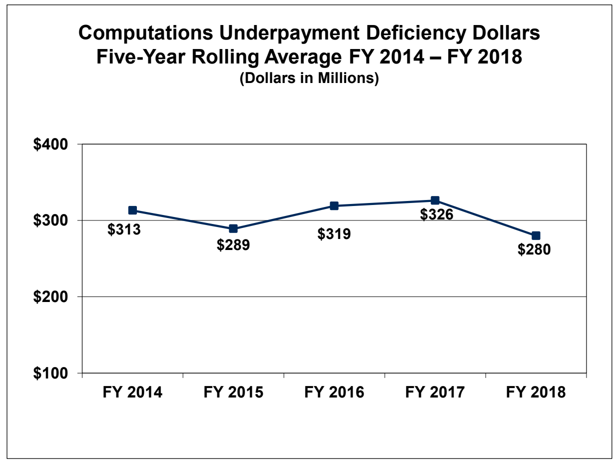


Table 2.3: Computations Deficiency Dollars FY 2014 – FY 2018 (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Overpayments	$669	$610	$759	$830	$662
Underpayments	$313	$289	$319	$326	$280

Corrective Actions - Increase Post-Entitlement Accuracy

Recent studies indicate that we can improve accuracy in the areas of processing OASDI work CDRs and other changes to a beneficiary's record after they are already entitled to benefits. To address this issue, we developed WorkSmart. The WorkSmart process identifies DI beneficiaries whose earnings put them at risk of being overpaid. The process builds on the current CDREO by integrating quarterly work CDR alerts based on quarterly earnings from OCSE into the CDREO process. We receive quarterly alerts up to one year earlier than the current CDREO alerts, meaning we learn of unreported work more quickly and can take action earlier to reduce work-related overpayments. WorkSmart will also include a national screening program that removes unproductive work CDRs from the CDREO process so technicians can evaluate cases where a beneficiary is working over SGA.

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[4] An explanation of FMAX is available at: www.socialsecurity.gov/OACT/COLA/familymax.html.

Our CDR enforcement process alerts records of OASDI and concurrent DI/SSI beneficiaries who may have substantial earnings after disability onset. In FY 2018, we alerted 36,000 cases using quarterly wages, and 86 percent of the completed cases resulted in a cessation of benefits. In FY 2019, we identified 60,000 cases using quarterly wages. We estimate that approximately 80 percent of the completed cases will result in a cessation.

In FY 2019, we identified work CDR cases using monthly earnings data from the myWR and Ticket to Work reports. We identified approximately 20,000 cases in need of a TWP or SGA determination. Of the cases identified, about 4,000 resulted in an SGA cessation.

Continued training to accurately process post-entitlement work is crucial; during FY 2019, we created national processing center (PC) quality refresher training packages for our technicians.

By addressing post-entitlement accuracy and identifying potential entitlements, we will reduce improper overpayments and underpayments.

Table 2.4 shows our actions to increase our post-entitlement accuracy. Post-entitlement accuracy errors correspond to the "Administrative or Process Error Made by: Federal Agency" category in Table 2.

Table 2.4: Increase Post-Entitlement Accuracy – Corrective Actions

Description	Target Completion	Status
Provide better descriptive definitions of the OASDI systems alert, exception, and processing limitation codes to give technicians more precise information on actions needed.	Ongoing	We completed planning and analysis in September 2016. We began updating problematic OASDI system alerts, exceptions, and processing limitation codes with better descriptive definitions in FY 2017. We release updates on an ongoing basis. We meet monthly to discuss and approve the language of the updates.
Review the most problematic overpayment cases completed in our Office of Disability Operations. Our objective is to determine the root causes of overpayment errors and provide recommendations to address improved processing.	Ongoing	This project is ongoing. We began a national PC overpayment study in April 2016. In FY 2016, we focused on overpayments due to disability cessation or extended period of eligibility. We published the report in November 2017. Based on our review, we recommended national use of an automated worksheet that minimizes manual keying and the potential for errors. In FY 2017, we focused on overpayments due to annual retirement test permanent deductions and published the report in November 2018. Based on our review, we recommended issuing reminders to technicians to improve processing. We completed the FY 2018 review of disability overpayments in September 2018 and published the report April 2019. We completed the 2019 review of disability overpayments in August 2019. We will identify findings and recommendations in FY 2020.

Our studies also show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2013, we established a dedicated workgroup and process for evaluating and addressing potential entitlement workloads. To date, we have:

- Initiated four outreach efforts dealing with vulnerable populations such as widows, veterans, the aged, and disabled children.
- Implemented systems changes for three projects dealing with widows, children, and the aged.
- Developed a community outreach plan to promote OASDI surviving parent's benefits.
- Completed analysis on projects involving potential entitlement situations for minor children, Medicare only beneficiaries, military service retirees, and disabled children.
- Selected projects to address in FY 2019. Please see the Corrective Actions in Table 2.5 for a complete list.

Table 2.5 shows our further actions to pursue potential entitlement workloads. Some corrective actions in the table will be implemented over more than one fiscal year. We will identify cases and develop a strategy to prevent recurrences. Payment errors related to potential entitlements correspond to the "Administrative or Process Error Made by: Federal Agency" category in Table 2.

Table 2.5: Potential Entitlements – Corrective Actions

Description	Target Completion	Status
Pursue potential entitlement workloads.	FY 2019	In FY 2019, key potential entitlement efforts included: • Resuming benefits to 6,365 spouses and children due underpayments because we resumed benefits to the numberholder, but did not resume benefits to the auxiliaries following a termination. We completed these cases in October 2018. We will be evaluating the results of the mailing in FY 2020. • Releasing 10,396 updated outreach notices to Medicare-only beneficiaries who are eligible for retirement benefits, but have not filed an application. We mailed these notices in January 2019. • Processing 27,565 cases involving SSI recipients with possible OASDI eligibility as an auxiliary or survivor on their parents' record. We completed these cases in August 2019.
	FY 2020	In FY 2020, key potential entitlement efforts will include: • Preparing to conduct outreach to notify approximately 20,000 disabled beneficiaries who listed children on their benefit applications, but no application or closeout is present for them, that the children may be due benefits. • Conducting outreach to approximately 9,000 workers who were previously denied retirement benefits due to lack of insured status, but are now insured. • Conducting outreach to approximately 17,000 workers with Medicare Qualified Government Earnings that are eligible for retirement benefits or Medicare coverage that they are not receiving. • Conducting initial analysis on SSI recipients with a potential month of eligibility that does not match the application effective date. • Conducting initial analysis on disabled beneficiaries who converted to retirement benefits at full retirement age and may be eligible for a higher primary insurance amount. • Conducting initial analysis on individuals previously denied childhood disability benefits potentially entitled to benefits as minor children. • Evaluating the June 2018 results of 13,934 cases involving SSI recipients previously established or entitled on a parent's record who may be entitled to child disability benefits.

MAJOR CAUSES AND CORRECTIVE ACTIONS FOR SSI IMPROPER PAYMENTS

Our greatest payment accuracy challenges occur within the SSI program. SSI is a means-tested program for individuals with limited income and resources who are blind, disabled, or aged. The program is complex to administer because the law requires us to determine SSI eligibility and calculate SSI payments on a monthly basis. We generally make SSI payments on the first day of the month for eligibility in that month. Many factors influence SSI payment accuracy. Even if a payment was correct when paid, subsequent changes in that month can affect the payment due, resulting in either an overpayment or underpayment. Thus, the program requirements themselves sometimes cause improper payments. Improper payments often occur if recipients (or their representative payees on their behalf) fail to timely report changes in any of their eligibility factors (e.g., an increase of their resources or a change in their wages). Failure to report such changes is the primary cause of both overpayment and underpayment errors. We remain committed to simplifying the SSI program, and we are exploring ways to do this in a fair and equitable manner.

Our stewardship findings over the last five years show that the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial accounts (e.g., bank savings or checking accounts, or credit union accounts);
- Wages;
- In-kind Support and Maintenance (ISM); and
- Other real property (i.e., ownership of non-home real property).

Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in the following:

- ISM;
- Living arrangements; and
- Wages.

Later in this section, we provide information on our corrective actions for living arrangements under the corrective action for ISM.

FINANCIAL ACCOUNTS

Description:

The leading cause of SSI overpayment errors is financial accounts with countable resources in excess of the allowable resource limits. When an applicant, recipient, or deemor has financial accounts with values exceeding the allowable resource limits, these accounts may result in periods of SSI ineligibility.

Historical Figures:

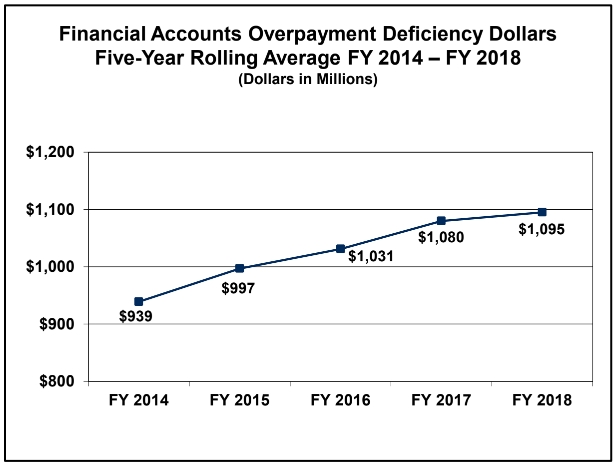


Table 2.6: Financial Accounts Overpayment Deficiency Dollars FY 2014 – FY 2018 (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Overpayments	$939	$997	$1,031	$1,080	$1,095

Corrective Actions:

By law, a claimant, recipient, or deemor must give us permission to request his or her financial records from any financial institution as an eligibility requirement for SSI. We developed the Access to Financial Institutions (AFI) program to address overpayment errors related to resources in financial accounts. AFI is an automated process that verifies alleged bank account balances with financial institutions to identify potential excess resources in financial accounts held by SSI applicants, recipients, and deemors. In addition to verifying alleged bank accounts, AFI detects undisclosed accounts using unique search criteria called geographic searches. We conduct up to 10 geographic searches per individual for each review. We use AFI to verify financial accounts during the SSI application process and during periodic redeterminations of continued eligibility, thereby detecting excess resources and deterring improper payment reoccurrence. The AFI initiative is also critical in detecting undisclosed financial accounts; however, we must continue to rely on SSI recipients to timely report when balances fluctuate and exceed the SSI resource limit, either as a single resource or in combination with other resources.

In a future release of our Debt Management System modernization, we plan to implement three AFI systems enhancements that will improve our current process for initiating AFI and reducing improper payments.

Table 2.7 shows our actions to reduce errors related to financial accounts. Payment errors related to financial accounts correspond to the "Inability to Authenticate Eligibility: Inability to Access Data" and "Failure to Verify: Financial Data" categories in Table 2.

Table 2.7: Financial Accounts – Corrective Actions

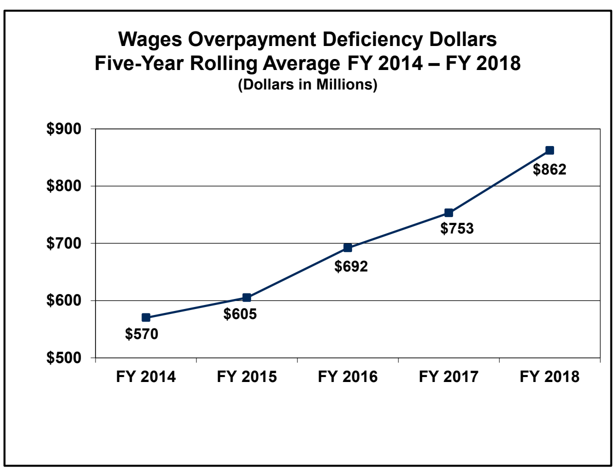
Description	Target Completion	Status
Implement three AFI systems enhancements that will improve our current process for initiating AFI and reducing improper payments.	FY 2022 through FY 2023	We will implement the following key AFI systems enhancements: • Enhance ability to view attachments from financial institutions; scheduled for development in FYs 2022–2023. • Automate splitting of co-owned bank account balances; scheduled for development in FYs 2022–2023. • Automate AFI for waivers.
Electronically collect an individual's AFI authorization through the Debt Management Product (DMP). Automate the AFI process for waivers, specifically in the waiver application.	FY 2021 through FY 2023	As part of the DMP, we are in the process of developing the intranet waiver application for release by the end of FY 2021. We will electronically capture the overpaid individual's AFI authorization. Before 2023, we plan to electronically send an individual's authorization to the financial institution and display the financial information on the appropriate screen so that the system can calculate the data.

WAGES

Description:

For more than a decade, wage discrepancies have been one of the leading causes of SSI overpayment and underpayment errors. Wage discrepancies occur when the recipient or his or her deemor has actual wages that differ from the wage amount used to calculate the SSI payment.

Historical Figures:



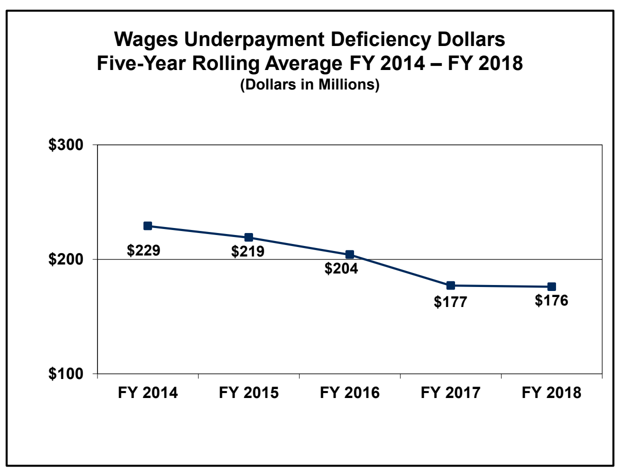


Table 2.8: Wages Deficiency Dollars
FY 2014 – FY 2018
(Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Overpayments	$570	$605	$692	$753	$862
Underpayments	$229	$219	$204	$177	$176

Corrective Actions:

We rely on individuals to self-report wages to us on time. However, we know that they may fail to report or not report wages in time to prevent an improper payment. Section 824 of the *Bipartisan Budget Act of 2015* gives the agency authority to conduct information exchanges with payroll providers to obtain accurate, up-to-date, and relevant wage information to help determine SSI eligibility and to help prevent improper payments. Please see Table 2.9 for more information about the implementation of Section 824 of the *Bipartisan Budget Act of 2015*.

We developed several communication initiatives to help encourage recipients to remember to report events that can affect eligibility or payment amounts, such as changes in living arrangements, and to make it easier for them to comply with reporting requirements. For example, we created a business card that contains information on reporting requirements that field office staff give recipients during claim and redetermination interviews. Recipients can keep this card for future use when reporting wages to us. We will enhance our notices to include more consistent and clear language on reporting responsibilities and penalties for OASDI beneficiaries and SSI recipients. We currently inform OASDI beneficiaries, SSI recipients, and representative payees about reporting responsibilities by various methods. We apprise them during interviews, with application and redetermination forms and some award and post-eligibility notices, in benefit check envelope enclosures, and in a booklet that accompanies award notices. Our annual Cost of Living Adjustment notices include reminders about reporting changes that could affect benefit payments and eligibility.

By the end of FY 2020, we will work to create an online training video, available for public use, as well as display the video on the SSA digital signage in field office reception areas to inform the public about reporting resources and wages timely. Additionally, the video will remind the public about the consequences of failing to report wages and our Administrative Sanctions policy.

Other examples of our corrective actions to address the root causes of wage-related errors include options for recipients (or representative payee on their behalf) or their deemors to report their wages via telephone or a mobile application. Since October 2013, certain recipients, representative payees, and deemors have been able to use these automated reporting tools to report the preceding month's wages at any time in the current month.

- Supplemental Security Income Telephone Wage Reporting (SSITWR)

  SSITWR allows recipients, representative payees, and deemors to report the prior month's gross wages via an automated telephone system. SSITWR ensures we post the wage amounts to the individual's record timely from the date we received the reported wages.

- Supplemental Security Income Mobile Wage Reporting Application

  Beginning in December 2012, 50 field offices across all 10 regions began a pilot for mobile wage reporting. This initiative allowed certain SSI recipients, representative payees, and deemors to use their smart devices (e.g., smartphone) to report the prior month's gross wages, using an application they can download at no cost from the Google Play and Apple App stores. The initial pilot was successful, and we expanded it to nearly 270 participating field offices in March 2013. The expanded phase of the pilot was successful as well, with more than 9,000 wage reports submitted using the mobile application during the entire pilot. We rolled out the initiative nationally on August 1, 2013, following the release of some minor system improvements made as a result of feedback received during the pilot.

- Automated Reminder

  In September 2013, we implemented an automated SSI wage reporting reminder. Individuals can voluntarily sign up to receive a monthly email or text message reminder to report wages for the prior month.

- myWageReport

  In September 2017, we released the myWR online application, which allows DI beneficiaries and representative payees to report wages to us and provides a receipt for the report that the reporter can view, print, and save. DI self-reporters and their representative payees can report wages that occurred within a two-year timeframe from the reporting date. In June 2018, we added functionality to myWR that allows SSI and concurrent (SSI and DI) wage reporting. SSI recipients, their representative payees, and deemors have a convenient option to report the preceding month's wages electronically. Wage receipts generated by myWR are stored in the Online Retrieval System, which provides online retrieval of our notices and other documents. In an effort to increase use of the myWR application, we will continue to promote the online service to beneficiaries, representative payees, and advocacy groups.

  In FY 2020, we plan to expand on our management information capabilities by gathering more data for accurate and timely insight to measure the efficacy and future business needs of myWR.

We continue to increase the number of successful wage reports received using our automated SSI wage reporting systems. In FY 2019, we processed approximately 308,500 Telephone Wage reports, which is a decrease of 11 percent compared to the number in FY 2018. Additionally, in FY 2019, we processed over 948,000 successful SSI Mobile Wage reports, which is an increase of 10 percent over the number in FY 2018.

Table 2.9 shows our actions to reduce errors related to wages. Payment errors related to wages correspond to the "Inability to Authenticate Eligibility: Inability to Access Data" category in Table 2.

Table 2.9: Wages – Corrective Actions

Description	Target Completion	Status
Provide an additional option for reporting earnings using authority from Section 826 of the *Bipartisan Budget Act of 2015.*	Completed June 2018	In June 2018, we gave SSI recipients, representative payees, and deemors the option of reporting their wages electronically to encourage timely reporting. Receiving timely wage reports will help reduce wage-related improper payments.
We completed the following enhancements to the myWR online application: Overlapping pay period messaging; wage table sorting; ability to save and print receipts from the Message Center; and implementation of Dynamic Help.	Completed December 2018	We implemented the following features in December 2018: • Overlapping pay period messaging: When the user enters two or more paystubs with overlapping pay periods, the user is asked to verify if the paystubs are correct. • Wage table sorting: Sorts paystubs and displays them in chronological order. • Ability to save receipt to the Message Center: Users now have the ability to save, print, or delete receipts in the Message Center. • Dynamic Help: *my* Social Security account holders who have access to myWR, have the ability to request assistance from a help widget.
We completed the following enhancements to the myWR online application: Implementation of Social Security number (SSN) to Beneficiary Notice Control (BNC) number conversion for myWR receipts and the paystub confirmation feature.	Completed March 2019	We implemented the following features in March 2019: • Displaying a BNC number in place of an SSN on myWR receipts. • Paystub confirmation feature: The user receives an alert message when the frequency of pay and the number of paystubs entered do not match. The alert message asks the user to verify the number of paystubs submitted.
Implementation of navigation path changes in support of Internet Representative Payee Portal (IRPP).	Completed September 2019	We implemented the following enhancements in September 2019: • Enabled myWR to be accessible to users via the new IRPP. • Separated the Self-Reporter and Representative Payee reporting path within *my* Social Security. • Provided screens with specific language for Representative Payees reporting wages to display in the application's path.

Description	Target Completion	Status
Section 824 of the *Bipartisan Budget Act of 2015* authorizes the Commissioner to establish information exchanges with payroll data providers to obtain wage data to administer the DI and SSI programs and to prevent improper payments. DI and SSI applicants and beneficiaries who give us their authorization to obtain wage information through such an exchange will be exempt from certain statutory penalties for any omission or error in the wages provided by the payroll data provider.	TBD	To implement the *Bipartisan Budget Act of 2015* authority, we obtained executive approval on the business process document and began systems planning and analysis in November 2016. We convened a cross-agency project team to collaborate on implementing Section 824 of the *Bipartisan Budget Act of 2015* and other wage-related provisions. In September 2017, we implemented the first phase of Section 824 of the *Bipartisan Budget Act of 2015*, which allows the agency to collect and store authorization from DI and SSI applicants and beneficiaries to obtain their payroll data via the information exchange. Additionally, we made enhancements to the application we use to process wage determinations for DI. The systems enhancements were made originally in support of Section 826 of the *Bipartisan Budget Act of 2015*. However, we made sure those system releases would also support the *Bipartisan Budget Act of 2015*, Section 824 business process. For example, we added help pages and created notifications of earnings discrepancies. In September 2018, we implemented additional enhancements, such as creating alerts to notify employees that wage data indicates the need for a review. For the information exchange under Section 824 of the *Bipartisan Budget Act of 2015*, in FY 2019, we engaged in contract negotiations and awarded a contract to build an information exchange for monthly earnings data from third-party payroll data providers. We will work with systems staff to identify a business process that would enable us to use the monthly earnings obtained from the payroll provider(s) to identify work CDRs. In October 2019, we developed a timeline, and in FY 2020, we will begin planning and integration of the information exchange within our systems.

In-kind Support and Maintenance

Description:

The basis for charging ISM is found in Section 1612(a)(2)(A) of the *Social Security Act*.[5] It requires us to count any ISM received when determining eligibility for SSI and the amount of monthly benefits. ISM can be in the form of food, shelter, or both from family, friends, or other third-party sources. Further, the law requires us to reduce an individual's benefit amount by one-third when he or she is living in another person's household and receiving support and maintenance, which for our purposes is food and shelter.

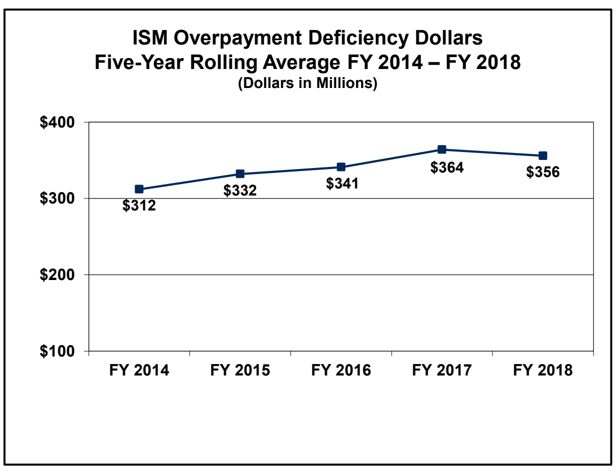
Determining whether an individual receives ISM requires that claimants and recipients report changes in their living arrangements in a timely manner and answer detailed questions about whom they live with, what their household expenses are, how they divide those expenses among household members, and what help they receive from outside of the household.

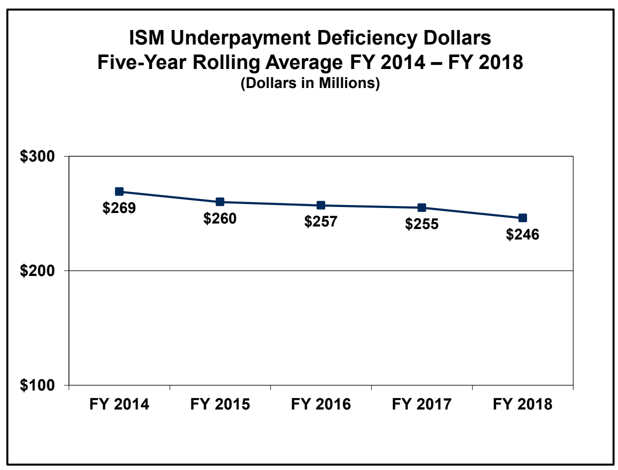
Every time we process an application for SSI benefits, develop a redetermination of eligibility for SSI benefits, or receive a change of address report, and the recipient alleges a living arrangement change that is not documented in our claims system, we need to develop for and possibly recalculate ISM.

In certain situations, our development may be retroactive up to a period of two years depending on the redetermination review period. We must develop for the possibility of ISM from the first change in living arrangement reported by the recipient to the present living arrangement. In addition, if a recipient reports a change in living arrangement and we discover that a prior living arrangement change was not reported, we must develop and possibly recalculate ISM from the first change in living arrangement reported by the recipient to the present living arrangement. These situations, along with the lack of reports of livings arrangements by claimants and recipients, may create overpayments and underpayments.

We ask questions to help us determine if claimants or recipients are paying their share of the household expenses. If they are not paying their fair share, we generally count the difference between the fair share amount and the actual contribution as income to the claimant in the form of ISM.

Historical Figures:





[5] Section 1612(a)(2)(A) of the *Social Security Act* is available at: www.socialsecurity.gov/OP_Home/ssact/title16b/1612.htm.

Table 2.10: ISM Deficiency Dollars
FY 2014 – FY 2018
(Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Overpayments	$312	$332	$341	$364	$356
Underpayments	$269	$260	$257	$255	$246

Corrective Actions:

Table 2.11 shows our actions to reduce errors stemming from ISM. Payment errors stemming from ISM correspond to the "Inability to Authenticate Eligibility: Data Need Does Not Exist," "Failure to Verify: Other Eligibility Data," and the "Administrative or Process Error Made By: Federal Agency" categories in Table 2.

Table 2.11: ISM – Corrective Actions

Description	Target Completion	Status
Statutory, Regulatory, Policy and Procedure Review		
We frequently review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	Based on our reviews, we issue periodic reminders and policy clarifications, as needed. We will continue to work with Congress and other stakeholders to identify possible statutory/regulatory/policy changes.
Legislative Proposal		
Currently, SSI recipients can receive lower benefits if they are earning, or otherwise receiving, income. This includes non-cash income, such as assistance by a roommate or family member in paying the recipient's share of the household expenses such as food and shelter. This type of income is called ISM and is difficult to accurately value, because it can fluctuate each month as household expenses and composition and the type of assistance provided may change. The FY 2020 President's Budget includes a proposal that would replace ISM with a flat-rate benefit reduction for adults living with other adults (but will not affect a married couple where both individuals are eligible for SSI). This proposal would make two additional changes to simplify the program and reduce the burden on recipients and representative payees. It would eliminate the holding out policy, which requires our agency to ask invasive questions to determine whether two unrelated adults who live together, and are not married, are holding themselves out to their community as being married. It would also eliminate the dedicated account policy, which requires representative payees to open separate accounts to receive SSI underpayments and limits use of the funds. These requirements confuse representative payees, who are often parents, and restrict their ability to decide which expenditures are in the best interests of their disabled children.	Pending	No congressional action to date.

Other Real Property

Description:

SSI ineligibility may result if a recipient owns real property (generally land and the building, such as a house, on the land) other than his or her principal place of residence (referred to as "non-home real property"), and the current equity value exceeds the resource limit. Undisclosed non-home real property is a leading cause of improper overpayments in the SSI program. For the five-year period from FY 2014–2018, our FY 2018 stewardship review identified non-home real property as the fourth leading cause of SSI overpayments, with average projected improper payments of $255 million in SSI overpayments. We currently rely on the applicant or recipient to report ownership of non-home real property. Our corrective actions, discussed in this section, require our technicians (when processing SSI claims and high-error redeterminations) to identify undisclosed property owned by the claimant, recipient, or deemor via an electronic process.

Historical Figures:

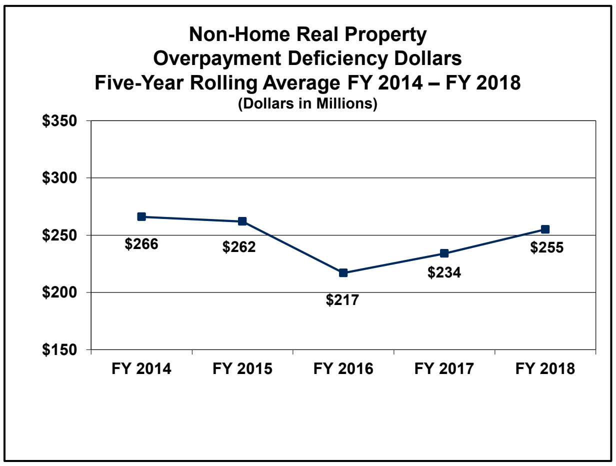


Table 2.12: Non-Home Real Property Overpayment Deficiency Dollars FY 2014 – FY 2018 (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Overpayments	$266	$262	$217	$234	$255

Corrective Actions:

Real property ownership information is available publicly for all 50 States through commercial data providers (e.g., *LexisNexis/Accurint*). To test the value of using a commercial provider to identify undisclosed real property, we studied the use of *LexisNexis/Accurint* in SSI claims and high-error redeterminations. This study indicated that the use of this data could reduce SSI overpayments associated with the ownership of undisclosed property by SSI claimants and recipients. In November 2015, we began pursuing nationwide expansion of non-home real property integration with the SSI Claims System. The process integrates third-party, real property ownership data with the SSI Claims System as a lead for further development. We implemented the process nationwide at the start of FY 2018.

Table 2.13 shows our actions to reduce errors related to non-home real property. Payment errors related to non-home real property correspond to the "Inability to Authenticate Eligibility: Inability to Access Data" and "Failure to Verify: Financial Data" categories in Table 2.

Table 2.13: Other Real Property – Corrective Actions

Description	Target Completion	Status
Fully integrate third-party, non-home real property data with the SSI Claims System for mandatory use during initial claims, initial claim appeal reversals, denied claim reopenings, and high-error redetermination interviews and optional use during other open claim events.	Completed FY 2017 Completed FY 2018	In September 2017, we fully implemented the process nationwide for initial claims and high-error redeterminations interviews. In August 2018, we fully implemented the process nationwide for initial claim appeal reversals and denied claim reopenings.
Apply an electronic process for receiving real property information and integrate with the SSI Claims System.	Completed FY 2018 FY 2020	We are currently using commercial records on real property ownership to determine if an individual owns non-home real property that may count as an excess resource. Receiving timely real property ownership data will help reduce non-home real property-related overpayments. Evaluate outcomes for integrating third-party, non-home real property data with the SSI Claims System. We are assessing the effectiveness of national implementation of the electronic process and will report on the outcomes of the automated process in FY 2020.

Other Major Causes and Corrective Actions in the OASDI and SSI Programs

The following key initiatives enhance our program integrity efforts.

Windfall Elimination Provision and Government Pension Offset

Description:

WEP and GPO are benefit reductions/offsets that apply to Social Security benefits of those individuals who worked in non-covered employment (i.e., did not pay Social Security taxes on their earnings) and who receive a pension based on those non-covered earnings. The majority of these non-covered workers are in Federal, State, or local government service.

In total, WEP and GPO errors lead to a large dollar value of improper payments, which are mainly due to the lack of:

- Accurate data to administer the WEP and GPO provisions;
- Automation to minimize human error and ensure timely action in response to existing alerts;
- Understanding among agency technicians of how non-covered pensions work (e.g., whether the payments are recurring or issued in a lump sum or whether there may be a cost-of-living adjustment, which is key to correctly administering the WEP and GPO provisions); and
- Understanding among agency technicians of how to compute the WEP and GPO and apply the exceptions to them.

We have a multi-pronged approach to address each of the underlying causes of improper payments:

- Enhance automation;
- Pursue new data;
- Clarify policy instructions; and
- Enhance training specific to the more common WEP and GPO errors.

We formed a cross-agency work group to:

1. Review all Office of the Inspector General (OIG) and internal studies over the past five years to compile a comprehensive list of identified changes in WEP and GPO implementation;
2. Assess the root causes of improper payments based on these changes; and
3. Develop policy, data, systems, or training solutions in line with each of the root causes of improper payments.

Table 2.14: Windfall Elimination Provision and Government Pension Offset – Corrective Actions

Description	Target Completion	Status
Enhanced Automation	Completed FY 2018	We pursued a series of systems changes to automate calculations for non-covered pensions. Our goal is to reduce human error, and prompt additional questions of likely non-covered pension recipients to encourage accurate self-reporting. We proposed seven automation enhancements and successfully implemented all enhancements in FY 2017 and FY 2018. We implemented technician alerts during the application process that will notify staff when WEP or GPO may be involved in dual entitlement cases. The alerts will inform technicians if a claimant has non-covered pension information recorded on another benefit record or on another active claim. In FY 2017, we completed a one-time run and released the alerts to our PCs. In FY 2018, we converted the one-time run into a cyclical process. Beginning in FY 2018, we started generating annual alerts to the PCs. We automated the calculation of a lump sum payment into a monthly amount, previously a manual process. We implemented a process to help identify the existence of non-covered earnings to improve pension development. Additionally, to improve collection of pension information for WEP purposes, we added the ability to identify a foreign pension.
Pursuit of New Data	FY 2020	We have been in ongoing discussions with the Internal Revenue Service to obtain non-covered pension information.

Data Exchanges

We developed a strategic initiative focused on making further use of data exchanges to use data from outside sources to improve program administration and prevent improper payments.

Description:

Our objective is to continue current computer matching agreements (CMA) that yield a positive cost benefit analysis, expand effective CMAs to meet additional program needs, research current programs, work with internal stakeholders to identify data exchange needs, and pursue new data exchanges with potential partners.

Currently, we conduct 22 CMAs with various Federal partners to obtain benefit payment data, wage data, unemployment data, fugitive felon identification, savings securities, workers' compensation, residency information, and nursing facility admission data that we use to determine eligibility and offset benefits for our programs. The total annual savings attributed to these CMAs is approximately $7.6 billion, with an annual cost of approximately $345 million yielding a positive benefit-to-cost ratio of 22 to 1.

Table 2.15 shows our efforts to pursue additional data exchanges to improve our OASDI and SSI improper payment identification and prevention efforts.

Table 2.15: Data Exchanges – Corrective Actions

Description	Target Completion	Status
Establish a data exchange agreement with the Department of Homeland Security (DHS) to obtain information necessary to identify when SSI recipients and OASDI beneficiaries are out of the country. SSI recipients are ineligible for payments if they are out of the country 30 or more consecutive days or for an entire calendar month. Generally, U.S. citizens can receive OASDI benefits regardless of place of residence. Non-citizens may be subject to additional residency requirements.	FY 2019	We conducted a pilot study that focused on the use of the travel data for the SSI program. We compared travel data in the DHS Arrival and Departure Information System (ADIS) to travel data on SSI records for a random sample of SSI non-citizens who traveled outside of the United States for 30 consecutive days or more. Results of the pilot study showed positive program savings from utilizing the ADIS foreign travel data. When fully implemented, we estimate around $45 million in potential detectable or preventable SSI overpayments over a 25-month period if we had access to citizen and non-citizen travel data. We developed the Foreign Travel Data (FTD) application within the SSI Claims System to interface with DHS's ADIS, to obtain foreign travel information on non-citizen SSI recipients. The implementation of FTD and integration of ADIS data is a multi-year project spanning FY 2019 through FY 2021, as resources permit. In May 2019, we executed a Memorandum of Agreement with DHS, under which we obtain foreign travel data on non-citizen SSI recipients. In June 2019, we released the first phase of functionality that allows field office staff to query ADIS (via the FTD application) when completing eligibility reviews (i.e., redeterminations) for current SSI recipients. In September 2019, we released the second phase of FTD functionality. We developed a new edit message which will prompt the technicians to perform an FTD query in the SSI Claims System path when completing the eligibility reviews. We will evaluate the citizen data first to ensure there are no issues and then activate the edit message, for the prompt to occur, once citizen data becomes available from DHS in FY 2020.
	FY 2020	By the end of FY 2020 as resources permit, we plan to: • Implement systems' functionality that will create and store FTD travel history records; • Integrate the ADIS data into the SSI Claims System automatically; • Send scheduled requests for ADIS data; and • Expand FTD access to include foreign travel data on U.S. citizens.

PRISONER INFORMATION

We completed two of our three initiatives to diminish improper payments in the prisoner suspension area. First, because of our efforts in FY 2018 to reemphasize the prisoner program suspension and reinstatement requirements to our technicians, we suspended monthly benefits to over 32,300 OASDI beneficiaries and more than 79,500 SSI recipients. Second, our monitoring process tracks and controls the return of incorrectly paid incentive payments from overpaid correctional institutions. When we identify incorrectly paid incentive payments, we recoup the payment and return it to our combined OASDI Trust Funds and General Fund of the Treasury. We are beginning to implement our third initiative to capture inmate population files from the largest State correctional institutions. We have also revised our prisoner reporting agreements. Our regional offices are now negotiating State reporting agreements with our State correctional institutions. Our new reporting agreements request State correctional institutions provide census files to capture State correctional inmate population reports. After we obtain State correctional inmate reporting agreements, we will negotiate and sign local correctional institution agreements. Obtaining this inmate data will help us determine if we are receiving complete prisoner information from our participating State and local correctional reporters.

MAJOR CAUSES AND CORRECTIVE ACTIONS FOR IMPROPER ADMINISTRATIVE PAYMENTS

The major causes of improper administrative payments (overpayments and underpayments) include:

- Incorrect amounts paid (including duplicate payments) for vendor payments and employee reimbursements;
- Health benefit debts due to insufficient employee pay (e.g., in a non-pay status); and
- Employee salary overpayment due to processing retroactive timesheet corrections and personnel actions.

Corrective actions include:

- The majority of the incorrect amounts paid in FY 2018 (for vendor and travel payments) were due to two errors. The first error occurred during the processing of two payments where the past due billing was paid in addition to the current billing. The second error occurred during the certification of a payment where the Contracting Officer's Representative approved an invoice in full prior to the receipt of the goods. A modification was made later to the order, which removed the non-received goods. We recovered both overpayments within two months of the incorrect payments. To prevent similar occurrences, we reviewed our internal procedures, notified the appropriate personnel involved in the improper payments, and determined that existing internal controls are adequate.
- Health benefit debts are a major cause of payroll and benefits improper payments. These debts automatically occur when an employee, who has health benefits coverage, is in a non-pay status for the entire pay period or if there are insufficient funds to make the current pay period deduction. The employee now becomes indebted to the agency because we paid both the employee and agency's share.
- Retroactive timesheet corrections and personnel actions are another major cause of payroll and benefits improper payments. Timesheets sometimes need to be adjusted retroactively due to normal business processes, such as early closeouts (e.g., an employee is paid based on estimated hours of work, but the employee then requests to change leave without pay to paid leave or advanced leave to leave without pay), late approval of overtime or compensatory time requests, and other appropriate reasons for retroactive changes.
- Personnel actions are sometimes delayed and actions must be backdated to the appropriate point in time. Retroactive timesheet corrections and personnel actions also sometimes occur due to coding errors. In those cases, we provide additional training for appropriate personnel, and review internal controls are reviewed to ensure they are adequate.

  For timesheet and personnel action corrections, we recalculate the employee's record for the earliest pay period affected for actions that occurred within the last 52 pay periods. A negative result indicates that the employee was overpaid, and the system automatically creates a debt. An action that exceeds 52 pay periods cannot be processed through the electronic system; therefore, we must enter the debt manually.

To comply with OMB Circular No. A-123, Appendix C, recognizing the major causes of payroll and benefits improper payments, we continue to:

- Train staff on time and attendance policy and procedures;
- Audit systems access and remove any users who no longer need access;
- Use data querying tools;
- Review systems to identify possible causes of improper payments; and
- Determine the overall susceptibility of the payroll process to producing improper payments.

We perform administrative fraud risk assessments to actively measure the effectiveness of the internal controls over the processing of payroll. Historically, these assessments found that our payroll management-related risks fall well below the OMB threshold.

Please note that for government-wide reporting purposes, we treat our FY 2018 findings as FY 2019 data. We will not have FY 2019 data until January 2020. We will report our findings from the FY 2019 reviews in next year's *Payment Integrity* report.

REDUCTION TARGETS

Table 3 below presents our accuracy targets for FYs 2019 and 2020 for the OASDI program. In the OASDI program, our goal is to maintain a 99.8 percent payment accuracy rate.

Table 3: OASDI Improper Payments Reduction Outlook FY 2019 – FY 2020 (Dollars in Millions)

	FY 2019 Target		FY 2020 Target	
OASDI	**Dollars**	**Rate**	**Dollars**	**Rate**
Total Benefit Payments	$1,032,668.58		$1,087,797.67	
Underpayments	$2,065.34	≤0.20%	$2,175.60	≤0.20%
Overpayments	$2,065.34	≤0.20%	$2,175.60	≤0.20%

Notes:

1. Total OASDI benefit payments for FYs 2019–2020 are estimates consistent with projections for the Mid-Session Review of the FY 2020 President's Budget.
2. FY 2019 data will not be available until summer 2020; therefore, the rates shown for FY 2019 are targets.
3. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.

Table 3.1 presents our target accuracy goals for FYs 2019 and 2020 for the SSI program.

Table 3.1: SSI Improper Payments Reduction Outlook FY 2019 – FY 2020 (Dollars in Millions)

	FY 2019 Target		FY 2020 Target	
SSI	**Dollars**	**Rate**	**Dollars**	**Rate**
Total Federally Administered Payments	$58,283.82		$59,268.39	
Underpayments	$699.41	≤1.20%	$711.22	≤1.20%
Overpayments	$3,497.03	≤6.00%	$3,556.10	≤6.00%

Notes:

1. Total federally administered SSI payments for FYs 2019–2020 are estimates consistent with projections for the Mid-Session Review of the FY 2020 President's Budget, adjusted to be presented on a constant 12-month per year payment basis.
2. FY 2019 data will not be available until summer 2020; therefore, the rates shown for FY 2019 are targets.

RECAPTURE OF IMPROPER PAYMENTS REPORTING

INFORMATION ON PAYMENT RECAPTURE AUDIT PROGRAM

In this section, we discuss how we meet the payment recapture audit requirements of IPERA for our OASDI and SSI programs and administrative payments.

PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136 requires agencies that have programs or activities that are susceptible to significant improper payments to report about their payment recapture audit activities. However, we are unable to segregate our improper payments from our total overpayment aggregate for our OASDI and SSI benefit payments since some overpayments are not improper according to the definition of improper payments in IPIA. Certain overpayments are unavoidable and not improper if statute, regulation, or court order requires these payments (such as continued payments required by due process procedures). Table 4 shows our OASDI and SSI overpayment experience, inclusive of improper payments.

In addition, some overpayments are uncollectable. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards based on the following criteria:

- The cost of collection does not justify the enforced collection of the full amount;
- The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets;
- The debt has been discharged in bankruptcy; or
- The debtor has requested a waiver or review of the debt and the agency determines that such request is credible.

PROGRAM RECOVERY TARGETS

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). As shown in Table 4, we determine our payment recapture recovery targets for benefit payments for FY 2020 and FY 2021 based on our FY 2019 experience. Certain uncontrollable factors affect our payment recapture recovery targets. For example, the state of the economy affects the availability of employment. We generally experience greater collections from our external debt collection tools when employment is abundant and former OASDI beneficiaries and SSI recipients are working.

Table 4 shows our results from our payment accuracy reviews for our OASDI and SSI programs and administrative payments.

Table 4: Overpayment Payment Recaptures with and without Recapture Audit Programs
(Dollars in Millions)

Overpayments Recaptured through Payment Recapture Audits					
Program or Activity	Benefits		Other		Total
	OASDI	SSI	Payroll and Benefits	Vendor and Travel	
Amount Identified (FY 2019)	$11,105.01	$13,776.59	$4.40	$0.68	$24,886.67
Amount Recaptured (FY 2019)	$2,627.27	$1,448.86	$2.33	$0.57	$4,079.04
FY 2019 Recapture Rate	23.7%	10.5%	53.1%	83.4%	16.4%
FY 2020 Recapture Rate Target	20.5%	19.3%	100%	100%	19.9%
FY 2021 Recapture Rate Target	10.1%	9.4%	100%	100%	9.7%

Overpayments Recaptured outside of Payment Recapture Audits					
Program or Activity	Benefits		Other		Total
	OASDI	SSI	Payroll and Benefits	Vendor and Travel	
Amounts Identified (FY 2019)	$0.00	$0.00	We do not have separate totals for payroll and benefits or vendor and travel. See Total column.	We do not have separate totals for payroll and benefits or vendor and travel. See Total column.	$1.82
Amounts Recaptured (FY 2019)	$0.00	$0.00	We do not have separate totals for payroll and benefits or vendor and travel. See Total column.	We do not have separate totals for payroll and benefits or vendor and travel. See Total column.	$2.22

Notes:

1. This table comprises all identified and recovered benefit program overpayments from our benefit payment recapture audit program for the specified fiscal year. Overpayments identified or recovered in a specified year include debt established in prior years. We do not recapture benefit overpayments outside of our payment recapture audits for benefit payments.
2. The Amounts Identified for benefit payments are debt available for recovery in FY 2019. These amounts include debts identified in previous fiscal years that were not recovered or were determined to be uncollectible.
3. The Amounts Recaptured for benefit payments are FY 2019 recoveries from debt we had available for recovery in FY 2019, which include debts identified in prior years.
4. We do not consider every overpayment improper according to the definition contained in IPIA.
5. We based the recapture rate target for benefit payments on FY 2019 and prior years' experience and the anticipated growth of our benefit payments in FY 2020 and FY 2021.
6. This table comprises all identified and recovered administrative overpayments from our internal payment recapture audit program for administrative payments. We include these administrative payments under the table heading titled, "Other."
7. Totals for Amount Identified (FY 2019) and Amount Recaptured (FY 2019) for administrative payments are from our internal payment recapture audit in FY 2018. Overpayments identified or recaptured in FY 2018 include debt established in prior years.
8. For the overpayments recaptured outside of payment recapture audits, the totals are derived from multiple sources and mainly include identified and recovered administrative overpayments from sources other than our payment accuracy reviews for payroll and benefits payments, which we discuss in the Recapture of Improper Payments Reporting section of this *Payment Integrity* report. We do not have separated totals for payroll and benefits or vendor and travel.
9. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2018 but could have occurred in a prior year.
10. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive dollar amounts and percentages from unrounded source data.
11. We return all amounts recaptured to the original appropriation from which the payment originated.

Benefit Payments

Payment Recapture Audit Program

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts. We have a multi-pronged approach to conducting payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, specialists with extensive expertise in our benefit programs and business processes conduct our stewardship reviews. These employees review a sample of OASDI and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, contact third parties as needed, and redevelop all non-medical factors of eligibility and payment amount for the review period. We use these data to identify payment accuracy, as well as our strengths and weaknesses, which allows us to target our resources to take corrective actions that yield the highest return on investment.

In our field offices, PCs, and State DDSs, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. In August 2018, we reached a milestone by becoming current with our medical CDRs with the release of all available medical CDRs for FY 2018. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first complete those CDRs and redeterminations that will likely result in a termination of benefits or the recovered amount of an overpayment, respectively. Please see the section of this *Payment Integrity* report titled, Agency Information Systems and Other Infrastructure, Human Capital, for information on savings.

CDRs and SSI redeterminations are our most effective payment recapture program integrity activities because they both identify cases where we should discontinue benefit payments. We receive dedicated funding to support CDRs and redeterminations.

Administrative Payments

Internal Payment Recapture Audit Program

As shown in Table 4.1, we segment administrative payments into several categories to analyze and determine the vulnerability of these outlays to improper payments.

Table 4.1: FY 2018 Administrative Expenses[3]
(Dollars in Millions)

Payroll and Benefits	$7,009
State DDS	$1,869
***American Recovery and Reinvestment Act* (ARRA)[1]**	$12
Other Administrative Expenses[2]	$3,755
Total Administrative Expenses	$12,644

Notes:

1. ARRA expenses consist of National Support Center building costs only.
2. Other Administrative Expenses includes vendor, travel, transportation, rents, communications and utilities, printing and reproduction, other services, supplies and materials, equipment, land and structure, grants, subsidies and contributions, information technology systems, OASI and DI Trust Fund operations, other dedicated accounts, other reimbursable, interest and dividends, and insurance claims and indemnities.
3. Total may not necessarily equal the sum of rounded components. We derive dollar amounts from unrounded source data.

We conduct annual payment accuracy reviews as part of our payment recapture audit program. Results from the audit program and quality review process continue to confirm that our administrative payments are well below the OMB threshold for reporting improper payments.

In the paragraphs below, we indicate the categories from Table 4.1 or payment types within a category that we did not review because it was not cost effective. As required by OMB Circular No. A-136, we notified OMB in September 2015 that certain categories and payment types within a category are not cost effective to review and are excluded from our payment recapture audit program.

For FY 2018, the internal recovery audit program included a review of the following payment categories from Table 4.1: Payroll and Benefits and Other Administrative Expenses.

Payroll and benefits account for a majority of our total administrative expenses. For FY 2018, we found approximately $4.40 million in improper payroll overpayments out of $7,009 million payroll payments, which yielded a 0.06 percent improper overpayment rate. We return all amounts recovered to the original appropriation from which the overpayment originated.

From the Other Administrative Expenses category, we review vendor and employee travel payments using an existing internal recovery audit program that contains a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify duplicate payments made to the same vendor, with the same invoice date, and for the same amount;
- An annual payment accuracy review examining select criteria on a random sample of payments to identify improper payments or a weakness in the internal payment recapture audit program; and
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

In FY 2018, we reviewed $1.62 billion in vendor and travel payments out of $1.65 billion subject to review.

We identified total vendor and travel improper overpayments of $0.682 million, approximately 0.04 percent of total payments subject to review. As of the end of FY 2018, slightly over $141,000 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivables balance reflected the timing of when we issued the request for overpayment refund. Our recovery goal for all vendor and travel overpayments is 100 percent. We return all amounts recovered to the original appropriation from which the overpayment originated.

For State DDS payments, our 10 regional offices review amounts drawn against pre-approved DDS spending plans. For payment accuracy, our OIG reviews the DDS payments on a rotational basis. We use our OIG's findings, if any, to enhance our payment controls.

For ARRA payments, we rely on our OIG's audits of the ARRA funds as part of our payment recapture audit program for administrative payments. ARRA payments made up only 0.09 percent of our total administrative expenses in FY 2018.

Not all administrative overpayments are collectable. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards based on the following criteria:

- The cost of collection does not justify the enforced collection of the full amount;
- The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
- The debt has been discharged in bankruptcy; or
- The debtor has requested a waiver or review of the debt and the agency determines that the request is credible.

Administrative Payments Recovery Targets

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. Table 4 shows our targets for our administrative payment recapture audit program. We strive to recover all administrative overpayments and established a 100 percent target. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from incorrect or duplicate payments to vendors or employees. We use various tools for collection, including offset of subsequent vendor payments, the Treasury Offset Program (TOP), and Administrative Wage Garnishment (AWG).

Disposition of Payment Recapture Funds

Table 5: Disposition of Funds Recaptured Through Payment Recapture Audit Programs
(Dollars in Millions)

Amount Recaptured		Disposition of Recaptured Funds						
Program or Activity	Amount Recaptured	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of the Inspector General	Returned to Treasury	Other[1]
Benefit	$4,076.13	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	$4,076.13
Administrative	$2.90	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	$2.90

Note:

1. We return all amounts recaptured to the original appropriation from which the payment was made for our OASDI and SSI benefits and administrative payments.

Aging of Outstanding Overpayments

OMB Circular No. A-136 requires agencies to develop an aging schedule of the amount of outstanding overpayments identified through their payment recapture audit program (i.e., overpayments that have been identified but not recaptured). Table 6 shows our aging schedule for our OASDI and SSI programs and our administrative payments.

Table 6: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
(Dollars in Millions)

Program or Activity		FY 2019 Amount Outstanding (0 to 6 Months)	FY 2019 Amount Outstanding (6 Months to 1 Year)	FY 2019 Amount Outstanding (Over 1 Year)	FY 2019 Amount Determined to not be Collectable
OASDI	Overpayment Dollars	$1,234.65	$590.65	$2,548.34	$587.05
	Percent of Total Outstanding	28.2%	13.5%	58.3%	13.4%
SSI	Overpayment Dollars	$1,017.55	$672.84	$5,322.65	$309.37
	Percent of Total Outstanding	14.5%	9.6%	75.9%	4.4%
Payroll and Benefits	Overpayment Dollars	$1.84	$1.46	$3.13	$0.70
	Percent of Total Outstanding	28.7%	22.7%	48.6%	10.9%
Vendor and Travel	Overpayment Dollars	$0.09	$0.02	$0.03	$0.00
	Percent of Total Outstanding	65.4%	14.4%	20.2%	0.3%
Total	Overpayment Dollars	$2,254.14	$1,264.96	$7,874.15	$897.13
	Percent of Total Outstanding	19.8%	11.1%	69.1%	7.9%

Notes:

1. The aging of outstanding overpayments begins when the overpayment is delinquent, which is generally when no voluntary payment has been made 30 days after the latest of the following dates:
   - The debt was established on our system for OASDI;
   - The initial overpayment notice for a debt established on the SSI system;
   - The last voluntary payment;
   - An installment arrangement;
   - A decision on an individual's request to reconsider the existence of the overpayment; or
   - A waiver denial.
2. Totals for payroll and benefits payments and vendor and travel payments are from our internal payment recapture audit in FY 2018.
3. Total Outstanding are overpayments that have not been recaptured, waived, or written-off through the end of FY 2019 for OASDI overpayments and SSI overpayments. For payroll and benefits overpayments and vendor and travel overpayments, Total Outstanding are overpayments that have not been recaptured, waived, or written-off through the end of FY 2018.
4. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive dollar amounts and percentages from unrounded source data.
5. FY 2019 Amount Determined to not be Collectable is not included in the amount outstanding or total outstanding.

Additional Comments

Agency Efforts to Collect Overpayments in the OASI, DI, and SSI Programs

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected $4.076 billion in OASDI and SSI benefit overpayments in FY 2019 at an administrative cost of $0.06 on average per dollar collected. We collected $18.5 billion over a 5-year period (FYs 2015–2019). To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as some external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts. From 1992–2019, our external collection techniques have yielded $3.2 billion in benefit overpayment recovery. For additional information about our external collection techniques, please refer to the Debt Collection and Management section of this FY 2019 *Agency Financial Report*.

We suspend or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards. Generally, we terminate or suspend collection action when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered. Terminating collection action is a temporary or conditional write-off and does not discharge the debt. The debt remains on the debtor's record. If the debtor becomes entitled to benefits in the future, we will collect the debt by appropriate and available methods.

We developed a system to use TOP, credit bureau reporting, and AWG collection mechanisms. Because the system includes more than TOP and is the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation (ECO) system.

We enhanced ECO to collect delinquent debts through Treasury's State Reciprocal Program. The State Reciprocal Program allows States to enter into reciprocal agreements with Treasury to collect unpaid debts owed to States by offset of Federal non-tax payments. In return, the agreements allow the Federal Government to collect delinquent, non-tax debts owed to the Federal Government by offset of State payments.

Continued improvement in other aspects of our debt collection program is underway. In FY 2018, we began modernization efforts to build a new Debt Management System, which, among many features, will also allow for electronic remittances for overpayments. The new information technology (IT) investment, the DMP, is a multi-year effort that will build a new comprehensive overpayment system enabling us to record, track, collect, and report our overpayments more efficiently.

The DMP will also expand the Non-Entitled Debtors (NED) program to collect debts from debtors who have never been entitled to OASDI benefits or SSI payments. Currently, NED captures payments made to representative payees after the death of an OASDI beneficiary and overpayments to representative payees prior to the death of the OASDI beneficiary for which the payee is responsible. In addition, we will further implement Section 104 of the *Strengthening Protections for Social Security Beneficiaries Act of 2018* to establish State responsibility for overpayments that occurred for OASDI childhood beneficiaries and SSI child recipients while in State-administered foster care.

During the development of the new DMP, we will accommodate the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies for debt collection. Prior to implementing these additional debt recovery tools, we will need to address many factors, such as:

- Impact on our current collection policies and procedures;
- Post-entitlement notices, as well as the need for new notices; and

- Feasibility of resources to address implementation and oversight from an IT and operations impact perspective.

Collecting Debt

Our improper payments strategy includes focusing on enhancements to improve our OASDI and SSI debt recovery efforts. These changes also support debt management compliance and performance as required by OMB. Please see the list below:

- Debt Management Product
  - Currently, multiple systems exist that record, track, notify, and manage our OASDI and SSI overpayments. Through modernization, we will create a single debt management universal view for our technicians to process overpayment transactions more effectively and efficiently. We will also automate overpayment waiver determinations, where appropriate, to enhance controls surrounding waiver determinations.
  - We will pursue using automation and online services for collecting OASDI and SSI overpayment remittances. In December 2017, we completed our initial initiative via the Social Security Electronic Remittance System to process remittances received in our field offices for program debt.
- Treasury Report on Receivables enhancements for OASDI and SSI
  - We implemented systems enhancements to meet the reporting requirements of the *Digital Accountability and Transparency Act of 2014*.
  - We continued to analyze data to ensure we are accurately reporting our receivables.
  - Implementation of the new DMP will address our reporting limitations such as the number of OASDI debts that the system bundles and counts as a single debt when an individual has multiple debts.
- Policy Update
  - We implemented a systems change to align with our policy on delinquent installment agreements in early FY 2019. This change enables delinquent debts we refer to TOP to remain in referred status until the individual repays the debt in full, requests a waiver, dies, or resumes receiving monthly benefits.

Recovery of Overpayments Due to Death

The Federal Government uses the reclamation process to recover benefit payments paid via direct deposit to the financial account of a beneficiary who died, became legally incapacitated, or a beneficiary who died before the date of the payment(s). To recover OASDI and SSI payments from U.S. financial institutions, we must send reclamation requests within 120 days of the date we learned of a beneficiary's death. A financial institution may protest a recovery of funds if we did not initiate the reclamation timely.

We have procedures for recovering both OASDI and SSI improper payments caused by overpayments due to death where we paid the beneficiary by paper check. Below are examples of actions we take for OASDI beneficiaries and SSI recipients:

If the overpaid OASDI beneficiary is deceased, we attempt to recover the overpayment by:

- Withholding any underpaid benefits due to the deceased beneficiary;
- Withholding any lump-sum death payment payable to individuals on the same earnings record;
- Proposing adjustment against any person receiving benefits on the overpaid individual's earnings record at the time the overpaid individual died; or
- Sending a letter to the endorser or the deceased's estate requesting repayment.

If the overpaid SSI recipient is deceased, we will notify the estate of the overpayment and seek recovery from:

- A liable representative payee;
- A liable spouse;
- A sponsor of an alien recipient (under certain circumstances); or
- Any individual who committed fraud to cause the overpayment.

We have several initiatives we use to track and resolve discrepancies related to death, including:

- The Numident Death Match – This match identifies discrepancies between the Numident, which is our master file of assigned SSNs, and our payment records, which results in monthly alerts that feed into the Death Alerts Tracking System (DATS). We use DATS to resolve these alerts and stop paying benefits, if appropriate.
- The Death Information Processing System (DIPS) – DIPS is an agency-wide, web-based system used to add, change, or remove death information on the Numident for deceased individuals. DIPS replaced the Death Alert Control and Update System and the Customer Information Control System.
- The Electronic Death Registration (EDR) process – This State-sponsored initiative automates the paperbound death registration process and allows States to verify the name and SSN of a deceased person against our Numident before registering the death. This process results in the electronic transmission to us of more accurate and timely death information, allowing us to stop benefits for the deceased beneficiary. The EDR process supports the agency's Strategic Goal, "Ensure Stewardship." This includes minimizing improper payments by identifying and preventing erroneous payments after death, and reducing erroneous death terminations. States can incur significant costs when transitioning to EDR. However, we continue to work diligently with the four remaining States and one additional jurisdiction.
- Through our IT Modernization efforts from FY 2018 to date, we furthered efforts to improve the accuracy and consistency of death information by adding over 10 million deaths to the Death Master File. These records, for non-beneficiaries, benefit external users of our data in preventing improper payments.
- In FY 2020, we are planning the following enhancements:
  - Continuing efforts to improve the accuracy and consistency of death information by posting historical State death data to the Death Master File;
  - Streamlining the posting of death information to facilitate more timely termination of benefits; and
  - Enhancing our matching criteria to help prevent erroneous death postings.

BARRIERS

Our processes and policies and our statutory and regulatory requirements are complicated, which poses challenges in our administration of our programs. To meet the challenges of our growing workloads and provide the best service possible, we continue to streamline our policies and procedures and automate more of our business processes. We work with Congress and our stakeholders to simplify our statutory and regulatory requirements. The FY 2020 President's Budget includes several legislative proposals that can help simplify our programs and better identify, prevent, and recover improper payments. We discuss some of these proposals in the following paragraphs. More information on our legislative proposals is located in our *FY 2020 Budget Overview* (www.socialsecurity.gov/budget/).

Offset Unemployment Insurance-Disability Insurance Overlapping Payments

Under current law, concurrent receipt of DI benefits and Unemployment Insurance (UI) is allowable. This situation means that beneficiaries can receive the full disabled worker benefit, while also receiving UI, both of which are intended as income replacement. The Budget proposes to offset DI benefits to account for concurrent receipt of UI. This offset would eliminate duplicative benefits by ensuring, in effect, that the benefit the individual receives would not exceed the higher of the UI or DI benefits.

Authorize SSA to Use All Collection Tools to Recover Funds in Certain Scenarios

Current law provides us only limited authority to recover certain incorrect payments that do not meet the statutory definition of an overpayment. Such incorrect payments include when someone improperly cashes a beneficiary's check or improperly removes benefit funds from a joint account after a beneficiary's death. Because these incorrect payments are not considered overpayments, our recovery options are limited. Additionally, this proposal would provide us the authority to recover court-ordered judgments payable to the Commissioner. These proposed changes would expand our authority to recover funds and end disparate treatment of similar types of improper payments, using all overpayment collection tools, such as credit bureau reporting and AWG.

Increase the Overpayment Collection Threshold for OASDI

This proposal would change the minimum monthly withholding amount for recovery of Title II benefit overpayments for the first time since we established the current minimum of $10 in 1960. By changing this amount from $10 to 10 percent of the monthly benefit payable, we would recover overpayments more quickly and better fulfill stewardship obligations to the combined OASDI Trust Funds. The SSI program already uses a 10 percent recovery policy. If the beneficiary cannot afford to have that amount withheld because he or she cannot meet ordinary and necessary living expenses, the beneficiary may request partial withholding. To determine a proper partial withholding amount, we negotiate (as well as re-negotiate at the overpaid beneficiary's request) a partial withholding rate.

Improve SSI Youth Transition to Work

The SSI transition-age (ages 14 to 25) youth population, despite their disabilities, should have equal opportunities as they become adults to work and achieve self-sufficiency. Unfortunately, a majority of each new generation of SSI youth move directly onto the adult SSI program at age 18 and those who do not remain on SSI (approximately 40 percent) have lives marked by low labor force participation in adulthood and persistent poverty. In particular, the Budget proposes three areas of reform to improve the life outcomes and connect SSI youth to work.

First, the Budget better identifies medical improvement at the earliest point to increase oversight and signal the importance of SSI youth investing in their education and development. The Budget proposes to: (a) authorize us to conduct medical redeterminations at ages 6 and 12 using the initial disability evaluation standard; and (b) increase the frequency and effectiveness of CDRs by expanding the CDR diary system for all disability beneficiaries from three to four categories, allowing us to conduct CDRs more frequently for those medical impairments that are expected or likely to improve.

Second, the Budget improves SSI youth work incentives by eliminating administrative barriers and increasing the value of work by proposing to disregard all earned income and eliminate income reporting requirements through age 20, provide a higher disregard of earnings with a gradual phase-down for SSI recipients and ineligible children between ages 21 and 25, and eliminate school enrollment reporting requirements.

Finally, the Budget improves access to vocational rehabilitation services for SSI transition-age youth, as well as the entire DI and SSI population, by allowing us to make referrals to these services.

SIMPLIFY ADMINISTRATION OF THE SSI PROGRAM

Currently, SSI recipients can receive lower benefits if they are earning, or otherwise receiving, income. Income includes non-cash income, such as assistance by a roommate or family member in paying the recipient's share of the household expenses, such as food and shelter. This type of income is called ISM and is difficult to accurately value because it can fluctuate each month as household expenses and composition and the type of assistance provided may change. This proposal would replace ISM with a flat-rate benefit reduction for adults living with other adults.

This proposal would make two additional changes to simplify the program and reduce the burden on beneficiaries and representative payees. This proposal would eliminate the holding out policy, which requires us to ask invasive questions to determine whether two unrelated adults, who live together and are not married, are holding themselves out to their community as being married. This proposal would also eliminate the dedicated account policy, which requires representative payees to open separate accounts in order to receive SSI underpayments and limits how funds in the accounts can be used. These requirements confuse representative payees, who are often parents, and restrict their ability to decide which expenditures are in the best interests of their disabled children.

ACCOUNTABILITY

Effective FY 2012, as required by IPERA, we hold managers, program officials, and senior executives accountable for reducing improper payments. For these employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments and meet targets to reduce improper payments.

AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

INTERNAL CONTROLS

We have a strong internal control environment that has always included controls over our benefit payment and debt management processes. As a result, we directly leverage our existing internal control environment and assurance processes to provide reasonable assurance that our internal controls over improper payments are in place and operating effectively.

As part of our internal control environment, we have a well-established, agency-wide management control program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

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

We established the Improper Payments Oversight Board (IPOB), consisting of senior executive membership, to ensure that we are focusing on improper payment prevention, formulating clear and innovative strategies, and driving timely results agency-wide. The IPOB's role is to serve as the corporate team to:

- Oversee all improper payment-related activities for the agency;
- Collaborate and shape strategy; and

- Resolve cross-component differences, address challenges encountered by staff, and drive timely results.

For additional information about our internal control environment, please refer to the *Systems, Controls, and Legal Compliance* section of this FY 2019 *Agency Financial Report*.

The effective internal controls we incorporate into our business processes and financial management systems, as well as the program integrity efforts mentioned throughout this report, support our Commissioner's annual assurance statement to the President and Congress that discusses whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;
- Financial management systems are in conformance with government-wide requirements; and
- Internal controls over financial reporting are operating effectively.

We include the Commissioner's annual assurance statement, additional information of our review program, and the results of the financial statement audit, in the *Systems, Controls, and Legal Compliance* section of this FY 2019 *Agency Financial Report*. For additional information on the financial statement audit, please see the *Report of Independent Certified Public Accountants* section of this FY 2019 *Agency Financial Report*.

Our strong overall internal control program contributes significantly to our efforts to reduce improper payments.

Human Capital

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits and other mission-critical work.

Our stewardship responsibility includes conducting non-medical SSI redeterminations and full medical CDRs. These reviews save significant program dollars by avoiding improper payments. In FY 2018 and FY 2019, we received the fully authorized cap adjustments for dedicated program integrity activities; as a result, we have been able to remain current with the full medical CDR workloads that we process. In FY 2018, we completed approximately 896,500 full medical CDRs and approximately 2.91 million SSI redeterminations. In addition, we completed approximately 314,400 work CDRs in FY 2018. In FY 2019, we completed approximately 713,000 full medical CDRs and approximately 2.67 million SSI redeterminations. In addition, we completed approximately 310,700 work CDRs in FY 2019.

In August 2018, we reached a milestone by becoming current with the volume of full medical CDRs with the release of all available full medical CDRs for FY 2018. The FY 2020 President's Budget will continue to remain current with program integrity workloads, helping to ensure that only those eligible for OASDI and SSI disability benefits continue to receive them. Assessments of the return on investment from CDRs completed in FY 2015 and earlier establish that we achieve significant program savings with this workload. Additionally, in the FY 2020 Budget we estimate that that CDRs conducted in 2020 will yield a return on investment of about $8 on average in net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare and Medicaid program effects. The Budget proposes $1,582 million for SSA, including the FY 2020 cap adjustment amount of $1,309 million for dedicated program integrity. The *Bipartisan Budget Act of 2015* authorized a net increase in new cap adjustment levels through 2021.

Information Systems

Our staff rely on our IT infrastructure to serve the public and safeguard our programs. However, our infrastructure needs have evolved as the demands for our data and programs have increased. We developed our systems over 30 years ago, and the infrastructure and application code has lagged behind as newer technologies advanced what is possible with the use of modern tools and emerging IT capabilities such as artificial intelligence. Our IT infrastructure has grown increasingly complex, inefficient to meet customer demands, and costlier to maintain and secure as changes were applied on top of prior changes.

We initiated our *IT Modernization Plan* in FY 2018 to improve our service to the public. We will advance our IT infrastructure with 21st century technology and implement the technical flexibility necessary to adapt to future demands. To achieve our modernization goals, we will invest $691 million over 5 years, including the $325 million that the Congress provided in dedicated IT modernization funding in FYs 2018 and 2019. We must devote resources to upgrading our infrastructure while simultaneously maintaining our current IT services to ensure that our customers experience uninterrupted service. The President's Budget continues to fund our *IT Modernization Plan*, which allows us to make technical infrastructure changes, communications capabilities to support beneficiaries and recipients, and service improvements.

For example, we will replace outdated claims intake "green screens" with modern software and begin to replace 24 million lines of COBOL that support our claims process with modern code. Over the next several years, the Consolidated Claims Experience will replace our multiple benefit claims taking systems. This new system will provide our employees a holistic view of customer data in a graphical user interface, eliminating "green screen" queries and consolidating all customer information in one place. We will also improve the disability claims adjudication process by developing decision support tools that use artificial intelligence on electronic medical and vocational records.

In FY 2019, we continued modernizing our database infrastructure and support capabilities; improve access to master file data to allow the eventual retirement of legacy software; consolidate and eliminate duplicate data; and expand our enterprise data warehouse. In FY 2020, we will continue to modernize our claims taking process, improve the quality of the data we use to make decisions on eligibility and payment, and improve our communication with beneficiaries and recipients. We will further consolidate data in areas that deliver measurable business value while improving data integrity and access, and continue to improve database support by using modern relational database formats and techniques. We will also continue to deploy the Customer Communications Management application capability to collect and react to customer communications preference for receiving information from the agency and to receive agency correspondence via traditional mail or online. These efforts will help us benefit from IT advancements in the coming years.

Other Infrastructure

The agency continues to emphasize the importance of information security through continual operational refinement and the maturation of security components that exceed the standards set forth by government regulations.

In FY 2019, we implemented new capabilities for identifying and mitigating vulnerabilities within our IT assets. We enhanced our identity management platform, further automated our response to security events, and improved data at rest encryption to protect further our information assets. We deployed IT infrastructure, developed network models needed to enhance our network access controls, and strengthened our strategy to limit the impact of potential cyber-attacks. We implemented new email and network safeguards to detect and prevent malware from entering our network. Additionally, we developed and implemented our plan to address key cybersecurity skill and knowledge gaps identified under the *Federal Cybersecurity Workforce Assessment Act*.

In FY 2020, we will strengthen our efforts to attract, develop, and retain our cybersecurity workforce to continue to address cyber threats. We will continue to improve our cybersecurity infrastructure and our ability to detect and eliminate vulnerabilities by using automated workflows. We will automate our detection and response processes to provide seamless integration from the identification of threats through the mitigation of vulnerabilities, as well as implement additional protections designed to limit the impact of potential cyber-attacks (whether they stem from external or internal threats). We will invest in and improve upon our existing identity management capabilities to enhance and automate access control provisioning and privileged account management.

In FY 2021, we will continue to align our agency cybersecurity priorities with agency strategic objectives and the National Institute of Standards and Technology Cybersecurity Framework (CSF). Continued alignment with the

CSF will infuse practices from Federal initiatives including the President's Cybersecurity National Action Plan, DHS's High Value Asset program, and DHS's Continuous Diagnostics and Mitigation program. We will continue to streamline and modernize the existing Comprehensive Integrity Review Program business process. The revised process will use innovative technologies such as big data and predictive analytic tools to identify, detect, and stop potentially fraudulent programmatic transactions before they occur.

Sampling and Estimation

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a statistically valid sample of OASI, DI, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, contact third parties for additional information if needed, and redevelop all non-medical factors of eligibility as of the sample month to determine whether the payment was correct. We express any difference between what we actually paid and what the reviewer determines we should have paid as an overpayment or underpayment error. We based the data in the OASDI and SSI Improper Payments Experience tables on cases sampled in FY 2018. For government-wide reporting purposes, we treat our FY 2018 findings as FY 2019 data. We will not have FY 2019 data until summer 2020. We will report our findings from the FY 2019 stewardship reviews in next year's *Payment Integrity* report.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refer to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay more or less than we should have paid. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year rolling average for each type of deficiency to identify and rank error trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We base our corrective actions for our high-priority programs on the information we obtain from the stewardship reviews. We focus our efforts on major causes of improper payments, both overpayments and underpayments.

Risk Assessment

Risk Susceptible Program

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed $100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1.1 for details of our OASI and DI improper payments, and Table 1.2 for details of our SSI improper payments in the Payment Reporting section of this *Payment Integrity* report.

OMB's IPERA guidance requires us to evaluate all our payment outlays (i.e., payments from the OASI, DI, and SSI programs and other outlays, such as administrative payments). Since 2003, we have reviewed our administrative payments, including payroll disbursements and vendor payments. We found these payments were not susceptible to significant improper payments. As such, OMB guidance requires that we conduct a risk assessment at least once every three years. Below we provide additional information on the risk assessment of our administrative payments.

Benefit Payments

To comply with IPERA's risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our stewardship review is a cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs.

Administrative Payments

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that an agency's administrative payments are susceptible to significant improper payments, the agency is required to establish an annual improper payment measurement related to administrative payments.

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weakness in the administrative payment process;
- The size, stability, and complexity of our administrative payment processes;
- The historically low error rate for administrative payments;
- Extensive controls inherent in our administrative payment systems; and
- The current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We evaluated our FY 2018 administrative expenses and determined they were not susceptible to significant improper payments as defined by IPIA. We reviewed the agency's Travel and Purchase Card Management Plans required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs*. We also leveraged the results of an independent accounting firm's FY 2017 residual risk assessment in support of our FMFIA Internal Control Program. This assessment found that our administrative expenses, accounts payables, human resources, and payroll management-related residual risks are low overall.

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Appendix

GLOSSARY OF ACRONYMS

A

ADIS	Arrival and Departure Information System
ADP	Automated Data Processing
AFI	Access to Financial Institutions
AFR	Agency Financial Report
ALJ	Administrative Law Judge
APG	Agency Priority Goal
APP	Annual Performance Plan
APR	Annual Performance Report
ARIS	Allegation Referral Intake System
ARRA	American Recovery and Reinvestment Act of 2009
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment

B

BEA	Bureau of Economic Analysis
BNC	Beneficiary Notice Control

C

CAP	Cross-Agency Priority
CARES	Compassionate and REsponsive Service
CDI	Cooperative Disability Investigation
CDM	Continuous Diagnostics and Mitigation
CDR	Continuing Disability Review
CDREO	Continuing Disability Review Enforcement Operation
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CMA	Computer Matching Agreement
CMP	Civil Monetary Penalty
CMS	Centers for Medicare and Medicaid Services
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CPR	Cross-Program Recovery
CSF	Cybersecurity Framework
CSRS	Civil Service Retirement System

D

DACA	Deferred Action for Childhood Arrivals
DATA Act	Digital Accountability and Transparency Act of 2014
DATS	Death Alerts Tracking System
DCPS	Disability Case Processing System
DDS	Disability Determination Services
DHS	Department of Homeland Security
DI	Disability Insurance
DIPS	Death Information Processing System
DMP	Debt Management Product
DOJ	Department of Justice

E

ECO	External Collection Operation
EDR	Electronic Death Registration
EFRM	Enterprise Fraud Risk Management
EN	Employment Network
ERM	Enterprise Risk Management

F

FECA	Federal Employees' Compensation Act
FEGLI	Federal Employee Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FICA	Federal Insurance Contributions Act
FISMA	Federal Information Security Management Act
FMAX	Family Maximum
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	Financial Management System
FPU	Fraud Prevention Unit
FR	Financial Report of the United States Government
Framework	A Framework for Managing Fraud Risks in Federal Programs
FRDAA	Fraud Reduction and Data Analytics Act of 2015
FTD	Foreign Travel Data
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GPO	Government Pension Offset
GPRMA	Government Performance and Results Modernization Act of 2010
Grant Thornton	Grant Thornton LLP
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System

H

HI	Hospital Insurance
HI/SMI	Hospital Insurance/Supplemental Medical Insurance

I

IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IPOB	Improper Payments Oversight Board
IRPP	Internet Representative Payee Portal
IRS	Internal Revenue Service
ISM	In-Kind Support and Maintenance
iSSNRC	Internet Social Security Number Replacement Card
IT	Information Technology

L

LAE	Limitation on Administrative Expenses
LPR	Lawful Permanent Resident

M

MD&A	Management's Discussion and Analysis
myWR	myWageReport

N

NAFC	National Anti-Fraud Committee
NAFT	National Anti-Fraud Training
NCHS	National Center for Health Statistics
NED	Non-Entitled Debtor
NIST	National Institute of Standards and Technology

O

OA	Occupancy Agreement
OAFP	Office of Anti-Fraud Programs
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCFO	Office of the Chief Financial Officer
OCSE	Office of Child Support Enforcement
OIG	Office of the Inspector General
OIS	Office of Information Security
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTA	Office of Tax Analysis

P

PC	Processing Center
PIO	Performance Improvement Officer
P.L.	Public Law
PP&E	Property, Plant, and Equipment
PTF	Payments to Social Security Trust Funds
Pub. L. No.	Public Law Number

R

RIB-LIM	Retirement Insurance Benefit Limitation
RRI	Railroad Retirement Interchange
RSI	Required Supplementary Information

S

SAS	Space Allocation Standards
SCW	Space Computation Worksheets
SECA	Self Employment Contributions Act
SFFAS	Statement of Federal Financial Accounting Standards
SF-133	Budget Execution Reports
SGA	Substantial Gainful Activity
SMI	Supplemental Medical Insurance
SRC	Special Review Cadre
SSA	Social Security Administration
SSI	Supplemental Security Income
SSITWR	Supplemental Security Income Telephone Wage Reporting
SSN	Social Security Number
SSOARS	Social Security Online Accounting and Reporting System
Statement	Social Security Statement

T

TBD	To Be Determined
TFM	Treasury Financial Manual
Ticket Program	Ticket to Work and Self-Sufficiency Program
Title VIII	Special Veterans Benefits
TOP	Treasury Offset Program
Treasury	Department of the Treasury
TWP	Trial Work Period

U

U.S.	United States
U.S.C.	United States Code
UI	Unemployment Insurance
USSGL	United States Standard General Ledger

V

VR	Vocational Rehabilitation

W

WEP	Windfall Elimination Provision

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