



**HEARING BEFORE THE
COMMITTEE ON APPROPRIATIONS**

**SUBCOMMITTEE ON LABOR, HEALTH AND HUMAN SERVICES, AND
EDUCATION, AND RELATED AGENCIES**

UNITED STATES HOUSE OF REPRESENTATIVES

FEBRUARY 25, 2004

**STATEMENT BY JO ANNE B. BARNHART
COMMISSIONER
SOCIAL SECURITY ADMINISTRATION**

**ACCOMPANIED BY:
DALE W. SOPPER
DEPUTY COMMISSIONER
FOR FINANCE, ASSESSMENT AND MANAGEMENT**

Mr. Chairman and members of the Committee, I am pleased to be here today to present the fiscal year (FY) 2005 appropriation requests of the Social Security Administration (SSA). I appreciate the Committee's interest in and support of SSA in the past, and I look forward to continuing to work with you.

Overview of SSA's Programs and Overall Budget

I will begin by providing you with a brief overview of SSA's mission and overall budget. SSA advances the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's social security programs. These programs include Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), commonly referred to as Social Security, and Supplemental Security Income (SSI). SSA also provides service delivery support to the Medicare, Medicaid, Black Lung, Railroad Retirement, and Food Stamp programs. Our budget request is driven by our Agency Strategic Plan, which focuses on four strategic goals: service, stewardship, solvency and staff.

For FY 2005, SSA will spend \$557 billion to pay monthly benefits to more than 52 million people. SSA's administrative expenses, driven by the size of the programs we administer – both in terms of the amount of work we do and the number of people we need to do it – are less than 2 percent of total outlays.

SSA has four appropriations requests before this Committee, totaling \$48.6 billion: Limitation on Administrative Expenses, Office of the Inspector General, Supplemental Security Income, and Payments to the Social Security Trust Funds. Social Security trust fund benefit payments are permanently appropriated, and therefore, are not part of the budget requests before this Committee. However, it is important to note that the administrative resources that SSA needs in order to pay Social Security benefits are part of the appropriation requests that we are asking you to support.

Let me give you a sense of the vast number of tasks that our dedicated employees will perform in FY 2005. We will process almost 6 million claims for benefits; issue 18 million new and replacement Social Security number (SSN) cards after obtaining and evaluating evidence of identity; process 267 million earnings items for workers' earnings records; handle approximately 52 million phone calls to SSA's 800-number; issue 136 million Social Security Statements which provide individuals with a personal record of earnings on which they have paid Social Security taxes and estimates of future Social Security benefits; adjudicate appeals of disputed decisions; process millions of actions to keep beneficiary records current and accurate; and conduct continuing eligibility reviews to avoid erroneous payments to Social Security and SSI beneficiaries if factors affecting their eligibility or monthly benefit amount have changed.

President's Request for SSA's Limitation on Administrative Expenses

The President's budget includes \$8.878 billion for the Limitation on Administrative Expenses (LAE), a 6.8 percent increase over our FY 2004 appropriation. Given the very tight fiscal environment for FY 2005, we believe this increase in funding reflects the President's confidence in the Agency, its management, and the results we produce for the American people. While this may seem like a large increase, make no mistake – it is vital.

This increase is needed to provide the salaries and benefits, facilities, computer and telecommunications equipment, and training needed to deliver service to the American public. Approximately 75 percent of our administrative resources are used for personnel costs.

Mandatory increases in personnel costs occur every year due to annual Federal employee pay raises, career ladder promotions and benefit cost increases. These increases, as well as significant growth in our workloads as the American population ages, highlight the importance in supporting the President's budget request.

Given the severe fiscal constraints of the last two years, I want to go on the record as thanking you for your support for SSA and for the administrative funding you have provided.

This budget places a priority on delivering high-quality, citizen-centered service. With this funding, SSA will be able to keep up with key service workloads and begin to reduce hearings backlogs, increase the number of CDRs processed, and continue to lower overall disability processing times for the American people. It is imperative that we keep up with our work since we are not only facing a record number of beneficiaries, but also major new responsibilities in implementing the historic Medicare prescription drug law. The budget also focuses on implementation of AeDib, our new electronic disability claims process, which began in January. Further, in FY 2005, our budget commitment is to achieve at least a 2 percent improvement in productivity.

SSA is a results oriented organization, driven by workloads. It is important to recognize that the number of people we have to "do the job" matters significantly. The dedicated men and women of SSA will continue to do everything in their power to give the American people the service they expect and deserve. However, the reality is that fewer resources mean less work is completed.

In FY 2003, we were not able to keep up with our continuing disability review (CDR) workload. The same will be the case in FY 2004. With dedicated funding for CDRs, our FY 2005 budget will allow us to process more CDRs in FY 2005 than in FY 2004, but we will have a backlog. We know that CDRs are very cost-effective. For every \$1 in administrative resources spent to process CDRs, SSA has generated \$10 in government-wide savings. SSA's 2002 CDRs are expected to yield \$6 billion in lifetime program savings. The alternative to reducing the number of CDRs conducted would be to process fewer disability claims, thus increasing the time disability applicants must wait for a decision.

When I began my term as Commissioner of Social Security, I vowed not to manage the status quo. I initiated a Service Delivery Assessment to determine what our goals for service should be and to plan how we would achieve those goals within five years. The President has confidence in the management of this Agency, and in our plans for serving the American people. The budget increase he is proposing for SSA in FY 2005 enables the Agency to stay on track to meet my service delivery goals by the end of the original five-year period, 2008, producing results for the millions of Americans who depend on our Agency.

SSA's Recent Accomplishments

In FY 2003, SSA paid nearly \$499 billion in Federal benefits to 39.3 million OASI beneficiaries, 7.3 million DI beneficiaries, and 6.6 million SSI recipients, including individuals receiving benefits from more than one program. In addition to carrying out these responsibilities, SSA has made progress in meeting a wide range of challenges despite tough choices required to operate within appropriated resources.

In FY 2003, we exceeded our Agency-wide productivity goal. SSA offices processed over 2.5 million disability claims – an increase of more than 350,000 from FY 2001. Administrative Law Judge (ALJ) productivity rates were the highest in history – at 2.35 cases per day. SSA's Office of Hearings and Appeals processed 40,000 more hearing decisions than FY 2002. In November 2001, the average time to appeal an unfavorable hearing decision was 467 days. In November 2003, it took 252 days. The number of people doing business with SSA and rating our service as "good," "very good," or "excellent" exceeded 84 percent.

I would now like to address five key areas in SSA's FY 2005 budget.

Delivering High-Quality Service in the Face of Growing Workloads

The President's budget for SSA will continue to produce real results for the American public. In FY 2005, we will be able to add an additional 2,000 work years to our operations. This level will be sufficient to maintain or improve service and will be used largely to enhance our operational staff in SSA field offices and the Office of Hearings and Appeals. If needed, I will use some workyears to supplement the staff of the State DDSs.

With this funding, SSA will be able to begin to reduce hearings backlogs, continuing to lower overall disability processing times for the American people. In FY 2005, SSA expects to increase the number of hearings it processes to 596,000 from 538,000 in FY 2004 – an 11 percent increase. This lowers the number of pending hearings from 586,000 in FY 2004 to 550,000 in FY 2005 – a decrease of 36,000. We project our average hearings processing time for FY 2005 to be 344 days. Additionally, we will meet our commitment to process as many initial disability claims as we receive, keeping the pending workload level. We will accomplish all of this while maintaining the accuracy of our decisions.

In FY 2005, SSA will issue 18 million new and replacement Social Security cards after obtaining and evaluating evidence of identity. As a way to streamline and improve this service, we opened a pilot Social Security Card Center in Brooklyn, New York in 2002. The Brooklyn Card Center exclusively processes requests for new or replacement Social Security cards. I am waiting to see the final results from the review of the pilot. Contingent on these results, I hope to open at least one additional Card Center in FY 2004. We will move slowly and judiciously in deciding when and where to open it.

In FY 2005, SSA will also continue to increase the range of services we offer electronically to the public, encourage the public to use SSA's Internet website, and partner with other Federal, State and local entities to promote consolidated service delivery. SSA has invested substantially in electronic service delivery and will continue to do so as a critical means of providing service to millions of baby boomers.

SSA now has many of its major forms and applications available online at www.socialsecurity.gov. SSA is testing the marketing of Social Security online services through the distribution of bookmarks and other promotional materials in libraries, and is publicizing online services among human resource professionals in large businesses and organizations.

Invest in Technology and Implement an Electronic Disability Claims Process

SSA places a high priority on information technology investments. Our FY 2005 budget authority for information technology is increasing from \$392 million to \$420 million, an increase of \$28 million, or 7.1 percent. SSA plans to invest in infrastructure and office automation necessary for the support of ongoing operations, including maintenance of SSA's National Computer Center, telephone services, and hardware and software nationwide. The most notable strategic investment is AeDib, an electronic disability claims filing process, which replaces the paper-driven process with a more efficient electronic system, and is expected to reduce processing times significantly over the long term.

SSA made significant progress in improving overall disability processing times in 2003. In addition to the processing time improvements of SSA's Appeals Council that I've already mentioned, our average processing time for initial claims was 97 days, an improvement from the FY 2002 processing time of 104 days. However, there is still more to be done. Individuals who initially are denied disability benefits and who appeal have to wait almost an additional year before a final hearing decision is made. To address this issue, SSA is implementing several initiatives in 2004 and 2005, including AeDib.

In the paper-driven process, when a claimant requests a hearing, it often takes more than a month simply to locate the claimant's folder in the field office and deliver it to the appropriate hearing office. This will change with the new paperless process, and costs related to locating, mailing, and storing paper files will be significantly reduced.

AeDib is truly revolutionizing the way we do work and is essential for making changes for the long-term. Rollout began January 26th, 2004, in Jackson, Mississippi and is estimated to be complete by June 2005.

We have found that the process does increase the average time spent in the field office preparing the claim by approximately 15 to 20 minutes, but this additional time will result in more complete case files and thus save many hours, days, and weeks in overall processing time.

Regarding long-term improvements, I recently announced a new approach for improving the disability determination process. It focuses on making the right decision as early in the process as possible, creating work opportunities for people with disabilities and improving the quality of decisions. It is important to note that this proposal is predicated on the successful implementation of AeDib, which would allow disability claims and quality reviews to be worked at any location. We continue to receive input, comments and ideas from Congress, the public, organizations, advocacy groups and employees as we continue to refine the new approach.

Increase SSA's Overall Productivity

In FY 2003, we exceeded our Agency-wide productivity goal. We achieved a 2.1 percent increase in productivity, due largely to the dedication of our employees. Considering that we had a 5.1 percent increase in productivity in FY 2002, our achievement in FY 2003 is even more noteworthy. Our goal for FY 2005 is to again increase productivity by at least 2 percent.

SSA has a number of initiatives underway to improve productivity, primarily through systems improvements and automation. These include: AeDib, enhanced Internet applications, electronic reporting of death, improvements to the earnings process, Title II redesign, and modernization of our SSI systems.

Ensure the Integrity of SSA's Programs

SSA's mission demands that we balance our commitment to service with our obligation to be good stewards of the programs we administer. We fulfill this obligation through cost-effective program integrity work such as CDRs, periodic non-disability redeterminations, overpayment collections, and strengthened management of our programs. Overall, these activities will reduce the Federal deficit in 2005 and beyond.

The President's budget proposes dedicated administrative funding for cost-effective CDRs. For FY 2005, the President's budget proposes \$561 million in dedicated funding to ensure continuation of CDRs. Further, the President's budget proposes that discretionary spending caps be reinstated in any budget reform legislation that Congress considers. If caps are reinstated, the President proposes to adjust the caps for SSA's funding for CDRs. I know the Committee is familiar with the cap adjustment for CDRs under the previous discretionary spending caps. In FY 2005, SSA plans to process 1.569 million CDRs, an increase from 1.537 million in FY 2004.

This budget supports plans to continue to strengthen our management of the SSI program by reducing erroneous payments, through use of such tools as periodic non-disability redeterminations, and proposing legislative remedies consistent with the Agency's SSI Corrective Action Plan. We will process 2.21 million redeterminations in both FY 2004 and FY 2005.

The budget also supports plans to reduce SSN fraud through improvements to the enumeration process. Use of SSNs as a defacto universal identifier has led to increased incidents of SSN fraud and misuse. Individuals seeking an SSN must provide proof of identity, age, and U.S. citizenship or legal alien and work authorization status, and SSA must evaluate all of these documents for authenticity. To detect fraudulent documents and to prevent improperly issuing SSNs, we are developing ways to share information with other Federal and State agencies to decrease reliance on documents presented by SSN applicants. We are also developing automated alerts to detect potential fraud.

Implement Medicare Reform

SSA is facing vast new responsibilities as we help to implement the Medicare prescription drug law signed by the President in December 2003. SSA will answer general inquiries and make referrals, send letters this spring to identified Medicare beneficiaries who may be eligible for transitional assistance under the discount card, determine eligibility of low-income seniors and the disabled for drug benefit subsidies under Part D, calculate Part B premiums for high-income beneficiaries and withhold the premiums for this program from beneficiaries' Social Security checks. Congress provided \$500 million for SSA's start-up costs in FY 2004, to remain available through FY 2005.

I have created a team in my office to oversee the Agency's implementation efforts, working with the Department of Health and Human Services. We are on a good path for assessing what we need to do to effectively implement the new law. Our assessment will include plans for efficient use of our available resources to accomplish all that is required of us. As we complete our assessment and proceed with our implementation, we will keep you informed.

In addition to the start-up funds provided to SSA, the President's FY 2005 budget includes an additional \$100 million for a Medicare reform contingency reserve, which will remain available through FY 2006. This reserve will ensure that all eligible persons seeking benefits under the new law can be served if the original appropriation for implementation is exhausted. Consistent with the provisions in the original legislation, the reserve funds may be transferred between SSA and the Centers for Medicare and Medicaid Services.

Other FY 2004 Appropriation Requests

I would like to turn now to a brief summary of the other appropriation requests for FY 2005.

Office of the Inspector General (OIG)

\$92 million for the OIG – Since becoming an independent agency in March 1995, we have had our own Inspector General whose mission is to protect the integrity of SSA's programs. A strong OIG, working together with SSA employees in local offices, is the most effective means we have to detect and prevent fraud and abuse in the programs we administer. A strong OIG also is essential given the need to continue working with law enforcement in conjunction with homeland security efforts.

The request for FY 2005 represents a \$4 million increase in resources from the FY 2004 appropriation. This will cover mandatory increases in OIG's operating expenses, including salaries for its staff and other costs such as rent and supplies. The budget request will support adequate staffing, and ensures ongoing support of the major initiatives already in place, including OIG's current Homeland Security responsibilities.

Supplemental Security Income (SSI)

\$41 billion for the SSI Program – The SSI program ensures a minimum monthly level of income to eligible aged, blind, and disabled individuals. An individual's income, resources, and living arrangements are evaluated to determine the monthly SSI payment. This request includes \$38 billion for Federal benefit payments to about 6.9 million aged, blind, and disabled beneficiaries and \$3 billion to reimburse the Social Security trust funds for SSI administrative expenses, \$46 million to provide for vocational rehabilitation services, and \$27 million to fund extramural research and demonstration projects. This represents an increase of \$3.9 billion, or 10.4 percent. Most of this increase is for the October 1, 2005 benefit payment. October 1, 2005 falls on a Saturday, and benefits due on that day will be paid in September 2005.

Payments to the Social Security Trust Funds

\$20.5 million for Payments to the Social Security Trust Funds – This request will serve to reimburse the Social Security trust funds for the costs of certain benefits and administrative expenses. This represents a decrease of \$1.2 million, or 5.6 percent.

Conclusion

The President's FY 2005 administrative budget for SSA, including \$8.878 billion for LAE, \$100 million in a Medicare reform contingency reserve, and \$92 million for the Inspector General will provide the resources to help us: maintain service in the face of growing workloads; fully implement an electronic disability claims process; continue to increase overall productivity; ensure the ongoing stewardship of our program; and, help administer the Medicare Prescription Drug Plan.

I am proud of our record of accomplishment in management of the Social Security Administration. We earned the highest status score – green – on the President's Management Agenda in Financial Management. Our financial and performance management systems are integrated and we consider this integrated information when making day-to-day management decisions. This allows us to provide more efficient and better service to beneficiaries. We are one of only four Federal agencies to have a green in status in Financial Management. We also scored green in progress on all 5 categories, including: improved financial management; strategic management of human capital; expanded electronic government; budget and performance integration; and competitive sourcing.

We also are proud that we have received a number of awards and good grades from independent sources. We have received unqualified opinions on our financial statements since 1994 and the Association of Government Accountants "Certificate of Excellence in Accountability Reporting" for the fifth straight year. Our computer security efforts earned a B+ on the House Committee on Government Reform's annual report card, placing SSA among the top three Federal agencies.

SSA received a score of "moderately effective" for its management of both the DI program and the SSI Aged program – the second highest score possible – in OMB's assessment using the Program Assessment Rating Tool (PART).

We also are pleased that Agency efforts to improve the SSI program have resulted in removal from GAO's high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. To continue to reduce improper payments, we are committed to processing substantial numbers of continuing disability reviews, SSI redeterminations and special workload cases affecting the accuracy of benefit payments; and to continuing to make progress on the SSI Corrective Action Plan.

I am very proud of all of these accomplishments, and I believe they prove that we manage our resources well. You can have confidence that our record is strong. But as I've said before, I am not here to manage the status quo – I am committed to doing even better. Our FY 2005 budget request will allow us to stay on track to meet our performance goals outlined in the budget justification provided to you. You can see exactly what level of performance we expect to deliver for the dollars you provide, because our budget is fully integrated with our performance goals.

Thank you for the opportunity to present SSA's budget request to the Committee. Although I recognize that there are many competing priorities I believe Social Security is our most successful domestic program and deserves your full support. I look forward to working with you and appreciate your continued support of our programs and people.

SOCIAL SECURITY ADMINISTRATION
Statement by the Commissioner of Social Security
on
Payments to Social Security Trust Funds

The fiscal year (FY) 2005 appropriation request for Payments to Social Security Trust Funds totals \$20,454,000 and covers three general fund payments to the Social Security trust funds.

Reimbursement for Pension Reform Administrative Costs

Included in this request is a payment of \$6,400,000 in FY 2005 to reimburse the Old-Age and Survivors Insurance (OASI) trust fund for the cost of administering pension reform responsibilities assigned to the Social Security Administration under Public Law 93-406, the Pension Reform Act. The reimbursement is for the cost of furnishing information on deferred vested pension rights to pension plan participants or their survivors.

The request for FY 2005 is the same as the FY 2004 funding level and reflects the ongoing level of effort associated with this work, which flows from reports received from the Internal Revenue Service regarding individuals who have earned vested pension rights. In the event that actual expenses needed to process this workload exceed the amount available for reimbursement through this account in any fiscal year, the trust fund is made whole in the subsequent fiscal year upon enactment of the Payments to Social Security Trust Funds appropriation for that year.

Unnegotiated Checks

Also included in this request is a payment of \$14,000,000 in FY 2005 to reimburse the OASI and Disability Insurance trust funds for the value of interest on benefit checks that remain uncashed after 6 months. This payment is authorized by Section 201(m) of the Social Security Act and Section 152 of the Social Security Amendments of 1983 (P.L. 98-21). The request for FY 2005 is the same as the FY 2004 funding level. It supports the expected level of uncashed check activity and represents the estimated interest for unnegotiated OASDI checks.

Social Security checks are negotiable for only 12 months from their date of issue under the provisions of the Competitive Equality Banking Act of 1987 (P.L. 100-86). The face value of these checks is credited directly to the trust funds from the general funds when the checks are canceled. This account reimburses the trust funds for interest lost through the date of crediting, for checks that remain uncashed after 6 months, for those checks that are cashed after 6 months, and for those checks that are administratively canceled after 12 months.

Special Payments for Certain Uninsured Persons

The request before this Committee includes \$54,000 in FY 2005 to reimburse the OASI trust fund for the cost of special benefits paid to certain uninsured persons aged 72 years and over. The benefits are paid mainly to individuals who attained age 72 before 1968 and did not have a chance to work long enough under Social Security to become insured. This payment covers benefits paid in FY 2003. The amount requested also includes reimbursement for related administrative expenses and interest lost to the trust fund.

The population receiving special payments is a closed group of very aged persons, and their number decreases annually. As of September 30, 2003, there were 11 persons receiving benefits under this program, as compared to 25 on September 30, 2002.

Coal Industry Retiree Health Benefits

The request before this Committee does not include additional funds to reimburse the OASI trust fund for work carried out under Section 19141 of the Energy Policy Act of 1992 (P.L. 102-486), which established the "Coal Industry Retiree Health Benefit Act of 1992" (CIRHBA). CIRHBA requires the Social Security Administration to search earnings records of certain retired coal miners to determine which mine operators are responsible for payment of their health benefit premiums under the law. The Social Security Administration computes the premiums due based on a formula established in the Act, notifies the affected mine operators, processes appeals from operators who believe that assignments have been made incorrectly, and responds to and participates in litigation resulting from these agency determinations. Additional funds are not requested for FY 2005 because amounts remaining from the \$10,000,000 per year appropriated in FY 1996 and in FY 1997 will continue to be available until expended to reimburse the OASI trust fund.

SOCIAL SECURITY ADMINISTRATION
Statement by the Commissioner of Social Security
on
Supplemental Security Income

The Supplemental Security Income (SSI) appropriation provides funds for direct cash assistance to eligible aged, blind and disabled recipients to help finance their basic needs. The appropriation request for fiscal year (FY) 2005 is \$28,608,929,000 in addition to the \$12,590,000,000 appropriated for the first quarter of FY 2005 in the FY 2004 appropriation, bringing the total to \$41,198,929,000. This includes \$38,109,000,000 for Federal benefits to aged, blind and disabled beneficiaries, \$3,017,000,000 for payment to the trust funds, \$45,929,000 for beneficiary services, and \$27,000,000 for research and demonstration projects.

We are also requesting an advance appropriation of \$10,930,000,000 for the first quarter of FY 2006 to ensure that benefits will continue without interruption into the next fiscal year.

Federal Benefit Payments

The SSI program ensures a minimum monthly level of income to eligible aged, blind or disabled individuals. An individual's income, resources and living arrangements are evaluated to compute the monthly SSI payment. The average number of Federal SSI beneficiaries is expected to increase from 6,711,000 in FY 2004 to 6,867,000 in FY 2005, about 2.3 percent.

The total FY 2005 request for Federal benefit payments is \$38.109 billion, which along with almost \$254.1 million in funds carried over from FY 2003, will fully fund SSI benefit obligations in FY 2005. This is an increase of about \$4.078 billion over the current estimate of \$34.285 billion for Federal SSI benefit obligations in FY 2004.

Monthly benefit payments will increase in FY 2005 primarily due to the annual cost-of-living adjustments (COLA). A 2.1 percent COLA was effective January 2004, and an estimated 1.3 percent COLA will be effective January 2005. The impact of SSI COLA increases is partially offset by corresponding increases in Social Security benefits that count as income for SSI recipients. The FY 2005 request for benefit payments also increases because there will be a greater number of SSI beneficiaries. In addition, total benefits are higher because FY 2005 includes 13 benefit payments. The benefit payment due for October 1, 2005 will be paid on September 30, since October 1 falls on a Saturday.

Beneficiary Services

This activity funds reimbursements to Vocational Rehabilitation (VR) agencies for rehabilitation services provided to SSI beneficiaries. It also funds payments to Employment Networks authorized under the "Ticket to Work and Work Incentives Improvement Act of 1999" (P.L. 106-170). SSA plans to obligate \$117 million for this activity in FY 2005. This represents an increase of about \$17 million from the FY 2004 obligation estimate of \$100 million.

The Ticket legislation allows SSI disabled recipients more flexibility in obtaining "return to work" services by providing them with a Ticket to offer an Employment Network of their choice in exchange for VR services, employment services, and other support services. The final regulation for implementing the Ticket to Work Program was published on December 28, 2001 and was effective January 28, 2002.

The Ticket program is being rolled out in three phases. The graduated release of tickets to eligible beneficiaries began in February 2002. In this first phase of implementation, 13 States (representing 30 percent of the disability beneficiary population) participated. Implementation of the second phase began in November 2002, expanding the program to an additional 20 States and the District of Columbia. The third phase, which began November 2003, expands the program to all States and U.S. territories.

Payment to the Trust Funds

The SSI and Social Security programs are administered on an integrated basis for purposes of economy and efficiency. The Social Security Act authorizes SSA to pay for SSI administrative expenses from the Social Security trust funds, through the Limitation on Administrative Expenses (LAE) account, with subsequent reimbursement from general funds through this appropriation. The FY 2005 request for this reimbursement is \$3,017,000,000. This amount will reimburse the trust funds for estimated FY 2005 SSI administrative expenses advanced from the trust funds. In the event that actual SSI administrative expenses exceed the amount available for reimbursement through this account in any fiscal year, the trust funds are made whole in the subsequent fiscal year upon enactment of the SSI appropriation for that year.

These amounts exclude funding made available in the LAE account from user fees related to SSA administration of State SSI supplementation payments. The LAE account assumes funding of \$121,000,000 from this source in FY 2005.

Research

Sections 1110 and 1115 of the Social Security Act provide funding authority, including waiver authority for the SSI program where appropriate, for research and demonstration projects. Authority is provided for conducting both broad-based cross-program projects in the Social Security and SSI programs and projects dealing with specific SSI program issues. Section 1144 of the Social Security Act requires SSA to conduct outreach efforts to identify individuals who may be eligible for payment of the cost of Medicare cost-sharing under the Medicaid program.

The \$27 million request for the FY 2005 extramural research program will fund a range of activities, including projects to develop effective rehabilitation and return-to-work strategies, analyze reform proposals to ensure sustainable solvency, maintain and improve basic data about the Social Security and SSI programs and beneficiaries, and provide outreach to potential Medicare Savings Program beneficiaries. Some of the major research efforts are as follows:

Youth Transition Process Demonstration. This project will establish comprehensive approaches to support the successful transition of youth with disabilities from school to employment and maximum economic self-sufficiency. It will involve collaboration among education and other service delivery systems for youth with disabilities to design and implement sustainable improvements in current services and supports, and to test ways to remove other barriers to economic self-sufficiency. The evaluation will collect necessary information to determine the effectiveness of interventions in transitioning SSA youth beneficiaries from school to work and may include an implementation analysis, analysis of factors affecting participation in the demonstration, a net impact analysis focusing on health, employment and program outcomes, and a cost analysis focusing on the impact of the intervention on DI and SSI costs.

Florida Freedom Initiative. This is a demonstration that the Florida Department of Children and Families is conducting in an effort to build on the success of the State's ongoing "cash and counseling" demonstration. CMS waivers of Medicaid rules will permit participants to receive, in lieu of certain Medicaid services, a monthly cash allowance and the opportunity to purchase needed services themselves. The Florida Freedom Initiative also will emphasize asset building and the generation of personal income through work. The Social Security demonstration will consist of waiving certain rules of the Supplemental Security Income (SSI) program for Florida Freedom Initiative participants. The purpose of the Social Security demonstration is to enable SSI beneficiaries to participate in the Florida demonstration and to test whether the combination of Social Security and CMS waivers fosters greater self-sufficiency among demonstration participants.

Evaluation of the Ticket to Work. This project will identify the most promising components of the Ticket to Work initiative, the most efficient incentive structure for the program, the refinements necessary to improve Ticket outcomes, and the individuals most likely to benefit from the program. In addition, the evaluation will assess the cost-effectiveness of the Ticket initiative and the net impact of this initiative compared to the previous system. It also will examine adequacy of incentives in delivering services under the program for hard-to-serve beneficiaries.

Solvency Research. The Social Security Administration is developing tools to assess the economic and distributional impact of proposals for reforming Social Security and keeping it financially sustainable. Two key projects are:

- Retirement income modeling, which uses econometric and simulation models to provide policymakers with detailed information on the effects of changes in Social Security on individuals and the economy.
- The Retirement Research Consortium, which consists of three multi-disciplinary centers that perform research and evaluation of retirement policies, disseminate results, train young scholars and practitioners, and facilitate the use of SSA administrative data for policy research purposes.

National Survey of SSI Children and Families. This survey is designed to provide longitudinal data to assess the impact of past changes and to support analysis of possible future changes to the SSI program that may affect children and young adults. The longitudinal data will facilitate policy analyses that are not possible using a single cross-sectional survey.

Medicare Savings Program Outreach. This outreach effort is intended to identify low income individuals who meet the criteria of the Medicare Savings programs who may be eligible for Medicaid benefits. State-administered Medicaid programs subsidize Medicare expenses for beneficiaries with limited means. Studies show that many Americans who are eligible may not be aware of these programs to take advantage of them. Section 1144 of the Social Security Act requires SSA to identify potential beneficiaries, notify them about these programs, and provide lists to the State Medicaid agencies. An initial mailing to potentially eligible individuals was conducted in FY 2002. We plan to continue outreach efforts in FY 2004 and FY 2005 to all new potential eligibles as well as, on a cyclical basis, to a portion of those previously notified.

Homeless Outreach Projects and Evaluation (HOPE). SSA's FY 2003 SSI appropriation provided \$8 million to conduct outreach to "homeless and other under-served populations." We will use these funds in FY 2004 to test ways of conducting outreach that makes use of external partnerships to improve services to disability applicants and that improves the quality of applications from homeless individuals. The purpose of the outreach is two-fold: to make individuals who may be eligible for benefits aware of them; and to provide special assistance to those who have difficulty completing an application or following through on it. In this set of projects, we intend to partner with community-based entities that already have expertise in locating and engaging people with disabilities who are homeless. SSA is not requesting new funding for homeless outreach in the FY 2005 appropriation. Instead, SSA will develop further outreach efforts using the additional \$8 million that Congress appropriated for FY 2004 for these projects.

SOCIAL SECURITY ADMINISTRATION
Statement by the Commissioner of Social Security
on
Limitation on Administrative Expenses

The Administration's fiscal year (FY) 2005 request for the Limitation on Administrative Expenses (LAE) account is \$8,878,000,000. This amount is less than 2 percent of the Agency's total program outlays. Included in this LAE request is funding for SSA's current operations, as well as funding derived from user fees. This request will allow SSA to maintain service in the face of growing workloads, implement an electronic disability claims process, continue to increase overall productivity and ensure the integrity of its programs.

The LAE request provides resources for current operating expenses of trust fund and some non-trust fund programs, including the Old-Age and Survivors Insurance, Disability Insurance (DI), and Supplemental Security Income (SSI) programs, certain Medicare support functions, and Special Benefits for Certain World War II Veterans.

The President's LAE request of \$8.878 billion is an increase of \$565 million or 6.8 percent over SSA's budget authority for FY 2004. The LAE budget is driven primarily by the size of SSA's programs and their corresponding workloads, and the Agency's commitment to increase efficiency, strengthen program integrity, and improve service to the American people. The year-to-year increase is related primarily to mandatory SSA and State Disability Determination Service (DDS) cost increases associated with higher costs for Federal and State employee salaries, and to fund an increase in SSA workyears.

Salaries and Operating Expenses

The LAE budget request includes \$6.723 billion for Federal salaries and operating expenses, including Federal pay raises. This request is associated with the staffing levels needed to process projected workloads. SSA relies on a mix of full-time equivalents and overtime to achieve its total workyears. This budget supports 66,789 workyears – an increase of 2,016 workyears from FY 2004.

State Disability Determination Services

The LAE budget request includes \$1.735 billion for current operating expenses for the State DDSs. This request represents a net increase of \$63 million in FY 2005, primarily to fund State pay raises and higher costs for medical evidence. SSA estimates that about 2.457 million initial disability claims will be processed by the DDS in FY 2005. In addition, SSA will continue its focus on program integrity by conducting periodic CDRs.

Information Technology Systems

The LAE budget request includes \$420 million for Information Technology Systems (ITS) in FY 2005, an increase of \$28 million over the President's budget for FY 2004. The ITS budget provides for the acquisition and maintenance of automated data processing and telecommunications hardware and software, as well as related contractual services. These funds will help expand the range of services SSA offers electronically and support key automation initiatives, such as the electronic disability process, as well as provide for ongoing operations and maintenance activities and upgrading information technology infrastructure.

Program Integrity Activities

The LAE request includes dedicated funding of \$561 million in FY 2005 to ensure adequate resources for an important and cost-effective program integrity activity that reduces erroneous payments – continuing disability reviews (CDRs). This dedicated funding can help SSA effectively balance providing good service for millions of citizens and good stewardship for the American taxpayer.

CDRs are the most effective mechanism SSA has for determining whether DI and SSI disability beneficiaries have medically improved or continue to meet the statutory definition of disability. In FY 2002, SSA completed its 7-year plan to eliminate CDR backlogs that built up prior to FY 1996. SSA's 2002 CDRs are expected to yield \$6 billion in lifetime program savings.

User Fees

The FY 2005 LAE request includes \$121 million in funding from user fees that are paid by States for Federal administration of SSI State supplementation payments. This is a \$1 million increase from the FY 2004 President's budget. Funding derived from the user fees helps cover the costs of administering State supplementation payments.

New Medicare Workloads

SSA will play a substantial role in the implementation of Public Law 108-173, the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* – specifically, the Medicare prescription drug benefit. SSA is committed to the successful implementation of the new law, which included \$500 million for SSA's start-up costs in FY 2004 through FY 2005. The Agency will use these funds to prepare systems for implementation of the drug benefit and other program changes in 2005. SSA will help:

- Answer general inquiries and make referrals;
- Send letters to Medicare beneficiaries who may be eligible for transitional assistance under the discount card;
- Make low-income subsidy determinations for drug benefit subsidies under Part D;
- Calculate Part B premiums for high-income beneficiaries; and
- Withhold premiums appropriate to beneficiaries' selected plans.

In addition to the \$8.878 billion LAE request, the FY 2005 President's budget for SSA includes \$100 million for a Medicare reform contingency reserve, which will remain available through FY 2006. This reserve will ensure that all eligible persons seeking benefits under the new law can be served if the original appropriation for implementation is exhausted. Consistent with the provisions in the original legislation, the reserve funds may be transferred between SSA and the Centers for Medicare and Medicaid Services.

Public Law 108-173 also includes a provision stating that responsibility for conducting Medicare hearings must be transferred from SSA to the Department of Health and Human Services (HHS) sometime between July 1 and October 1, 2005. SSA's budget does not include resources for the Medicare hearing function in either FY 2004 or FY 2005. HHS has signed an agreement to reimburse SSA for the costs we will incur to continue to process Medicare appeals until September 2004. We will sign another Memorandum of Understanding with HHS to receive reimbursement for Medicare appeals work done in FY 2005, prior to the transfer to HHS.

Conclusion

This budget request of \$8.878 billion for the LAE account provides the administrative funding necessary to enable SSA to continue providing monthly benefit payments and related services to more than 52 million people, while:

- Meeting the challenges of growing workloads by keeping up with retirement, survivors, and disability claims;
- Preparing for the future through service and stewardship investments, including implementation of an electronic disability claims process; and
- Increasing productivity by at least 2 percent.

SOCIAL SECURITY ADMINISTRATION
Statement by the Commissioner of Social Security
on
Office of the Inspector General

Background

As part of the Social Security Independence and Program Improvements Act of 1994, SSA was provided with its own statutory Inspector General. As mandated by the Inspector General Act of 1978, as amended, the Office of the Inspector General's (OIG) mission is to protect the integrity of SSA's programs. The OIG is directly responsible for promoting economy, efficiency and effectiveness in SSA programs and detecting and preventing fraud, waste and abuse. This mission is carried out through a nationwide network of audits and investigations. In conducting audits and investigations, the Inspector General works closely with both the Congress and SSA to improve program management.

Budget Request

The fiscal year (FY) 2005 appropriation request for the OIG totals \$92,000,000. This includes \$26,000,000 to be appropriated from general funds and \$66,000,000 to be transferred from the Social Security trust funds. OIG's FY 2005 budget request provides funds for the current operating expenses of its programs, including:

- \$76.6 million for salaries and benefits; and
- \$15.4 million for other operating expenses such as rent, travel, service agreements, investigative equipment, and supplies.

This request is a \$4.3 million (4.9 percent) increase above the FY 2004 enacted budget level. This increase covers the costs of mandatory payroll increases including Federal pay raises, within-grade increases, benefit rate increases for health benefits, and higher costs for newer employees hired under the Federal Employees' Retirement System (FERS).

The budget request is driven primarily by costs (including salaries, benefits, rent and core services) associated with supporting the staffing levels needed to conduct audits and investigations. The FY 2005 request includes 625 workyears. With the resources included in this request, OIG will continue to support ongoing major initiatives that focus on key areas such as Social Security number Integrity and Protection. OIG will also continue to aggressively pursue anti-fraud activities on a variety of fronts. The Cooperative Disability Investigation Teams will continue to investigate disability program fraud while other personnel will combat improper SSI payments by continuing efforts on the Fugitive Felon Project.

Conclusion

FY 2005 will continue the ongoing challenges faced by the OIG as well as bring new opportunities to fulfill its mission. This budget request provides funding to enable the OIG to carry out that mission and support SSA's efforts to seek efficiencies, avoid erroneous payments, and combat fraud.