Comments on exposure draft, *Comprehensive Long-Term Projections for the U.S. Government*

Q1. This exposure draft proposes reporting that would support FASAB Objective 3, Stewardship, and in particular, Sub-Objective 3B:

<u>Objective 3</u>: Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.[1]

<u>Sub-Objective 3B</u>: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.[2]

More detailed discussion of the reporting objective and the objectives of fiscal sustainability reporting can be found in paragraphs 1 through 8.

Do you believe that the proposed reporting adequately supports the above objectives? Are there different reporting requirements that might better support the above objectives or that you believe should be added to the proposed requirements in this exposure draft? If so, please explain.

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

The proposed reporting fails to meet Objective 3, primarily for two reasons. First, statements of "financial condition" are, generally, balance sheets. These are constructed with two columns: one for liabilities, and the other for assets. The proposed "federal financial reporting" contains no mention of the assets that correspond to the liabilities. For example, it would treat the obligations of the Social Security system as a liability. But the same liability is, of course, an asset to the public. Nowhere is this Social Security wealth reported or even remarked on. The nation's financial condition is a combination of the financial condition of the government and that of its citizens. Hence the Social Security wealth of the current population is just as real as the liabilities that support it. Put another way, a transfer program, from one group of citizens to another, merely transfers resources. It does not increase or diminish them.

[1] SFFAC 1, par. 134.

[2] SFFAC 1, par. 139.

Second, it is impossible to assess “the impact on the country of the government's operations and investments” without assessing the economic effects of such operations and investments. If a government program produces a higher rate of growth and lower rate of unemployment, then that is surely an “impact on the country of the government’s operations and investments.” But the procedures explicitly propose to ignore those impacts. That is, irrespective of the government action, the economic projections used to assess that action will not be changed. The assumption will be made that there is no effect of that action on the rate of economic growth, the rate of employment and unemployment, the mix between consumption and investment, or any other pertinent economic variable. The inference will therefore be drawn that the program necessarily involves costs
– associated with the debt --without benefits, associated with higher growth or lower unemployment. This procedure is prima facie absurd.

The proposed reporting fails to meet Sub-Objective 3B, in part because there is no clear definition of what is meant by “budgetary resources.” If what is meant is “tax revenue,” the definition is totally inappropriate. The government does not need tax revenue sufficient to match spending in order to “sustain public services and meet obligations as they come due.” This is obvious: the government almost never has sufficient tax revenue for that purpose. This is why we have a national debt to begin with. Yet the US federal government has never, in 230 years of operation, lacked for “budgetary resources” sufficient to “sustain public services and meet obligations as they come due.” This is also obvious, insofar as the government has never defaulted on its obligations.
If, on the other hand, the term “budgetary resources” means “tax revenues and public borrowings” sufficient to “sustain public services and meet obligations as they come due,” the standard would be intended to inform the public about the borrowing capacity of the government of the United States. Yet the procedures contain no information about and no guidance as to how to assess this question.
Can we imagine that the US domestic sector will reach a point that it will refuse to accumulate dollar claims on our government, in the form of currency and interest-bearing government bonds. Would we reach the point where American businesses would ever sell something and refuse US currency? If households had more currency than desired would they refuse to substitute it for Treasuries? Would private banks refuse reserve credits? Looking overseas, it might be interesting, for example, to know whether there is a point at which, despite continuing surpluses in China’s trade with the United States, the People’s Bank might become unwilling to add to its stock of US Treasury bonds (and whether, if that were to happen, it would matter). There is no mention, let alone analysis, of the policies of the People’s Bank of China in this document.

Finally, again on the assumption that “budgetary resources” includes public borrowing, the proposed procedure betrays a false supposition that there is some finite limit to the nominal value of the bonds that can be issued by the U.S. Treasury. No such limit exists. Nor does the government have to issue securities in order to spend. As an operating matter, it spends first and issues securities later, transferring funds from interest-bearing reserve accounts at the Federal Reserve to interest-bearing Treasury securities.

The consequence of excess issue is not a refusal (on the part of foreign creditors or anyone else) to hold the bonds; it is rather a possible devaluation of the dollar and a possible decline of the real terms of trade of the country. But this possibility – an appropriate concern up to a point and under certain conditions – is also ruled out by the assumption of unchanged economic conditions. So again, the standard fails to meet Objective 3, of promoting understanding of the Nation's financial condition.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG
Yes we believe the proposed reporting adequately supports the FASAB objectives. We have no recommendations for better reporting requirements. However, with respect to Social Insurance we believe the current Statement of Social Insurance addresses the reporting objective.

#5 Robert L. Childree, AGA FMSB
From a user standpoint, we would have expected to see years projected out into the future instead of this present value view. However we understand it and can get used to it, particularly since a multiple year projection format would make the statement overly "busy." We find it acceptable as long as the Appendix B, page 57, chart (Illustration 3, Projected U.S. Government Receipts and Spending) that better illustrates a trending view continues to be required in the disclosures. This same disclosure is necessary as it does an excellent job of showing the mandatory spending. It is far more meaningful for the general user than the Basic Financial Statement.

We do have one suggestion for amplification: to discuss in detail the model used for the projections to meet the proposed requirements. For example, if a projection assumes a Social Security recipient mortality rate of X and a core inflation rate of Y, the projection should discuss these assumptions. Also, if projections use very conservative or very favorable projection rates/assumptions, the projections should describe the nature and tone of its rates and assumptions for factors like inflation, investment returns, and mortality/actuarial projections. The goal here is to fully and clearly disclose to users the tone and basis for the projections.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
Yes, in that the proposed reporting would require a basic financial statement with the present values of projected receipts and spending, how the amounts compare to projected GDP, and the changes from the prior year.

#7 Mary Glenn-Croft, SSA OCFO
The Exposure Draft (ED) states that the objective of "Fiscal Sustainability Reporting" is to help the reader "determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due" (paragraph 6). Furthermore, the ED indicates that the reporting should be understandable to the

"average citizen" who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence."

Of all the illustrations presented in the ED, illustration 3 on page 57, "Projected U.S. Government Receipts and Spending" is the closest to meeting the objectives by making a year-by-year comparison of the projected revenues and obligations of the federal government under "current policy." However, there are two important shortcomings with this presentation. First, obligations are incorrectly classified as spending. As implied in the ED, a shortfall in revenues would preclude spending once related assets are exhausted under current law. Therefore, it would not be appropriate to refer to these full obligations as spending, when this spending is not projected to occur. In addition, it is not appropriate to include interest accruals in the graph, as it would imply that it is "spending." The inclusion is also flawed since it does not consider the possibility that if non-interest obligations were met, the growth in interest accrued would not occur.

If the above changes were made, the illustration would fairly present the sustainability of federal obligations by presenting obligations as a percent of the gross domestic project (GDP) that must support these obligations on a year-to-year basis, as well as the level of expected receipts on an annual basis under current policy. This illustration would also meet the criteria for sustainability by accurately showing the timing and trends in projected obligations, shortfalls, and surpluses.

Furthermore, measuring receipts and obligations over a number of years using a present value calculation should either be eliminated from the standard or given little emphasis. These extremely large numbers, in the trillions, and the complexity of present value figures have little meaning to the average citizen. A year-to-year comparison, as shown in illustration 3, is much more understandable.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management
No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I commend the FASAB for recognizing the need to include selected stewardship related information in the consolidated financial statements of the United States Government. I strongly support the need for federal financial reporting to include information regarding whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. This is critically important in the case of a sovereign nation that has the ability to make huge public commitments that span generations, can mortgage the country without express limits, and thereby place undue burdens on future generations. The United States Government has the power to tax and to borrow subject only to certain procedural requirements under the Constitution. For example, total borrowing is subject only to statutory limits that, in recent years, have been raised with increasing frequency and sometimes with little meaningful discussion or debate. Therefore, the failure to generate sufficient revenues to meet current needs will, absent future policy reforms and spending constraints, likely result in imposing

much greater tax burdens on future generations. This needs to be shown in any related financial reporting requirement. Furthermore, absent additional taxes or other revenues being generated, ultimately spending on government programs will have to be reduced thereby potentially creating an expectation gap within the public as to what level of benefits or services will be delivered by the government in the future. This also needs to be shown in any related financial reporting requirement.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
In paragraph 6 of the exposure draft, the thrust of the Statement is characterized as "Fiscal Sustainability Reporting." The paragraph further indicates that reporting should address whether future budgetary resources will likely be sufficient to sustain public services and meet obligations as they come due. Paragraph 8 indicates that the reporting should be "easily understandable to the 'average citizen' who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence."

With these stated objectives, Illustration 3 in Appendix 3 comes by far the closest to meeting these criteria. This example compares on a year-by-year basis the projected revenues and obligations of the federal government under "current policy without change." However, the example has two shortcomings that are highly misleading and should be changed. The first is simple. The obligations should <u>not</u> be described as spending. The ED indicated understanding that much of the shortfalls of revenue would in fact preclude spending, particularly in the OASDI and HI programs, once their Trust Fund assets are exhausted under current law. Thus, the full obligations cannot be referred to as spending per se, and the obligations should be referred to as such, "obligations."

The second problem with Illustration 3 is the inclusion of interest accruals in the graph as if they are "spending." This is highly misleading. The comparison in the graph should be actual expected tax (and premium) revenue to expected obligations for services of the government. In the scenario depicted, the "interest" would not in fact be "spending" at all, but rather borrowing. The difficulty of the presentation with the interest included can be seen by considering the case where non-interest obligations were met by relatively modest increases in receipts after 2010. In this case, the large growth in interest accruals would not occur. Thus, by including these accruals, the graph is in effect double counting, or more, the extent of the fiscal shortfalls that must be met on an annual basis in order to avoid overwhelming growth in debt and interest. These changes should be made to Illustration 3, and then this could be the principal illustration of the sustainability of federal obligations: it will show both the extent of the obligations as a percent of the GDP on a year-by-year basis and the level of expected receipts on an annual basis under current policy.

Given the stated objectives, measures summarizing large amounts of receipts and obligations over a number of years on a present-value basis should be either eliminated entirely or greatly deemphasized. Such summary numbers that run into trillions of dollars have little meaning to the average citizen, as does the concept of present value. Relationships of receipts and obligations, one year at a time, are far more accessible and understandable. In addition, they illustrate the timing and trend in projected obligations, shortfalls, and surpluses that are critical to any concept of "sustainability."

#13 Dan Kovlak, Greater Washington Society of CPAs
From a user standpoint, we would have expected to see years projected out into the future instead of a present value view. We do understand that view and agree that a multiple year projection format would make the statement overly "busy." We find it acceptable as long as the App. B, page 57, chart (Illustration 3, Projected U.S. Government Receipts and Spending), that better illustrates a trending view, continues to be required in the disclosures. This disclosure is necessary as it does an excellent job of showing the mandatory spending.
We believe that this is more meaningful than the Basic Financial Statement on page 51 of the ED.

We do have one suggestion for amplification: to discuss in detail the model used for the projections to meet the proposed requirements. For example, if a projection assumes a Social Security recipient mortality rate of X and a core inflation rate of Y, the projection should discuss these assumptions. Also, if projections use very conservative or very favorable projection rates/assumptions, the projections should describe the nature and tone of its rates and assumptions for factors like inflation, investment returns, and mortality/actuarial projections. The goal here is to fully and clearly disclose to users the tone and basis for the projections.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
Yes, we agree. Comparative presentation of the impact of significant current year legislative changes on the trajectory of fiscal gap would provide citizen and citizen intermediary's additional insight.

#16 McCoy Williams, GAO
The current financial reporting model addresses several aspects of FASAB's Objectives of Federal Financial Reporting. The current financial statements of the Consolidated Financial Report (CFR) of the U.S. Government include the:

- Statements of Net Cost,
- Statements of Operations and Changes in Net Position,
- Reconciliation of Net Operation Cost and Unified Budget,
- Statements of Changes in Cash Balance from Unified Budget and Other
- Activities, and Balance Sheets.

These financial statements provide information that is critical for assessing the U.S. financial position which describes the government's financial health as of a distinct point in time based on past events and transactions. Specifically, the current financial statements provide a measurement of the federal government's assets and liabilities as of the end of the fiscal year, as well as the net cost of providing services and the taxes and other revenues recognized during the year. The aforementioned financial statements do not, however, provide sufficient information for determining the government's financial condition and how it may change in the future as stated in the Stewardship objective. The Statement of Fiscal Sustainability would provide a measurement of the government's financial condition and annual changes therein. Financial condition not only considers the government's current and past performance, but also its capacity to meet future demand and responsibilities and is a broader and more forward-looking concept than that of financial position. The Statement of Fiscal Sustainability also provides financial and nonfinancial information about the national economy as well as about the government itself and helps to determine whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.

The Statement of Social Insurance is also a basic financial statement in the CFR and provides long-term projections of receipts and spending for social benefit programs[3] and is a step towards supporting the Stewardship Objective Sub-Objective 3B. It is our view that the proposed Statement of Fiscal Sustainability, combined with the current financial statements in the CFR, would more fully support the stewardship financial reporting objective and provide even greater transparency of how the government's financial condition has changed and may change in the future. For example, while payment of scheduled Social Security and Medicare Part A benefits are limited to (1) projected earmarked revenues reflected in the Statement of Social Insurance and (2) amounts held in the respective trust funds as of the valuation date reported in the footnotes, scheduled benefits for Medicare Parts B and D are funded from premiums and state transfers reported in the SOSI (about 25% of funding) as well as general revenues that are not presented in the SOSI (about 75% of funding). Such general revenues are also used to fund all other federal government discretionary spending. A Statement of Fiscal Sustainability would clearly show whether projected general revenues would be sufficient to fund both scheduled Medicare Part B and D benefits as well as all other federal government programs and the extent of any projected excess of spending over revenues.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government
Yes, but one of the biggest fiscal shell games being played out today in the accounting and budget process began in the Johnson administration. The "unified budget" was created to disguise the real costs of the Vietnam War for political purposes.
It offsets surpluses in the "trust funds" (for Social Security, highways, etc.) against current operating budget deficits, so as to artificially reduce the current reportable deficits. (This may also require a change in the definition of GAAP for federal accounting standards in order to classify payroll taxes collected in excess of current payments as deferred income.)

Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections with a primary focus on the future implications of the continuation of current policy without change for federal government public services and taxation. The guidance begins at paragraph 19. Paragraph 28 explains that although current law is a reasonable starting point in selecting policy assumptions, a simple projection of "current law" would not always reflect current policy without change. Examples are provided.

Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

Comments under Q1 above relate to the issues as stated in paragraph 19.
Guidance for "policy assumptions" is otherwise generally reasonable.

But there is no guidance whatever on the choice of economic assumptions. This is a serious shortcoming, particularly insofar as it has become a habit for the Social Security actuaries to violate generally accepted accounting practices when making economic projections relevant to the financial flows of the Social Security System. Specifically, past performance is characteristically ignored, and future projections are systematically pessimistic with respect to past performance. Guidance should specifically address two issues: the proper relationship of economic projections to generally-accepted accounting principles, and the appropriate ways in which to factor into projections the effect of policy changes on economic performance. As the comments under Q1 make clear, it is inappropriate merely to assume that economic policies cannot affect economic outcomes.

Further, paragraph 20 refers to "surpluses, deficits and debt." This should be expanded to include that other accounting category: "assets." Suitable guidance should be developed to permit appropriate measurement of and accounting for assets, in both the public and the private sectors. Assets in the private sector are no less important for federal fiscal sustainability, since they provide the tax base.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG
We believe that the projection should be based on continuation of current policy without change for federal government public services and taxation.

#5 Robert L. Childree, AGA FMSB
We believe the guidance is appropriate.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
Yes, the guidance for assumptions is appropriate in that it discusses 3 types of assumptions, as noted above, with the starting point being "current policy without change." Also, in using the same economic and demographic assumptions that are used for the Statement of Social Insurance will provide for comparability of the information for users.

#7 Mary Glenn-Croft, SSA OCFO
Overall, the guidance for allowing the preparer to use judgment in selecting the assumptions is appropriate. The statement that "projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions" provides a clear distinction between the goals of projections and the role of assumptions in developing these long-term projections. The definitions and examples provided for policy, economic, and demographic assumptions are clear and understandable, specifically the examples of the assumptions applied to the Social Security program.

However, the concept of "current policy without change," does not seem entirely plausible. In simple cases, such as where discretionary spending expires, the concept makes sense. However, as mentioned previously, there are instances, such as with the OASDI and HI programs, where current law sets limitations on spending, and any obligations incurred beyond those limits cannot be classified as "spending," without a change in law. This is similar to the projection of "obligations" for payment of personal tax liability under current law. Since the law specifies that these increases and obligations may only be altered with a change in law, it would be misleading to show only one of these increases in obligations

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication- No Comment

#10 David M. Walker, Peter G. Peterson Foundation
Yes, I believe that the proposed guidance is generally appropriate. In general, I believe it is appropriate to employ reasonable assumptions used by other official government sources (e.g., Social Security and Medicare Trustees, Congressional Budget Office) in order to promote consistency and prevent confusion.
In this regard, I agree that the "best estimate" economic and demographic assumptions used by the Social Security and Medicare Trustees and for preparation of the Statement of Social Insurance would be appropriate.

Additional guidance may, however, be needed with regard to the projection of revenues. For example, while the guidance provided seems reasonable it does not provide adequate definition of the concept of "assuming the continuation of current policy without change" and as of the valuation date. For example, current law provides that a number of major tax cuts enacted during the current Bush Administration will expire. There is widespread agreement that many of the provision will be extended in whole or in part and, therefore, an assumption of current law would not be reasonable. Furthermore, some degree of consistency in revenue projection assumptions from year to year should be attained absent clear, compelling and unbiased reasons for such a change. In addition, the reasons for any such changes should be properly disclosed and adequately explained.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
Overall, the guidance for allowing the preparer to use judgment in selecting the assumptions is appropriate. The statement that “projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions” provides a clear distinction between the goals of projections and the role of assumptions in developing those long-term projections. The definitions and examples provided for policy, economic, and demographic assumptions are very clear and understandable, specifically the examples of the assumptions applied to the Social Security program in paragraph 26.

The guidance in paragraph 31 regarding the selection of economic and demographic assumptions for the Social Security and Medicare programs is also appropriate. The assumptions used in the SOSI have been thoroughly vetted and audited and are therefore a practical and sound choice for the basic financial statement.
However, selection of policy assumptions using the “current policy without change” concept is quite problematic in some cases relative to the law. In cases where discretionary spending authority expires, the concept is clear. But where current law is explicit on limitations on spending, such as in OASDI and HI, obligations beyond what the law can support for spending must be qualified as only obligations and cannot be depicted as spending per se. Similarly, where the tax law is specific, as in the indexation of personal income tax brackets, this specific legal guidance must be reflected, in this case with increasing receipts as a percent of GDP per the CPI indexing of brackets. This projection of the “obligations” for payment of personal tax liability under current law is analogous to the depiction of the obligation to provide benefits under Social Security and Medicare at an increasing level relative to GDP. In both cases, the law specifies that these increases and the obligations can be altered only with a change in law. To depict only one of these increases in obligations and not the other would be highly misleading and biased in representation. If, for example, current policy were deemed to maintain the receipts and obligations of each element at their current level as a percent of GDP, then the depiction of sustainability would show no change through time. Such clear changes through time as in the benefit obligations of a defined benefit program like Social Security and the tax obligations of a well-defined tax schedule like that for personal income tax should be reflected directly and should not be presumed to be representable as a simple constant percent of GDP in either case.

#13 Dan Kovlak, Greater Washington Society of CPAs
We believe the guidance for assumptions is appropriate.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
Yes, we favor inclusion of broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections.

#16 McCoy Williams, GAO
It is our view that the guidance for the assumptions in the Exposure Draft is generally appropriate. We believe, however, that the guidance for the assumptions articulated in Paragraph 31 should be revised to provide more flexibility, where appropriate. Paragraph 31 requires that the same economic and demographic assumptions be used the basic financial statement for Fiscal Sustainability reporting and for Social Security and Medicare in the Statement of Social Insurance. However, in some cases, the assumptions, particularly the economic assumptions may need to differ. For example, an appropriate unified discount rate for all projected receipts and spending in the Statement of Fiscal Sustainability may differ from either the Social Security or Medicare discount rates. Increasing the flexibility in paragraph 31 would allow the use of the most appropriate discount rate and permit changes to other assumptions as appropriate. It is our view, however, that any such differences, between the assumptions used in the Statement of Fiscal Sustainability and those in the SOSI for Social Security and Medicare, be appropriately disclosed.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government – No Comment

Q3. This exposure draft proposes a basic financial statement[3] and disclosures. (Description begins at paragraph 35 and an illustrative example of the basic financial statement is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

Do you believe that the basic financial statement and disclosures would be understandable and meaningful for the primary audiences of the CFR? Please note any changes that you believe should be made to the proposed requirements for the basic financial statement and/or the disclosures.

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

Again, as noted under Q1 and Q2, a balance sheet is not a balance sheet unless it accounts for assets as well as liabilities. It is therefore inappropriate to refer to the proposed document as a "financial statement." In general, disclosures under the format suggested will be meaningless, and therefore "understandable" only to those who do not understand very much.

The proposed time horizons are also problematic. They are so long that they will involve making assumptions that are, in the nature of things, impossible. An example is the assumption of current Medicare forecasts that health care costs will continue to rise indefinitely more rapidly than nominal GDP, so that the share of health care in GDP rises without limit. This cannot happen. No understanding of the issues is gained by a procedure that necessarily incorporates unrealistic assumptions of this type.

Further, the choice of time horizon is arbitrary, so that the present value of future "liabilities" can be blown up to any size, simply by changing time horizons and discount rates. But most readers of the proposed document are unlikely to be aware that the exercise is purely arithmetic in this sense.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG

We believe that the proposed financial statement and disclosures provides information for the financial community; however, we are concerned that the average citizen may not be willing to read through a financial volume. In our opinion, short high level

[3] The basic financial statement will be presented as RSI for a period of three years and subsequently as a basic financial statement.

disclosures are better, such as those included in the summary PAR. In addition, we believe the statement should be disclosed as RSI. If CFR auditors (GAO) will be required to give an opinion, auditing standards need to be developed before the statement is implemented. Presenting the statement as basic information would mean estimates would be placed on the face of the financial statements. Since estimates are based on subjective as well as objective factors; it may be difficult for agencies to establish controls over them, thus creating more skepticism from the auditors.

#5 Robert L. Childree, AGA FMSB
The financial statements appear understandable for the primary audiences of the CFR, though see comments in Q1. As for the disclosures, it is simply too much. Many of the illustrations are just not understandable to the average citizen and serve only to make the overall disclosures convoluted and difficult. The disclosures of paragraph 40 and 41 are fine, but paragraph 42 could use some revision. The words "explain **and illustrate**" apply to all the subparts of 42, and the example illustrations for part a and d are confusing and unnecessary. We believe the 42a requirement should still remain in the standard, but the board should recommend this be a very brief narrative. The example illustrations and excess words are simply not helpful. The illustrations for 42b should be the main focal point for the disclosures as it does an excellent job illustrating sustainability to the citizen. Any illustrations that take away from that should eitherbe deleted or should be ordered behind this primary graphic presentation suggested in 42b. The illustration for 42c is suitable, but again is not as important as 42b and should be ordered as such.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
Yes, the basic financial statement and disclosures would be understandable and meaningful for the primary audiences.

#7 Mary Glenn-Croft, SSA OCFO
We do not believe this report should be classified as a basic financial statement. The information is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports.

In addition, as mentioned previously, the obligations displayed in the various illustrations should not be referred to as spending because of the recognized limitations on spending in various programs, such as OASDI and HI, under current law. Moreover, "All Other Receipts" must reflect obligations under current policy and should not be limited to the current percentage of GDP.

The proposed presentation is understandable and meaningful to the primary audiences of the CFR, even if not to the general public. Particularly, the breakout of receipts and "spending" among Medicare, Medicaid, and Social Security is valuable, as these programs seem to draw the most media attention and concern. The use of "% of GDP" is a useful measure and can be understood by the basic reader. Likewise, the comparison to the prior year is a useful measure for the basic user. However, the concept of "present value" is complex and may not be understood by all users. The calculations that are involved in developing a present value figure, such as selection of interest rates, are detailed and complex for a reader to understand, particularly an average citizen.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
Unfortunately, very few Americans currently read the consolidated financial statements of the U.S. Government. I do, however, agree with the FASAB that the financial statements and related reporting should be presented in a manner that is understandable by a vast majority of the American public.

I believe that both public debt and debt held by the "trust funds" should be shown as government liabilities and in connection with any presentations (e.g., Debt/GDP). After all, debt held by the trust fund is backed by the full-faith and credit of the United States Government. It is also guaranteed both as to principal and interest. Therefore, it represents an irrevocable commitment that should be expected to be re-paid absent an actual default by the U.S. Government.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
First, this report should not be classified as a basic financial statement. The information is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports.

One specific change is essential, as described above in response to Question 1. The obligations indicated must not be referred to as “spending” because of the recognized limitations on spending in certain programs (OASDI and HI) under current law. In addition, as described above, the “Rest of Federal Government” category must reflect the obligation under current law and must not be limited to the current percent of GDP as some concept of current policy.

However, the information proposed to be presented is understandable and meaningful to the primary audiences of the CFR, even if not to the general public. Particularly, the breakout of receipts and spending between Medicare, Medicaid, and Social Security is valuable, as these programs generally draw the most media attention and concern. The use of “% of GDP” is a useful measure and can be understood by the basic user. Likewise, the comparison to the prior year is a useful measure for the basic user. However, the concept of “present value” is complex and may not be understood by many users. The calculations that are involved in developing a present value figure, such as selection of interest rates and the time value of money, are detailed and complex for the average citizen to understand.

#13 Dan Kovlak, Greater Washington Society of CPAs
The financial statement appears understandable for the primary audiences of the consolidated financial report (CFR). However, we think that some of the illustrations will not be easily understood by the average citizen. The disclosures of paragraph 42 in particular could use some revision. The words “explain and illustrate” apply to all the subparts of 42, and the example illustrations for part a and d are confusing. We believe the 42a requirement should still remain in the standard, but the Board should recommend this be a very brief narrative. The illustrations for 42b should be the main focal point for the disclosures as it does an excellent job illustrating sustainability to the citizen. Any illustrations that take away from that should either be deleted or should be ordered behind this primary graphic presentation suggested in 42b. This illustration for 42c is suitable, but again, it is not as important as 42b and should be ordered as such.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
Generally, yes, however we do not think that the Long Term Fiscal Projections for the U.S. Government should be classified as a Basic Financial Statement. Rather, it should be presented as a Projection or Report. Additionally, the electronic version of the example shown as Appendix B would be more useful if it presented additional expandable/collapsible categories of projected budgetary resources and projected uses of budgetary resources. Classification of individual line items as Discretionary or Non Discretionary would be helpful in informing the reader of potential areas for improvement.

#16 McCoy Williams, GAO
We believe that the Statement of Fiscal Sustainability with related disclosures would provide important comprehensive information on the nation’s long-term financial condition that would be meaningful to the primary audiences of the CFR. In its proposed format, we believe that the Statement of Fiscal Sustainability would clearly communicate the U.S. government’s financial condition. Overall, the Statement of Fiscal Sustainability has been structured in a straightforward manner; however, it is our view that the excess of spending over receipts attributed to Medicare Part A and Social Security should be required to be disclosed in the footnotes. This would provide policy-makers and the public with critical information on the composition of the excess between the Social Security and Medicare Part A programs, which are supported by dedicated earmarked funding, and the remaining spending, which is supported by general revenues. This should be accompanied by appropriate narrative that discusses the significance of the different funding mechanisms and the competing demands of Medicare Parts B and D and other discretionary spending (e.g., Defense, and Homeland Security) on general revenues.

To increase the usability of the CFR, summary information included in the Statement of Fiscal Sustainability and some of the related disclosures on the nation’s financial condition should be included in Management’s Discussion and Analysis. Also, inclusion of such information in *The Federal Government’s Financial Health: A Citizens Guide to the Financial Report of the U.S. Government would* improve the accessibility of the information to the citizenry, Congress, and other users who may not read the CFR.

#17 John A. Favret, Individual
<u>Understandability</u>
I think the average American, me included, what have a difficult time understanding the example formats shown in the appendix. It is hard to comprehend the significance of a shortfall of $37 trillion based on a 75 year projection. It is particularly difficult when you consider yearly revenue of about 3 trillion and it is complicated by the comparison of present value dollars with current dollars.

I would say in passing the desegregation used in the example, which I understand could have been different, strongly suggests they projection it may for social insurance purposes. It seems to me the social insurance future is adequately covered in the existing statement.

#18 Joseph J. DioGuardi, Truth in Government
The FASAB has indicated that the primary audience for the CFR are citizens and citizen intermediaries such as journalists and analysts.

I agree with this statement, in general. Nevertheless, the question remains as to how the CFR and supplementary information will be disseminated to the widest possible audience and in what form. Not all citizens have access to the electronic media, and many are not able to understand even conventional statements of operating results and financial condition. It was for this reason that I introduced a bill in 1988 (HR 4149) to distribute simplified financial information to the general public with their income tax forms, mailed annually in January, in a format that they could understand. Most citizens get a monthly statement for every credit card that they use. But our federal government sends us no such statement, even annually. If it did, I would like to think that it would look like the one that I prepared for the fiscal year ended September 30, 1991. (A copy is attached as food for thought, and it should be noted here that, while the numbers presented were calculated for each US individual taxpayer, they could be presented for each family or on some other basis that brings home the message of the ever growing national debt.)

Q4. The Board is proposing that the basic financial statement display the difference between projected revenue and projected spending, and that the fiscal gap (the change in non-interest spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP)) must be reported either on the face of the basic financial statement or in a disclosure. Also, the fiscal gap may be reported for a specific debt level or over a range of debt levels (see paragraph 38). Both options for reporting fiscal gap are illustrated in Appendix B (see pages 51 (narrative on the face of the financial statement) and 61(disclosure)). See paragraphs A60 – A63in the Basis for Conclusions for an explanation of the pros and cons of the options.

a. Do you agree with the flexible requirements for reporting fiscal gap?

b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

The concept of a “fiscal gap” implies as a policy norm that it would be desirable to “maintain public debt at or below a target percentage of gross domestic product.” No such policy objective exists in any statute of the United States Government. Nor can such an objective be justified by reference to any known economic theory. There are times when the level of debt in relation to GDP should rise. There are times when it should fall. There are times when it will fall or rise irrespective of policy. To repeat, there is no justification in law or theory for attempting to legislate in an accounting standard a debt-to-gdp ratio as a target for economic policy.

Further, the guidance fails to distinguish between total public debt, public debt held by the public, guaranteed agency debt, and implicit liabilities in the form of guarantees. The guidance at FAQ 3 refers to these concepts as “alternatives” but fails to take a position as to which alternative is meaningful and which is not. As such, the measure of the so-called “fiscal gap” is essentially meaningless.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG

a. Yes, as long as the requirement is consistently applied by the U.S. Treasury across the federal government.

b. No. Fiscal Gap is not a common term and we are concerned that the average citizen would not understand the range of debt level graphs in Appendix B, section 8. We suggest no graphs and no discussion of the continuum of debt. We feel that discussion using examples is better.

#5 Robert L. Childree, AGA FMSB
No, we do not agree with the flexible requirements for reporting fiscal gap and no, we do not believe that the illustrative disclosure is clear and understandable. In our opinion, the disclosure should discuss how much public debt is sustainable and what level economists believe is an appropriate level of debt (similar to what is included in FAQ 3). Then there should be a simple percentage calculation of where debt is now and, given the projections, what percent it might be in 25-year increments for the finite period of time chosen for the statement itself. Now – in addition to this disclosure, we strongly believe that on the face of the statement there should be some additional line items. Currently, reading down, the statement includes Receipts less Spending equals Spending in Excess of Receipts. Following those items, there should be a line called Current Debt that is added to the Spending in Excess of Receipts to a total line. We also believe that under that total there should be a per capita calculation. If this additional display is not acceptable, we recommend the board goes back to some kind of “fiscal imbalance” approach rather than a “fiscal gap” approach.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. Yes, in addition, presenting the fiscal gap analysis in figures citizens can relate to and understand is recommended, such as “$455,000 per American household” would be informative.

b. Yes, and it is recommended that a note disclosure be utilized to explain and illustrate fiscal gap.

#7 Mary Glenn-Croft, SSA OCFO
a. It seems as though there is too much flexibility in establishing fiscal gap, i.e. determining the appropriate level of public debt as a target percentage of GDP. While, we do not feel that the Board has the authority to establish a debt-to-GDP ratio, it seems that allowing the preparer to establish the appropriate level of debt-to-GDP is too subjective. Many readers will assume that having a zero debt-to-GDP level is preferable and may not understand the concept that some level of debt is often acceptable, if not preferred. As stated in the “Basis for Conclusion,” it would be arbitrary to attempt to set a target debt level relative to GDP.

b, We believe that the concept of fiscal gap needs to be explained more clearly. It seems that the reader will have to invest a considerable amount of time to gain an understanding of the concept. If the reader is able to grasp the concept of fiscal gap, then the graph is both clear and understandable. The presentation allows for two different interpretations, i.e., fiscal gap presented in both present value dollars, as well as well as a percentage of debt to GDP. Likewise, the presentation of the changes in revenue or non-interest spending provides a clear explanation of changes that are necessary to maintain a specific debt to GDP ratio. Similarly, the current debt to GDP ratio comparison with the historically high debt to GDP ratio in 1946 is useful in allowing the reader to understand how the measure has evolved over the years.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
In my view, the illustrative graph in Appendix B is confusing and does not seem to present any meaningful information. Therefore, I would suggest that it be eliminated.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. While "fiscal gap" is appealing at a conceptual level, it introduces a complication that requires additional explanation and care in calculation. Maintaining public debt to GDP at a constant ratio would be simple if GDP itself rose at the rate used for interest discounting, or, in other words, if the present value of GDP for any future year were a constant value, equal to this year's GDP. In this special case, maintaining annual revenue exactly equal to annual obligations would precisely maintain the current ratio of public debt to GDP. But in a world where real GDP is projected to grow at roughly 2 percent in the future, and where interest discounting is done at a real rate of about 3 percent, the present value of GDP is smaller the farther we look into the future. Thus, to maintain public debt at a constant percentage of GDP in the future, we would need annual receipts to exceed annual obligations by the amount needed to slow the growth of public debt to the growth rate of GDP. The additional receipts over annual obligations would be roughly 1 percent of the amount of public debt each year. While this is analytically straightforward, it is a complication that requires explanation.

In order to show what is necessary to "maintain" public debt at a given percent of GDP, the "fiscal gap" should be considered on an annual basis. It would indicate the small adjustment to the gap between receipts and obligations needed to adjust the public debt level to maintain debt at the target percentage of GDP. However, the cost and complexity of presentation would be large in relation to the added value of the measure.

On a summary level for a period of many years, there is a perfect analog to the fiscal gap concept that has been in long use for OASDI and HI programs. The Social Security and Medicare Trustees have targeted generally a trust fund level equal to a constant 100 percent of expected annual obligations. Because annual obligations, like GDP, grow at a rate different from the annual interest (discount) rate, the relationship between annual cash-flow balance (receipts minus obligations) and the ratio of the trust fund assets to annual outgo is complicated. To address this complication, the Trustees use the concept of "actuarial balance," which when precisely achieved, will result in having a ratio of trust fund assets to annual expenditures at the end of the summary period at the target level (100 percent).

For total federal government operations, a summary "fiscal gap" concept could be derived that is analogous to the actuarial balance. For a given period (say a 75-year projection period), this would be equal to the PV of projected obligations over the period minus the PV of projected receipts over the period plus the current amount of public debt minus the PV of the target level of public debt at the end of the period. Thus, the difference between this “fiscal gap” measure for a period and the more usual balance between the PV of receipts and obligations for the period is just the difference between the amount of the current-year public debt and the PV of the “ending year” target level of public debt. This difference is likely to be fairly small relative to the balance between receipts and obligations, and so it may be questionable whether the complication is on balance desirable for the financial statement. If this concept is to be included as a summary measure at any level, then the precise nature of the measure, in relation to starting and ending levels of public debt, must be made clear and explicit. Moreover, if this summary measure for a substantial time period is presented, it must be clear that attaining the target level of public debt to GDP is only assured for a single point in time (the end of the period), and that maintaining the target level is in no way indicated by reducing the fiscal gap to zero for the period as a whole. If “maintaining” a fiscal gap at a given level is desired, then an annual presentation of the fiscal gap is essential.

b. Illustration 8 would be confusing to the target audience. The graphs show a varying fiscal gap (Illustration 8a) and varying needed changes in revenue or non-interest spending (Illustration 8b) based on a range of debt to GDP ratios. Both graphs present a significant amount of complex information in a not particularly useful or easily understandable way. Moreover, these illustrations do nothing to indicate the actual changes over time that would be needed to maintain a constant ratio of public debt to GDP.

A far simpler illustration of the fiscal gap concept that would actually be related to sustainability would be to show the annual amount needed each year in addition to projected receipts to cover annual obligations and to maintain the public debt at the current level as a percentage of GDP. As indicated above, this would, in general, be about the difference between projected obligations and revenues for each year, plus about 1 percent of the amount of public debt that is targeted for the year. This illustration, while somewhat complex, would at least have relevance to sustainability as it would show both the timing and trend in annual gaps.

A summary measure of fiscal gap might be useful, but requires care in description and explanation. The measure should be analogous to the actuarial balance used for the OASDI and HI Trust Funds. That is, it should be equal to the PV of projected obligations over the period minus the PV of projected receipts over the period plus the current amount of public debt minus the PV of the target level of public debt at the end of the period. But as with the “actuarial balance,” this value should not be presented in present value dollar terms. To show a summarized gap for many years in PV dollars provides no useful context to the average citizen. The PV dollar gap should be presented only as a percentage of a similar summary measure over the same period, which would most usefully be the PV of GDP over the period. The measure would thus be interpreted as “the average gap as a percent of GDP over the period as a whole.” Care would need to be taken to assure the reader understood that reducing this gap to zero with either a flat percentage change in future tax rates or in future benefit levels would not suffice to maintain a constant ratio of public debt to GDP. It would only serve to assure that the ratio of public debt to GDP would be the same at the end of the summary period as at the beginning, with no assurance at all as to the levels of public debt through the period, and not to the trend in the ratio of public debt to GDP at the end of the period. Thus, such a summary measure must be understood not to relate to sustainability, and so should not be included on the face of the financial statement.

#13 Dan Kovlak, Greater Washington Society of CPAs
We do not agree with the flexible requirements for reporting fiscal gap and we do not believe that the illustrative disclosure is clear and understandable. In our opinion, the disclosure should include some of the wording about how much public debt is sustainable and what level economists believe is an appropriate level of debt (similar to what is included on page 66.) Then there should be a simple percentage calculation of where debt is now and, given the projections, what percent it might be in 25-year increments for the finite period of time chosen for the statement itself. In addition to this disclosure, we strongly believe that on the face of the Statement there should be some additional line items. Currently, reading down, the statement includes Receipts less Spending equals Spending in Excess of Receipts. Following those items, there should be a line called Current Debt that is added to the Spending in Excess of Receipts to a total line. We also believe that under that total there should be a per capita calculation. If this additional display is not acceptable, we recommend the Board goes back to some kind of "fiscal imbalance" approach rather than a "fiscal gap" approach.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you agree with the flexible requirements for reporting fiscal gap?
We believe the Long-Term Fiscal Projection of fiscal gap would be more relevant to the reader if the amounts were projected for multiple increments of time, for example 10 years, 25 years, 50 years rather than presented only using a projection of 75 years.

b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

We think illustrative disclosure 8b is clear and understandable. However, illustrative disclosure 8a needs further explanation.

#16 McCoy Williams, GAO
We agree with the flexible requirements for the reporting of fiscal gap. We believe that there are a number of ways to demonstrate the concept of fiscal gap to users and that the preparer should present the information in an understandable format and sufficiently disclose information to assist the reader in understanding these complex concepts.

#17 John A. Favret, Individual
Fiscal Gap
The fiscal gap arising from a period of 10 to 12 years would be much different from that of a 75 year period. That could eliminate the disclosure of the relationship of gap to the GDP and would simplify the presentation. I think the debt should be held at the debt of

the time of the presentation. The reader could then make his own decision about the amount of the shortfall which could be covered by additional debt.
I have trouble with the concept of setting Debt levels to the amount of the GDP which seems to say that it's good to have debt and there is no need to reduce it.

Further in the present time we are reducing GDP and at the same time reducing revenue while increasing expense. This would seem to put the debt to GDP ratio all out of balance.

If a 10 or 12 year period was used, the presentation should show the fiscal gap for each two year period in the total. That would better highlight the time where correction action would be required.

#18 Joseph J. DioGuardi, Truth in Government – No Comment

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A53 through A59. This exposure draft proposes the following requirements regarding time horizons for projections: (a) the projections presented in the basic financial statement should be "sufficient to illustrate long-term sustainability" (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections); (b) projections for both a finite and an infinite horizon should be provided, one in the basic financial statement and the other in the disclosures; and (c) either the basic financial statement or the disclosures should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).

a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? Specifically, do you believe that data for both finite and infinite horizon projection periods should be reported? If not, please explain.

b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?

#1 Barry Anderson, OECD
Page 10, question 5: consistent with my comments above, I think it best and most easily understood to use one and only one specified time horizon, and that given that the Social Security Administration uses 75 years, that is the one I would recommend.

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
The proposed compromise between 75-year and infinite horizons is to show them both. We favor this compromise, as it will help to remind readers that the exercise should not be taken seriously. To make the problem even clearer, the report should include estimates at intermediate intervals: 25 years, 50 years, 100 years, 200 years, 500 years, and a millennium. Each should be reported with a range of discount rates: zero, the rate of growth, and twice the rate of growth. All of these projections should be in the basic financial statement, of course, since they are all equally reasonable and relevant, and the document should not try to discriminate between them.

[To make this point another way, consider: who could have foreseen in 1900 events such as the Great Depression, the New Deal, and the war in Iraq? In any event, for Social Security and other very long range programs, what matters much more are demographics, and perhaps technology and economic growth, about the latter of which very little can be known. "Financing" is by comparison irrelevant. If by 2083 everyone is over age 67, no financing scheme will allow us to meet our commitment to let people retire at a decent living standard. This, however, is most unlikely.]

Further, the concept of "receipts" in the calculation of the fiscal gap must be clarified. It should, of course, include receipts from borrowing as well as tax receipts. Again, there should be guidance on how the report seeks to evaluate sustainability of borrowing, as discussed under Q1 above. An explicit examination of this question will almost surely reveal that the Board has no understanding of it.

 # 3 Adrienne Cheasty, IMF
On Question 5, we support showing both finite and infinite horizon analysis. They reassure different audiences: accountants are probably more comfortable with the first, and economists with the latter.

#4 Steven Schaeffer, SSA OIG
a. No. We believe that the Fiscal Sustainability statement should be over a finite horizon not to exceed 75 years. We believe that the finite financial statement would show, and the average citizen would be able to draw a reasonable conclusion, as to whether future budgetary resources will likely be sufficient to sustain public services and meet obligations as they come due. Additionally, while financial analysts may find it interesting, we believe it is too much information for the average citizen and irrelevant. We further believe that something will have to be done to correct the situation prior to the 75 year horizon, and that the infinite horizon is not realistic.

b. Yes. The time horizon should not exceed 75 years. We believe that the average citizen's understanding of projections, is that the closer in time (such as 50 years versus 75 years) the more accurate the projection. Conversely, the further out the horizon, the less faith the average person will put in the projection. In addition, if not already developed, the development of costs to run programs over the next 75 years would be cost prohibitive, labor intensive, and very judgmental. The factors used to develop the costs for these programs would be too uncertain to measure with confidence. There are many things that are very difficult to project/measure, such as natural disasters, disease, military necessity, etc.

#5 Robert L. Childree, AGA FMSB
a. The development of two different horizon projection periods makes the statement overly complex. The board should select whether finite or infinite is the best period to meet the objectives of the statement and go with it. We recommend a finite horizon projection period to make the per capita calculation more feasible. Whatever the board decides, the assumptions, rates and tone of the projections should be fully discussed in the report (as referred to in the response to Q1).

b. We think an economist or expert in this area would be able to give the best estimate of what time horizon would give the most valuable information while not sacrificing too much certainty. If the board would like a citizen's preference though, we would think 100 years would be a nice clean cut-off. We also would like to suggest that the board may consider requiring one specific time horizon, like 75 or 100 years, but not prohibiting other horizons (like 25, 50 or 100 years) being used in addition to the one required if they provide meaningful information to the user.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. It is recommended that the data for a finite horizon projection time period should be reported, such as using the Social Security program's projection period of 75 years for long-term projections will provide for comparability.

b. See above.

#7 Mary Glenn-Croft, SSA OCFO
a. We believe that data related to infinite horizons should not be presented in either the financial statements or disclosures. There is too much uncertainty in developing projections for an infinite horizon and there is little meaningful information gained from these models. We also believe that the finite measure is not entirely useful, because, as with a finite horizon, it does not address timing or trends in levels of costs, shortfalls, or surpluses, which can only be found in the annual estimates of receipts and obligations. While use of a finite measure provides an indication of the expected adequacy of future receipts to provide for obligations over the period as a whole, it fails to show whether resources may be adequate at any given point within the period presented. This measure only provides one clear indication of fiscal sustainability, i.e., whether or not receipts and obligations will be in balance at the end of a given period. Even with the limitation of the finite model, it is still more meaningful and effective than a model using an infinite horizon.

b. We believe there should be a specific time horizon requirement of 75 years for the report and/or the SOSI. This would be consistent with the use of the 75-year horizon projection period used in both the Social Security and Medicare Trustees Report.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management- No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I believe that it is appropriate to use a 75-year time horizon for reporting in the financial statements. This is the time horizon that has been used by the Trustees for Social Security and Medicare for decades. In addition, I believe that it would be appropriate to disclose the infinite time horizon numbers in the notes to the financial statements.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss, and Karen P. Glenn, SSA - Office of the Chief Actuary
a. Neither the finite nor the infinite summary measure is useful in assessing sustainability because neither addresses the timing or trend in levels of cost or shortfalls or surpluses. These can only be discerned from the annual estimates of receipts and obligations (exclusive of interest), or from a series of annual gap measures described

above. The summary measures over the next 75 years provide a useful indication of the expected adequacy of future receipts to provide for obligations over the period as a whole. However, failure of this summary measure to indicate the time within the period for which resources may be adequate and the time for which resources are expected not to be adequate renders the measure a highly limited indicator. In effect, the measure provides only one unambiguous indication: that is, whether the accumulated account between receipts and obligations over the entire period will be in balance at the very end of the period. The status at any point within the period cannot be determined or suggested by the value for the summary measure. As limiting as this is for the usefulness of the summary measure over 75 years, it clearly renders the summary measure over the infinite future period useless and effectively meaningless.

Therefore, to the extent that any summary measure is included, it should be limited to at most the 75-year period used by Social Security and Medicare in the SOSI. Infinite period measures should be eliminated from any serious consideration. Moreover, in order to address sustainability, it is critical to have a measure that actually addresses the timing and trend in any gaps and thus can illustrate where and how much change is needed. Here an analog to the Social Security test of “sustainable solvency” would be useful. The analog for the federal government consolidated account would be the combination of (1) the 75-year summary measure (fiscal gap), indicating the overall adequacy of receipts to cover obligations for the period as a whole with the targeted level of public debt at the end of the period, and (2) the sequence of annual levels of public debt as a percent of annual GDP, in order to see if the trend in the ratio is stable, and thus sustainable. By far the most critical part of the measure is the latter portion. To address sustainability of the financing of the federal government consolidated operations, a graph of the projected annual gaps between expected receipts minus obligations and the necessary excess of receipts over obligations to maintain the target level of public debt would be necessary and sufficient. Anything more would only serve to complicate the presentation.

b. There should be a specific time horizon requirement of 75 years for the basic financial statement for Fiscal Sustainability and/or the SOSI. This is consistent with the 75-year period used in both the Social Security and Medicare Trustees Reports, and has a long history of acceptability and usefulness. With the annual gap concept presented as a percent of GDP for this period, the average citizen would have a simple, straightforward presentation of the magnitude and timing of the gaps that the country faces for the future.

#13 Dan Kovlak, Greater Washington Society of CPAs

a. The development of two different horizon projection periods makes the statement overly complex. The Board should select whether finite or infinite is the best period to meet the objectives of the statement. We recommend a finite horizon projection period to make the per capita calculation more feasible. Whatever the Board decides, the assumptions, rates, and tone of the projections should be fully discussed in the report (as referred to in the response to Q.1).

b. We think an economist or expert in this area would be able to give the best estimate of what time horizon would give the most valuable information while not sacrificing too much certainty. We believe 75 to 100 years would be appropriate (since this approximates a lifespan.) We also would like to suggest that the Board consider requiring one specific time horizon, like 75 or 100 years, but not prohibiting other horizons (like 25 or 50) being used in addition to the one required if it provides meaningful information to the user.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? Specifically, do you believe that data for both finite and infinite horizon projection periods should be reported? If not, please explain.

We do not believe data for infinite horizon projection periods should be reported because the reliability and usefulness to the reader is marginal.

b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?

We favor presentation of multiple time horizon requirements for the basic Fiscal Sustainability Reporting and SOSI. See Q4a for an example of our thoughts.

#16 McCoy Williams, GAO
It is our view that the time requirements are reasonable to meet the reporting objectives of Fiscal Sustainability Reporting. We do not believe that a specific horizon should be required for either the Statement of Fiscal Sustainability or the SOSI. There are advantages to using both finite and infinite time horizons. We prefer that the preparer has the flexibility to determine the time horizon for a period and that the time period selected is sufficient to demonstrate long-term sustainability.

#17 John A. Favret, Individual
Projection Period
I agree with me quote that says “the 75- year horizon is too distant to be meaningful”, It seems like it was copied from the social security projections which wanted to cover a lifetime. I believe the projections to be realistic it should be no more 10 or 12 years. The 12 year span would cover 2 Senate terms or 3 presidential terms. Either would be better understood by a majority of the people and would be within the lifetime of those 21 or older. Accordingly it would highlight the need for action.

#18 Joseph J. DioGuardi, Truth in Government – No Comment

Q6. The Board's mission is to issue reporting requirements for the federal government's general purpose financial statements, and not to recommend budget policy. This exposure draft proposes a title for the basic financial statement: "Long-Term Fiscal Projections for the U.S. Government." An alternative title, "Statement of Fiscal Sustainability," might imply to some that the Board has established or plans to establish specific rules that define "fiscal sustainability" and/or budget rules that would result in fiscal sustainability. However, others have indicated that the "plain English" meaning of the words "fiscal" and "sustainability" should be adequate, and that the title "Statement of Fiscal Sustainability" might be more appropriate.

The Board's working definition of "fiscal sustainability" is explained in the Basis for Conclusions, paragraph A3. The concept of "Financial Condition" is explained in the Basis for Conclusions, paragraphs A7and A8.

Do you believe that the basic financial statement should be titled
a. "Long-Term Fiscal Projections for the U.S. Government,"
b. "Statement of Fiscal Sustainability,"
c. "Statement of Financial Condition," or
d. A title not listed above (please specify).
Please explain the reasons for your choice.

#1 Barry Anderson, OECD

Page 11, question 6: I recommend option a.: Long-Term Projections for the U.S. Government.

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

"Fiscal sustainability" is defined in3 as a condition of policy under certain arbitrary economic assumptions such that "public debt does not rise continuously as a share of GDP." The difficulty here is that the assumption of a stable inflation rate under hypothetical conditions of excessive fiscal expansion is untenable. Under those conditions, the dollar would fall, inflation and therefore nominal GDP would rise, and the public debt will eventually cease to rise as a share of GDP. This effect is known to economists as the "inflation tax." The inflation tax is an automatic stabilizer, which prevents excessive growth of real demand. It therefore vitiates the problem of "fiscal sustainability" as defined in A3.

An appropriate title might therefore be "Projections of federal revenues, expenditures and borrowings under arbitrary economic and policy assumptions."

#4 Steven Schaeffer, SSA OIG

We like answer a, Long-Term Fiscal Projections for the U.S. Government. This title seems more plain English and understandable. Also, it indicates that the numbers provided are merely projections and does not imply that the programs are sustainable or that the future financial condition can be reasonably estimated.

#5 Robert L. Childree, AGA FMSB
a. We prefer a title that does not include the word “statement” or the phrase “financial statement” especially with regard to projected information. Another option might be, “Projection for Long-Term Financial Sustainability.”

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
It is recommended that
a. “Long-Term Fiscal Projections for the U.S. Government,” be used. This best describes the objective of this information.

#7 Mary Glenn-Croft, SSA OCFO
The most appropriate title would be the “Long-Term Fiscal Projections for the U.S. Government.” The other titles presented include the word “statement,” which does not seem appropriate for an illustration that consists of projections. These are much different from a balance sheet, statement of budgetary resources etc., which present the results of operations at a present time or that have already occurred.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I believe that, subject to the final composition of the statement, it should be referred as "Statement of Fiscal Sustainability and Intergenerational Equity". For example, if my suggestion in the below response to Question 14 was adopted, this title would clearly and accurately describe the type of information that would be presented within the basic statement.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
The most appropriate title for the basic financial statement as currently written is “Long-Term Fiscal Projections for the U.S. Government.” The other two titles presented include the word “statement,” which is not appropriate for an illustration that consists of projections and hypotheticals, which is much different from a balance sheet or statement of budgetary resources, which present the results of operations at the current time or that have already occurred. In addition, the statement as currently written does not truly address fiscal sustainability in terms of the timing and trend of future receipts and obligations, and thus should not be titled as such.

If the measures presented were indeed modified to address timing and trend of gaps as described above, then “Statement of Fiscal Sustainability” might be appropriate.

#13 Dan Kovlak, Greater Washington Society of CPAs
We think that the basic financial statement should be titled, “Statement of Fiscal Sustainability” since that appropriately describes the intent of the statement.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. "Long-Term Fiscal Projections for the U.S. Government," b. "Statement of Fiscal Sustainability," c. "Statement of Financial Condition," or d. A title not listed above (please specify). Please explain the reasons for your choice.

Long-Term Fiscal Projections Report for the U.S. Government, is suggested. We believe the "Statement" should be reserved for generally accepted financial statements.

#16 McCoy Williams, GAO
It is our view that the basic financial statement should be titled “Statement of Fiscal Sustainability.” We believe that this title is sufficiently clear to convey the purpose of the financial statement which is indicated by the board’s working definition of fiscal sustainability. As defined, fiscal sustainability is the federal government’s ability to continue, both now and in the future, current policy without change regarding public services and taxation without causing debt to rise continuously as a share of GDP.

#17 John A. Favret, Individual
<u>Title or caption for the statement</u>
I have a strong feeling that the title of the statement should contain the word “projection” in the title. The statement would be contained in a report of 100+ pages presented on a historical cost basis and this statement and the statement of social insurance would be the only ones that are projections.(Actually I believe they statement of social insurance should be renamed “ Projection of Social Insurance Revenue and Expense” or something similar.)

I understand some people may think the title of fiscal sustainability has a certain sophisticated ring to it but I don't think it adequately described the information contained therein.

#18 Joseph J. DioGuardi, Truth in Government
I believe that the title “Statement of Fiscal Sustainability” is the most appropriate of the options presented, as a clear representation of the nature of the statement. I would suggest that the word “Federal” be inserted before “Fiscal,” so as to make it perfectly clear that this is about our U.S. government and not about the States.

Q7. This exposure draft proposes a minimum level of disaggregation for the basic financial statement. For projected receipts, major programs such as Medicare and Social Security would be shown separately from the rest of government. For projected spending, major programs such as Medicare, Social Security, and Medicaid would be shown separately from the rest of government. (See paragraphs 36 andA46-A49.)

a. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statement? Please explain the basis for your views.

b. Do you believe that specific line items (instead of or in addition to the "major programs" required by paragraph 36 of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

#1 Barry Anderson, OEDC – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

The purpose of program budgets is to discipline the program. It is certainly appropriate to hold programs accountable to ensure that they do what they are supposed to do. There is little public interest in reporting after the fact the fiscal balance of particular portions of the budget.

 # 3 Adrienne Cheasty, IMF

On Question 7 on the level of disaggregation, the proposal that all expenditures other than Medicare, Medicaid and Social Security, should be presented as one amount, could be reconsidered. This residual amount, referred to as "the rest", includes significant items such as education and defense spending that are also sensitive to demographic, productivity, and macroeconomic assumptions and may therefore be a source of "unsustainablilty." A table could be provided showing the composition of this item, e.g., on a classification of functions of government (COFOG) basis, which would enable readers to compare U.S. trends with those in other countries, such as the U.K. and EU members, that produce similar projections. This comparative information is, in many ways, the most useful as it gives a sense of scale to what can look like unfathomably large numbers.

#4 Steven Schaeffer, SSA OIG

a. Yes, at a minimum, Social Security, Medicare and Medicaid should be broken out. However, if these are the only programs that will be disaggregated, it appears to have significant duplication to the Statement of Social Insurance.

b. We believe that the citizens would like to see a breakout of a few more major programs such as defense, food stamps, and unemployment.

#5 Robert L. Childree, AGA FMSB
a.Yes, we believe that it is a good idea to have some minimum level of disaggregation for the basic financial statement. Parsing out receipts and spending of major programs from the rest of the government can be beneficial and helpful to the readers of the financial statement.

b. We think the statement should allow more disaggregation, but not require it. The major programs should be sufficient.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
Yes, the above guidance provides for an appropriate level of disaggregation in the basic financial statement in that the 3 programs Medicare, Social Security, and Medicaid are the major programs. As noted in the Appendix B example, the 3 account for 57.72% of the Total Spending. Further, separate sublines can be added, as required.

#7 Mary Glenn-Croft, SSA OCFO
a. While showing Medicare and Social Security is an excellent starting point, it seems that additional disaggregation for total receipts would be useful. We believe that showing Medicare, Medicaid, and Social Security only for total spending is appropriate since these programs make up the majority of non-defense related dollars spent. Additionally, we believe that attempting to provide a 75-year projection of defense spending would not provide meaningful or valuable information.

b. “Individual income taxes” and “corporate income taxes” should be listed under the receipts category.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
With regard to receipts, I believe that individual income taxes and corporate income taxes should also be shown. These are highly material sources of federal revenue.

With regard to spending, I believe that interest and defense spending should be disclosed separately. They are material individually and represent important and ongoing areas of federal spending that are provided for in the Constitution of the United States. All other non-specified items could be aggregated assuming that no other individual item was deemed to be material to the consolidated financial statements.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. While showing Medicare, Medicaid, and Social Security is an excellent starting point, additional disaggregation would be useful. In the example presented in Appendix B, the “All Other Receipts” and “Rest of the Government” categories represent significant

portions of total receipts and total “spending” that should be disaggregated further. By not doing so, the statement appears to be “hiding” or “burying” totals for other programs.

Moreover, combining all other programs invites oversimplification of the type that would lead to assuming that receipts or obligations might remain a constant percentage of GDP in the future. The statement should be more rigorous if it is to be useful beyond the already well-developed projections of receipts and obligations for Social Security and Medicare. Specific projections with explicit assumptions should be required for all major federal programs, including defense expenditures and health spending.

b. No, disaggregation by “major programs” is sufficient. However, the “major programs” should not be limited to those listed. While projecting future costs for programs like defense may be difficult, the statement will have no significance beyond already available projections for Social Security, Medicare, Medicaid, and SSI without the further identification of specific federal programs.

#13 Dan Kovlak, Greater Washington Society of CPAs
a. Yes, the above general guidance provides for an appropriate level of disaggregation in the basic financial statement because it explains the major factors affecting the financial stability of the government.

b. We believe the statement should allow more disaggregation, but not require it. The major programs should be sufficient.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statement? Please explain the basis for your views.

Further disaggregation of information would provide more targeted and useful information to readers and stimulate discussion and modeling of potential improvements and solutions.

b. Do you believe that specific line items (instead of or in addition to the "major programs" required by paragraph 36 of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

Comments on exposure draft, *Comprehensive Long-Term Projections for the U.S. Government*

Spending for Medicare, Medicaid, and Social Security should be further stratified between current payments and principal and interest repayments to the appropriate trust fund. Spending for the Rest of the Federal Government should include additional line items for Defense; Other Domestic Public Services; and Non Domestic Public Services.

We think Receipts presented under Medicare and Social Security should have separate line items for employer contributions, employee contributions, repayment of borrowings from the Social Security Trust Fund, and repayment of borrowings from the Medicare Trust Fund. All other Receipts should be expanded to include separate line items for Business Income Tax Receipts; Individual Income Tax Receipts; Fees; and Tariffs.

#16 McCoy Williams, GAO
The general guidance regarding the appropriate level of disaggregation in the Statement of Fiscal Sustainability is reasonable. However, as noted in our response to question 3 above, to improve the utility of the Statement of Fiscal Sustainability to policy-makers and the public, it is important to disclose the excess of spending over receipts that can be separately attributed to Medicare Part A and Social Security in the footnotes.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government
I believe that disaggregation should not be limited to Social Security and Medicare. There are other major expenditures that should be tracked on a year to year basis to make the Statement as informative and as useful as possible. I would also separately show the annual expenditures for Defense, Welfare, Health, Education, and Transportation. At the least, in my view, the expenditures for our nation's defense should be shown along with Social Security, and Medicare.

Q8. This exposure draft proposes that disclosures should explain and illustrate the major factors impacting projected receipts and spending (such as the rising cost of health care) (see paragraph42(a)). Illustrative examples in Appendix B begin on page Error! Bookmark not defined.**). 52.**

a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please explain the basis for your view and note any recommended changes in the requirements.

b. Do you believe that the display of a range for major cost drivers and/or major programs, as shown in Illustrations 1a and 1b in Appendix B should be optional or mandatory? Please explain the basis for your view.

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
No comments.

#4 Steven Schaeffer, SSA OIG
a. We believe that the major factors impacting projected receipts and spending may be helpful if it includes programs other than just Social Security, Medicare, and Medicaid. However, we believe that this should be brief and in the form of high level, simple graphs and written discussion as presented in the summary PARs.

b. Optional. Illustrations 1a and 1b are fairly easy to understand. However some data and graphs are not, such as Illustrations 8a and 8b. Therefore, it should be left as an option. Also, it could be too much information for the average reader.

#5 Robert L. Childree, AGA FMSB
a. Yes, we think that an explanation and illustration of the major factors impacting projected receipts and spending can be helpful to readers. This can serve as a "bridge" to help convey a complex subject matter in a simple and understandable manner.

b. We thought the illustrations were unnecessary. We think there should be a brief verbal description of the major factors, perhaps in conjunction with the discussion about policy alternatives. The charts just muddy the waters more for the citizen. Keep it simple by including the statement and the chart on page 57 and excluding extraneous information that causes a person to get overwhelmed and to quit reading the disclosures.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. Yes, an explanation and illustration of the major factors impacting projected receipts and spending will be helpful.

b. It is recommended that the display of a range for major cost drivers and/or major programs be optional, in that ranges can vary.

#7 Mary Glenn-Croft, SSA OCFO
a. The explanation and illustrations will be helpful to users. Users of the statements should be aware of the major factors considered that may affect projected receipts and spending.

b. We believe that the display of major cost drivers and/or major programs as shown should be optional. These displays raise too many different scenarios and hypotheticals that may be more confusing than they are useful. The graphs attempt to present too much information; a narrative explanation would be much more effective.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I believe that it is appropriate to include supplemental disclosures in connection with major factors that may impact overall projected receipts and expenditures in a material manner. I agree that rising health care costs and demographic trends are both appropriate to highlight. I would also suggest that the large and rising revenue loss from the current exclusion of employer provided health care benefits from the taxable wage base for Social Security and Medicare and from individual income taxes might also be another item worthy of disclosure.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. An explanation and illustrations will be helpful to users. Users of the statements should be aware of the major factors that may affect projected receipts and spending. However, with such additional disclosures goes the obligation to provide balanced and thorough analysis. Even when assumptions and projections are appropriate and balanced, wrong impressions may be conveyed by inappropriate factor analysis.

b. The specific displays of major cost drivers and/or major programs as shown should be altered, and should certainly be optional. These displays raise too many different scenarios and hypotheticals that may be more confusing than they are useful. The graphs attempt to present too much information; a narrative explanation could be much more effective.

Note for example that Illustration 1b is extremely misleading. The “Effect of the Aging of the Population” line assumes that per person health care spending rises only with per capita GDP. Because the number of workers per person in the population is declining, per capita GDP is growing at a slower rate than average employee compensation in the projections. This seriously underrepresents the implications of aging of the population by assuming for that factor that health costs would grow only by per capita GDP. This is inappropriate as most health spending is highly labor-intensive and so the per service price increases in health under an aging-only scenario should be assumed to at least keep up with average employee compensation growth in the economy. Doing this would increase the share of the overall health cost growth that is attributed in this illustration to aging.

Also, Illustration 1a may be misleading because it suggests that health spending growth rates are appropriately measured relative to the growth in GDP. Because health spending is related mainly to individuals who are old and disabled and are not working, while GDP is related mainly to the efforts of those who are working, there is not a necessary relationship between these rates of growth, other than that total health care cost cannot readily exceed total GDP.

#13 Dan Kovlak, Greater Washington Society of CPAs
a. Yes, we believe that an explanation and illustration of the major factors impacting projected receipts and spending can be helpful to readers. This can serve as a “bridge” to help convey a complex subject matter in a simple and understandable manner.

b. We believe that illustrations are unnecessary. We think there should be a brief verbal description of the major factors, perhaps in conjunction with the discussion about policy alternatives. The statement and the chart on page 57 should be retained.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please explain the basis for your view and note any recommended changes in the requirements.

Yes, we believe that the explanations and illustrations of the major economic and demographic factors impacting projected budgetary resources and consumption of budgetary resources adds significant value to the report.

b. Do you believe that the display of a range for major cost drivers and/or major programs, as shown in Illustrations 1 a and 1 b in Appendix B should be optional or mandatory? Please explain the basis for your view.

We think display of a range for major cost drivers should be mandatory for all major categories. Inclusion of only select categories introduces bias. Additionally, excess cost as a percentage of tax revenue may provide more meaningful information to citizens than as a percentage of GDP.

#16 McCoy Williams, GAO
We agree that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers as well as information on how major cost

factors have changed or are expected to change. These disclosures will provide additional transparency as to what factors influenced the projections and what factors can be impacted through policy change and/or legislation.

It is also our view that the manner of the display of a range of major cost drivers and or major programs shown as Illustrations 1a and 1b in Appendix B should be optional. We believe that there should be sufficient flexibility to provide information that is useful to readers and that contributes to a better understanding of the complexities of the U.S. financial condition.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government

I definitely believe that an explanation and illustration of the major factors impacting projected receipts and spending should be provided. It will not only help readers understand why major receipts and expenditures are changing from year to year but may also motivate them to take civic or political action sooner than later. Moreover, I believe that the display of a range for major cost drivers and/or major programs as shown in 1(a) and 1(b) of Appendix B should be <u>mandatory</u> to more fully disclose the fiscal dynamics working to create a less sustainable or unsustainable federal government.

Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph 42(d) provides that the present value of projected receipts, spending and the net of receipts and spending be presented for each alternative scenario. Optionally, projections for alternative scenarios may be displayed in a table format (see Illustration 7 in Appendix B).

a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.
b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
So far as transfer programs are concerned, given that both assets and liabilities should be reported, a few exercises will demonstrate that the two necessarily balance. (The government's deficit is the private sector's surplus.) Therefore it would seem unnecessary to present many alternatives, since all would show the same thing.

 # 3 Adrienne Cheasty, IMF
On Question 9, if the financial statement requirement were introduced, our view is that alternative scenarios should be provided.

#4 Steven Schaeffer, SSA OIG
a. No. We believe that there should be only two alternate projections, one to show the increase in revenues needed to sustain the current level of service, and the other to show the cut in spending needed to sustain the current level of service, as the two options are fairly generic. We are concerned that providing other projections would reduce the credibility of the statement. The readers could perceive the alternative scenarios as:

- An endorsement of the alternate policies,
- Political in nature, and
- Subjective, open to speculation, and not factual.

b. We believe that the only alternative scenarios that should be presented are to increase revenues and to decrease spending as they are generic.

#5 Robert L. Childree, AGA FMSB
a. No – this makes it overly complex. Also paragraph 42d is presented as a requirement: "[Disclosures should explain and illustrate] the results of alternative scenarios that are consistent with current policy without change." And the statement

asks for scenarios that are higher and lower. The development of these scenarios is probably meant to show a range of possible results to put the statement in context, but unless the board required the entity to create a best case and a worse case scenario, there is just too much judgment involved here and the intent could easily be lost. Now, granted, the selection of the scenario involves a lot of judgment as well. No way around that. You just aren't gaining much by offering up a bunch of alternatives if it has no parameters and if it won't necessarily show the full range of options. It sounds as if this part of the standard arises from what the Trust funds already do with three separate scenarios; however, in the basis for conclusions (A23) it states that the intermediate assumptions reflect the Trustees' best estimate of future experience. We recommend that the board identify the most suitable estimate instead of making the disclosures overly complex.

b. See a. above.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service

a. No, in that including alternative scenarios can cause confusion. Therefore, it is recommended that the inclusion of alternative scenarios be optional.

b. See above.

#7 Mary Glenn-Croft, SSA OCFO

a. The proposed requirement for alternative scenarios is appropriate. Specifically, the tables presented in illustration 7 are useful in allowing the reader to compare different scenarios and its corresponding effect on receipts and spending.

b. Yes, these requirements are sufficient.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation

I believe that alternative scenarios should be provided if they have a reasonable basis and possibility of happening. Otherwise, it may just serve to confuse readers.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary

a. The proposed requirement for alternative scenarios is appropriate. Specifically, the tables presented in Illustration 7 are useful in allowing the reader to compare different scenarios and to see the corresponding effect on receipts and obligations. We note again that the word "spending" should be replaced by "obligations."

A number of alternative scenarios are currently presented in the Social Security Trustees Report. Included are low-cost and high-cost scenarios which look at the impact of changing several assumptions at once, and sensitivity analysis on individual assumptions (fertility, mortality, CPI, etc.). Including alternative scenarios as a disclosure in this statement would be consistent with the Trustees' approach.

b. Yes, these requirements are sufficient. Paragraph 42(d) appropriately specifies that "alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences," which ensures that lower-cost and higher-cost scenarios will be presented. Selection of the particular assumptions to be varied and in what combination and magnitude is left to the preparer's judgment.

#13 Dan Kovlak, Greater Washington Society of CPAs
a.No, we do not believe that the proposed requirement for alternative scenarios is appropriate – this makes the requirements overly complex. Paragraph 42d says: "Disclosures should explain and illustrate the results of alternative scenarios that are consistent with current policy without change." It also asks for scenarios that are higher and lower. The development of these scenarios is probably meant to show a range of possible results to put the statement in context, but unless the Board requires the entity to create a best case and a worse case scenario, there is too much judgment involved, and the intent could easily be lost. The selection of the scenario involves a lot of judgment as well. Not much additional information is provided to users by offering a group of alternatives if it has no parameters and if it won't necessarily show the full range of options.

It appears as if this part of the standard arises from what the Trust funds already do with three separate scenarios. However, the Basis for Conclusions (A23) states that the intermediate assumptions reflect the Trustees' best estimate of future experience. We suggest requiring only the "best" estimate instead of making the disclosures overly complex.

b. See a. above.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.

Yes, we agree that the results of alternative economic and demographic scenarios should be provided. The present value of future cash flow appeals to a wide audience; therefore, we agree with paragraph 42(d) which provides that the present value of projected receipts, spending, and the net of receipts and spending be presented for each alternative scenario. The table format presented as Illustration 7 in Appendix B aids user understanding.

b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.

Yes, we agree with the additional disclosure requirements for changes in valuation period, policies, assumptions, and estimates and that the major causes of the differences between the results of the alternative scenarios and the basic Fiscal Sustainability Report should be disclosed.

#16 McCoy Williams, GAO
We agree that the proposed requirements for alternative and related disclosures are appropriate.

#17 John A. Favret, Individual – No Comment

#18 Joseph DioGuardi, Truth in Government – No Comment

Q10. This exposure draft proposes disclosures consisting of narrative and graphic displays to effectively communicate to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph 39 and illustrations begin on page 52.

a. Do you believe that the disclosures would help the reader understand the basic financial statement?

b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

Q11. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
The problem of “understanding” is addressed above. The “basic financial statement” is, as proposed, a document that defies understanding. Efforts to make it clear are therefore somewhat beside the point. Public purpose would be better served by efforts to make it confusing. I would therefore oppose the inclusion of “scare charts” such as those included in the draft.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG
a. Yes we believe that some of the disclosures would be helpful to the reader.

b. We do not believe that the projections should be for an infinite horizon because it is not realistic to assume this programs can continue indefinitely without policy changes. We also believe projections should be based on current policy.

c. Yes, we believe that examples are always helpful. However we believe that the illustration should be used as a guide (i.e. not mandatory format and wording).

#5 Robert L. Childree, AGA FMSB
a. See Q3 comments.

b. 40(c) doesn’t seem understandable, and as such, we can’t offer alternative language. 41(d) says to disclose the significant reasons for the changes. Perhaps it should say to identify the major reasons for “significant” changes so it does not appear that you would have to explain all changes.

c. Yes, we believe that an appendix that displays illustrations can be helpful to the reader in understanding the projections and trends in spending and revenues in major programs.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. Yes.

b. Page 55, for the Demographic Trends disclosure, it is recommended that age demographics such as "over 64" be used instead of "retired".

Page 61, it is recommended Alternative Scenarios be optional.

c. Yes, in that the illustrative disclosures assist in communicating the information.

#7 Mary Glenn-Croft, SSA OCFO
a. We believe these disclosures are helpful in aiding the reader in understanding the basic financial statements. It is important for the user to be aware of the numerous limitations involved in projections; otherwise, the information presented could be misleading to users. In addition, definitions of how present values were calculated, significant policy assumptions, etc., will allow the user to be fully informed.

b. No items should be added to or deleted from the disclosures.

c. We believe that some illustrative disclosures can be useful. Some graphs such as illustration 3 "Projected U.S. Government Receipts and Spending" and illustration 4, "Projected Deficit (Surplus) as a Percentage of GDP," are useful in allowing the reader to visualize the topics being discussed. However, the standard should caution the preparer when considering what information to display in the graphs. For example, in illustration 2 the "Age-Gender Pyramid," the graph does not successfully illustrate any gender disparities nor is it clear if this information is relevant.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management
The ABFM, for example, welcomes the recommendations for the enhanced use of graphics and visual displays to indicate economic and fiscal trends

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I believe that such disclosures would be useful, especially if they can be displayed in graphic form.

I believe that more transparency needs to be provided in connection with foregone federal revenues due to existing tax preferences that are material to the financial statements I would suggest adding a disclosure designed to achieve that objective. As noted in my response to Question 8, I believe that the tax loss associated with the current exclusion of the value of employer provided and paid health care benefits is an item of particular importance and noteworthiness.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. These disclosures will be essential in helping the reader understand the basic financial statements. It is important for the user to be aware of the numerous limitations involved in projections; otherwise, the information presented could be misleading. In addition, definitions of how present values were calculated, significant policy assumptions, etc., will allow the user to be fully informed.

b. There is no reason to include paragraph 40(d) in the disclosures: "Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include the activities of state and local governments." While this statement is valid at a superficial level, this should be obvious to all users. On the other hand, activities of state and local governments have specific indirect effects on the CFR that cannot be ignored or dismissed. As one example, it is within the capability of state and local governments whose employees are not covered by Social Security to require their employees to be covered under Social Security. Such change by any of the state and local government entities that are not currently covered would have specific financial consequences that would be reflected in the CFR.

Paragraph 41(e)3 should also be eliminated. This paragraph suggests inclusion of "Information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers." First, it is not the purpose of the CFR to assess what federal obligations constitute benefits. In addition, assessment of who benefits from any obligation or ultimately bears the burden of paying taxes is highly judgmental and has no place in the CFR.

c. We believe that some illustrative disclosures can be useful. However, several of the graphs chosen to be included in Appendix B of the exposure draft are not necessarily useful or illuminating:

- Our objections to Illustrations 1a and 1b are described above in response to Question 8.

- Illustration 2 is not particularly useful and the scale is misleading. Showing numbers on the x-axis rather than percentages would foster a better understanding of the changing U.S. population. The narratives surrounding the graphs are helpful, in particular the discussions of the dependency ratio and demographic trends outside the U.S.

- Our objections to Illustration 3 are described above in response to Question 1. We do believe that, with alterations, Illustration 3 could be the principal illustration of the sustainability of federal obligations.

- Illustration 4 has a similar problem as Illustration 3, in that it includes interest accruals as if they are “spending.” Both illustrations should show either the annual deficit of receipts relative to obligations or the annual fiscal gap, which would include also the small additional amount needed to maintain public debt at the constant percentage of GDP.

- Illustration 5 reaches the ridiculous conclusion that federal debt held by the public will reach over 700% of GDP by 2080. There is no historical basis for speculating on a debt ratio at this level, and it should not be presented even in a hypothetical context. Rather, the annual levels of additional receipts or obligation reductions (i.e., the annual fiscal gap) should be presented in modified versions of Illustrations 3 and 4.

- Illustration 6 has value but only if described much more carefully in the title and elsewhere. The title should be changed to “Average Percentage Reductions in Obligations over Increasingly Limited Periods to Eliminate the 75-Year Projected Revenue Shortfall (Fiscal Gap).”

- Illustration 7 is useful, but should be expanded to provide a breakout of projections for all major cost centers in the government.

- Our objections to Illustration 8 are described above in response to Question 4.

#13 Dan Kovlak, Greater Washington Society of CPAs

a. See our response to Q3.

b. We believe that the disclosure included in paragraph 40(c) is difficult to understand. As such, we suggest deleting this disclosure. Paragraph 41(d) says to disclose the significant reasons for the changes. Perhaps it should say to identify the major reasons for “significant” changes so it does not appear that you would have to explain all changes.

c. Yes, we believe that an appendix that displays illustrations can be helpful to the reader in understanding the projections and trends in spending and revenues in major programs.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council

a. Yes, we agree narrative and graphic displays enhance reader understanding of historical and projected trends and major drivers of fiscal gap.

b. No.

c. We think the final accounting standard should include an appendix that displays illustrative disclosures as this will promote consistent inter period disclosure and enhance comparability.

#16 McCoy Williams, GAO
It is our view that the disclosures will help the reader understand the basic financial statement. We agree that it is helpful to have an appendix that displays illustrative disclosures in the final standard even though we believe that the specific format of the presentations should be a decision of the preparer.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government
Again, thinking as an accountant wanting full disclosure and as a citizen looking for important information in a simple and understandable format, I believe that graphic displays with simple narratives would definitely help readers understand the basic financial statement and may even make readers more interested in all of the data presented in the Statement and CFR. For this reason, I believe that the final accounting standard should include an appendix that displays illustrated disclosures like those shown in Appendix B.

Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a "plain English" explanation of terms and concepts used in long-term projections.

a. Do you find the FAQs helpful?

b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
We found the FAQs very helpful, as they helped to establish that the questions we raise above have not, in fact, been thought through in the drafting of the document.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG
a. Yes we find the FAQs helpful.

b. All of the FAQs presented in the ED should be included, plus a FAQ for Fiscal Gap. However, we believe the FAQs should be included in GAO's Guide to Understanding the Annual Financial Report of the United States Government. We believe this is a more appropriate place for FAQs than in the CFR itself.

#5 Robert L. Childree, AGA FMSB
a. Yes, we find the Frequently Asked Questions (FAQs) in Appendix C helpful. One member suggested wording the text of the entire document in plain language as much as possible, or to present them and the plain language document as the main document, with the technical details shown as an appendix.

b. The Treasury Department should be encouraged to include some of the FAQs in the CFR to promote understandability of the terms and concepts. Certainly the discussion about the debt to GDP ratio, though parts of that are already included in the disclosure illustrated in part B. (See also answer to Q4 above)

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. Yes.

b. Yes, it is recommended that all be included.

#7 Mary Glenn-Croft, SSA OCFO
a. The terms and concepts associated with this proposed standard can be difficult to understand and therefore these FAQs are useful in providing concise answers to some

common questions, such as “What is present value?” and “What is the nature of Federal trust funds?”

b. No, Treasury should not be encouraged to include any of these FAQ’s in the CFR. Including these FAQ’s would be providing too much information and would seem to dilute the basic information presented. It appears that many of the answers to the FAQ’s can be easily incorporated, if they are not already, into the disclosures.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I do believe that FAQ's can be helpful. Response to Question

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. The terms and concepts associated with this proposed standard can be difficult to understand, and therefore these FAQs are useful in providing concise answers to some common questions. However, there is a significant amount of repetition between Appendix C: FAQs and Appendix E: Glossary. Combining and/or consolidating these appendices should be considered.

b. In keeping with the goal of being “easily understandable to the ‘average citizen’ who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence,” the FAQs should be considered for inclusion in the CFR. As mentioned above, perhaps the FAQs and Glossary should be combined.

#13 Dan Kovlak, Greater Washington Society of CPAs
a. Yes, we find the Frequently Asked Questions (FAQs) in Appendix C helpful.

b. The Treasury Department should be encouraged to include all of the FAQs in the CFR to promote understandability of the terms and concepts.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Yes, we believe the FAQ section enhances citizen understanding of information presented in the report.

b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).

We think all 7 FAQ's should be included.

#16 McCoy Williams, GAO
It is our view that sufficient information should be presented in the financial statements to enable users to understand the terms and concepts discussed in the financial statements. This can be accomplished by incorporating definitions and explanations in the financial statements without the use of FAQs.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government
As a general matter, yes, to increase the understandability of terms and concepts, especially for the less sophisticated reader of the CFR. One FAQ that I would include for all readers and users of the CFR is #7 in Appendix C, "What is the nature of federal trust funds?"—especially in light of the use of Social Security funds to pay for other federal programs without fully disclosing the way that current deficits are made to appear substantially less by this questionable treatment from an accounting viewpoint.

Q12. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009 with earlier implementation encouraged. This proposed Statement would require that the financial statement and the disclosures be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (for example, basic financial statement and disclosures) for all subsequent years.

a. Do you believe that this implementation date is reasonable and appropriate?

b. Do you agree with the phased implementation period (3 years)?

c. Do you believe that some or all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
The proposed Statement should not be implemented.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG
a. No, we do not believe that FY 2010 is reasonable. We believe that 1) impacted entities need more than a few months to develop and document such a statement; 2) auditing standards need to be developed before such a statement becomes basic information.

b. No, we prefer that the required information remain RSI.

c. Yes, we believe all of the required information should remain RSI, as there are projections in the information, which can be considered speculative, and might not be auditable. Presenting the statement as basic information would mean estimates and projections would be placed on the face of the financial statements. Since estimates are based on subjective as well as objective factors; it may be difficult for agencies to establish controls over them, thus creating more skepticism from the auditors.

#5 Robert L. Childree, AGA FMSB
a. Yes, we think it appears to be reasonable.

b. Yes

c. The information should be presented in the basic financial statements after the three-year window.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. Yes.

b. Yes.

c. Yes, all of the disclosures should remain as RSI, especially if information such as Alternative Scenarios is included.

#7 Mary Glenn-Croft, SSA OCFO
a. The implementation date seems reasonable and appropriate. Federal agencies are already producing some of this information.

b. No, we believe this information should remain RSI even after 3 years. The information is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports.

c. We believe that all of the required information should remain as RSI after the 3-year implementation period. Because of the uncertainties and assumptions involved in fiscal sustainability reporting, it does not seem appropriate for it to be subject to the same audit scrutiny as the other basic financial statements.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I expect that the initial implementation date may be somewhat optimistic. I would suggest delaying it a year. Otherwise, I believe that the proposed phased implementation approach is both reasonable and appropriate. Finally, I believe that the information in the Fiscal Responsibility and Intergenerational Equity Statement should be subject to audit after the transition period. I would expect the GAO to provide some modification to its report with regard to this and other related projection information.

#11 Shaun McNamara, Department of Transportation – OCFO
Thank you for the opportunity to review the Exposure Draft (ED) on "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government." Our Operating Administrations reviewed the ED and the Department's comments are minimal. Our main concern is how these changes to the financial statements (long-term spending and revenue projections) will be audited.

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. We believe there are significant shortcomings in the exposure draft that must be addressed before implementation can be considered.

b. No, we believe any information required by this statement should remain RSI even after 3 years. The information is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports.

c. We believe that all of the required information should remain as RSI after the 3-year implementation period. Because of the uncertainties and assumptions involved in fiscal sustainability reporting, it is not appropriate for it to be subject to the same audit scrutiny as the other basic financial statements. The essential information proposed here for the Social Insurance programs is already basic information in the agency and consolidated statements. The balance of the information included in the proposed disclosures here would be even more highly speculative, and thus should not be considered basic information.

#13 Dan Kovlak, Greater Washington Society of CPAs

a. Yes, we believe that this implementation date is reasonable and appropriate.

b. Yes, we agree with the phased implementation period.

c. The information should be presented in the basic financial statements after the three-year window.

#14 Dick Bode, Individual

The need for long-term projections is NOW not 2010 I propose that as soon as the FY2008 Financial Report is issued the GAO/FASAB produce a separate that addresses the Future and Crisis.

#15 Dan Fletcher, CFO Council

a. We think the implementation date should be optional for the period beginning Sep 30, 2009 and mandatory for the period beginning Sep 30, 2010.

b. Yes.

c. We think the required information should remain as RSI and not presented as a basic financial statement.

#16 McCoy Williams, GAO

We believe that the implementation date is reasonable and appropriate and we agree with the phased implementation period of 3 years. We also believe that items 41 (e), 42(a), 42 (b), and (42(d) should be retained as RSI.

#17 John A. Favret, Individual

I agree that this information should be shown as required supplementary information not for three years but until the Board determines otherwise.

#18 Joseph J. DioGuardi, Truth in Government

I believe that we should not delay the effect of the proposed Statement to the fiscal year ending September 30, 2010. It should be made effective immediately so that the next

CFR for the fiscal year ended September 30, 2009 include the important information on fiscal sustainability that is the subject of the ED. A good reason for doing this is that federal fiscal maters are going from bad to worse in a hurry with record trillion dollar plus deficits projected for the immediate past and present fiscal years. The current economic recession and proposed stimulus plan(s) have created a dire need for (and wide interest in) information on federal fiscal sustainability, as soon as possible. Likewise, I would urge the Board to accelerate the phased implementation period from three years to one year.

Q13. A significant minority of members supported a proposal that there should be RSI regarding trends in the proportion of U.S. Treasury debt held by foreign investors. This information would remain as RSI and would not be subject to the phased-in implementation in paragraph 44. (See paragraphs A64–A68 in the Basis for Conclusions for a discussion of this proposal and Illustration 10 in Appendix B.)

a. Do you believe that including RSI regarding the foreign holdings of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.

b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?

#1 Barry Anderson, OECD – No Comment

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

If so, these trends should be described as votes of confidence in the US dollar and strength of the Treasury. Of course, the foreign holding of U.S. debt results from the willingness of foreigners to sell to us their excess output, and to accumulate dollar assets; itis an attribute of their confidence in the dollar as a reserve asset.

Q11. A minority of members supported a proposal that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, RSI (not subject to the phased-in implementation in paragraph …) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphs … in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, the statement and disclosures be accompanied by RSI that includes identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

The board has not established its competence in a basic matter of accounting. It should certainly not embarrass itself by attempting to prescribe policy.

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG

a. Yes, we believe that it would be meaningful to present a schedule showing trends in U.S. Treasury debt held by foreign investors. This information would show the reader the impact foreign countries could have on the U.S. economy.

b. The illustration in Appendix B is clear and understandable. However, we believe the readers would like to see which countries are the top investors, and the percentages held by each of them.

#5 Robert L. Childree, AGA FMSB
a. Absolutely. Trends in the proportion of U.S. Treasury debt held by foreign investors is a fundamental user consideration and such an important analysis.

b. Yes. It was refreshingly simple and understandable.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
a. Yes, in that the proportion has been large and increasing, per Page 64.

b. Yes.

#7 Mary Glenn-Croft, SSA OCFO
a. This information could perhaps be useful but we believe the issue would need to be studied more before a conclusion can be made. Clearly, a greater percentage of Treasury debt is held by foreign holders but is this trend consistent with other industrialized nations and perhaps an outcome of an increasingly global economy? If the U.S. current rate of debt held by foreign investors and the rate of decrease in holdings by U.S. investors over time is consistent with that of other nations, this would suggest that this information might not be particularly useful. Additionally, the decrease in domestic holdings of Treasury debt may be influenced by other factors such as an increase in opportunities for U.S. investors to invest abroad as seen by the increase in international mutual funds, exchange traded funds, and even the Thrift Savings Plan's International Stock Fund.

b. Yes, the illustrative example provided in Appendix B on page 64 is clear and understandable; however, a line graph showing how the rate of foreign ownership changes over time would be much more informative than a pie chart which only shows two data points.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management
The ABFM, for example, welcomes the recommendations for the enhanced use of graphics and visual displays to indicate economic and fiscal trends, greater disaggregation of revenue and expenditure data for the principal entitlement programs, and adding data on trends of foreign holdings of U.S. Treasury debt.

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I strongly support requiring reporting on debt held by foreign lenders and related trends. This is a very important financial issue that can have significant economic, fiscal, foreign relations and even national security implications over time. I also agree that showing this information as a percentage of debt held by the public is appropriate. Finally, I believe the illustrated example is clear and understandable. However, I believe that more

guidance should be included regarding the period(s) for which such information should be provided.

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
a. Including RSI regarding the foreign holdings of U.S. Treasury debt for historical periods is of some interest, but it is not relevant or useful in meeting the objectives of sustainability reporting. Specifically, identifying the portion of U.S. Treasury debt held by foreign investors in the past does little in assisting readers to determine if "future budgetary resources will likely be sufficient to sustain public service and to meet obligations as they come due." Moreover, this historical information is available in other federal government publications and would raise too many political and policy-related issues. Any attempt to project the proportion into the future would be so speculative as to be worthless.

b. The illustrative example provided in Appendix B is clear and understandable by even the most novice user.

#13 Dan Kovlak, Greater Washington Society of CPAs
a. Our committee could not reach agreement on the need for the foreign holdings of U.S. Treasury debt disclosure. Some members believe that trends in the proportion of U.S. Treasury debt held by foreign investors is a fundamental user consideration and as such, an important analysis. Other members believe that since this information may have national security implications, management should monitor this amount, but it is not a necessary disclosure for the public to understand the nation's fiscal sustainability.

b. Yes. The disclosure is simple and understandable.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you believe that including RSI regarding the foreign holdings of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.

Yes, we believe trends in foreign holdings of U.S. Treasury debt is relevant information that citizens would like to know and should be presented as RSI.

b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?

We think that the pie graphs provided in Appendix B aggregating foreign and international investors as one slice and Federal Reserve, domestic investors, state and local governments as the remaining slice should be further stratified into additional slices. Foreign and international investors might be stratified by country of transaction origin or other means. Federal reserve, state, and local governments might represent individual slices. Domestic investors might be split into individual investors and corporate investors. Presentation of comparisons for additional years would be useful.

#16 McCoy Williams, GAO
We do not agree that including in the RSI trends noting the proportion of U.S. Treasury debt held by foreign investors is relevant and useful in meeting the objectives of fiscal sustainability reporting. Treasury securities are purchased primarily by dealers, brokers, and financial institutions who voluntarily report information on security holders to the U.S. Bureau of Public Debt. Although reported by Treasury, the data on securities held by foreign investors is not verifiable and is generally not available until one year after the period being reported. Thus, these circumstances may cause disclosure or audit concerns. Moreover, it would be very difficult to develop assumptions to forecast trends for foreign investors purchasing U.S. Treasuries over the long run. A model for projecting this data does not exist.

While the illustrative example provided in Appendix B is clear and understandable, we do not agree that it is appropriate for inclusion as RSI for the reasons stated above and as articulated in Appendix A: Basis for Conclusions, paragraph A67.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government
I believe that graphic information (like the pie chart in #10, Appendix B), regarding trends in the proportion of US Treasury debt held by foreign investors (especially foreign countries) should be made part of the Required Supplementary Information *and* be subject to the phased-in implementation. I feel strongly about this because of our increasing reliance on foreign countries to fund our operating deficits at a time when the global economy is under great strain and these funds may not be available to us in the future as countries like China, Japan, and Germany are forced to shore up their own economies, especially with further global economic deterioration. In 1992, I warned of the possible bankruptcy of the U.S. government in Chapter four of *Unaccountable Congress*, which I entitled for maximum affect "The Big Apple and Washington—One Bailout after Another." Having worked with the Arthur Andersen team hired by the U.S. Treasury Department to advise on the bankruptcy of New York City in 1975, I projected a similar scenario for our federal government. Certainly no bankruptcy in American history has ever had the impact of the collapse of New York City. And, what I said then is that the most curious thing about it was that hardly anyone saw it coming. I ended that chapter by saying that the New York City debacle proved a big point for us then and now; namely, that dishonest accounting and financial management and reporting systems can lead to big problems—even possible bankruptcy for the United States of America if it stayed on the same track.

Q14. A minority of members supported a proposal that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, RSI (not subject to the phased-in implementation in paragraph 44) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphsA68–A74 in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, the statement and disclosures be accompanied by RSI that includes identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

#1 Barry Anderson, OECD

Page 13, question 14. I do not believe that it is Treasury's role to propose or even list policy alternatives to close a projected fiscal gap. Thus I do not recommend that RSI should include such a requirement.

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

"Inter-generational accounting" is an experimental and unsound concept. It should not be included in any government document.

 # 3 Adrienne Cheasty, IMF

On Question 14, we agree with the majority view that it would be inappropriate to require analysis of policy options for addressing any fiscal gap. The subjectivity of the selection of options would appear to make this an inappropriate subject for mandatory provisions

#4 Steven Schaeffer, SSA OIG

We believe that a significant fiscal gap could be shown in the RSI. We believe the public would be interested in a top level discussion of the comparison of fiscal gap to GNP, and what the percentage was at other points in time (for comparison purposes). However we do not think alternate projections should be made at this time. It seems inappropriate to predict future government policy. We are concerned that there will be too much information for the reader. In addition we feel that at this time, there is no defined target percentage for fiscal gap as it relates to the United States. Further, these types of policy issues may be better addressed in a separate report completed by GAO.

#5 Robert L. Childree, AGA FMSB

Yes, if projections show a gap, additional information on policy alternatives should be included. This is consistent with the underlying notion of issuing this document and would best inform the public and elected officials. The FMSB does caution the board, though, that it would be difficult to avoid politics in the selection of the policy alternatives. Who would prepare this information? Perhaps add some wording that would put the burden on the preparers to identify what policy alternatives the citizens might be interested to see, regardless of political agendas that might cause people to leave some scenarios off the table.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
It is recommended that the RSI not include any proposals for closing a projected fiscal gap. Any recommendations for doing so should be part of another white paper.

#7 Mary Glenn-Croft, SSA OCFO
It would not be appropriate to include identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. As already stated in the basis for conclusions, we believe that including such policy assumptions would seem to "endorse" a specific policy. FASAB's role is to establish accounting standards, not to establish policy standards that reflect various political views. In addition, it seems impossible to provide clear guidelines on how to select among the numerous possible policy alternatives.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I do support including information on how much overall tax levels would have to be raised as well as how much overall spending levels would have to be reduced in order to achieve fiscal balance at different intervals over time. This would serve to show both extreme policy positions while demonstrating the benefits of acting sooner versus later and the implications of failing to act. In my view, this type on information should ideally be incorporated into the basic financial statement so that it would deal with both Fiscal Sustainability and Intergenerational Equity. I do not, however, believe that the basic financial statements should include more detailed policy options (e.g., private accounts for Social Security, imposing Social Security payroll taxes on all wages).

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
It is not appropriate to include identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. As suggested by a majority of the Board in Appendix A, including such policy alternatives would effectively "endorse" a specific policy. FASAB's role is to establish accounting standards, and the role of the Executive Branch of the federal government in preparing the CFR is to determine the financial status. Neither FASAB nor the Executive Branch is charged with recommending policy alternatives in the context of the CFR. Including specific policy alternatives in the CFR would inevitably reflect political views. Given the enormous range and variety of potential policy alternatives, it would be impossible for the FASAB to provide clear guidelines on how to select a limited but balanced subset for inclusion

in the CFR. There exist in the law requirements for the President to submit to Congress recommended legislative changes under certain conditions through means other than the CFR. These other means are clearly political vehicles. Political influence in the CFR should be discouraged in every way by the FASAB rather than encouraged. Inclusion of policy alternatives would inevitably introduce at a minimum the appearance of political influence. For this reason, inclusion of optional analysis of factors that lead to fiscal gaps must be done with extreme care and objectivity.

#13 Dan Kovlak, Greater Washington Society of CPAs
Yes, if projections show a gap, additional information on policy alternatives should be included. This is consistent with the underlying notion of issuing this ED and would best inform the public and elected officials. The Board should consider adding some wording that would require preparers to identify policy alternatives.

#14 Dick Bode, Individual
Part 6- Suggested solutions and the possible effect on these projections. Add proposed deadlines for Congress to act

#15 Dan Fletcher, CFO Council
No, we do not believe RSI should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. Policy alternatives to address fiscal gap should remain separate from fiscal sustainability reporting.

#16 McCoy Williams, GAO
We do not agree that the statement and disclosures accompanied by RSI should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce fiscal gap. We agree with the views of the majority of members and their rationale as stated in Appendix A: Basis for Conclusions paragraph A74.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government – No Comment

Q15. This exposure draft proposes that additional information that may be helpful to readers in assessing whether financial burdens without associated benefits were passed on by current-year taxpayers to future-year taxpayers (sometimes referred to as "inter-period equity" or "inter-generational equity") be included as one way to meet a disclosure requirement for providing context for the data in paragraph 41(e) (See paragraphs A75- A78 in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that such information should be optional (as proposed in the exposure draft) or required? Do you believe that further research and analysis should be performed by FASAB to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-period or inter-generational equity.

#1 Barry Anderson, OECD
Page 14, question 15. I do not believe that inter-generational equity information should be required, or that FASAB should do further research and analysis on how to improve the disclosure of such information. The ED goes far enough without adding this additional requirements or information

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge
No Comment

#3 Adrienne Cheasty, IMF – No Comment

#4 Steven Schaeffer, SSA OIG
a. Yes, it should be optional.

b. If it is optional, inter-generational equity can be added at a later date. However, we believe that no further research is needed. We believe the readers already understand this concept. As an example, we believe that many of the young readers do not expect to receive any Social Security benefits, as they believe there will be no money left for them by the time they retire, unless there are current policy changes.

#5 Robert L. Childree, AGA FMSB
a. This is certainly a topic of interest and perhaps ought to be required, but we would have to see the details before making that decision. It is very difficult for us to picture how this information could be presented clearly enough to make it informative. If there was a clear way to display the burdens passed on, we would support that requirement.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service
It is recommended that inter-generational equity be included such as in RSI. Further analysis can also be performed on how to improve the disclosure of such information.

#7 Mary Glenn-Croft, SSA OCFO
a. While the concept of "inter-period equity" and "inter-generational equity" is interesting, it should not be required information. The goal of this standard is to assist readers in determining whether "budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due." Readers always have the option of doing such an analysis using this standard as a starting point, but this information would be inappropriate to include as required information in this projection.

b. FASAB should not do any further research. It would not be appropriate to include these disclosures in the standard.

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management – No Comment

#9 James M. Dubinsky, Association for Business Communication – No Comment

#10 David M. Walker, Peter G. Peterson Foundation
I believe that appropriate inter-generational equity information should be provided. It could include the information noted in my response to Question 14 and possibly additional information. I suggest that some basic information be required initially even if the FASAB decides to study this issue further.

I hope that the Board and the staff find this information useful. I would be pleased to attempt to arrange my schedule to testify before the Board in connection with this matter on

#11 Shaun McNamara, Department of Transportation – OCFO – No Comment

#12 Stephen C. Goss,and Karen P. Glenn, SSA - Office of the Chief Actuary
In our answer to Question 10, we indicated that it would be inappropriate for the FASAB to encourage, even at an optional level, analysis that would purport to assess the fairness and the incidence of benefit and burden in the CFR. Thus, analysis of "inter-generational equity" should not be required information, nor should it be suggested as optional information. The goal of this standard is to assist readers in determining whether "budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due," not whether the distributions of financial burdens are "fair" or not. FASAB should not do any further research on this topic. Judgments about what constitutes a benefit, and who receives that benefit, are required for generational analysis of financial costs and benefits. The complexity of federal government obligations and the passage of benefits across generations, both directly and indirectly, make anything appearing to be an analysis of generational equity an exercise in judgment and a statement of political perspective. Whether, for example, current expenditure for a new rifle, or for a new highway, or for a school subsidy, or for a tax reduction benefits current taxpayers or future generations is entirely a matter of interpretation, perspective, and ultimately belief systems. This kind of analysis has no relevance to the CFR.

#13 Dan Kovlak, Greater Washington Society of CPAs
a. We believe this type of information should be required.

b. We believe that further research and analysis should be performed by FASAB to improve the disclosure of such information. It will be challenging to display the burdens passed on from one generation to another. Therefore, as more experience is gained, the disclosures should be improved in order to meet the needs of the users.

#14 Dick Bode, Individual – No Comment

#15 Dan Fletcher, CFO Council
a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?

We think Inter-period equity **and inter-generational** equity information should be optional.

b. Do you believe that further research and analysis should be performed by FASAB to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of interperiod or inter-generational equity.

We do not think further research and analysis by FASAB is warranted at this time.

#16 McCoy Williams, GAO
It is our view that information that may be helpful to readers in assessing intergenerational equity should be required as a disclosure to show whether financial burdens without associated benefits were passed on by current-year taxpayers to future-year taxpayers. We would like to see FASAB conduct further research and analysis relating to inter-period equity to improve the disclosure of such information.

#17 John A. Favret, Individual – No Comment

#18 Joseph J. DioGuardi, Truth in Government
I believe that additional information will be helpful to CFR readers and users in assessing whether financial burdens without associated benefits are being passed on by current taxpayer to future generations of taxpayers. I also believe that such information should be required and not made optional, and that further research and analysis should be performed by the FASAB to improve the disclosure of such information. The latter issue has become increasingly important with the public attention being given to the Madoff scandal as a $50 billion “Ponzi” scheme. The press has even gone so far as to compare what Madoff has done to the way the U.S. Treasury handles Social Security. In fact, one cartoon recently presented a Congressional panel asking Madoff where he got the idea to do what he did. He replied: from Social Security! (For a better explanation of why many view Social

Security as a massive "Ponzi" scheme, see Chapter five of *Unaccountable Congress*, entitled "Congressional Child Abuse: Send the Feds the Bill.")

Other comments:

#1 Barry Anderson, OECD

- As I understand the recommendations in the ED, the final Statement would require long-term projections to be produced annually [after an introduction period]. I strongly recommend **annual** publication of longterm projections to familiarize politicians, the press, and the public with the projections and to provide some measures—even if crude—of the long-term consequences of current political decisions.
- I am not a fan of fiscal gap analysis presented in discounted dollars. I don't believe the use of humongous discounted figures holds much meaning to the targeted users of the projections. See for example the recent letter from the Peter G. Peterson Foundation, http://www.pgpf.org/getinvolved/letter-to-candidates/. Does "America's $53 Trillion Hole" really mean much to the average citizen? How relevant is it to discount dollars back over very long periods— generations? What discount rate is used? How can these figures be so large when the economy is only a fraction of the amount? Even translating them into "$455,000 per American household" produces figures that are so big that I think they tend to make the reader set aside such analysis because the problems are clearly outside his/her ability to do anything about. Instead, I strongly encourage that you emphasize the use of figures measured as a percent of GDP. This avoids the problems of discounting and of figures in multi-trillions of dollars. In addition, the future trends using percentage of GDP can be presented [i.e. 25, 50, or 75 years out] so that the reader can see the nature of the problems and how they grow. I think that $53 trillion is too big to be meaningful, but putting the problem in terms of percentage of GDP { see, for example, "The Congressional Budget Office (CBO) projects that total federal Medicare and Medicaid outlays will rise from 4 percent of GDP in 2007 to 12 percent in 2050 and 19 percent in 2082—which, as a share of the economy, is roughly equivalent to the total amount that the federal government spends today." from CBO Director Orszag's testimony on The Long-Term Budget Outlook and Options for Slowing the Growth of Health Care Costs at http://www.cbo.gov/ftpdocs/93xx/doc9385/MainText.2.1.shtml} does a much better job of describing the nature of the long-term problems. [On a related item, I think your use of population pyramids is very good as I think they are easy to understand and do a good job of describing the nature of and changes to the US population. See how the European Commission uses them at: http://www.lisboncouncil.net/media/almunia_slides.pdf.]
- Page 21, ¶ 28. I suggest that you explicitly mention how to treat long-term Social Security projections. My understanding of the SS program is that the SS Trustees are prevented from paying full benefits if the amounts to pay such benefits are not available in the trust fund. Under current projections, the trust fund will not have sufficient balances to pay full

benefits in 2040 or thereabouts. A strict interpretation of current law would result in the benefits paid in that year being automatically reduced to the amount supported by monies available in the trust fund—perhaps only 70% of full benefits. This is not a good assumption to use in making long-term projections because it does not provide a useful measure of the amount of resources required to pay existing benefits. My point is not to leave the treatment of long-term SS projections ambiguous, but rather to specify exactly what you think out to be included in the projections for SS.

I hope these comments are helpful.

#2 James K. Galbraith, University of Texas at Austin
L. Randall Wray, University of Missouri - Kansas City
Warren Mosler, University of Cambridge

N/A

 # 3 Adrienne Cheasty, IMF

Ref: Comments on an Exposure Draft Reporting Long-Term Fiscal Projections for the U.S. Government

We welcome the initiative of the Federal Accounting Standards Advisory Board (FASAB) to improve public reporting of information that is helpful in assessing the long-term fiscal sustainability of the U.S. Government. We note that the Exposure Draft (ED) proposes that the government should produce a basic financial statement of all projected receipts and payments of the government, relate such amounts to GDP, and show how such projections have changed from the previous year. The ED also proposes that the basic financial statement should be supplemented by narrative that highlights the major factors contributing to any trends, and explains the projections and their inherent uncertainty and also any alternative projections. Finally, the ED proposes that information about the implications of political or legislative inaction be also included.

In principle, it is desirable that governments be encouraged to provide routine public information on long-term fiscal sustainability, as an increasing number of governments around the world are doing. As the ED observes, information on the current financial position can never be adequate for this purpose, as it is necessary to consider the future implications of current expenditure and tax policies. We also agree with the approach proposed by the ED to employ the fiscal gap methodology to analyze fiscal sustainability, and use "current policy without change" as the basis for projecting future receipts and payments. Thus, for economists, the case for the reporting is completely clear, and Appendix B provides important information in a neutral way. Hence, the comments that follow mainly reflect the specific concern of our accountants-to ensure that the proposal is appropriate to an accounting standard.

The ED could provide clearer explanation of why such forward-looking information should be included in a financial statement or be the subject of accounting standards. In other words, the leap from having the standard refer to financial position to financial condition could be justified more in Appendix A. From a pure accounting perspective, it could be argued that the unavoidable uncertainty associated with such projections-reflecting the high degree of sensitivity to the assumptions made, and the great difficulty in many cases of avoiding arbitrary assumptions-make such information unsuitable for inclusion in financial statements. The provision of guidance on the assumptions, along the lines provided in the ED, is helpful but does not fully address this issue. It remains unavoidable that, as the Board acknowledges, the "details of the assumptions for projecting current policy without change should be left to the judgment of the preparer, subject to review by the auditor." For many programs, the projections will end up being based on essentially arbitrary assumptions, such as that expenditure grows at the same rate as GDP. The ED explicitly acknowledges this uncertainty, and recommends that it be highlighted in conjunction with the proposed financial statement. The paper also rightly recommends the presentation of alternative scenarios. Notwithstanding these disclosures, it could be argued that the act of designating fiscal gap estimates as a "financial statement" may tend to endow the specific numbers with an authority which they do not deserve.

The ED therefore could more clearly explain the proposed requirement to report long-term fiscal projections in the context of the underlying conceptual framework of federal financial reporting. In particular, the ED could expand on the stewardship objective of financial reporting and how the reporting proposed by the ED satisfies this objective. Among other things, the stewardship objective requires that financial reports should provide information to facilitate the assessment of whether future budgetary resources will be sufficient to sustain public services and to meet the obligations as they become due. The reporting proposed by the ED is directly relevant to this objective. While the ED does refer to the stewardship objective, some further explanation of this objective may be necessary to clarify that the financial reporting is not concerned solely with ex post information, but also with relevant forward looking information.

The ED could also explain any limitations of the traditional financial statements that the proposed reporting is designed to overcome. For example, under existing accounting standards, the government's ability to impose taxes or its commitments for various social insurance payments such as social security and Medicare are not recognized as assets or liabilities on the government's balance sheet. The ED could explain that the proposed reporting of fiscal projections is one way to address the resulting lack of information about the sustainability of government operations required by the Statement of Federal Financial Accounting Concepts (SFFAC) 1.

Finally, the ED could more clearly address the concerns about the reliability of the proposed reports. For example, the ED could explain that information in the proposed reports on long-term projections would have to satisfy the qualitative characteristic of reliability, as set out in SFFAC 1. The ED could usefully discuss the reliability of projections in the context of the requirements of SFFAC I that the information presented should be verifiable, comprehensive, free from bias, and a faithful representation of what it purports to be. It may also be helpful to explain the implications for the long-term reports proposed by the ED of the concept that while reliability does not imply precision or certainty, it is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured.

#4 Steven Schaeffer, SSA OIG

Ms. Wendy M. Payne,
Executive Director
Federal Accounting Standards Advisory Board
On September 2, 2008 the Federal Accounting Standards Advisory Board released the exposure draft, *Reporting Comprehensive Long-Term Fiscal Projections for the United States Government*. Specifically, the Board asked responses to 15 questions.

Attached you will find the comments from the Social Security Administration (SSA) Office of the Inspector General (OIG).

Thank you for the opportunity to review this document. We look forward to the future progress of this project. If you have any questions please contact me on 410-965-9701.

Thank you

Steven L Schaeffer,
Assistant Inspector General for Audit
Office of Inspector General
Social Security Administration

Paragraph	Comment
7	Paragraph 7 states that assessing future budgetary resources has social and political implications. We have a concern that the term "political implications" detracts from the purpose of the statement.
10	It is not clear who will make the determination of materiality. Is it intended that Treasury will decide which items to include, and will Treasury seek input from Federal agencies?
12	This paragraph defines fiscal gap. However, it does not address who determines what the "target" percentage of debt to gross domestic product (GDP) should be. It also does not address how often the target percentage changes, such as every 5 years, etc.
18	Paragraph 18 states that the report requirements in this statement apply to the consolidated financial statements. How will Treasury calculate the individual component entity level information? Will Treasury contact the individual component for this information? If so, who will audit this

	information?
32	It is not clear if there can be different valuation dates for each program or if the same valuation date is expected for all programs in the statement.
33	The language in the second sentence, "If not feasible, the entity should disclose…" may be somewhat confusing. Disclosures to the public would be included with the statement in the CFR and not in the PARs for individual entities. Should this be revised to say that departments or agencies should disclose this information to Treasury?
42	This paragraph states that historical and projected trends should begin at least 20 years before the current year. We understand that FASAB believes that 20 years are needed in order to show a trend. However, since the Chief Financial Officers (CFO) Act (Public Law 101-576) was signed in 1990 or only 18 years ago, we have a concern that not all agencies have readily available financial data that is reliable prior to 1990.

#5 Robert L. Childree, AGA FMSB
On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its exposure draft of the proposed statement on *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. The FMSB, comprising 23 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB would like first to applaud the FASAB for taking on this difficult project. Though some might think the perceived costs and the uncertainty of future projections call into question the appropriateness of this basic financial statement, we believe that it has the potential to be the most important financial statement there is. This is a critical time in our country, and we need to watch our financial health carefully. Politicians have to worry about votes, and while some look beyond the present and try to keep our country's financial future always in focus, today is a very difficult environment in which to make sweeping changes that affect people's pocket books. Citizens do not typically want to tax themselves, and politicians have to get the votes of these citizens. But if dire future financial circumstances exist in our country and are at least exposed, we can then hope that the people will encourage their politicians to make the hard choices necessary to sustain our government and try to ensure that our children's lives in this country are at least as good as our lives have been. So we wish to say “bravo” to the board for development of this exposure draft.

Because this is such an important statement to the citizens, understandability will be of paramount importance. The board should take every opportunity to reduce the number of options or the number of required components or disclosures after determining that the informational value of the data would not be sacrificed.

Some members expressed concern about whether the fiscal sustainability report should be incorporated into the consolidated financial report (CFR) of the U.S. Government at all. Their main concern was that the information would be considered both subjective and politically biased by large segments of intended users and would therefore undermine the credibility of the financial statements as a whole. More specifically, they feared that economists, or at least a substantial portion of them, would contend that from a macroeconomic perspective the projections contained in the report were conceptually flawed.

These members recommend that the sustainability report be issued as a stand-alone document separate and apart from the annual financial report. If it is to be issued as part of the CFR, then it should be clearly set apart from the other statements, notes and required supplementary information (RSI) and should contain an explicit explanation that the included statements are of a different character than those in the rest of the report.

Since comparability is not as important a criteria for our federal government accounting standards (as there is only one federal government), one way to address the concerns about subjectivity and political bias would be to stress the concept of consistency in how the information is developed from year to year. If consistent methods are applied, it will make the information much more auditable as well. Of course, there needs to be room to make improvements on the projections, but in general, the information should be prepared the same way from year to year. Changes in methods should require mandatory disclosure as discussed in our response to Q1 below. Following are our responses to the questions posed in the document and some final comments.

Finally, we would also like to recognize that this was an excellent set of due process questions. The board did a good job clearly identifying significant minority views for consideration. It is apparent that the board desires to get this statement right. We do have one final question that we respectfully ask the board to consider. It is this. Will the anticipated disclosures and reporting result in a skilled and diligent assessment of the global appetite, or capacity, to drawdown additional Treasury securities at levels anticipated now or in the future? In short, will what is being proposed help the reader of the CFR to understand when the “hard stop” will likely occur and when the Federal government will actually have to live within constraints---and, maybe, even be expected to pay back some of the principal of outstanding securities?

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the letter, please contact Anna D. Gowans Miller, CPA, AGA's director of research and staff liaison for the FMSB, at amiller@agacgfm.org or 703.684.6931 ext. 313.

 # 6 Melanie Cenci, U.S. Department of Agriculture, Farm Service – N/A

#7 Mary Glenn-Croft, SSA OCFO – N/A

#8 Rebecca Hendrick, ASPA Association for Budget and Financial Management

The Association for Budgeting and Financial Management (ABFM) strongly endorses the Federal Accounting Standards Advisory Board's (FASAB) efforts to include new long-range budgetary, financial, and fiscal policy information in U.S. Federal government financial statements. FASAB's exposure draft, "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government," (September 2, 2008), proposes a number of options for providing this information in order (1) to assist readers assess the changing nature of the government's finances, and (2) assist the reader "determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due."

The ABFM, for example, welcomes the recommendations for the enhanced use of graphics and visual displays to indicate economic and fiscal trends, greater disaggregation of revenue and expenditure data for the principal entitlement programs, and adding data on trends of foreign holdings of U.S. Treasury debt. In addition to these suggestions considered in the FASAB statement, ABFM recommends that to mitigate potential problems of false certainty regarding future budget outcomes, the projected budgetary information should not be presented solely as "point estimates" of a single value, rather as ranges of likely outcomes. There are many ways to accomplish this, and the required technical expertise to provide this information is already present in the federal government. Furthermore, an analysis and presentation of conditions for fiscal sustainability should be made in the financial statements. The ABFM supports the inclusion of information such as these that strengthen the transparency of government fiscal activities and clarify their long-term implications for both the policy-maker and for the average reader.

The ABFM notes that a common trade-off exists between the presumed benefits of creating new data, such as long-range budget forecasts, and the administrative costs of generating these data by OMB and other federal agencies. The goals and recommendations outlined in the FASAB statement, however, would benefit a variety of budget users. Policy makers would gain access to more accurate information about the sustainability of current and future economic and their own budgetary decisions. Moreover, the general public, public interest groups, the press, and scholars would also benefit from this increased access to information, so as to better evaluate policy proposals and the sustainability of federal government finances. Thus, the ABFM views the overall benefits of the options now being considered by FASAB to far outweigh these costs.

#9 James M. Dubinsky, Association for Business Communication – N/A

#10 David M. Walker, Peter G. Peterson Foundation – N/A

#11 Shaun McNamara, Department of Transportation – OCFO – N/A

#12 Stephen C. Goss and Karen P. Glenn, SSA - Office of the Chief Actuary
Thank you for the opportunity to comment on this exposure draft. There is much here that is positive and would contribute to understanding of interested citizens willing to invest some time and effort into understanding the material presented in the report. However, a number of items proposed would be far too complex, potentially misleading, or political in nature, and thus should be modified or eliminated from the standard. To summarize, our main recommendations for changing the draft standard are as follows:

- The concept of "current policy without change" can be problematic and may result in inconsistent reporting among various major programs. This concept cannot, for example, be allowed to result in obligations shown to be increasing in cost as a percent of GDP even when the law would not permit the cost to be realized, while at the same time failing to reflect increases in receipts as a percent of GDP that would be required by current law. This kind of inconsistency would result in biased reporting of financial condition and should be avoided.

- There must be a distinction made between "spending" and "obligations." Shortfalls of revenue will preclude spending in the OASDI and HI programs once their Trust Fund assets are exhausted under current law. Thus, the full obligations for these programs cannot be referred to as spending. The clear solution is to use the term "obligations" rather than "spending" throughout the statement. In addition to this technical point for OASDI and HI, this change would also impart the sense that all federal obligations for the future are subject to consideration and change over time. Such future obligations should not in any case be specifically presumed to represent certain future spending at any level.

- Overall, the Standard does not appropriately address the concept of fiscal sustainability. Too much emphasis is placed on present values and the summary measure of "fiscal gap." In a basic sense, sustainability is defining an objective, meeting that objective, and then continuing to meet that objective. In order to assess sustainability, we need to be able to project and monitor the timing and trend of any measure of sustainability, or shortfall in attaining sustainability. The simplest and most easily understood way to do this is to present any measure on an annual basis. Specifically, the concept of "fiscal gap" can be readily translated into an annual gap that would be meaningful to interested citizens and would provide specific and useful information on the timing and trend of future financial burdens and shortfalls in scheduled financing.

- Present value measures are not understandable to the target audience and should be presented only as secondary measures. Summary measures, whether over a 10-year period or a 75-year period, are inappropriate and ineffective for portraying sustainability. A summarized value for a period can only indicate the cumulative financial status at the end of the period, providing no information about the levels or trends within or beyond the period. In particular, a summary measure over the infinite horizon provides no useful information whatsoever concerning sustainability and should be omitted from the draft. The "fiscal gap" summary measure presented in the exposure draft is the precise analog to the "actuarial balance" that has long been presented in the Social Security and Medicare Trustees Reports. The measure is useful to a degree, but limited. The Trustees have for some time now recognized that in addressing and assessing sustainability, annual measures and the concept of "sustainable solvency" are far superior to the summary present-value measures. FASAB should do the same.

- Numerous disclosures identified in the draft standard would be potentially useful. But many would be subject to misinterpretation and even political influence. In particular, disclosures relating to disaggregation of or explanation of the factors contributing to changes in obligations or receipts as a percent of GDP must be done in a comprehensive, objective, and balanced way. Otherwise, such disclosures can readily be subject to political agenda and influence. One example of a specific disclosure that should be discouraged or excluded from the CFR is analysis of "generational equity." It is simply not possible to assign unambiguously the burden of a current tax or a future obligation to any specific generation. Thus, this kind of analysis is at best highly limited, and at worst open to use for advancing political agenda.

#13 Dan Kovlak, Greater Washington Society of CPAs
We have one editorial comment.

On page 23, paragraph 36 a, the number 28 after the semicolon needs to be changed to footnote type as does number 29 in paragraph 36 b.

Finally, we would also like to recognize that this was an excellent set of due process questions. The Board did a good job of clearly identifying significant minority views for consideration. It is apparent that the Board desires to make this Statement as meaningful as possible.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

#14 Dick Bode, Individual
This report may include the elements addressed by the ED and have the simplicity and impact of IOUSA. It should include events subsequent to 9-30-08

Part I=Address the social Insurance issues. The financial Statement (page 51) should include the effect of the rescue package, any stimulus legislation and the interest effect of these actions.. Illustration 3, 4 and 5 are the impact charts.

Part 2-Show all guarantees of the government including the activities of the Federal Reserve.

Part 3-Discuss the trade deficit and the impact of foreign ownership on our government and ownership of our private corporations.

Part4-Show the investment in banks and other financial institutions and the potential for repayment or redemption

Part 5- What will these events have on the value of the US dollar and inflation.

#15 Dan Fletcher, CFO Council

#16 McCoy Williams, GAO

#17 John A. Favret, Individual
First I must apologize for being late in responding to your request for comments about the exposure draft on Reporting Comprehensive Long-term Fiscal Projections for the US Government. I understand my comments might not be used by the Board but I wanted to pass them along anyway.

Information Overload
In all of this we should be careful not to present so much information that it confuses the reader. The main statements are net cost, operations, cash flows, and balance sheet and other schedules and reconciliations should be subservient or supplemental to them.
Yours truly,
John A Favret
P S - A hard copy is being mailed

#18 Joseph J. DioGuardi, Truth in Government

It has been said that a generation defined by information and rapidly expanding computer and broadband technology must give taxpayers (and all Americans) the benefit of improved methods of accounting and reporting to provide ready access to understandable financial data and, of course, greater transparency.[4] The aim should be to foster increased confidence in our government's ability to provide promised and expected government services or, failing that, of an early warning system that something must be changed to keep our economic well being in line with our expectations and past promises. The FASAB in its Exposure Draft "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government" (for dissemination in 2009) is addressing this problem by sounding the alarm that future budgetary resources will likely be insufficient to sustain public services, and to meet

[4] Mort Egol, *Dynamic Scoring: Reinvented Accounting for a New Management Paradigm* (Hastings on Hudson, New York: Wisdom Dynamics, 2004). See Chapter 10.

obligations for unfunded past services, commitments, and guarantees as they come due. To answer this looming economic predicament, the FASAB proposes to require the U.S. government to present information addressing the fundamental question of the U.S. government's future fiscal viability. And, when one looks at the fiscal problems of our federal government, the question arises whether future taxpayers are being asked to fund the fiscal profligacy of the current generation. Put another way, are we passing on the current cost of the federal government to the next generation through unfunded, unbudgeted, and unrecorded entitlements (like Social Security and Medicare) and bonded debt of unsustainable and unserviceable proportions, especially when measured against our nation's GDP and that of other nations like China and Japan from whom we have borrowed to sustain our mounting excess spending?

The FASAB in its Exposure Draft rightly believes that a comprehensive financial package is needed to convey "key projected receipts, spending, deficits or surpluses, and debt." Let me say at the outset that the Exposure Draft (ED) is a document that I support without equivocation. I know that there is also an ED on "Accounting for Social Insurance." Nevertheless, it is my view that, although reporting on fiscal sustainability and inter-period or inter-generational equity are related, fiscal sustainability speaks to our nation's survival as a free, democratic, and competitive opportunity society, while inter-generational equity relates more to social cohesion and fundamental national morality. I believe that the latter, while extremely important, does not rise to the level of fiscal sustainability or survival as a nation, and so I would not want to delay the implementation of the ED on sustainability to find an answer to what accountants normally refer to as interperiod allocation for Social Security and other entitlements.

Regarding the ED on long-term sustainability, I will now address what I believe are the challenges in arriving at a financial package that first will inform interested constituencies and then hopefully motivate them to take civic and political action to change the course and direction of current fiscal policy. It was this reality that motivated me to write *Unaccountable Congress: It Doesn't Add Up* (Regnery, 1992). And, the basic problem that I still see today is an accounting and budgeting process that disguises the true cost of our federal government, requiring unfunded mandates and promises to be past on to future generations of taxpayers. (*Unaccountable Congress* presents a litany of
fiscal and financial horrors that are embedded in our nation's current accounting, budgeting, and reporting systems—a copy of the book, chapter by chapter, can be downloaded at www.truthingovernment.org.)

My view continues to be that poor accounting makes for inadequate financial reporting, and the FASAB should revisit why the definition of the reportable liabilities of our federal government differs from the rules imposed by the SEC on publicly traded companies to protect corporate shareholders. Shouldn't we have a similar high standard for reflecting liabilities, commitments, and guarantees on the books and reports of our federal government in order to protect the taxpayers, both current and future? And since the Statement on Fiscal Sustainability is a forward looking document, I should remind the Board of the common sense axiom, "It's pretty hard to know where you are going if you don't know where you are." In Chapter 3 of *Unaccountable Congress*, entitled "Our No-Account Federal Government," I expanded this warning with a metaphor: "Exploring the financial management of the U.S. government is like being blindfolded and lost in the New York subway system. You don't know where you are, have no idea where you are going—and you could fall off the edge at any moment with very unpleasant results."

Finally, I persist in my view, shared by the Association for Government Accountants (see the attached AGA "Task Force Report on Truth in Budgeting and Accounting"), that the budget process is controlled by political, not fiscal reality, and it must be changed to expose excess spending and disguised commitments before they create a fiscal tsunami headed for future generations. I say this knowing full well that the FASAB has no mandate to consider or change the budget process. Nevertheless, since its good work is based, in my view, on the results of inadequate accounting, poor and gimmicky budgeting, and only partially audited (or auditable) financial statements, the Board may be building its otherwise sound conclusions on a fiscally and financially porous foundation. So, let me now address some of the specific issues and questions raised by the FASAB before I conclude with some suggestions for additional information that should be considered in the supplementary data being provided to readers and users of the Federal Consolidated Financial Report (CFR).

<u>Conclusion</u>

The FASAB has done a good job in analyzing the need for a Statement on Fiscal Sustainability and the disclosure and format for such an important Statement. Nevertheless, I believe that the Board should consider some additional disclosures, especially for the more sophisticated users of the Statement. Since global competition will play a major role in US fiscal sustainability, I believe that a comparison of key economic competitive factors among major nations should be presented. Also, to assess their future impact on competitiveness, we should present our military and defense costs relative to other nations. Another disclosure worthy of FASAB consideration are tax expenditure subsidies for major economic sectors such as housing, health, and energy independence. I would even consider disclosures for costs of relieving natural disasters and the costs of remediation of global warming, including compliance by all nations.

Finally, no report, response, or discussion on federal accounting and reporting would be complete without going back to where concern for this important issue all started. President Thomas Jefferson recognized the very problem that the FASAB is now facing in his written admonition to his Treasury Secretary, Albert Gallatin, in 1802:

> I think it an object of great importance….to simplify our system of finance, and to bring it within the comprehension of every member of Congress…the whole system [has been] involved in impenetrable fog. There is a point…on which I should wish to keep my eye…a simplification of the form of accounts …so as to bring everything to a single center; we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that

every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them.