

Barry.ANDERSON@oecd.org 9/26/2008 8:02 AM

Wendy, here are my comments on the ED.

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

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Date: November 19, 2008

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:

Objective 3: 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

Sub-Objective 3B: 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

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¹ SFFAC 1, par. 134.

² SFFAC 1, par. 139.

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.

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.

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.

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 ... 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.

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.

Q3. This exposure draft proposes a basic financial statement and disclosures.(Description begins at paragraph XX and an illustrative example of the basicfinancial statement is provided in Appendix B.) The Board has indicated that theprimary 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.

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.

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

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.

- 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 ...). Both options for reporting fiscal gap are illustrated in Appendix B ... (narrative on the face of the financial statement) and ... (disclosure)). See paragraphs ... in 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?**

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.

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions... 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?**

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.

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...

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

"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."

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)
- 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 ... of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

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.

- 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 paragraph ...). Illustrative examples in Appendix B begin on page ...).**
- 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.

No comments.

- Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph ... 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.

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.

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. ...

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

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.

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?**

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.

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.

The proposed Statement should not be implemented.

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 ...in the Basis for Conclusions for a discussion of this proposal and Illustration 10in 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?

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; it is an attribute of their confidence in the dollar as a reserve asset.

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 ...) 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.

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 ...n 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.

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

INTERNATIONAL MONETARY FUND
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December 21, 2008

Mr. Tom L. Allen
Chairman
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street NW, Suite 6814
Washington, DC 20548

Dear Mr. Allen:

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 1 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.

Our other comments are as follows:

- 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.
- 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 "unsustainability." 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.
- On Question 9, if the financial statement requirement were introduced, our view is that alternative scenarios should be provided.
- 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.

Sincerely yours,



Adrienne Cheasty
Senior Advisor
Fiscal Affairs Department

cc: Ms. Wendy M. Comes
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SSA/OIG comments

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

SSA/OIG comments

**SSA/OIG Comments on
FASAB Exposure Draft, Reporting Comprehensive Long-Term
Fiscal 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:

- Objective 3: 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
- Sub-Objective 3B: 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.

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.

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

¹ SFFAC 1, par. 134.

² SFFAC 1, par. 139.

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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.

We believe that the projection should be based on continuation of current policy without change for federal government public services and taxation.

- Q3. This exposure draft proposes a basic financial statement³ 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.

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 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.

- 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

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

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statement) and 61 (disclosure)). See paragraphs A60 – A63 in 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?

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.

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A53 – 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?

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

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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.

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 A7 and 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.

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.

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

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Medicaid would be shown separately from the rest of government. (See paragraphs 36 and A46 - 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 view.
- 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.

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.

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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 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.

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.

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- 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.
- 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.
- 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.
 - c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?
- a. Yes we believe that some of the disclosures would be helpful to the reader.

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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).

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).

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.

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.

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

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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.

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 holding 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?

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.

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 paragraphs A68 – 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,

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explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

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.

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.)

- a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?
- 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 inter-period or inter-generational equity.

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.

Other Comments and Concerns:

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

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	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.

December 23, 2008

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
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Washington, DC 20548

Advancing
Government
Accountability

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Dear Ms. Payne:

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.

Q1. 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.

Q2. We believe the guidance is appropriate.

Q3. 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 either be 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.

Q4. 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.

- Q5. 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.
- Q6. 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.”
- Q7. 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.
- Q8. 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.

- Q9. 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.
- Q10. 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.
- Q11. 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)
- Q12. 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.
- Q13. 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.

- Q14. 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.
- Q15. 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.

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.

Sincerely,



Robert L. Childree, Chair,
AGA Financial Management Standards Board

cc: Samuel T. Mok, CGFM, CIA, CICA
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2008 – June 2009

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On behalf of The US Department of Agriculture, Farm Service Agency attached are comments on exposure draft ,“ Reporting Comprehensive Long-Term Fiscal Projections for the US Government”.

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Date: November 11, 2008

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:

Objective 3: 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

Sub-Objective 3B: 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 **Error! Reference source not found.** through **Error! Reference source not found.**.

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.

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.

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

¹ SFFAC 1, par. 134.

² SFFAC 1, par. 139.

government public services and taxation. The guidance begins at paragraph **Error! Reference source not found.** Paragraph **Error! Reference source not found.** 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.

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.

Q3. This exposure draft proposes a basic financial statement³ and disclosures. (Description begins at paragraph **Error! Reference source not found.** 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.

Yes, the basic financial statement and disclosures would be understandable and meaningful for the primary audiences.

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 **Error! Reference source not found.**). Both options for reporting fiscal gap are illustrated in Appendix B (see pages **Error! Bookmark not defined.** (narrative on the face of the financial statement) and **Error! Bookmark not defined.** (disclosure)). See paragraphs **Error! Reference source not found.**- **Error! Reference source not found.** in 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?

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

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

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

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs **Error! Reference source not found.** through **Error! Reference source not found.**. 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.

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. 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?

See above.

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 **Error! Reference source not found.**. The concept of "Financial Condition" is explained in the Basis for Conclusions, paragraphs **Error! Reference source not found.** and **Error! Reference source not found.**.

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.

It is recommended that

a. "Long-Term Fiscal Projections for the U.S. Government," be used. This best describes the objective of this information.

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 **Error! Reference source not found.** and **Error! Reference source not found.**-**Error! Reference source not found.**)

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 **Error! Reference source not found.** of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

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.

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 paragraph **Error! Reference source not found.**). Illustrative examples in Appendix B begin on page **Error! Bookmark not defined.**)

a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please

Yes, an explanation and illustration of the major factors impacting projected receipts and spending will be helpful.

- 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.

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

Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph **Error! Reference source not found.** 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.

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

- 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.

See above.

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 **Error! Reference source not found.** and illustrations begin on page **Error! Bookmark not defined.**

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

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

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

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

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? Yes.

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).

Yes, it is recommended that all be included.

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? Yes.

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

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.

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

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 **Error! Reference source not found.** (See paragraphs **Error! Reference source not found.** – **Error! Reference source not found.** 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.

Yes, in that the proportion has been large and increasing, per Page 64.

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

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 **Error! Reference source not found.**) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphs **Error! Reference source not found.**–**Error! Reference source not found.** 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.

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.

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 **Error! Reference source not found.** (See paragraphs **Error! Reference source not found.** - **Error! Reference source not found.** 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.

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.

Other comments:

>>> "Glenn-Croft, Mary" <Mary.Glenn-Croft@ssa.gov> 12/29/2008 11:05 AM
>>>

Attached are our comments on the Exposure Draft Reporting Comprehensive Long-Term Fiscal Projections of the U.S. Government. You may receive a separate set of comments from SSA's Office of the Chief Actuary.

Mary Glenn-Croft

Chief Financial Officer

Social Security Administration

1. Do you believe that the proposed reporting adequately supports the stewardship objectives, specifically 3B?

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 product (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.

2. Do you believe the guidance for assumptions is appropriate? If not, please suggest alternative guidance.

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

3. 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 disclosures.

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.

4a. Do you believe in flexible requirements for reporting fiscal gap?

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.

4b. Do you believe that the illustrative disclosures (ill. 8 in App b) is clear and understandable?

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 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.

5a. Do you believe that the 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 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.

5b. Do you believe that there should be a specific time horizon requirement (i.e. 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you suggest?

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.

6. Which of the following do you believe that the basic financial statement should be titled...?

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.

7a. For projected receipts and spending, major programs such as Social Security and Medicare would be shown separately. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statements?

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.

7b. Do you believe that specific line items (instead of or in addition to the major programs required by paragraph 36) should be disaggregated?

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

8a. Do you believe that disclosures explaining and illustrating 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.

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.

8b. Do you believe that the display of a range of major cost drivers and/or major programs should be optional or mandatory. Please explain the basis for your view.

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.

9a. The ED proposes that the results of alternative scenarios be provided. Para 42(d) provides that the PV of projected receipts, spending and net of receipts and spending be presented for each alternative scenario. Do you believe that the proposed requirement for alternative scenarios is appropriate?

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.

9b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient?

Yes, these requirements are sufficient.

10. The ED 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. (Paragraphs 39/illustrations p. 52).

a. Do you believe the proposed disclosures consisting of narrative and graphic displays would help the reader understand the basic financial statement?

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. Are there any items that you believe should be added or deleted from the disclosures?

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

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

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.

11a. Do you find the FAQ helpful?

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?”

11b. Should Treasury include FAQs in the CFR to promote understandability of the terms and concepts?

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.

12a. Do you believe that September 30, 2009 is a reasonable implementation date?

The implementation date seems reasonable and appropriate. Federal agencies are already producing some of this information.

12b. Do you believe with phased implementation period (3 years)?

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.

12c. 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.

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.

13a. Do you believe that including RSI regarding the foreign holdings of US Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting?

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.

13b. Do you believe the illustrative example in Appendix B is clear and understandable?

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.

14. Do you believe that if the proposed Statement indicates 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. (See para. A68-A74 for a discussion on this).

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.

15a. Do you believe that additional information regarding inter-generational equity should be optional or required?

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.

15b. Do you believe further research and analysis should be performed to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-generational equity.

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

>> Rebecca Hendrick <hendrick@uic.edu> 12/30/2008 5:05 PM >>>

Wendy, ABFM took you up on your offer to provide a coordinate a reponse to the FASAB statement on "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government." Our comment is attached. Let me know if you need more documentation on our section.

Thanks!



www.abfm.org

Response to the Statement of Federal Financial Accounting Standards

REPORTING COMPREHENSIVE LONG-RANGE FISCAL PROJECTIONS FOR THE US GOVERNMENT

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.

Dear Ms. Parlow,

Late last year you sent a request to Dr. Roger Conaway, the Association for Business Communication's past president, asking that our organization consider offering some advice on an exposure draft for a proposed new Statement of Federal Financial Accounting Standards entitled "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government."

Roger forwarded your request to me (ABC's current president), and after reviewing your request, I asked Dr. Rebecca Pope-Ruark, the chair of one of our organization's special interest groups, to gather a few colleagues (see below) to read and respond to the draft. They have done so, and I believe the advice they provide will prove useful to you and your organization. While few of our members are truly expert in accounting, we do have expertise in strategies to communicate information effectively. The advice provided focuses on our primary area of expertise — clear, concise communication presented in a readable, accessible way.

If you have any questions or would like additional clarification, please feel free to contact me or Dr. Pope-Ruark.

We at ABC thank you for the opportunity to serve the Federal Accounting Standards Advisory Board.

Sincerely,

James M. Dubinsky, PhD
Associate Professor
President, Association for Business Communication
Director, Center for Student Engagement and Community Partnerships
Virginia Tech
Blacksburg, VA 24061

Committee of Respondents

Dr. Paula Lentz, Department of Business Communication, University of Wisconsin-Eau Claire

Dr. Rebecca Pope-Ruark, Department of English, Professional Writing and Rhetoric concentration, Elon University

Dr. Cynthia Ryan, Department of English, The University of Alabama at Birmingham

Dr. Linda Stallworth Williams, Department of English, North Georgia College & State University

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January 5, 2009

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Subject: Association for Business Communication's Comments on the Federal Accounting Standards Advisory Board's Statement of Federal Accounting Standards Exposure Draft Dated 9.2.08

Dear Director Payne:

Thank you for considering the Association of Business Communication (ABC) in your document review process. Members of ABC are deeply concerned with improving the communication practices of private and public organizations for the good of our society. We appreciate the opportunity to participate in the development of the Statement of Federal Accounting Standards document.

The document was reviewed by four members of our Rhetoric Special Interest Group based on their specialties in document design, audience assessment, and rhetorical strategies. The ABC members are:

Dr. Paula Lentz, Department of Business Communication, University of Wisconsin-Eau Claire

Dr Rebecca Pope-Ruark, Department of English, Professional Writing and Rhetoric concentration, Elon University

Dr. Cynthia Ryan, Department of English, The University of Alabama at Birmingham

Dr. Linda Stallworth Williams, Department of English, North Georgia College & State University

While not experts in accounting, these members have developed a series of recommendations based on the information clarity and information structure of the document that we believe would enhance readability for your readers rather than address the content specific questions your Board asks on pages 8-14. We commend you for considering both the visual and the textual in your Exposure Draft and for providing examples of useful visuals in Appendix B—research show that most readers will greatly benefit from both visual and textual representations of information.

Our recommendations are listed primarily in page order in the section that follows, and primarily cover the following areas:

Improving the heading and subheading structure, both textually and visually, for better readability throughout

Clarifying some important points through word choice, bullets, and improved repetition

Highlighting important information through cross references and hyperlinking in the PDF version of the document

We hope you'll find these recommendations useful. Please feel free to contact us if you need additional information.

Sincerely,

James M. Dubinsky, PhD
Associate Professor
President, Association for Business Communication
Director, Center for Student Engagement and Community Partnerships
Virginia Tech
Blacksburg, VA 24061

Enclosure: Recommendations

Revision Suggestions for “Reporting Comprehensive Long-Term Fiscal Projections for the U. S. Government”

Heading Structure throughout Document: Documents with **talking headings** (longer headings that explain the content of a section more specifically) are easier to read, and headings such as "Purpose" and "Scope" or even one- and two-word headings (e.g., “Materiality,” “Effective Dates,” “Projection Dates”) less helpful than talking heads that give the reader a better understanding of the flow of the document and the connection among ideas expressed in each section.

For instance, on p. 15 “Purpose” is the head, but we’re not sure what purpose is fulfilled in the following points. Would a better talking heading be “Purpose of Federal Financial Reporting”?

Using talking headings will provide the reader a visual “map” through the document and show the logical flow and connection among the content in each section. Talking headings will also provide the document with better scannability and enable the reader to more quickly find what he/she needs.

One easy way to create talking headings is to **use questions in place of topics**. For instance, on page 35, the writers offer the question “What would this proposal add to existing reporting?” This effectively prompts the reader that the answer is what follows. If the writers compose other questions for headings, or at least use a heading that incorporates the purpose (e.g., “Defining the Scope of Responsibility of the xx”), the reader could take small sections of the report and make sense of them.

The coherence/cohesiveness of the document could be improved by making sure that **headings are consistent with content** that initially appears in each section. For example, on p. 17 the heading “Materiality” appears, but the first sentence of the paragraph talks about the provisions of the Statement not being applied to immaterial items and then switches back to material items. Question headings would help to eliminate this problem as the content of the section should answer the question specifically.

Heading Fonts: The headings that follow bolded headings (e.g., Management’s Discussion and Analysis on page 31) need another access strategy to clarify their place in the hierarchy (italics, perhaps?). Many headings at this level occur throughout the document, and it is unclear how they tie into the larger heading with which they are grouped.

Page 5: Suggestions for making the first few sentences more concise and clearer: Revise #7 to say: provide information to help users assess whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers (inter-period equity).

Revise next sentence to say: Clearly communicating such a complex analysis is critical.

Revise #1 to say: Projections are based on maintaining current policy without change regarding federal public services and taxation. This leads to understanding where the government is headed if it maintains its current course.

Revise #4 to say: Presenting the trend in debt-to-GDP ratios in graphic form facilitates understanding if and when the rising drain on financial markets might constrain borrowing.

Page 6: [Revise Stewardship Objective](#) (Objective 3) to say: Federal financial reporting should help report users to assess the impact on the country of the government's operations and investments for the period and to understand how the government's and the nation's financial condition has changed and may change in the future.

Page 8: Recommend that Objective 3, found again on page 8, be revised as suggested above.

Page 15: Objective 3 is found here again; recommend the above revision be inserted here as well.

Page 17-18: Point 9 states that the FAQ section in Appendix C provides a "plain English" explanation for the "terms and concepts used in this Statement." However, many of the "terms and concepts" that are defined in the FAQ use the identical wording to the definitions of the terms in the Statement. [If the definitions in the FAQ are to be "plain English," the reader will assume that the wording in the FAQ would be different from what is in the Statement.](#) If this is not the case and the terms in the Statement are already in "plain English," then point 9 should be removed for clarity.

Page 18: If all of these terms are defined in Appendix C and the definitions on p 18 and Appendix C are identical, what is gained by having a section for them here? If there is a gain, make clear to the reader what these terms are doing in the "Accounting Standard" section at this point.

If this document is to be used electronically, add [hyperlinks in the .pdf file that connect the definitions in the Definitions section to Appendix C](#) and from Appendix C back to the statement. This way, the reader wouldn't have to scroll/click the forward-back arrows continually to go back and forth between the Statement and the appendix. Furthermore, the terms are not in any particular order in Appendix C, so the reader may have a hard time finding them quickly, and a good linking structure would be helpful in speeding the reading process. This structure could be used throughout all the Appendices for clarity and ease of use.

Pages 18-19: How does the heading "Accounting Standard" connect to "Definitions." What is the logic of having the "Definition" heading after the "Accounting Standard"

heading? Generally speaking, **avoid stacked headings without intervening text.** Some text here to set up the section for the reader would be useful.

Page 19: Is “Policy, Economic, and Demographic Assumptions” really a subheading of the “Scope”? The font size for the “Policy...” heading is smaller and would indicate that it is, but the content of “Scope” does not seem tied to the “Policy” content.

In addition, the “Policy, Economic, and Demographic Assumptions” section is very long for most readers. **Using subheadings (e.g., “Policy Assumptions,” “Economic Assumptions,” and “Demographic Assumptions”) would help to clarify this section for the readers.** Furthermore, some of the items in this section don't seem related to these assumptions (e.g., #19, 20, and 21—do they need to be in their own section? e.g., “Long-Term Projections: Sustaining Services & Meeting Obligations”?).

Pages 24-26: The “Disclosures” section is very long, also. **Consider using some graphic highlighting to make the topics of each numbered item stand out and perhaps highlight some of the main ideas within each numbered item**—again, better scannability.

Page 27: This statement also appears on p. 17, “Materiality,” #10. Is there a reason that it is in a box on p. 27? Add a connecting statement for readers if so.

Page 30, top of the page: Suggest rewording the end of the sentence that begins “Presenting information about the overall size of the economy . . .”—change “in comparison to past experience or the experience of other countries” to “in comparison to prior experience within U.S. and international budgets.”

Page 31, section A12: the bracketed [3] and [6] are identified in the paragraph for A12, but the look of these additional numbers is confusing. Possibly the writers could underline or italicize the words “paragraphs 3 and 6 of the . . .” to clarify this shift.

Page 32: Note 3 is placed in the middle of the page rather than at the bottom as is more accepted. While it is understood that paragraph 3 adds another layer to the document, but the note should go at the bottom of the page with others for consistency.

Page 34, A23: The writers might **consider bullets for the three alternative sets of economic and demographic assumptions** to make them more accessible.

Page 42: Further Definition Suggestions: Several of the sections on this page (and earlier) appear to focus on defining terms or documents. The writers might clarify these purposes in headings (Defining Basic Financial Statements) or boldface terms used throughout the document when they are offering a definition (an example of a way to consistently format the document).

Page 44, A55: The sentence simply introduces the content of the next A56 and A57 without providing the reader additional valuable information. This point could easily be deleted or folded into the previous point.

Page 64: “9. Other Required Information” reiterates the point made at the beginning of Appendix B that the provided sample illustrations are not all-inclusive and that others will be required. **Some rationale for why these additional graphics were not included or where readers might go for samples of these also required graphics might be valuable.** Overall, though, the graphic examples and discussion of the possible accompanying narratives is very useful.



Peter G. Peterson
Foundation

Our America. Our Future.

David M. Walker
PRESIDENT AND CEO

January 5, 2009

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, N.W., Suite 6814
Washington, DC 20548

Dear Ms. Payne;

The following represents my responses to the questions listed by the FASAB in its Exposure Draft on Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government dated September 2, 2008.

Response to Question One:

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.

Response to Question Two:

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.



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Foundation

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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.

Response to Question Three:

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.

Response to Question Four:

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.

Response to Question Five:

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.

Response to Question Six:

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.



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Response to Question Seven:

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.

Response to Question Eight:

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.

Response to Question Nine:

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.

Response to Question Ten:

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.

Response to Question Eleven:

I do believe that FAQ's can be helpful.

Response to Question Twelve:

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



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expect the GAO to provide some modification to its report with regard to this and other related projection information.

Response to Question Thirteen:

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.

Response to Question Fourteen:

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 of 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).

Response to Question Fifteen:

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 February 25, 2009 should you so desire. Please let me know if you would like me to do so.

Sincerely,

David M. Walker
President and CEO

>>> <Shaun.Mcnamara@dot.gov> 1/5/2009 3:36 PM >>>

Good afternoon FASAB representative,

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.

Please let us know if you have any questions.

Best regards,

Shaun McNamara
Department of Transportation
Office of the Assistant Secretary for Budget and Programs/CFO

Name: [Stephen C. Goss, Karen P. Glenn](#)

Title/Organization (if applicable): [Chief Actuary, Social Security Administration, Actuary, Social Security Administration](#)

Contact information: Stephen.C.Goss@ssa.gov, Karen.P.Glenn@ssa.gov

Date: [January 5, 2009](#)

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:

Objective 3: 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

Sub-Objective 3B: 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.

[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](#)

¹ SFFAC 1, par. 134.

² SFFAC 1, par. 139.

should be changed. The first is simple. The obligations should not 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."

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.

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.

Q3. This exposure draft proposes a basic financial statement³ 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.

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

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.

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-A63 in 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?

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

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.

- 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.

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. 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?

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.

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 A7 and A8.

Which of the following 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
 - d. A title not listed above (please specify)
- Please explain the reasons for your choice.

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.

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 and A46-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 view.

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. 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.

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.

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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 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.

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. 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.

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.

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.

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. 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, 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.

Q10. This exposure draft proposes disclosures consisting of narrative and graphic displays to communicate effectively 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?

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

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

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.
- 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?

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. 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).

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.

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?

We believe there are significant shortcomings in the exposure draft that must be addressed before implementation can be considered.

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

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. 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.

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.

- 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.

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

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

- 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 paragraphs A68–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.

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.

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.

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.

Other/Summary Comments:

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

- 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.



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January 5, 2009

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) exposure draft of a proposed statement, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*.

FISC consists of 18 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Overall, we found the document easy to read and believe that the tables are very clear and helpful.

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

Following are our responses to the questions posed in the ED, some editorial, and some final comments.

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

Objective 3: 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.

Sub-Objective 3B: 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.

More detailed discussion of the reporting objectives 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.

- A1. 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.

- 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 continuum 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.

- A2. We believe the guidance for assumptions is appropriate.
- Q3. This exposure draft proposes a basic financial statement 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.

- A3. 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.
- 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 62 (disclosure)). See paragraphs A60-A63 in 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?
- A4. 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.

- 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 time 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?
- A5. 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.
- 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 A7 and A8.

Which of the following 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
- d. A title not listed above (please specify)

Please explain the reasons for your choice.

- A6. We think that the basic financial statement should be titled, "Statement of Fiscal Sustainability" since that appropriately describes the intent of the statement.
- 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 and A46-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 view.
 - 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.
- A7. 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.
- 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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 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.
- A8. 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.
- 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.
- A9. 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.
- 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.
 - c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see appendix B)? Why or why not?
- A10.
- 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.
- Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a “plain English” explanation of terms and concepts use 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).
- A11.
- 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.
- 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.
- A12.
- 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.
- 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?
- A13. 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.
- Q14. A minority of members supported a proposal that if the projected 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 paragraphs A68-A74 in the Basis for Conclusions for a discussion of this proposal.)
- Do you believe that if the Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant gap, the statement 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.
- A14. 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.
- 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.)

- a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?
- 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 inter-period or inter-generational equity.

- Q15.
- 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.

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.

Very truly yours,



Daniel L. Kovlak
FISC Chair

Dick Bode

From: "Dick Bode" <dickb@plano.net>
To: "FASAB" <FASAB@FASAB.GOV>
Sent: Sunday, November 30, 2008 3:44 PM
Subject: Response to Reporting Comprehensive Long-Term Projections

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

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 1=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.

Part 6- Suggested solutions and the possible effect on these projections.Add proposed deadlines for Congress to act

Dick Bode
2032 Switzerland
Plano,TX 75025





JAN 12 2009

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Subject: FASAB Exposure Draft, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, dated September 2, 2008.

Dear Ms. Payne:

The Chief Financial Officers Council, Standardization Committee, FASAB Response Group appreciates the opportunity to comment on the Exposure Draft proposing changes to the reporting of comprehensive long term fiscal projections of the U.S. Government.

We express our support for the FASAB's guidance in the standardization of the presentation of the above projections. We have attached responses to Board's request for comments and believe that these comments will assist FASAB in clarifying the intent and enhancing the presentation of the information.

If you have any questions or concerns please contact me on 202-208-4701.

Sincerely,

Daniel L. Fletcher
CFOC Standardization Committee
FASAB Response Group Representative

Attachment

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

Q1. 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.

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.

Q2. Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

Yes, we favor inclusion of broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections.

Q3. 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.

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.

Q4a. 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.

Q4b. 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.

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

Q5a. 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.

Q5b. 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.

Q6. 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.

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

Q7a. 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.

Q7b. 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.

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.

CFO Standardization Committee**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.

Q8a. 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.

Q8b. 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.

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.

Q9a. 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.

Q9b. 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.

Q10a. Do you believe that the disclosures would help the reader understand the basic financial statement?

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

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

Q10b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

No.

Q10c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

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.

Q11a. Do you find the FAQs helpful?

Yes, we believe the FAQ section enhances citizen understanding of information presented in the report.

Q11b. 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.

Q12a. Do you believe that this implementation date is reasonable and appropriate?

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

Q12b. Do you agree with the phased implementation period (3 years)?

Yes.

Q12c. 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.

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

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

Q13a. 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.

Q13b. 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.

Q14. 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.

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.

Q15a. 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.

Q15b. 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.

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

Other comments:

None.

**G A O**

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

January 9, 2009

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Washington, D.C. 20548

Dear Ms. Payne:

The U.S. Government Accountability Office (GAO) is pleased to provide its comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft entitled *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*.

The GAO strongly supports efforts to improve the transparency of the federal government's current financial condition and future fiscal path. We believe that the FASAB's current deliberation on the presentation of the nation's financial condition is another important step in recognizing the need for greater transparency in federal financial reporting.

We strongly support the need to further refine the government's current reporting model to fully achieve the stewardship financial reporting objective to provide more useful information to readers of the financial statements. The addition of the Statement of Social Insurance (SOSI) as an audited financial statement significantly improved the transparency of social insurance programs. We believe that the addition of the Statement of Fiscal Sustainability is necessary to provide an appropriate comprehensive perspective on the future funding and spending for Social Security and Medicare as well as all other government programs. For example, the Statement of Fiscal Sustainability would provide critical information about whether and the extent to which projected general revenues are less than or greater than projected Medicare Parts B and D benefits (after considering premiums and state transfers which represent about 25% of Medicare Part B and D funding) and discretionary spending that is also funded by general revenue. Such information is not currently provided in the SOSI.

There are a number of approaches for assessing the financial health of the U.S. government. These include assessing the extent to which the U.S. government has sufficient receipts to cover its obligations (1) in the current period and (2) over the long-term. The Statement of Fiscal Sustainability presents information addressing the fundamental question of whether the government can sustain public services, such as social benefits, and meet its obligations as they come due over the long-term.

This is the most significant fiscal question regarding the U.S. Government and is of concern to all citizens. With the current economic downturn, decreased tax receipts, and increased spending on social benefits and government bailouts, it is our view that the adoption of a Statement of Fiscal Sustainability is essential for providing policy-makers with comprehensive information on the condition of the U.S. Government's long-term fiscal health so that prudent actions can be taken.

Our comments, which are detailed in the enclosure to this letter, provide our responses to the questions set forth in the Exposure Draft entitled *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. If you have any questions, please call me at (202) 512-2600 or Robert Dacey, Chief Accountant at (202) 512-7439.

Sincerely yours,

A handwritten signature in cursive script that reads "McCoy Williams".

McCoy Williams
Managing Director
Financial Management and Assurance

Enclosure

GAO Responses on Questions Set Forth in Reporting Comprehensive Long-Term Projections for the U.S. Government

Question 1:

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

Objective 3: 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

Sub-Objective 3B: 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

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.

Response 1:

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

¹ Statement of Federal Financial Accounting Concepts 1, par. 134.

² Statement of Federal Financial Accounting Concepts 1, par. 139.

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 programs³ 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.

Question 2:

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.

Response 2:

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

³ Includes Federal Old-Age, Survivors and Disability Insurance (Social Security), Medicare Parts A, B, and D, Railroad Retirement benefits, and Black Lung benefits.

for 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.

Question 3:

This exposure draft proposes a basic financial statement 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.

Response 3:

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.

Question 4:

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 (narrative on the face of the financial statement) and 61 (disclosure)). See paragraphs A60-A63 in the Basis for Conclusions for an explanation of the pros and cons of the options.

4a. Do you agree with the flexible requirements for reporting fiscal gap?

4b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

Response 4:

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.

Question 5:

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).

5a. 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.

5b. 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?

Response 5:

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.

Question 6:

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.

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.

Response 6:

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.

Question 7:

This exposure draft proposed a minimum level of disaggregation for the basic financial statement. For project receipts, major programs such as Medicare and Social Security would be show separately form the rest of government. For projected spending, major programs such as Medicare, Social Security, and Medicaid would be show separately from the rest of government. (See paragraphs 36 and A46-A49.)

7a. 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.

7b. 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.

Response 7:

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.

Question 8:

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 paragraph 42 (a)). Illustrative examples in Appendix B begin on page 52.

8a. 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.

8b. 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.

Response 8:

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.

Question 9:

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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 52.

9a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.

9b. 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.

Response 9:

We agree that the proposed requirements for alternative and related disclosures are appropriate.

Question 10:

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.

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

10b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

10c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

Response 10:

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.

Question 11:

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

11a. Do you find the FAQs helpful?

11b. 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).

Response 11:

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.

Question 12:

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 as 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.

12a. Do you believe that this implementation date is reasonable and appropriate?

12b. Do you agree with the phased implementation period (3 years)?

12c. 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.

Response 12:

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.

Question 13:

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.)

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.

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

Response 13:

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.

Question 14:

A minority of members supported a proposal that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant 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 alternative that would reduce the fiscal gap. (See paragraphs A68-A74 in the Basis for Conclusions for a discussion of this proposal.)

14. 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.

Response 14:

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.

Question 15:

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.)

15a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?

15b. 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.

Response 15:

It is our view that information that may be helpful to readers in assessing inter-generational 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.

Wendy M Payne, Executive Director
Federal Accounting Standard Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

January 30, 2009

Dear Wendy M Payne

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 U S Government. I understand my comments might not be used by the Board but I wanted to pass them along anyway.

Understandability

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.

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.

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.

Title or caption for the statement

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.

Information Overload

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

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

**Comments by Hon. Joseph J. DioGuardi (CPA) on the Exposure Draft for
Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government**

Introduction and Background

I joined Arthur Andersen & Co. as a staff accountant in July 1962, after graduating from Fordham University with a Bachelor of Science degree, having majored in accounting. I passed the CPA exam in 1965 and was licensed to practice by New York State shortly thereafter. In April 1972, I was admitted as a partner in the firm and served as such until April 1984, when I decided to elect early “retirement” under an Arthur Andersen & Co. program for public service to run for a seat in the U.S. House of Representatives. Having campaigned successfully, I began serving my Congressional District in Westchester County, New York in January 1985. In my two terms as a Member of the House, I served on the Government Operations Committee and the Banking and Finance Committee. I was also appointed chairman of a Republican Policy Task Force on Budget and Accounting Reforms.

While at Arthur Andersen, I worked with a group of partners with responsibility for public sector accounting, reporting, and financial management issues focused on federal, state, and local governments. In September 1975, the firm published, as a public service, a booklet entitled “Sound Financial Reporting in the Public Sector,” which included consolidated financial statements of the U.S. government on the accrual basis of accounting. In December 1975, the firm was chosen to advise the U.S. Secretary of the Treasury on New York City’s efforts to regain access to the credit markets as a condition of a federal bailout. After completing this unprecedented assignment, the firm continued to make an impact in public sector accounting and management standards.

My professional background, as described above, was an important factor in my decision to become so active as a new Member of the House in seeking changes to improve financial oversight, financial management, and accounting, budgeting, and reporting standards for the federal government. Among the many bills that I either introduced or sponsored and fought for as a junior Member of the minority Party were:

- 1985—HR 748, To require biennial budgeting
 - HR 2164, To remove Social Security Trust Funds from the budget
 - HR 3520, To require deficit control procedures
 - HR 3886, To require economic assumptions for defense spending to be the same for the rest of the budget

- 1986—HR 4495, Federal Financial Management Improvement Act
 - HR 4659, To improve federal debt collection practices

- 1987—HR 33, To provide for biennial federal budgeting as an amendment to the Gramm-Rudman Act
 - HR 1241, Chief Financial Officer Act

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—HR 3142, Chief Financial Officer Act

- 1988—HR 526, For a House Ethics Public Review Board and Inspector General
- HR 4149, To distribute budget information to the general public with their income tax forms mailed annually in January
- HR 44, To require operating and capital budgets and trust fund accounting reforms

I personally lobbied my fellow colleagues hard, especially the Committee Chairpersons and Ranking Members, for all of the above-listed measures, reminding them of the important systemic implications that these measures could have on the financial condition of the U.S. government for future generations. I also gave many public speeches and media interviews, as one of the very few CPAs ever elected to the U.S. Congress. The most notable result from this activity was the passage of HR 5687 (The CFO Act of 1990) as a successor measure to the ones that I introduced in 1986 and 1987. (See the attached personal letter from President George H.W. Bush, which he sent to me on January 29, 1991, thanking me for my leadership role in the passage of the CFO Act.)

After leaving Congress in 1989, I continued to speak in many professional and public forums, and in early 1992, I published *Unaccountable Congress: It Doesn't Add Up*. As a result of this activity, I was asked to chair an Association of Government Accountants Task Force on Truth in Budgeting and Accounting (for the federal government). The AGA Report (attached) was released on November 4, 1992, and it called for:

1. The adoption of sound accounting and budget principles under GAAP and strengthening the CFO system
2. The adoption of separate budgets for general funds, trust funds, and Government Sponsored Enterprises
3. The adoption of capital budgeting
4. The adoption of biennial budget cycles
5. Maintaining the Budget Enforcement Act of 1990 for greater discipline in budgeting procedures
6. Publicizing the true financial condition of the federal government

Comments on Exposure Draft

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.¹ 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

¹ Mort Egol, *Dynamic Scoring: Reinvented Accounting for a New Management Paradigm* (Hastings on Hudson, New York: Wisdom Dynamics, 2004). See Chapter 10.

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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 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

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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).

Specific Comments

ED Issue—Do I believe that the proposed ED adequately supports the objective that federal financial reporting should provide information that helps the reader determine whether future budgetary resources will likely sustain public services and meet obligations as they come due?

JJD Comment—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.)

ED Issue—The FASAB has indicated that the primary audience for the CFR are citizens and citizen intermediaries such as journalists and analysts.

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JJD Comment—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.)

ED Issue—What should the basic financial statement be titled from the options given?

JJD Comment—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.

ED Issue—Disaggregation of major programs or line items in the basic financial statement.

JJD Comment—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.

ED Issue—Disclosures to explain and illustrate the major factors impacting projected receipts and spending.

JJD Comment—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 mandatory to more fully disclose the fiscal dynamics working to create a less sustainable or unsustainable federal government.

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ED Issue—Narrative and graphic displays to effectively communicate historical and projected trends.

JJD Comment—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.

ED Issue—Should “Frequently Asked Questions” be included in the CFR?

JJD Comment—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.

ED Issue—Effective date and phased implementation of the proposed Statement.

JJD Comment—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 matters 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.

ED Issue—Foreign holdings of US Treasury debt.

JJD Comment—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

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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.

ED Issue—Interperiod or intergenerational equity.

JJD Comment—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.”)

Conclusion

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

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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.

FISCAL YEAR 1991

(October 1, 1990–September 30, 1991)

DESCRIPTION	CHARGES	PAYMENTS
Previous Balance Due (<i>your share of the national debt beginning of year</i>)		\$28,796.75
Purchases During Year (<i>your share</i>)		
Social Security and Medicare	3,305.34	
National Defense	2,411.63	
Income Security and Welfare	1,514.96	
Health	629.94	
Education, Training, Employment	367.07	
Agriculture, Natural Resources	297.10	
Transportation	279.04	
Administration of Justice	108.81	
Other	1,064.42	
Payments Received During Year (<i>your share</i>)		
Individual Income Taxes		\$4,140.06
(<i>Thank you for your prompt payment</i>)		
Social Security taxes and contributions		3,504.52
Other		1,681.36
Totals	9,978.31	9,325.94
Finance Charge (<i>your share of the Interest on the national debt</i>)	1,725.77	
New Balance Due (<i>your share of the national debt end of year</i>)		\$31,174.89

PREVIOUS BALANCE	PURCHASES	FINANCE CHARGES	PAYMENTS	BALANCE DUE
\$28,796.75	\$9,978.31	\$1,725.77	-\$9,325.94	\$31,174.89

* NOTE: This statement is based on the cash accounting system still used by the federal government, not the Generally Accepted Accounting Principles used by most state governments and private industry.

SOURCE: Final Monthly Statement of Receipts and Outlays of the United States Government for FY 1991 (Financial Management Service, Department of the Treasury); IRS 1991 estimate of 113 million joint and individual income taxpayers.

ASSOCIATION of GOVERNMENT ACCOUNTANTS

TO: National Executive Committee
c/o Virginia Brizendine

FROM: David R. Hancox *Dane*
Chairman - Emerging Issues Committee

DATE: November 4, 1992

RE: Task Force Report on Truth in Budgeting and Accounting

Enclosed is a copy of the report of the Blue Ribbon Task Force on Truth in Budgeting and Accounting chaired by Mr. Joseph DioGuardi. We ask that you present it to the National Executive Committee.

The purpose of this report, as stated by the authors, is to voice the opinions of experienced government financial managers with the intention of generating additional thought, discussion and corrective action on budgeting and accounting issues. From this report, the National Executive Committee might identify other issues that could be addressed by other AGA task forces.

If you need further assistance from the Emerging Issues Committee, please feel free to contact us.

cc: Joseph DioGuardi - Task Force Chairman
Charles Harrison - President
Jeff Steinhoff - President - Elect
Emerging Issues Committee

An AGA Emerging Issues Report

June, 1992

The United States government budgets, controls and directs cash resources in excess of \$1.4 trillion dollars each year. Yet at a time when Congress must make important decisions on future budget priorities and commitments, the information necessary to make those decisions is woefully defective. Weak government-wide budgeting and accounting systems produce insufficiently reliable information about how the government spends its funds and how decisions made today will affect tomorrow's taxpayers.

Further, the Congressional budgeting process commonly relies upon imaginary revenues, ignores unfunded obligations, and makes use of numerous other practices lacking economic and accounting reality.

The Federal government badly needs major budgeting reforms. Despite some recent steps in this direction by Congress and the Executive Branch, much remains to be done. This Task Force recommends these further steps:

1. ADOPT SOUND ACCOUNTING AND BUDGETING PRINCIPLES AND STRENGTHEN THE CFO POSITION

While the Budget and Accounting Act of 1950 required the Comptroller General to prescribe the principles and standards for accounting to be observed by each agency (i.e., generally accepted accounting principles (GAAP)), there were no specifically defined principles for the government to use.

(a) The Need for GAAP

The absence of meaningful accounting principles leaves the government using an accounting system which emphasizes cash flow, even though major new financial commitments are made and new liabilities incurred. Payroll checks and payments of accounts are moved from one fiscal year to another to manipulate deficit reduction targets. No acceptable accounting is made for government guarantees of private economic transactions, such as savings and loan deposit insurance, which may go bad and require government outlays. Nor is any acceptable accounting made for accrued leave and future pension payments to retirees, which are earned but not disbursed today.

In October 1990, a breakthrough agreement was reached on the creation of a Federal Accounting Standards Advisory Board (FASAB) to define GAAP for the federal government. The Board is composed of representatives from OMB, GAO, Treasury, CBO, Defense, domestic agencies, and the private sector. To date FASAB has agreed on a mission statement, interim financial standards, and its first exposure draft on financial resources.

FASAB must work expeditiously to agree on a set of Generally Accepted Accounting Principles for Federal government operations. Such principles will likely require the

use of an accrual basis of accounting, including realistic treatment of all unrecorded and contingent liabilities.

The benefits in using GAAP for Federal financial reporting include:

- Stimulating awareness among program managers of the causes and consequences of financial management problems and focusing management attention in solutions.
- Comparing consistent-format reports over several years, thus revealing trends and performance comparisons, thus increasing understanding of program performance by Congress, the Executive Branch, the media and the public.
- Improving confidence in the financial management of agency programs.

(b) *Integrating Budget and Accounting Standards*

Under the CFO Act, audited financial statements are due nine months after the end of a fiscal year. Budget formulation usually begins as much as 18 months (if not more) before the beginning of a fiscal year. Thus the life span from budget initiation to final accounting is usually as long as four years. Because of this long time span, final accounting occurs far too late to have any impact on misleading budget practices which occurred many months earlier in the process. We encourage the FASAB (in conjunction with OMB and the CFO) to develop and administer budgeting standards consistent where possible with FASAB accounting standards and require audit oversight for compliance during the budget formulation and execution stages, so that unsupportable budget requests can be identified at a point in time when corrective action can most effectively be taken, and when misleading or manipulative budget practices can be eliminated.

FASAB principles should clearly prohibit such notorious budget gimmicks as off budget expenditures and "savings to be realized later". The Budget Enforcement Act should be amended to allow a point of order to be made in either the House or Senate whenever any such deceptive practices appear in budget resolutions.

(c) *Strengthening the Chief Financial Officer System*

The Chief Financial Officers appointed in each agency pursuant to PL 101-576 should be professionally competent in applying the budgeting and accounting standards established by the FASAB. The CFOs should be subject to the same high-level performance qualifications required of the Deputy CFOs. (The statute required high-level professional qualifications only for the Deputy CFOs). The CFOs must be given the full support of the President and Office of Management and Budget.

2. ADOPT SEPARATE BUDGETS FOR GENERAL FUNDS, TRUST FUNDS AND GOVERNMENT-SPONSORED ENTERPRISES (GSEs)

Under present budgeting practice, activities as diverse as the National Park System, Social Security, NASA, food stamps, weapons purchases, home mortgage insurance, and the Export-Import Bank are lumped together in one budget document, even though the activities are vastly different. Some expenditures are made every year from annual

#18 receipts; other activities are supposedly based on actuarial considerations, yet others are commercial operations similar to private business. Joseph DiGuardi Non-Federal, Other

In October 1989, the Comptroller General proposed that the Federal government should account and report separately for general funds, trust funds and government-sponsored enterprises, instead of treating all three as economically equivalent. Under such a reporting plan, trust fund surpluses (notably those of Social Security) could no longer be used to reduce deficits in the General and GSE parts of the budget. These GSEs could be run more like business enterprises, without the constant threat of fiscal demands driven by a political need to show a smaller "budget" deficit. Overall, such tripartite reporting would give Congress and the public a far more accurate picture of the Federal government's spending activities.

3. ADOPT EFFECTIVE CAPITAL BUDGETING

Capital budgeting is a financial process used to plan and control long-term capital expenditures. It is not currently used by the federal government, although the federal government each year allocates tens of billions of dollars to acquire such assets as buildings, space satellites, weapons systems, and other capital items with a useful life longer than one year.

Private sector firms use capital expenditure planning and budgeting to provide for the assets needed to support corporate activities on an ongoing basis, not just for the current fiscal year, and for their replacement at the end of their useful life. While there are difficulties in the accounting treatment of certain government-owned capital assets (notably weapons), some acceptable, independently sanctioned form of capital budgeting should be put in place in every agency at the earliest possible time.

4. ADOPT BIENNIAL BUDGET CYCLES

A two-year budget cycle, corresponding to a Congressional term of office, would require Congress to authorize spending only once in two years. Since about 60 percent of votes in Congress are budget related, stretching the process over two years would leave a great deal of time for badly needed program oversight. In the second year of the cycle, Congress would only have to pass appropriations bills carrying out the terms of the previous year's budget resolution. The adoption of this reform must be accompanied by strict discipline so that supplemental budget amendments and appropriations bills are not used to augment the basic budget decisions in the first year of the cycle.

5. MAINTAIN THE BUDGET ENFORCEMENT ACT (BEA)

The Budget Enforcement Act of 1990 established new standards for disciplining the budget adoption and management process. If discretionary spending in any of three categories (defense, international, domestic) exceeds the Act's target as of October 15 (at the beginning of a fiscal year), an automatic sequester is applied to that category. Additional compliance reports, which could trigger sequestration orders, are required during the budget year. While not foolproof, the BEA requirements are a useful beginning toward greater discipline in budgeting procedures, and should be strictly observed. Efforts by Congress to override the BEA requirements to benefit favored programs constitute a backward step from necessary budgetary discipline.

6. PUBLICIZE THE TRUE FINANCIAL CONDITION OF THE FEDERAL GOVERNMENT

While the Treasury's Financial Management Service (FMS) has made important steps forward in recent years in presenting the state of the nation's finances, the absence of meaningful accounting principles and capital budgeting, the complexity of the often inconsistent information collected through the many different accounting systems used by the federal agencies, and the inaccessibility of reports, has made the FMS statement of interest only to financial specialists.

A concise, independently-audited GAAP-consistent report on the operation and financial condition of the U.S. government, including its revenues, expenditures, assets, and liabilities, ought to be made readily available to the public and news media. Consideration should be given to including more extensive information as part of the brief summary report included at the beginning of the annual 1040 individual income tax forms and instructions package distributed to all taxpayers each January.

AGA Truth in Budgeting and Accounting Task Force

Joseph J. DioGuardi, Chairman
Member of Congress, 1985-88

Roger B. Feldman
Former Comptroller, Department of State

John H. Hummel
Audit Partner, KPMG Peat Marwick

Clyde G. McShan, II, Director, National Finance Center
U.S. Department of Agriculture

Allen L. Reynolds, City Auditor
City of Baltimore, Maryland

Richard J. Schwartz, President
David Schwartz Foundation

W.T. Wrege, Associate Professor of Accounting
Ball State University

Note: The Chairman wishes to acknowledge a grant from the Stefano LaSala Foundation, Inc. which enabled the Task Force to complete its work and finalize this report.

Name **Sheila A. Weinberg**
Title/Organization **Institute for Truth in Accounting**
Contact information **(847) 835-5200**
Date **February 9, 2009**

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:*

Objective 3: 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

Sub-Objective 3B: 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.

I do believe that the proposed reporting would adequately support the above objectives.

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.*

¹ SFFAC 1, par. 134.

² SFFAC 1, par. 139.

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

I do believe that the guidance for assumptions is appropriate.

Q3. *This exposure draft proposes a basic financial statement³ 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.

I do believe that the basic financial statement would be understandable and meaningful for the primary audiences. I am usually nervous about the use “GDP” when presenting information to the citizens, but this worry could be eased with the GDP definition presented below the Basic Financial Statement.

I would change the first paragraph below the schedule to “To address this fiscal imbalance, actions would need to be taken to increase revenues or decrease non-interest spending by the net present value of \$XX.X trillion or X% of GDP. To accomplish this . . .”

I am concerned about the financial report reader becoming overwhelmed, if numerous other disclosures were presented.

Rating of Illustrations: (1 - Intensely Dislike to 5 – Intensely Favorable)

Illustration 1a – 1

Illustration 1b – 1

Illustration 2 – 2

Illustration 3 – 3

Illustration 4 – 3

Illustration 5 – 3

Illustration 6 – 3

Illustration 7 – ?? What does this schedule represent . Not enough description of Illustration available

Illustration 8a – 1, too confusing

Illustration 8b – 1, too confusing

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

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 52 (narrative on the face of the financial statement) and 62 (disclosure)). See paragraphs A60 – A63 in 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?*

The executive summary of the Fiscal Projections ED highlights the need for information that is helpful in assessing inter-period equity, which is a significant part of accountability. The core of this theory is that the current generation of citizens should not have the ability to shift the burden of paying for current-year services to future-year taxpayers. This implies that NO debt should be created by the current generation of citizens. By using 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 GDP), if the economy was expanding the fiscal gap could be maintained at or below a target percentage of GDP, even though the dollar amount of debt increased. Therefore, by measuring the fiscal gap in relation to a debt level of percentage of GDP, this standard would minimize the importance of inter-period equity.

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

No.

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.

No, only the infinite horizon project period should be reported.

- 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?*

Only the infinite horizon project period should be reported. Politicians have used very creative legislative verbiage to working around budget projection's periods. In the past legislation has been crafted that prescribes expenditures outside budget projection's period (5 or 10 years). This has enabled legislators to promise services or benefits in the future without having a financial impact during the budget projection period. By requiring an infinite time horizon requirement, the standard would not allow such trickery to be used in Fiscal Sustainability Reporting.

- 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 A7 and 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.

"Statement of Fiscal Sustainability" should be used. I believe the Balance Sheet, including the liability for Social Insurance programs would provide the "financial condition" information.

- 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 and A46 –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.*

The Board should consider defining “major programs”, such as a program that is X% of the total.

- 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.*

“Material” programs should be disaggregated in the basic financial statements. As mentioned above “material” could be defined a percentage of the total receipts or spending.

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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 53).*

- 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.*

The Board may want to define “major factors”, specific percentage or other criterion. The narrative of these factors would have to be understandable.

- 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.*

I consider myself a more sophisticated user of federal financial information, but I could not quickly figure out these schedules.

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.*

Alternative scenarios should be made available to the user. I am nervous about overwhelming the user. I would recommend that the totals “Spending in excess of receipts” for alternative scenarios be mentioned in the financial reports notes with reference to the detail of the scenarios.

- 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.*

Too many scenarios will just serve to confuse the user.

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 53.*

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

I would only use Illustration 3. I would recommend this graph remain in the MD&A.

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

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

No need to overwhelm the user.

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?*

Yes. As mentioned previously, the basis of inter-period equity is that no debt be incurred by current taxpayers and passed on to future taxpayers. Therefore the nation’s ability to repay its public debt by comparing the size of its debt to the size of its economy is a meaningless discussion that thwarts the inter-period equity concept.

- 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).

No. The CFR should not be too voluminous. The reader could be directed where to find FAQs.

I would recommend a one line definition of GDP and PV as a footnote on the basic financial statements.

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?*

The proposed Statement should be effective immediately. Treasury already has the capacity and capability to present the Basic Financial Statement and Illustration 3. This is evident by the fact that Illustration 3 is from the FY 2007 CFR. Our country's current fiscal imbalance is massive and the American people need to be informed about this in the most understandable way as soon as possible.

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

No. The massive fiscal imbalance grows every day. People need to be informed ASAP.

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.*

I would recommend that verbiage similar to the "The Long-Term Fiscal Outlook" included in the MD&A of the 2008 CFR and Chart H (Illustration 3) be required in the MD&A section. All other disclosures, besides the Basic Financial Statement, should be required in RSI.

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.*

This is a very powerful trend. Hopefully, this is only a current trend and a required disclosure would become less necessary if foreign holdings were not at such a significant percentage.

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

This is a very clear and understandable illustration.

- 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 paragraphs A68–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.

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.

Such information should be made readily available to the public, but not necessarily in the CFR.

Other comments:



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February 10, 2009

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6K17V
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government* – the exposure draft issued by the Federal Accounting Standards Advisory Board (FASAB). While we understand the desire to develop standards in the federal financial reporting model that address financial condition (a forward-looking concept), we believe that FASAB should not proceed with the existing proposal.

We agree, in concept, that the proposal corresponds to the federal financial reporting sub-objective 3B described in Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, *Objectives of Federal Financial Reporting*. However, we do not agree with the conclusion in the proposal to present such information as basic information¹ because it introduces elements into basic information that we do not believe meet the basic characteristic of reliability described in SFFAC No. 1.

SFFAC No. 1 states that “financial reporting should be reliable; this is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent.” We are concerned about preparers’ ability to present reliable historical information and projected trends of receipts and spending that are free from bias for a progression of years beginning at least 20 years before the current year.

The U.S. Government has not compiled financial statements for 20 years; has been subjected to financial statement audits for fewer than 20 years; and has never obtained any opinion (e.g. unqualified, qualified, or adverse) on such financial statements (excluding the Statement of Social Insurance). Therefore, the ability of the preparers to assert that the 20-year historical information is fairly presented (that is materially complete, exists, and accurate) upon implementation, regardless of the proposed phased-in approach, is questionable.

¹ Basic information is defined in SFFAC No. 6 as “information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles.”



Furthermore, the ability of the preparers to assert that certain current information is fairly presented also is questionable considering the observations noted in the recent proposed SFFAS, *Estimating the Historical Cost of General Property, Plant, and Equipment*. In that proposed SFFAS, FASAB recognizes that some federal entities continue to experience difficulties compiling information for financial statement purposes due to inadequate internal controls and financial systems.

In addition to the concerns about reliability, we are concerned about the preparers' ability to present information that is free from bias. Setting aside the bias inherent in projecting current policy over a long period, the proposal for the preparers to disclose the likely impact of delaying action if a fiscal gap is indicated in the projections entails a high level of speculation and bias.

Because of the matters described above, we believe the costs to compile the proposed statement as basic information in a timely and reliable manner outweigh the benefits of such a presentation. Although FASAB may refer to the success with the preparation of the Statement of Social Insurance (SoSI), this proposal is much broader in scope than the SoSI, which is limited to very few programs and federal entities. Therefore, a great deal more data that is reliable will be needed both to present the proposed historical information and to use such information as the basis for the projections. We believe FASAB should consider proceeding with the information presented as other accompanying information, rather than basic or required supplementary information.

If you have questions about our response, please contact Mr. Terrill E. Menzel at 518-427-4607 or tmenzel@kpmg.com.

Very truly yours,

KPMG LLP

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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DAVID R. BEAN
Director of Research

February 18, 2009

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

Thank you for the opportunity to offer comments in response to the Federal Accounting Standards Advisory Board's Exposure Draft of the proposed Statement, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. This response was prepared by the Governmental Accounting Standards Board's (GASB) staff. A draft of this response was provided to individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and deliberation.

It should be noted that the GASB has a research project on its agenda that is addressing economic condition issues, including fiscal sustainability. The research efforts are ongoing and the issues associated with fiscal sustainability have not been deliberated by the GASB members; therefore, the GASB staff views expressed in the responses to this Exposure Draft may evolve as these research efforts continue and the results of the GASB's due process efforts are known.

The GASB staff responses follow the questions provided in the Exposure Draft.

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

Objective 3: 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.

Sub-Objective 3B: 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.

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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.

Response—We believe that the proposals set forth in this Exposure Draft move the Federal government closer to meeting Objective 3 and Sub-Objective 3B. As noted in our responses to the remaining questions, there are some issues that we believe may need to be addressed in order to more effectively communicate the display and disclosure reporting requirements.

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.

Response—“Current law” does provide a reasonable starting point (and ending point) for most projections. In circumstances where “current law” does not reflect current policy (as highlighted in the examples provided in the Exposure Draft) any significant modifications that deviate from “current law” should be clearly disclosed.

Q3. This exposure draft proposes a basic financial statement 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

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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.

Response—In general, we believe that knowledgeable financial statement users will find the display and disclosure that will be required when this proposal becomes effective to be very valuable. The challenge of effectively communicating to some citizens, citizen intermediaries, and Congress will remain. A few minor suggestions may enhance the effective communication of the proposed statement and disclosures. These suggestions are:

- Identify within the title of this statement that the future projections are based on discounted amounts (present value). As abbreviations like PV and GDP should be clearly spelled out in statement headings.

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-A63 in 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?

Response—We believe that the flexible requirements are appropriate for reporting the fiscal gap. We also realize that interest costs should not be included in the determination of the fiscal gap. However, information on the fiscal gap could be enhanced by including additional information about the effects of rapidly growing interest costs in the presentations. As shown in Appendix B, illustration 3, by 2060, projected interest spending will be greater than expenditures for any federal program and by 2070, projected interest spending will be greater than projected total revenues. If interest costs were displayed as the first (bottom) bar on the chart (versus the last—top bar), this would clearly communicate that by 2070 all revenues would be legally committed to paying interest on the government's projected outstanding debt.

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

Response—Although illustrations 8a or 8b are helpful, improvements could be made (especially to 8b) to enhance their clarity and understandability. We believe that even a knowledgeable audience may have difficulty reaching a conclusion on what the graphs are trying to convey. We recognize that long-term effect of the fiscal gap is the primary driver, but the chart could be modified to more effectively communicate what the FASAB is attempting to convey. Moreover, we believe that the arrow chart at the bottom is not intuitive and needs further explanation.

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?

Response 5a and b—We believe that the projection period should be 75 years. Consistency with other projections presented in the Federal financial statements was an important consideration in reaching this conclusion. Also, projections beyond 75 years tend to have minor impacts on present value projections. For example, the present value of an amount, out 75 years, discounted at a rate of 4%, would amount to only 5.3% of the future value.

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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 A7 and A8.

Which of the following 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**
- d. A title not listed above (please specify)**

Please explain the reasons for your choice.

Response—A combination of options a and b for the title of basic financial statement may be more appropriate. The suggestion would therefore be, "Long-Term Projections of the Fiscal Sustainability for the U.S. Government." This suggested title is more self-explanatory of exactly what the statement presents.

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 and A46-A49.)

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- 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 view.

Response—We agree that the general guidance provides for an appropriate level of disaggregation in the basic financial statement. While additional disaggregation is generally desirable, we believe that the focus on major programs is appropriate.

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.

Response—No, however, we believe that additional lines for other major programs, if any, could be added to the illustrations to communicate that the focus of the proposed statement is broader than Social Security, Medicare, and Medicaid.

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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 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.

Response—We believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to knowledgeable readers. We recognize that most potential readers are not familiar with financial modeling, projections, present value analysis, and their affect on projected results. However, they do have the ability to read and understand explanations, which will improve their ability to understand and assess the information presented.

- 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?**

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Please explain the basis for your view.

Response—We believe that the display of a range for major cost drivers and/or major programs, as shown in illustrations 1a and 1b should be required. Displaying the range of major cost drivers and programs provides additional information in order to assess the effect of individual drivers and major programs on the overall fiscal gap calculation. We also would suggest that the range of drivers should be disclosed for major sources of revenue.

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 the alternative scenarios is appropriate? Please explain the basis for your view.

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

Response—We believe that the requirement for the presentation of alternative scenarios is appropriate. Providing alternative scenarios would further reinforce that the future is uncertain; therefore, financial statement readers should consider multiple alternative scenarios in their assessment. We also believe that the requirements for additional information regarding alternative scenarios are sufficient.

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?

Response—We believe that disclosures, consisting of narrative and graphic displays, will help to effectively communicate historical and projected trends. However, as previously noted, the narrative and graphic displays presented in Appendix B can be enhanced.

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

Response—Recommended additions and other enhancements have been noted in answers to previous questions, such as, the addition of the present value calculation. We do not believe that there are any disclosure items presented that should be deleted.

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

Response—We believe that the final standard should include an appendix with examples of illustrative disclosures. This will assist those preparing and, in some cases, analyzing the disclosures. However, it is important that alternatives be provided so that the illustrations enhance application of professional judgment and do not become a substitution for that judgment.

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).

Response—We believe that the FAQs are helpful; however, we do not believe that this Appendix should be included in the final standard or the Consolidated Financial Report. As an alternative, we believe that the FAQ should be incorporated into a user’s guide. As a separate document, this section could be further expanded.

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.

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

Response—We believe that the implementation date of periods beginning after September 30, 2009 is appropriate only if the information required by this standard is currently available.

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.

Response—We believe that a phased in implementation period of three years is appropriate. This information is based on projections and not on events that have already occurred, making this information significantly different from that currently presented in the basic financial statements. This will always be an issue with this statement; however, the transition period will allow for the opportunity of explaining significant changes in the MD&A.

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.

Response—We believe that including the foreign holdings of U.S. Treasury debt in the RSI is relevant and useful in meeting the objectives of fiscal sustainability reporting. For example, we believe it relevant because the failure of certain governments (for example, China, Japan) to actively participate in future offerings could have a substantial effect on future interest rates.

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

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Response—We believe that the illustrative example provided in Appendix B does present clearly and understandably. However, the illustration would better communicate this information if it provided a trend (5-10 years), instead of just two years.

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 paragraphs A68–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.

Response—We do not believe that if the projections indicate a significant fiscal gap, that RSI should include identification, explanation, and fiscal **and service impact** of one or more policy alternatives that could be used to reduce the gap. We believe that inclusion of this type of data may be used to “explain away” the results presented in the statement.

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.)

a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?

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 inter-period or inter-generational equity.

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Response—While the information on inter-period equity would enhance the presentation, we recognize that the project would be delayed if this issue were redeliberated and exposed for due process. We do not believe that the project should be delayed. We support additional research and analysis by the FASAB in this area to improve the disclosure of such information in the future.

If you have any questions regarding this response, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "D. R. Bean", written over a vertical line.

David R. Bean

Name : Sam Gutterman _____

Title/Organization (if applicable) : consulting actuary _____

Contact information : sam.gutterman@us.pwc.com _____

Date January 5, 2009

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

General: The following are general comments:

1. I applaud the emphasis on estimates of long-range financial effects of current U.S. Government policy and programs. I would also encourage the use of such long-range projections in the course of regular decision-making by the U.S. government, although that is certainly outside the scope of FASAB.
2. I note that this ED only applies to the U.S. government on a consolidated basis. It is not clear why this is so limited. It would be just as appropriate at an agency-wide or program-specific level as well.
3. It is not clear what the relationship would be between this ED and SFFAS 33. In several respects, especially regarding assumptions to be used for long-term liabilities, they appear inconsistent. For example, SFFAS 33 requires the use of a discount rate based on a weighted average of at least five years of interest rates of U.S. Treasury securities, while, for example, discount rates used in the SOSI by SSA and Medicare reflect expected asset-based discount rates over the short-range and a long-term best estimate over the long-range. The proper discount rate(s) to be used to appropriately display trends needs to be carefully considered. In addition, although it appears as if this will require consistent long-range assumptions government-wide, it will certainly represent a significant change in the assumptions made for many long-range obligations, e.g., for retirement plans and OPEB.
4. Although the ED includes a discussion of current demographic and economic assumptions, there are several areas regarding possible policy changes that may need further clarification. For example, the current U.S. Government cash budget typically makes a specific assumption regarding military conflicts over the short-range period. It is not clear what the assumptions should be regarding such conflicts in the longer range future, or other possible factors such as global warming. In the latter case, a section describing some of the major currently foreseeable risks that may have a significant affect on the projections would be appropriate, e.g., major global warming, a long lasting depression, or a worldwide military conflict. In addition, a discussion of sustainability of U.S. Government should also include a discussion of the sustainability of some of the major U.S. industry segments. An example given in the current Medicare SOSI regards the expectation that, if no significant changes occur, there is a question as to the sustainability of the U.S. health care system that could in turn affect the Medicare system projections.

5. The ED calls for the use of consistent assumptions across all long range projections. Although outside the scope of the proposed FASAB standard per se, considerable additional work would be needed to measure the long-range expected cash flows for U.S. Government programs involving a long-term liability and SOSI program assumptions using consistent assumptions. For example, if required, it may take some time to apply Social Security demographic and economic assumptions in the valuation of pension obligations of parts of the government, such as for U.S. military personnel and that of civil servants.
6. It may be useful to clarify whether assumptions should reflect best estimate assumptions or their expected value on a probability-weighted basis reflecting a range of possible assumptions. This issue is particularly applicable to programs that include guarantees, including loan guarantees, e.g., associated with the current bank bail-outs, and those with interest rate or credit thresholds, whether they are currently in-the-money or out-of-the money. The effect of some of these guarantees may be substantial, thus potentially threatening the sustainability of those programs, if not the entire government. If the U.S. Government owns previously private banks to a significant extent, the expected cash flows associated with this ownership should be reflected, although the implications of expected resale of these assets may have to be addressed here as well.

It may also be difficult to apply a consistent set of ranges on a government-wide basis; nevertheless, it is worth pursuing this consistency if possible. In addition, key drivers of experience may be different for different programs. In addition, to enable suitable sensitivity tests to be illustrated, it may be useful to further disaggregate results.

7. The ED seems to imply that the major purpose of this report is to evaluate those programs whose results are currently included in the Statement of Social Insurance. I believe that other programs are also important to view on a long-range basis, although they may not individually be of the same long-range size as the SOSI programs. Other programs, such as the current and ultimate cost of maintaining active armed services, are also obviously quite important to assess.
8. Every effort should be made to minimize the number of options provided by the final standard, although particularly for disclosure purposes, the form of the illustrations should be made optional, as programs change from time to time and enhanced displays be strived for and will hopefully be refined/expanded in the future.
9. In providing information that will hopefully enable users to develop a view regarding the sustainability of the U.S. Government and its programs that have a long-range effect, more than just a single number for a long period of time is needed. Values over several durations, such as 10, 25, 50 and 75 years. Although a qualitative assessment of future conditions after the terminal period for calculation purposes, such as 75 or 100 years, would be meaningful, inclusion of values after this period is so speculative as to not be worth the resources to produce them.

10. A clear description of the objective of the proposed report should be included in the report. Simply referring to it as a sustainability report would not be sufficiently descriptive to provide a context for users. In addition, a description of the flexibility and limitations of government to meet a significant sustainability issue would be useful, e.g., that to at least an extent taxes might be raised if conditions so warrant and politics permits.
11. In some cases, it may be a challenge to apply a consistent valuation date, as detailed SOSI and other long-range projections can be made up to twelve months prior to the fiscal year-end. Any significant update in the programs or economic/demographic expectations may have to be reflected, at least to the extent that an estimate can be made, rather than being based on a detailed valuation. In addition, in some cases, programs, although enacted prior to the fiscal year-end, may not be scheduled to go into effect until after the fiscal yearend period; the expected cash flows associated with those programs should be reflected at the fiscal yearend.
12. Note that the items in paragraph 40 are not necessarily 'limitations', but rather principally provide information regarding the scope of proposed statement.

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

Objective 3: 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

Sub-Objective 3B: 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 SFFAC 1, par. 134.

² SFFAC 1, par. 139.

Comment: Although I believe that such reporting may prove useful in contributing a long-term perspective into governmental operations and its sustainability, it needs to be remembered that, through the power to tax, it is highly unlikely that the U.S. Government will default on its debt, although a more prudent view of its programs and a reallocation of resources are more likely. Nevertheless, it is important to evaluate the long-term costs of key programs, especially those of an entitlement nature due to their long-term financial impact, such as those indicated. It is important for users to be provided an understanding of the fact that there will be long-term financial trade-offs between programs. As such, disaggregated information by major program and area of spending and trends in share of future federal budgets provided should prove useful, although for certain programs, the Statement of Social Insurance can satisfy these needs. The display of projections for individual programs 'should be' presented, rather than 'may be' presented, as indicated in 42(d).

- 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.

Comment: It is appropriate to use a principle-based approach to provide guidance for assumption setting. Further guidance would be appropriate to avoid conflicts between FFSAB 33 and this proposed standard. In addition, although most long-range assumptions relate to either economic, demographic or policy-related factors, others parameter inputs are possible as well. For instance, should the preparer assume that resources will be devoted to military conflicts as is the case today? Certainly it may not be appropriate to assume that whatever the current military conflicts are at the measurement date continue indefinitely, or if none is current that there will never be another in the future.

In addition, although the ED indicates that assumptions should be consistent across all governmental programs, this may prove quite difficult to accomplish in practice, as for example, discount rates and economic assumptions are currently developed in a quite different manner among government programs, e.g., the military pension plan and Social Security. Unless current assumptions are changed in certain programs (and unless SFFAS 33 is changed), two separate sets of calculations would have to be made in several cases. Although it would be a good idea for the estimates to be based on 'similar' or 'consistent' bases, it

may not be worth the resources needed to make them identical, unless materiality makes it necessary. This is due in part to the complexity of some of the assumptions involved, but in any case would require cooperative effort across government departments or from a designated source. Nevertheless, it would be appropriate for a single estimate of GDP to be used, if possible. If consistency is required, from a practical operational standpoint, it would have to be decided how the single set of assumptions would be developed. Note that I don't believe that estimates of certain relevant program costs over a 75 year period have been made, such as the cost of the VA's health care system and benefits.

Several additional measurement factors should be discussed, such as how to treat tax rule changes written into current law, expectations regarding continuation of current military conflicts, and when current law indicates that, for example, Social Security payments cannot be made when its Trust Fund would otherwise become negative.

- Q3.** This exposure draft proposes a basic financial statement³ 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.

Comment: I believe, to the extent that a user can fathom the size of the U.S. Government, the general approach described would be understandable. I do not have a strong opinion regarding whether the proposed report should be included in the basic financial statement or in disclosures, as long as the information is fairly prepared and transparently presented. Nevertheless, unless audited the values may prove to have less credibility in the eyes of certain users who are used to seeing numbers that have been subject to an auditing process.

I see no reason why both % of GDP and present values cannot both be provided, as different users will be more comfortable with one or the other. In addition, comparison of values with those of the prior year would provide useful information.

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

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-A63 in 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?

Comment: I believe that it is appropriate to provide flexible, principle-based requirements. I also believe that, to provide an indication of sustainability, summary information should be provided over more than one period, e.g., 75 years. Summary information over periods such as 10, 25, 50 and 75 years (and in some cases annual information) would be useful to indicate the significance of trends.

The implication that the targeted level of GDP over the long-term is the current debt level may be inappropriate. The display of the fiscal gap should be reviewed to determine whether it can be presented in a more straightforward manner, based on a range of targeted levels, that should not necessarily be subject to change over each reporting period as the current level changes. The current debt level is not necessarily a desirable or sustainable target; any given level can only be viewed as arbitrary or one that is a subject to the users risk preferences. Of course, if the U.S. Government sets such a target in the future, that should be disclosed. In addition, a margin metric, similar to what is used for Social Security, comparing the percent of outgo to that of income might be just as interesting, presented over the several periods, if not each year.

I don't believe that having an open choice of whether the fiscal gap should be on the face of the financial statements or in the disclosures is desirable. The location should be specified, most likely in the disclosures, but I don't have a strong opinion on this.

Note that 'fiscal gap' is not a common term. Would something like 'funding gap' or 'funding margin' be more appropriate?

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

Comment: Even someone experienced has to really work to understand Illustration 8, although I do not have a specific suggested alternative. In

addition, I personally do not like charts like 8a that do not start at 0, unless it is made clear that that is not the case.

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?

Comment: I do not believe that the illustration of information over an infinite horizon provides meaningful and understandable information for the users of this report. That said, it is important to indicate the positive or negative direction of expected net payments after the terminal period illustrated, say 75 years.

75 years has been used for a long time for Social Security projections -- I see no immediate need to change this period, even though I believe that the original reason for the selection of that period was to reflect an average lifetime, and that average lifetime has since increased by more than 5 years. It would be desirable to use the same time period for both SOSI and the proposed report.

One approach, as indicated in my response to Q4, is to provide similar information over sub-ranges of years (some graphical displays may usefully indicate year-by-year projection results), in part so that the user can see what the trend might be after the terminal projection year but more importantly to indicate long-term trends. In addition, to provide further qualitative observations of any expected trend after the terminal illustration year as part of the financial reporting disclosures.

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 A7 and 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.

Comment: Of the choices provided, (a) seems to me to be the best. As long as the government has additional contingent resources (such as increased taxes), the concept of sustainability is somewhat subjective in nature. Given the government’s potential resources, it may be a difficult concept to communicate to the average user. It would be better to disclosure through its title exactly what the proposed report covers, that is, fiscal projections and ability to sustain borrowing based on financial resources (as we have seen in the private sector, sometimes trust and confidence is as much of a factor in sustainability as is financial resources), rather than the sustainability of overall government services. If the word ‘sustainability’ is used, its meaning should be clearly spelled out in the context of government current and potential resources.

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 and A46-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.

Comment: Further disaggregation would be desirable. Although it is important to provide information regarding the financial sustainability of the government as a whole, it may be even more important to recognize the extent to which major programs are not sustainable, and therefore need to be revised. In addition, because programs such as Medicare and Social Security will be tremendously large in the future, it would be inappropriate for information regarding their operations to overwhelm information about other major programs. Therefore separate information should be provided about them, rather than just indicating that they are in the other category. For example, a line might be devoted to the sum of the programs of the DOD and the VA and a breakdown and attribution of major sources of revenue should be shown. These separations would enable the user to assess whether these sources are sustainable or whether resource allocation decisions are needed and a rough idea as to when such allocation decisions need to be taken. It is important that explicit long-range projections should be made for all significant government programs of a long term nature, including defense expenditures, entitlement and retirement programs.

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 paragraph 42(a)). Illustrative examples in Appendix B begin on page 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.

Comment: I cannot conceive of including something like what is being proposed without at the same time providing disclosure as to the major factors impacting future receipts and spending. In addition, meaningful sensitivity or stress test results should be provided to provide perspective as to the uncertainty involved in the projections, although the sensitivities displayed should be of a reasonably manageable number. This should be developed to provide the user with a more meaningful indication of sensitivities to alternative scenarios and of the uncertainty associated with projections over the long-term. Stochastic analysis should be conducted where it can provide meaningful insights.

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.

Comment: The display of ranges should be required. Nevertheless, care is needed to explain the values used. For example, that the cost effect and the measure used to determine it are consistent (e.g., health care costs for the aged should preferably be divided by the number of those eligible for such benefits and not the entire population). Ranges can provide useful information if illustrated and displayed appropriately and explained adequately.

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.

Comment: The proposed requirement seems appropriate. Projection of costs of the government involves significant uncertainty. The only way that this can be effectively conveyed is through the use of alternative scenarios or assumptions, whether deterministically or stochastically derived. The scenarios should be determined to be reasonably possible, and the values used may change from year-to-year.

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.

Comment: Yes, they appear sufficient.

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?

Comment: Yes. Of course, care is needed that the basis for the projections and implications concerning sustainability should be described in an easy-to-understand manner.

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

Comment: None. As time goes on, it may be appropriate for further illustrations be added as found useful or some eliminated as found to add limited value. A few observations on specific illustrations follow.

I do not see that an age pyramid as shown in Illustration 2 is particularly relevant here, although it is useful for the users to recognize the significant impact of demographic forces. This is certainly only one of many such factors. What is

more importance is the effect of the long-term demographic shifts, although explaining the effect of such shifts can be of importance.

It would be useful to indicate in Illustration 4 when displaying budget (surplus) information whether it is the official cash budget or an incurred budget.

Although I have no problem with the form of Illustration 5, I question the size of the ultimate level of federal debt. Are these realistic projections? In any case, the prime driver(s) should be thoroughly discussed. If the explanation is not sufficient, then either additional information is needed, an alternative display should be designed or the projection questioned.

I am unsure why a reduction in spending was chosen for Illustration 6. Alternatively, an equivalent increase in revenue could also be illustrated. Or possibly both could be displayed, indicating that if both alternatives are addressed, a smaller percent of each would suffice to address the problem.

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

Comment: Yes. However, it should be emphasized that they are illustrative only, and that deviations can be made if they are determined to be more appropriate than those given. It would be appropriate that the FASAB reviews after a passage of time, say three to five years, to ensure that the disclosures remain meaningful and revise them, if appropriate.

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?

Comment: Yes.

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).

Comment: The FAQs would add value for many potential users. However, it appears appropriate that these and the Glossary be carefully constructed to avoid undue overlap.

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.

Comment: Given the time that it will take to initially develop the values required by this ED, especially for programs not now reporting a Statement of Social Insurance, it would seem to be more appropriate to include two optional years, or expressed in terms of a required implementation date with early adoption encouraged. I do not have a strong feeling as to whether it should remain as RSI.

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.

Comment: Yes, it would provide useful information in the proposed report. In addition, a trend in the amount and percent of foreign holdings would be useful. Nevertheless, it should be pointed out that, although this factor should be considered when evaluating sustainability, a large percentage does not necessarily represent a sustainability problem, but it could develop into a problem if foreign holders lose faith in the finances of the U.S. Government.

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

Comment: Yes, although to illustrate trend, it may be more useful to have a line or bar chart instead. In addition, it may be useful to show a composition of all of the owners of the debt, e.g., OASDHI trust funds, other domestic holders and foreign owners. Also, some general indication of the maturity of the debt also might be useful.

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 paragraphs A68–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.

Comment: Although it should be made clear whether a fiscal problem will likely exist in the future, the inclusion of an analysis of policy alternatives would turn the proposed report into a policy document, which does not appear to be appropriate. The objective should be to provide the user with useful financial information and objective input into decision-making processes.

That said, it certainly would be appropriate if the appropriate U.S. Government agency does use this information as input to such a separate policy-oriented document. It should be the regular task of other agencies in the government to provide policy options and an analysis of the long-range effect of policy options, which in many cases should not be limited to 10 years.

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.

Comment: I believe that the display of long-range financial projects, sufficiently disaggregated, over several time periods (noted in comments to Q4) should provide information that would be useful to assess inter-generational equity. No further refined calculations should be required in the proposed report.

No further comments.