

Federal Accounting Standards Advisory Board

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FASAB Preliminary Views Regarding Accounting for Social Insurance

The FASAB is seeking input on a Preliminary Views document entitled *Accounting for Social Insurance, Revised (PV)*. Social Insurance comprises five programs; however, two programs, Social Security and Medicare, are of special significance because of the high rate of participation among citizens, the fiscal challenges related to the programs and the challenges associated with incorporating estimates of future cash flows of this magnitude in financial statements. The Board is presenting two differing views, supported by different Board members, on accounting for social insurance.

Members believe that financial reporting can answer fundamental questions about social insurance. Key questions include whether the Government's financial position and condition improved or deteriorated as a result of providing these and other programs, and what is the likelihood that these programs will be able to provide benefits at current levels to those who are planning on receiving them. The information provided as a result of this proposed standard should help users make these assessments while providing for the complexity of these programs and the uncertainty of long-term projections.

All ten Board members support the PV and its underlying objective to identify and assess potential methods for improving financial reporting of social insurance programs. This is evidence that all Board members wish to evaluate alternative methods for enhancing the transparency of the fiscal sustainability of social insurance programs, Board members propose two alternative approaches or "views" for accounting for social insurance programs.

A key difference between these views is the point in time that a liability for social insurance benefits and related expense are recognized. Six members believe that for social insurance programs an expense is incurred and a liability arises when participants substantially meet eligibility requirements during their working lives in covered employment, and that some portion of the benefits accumulated at the balance sheet date should be recognized as a liability. Three members believe that for social insurance programs, consistent with current reporting requirements, an expense is incurred and a liability arises when the participants have met all eligibility requirements and the benefit

amount is “due and payable;” for example, a “due and payable” liability would be payments due to the participants at the end of a reporting period but not yet disbursed.

Both views would present a statement of social insurance (SOSI) showing the present values of projected future program revenues and scheduled benefits, changes in such present values during the reporting period, and other sustainability disclosures; although the proposed information presented and presentation format differ.

The three members would add to the current sustainability reporting by requiring a statement of fiscal sustainability and additional sustainability information, in the context of all federal programs, as an integral component of social insurance reporting, subject to additional refinement through a broader FASAB project on sustainability. The six members would continue the sustainability reporting required under the current standard, and agree in principle with the need to consider through a separate project a statement of fiscal sustainability and additional sustainability reporting.

One member abstains from an expression of views but supports issuance of the preliminary views so that responses can be considered.

The Board evaluates the differing views through research of the issues, careful deliberation, and due process. Exposure for comment is an essential part of due process.

Respondents are encouraged to provide the reasons for their positions. The Preliminary Views document requests comments by April 16, 2007. The Exposure Draft in PDF format and the specific questions raised in Word format are available at the FASAB website (<http://www.fasab.gov/exposure.html>). In addition, the Board plans to hold a public hearing on the Preliminary Views document at the May 23, 2007 FASAB meeting.

ABOUT FASAB

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources. The FASAB issues federal accounting standards after following a due process consistent with the Memorandum of Understanding under which it operates. Due process includes consideration of the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

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