



May 22, 2008

To: Members of the Board  
From: Richard Fontenrose, Assistant Director  
Thru: Wendy M. Payne, Executive Director  
Subject: Social Insurance,<sup>1</sup> Tab C

## MEETING OBJECTIVE

The objective for this meeting is to approve specific components of additional social insurance reporting as outlined in this memorandum, after which staff will develop an exposure draft.

## BRIEFING MATERIAL

This Tab presents the following attachments:

1. Attachment 1 – Matrix of members' responses to staff questions, April 2008 (page 8)
2. Attachment 2 – Pro forma highlights table for the governmentwide entity (page 11)
3. Attachment 3 – Pro forma balance sheet for the governmentwide and component entities (page 12)
4. Attachment 4 – Governmentwide SOSI from the FY 2007 CFR (page 13, see especially the summary section of SOSI on page 14)
5. Attachment 5 – Pro forma SOSI for component entities (page 16)
6. Attachment 6 – Pro forma statement of changes in SOSI amounts for the governmentwide and component entities (page 17)
7. Attachment 7 – Table 1, "The Nation By the Numbers – An Overview," from the FY 2007 CFR (page 18)
8. Attachment 8 – The Social Security Administration's FY 2007 SOSI (page 19)
9. Attachment 9 – "Table of Decisions and Points of Consensus" as of April 2008 (page 20)
10. Attachment 10 – Actuarial Note 2007.1, "Unfunded Obligations and Transition Cost for the OASDI Program," February 2008 (page 29)

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## **BACKGROUND**

At the April meeting, the Board continued its discussion of the nature and display of social insurance information. A matrix at Attachment 1 prepared by staff shows the members' views on the various proposals – highlights, statement of changes, balance sheet, etc. There appeared to be a majority for:

- (1) highlights information for the consolidated Financial Report of the United States Government (CFR) to be presented with management's discussion and analysis (MD&A), as requirement supplemental information (RSI);
- (2) A line item for the closed group net present value (NPV) in a stand alone section on the balance sheets of the governmentwide and component entities (see Attachment 3);
- (3) no additional displays on the governmentwide or component entity operating statement, statement of net cost, or statement of changes in net position;
- (4) a summary section on the governmentwide statement of social insurance (SOSI) displaying the NPV of the closed group and open group, as was done for the FY 2007 CFR (see Attachment 4 for the CFR and see Attachment 5 for a pro forma component entity SOSI); and,
- (5) a statement of changes in SOSI amounts for the closed group for the governmentwide and component entities, with a format as proposed in April 2006 (see Attachment 6).

At the April meeting the Board directed staff to develop alternative displays, a preliminary outline for requirements, and specific questions for votes.

## **STAFF PROPOSAL**

To reiterate the conceptual basis for the standard outlined in April, the standard is a compromise between two strongly held views regarding when the obligating event occurs for social insurance programs and, thus, when the liability and expense definitions are met within those programs. The standard provides additional information not currently provided. The new information would not be characterized as "elements" of financial statements within the SFFAC 5 definitions, and would not affect net position. The Board has other conceptual projects underway and will consider in due course whether the new reporting affects current concepts.

Image 1 below provides a graphic illustration of the linkages between and among proposed new and current statements.

## Image 1 – Navigating the New Statements

**Figure 1 -- Highlights Statement (HS)**

(billions)	2007
<b>Costs</b>	
Gross costs	\$ (3,157)
+ Total taxes	<u>2,627</u>
Net operating costs	\$ <u>(276)</u>
<b>Net Position</b>	
Assets	\$ 1,581
(-) Liabilities	<u>(10,787)</u>
(=) Net Position	\$ <u>(9,206)</u>
<b>Social Insurance Exposures</b>	
NPV (closed group) EOY	\$ (45,062)
NPV (closed group) BOY	<u>(44,147)</u>
Change in NPV	<u>915</u>
NPV (open group) EOY	\$ <u>(40,948)</u>
<b>Budget Results</b>	
Unified Budget Deficit	\$ <u>(163)</u>

EOY = end of year  
BOY = beginning of year

HS links  
with other  
statements

**Figure 2 -- Balance Sheet**

(billions)	2007
<b>Assets</b>	\$ <u>1,581</u>
<b>Liabilities</b>	\$ 10,787
(+) Net Position	<u>(9,206)</u>
(=) Total liabilities & net Position	\$ <u>1,581</u>

**Social Insurance Responsibilities**

NPV (closed group) \$ (45,062)

**Figure 3 -- Statement of Social Insurance**

(billions)	2007
<b>Current Participants</b>	
NPV of participants of eligibility age	\$ (10,348)
(+) NPV of participants 15-61	<u>(34,714)</u>
(=) Closed group NPV	<u>(45,062)</u>
<b>Future Participants</b>	
(+) NPV of future participants	<u>4,114</u>
(=) Open group NPV	\$ <u>(40,948)</u>

**Figure 4- Statement of Changes in SOSI Amounts, Closed Group**

(billions)	2007
NPV (BOY)	\$ (44,147)
Reasons for changes:	
Valuation period	XXX
Demographic assumptions	XXX
Economic assumptions	XXX
Healthcare assumptions	XXX
Law or policy	XXX
Methodology	XXX
Other	XX
Subtotal	<u>(915)</u>
NPV (EOY)	\$ <u>(45,062)</u>

The proposal includes the following:

### **Highlights Statement (Attachment 2)**

As mentioned above, the standard would require:

- (1) highlights information in the MD&A as RSI (see Attachment 2). The highlights information would be the same as presented in Table 1, "The Nation By the Numbers – An Overview" (see Attachment 7) except that it would be RSI rather than presented in the introductory, "citizen's guide," section of the FY 2007 CFR. In addition, the highlights would include the change in the closed group NPV in the "social insurance exposures" section, rather than in the costs section as proposed in April.
- (2) The information would be required in tabular form. The table would contain no other information than the cost, asset/liability, social insurance exposures/responsibilities, and budget information shown in Attachment 2. No other specific formatting would be required for the highlights display.

The closed group NPV information would be the same line item and amount as presented on the balance sheet (Attachment 3), CFR SOSI (Attachment 4), and the end-of-year balance on the statement of changes in SOSI amounts (Attachment 6). The total change in the closed group NPV would be the same line item and amounts as presented on the statement of changes in SOSI amounts.

Table 1, "The Nation By the Numbers," in the FY 2007 CFR (see Attachment 7) presented the open group NPV along with the closed group NPV. The SOSI in the FY 2007 CFR (see Attachment 4) also included both the closed and open group NPV. The open group NPV is informative and useful for comparison of the longer-term NPV. Staff proposes that the highlights table and the SOSI (both CFR and components) continue to present both the open and closed group NPV.

The members seemed to have mixed views about whether to require a specific format. Most members did not want a formal financial statement but there was support for bringing all the highlights together in one table. The table in the FY 2007 CFR demonstrates the effectiveness of this format. Staff believes that a table makes the information more salient than if the reader were to encounter it piecemeal over several pages of narrative.

In addition to what the staff is proposing for the highlights as illustrated in Attachment 2, some members have favored linking the highlights to the fiscal imbalance or other sustainability information. However, since the fiscal sustainability project is in its early stages, respondents would have difficulty evaluating it for use in the highlights standard. Staff recommends adding such information later when the fiscal sustainability standard is further developed.

Does the Board agree with the highlights requirement?
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### **Balance Sheet (Attachment 3)**

As illustrated in decision matrix at Attachment 1, a majority of members favored displaying the closed group NPV on the balance sheets of the governmentwide and component entities in a separate “below the line” section (see the pro forma balance sheet at Attachment 3, which is adapted from the FY 2007 CFR balance sheet). This item line and amount would be the same as that in the highlights table, the SOSI, and the end-of-year balance on the statement of changes in SOSI amounts.

The proposal does not include displaying the open group NPV on the balance sheet. Although the Board did not formally address the question of closed vs. open group NPV on the balance sheet, there appears to be a majority favoring display closed group NPV on the balance sheet (see Attachment 1, and the minutes also support this view). Members seemed to favor a simple display that would be easy to understand at first glance. Therefore, attention is focused on one number rather than two and the closed group NPV is conceptually closer to balance sheet elements.

Attachment 3 will also serve to illustrate what the Social Security Administration’s balance sheet and the balance sheets of other entities with social insurance programs would look like, except that Treasury securities are balance sheet assets for component entities.

Does the Board agree that the closed group NPV should be displayed in a separate section “below the line” on the balance sheet?

### **Statement of Social Insurance (Attachment 4)**

#### *CFR SOSI*

The proposal is to display the closed and open group NPV on the CFR SOSI in a summary section, which Treasury did for the FY 2007 CFR SOSI (see Attachment 4) although SFFAS 17 does not require it. Again, the titles and amounts of these line items would match identical lines in the highlights section (see Attachment 2), the balance sheet (see Attachment 3), and the statement of changes in SOSI amounts (see Attachment 6).

Does the Board agree that the closed and open group NPV should be displayed on the CFR SOSI?

#### *Component Entity SOSI*

Attachment 5 presents a SOSI for the component entity, the Social Security Administration (SSA) in this case. The SSA’s FY 2007 SOSI is presented in Attachment 8. It presents the open group NPV as a line item in the SOSI and, in an addendum section of the statement, net of assets subtract from the open group NPV.

Under the proposal, the component entity's SOSI would display the closed group and open group NPV, as shown in the pro forma illustration at Attachment 5, which is consistent with what is proposed for the CFR SOSI.

Does the Board agree that the closed and open group NPV should be displayed on the component entity's SOSI?

### **Statement of Changes in Social Insurance Amounts (Attachment 6)**

Staff is proposing one statement of changes on SOSI amounts, for the closed group (Attachment 6), instead of the two statements (one for the closed group and one for the open group) proposed in April. There seemed to be a majority for having one statement for the closed group. The format of the pro forma statement of changes in SOSI amounts reflects the Social Security Trustees' Report (see, for example, the 2007 Trustees' Report, Table IV.B9, page 66). Thus, there are line items for:

- (1) changes in the valuation period, which the staff believes would include interest on the obligation due to present valuation;
- (2) changes in demographic, economic, and healthcare data and assumptions; and
- (3) changes in law and policy,
- (4) changes in methods and programmatic data, and
- (5) other changes.

Regarding the "changes in valuation period" line item, staff recommends a note like the one from the Trustees' Report, which can be adapted for the SOSI as follows:

In changing from the valuation period of last year's SOSI, which was 2006-2080, to the valuation period of this year's SOSI, which is 2007-2081, a relatively large negative annual balance for 2081 is included. This contributed substantially to the increase in the negative net present value.

The format in Attachment 6 also includes beginning of the year and end of year present values, which would agree with the balances for the current year and immediate past year displayed in the SOSI for the closed group. This will illustrate the link between current and prior years.

Does the Board agree that the items causing change during the period that are illustrated in Attachment 6 are appropriate?

### **Footnote Disclosure**

Mr. Reid proposed disclosing a traditionally accepted liability number in the notes to the financial statements because this information is (1) important to those who believe a liability exists before the due and payable event and (2) not currently available.

As discussed in the staff memorandum of December 2007, SSA's periodically updated actuarial note on this subject discusses two liability-number candidates: the accrued benefit obligation and the

maximum transition cost. The “accrued benefit obligation,” as defined in the actuarial note, is a measure of the future benefit obligation based on past earnings and past work in covered employment as of the valuation date. Only current participants are included.<sup>2</sup> Future payroll taxes to be paid by the current participants and benefits attributable to earnings and work in covered employment in the future are excluded. However, any income taxes to be paid by current participants on their future benefits under the current plan are subtracted. Assets in the form of Treasury securities held by the program at beginning of the projection period are not subtracted. The “maximum transition cost” is the accrued benefit obligation less the Treasury securities held by the program at beginning of the projection period.

The December memorandum also noted two other numbers used in pension accounting: the accumulated benefit obligation and the projected benefit obligation. The accumulated benefit obligation, for which the abbreviation “ABO” is frequently used, is the actuarial present value of benefits (whether vested or non-vested) attributed by the pension benefit formula to employee service rendered before a specified date and based on employee service and compensation prior to that date. The projected benefit obligation, for which the abbreviation “PBO” is frequently used, differs from the accumulated benefit obligation merely in that it includes assumptions about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same.<sup>3</sup>

Conceptually, there is some similarity between the SSA’s accrued benefit obligation and the PBO. SSA projects future wage levels via the “average wage index” and the PBO is measured using assumptions as to future compensation levels.

Staff recommends SSA’s accrued benefit obligation for footnote disclosure.

Does the Board agree that the accrued benefit obligation should be disclosed in the notes to the financial statements?

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<sup>2</sup> SSA Actuarial Note 2006-1, Definitions, page 3.

<sup>3</sup> SFAS 87, *Employers’ Accounting for Pensions*, Glossary, “Accumulated Benefit Obligation.” Users of federal financial reports have asked whether a given measure of the **SOSI NPV** is like the ABO or the PBO. They understandably want to know how **SOSI NPV** relate to private sector pension accounting standards. Although care is needed when comparing pension accounting methods with methods used for the national SI program, the staff notes that it may be helpful to stipulate – since the question persists – that SSA’s **accrued benefit obligation** is more like the PBO than the ABO. Both the **accrued benefit obligation** and the PBO attempt to project future wage levels, albeit for different orders of magnitude.

**TAB C, ATTACHMENT 1 – Matrix of Members’ Responses to Staff Questions, April 2008**

**Tab C, Attachment 1 – Matrix of Members’ Responses to Staff Questions, April 2008**

**MATRIX OF MEMBERS’ RESPONSES TO STAFF QUESTIONS, APRIL 2008**

<b>HIGHLIGHTS STATEMENT (Attachment 1 in April briefing material)</b>										
	<b>NJ</b>	<b>JF</b>	<b>HS</b>	<b>BM</b>	<b>BR</b>	<b>DW</b>	<b>BD</b>	<b>AS</b>	<b>JP</b>	<b>TA</b>
Should the CFR have a highlights statement (HS)?	Yes, require highlights in the MD&A, not as a basic financial statement. Be somewhat prescriptive.	Yes	Yes, require highlights in the MD&A, not as a basic financial statement	No. Don't prescribe MD&A.	Yes, require highlights in the MD&A. Does not need to be a basic fin. stmt. Do not be too prescriptive.	Yes. Agrees with Mr. Steinberg. Require highlights in the MD&A, not as a basic financial statement.	Yes, highlights could be in the MD&A. Should not be a basic fin. stmt. Do not be too prescriptive.	Yes, require highlights in the MD&A, not as a basic financial statement	Yes	Yes, require highlights in the MD&A, not as a basic financial statement
If so, is format in Attachment 1 appropriate? If not, what add/subtract?	Yes but do not display Treasury securities & assets.	Yes	No. Guidance should be the “what” only, not “how.”	N/A (see immediately above)	Yes but do not display Treasury securities & assets.	No. Guidance should be the “what” only, not “how.”	Should not prescribe format but, in any case, he'd show change in SI with “SI exposures,” not with “costs.” Would not display Treasury securities & assets.	Yes but do not display Treasury securities & assets.	Yes	Yes but do not display Treasury securities & assets.
Should Highlights include fiscal imbalance?	Yes	No specific comment	No specific comment	No specific comment	Yes	No specific comment	SI should be a part of eventual fiscal sustainability discussion in MD&A.	No specific comment	No specific comment	No specific comment
Should Highlights be “basic”?	No. Should be RSI.	Yes	No. Should be RSI.	No	No. Should be RSI.	No. Should be RSI.	No	No. Should be RSI.	Yes	No. Should be RSI.

BALANCE SHEET LINE ITEMS (Attachment 2 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should CFR and component entity balance sheets (B/S) have line items as proposed?	Yes. Display NPV of closed group. Do not display Treasury securities & assets.	Yes	No	Yes. Do not display Treasury securities & assets.	Yes. Do not display Treasury securities & assets.	No	No	Yes. Do not display Treasury securities & assets.	Yes	Yes. Do not display Treasury securities & assets.
If concept of B/S line items is acceptable, do you approve format? If not, what instead?	Yes. Do not present Treasury securities & assets in CFR. Consider Chart 13-1 from <i>Budget</i> .	Yes	N/A (see immediately above)	Yes. Do not present Treasury securities & assets in CFR.	Yes. Do not present Treasury securities & assets in CFR.	N/A (see immediately above)	N/A (see immediately above)	Yes. Do not present Treasury securities & assets in CFR.	Yes	Yes. Do not present Treasury securities & assets in CFR.
OPERATING STATEMENT LINE ITEMS (Attachment 3 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should CFR & component oper. stmts. have line items?	No. SI ≠ op. costs.	Yes	No	No	No	No	No	Yes	Yes	Yes
If concept of oper. stmt. line items is acceptable, do you approve format? If not, what instead?	N/A (see immediately above)	Yes	N/A (see immediately above)	N/A (see immediately above)	N/A (see immediately above)	N/A (see immediately above)	N/A (see immediately above)	Yes. Do not present Treasury securities & assets in CFR.	Yes	Yes

STATEMENT OF SOCIAL INSURANCE (Attachment 4 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should the CFR SOSI have a summary section?	Yes. It should tie to balance sheet.	Yes	Yes	No specific comment	Yes. It should tie to balance sheet.	No	Yes	Yes	Yes	Yes
If concept of SOSI summary is acceptable, do you approve format? If not, what instead?	Yes. Do not put the assets on the CFR.	Yes. Okay with not to putting assets on the CFR.	Yes. Do not put the assets on the CFR.	No specific comment	Yes. Do not put the assets on the CFR.	N/A (see immediately above)	Yes. Do not put the assets on the CFR.	Yes. Do not put the assets on the CFR.	Yes. Do not put the assets on the CFR.	Yes
Should component entities' SOSI have the summary section?	Yes. It should tie to balance sheet.	Yes	Yes	No specific comment	Yes. It should tie to balance sheet.	No	Yes	Yes	Yes	Yes
STATEMENT OF CHANGES IN SOSI AMOUNTS (Attachment 5 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Do you approve format of statement of changes in SI amounts (SoC) ? If not, what instead?	Yes	Yes	Yes. Pick either the closed or open group.	Yes. Display closed group only.	Yes	Yes	Yes	Yes	Yes	Yes
Should SoC be "basic"?*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

\*Although most members did not address this question specifically, staff assumes that approval of the SoC means also approval as basic info.

**TAB C, ATTACHMENT 2 – Pro Forma Highlights Table**

**Tab C, Attachment 2 – Pro Forma Highlights Statement**

	billions of dollars		
	2005	2006	2007
<b>Costs</b>			
Gross costs	(\$3,175)	(\$3,128)	(\$3,157)
Total taxes and other revenues	2,186	2,441	2,627
Net operating cost	(760)	(450)	(276)
<b>Net Position</b>			
Assets	\$1,448	\$1,497	\$1,581
Less: Liabilities, comprised of			
Federal debt held by the public	4,624	4,868	5,078
Federal employee & veterans benefits	4,492	4,679	4,769
Other liabilities	799	866	940
Total liabilities	9,915	10,413	10,787
Net position (assets net of liabilities)	(\$8,467)	(\$8,916)	(\$9,206)
<b>Social Insurance Exposures</b>			
Net present value (NPV) for current participants (closed group), end of year	(\$40,038)	(\$44,147)	(\$45,062)
NPV for current participants (closed group) beginning of year	(37,278)	(\$40,038)	(\$44,147)
Change in NPV for current participants (closed group)	(\$2,760)	(\$4,109)	(\$ 915)
NPV for current and future participants (open group) EOY	(\$35,689)	(\$38,851)	(\$40,948)
<b>Budget Results</b>			
Unified Budget Deficit	(\$319)	(\$248)	(\$163)

# TAB C, ATTACHMENT 3 – Pro Forma Balance Sheet

## Tab C, Attachment 3 – Pro Forma Balance Sheet

### United States Government Pro Forma Balance Sheet as of September 30, 2007, and September 30, 2006 (billions)

#### Assets:

	2007	2006
Cash and other monetary assets (Note 2)	\$ 128	\$ 98
Accounts and taxes receivable, net (Note 3)	88	69
Loans receivable, net (Note 4)	2,319	221
	***	***
Total assets	\$ 1,581	\$ 1,497

Stewardship property, plant, and equipment  
Stewardship Land (Note 24) and Heritage Assets (Note 25)

#### Liabilities:

Accounts payable (Note 9)	\$ 66	\$ 58
Federal debt securities held by the public and accrued interest	5,078	4,868
Federal employee and veteran benefits payable (Note 11)	4,769	4,679
Environmental and disposal liabilities (Note 12)	342	305
Benefits due and payable (Note 13)	134	129
Insurance program liabilities (Note 14)	71	73
Loan guarantee liabilities (Note 4)	69	66
Other liabilities (Note 15)	258	234
Total liabilities	10,787	10,413

Contingencies (Note 18) and Commitments (Note 19)

Net position:

Earmarked funds (Note 20)	614	419
Non-earmarked funds	(9,820)	(9,336)
Total net position	(9,206)	(8,916)
Total liabilities and net position	\$ 1,581	\$ 1,497

#### Social Insurance Commitments:

Net present value for current participants (closed group)	\$ (45,062)	\$ (44,147)
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# TAB C, ATTACHMENT 4 – SOSI from the FY 2007 CFR

## Tab C, Attachment 4 – SOSI from the FY 2007 CFR

### United States Government Statements of Social Insurance

### Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections

*****UNAUDITED*****					
(In billions of dollars)	2007	2006	2005	2004	2003
<b>Federal Old-Age, Survivors and Disability Insurance (Social Security): (Note 22)</b>					
<i>Revenue (Contributions and Earmarked Taxes) from:</i>					
Participants who have attained age 62.....	477	533	464	411	359
Participants ages 15-61.....	17,515	16,568	15,290	14,388	13,576
Future participants (under age 15 and births during period).....	16,121	15,006	13,696	12,900	12,213
All current and future participants.....	34,113	32,107	29,450	27,699	26,147
<i>Expenditures for Scheduled Future Benefits for:</i>					
Participants who have attained age 62.....	(6,329)	(5,866)	(5,395)	(4,933)	(4,662)
Participants ages 15-61.....	(27,928)	(26,211)	(23,942)	(22,418)	(21,015)
Future participants (under age 15 and births during period).....	(6,619)	(6,480)	(5,816)	(5,578)	(5,398)
All current and future participants.....	(40,876)	(38,557)	(35,154)	(32,928)	(31,075)
Present value of future expenditures in excess of future revenue.....	(6,763) <sup>1</sup>	(6,449) <sup>2</sup>	(5,704) <sup>3</sup>	(5,229) <sup>4</sup>	(4,927) <sup>5</sup>
<b>Federal Hospital Insurance (Medicare Part A): (Note 22)</b>					
<i>Revenue (Contributions and Earmarked Taxes) from:</i>					
Participants who have attained eligibility age 65.....	178	192	162	148	128
Participants who have not attained eligibility age 15-64.....	5,975	5,685	5,064	4,820	4,510
Future participants (under age 15 and births during period).....	4,870	4,767	4,209	4,009	3,773
All current and future participants.....	11,023	10,644	9,435	8,976	8,411
<i>Expenditures for Scheduled Future Benefits for:</i>					
Participants who have attained eligibility age 65.....	(2,558)	(2,397)	(2,179)	(2,168)	(1,897)
Participants who have not attained eligibility age 15-64.....	(15,639)	(15,633)	(12,668)	(12,054)	(10,028)
Future participants (under age 15 and births during period).....	(5,118)	(3,904)	(3,417)	(3,246)	(2,653)
All current and future participants.....	(23,315)	(21,934)	(18,264)	(17,468)	(14,577)
Present value of future expenditures in excess of future revenue.....	(12,292) <sup>1</sup>	(11,290) <sup>2</sup>	(8,829) <sup>3</sup>	(8,492) <sup>4</sup>	(6,166) <sup>5</sup>
<b>Federal Supplementary Medical Insurance (Medicare Part B): (Note 22)</b>					
<i>Revenue (Premiums) from:</i>					
Participants who have attained eligibility age 65.....	433	409	363	332	283
Participants who have not attained eligibility age 15-64.....	3,184	3,167	2,900	2,665	2,148
Future participants (under age 15 and births during period).....	1,172	906	924	891	688
All current and future participants.....	4,789	4,481	4,187	3,889	3,119
<i>Expenditures for Scheduled Future Benefits for:</i>					
Participants who have attained eligibility age 65.....	(1,834)	(1,773)	(1,622)	(1,475)	(1,306)
Participants who have not attained eligibility age 15-64.....	(12,130)	(12,433)	(11,541)	(10,577)	(8,845)
Future participants (under age 15 and births during period).....	(4,257)	(3,407)	(3,408)	(3,277)	(2,622)
All current and future participants.....	(18,221)	(17,613)	(16,571)	(15,329)	(12,773)
Present value of future expenditures in excess of future revenue.....	(13,432) <sup>1</sup>	(13,131) <sup>2</sup>	(12,384) <sup>3</sup>	(11,440) <sup>4</sup>	(9,653) <sup>5</sup>
<b>Federal Supplementary Medical Insurance (Medicare Part D): (Note 22)</b>					
<i>Revenue (Premiums and State Transfers) from:</i>					
Participants who have attained eligibility age 65.....	167	173	185	176	
Participants who have not attained eligibility age 15-64.....	1,627	1,700	1,790	1,857	
Future participants (under age 15 and births during period).....	611	492	572	618	
All current and future participants.....	2,405	2,366	2,547	2,651	
<i>Expenditures for Scheduled Future Benefits for:</i>					
Participants who have attained eligibility age 65.....	(794)	(792)	(880)	(773)	
Participants who have not attained eligibility age 15-64.....	(7,273)	(7,338)	(7,913)	(7,566)	
Future participants (under age 15 and births during period).....	(2,699)	(2,121)	(2,440)	(2,431)	
All current and future participants.....	(10,766)	(10,250)	(11,233)	(10,770)	
Present value of future expenditures in excess of future revenue.....	(8,361) <sup>1</sup>	(7,884) <sup>2</sup>	(8,686) <sup>3</sup>	(8,119) <sup>4</sup>	

Totals do not necessarily equal the sum of components due to rounding.

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

**TAB C, ATTACHMENT 4 – SOSI from the FY 2007 CFR**

**United States Government  
Statements of Social Insurance  
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections**

\*\*\*\*\*UNAUDITED\*\*\*\*\*

(In billions of dollars)	2007	2006	2005	2004	2003
<b>Railroad Retirement: (Note 22)</b>					
<i>Revenue (Contributions and Earmarked Taxes) from:</i>					
Participants who have attained eligibility .....	5	5	4	4	4
Participants who have not attained eligibility .....	41	40	37	37	40
Future participants .....	54	56	41	39	41
All current and future participants .....	100	100	82	80	85
<i>Expenditures for Scheduled Future Benefits for:</i>					
Participants who have attained eligibility .....	(93)	(92)	(84)	(81)	(80)
Participants who have not attained eligibility .....	(86)	(84)	(73)	(72)	(73)
Future participants .....	(26)	(25)	(16)	(14)	(14)
All current and future participants .....	(205)	(201)	(173)	(167)	(167)
Present value of future expenditures in excess of future revenue <sup>7</sup> ..	(105) <sup>1</sup>	(101) <sup>2</sup>	(91) <sup>3</sup>	(87) <sup>4</sup>	(83) <sup>5</sup>
<b>Black Lung (Part C): (Note 22)</b>					
Present value of future revenue in excess of future expenditures <sup>8</sup> ..	5 <sup>9</sup>	4 <sup>10</sup>	5 <sup>11</sup>	4 <sup>12</sup>	4 <sup>13</sup>
<b>Total present value of future expenditures in excess of future revenue .....</b>	<b>(40,948)</b>	<b>(38,851)</b>	<b>(35,689)</b>	<b>(33,363)</b>	<b>(20,825)</b>
<b>Social Insurance Summary</b>					
<i>Participants who have attained eligibility age:</i>					
Revenue (e.g., Contributions and earmarked taxes) .....	1,260	1,312	1,178	1,071	774
Expenditures for scheduled future benefits .....	(11,608)	(10,920)	(10,160)	(9,430)	(7,945)
Present value of future expenditures in excess of future revenue .....	(10,348)	(9,608)	(8,982)	(8,359)	(7,172)
<i>Participants who have attained age 15 up to eligibility age:</i>					
Revenue (e.g., Contributions and earmarked taxes) .....	28,342	27,160	25,081	23,767	20,274
Expenditures for scheduled future benefits .....	(63,056)	(61,696)	(56,138)	(52,686)	(39,959)
Present value of future expenditures in excess of future revenue .....	(34,714)	(34,536)	(31,057)	(28,919)	(19,686)
<b>Closed group – Total present value of future expenditures in excess of future revenue .....</b>	<b>(45,062)</b>	<b>(44,145)</b>	<b>(40,039)</b>	<b>(37,278)</b>	<b>(26,857)</b>
<i>Future participants (under age 15 and births during period):</i>					
Revenue (e.g., Contributions and earmarked taxes) .....	22,828	21,227	19,442	18,457	16,715
Expenditures for scheduled future benefits .....	(18,714)	(15,933)	(15,092)	(14,542)	(10,683)
Present value of future revenue in excess of future expenditures .....	4,114	5,294	4,350	3,915	6,032
<b>Open group – Total present value of future expenditures in excess of future revenue .....</b>	<b>(40,948)</b>	<b>(38,851)</b>	<b>(35,689)</b>	<b>(33,363)</b>	<b>(20,825)</b>

Totals do not necessarily equal the sum of components due to rounding.

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

**TAB C, ATTACHMENT 4 – SOSI from the FY 2007 CFR**

**United States Government  
Statements of Social Insurance  
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections**

\*\*\*\*\*UNAUDITED\*\*\*\*\*

(In billions of dollars)	2007	2006	2005	2004	2003
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<sup>1</sup> The projection period is 1/1/2007 - 12/31/2081 and the valuation date is 1/1/2007.

<sup>2</sup> The projection period is 1/1/2006 - 12/31/2080 and the valuation date is 1/1/2006.

<sup>3</sup> The projection period is 1/1/2005 - 12/31/2079 and the valuation date is 1/1/2005.

<sup>4</sup> The projection period is 1/1/2004 - 12/31/2078 and the valuation date is 1/1/2004.

<sup>5</sup> The projection period is 1/1/2003 - 12/31/2077 and the valuation date is 1/1/2003.

<sup>6</sup> These amounts represent the present value of the future transfers from the General Fund of the Treasury to the Supplementary Medical Insurance Trust Fund. These future intragovernmental transfers are included as income in both HHS' and the Centers for Medicare & Medicaid Services' (CMS) Financial Report but are not income from the Governmentwide perspective of this report.

<sup>7</sup> These amounts approximate the present value of the future financial interchange and the future transfers from the General Fund of the Treasury to the Social Security Equivalent Benefit (SSEB) Account (see discussion of Railroad Retirement Program in the required supplemental information section of this report). They are included as income in the Railroad Retirement Financial Report but are not income from the Governmentwide perspective of this report.

<sup>8</sup> Does not include interest expense accruing on the outstanding debt.

<sup>9</sup> The projection period is 9/30/2007 - 9/30/2040 and the valuation date is 9/30/2007.

<sup>10</sup> The projection period is 9/30/2006 - 9/30/2040 and the valuation date is 9/30/2006.

<sup>11</sup> The projection period is 9/30/2005 - 9/30/2040 and the valuation date is 9/30/2005.

<sup>12</sup> The projection period is 9/30/2004 - 9/30/2040 and the valuation date is 9/30/2004.

<sup>13</sup> The projection period is 9/30/2003 - 9/30/2040 and the valuation date is 9/30/2003.

Totals do not necessarily equal the sum of components due to rounding.

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

**TAB C, ATTACHMENT 5 – Pro Forma Statement of Social Insurance for SSA**

**Tab C, Attachment 5 – Pro Forma Statement of Social Insurance for SSA**

<b>Social Security Administration</b> <b>Pro Forma Statements of Social Insurance</b>					
*****UNAUDITED*****					
(In billions of dollars)	2007	2006	2005	2004	2003
<b>Federal Old-Age, Survivors and Disability Insurance (Social Security):</b>					
<i>Participants who have attained eligibility age:</i>					
Contributions and earmarked taxes	\$477	\$533	\$ 464	\$ 411	\$ 359
Expenditures for scheduled future benefits	(6,329)	(5,866)	(5,395)	(4,933)	(4,662)
Present value of future expenditures in excess of future revenue	(5,852)	(5,333)	(4,931)	(4,522)	(4,303)
<i>Participants who have attained age 15 up to eligibility age:</i>					
Contributions and earmarked taxes	17,515	16,568	15,290	14,388	13,576
Expenditures for scheduled future benefits	(27,928)	(26,211)	(23,942)	(22,418)	(21,015)
Present value of future expenditures in excess of future revenue	(10,413)	(9,643)	(8,652)	(8,030)	(7,439)
<b>Closed group -- present value of future expenditures in excess of future contributions and earmarked taxes for current participants</b>	<b>(16,265)</b>	<b>(14,976)</b>	<b>(13,583)</b>	<b>(12,552)</b>	<b>(11,742)</b>
<i>Future participants (under age 15 and births during period):</i>					
Contributions and earmarked taxes	\$ 16,121	\$ 15,006	\$ 13,696	\$12,900	\$ 12,213
Expenditures for scheduled future benefits	(6,619)	(6,480)	(5,816)	(5,578)	(5,398)
Present value of future expenditures in excess of future revenue	9,502	8,526	7,880	7,322	6,815
<b>Open group -- present value of future expenditures in excess of future contributions and earmarked for future participants</b>	<b>(6,763)</b>	<b>(6,450)</b>	<b>(5,703)</b>	<b>(5,230)</b>	<b>(4,927)</b>
<b>Less: combined OASI and DI Trust Fund assets</b>	<b>2,048</b>	<b>1,859</b>	<b>1,687</b>	<b>1,531</b>	<b>1,378</b>
<b>Present value for 75-year period of estimated future cost over contributions and assets</b>	<b>(\$4,715)</b>	<b>(\$4,591)</b>	<b>(\$4,016)</b>	<b>(\$3,699)</b>	<b>(\$3,549)</b>

**TAB C, ATTACHMENT 6 – Pro Forma Statement of Changes in SOSI Amounts**

**Tab C, Attachment 6 – Pro Forma Statement of Changes in SOSI Amounts — Closed Group**

Statement of Changes in Social Insurance  
For the Year Ended September 30, 2007  
**Closed Group**  
(in billions of dollars)

	Social Security	Medicare HI	Medicare Parts B & D	Other (e.g., RR Ret.)	Total
<b>Net present value (NPV) of future expenditures in excess of future revenue for current participants, beginning of FY 2007</b>	<b>(\$14,976)</b>	<b>(\$12,153)</b>	<b>(\$16,887)</b>	<b>(\$126)</b>	<b>(\$44,147)</b>
<b>Reasons for changes in the net present value of future expenditures in excess of future revenue:</b>					
Changes in valuation period [ <i>includes interest on the obligation</i> ]	XXX	XXX	XXX	XXX	XXX
Changes in demographic data and assumptions [ <i>includes additional participants</i> ] .....	XXX	XXX	XXX	XXX	XXX
Changes in economic data and assumptions .....	XXX	XXX	XXX	XXX	XXX
Changes in Medicare and other healthcare assumptions ...	XXX	XXX	XXX	XXX	XXX
Changes in law or policy .....	XXX	XXX	XXX	XXX	XXX
Changes in methodology and programmatic data .....	XXX	XXX	XXX	XXX	XXX
Other changes .....	XXX	XXX	XXX	XXX	XXX
Subtotal -- change in net present value during period	<b>(1,289)</b>	109	267	<b>(2)</b>	<b>(915)</b>
<b>NPV of future expenditures in excess of future revenue, end of FY 2007<sup>1</sup></b>	<b>(\$16,265)</b>	<b>(\$12,044)</b>	<b>(\$16,620)</b>	<b>(\$128)</b>	<b>(\$45,062)</b>

**TAB C, ATTACHMENT 7 – Table 1, “The Nation By the Numbers – An Overview,” FY 2007 CFR**

**Tab C, Attachment 7 – Table 1, “The Nation By the Numbers – An Overview,” FY 2007 CFR**

<b>Table 1: The Nation By the Numbers – An Overview</b>			
billions of dollars	2005	2006	2007
<b>Gross Costs</b>	<b>\$ (3,174.6)</b>	<b>\$ (3,127.7)</b>	<b>\$ (3,157.3)</b>
<b>Total Taxes and Other Revenues</b>	<b>\$ 2,185.5</b>	<b>\$ 2,440.8</b>	<b>\$ 2,627.3</b>
<b>Net Operating Cost <sup>1</sup></b>	<b>\$ (760.2)</b>	<b>\$ (449.5)</b>	<b>\$ (275.5)</b>
<b>Assets</b>	<b>\$ 1,447.9</b>	<b>\$ 1,496.5</b>	<b>\$ 1,581.1</b>
<b>Less: Liabilities, comprised of:</b>			
Federal Debt held by the Public	\$ (4,624.2)	\$ (4,867.5)	\$ (5,077.7)
Federal Employee & Veteran Benefits	\$ (4,491.8)	\$ (4,679.0)	\$ (4,769.1)
Other Liabilities	\$ (798.8)	\$ (866.4)	\$ (940.1)
<b>Total Liabilities</b>	<b>\$ (9,914.8)</b>	<b>\$ (10,412.9)</b>	<b>\$ (10,786.9)</b>
<b>Net Position (Assets Net of Liabilities)</b>	<b>\$ (8,466.9)</b>	<b>\$ (8,916.4)</b>	<b>\$ (9,205.8)</b>
<b>Social Insurance Exposures (not included on the balance sheet): <sup>2</sup></b>			
Closed Group (current participants) <sup>3</sup>	\$ (40,038)	\$ (44,147)	\$ (45,062)
Open Group (current + future participants) <sup>4</sup>	\$ (35,689)	\$ (38,851)	\$ (40,948)
<b>Budget Results</b>			
<b>Unified Budget Deficit</b>	<b>\$ (318.6)</b>	<b>\$ (247.7)</b>	<b>\$ (162.8)</b>
<sup>1</sup> Total Net Operating Cost includes Earned Revenues (offset against Gross Costs) and 'Unmatched Transactions and Balances' not shown in this table. <sup>2</sup> present value of 75-year actuarial projections of benefit payments under current law for Social Security, Medicare, and other social insurance programs in excess of their scheduled contributions and earmarked taxes. Not considered liabilities on the balance sheet. <sup>3</sup> includes current participants (i.e., receiving and/or are eligible to receive benefits) ages 15 and over at the start of the period. <sup>4</sup> includes all current and future projected participants (i.e., individuals receiving and/or eligible to receive benefits ages 15 and over at the start of the period, PLUS participants estimated to receive and/or be eligible for benefits over the 75-yr horizon).			

**TAB C, ATTACHMENT 8 –SSA’s FY 2007 SOSI**

**Tab C, Attachment 8 – SSA’s FY 2007 SOSI**

<b>Social Security Administration</b> <b>Statements of Social Insurance</b> <b>FY 2007</b>					
*****UNAUDITED*****					
(In billions of dollars)	2007	2006	2005	2004	2003
<b>Federal Old-Age, Survivors and Disability Insurance (Social Security):</b>					
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) received from or on behalf of:</i>					
Current group who, in the starting year of the projection period:					
Had not yet attained retirement eligibility age (15-61)	\$ 17,515	\$ 16,568	\$ 15,290	\$ 14,388	\$ 13,576
Had attained retirement eligibility age (62 and over)	477	533	464	411	359
Those expected to become participants	16,121	15,006	13,696	12,900	12,213
All current and future participants	34,113	32,107	29,450	27,699	26,148
<i>Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of:</i>					
Current group who, in the starting year of the projection period:					
Had not yet attained retirement eligibility age (15-61)	(27,928)	(26,211)	(23,942)	(22,418)	(21,015)
Had attained retirement eligibility age (62 and over)	(6,329)	(5,866)	(5,395)	(4,933)	(4,662)
Those expected to become participants	(6,619)	(6,480)	(5,816)	(5,578)	(5,398)
All current and future participants	(40,876)	(38,557)	(35,153)	(32,929)	(31,075)
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) over cost</i>	\$ (6,763)	\$ (6,450)	\$ (5,703)	\$ (5,230)	\$ (4,927)
<b>Additional Information</b>					
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) over cost</i>	\$ (6,763)	\$ (6,450)	\$ (5,703)	\$ (5,230)	\$ (4,927)
Combined OASI and DI Trust Funds assets at start of period	2,048	1,859	1,687	1,531	1,378
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) and combined OASI and DI Trust Funds assets at start of period over cost</i>	(\$4,715)	(\$4,591)	(\$4,016)	(\$3,699)	(\$3,549)

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

**Tab C, Attachment 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
<p><b>Question #1 – What attribute should be measured for social insurance?</b></p> <p><b>Staff recommends present value.</b></p> <p>The objective regarding the measurement attribute for social insurance should be the same as FASB's "fair value." Fair value is essentially market value but "for some assets and liabilities, management's estimates may be the only available information." Present value is a component of FASB's fair value hierarchy. Moreover, present value is required in various current FASAB standards that require long-range projections, including SFFAS 5 (for pension, retirement healthcare, insurance, and other liabilities), SFFAS 17, and others. Also, the Social Security Trustees use present value extensively in their Annual Report.</p>	<p>The members agreed with the recommendation.</p>	<p>No disagreement was expressed.</p>
<p><b>Question #2 – Should OASDI and Medicare liabilities include projected amounts in excess of the current statutory limit?</b></p> <p><b>Staff recommends including the full cost and full liability to the participants.</b></p> <p>The probability that the Government would ignore the shortfall and then default on a large percentage of the</p>	<p>Messrs. Patton, Schumacher, Reid, and Mosso, and Ms. Cohen agreed with the staff recommendation, with the statutory limitation reported either on the face of the financial statements or in a footnote.</p> <p><u>Some of the rationales expressed:</u></p> <p>Mr. Reid said that a computation that was limited to statutory provision would be incomplete.</p> <p>Ms. Cohen said that current law does not limit the benefits per se. The projection shows a shortfall,</p>	<p>Three members disagree with recommendation (GAO, OMB, CBO). One member (Mr. Farrell) was concerned about what he viewed as inconsistent application of the current law notion, but he did not express a position.</p> <p><u>Some of the rationales expressed:</u></p> <p>Mr. Torregrosa said that since the Board is using current law as the basis for liability decisions and current law specifies that funding is cut off, the projection should be based on what is available.</p>

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
<p>benefits is remote.</p> <p>[Staff Note: Regarding this issue, staff notes two points. First, the cap involves the open group projection, which, as the Board is well aware, includes all participants and all revenue and cost over 75 years. It is a different measure than the liability the staff recommended, which measures the gross cost of benefits for a specific, limited population group. No taxes to be paid in the future or benefits to be credited in the future would be included in the liability. Assets (i.e., Treasury securities), which represent accumulated excess revenue received as of the reporting date, would be accounted for separately under the proposal.</p> <p>Secondly, this appears to be a “funding” issue, and the Board has said that funding should not affect liability recognition.</p> <p>Also, the cap would affect the Medicare liability sooner than the Social Security. The statutory provisions for Medicare will be inefficient to pay 100 percent of HI claims (SMI, Part B, re doctor bills has access to the General Fund and therefore has no such “cap”) will arrive much sooner than for Social Security.]</p>	<p>but the projection is based on assumptions and estimates and may be change. Current law merely makes it a self-financing program.</p>	<p>Mr. Dacey said that amounts should not be projected in excess of the statutory limit. Although accruing liabilities for other unfunded programs is appropriate, these programs are unique because of the public communication that full benefits will not be paid in the future. However, the full exposure or responsibility for the federal government should be communicated in the SOSI.</p>
<p><b>Question #3 – What assumptions should be used in projecting cash flow?</b></p>	<p>The members agreed with the recommendation.</p>	<p>No disagreement was expressed.</p>

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
<p>The staff recommends a general requirement as in SFFAS 5 with a reference to actuarial standards of practice.</p> <p>The recommendation is a pragmatic approach to this very difficult subject and has been effective for past FASAB standards.</p> <p>Also, from a cost-benefit perspective, one might question not availing of the current process.</p>		
<p><b>Question #4 – How should uncertainty be illustrated?</b></p> <p><b>In addition to the recommendations below regarding display, disclosure and RSI, the staff recommends exploring the use of “expected present value” as an alternative to present value based on the “best estimate.”</b></p> <p>The expected cash flow approach accommodates the use of present value techniques when the timing of cash flows is uncertain. The expected cash flow approach focuses on explicit assumptions about the range of possible estimated cash flows and their respective probabilities. The “best estimate” approach is well known and perhaps even “generally accepted” with respect to Social Security and Medicare, and yet the EPV approach is gaining acceptance in the private sector and is worth exploring for social</p>	<p>The members agreed with the recommendation and decided that the exploration would be part of the measurement project or at least not part of the Social Insurance Liability Project.</p>	<p>No disagreement was expressed.</p>

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
insurance.		
<p><b>Question #5 – What should be recognized as social insurance “expense” or “cost”?</b></p> <p><b>The staff recommends four components.</b></p> <p>For OASDI and HI the four components of cost describe above – “service cost,” interest on the liability, actuarial gains and losses, and prior service cost – are consistent with the benefit promise expressed for OASDI and HI as a given amount per year of work in covered employment as well as the changes therein in subsequent periods.</p> <p>For SMI staff recommends the insurance accounting provided in SFFAS 5 and FAS 60. The staff recommends that SMI be characterized as short-term health insurance because it has the short-term characteristics discussed in FAS 60, e.g., SMI provides insurance protection for a fixed period, and the Government may adjust the provisions of coverage at the end of any coverage period. The cost of SMI would be the all claims incurred during the period, including, when appropriate, those not yet reported and contingencies that meet the criteria for recognition; and a provision for premium deficiency, if any. As short-duration insurance SMI is not likely to have premium</p>	<p>A majority of the Board agreed with the recommendation.</p>	<p>No disagreement was expressed but Mr. Patton raised an issue regarding what the cost or expense would be for. He noted that the staff memo, on page 1, notes that a majority of the Board tentatively decided that the obligating event for Social Security and Medicare Hospital Insurance (HI) occurs when participants meet the 40-quarters of work in covered employment (or equivalent) condition. On page 2, the memo says that a key component of cost is the present value of future outflows attributable to obligating events occurring in the reporting period. He said these two statements did not appear to work together, unless work in covered employment after 40 quarters is also an obligating event. He asked what the obligation occurring at 40 quarters is for. He suggested it was for the present value of the full amount due when the participant retires rather than only the amount credited to the participant at 40 quarters, plus the annual increments after that, based on work covered employment to the reporting date. He said the subsequent increments were being treated as if an earnings process was taking place, which he disagreed with. However, if the latter is the Board’s position, then the subsequent work in covered employment was also an obligating event.</p> <p>Mr. Dacey said he also saw a comparison issue between the staff recommendation for measuring Social Security as an incremental cost versus the SMI approach. He said future revenue should be included because it is a realistic assumption that participants will be paying the premium when they are getting the benefits. He said he did not know why that was not being recommended for Social Security as well.</p> <p>Mr. Torregrosa said that CBO does not distinguish between Social Security and Medicare Hospital</p>

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
<p>deficiency. The SMI would involve a shorter-range estimate than Social Security and HI, but where longer-range estimates were necessary, present value would be appropriate. In the case SMI cost would include components like those measure for OASDI and HI, i.e., present value, interest on the obligation, actuarial gains and losses.</p>		<p>Insurance, Part A, on the one hand and Medicare SMI, Part B, on the other. Thus, CBO would reject the insurance accounting approach for SMI, Part B, and in particular would not count any future premium income in the estimate because that would not be done for Social Security. He said CBO favors accelerating the recognition point for SMI to 40 quarters.</p>
<p><b>Question #6 – What should be recognized as the social insurance liability?</b></p> <p><b>The staff recommends that liability be the accumulated cost.</b></p> <p>Accrued costs and liabilities for social insurance would exclude costs attributable to obligating events occurring in the future.</p>	<p>Chairman Mosso polled the Board. A majority agreed with the staff recommendation that the liability is the accumulated cost.</p>	<p>No disagreement was expressed regarding the notion that the liability should be the accumulated cost. Mr. Patton raised an issue discussed in Question #5 above. Mr. Zavada said that the staff paper had only been available for a short period of time and he had not had time to consult with SSA or HHS on the different questions, which he wanted to do before weighing-in.</p>
<p><b>Question #7 – What should be displayed for social insurance on the statement of net cost, balance sheet, and other statements?</b></p> <p><b>The Social Insurance project staff recommends a total amount for cost on the statement of net cost and liability on the balance sheet representing all components of accrued cost and liability. The totals could be disaggregated by, for example, age cohort, and/or by degree of uncertainty, and/or by “service cost” plus interest on the liability and actuarial gains and losses.</b></p>	<p>The Board did not have an opportunity to address this question at this time.</p> <p>Mr. Reid suggested a separate presentation for actuarial gains and losses for social insurance and all other programs where they are significant. He said he has a very strong preference for not commingling operating expenses with changes actuarial assumptions and for finding some place other than the statement of net cost to put the effects of changes in assumptions.</p> <p>Mr. Reid said his goal is to display the components of a change in the liability rather than aggregating it in one number. This would highlight, for example, frequent changes in assumptions that have little economic justification. He said he wants to avoid</p>	

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
<p>With respect to employee pensions and other retirement benefits the FASAB precedent is to recognize all components of net cost in the year of incurrence. The conclusion has been that, for example, amortizing actuarial gains and losses over X number of years produces a “smoothing” effect that can be misleading and in the private sector has allowed the preparer to manage earnings.</p>	<p>having hundred billion(s) dollar swings affecting the statement of net cost. He prefers that the latter display the cost of running the government for a year.</p> <p>Mr. Reid said there would be several choices for displaying actuarial gains and losses when they arise. He suggested, for example, that they could be capitalized and amortized; or, they could be booked directly to a statement that displays these effects, which could be closed to net position; or they could be displayed as a line item on the statement of changes in net position so that, in effect, they do not hit the operating cost in the year the changes in assumptions occur. He said that changing the bottom line on this statement to “operating cost” would be a possibility.</p> <p>Chairman Mosso said he preferred that actuarial gains and losses not be reported directly to net position. They ought to flow through a statement.</p>	
<p><b>Question #8 – What should be disclosed about social insurance in the notes?</b></p> <p><b>The staff recommends ... to be determined.</b></p>	<p>The Board did not have an opportunity to address this question at this time.</p>	
<p><b>Question #9 – What should be done with RR Retirement, Unemployment Insurance, and Black Lung Benefits?</b></p> <p><b>Staff recommends the following:</b></p> <p><b>Railroad Retirement – analogize to OASDI and SMI.</b></p>	<p>The Board did not have an opportunity to address this question at this time.</p>	

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
<p><b>Unemployment Insurance – continue to apply SFFAS 17</b>  <b>Black Lung Benefits – continue to apply SFFAS 17</b></p> <p>Railroad Retirement program features are similar enough to OASDI and Medicare to apply the same approach. Unemployment insurance is unlike OASDI and SMI and for the present the SFFAS 17 is adequate. Black Lung Benefits is immaterial and is phasing-out and SFFAS 17 requirements are adequate.</p>		
<p><b>Question #10 – What is the reporting objective for social insurance?</b></p> <p><b>The staff recommends that the objective should be to report the costs incurred in during the reporting period based on obligating events in that period.</b></p> <p>The objective of the communication should be to report the costs incurred in during the reporting period and the amount of those costs that will have to be financed in future budgets. The latter are sometimes referred to as “legacy costs” or “sunk costs.” They represent the accrued liability portion of long-term actuarial projections. Other measures are either macro economic or pertain to a specific aspect of the plan, e.g., return on investment.</p>	<p>A majority of the Board agreed with the recommendation.</p>	<p>No disagreement was expressed, but see Mr. Patton’s issue in Question #5 above.</p>

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
Consensus Items, December 2007		
There is a consensus among members regarding the following components of a social insurance standard, which primarily involve display:	<div><div>1.</div><div>Retain the Statement of Social Insurance (SOSI). Some aspects of the format for the SOSI are yet to be determined, but the staff assumes that the SOSI will continue to require five years of data and therefore provide information about trends.</div></div> <div><div>2.</div><div>Add a statement of changes in SOSI amounts. The format for the statement of changes is yet to be determined. The Primary View proposed expanding the SOSI. The Alternative View proposed a separate statement. Mr. Reid recently suggested expanding the SOSI to explain, for example, how much of the change is due to work in covered employment in the current year, how much is due to benefits paid out during the current year, and how much to changes in assumptions.</div></div> <div><div>3.</div><div>Retain the SFFAS 17 required supplementary information (RSI).</div></div> <div><div>4.</div><div>Consider changes to the Statement of Changes in Net Position and other basic financial statements to display social insurance information. The possibilities include a new line item(s) and/or section(s) for the current statements as well as a new basic statement to bridge the Balance Sheet, Statements of Changes in Net Position and of Net Cost, and/or the SOSI.</div></div> <div><div>5.</div><div>Congress's ability to change a social insurance program, by itself, does not mean that obligations under the program are not liabilities.</div></div> <div><div>6.</div><div>Proposals regarding social insurance display eventually will be explained in the context of the current FASAB accounting and reporting model. New information and displays may or may not align with this model. Alternatives will be evaluated against the elements definitions, current concepts of recognition versus disclosure, and implications for other statements in the model.</div></div>	
Majority Positions, April 2008		
	<div>At the April meeting, the Board continued its discussion of the nature and display of social insurance information, and there appeared to be a majority for:</div> <div><div>1.</div><div>highlights information to be presented in the governmentwide management's discussion and analysis (MD&amp;A) section, as requirement supplemental information (RSI). The highlights would include the information in Table 1,"The Nation By the Numbers – An Overview," which was presented in the introductory, "citizen's guide," section of the FY 2007 consolidated Financial Report of the United States Government (CFR). In addition, the highlights would include the change in the closed group net present value (NPV) in the "social insurance exposures" section, rather than in the costs section;</div></div>	

**TAB C, ATTACHMENT 9 – Table of Decisions and Points of Consensus as of April 2008**

	Board Majority View	Board Minority View
	<ol style="list-style-type: none"> <li>2. a line item for the closed group NPV in a stand alone section on the balance sheets of the governmentwide and component entities;</li> <li>3. no additional displays on the governmentwide or component entity operating statement, statement of net cost, or statement of changes in net position;</li> <li>4. a summary section on the governmentwide SOSI displaying the NPV of the closed group and open group, as was done for the FY 2007 CFR. In addition, for the component entity's SOSI, the same summary section as for the CFR; and</li> <li>5. a statement of changes in SOSI amounts, closed group only, for the governmentwide and component entities, with a format as proposed in April 2006.</li> </ol>	

**Tab C, Attachment 10 – SSA Actuarial Note Number 2007.1**

**ACTUARIAL NOTE**  
**Number 2007.1**  
**February 2008**

**SOCIAL SECURITY ADMINISTRATION**  
**Office of the Chief Actuary**  
**Baltimore, Maryland**

**UNFUNDED OBLIGATION AND TRANSITION COST  
FOR THE OASDI PROGRAM**

*by Steve Goss, Alice Wade, and Jason Schultz*

**1. Introduction**

Measures of the unfunded obligation of the Old-Age and Survivors Insurance and Disability Insurance (OASDI) program for any period represent the shortfall of financial resources available under current law to cover the cost associated with scheduled benefits for the period. The unfunded obligation for any program must be defined on the basis of the intended financing of the program. Because the OASDI program is financed on essentially a current-cost or pay-as-you-go basis, the measure of open group unfunded obligation is appropriate. Programs that are intended to be essentially fully-advance funded require the use of other measures, reflecting a closed group participation perspective, to assess their unfunded obligation (or liability). However, these closed group measures are more accurately described as theoretical measures of “transition cost” for the OASDI program. Estimates of the unfunded obligation vary depending on the valuation period and the assumptions used. Transition cost measures additionally vary depending on which plan participants are included.

The purpose of this actuarial note is to present, explain, and clarify the various measures of unfunded obligation and transition cost used in the context of the OASDI program.<sup>1</sup> Section 5 contains definitions of the various concepts, as used by the Office of the Chief Actuary (OACT), which appear throughout this note. Table 1 contains estimates of the open group unfunded obligation measured over two different time periods, the next 75-year period and the infinite horizon. Table 2 shows the unfunded obligation for all participants through the infinite future, decomposed into two additive components: (1) the unfunded obligation for past and current participants and (2) the net shortfall for future participants. Table 3 includes estimates for the closed group transition cost and the maximum transition cost. All available estimates for these measures are provided in Tables 1 through 3 based on intermediate assumptions of Trustees Reports through 2007.

<sup>1</sup> Additional details and explanation are included in the document titled “Measuring Solvency in the Social Security System” by Stephen C. Goss. This document is located on the internet at: [rider.wharton.upenn.edu/~prc/SocialSecurityReformChp2.pdf](http://rider.wharton.upenn.edu/~prc/SocialSecurityReformChp2.pdf).

The estimates of unfunded obligations presented in Tables 1 through 3 are given in present value dollars and as percentages of taxable payroll and GDP. The estimates expressed as percentages provide a useful basis for comparing the level of unfunded obligations from one valuation period to the next. In the absence of any substantial changes (in assumptions, methods, or experience) these percentages tend to be stable except to the extent that additional years are added to the valuation period. However, estimates expressed in dollars tend to increase by about the annual interest rate for each year the valuation period is moved forward.

**2. Open Group Unfunded Obligation**

The open group unfunded obligation is consistent with a pay-as-you-go financing approach and is thus directly applicable for assessing the actuarial status of the OASDI program. The term obligation is used in lieu of the term liability, because liability generally indicates a contractual obligation (as in the case of private pensions and insurance) that cannot be altered by the plan sponsor without the agreement of the plan participants.

Estimates of the open group unfunded obligation for the 75-year projection period are given in Table 1 for annual valuation dates starting with January 1, 1979. The specific year of the Trustees Report, which identifies the intermediate assumptions used in determining the estimates, is the same as the year of the valuation date. Significant uncertainty surrounds the estimates for a period as long as 75 years. A discussion of this uncertainty for the most recent valuation date (January 1, 2007) is located in appendix E of the 2007 Trustees Report.<sup>2</sup>

Estimates of the open group unfunded obligation for the infinite future are also shown in Table 1 for valuation dates of January 1, 2003 through January 1, 2007. The unfunded obligation for the infinite future does provide a more complete and extended measure of the expected future financial shortfall for the OASDI program. However, the shortfall for the infinite future must be considered in the context of the period over which program

<sup>2</sup> This report can be found at the following internet location: [www.socialsecurity.gov/OACT/TR/TR07/index.html](http://www.socialsecurity.gov/OACT/TR/TR07/index.html).

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modifications are needed, in this case, the infinite future. It is also important to note that the uncertainty surrounding estimates made for periods longer than 75 years would be much greater than that for the 75-year period (which, as noted above, reflects significant uncertainty). It would have been extremely difficult to make projections of today's economy and the numbers of various workers and beneficiaries from a perspective, for example, of 200 years ago. In addition, the infinite horizon estimates assume that the normal retirement age for those turning 62 after 2021 will remain at age 67, even though mortality is expected to continue improving. This means that, in the absence of any change in the law, retirees could expect to receive benefits for an ever increasing portion of their adult lifetime.

Solvency for the OASDI program at any point in time means that the program is able to pay scheduled benefits in full, on a timely basis at that time. Solvency for any point in time is indicated by a positive trust fund balance at that time. However, it is important to realize that the open group unfunded obligation for a period, as a single summarized measure, indicates the financial status of the program for that period taken as a whole and whether the program will be financially solvent at the end of that period. If the unfunded open group obligation over the period is zero or negative, this would *not* necessarily indicate solvency throughout the period.

In evaluating the actuarial status of the OASDI program, it is desirable to determine whether solvency is not only expected to be achieved for the 75-year long-range period, but also whether solvency can be expected to be sustained thereafter. In order to determine whether the conditions for sustainable solvency are met, it is important to consider whether solvency is achieved for the program at all times within the valuation period and is likely to be maintained in years beyond. Thus, in order to determine whether the program achieves "sustainable solvency for the foreseeable future", OCACT focuses on a 75-year projection period and uses the following criteria:

- The level of the combined trust funds at each point in time during the 75-year projection period must be positive, and
- The level of the combined trust funds, expressed as a percent of annual program cost, must be stable or rising at the end of the 75-year period. (This indicates that the solvency of the OASDI program can be expected to be sustained well beyond the end of the period.)

### 3. Decomposition of the Unfunded Open Group Obligation over the Infinite Future

Table 2 separates the unfunded open group obligation over the infinite future into two components from a generational perspective. The table shows this decomposition for valuation dates January 1, 2003 through January 1, 2007, the valuation dates for which the unfunded obligation over the infinite future have been computed. These components are important for evaluating the financial status of a program that is designed to be "fully-advance-funded". The first of these two components, the "closed group transition cost", is the net present value of the transition cost that would be incurred if participation in the program were closed off to individuals who have not attained age 15 in the first year of the projection period.<sup>3</sup> The second component is the net present value of the cost of providing scheduled benefits for future participants in the program (those who have not attained age 15 in the first year of the projection period or those not yet born on the valuation date) for the infinite future less the scheduled taxes they would be expected to pay. If this net shortfall for future participants is zero or negative, then scheduled taxes for future generations are expected to be sufficient to finance their benefits on a fully-advance-funded basis.

Under a pay-as-you-go program like the OASDI program, the taxes of each generation are used to pay for benefits to prior generations and are not used to advance fund their own benefits. Thus, the fact that taxes for future generations equal or exceed the present value of the cost of their own scheduled benefits is not relevant to the actuarial status of the program. Similarly, the closed group transition cost of the program is not relevant to the actuarial status of the program, because benefits of current program participants will be paid largely by the taxes of future generations, which are not reflected in this value.

The closed group transition cost may have specific applications in cases like that of the Federal Government closing the Civil Service Retirement System plan to persons newly hired after 1983. In general, however, this concept is only appropriate for the valuation of the actuarial status of an ongoing plan that has been intended to be essentially fully advance funded, such as plans covered under the Employee Retirement Income Security Act (ERISA).

For a social insurance plan that was designed to be financed on a pay-as-you-go basis with the expectation of a continuing flow of new entrants, like OASDI, the

<sup>3</sup> In table 3, which shows the closed group transition cost for valuation dates earlier than January 1, 2007, the age 15 varies slightly for valuation dates before 1984.

closed group transition cost cannot be applied as a measure of financial status because it is inconsistent with the design and intent of the program. However, the concept can be used in the context of a continuing social insurance program that is converting to another form, where there is a desire to keep the financing of the old and new forms separate for analytical purposes.

#### 4. Maximum Transition Cost

The “maximum transition cost” represents the transition cost for continuing the Social Security program in a different form, with all payroll taxes for work after the valuation date credited to the new benefit form. The maximum transition cost is equivalent to the unfunded accrued obligation of a plan designed to be fully advance funded at the time of plan termination and would be an appropriate calculation to evaluate the actuarial status of an ERISA plan. However, this concept may be applied when a continuing plan that has been financed on a pay-as-you-go basis is being converted abruptly to a new form that will apply not only for future participants but also with respect to all future taxes or premiums of current participants. Table 3 shows the closed group transition cost and maximum transition costs for valuation dates through January 1, 2007.

#### 5. Definitions

The definitions of various measures and the terms used in the attached tables are given below.

**Accrued benefit obligations**—This measure reflects future benefit obligations based on past earnings as of the valuation date. Thus, these accrued benefit obligations are relevant only to current participants as of the valuation date. The accrued benefit obligations are based on the primary insurance amount (PIA), the early retirement or delayed retirement factors, and other rules of payment. The accrued benefit obligations include:

- 1) Benefits scheduled to be paid for current (i) retired-worker beneficiaries and (ii) disabled-worker beneficiaries who continue to be disabled after the valuation date.
- 2) Retired worker benefits based on PIAs determined as of the valuation date for workers who have reached benefit eligibility age (62) and are not yet receiving benefits.
- 3) Benefits calculated on a proportional past-service-credit basis determined as of the valuation date for current active participants under age 62. These benefits require a computation of a PIA ( $PIA_{DIB}$ ), as of the valuation date, as if the worker had just become eligible to receive a dis-

abled-worker benefit. These benefits are then adjusted so they may be viewed as benefit levels of a worker aged 62. The adjustments are made depending on the type of worker, as illustrated below.<sup>4</sup>

- a. For workers who survive to age 62 and are not disabled after the valuation date,  $PIA_{DIB}$  would be indexed to age 62 by the Social Security Average Wage Index, and would then be multiplied by the fraction  

$$(\text{age as of the valuation date} - 22) / 40.$$
- b. For workers who survive to age 62, are not disabled as of the valuation date, and become disabled before age 62,  $PIA_{DIB}$  would be indexed to the date of disability by the Social Security Average Wage Index, and would then be multiplied by the fraction  

$$(\text{age as of the valuation date} - 22) / (\text{age as of the date of disability} - 22).$$
- c. For beneficiaries who are disability beneficiaries as of the valuation date, recover from disability before age 62, and survive to age 62, benefits would equal the disability benefit scheduled to be paid until recovery. After reaching age 62, benefits would be computed based on indexing the final disability benefit received before recovery ( $PIA_{DIB-RECOV}$ ) to age 62 by the Social Security Average Wage Index, and would then be multiplied by the fraction  

$$(\text{age as of recovery from disability} - 22) / 40.$$

Benefits for auxiliary beneficiaries would be based on the primary worker’s benefits as described above.

**Closed group transition cost**—This measure is computed like the open group unfunded obligation for a 100-year projection period, with the exception that future participants are not included. Specifically, the future cost and future scheduled tax income for only current participants are included in the calculations along with the trust fund assets at the start of the period. The period is extended to 100 years past the valuation date in order to capture the lifetime of all the current participants included in the valuation.

**Current participants**—All individuals (generations) who are age 15 and older as of the valuation year. This includes all individuals who have been, are, or will be

<sup>4</sup> For the purpose of this measure, the accrued benefit obligations for current active participants under age 22 are assumed to be zero.

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workers and/or beneficiaries. (As noted in Table 3, the age 15 varies slightly for valuation dates before 1984.)

**Future cost**—The value of OASDI program benefits scheduled in current law and the cost of administering the program.

**Future participants**—Future workers and beneficiaries, who are under age 15 or not yet born, as of the valuation year. (As noted in Table 3, the age 15 varies for valuation periods before 1984.)

**Future scheduled tax income**—OASDI tax income scheduled in current law.

**Maximum transition cost**—This measure represents the cost of meeting the accrued benefit obligations of the old form while continuing the Social Security program in a completely different form, with all payroll taxes for work after the valuation date credited to the new benefit form. The maximum transition cost is determined as of the valuation date for current and past participants only. It is computed as the difference between

- (a) The present value of all future accrued benefit obligations payable on the old form; and
- (b) The value of the assets on the valuation date plus the present value of revenue from taxation of future accrued benefit obligations payable on the old form.

The projection period ends 100 years past the valuation date in order to capture the lifetime of all the current participants included in the valuation.

**Open group unfunded obligation**—This measure is determined as of the valuation date over a specified time period (such as over the long-range 75-year period). It is computed as the difference between:

- (a) The present value of the future cost of the program between the valuation date and the end of the specified time period, and

- (b) The sum of the assets in the trust fund as of the valuation date and the present value of the future scheduled tax income of the program between the valuation date and the end of the specified time period.

Future scheduled tax income and cost are projected using the intermediate assumptions for the indicated Trustees Report (the year of the Trustees Report corresponds with the year of the valuation date). All current participants, as well as future participants to the system, over the specified time period are included in the computations.

**Past participants**—Those who contributed money to the program or received benefits from the program and are no longer alive as of the valuation date.

**Sustainable solvency**—This term is used to indicate that the combined OASDI Trust Funds are expected to be able to pay all scheduled benefits on time over the 75-year projection period and to continue paying all benefits on time for the foreseeable future. Thus, the following two conditions are required to be met:

- (a) The level of the trust funds at each point in time during the 75-year projection period is zero or positive, and
- (b) The level of the trust funds, expressed as a percent of annual program cost, is stable or rising at the end of the 75-year period.

**Valuation date**—Beginning of the projection period or January 1 of the starting projection year. This date defines the point in time for determining present values.

**Valuation year**—First year of the projection period. This year is used to determine current and future participants.

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**Table 1.—Open Group Unfunded Obligation for the Combined  
Old-Age and Survivors Insurance and Disability Insurance (OASDI) Program**

Valuation date: January 1 of year	Ultimate valuation interest rate	Open group unfunded obligation for the 75-year projection period beginning at valuation date			Open group unfunded obligation for the infinite future projection period beginning at valuation date		
		As a percent of future:			As a percent of future:		
		Present value <sup>1</sup>	Taxable payroll <sup>2</sup>	GDP <sup>2</sup>	Present value <sup>1</sup>	Taxable payroll <sup>3</sup>	GDP <sup>3</sup>
1979	6.600	0.8	—	—	—	—	—
1980	6.080	1.4	—	—	—	—	—
1981	6.080	1.5	—	—	—	—	—
1982	6.080	1.5	—	—	—	—	—
1983	6.080	-0.1	—	—	—	—	—
1984	6.080	0.0	—	—	—	—	—
1985	6.080	0.3	—	—	—	—	—
1986	6.080	0.3	—	—	—	—	—
1987	6.080	0.4	—	—	—	—	—
1988	6.080	0.6	0.6	—	—	—	—
1989	6.080	0.8	0.7	—	—	—	—
1990	6.080	1.2	0.9	—	—	—	—
1991	6.392	1.1	0.9	—	—	—	—
1992	6.392	1.7	1.3	0.5	—	—	—
1993	6.392	1.8	1.3	0.5	—	—	—
1994	6.392	2.7	2.0	0.8	—	—	—
1995	6.392	2.7	2.0	0.8	—	—	—
1996	6.392	2.9	2.0	0.8	—	—	—
1997	6.295	2.8	2.1	0.8	—	—	—
1998	6.398	2.9	2.1	0.8	—	—	—
1999	6.399	2.9	1.9	0.8	—	—	—
2000	6.399	2.9	1.8	0.7	—	—	—
2001	6.399	3.2	1.7	0.7	—	—	—
2002	6.090	3.3	1.7	0.7	—	—	—
2003	6.090	3.5	1.8	0.7	10.5	3.8	—
2004	5.884	3.7	1.8	0.7	10.4	3.5	1.2
2005	5.884	4.0	1.8	0.6	11.1	3.5	1.2
2006	5.781	4.6	1.9	0.7	13.4	3.7	1.3
2007	5.781	4.7	1.8	0.7	13.6	3.5	1.2

<sup>1</sup> Present value in trillions of dollars as of the valuation date.

<sup>2</sup> Payroll and GDP projected for 75 years.

<sup>3</sup> Payroll and GDP projected for the infinite horizon.

Notes: All estimates are based on the intermediate set of economic and demographic assumptions (Alternative II, or Alternative II-B in years when there were two intermediate sets) in the OASDI Trustees Report for the specified valuation year.

All values are subject to uncertainty, especially values over the infinite horizon.

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**Table 2. Decomposition of the Unfunded Obligation for the Combined Old-Age and Survivors Insurance and Disability Insurance (OASDI) Program**

Valuation date: January 1 of year	Ultimate valuation interest rate	Unfunded obligation for past and current participants			Net shortfall for future participants only through the infinite future			Unfunded obligation for all participants through the infinite future		
		As a percent of future:			As a percent of future:			As a percent of future:		
		Present value <sup>1</sup>	Taxable payroll <sup>3</sup>	GDP <sup>3</sup>	Present value <sup>2</sup>	Taxable payroll <sup>3</sup>	GDP <sup>3</sup>	Present value <sup>2</sup>	Taxable payroll <sup>3</sup>	GDP <sup>3</sup>
2003	6.090	10.5	3.8	—	0.0	0.0	0.0	10.5	3.8	—
2004	5.884	11.2	3.8	1.3	-0.8	-0.3	-0.1	10.4	3.5	1.2
2005	5.884	12.0	3.8	1.3	-0.9	-0.3	-0.1	11.1	3.5	1.2
2006	5.781	13.3	3.6	1.3	0.1	<sup>4</sup>	<sup>5</sup>	13.4	3.7	1.3
2007	5.781	14.4	3.7	1.3	-0.8	-0.2	-0.1	13.6	3.5	1.2

<sup>1</sup> Present value in trillions of dollars as of the valuation date. This value is also referred to as the closed group transition cost.

<sup>2</sup> Present value in trillions of dollars as of the valuation date.

<sup>3</sup> Payroll and GDP projected for the infinite horizon.

<sup>4</sup> Less than 0.05 percent of taxable payroll.

<sup>5</sup> Less than 0.05 percent of GDP.

Notes: All estimates are based on the intermediate set of economic and demographic assumptions in the OASDI Trustees Report for the specified valuation year. All values are subject to uncertainty, especially values over the infinite horizon.

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**Table 3. Closed Group Transition Cost and Maximum Transition Cost for the Combined Old-Age and Survivors Insurance and Disability Insurance (OASDI) Program**

Valuation date: January 1 of year	Ultimate valuation interest rate	Closed group <sup>1</sup> transition cost (100-year projection period)			Maximum transition cost (100-year projection period)		
		Present value <sup>2</sup>	As a percent of future:		Present value <sup>2</sup>	As a percent of future:	
			Taxable payroll <sup>3</sup>	GDP <sup>3</sup>		Taxable payroll <sup>3</sup>	GDP <sup>3</sup>
1980	6.080	5.3	—	—	—	—	—
1981	6.080	5.5	—	—	—	—	—
1982	6.080	5.4	—	—	—	—	—
1983	6.080	4.8	—	—	—	—	—
1984	6.080	3.9	—	—	—	—	—
1985	6.080	4.3	—	—	—	—	—
1986	6.080	5.0	—	—	—	—	—
1987	6.080	5.2	—	—	—	—	—
1988	6.080	5.4	5.0	—	—	—	—
1989	6.080	5.7	5.0	—	—	—	—
1990	6.080	6.7	5.2	—	—	—	—
1991	6.392	6.2	5.2	—	—	—	—
1992	6.392	6.9	5.4	2.2	—	—	—
1993	6.392	7.2	5.3	2.1	—	—	—
1994	6.392	7.9	5.8	2.3	—	—	—
1995	6.392	7.7	5.8	2.3	—	—	—
1996	6.392	8.4	5.8	2.2	8.9	6.2	2.3
1997	6.295	7.5	5.7	2.1	8.7	6.6	2.5
1998	6.398	8.0	5.6	2.2	9.5	6.7	2.6
1999	6.399	8.3	5.5	2.1	10.2	6.7	2.6
2000	6.399	8.8	5.3	2.0	10.8	6.5	2.5
2001	6.399	9.6	5.3	2.0	11.7	6.4	2.4
2002	6.090	10.1	5.2	2.0	12.2	6.3	2.4
2003	6.090	10.5	5.3	2.0	12.6	6.3	2.4
2004	5.884	11.2	5.3	2.0	13.5	6.4	2.4
2005	5.884	12.0	5.4	1.9	14.5	6.5	2.4
2006	5.781	13.3	5.4	2.0	15.8	6.4	2.4
2007	5.781	14.4	5.5	2.0	16.7	6.4	2.4

<sup>1</sup> The closed group consists of current participants (individuals who are age 15 and older) as of the valuation year.

Exception: The youngest age in the closed group is 16, 17, and 18 for 1981, 1982, and 1983 respectively.

<sup>2</sup> Present value in trillions of dollars as of the valuation date.

<sup>3</sup> Payroll and GDP projected for 75 years.

Notes: All estimates are based on the intermediate set of economic and demographics assumptions (Alternative II, or Alternative II-B in years when there were two intermediate sets) in the OASDI Trustees Report for the specified valuation year. All values are subject to uncertainty, especially values over the infinite horizon.

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