



October 7, 2011

Memorandum

To: Members of the Board
From: Wendy M. Payne, Executive Director
Subj: **SFFAS 37 Implementation Issue¹ – Tab I**

MEETING OBJECTIVES

- To discuss whether one, two or four Statements of Changes in Social Insurance Amounts are required to be presented upon full implementation of Statement of Federal Financial Accounting Standards (SFFAS) 37.

BRIEFING MATERIAL

- Attachment 1: Illustration of the Statement of Changes in Social Insurance
- Attachment 2: Example Statements of Social Insurance (fiscal year (FY) 2010)

BACKGROUND

SFFAS 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*, requires a new basic financial statement to present the reasons for changes during the reporting period in the open group measure reported on the statement of social insurance (SOSI). The new statement is a statement of changes in social insurance amounts (SCSIA). The SFFAS 37 requirement is:

31. The government-wide entity and component entities that present a SOSI should present a SCSIA. The SCSIA will reconcile beginning and ending open group measures and present the components of the changes in the open group measure from the end of the previous reporting period. It should present the significant components of the change, e.g., the change due to the change in valuation period; the interest on the obligation due to present valuation; the changes in demographic, economic, and health care assumptions; the changes

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in law, regulation, and policy; and the amounts associated with each type of change. [emphasis added]

32. The SCSIA should disclose in notes on the face of the statement and/or in notes to the financial statements the reasons for the changes. The reasons should be explained as briefly and simply as possible. The most significant changes should be explained in the entity's MD&A as well as in disclosures associated directly with the SCSIA.

The basis for conclusions discussed the requirement as follows:

A50. The Board also proposed a new basic statement, the SCSIA that would have presented the changes during the reporting period for the closed group measure. Heretofore the social insurance reporting had not required an analysis of the changes in the social insurance present values. The Board decided that a financial statement illustrating the components of the change would greatly enhance the value of the presentation. The examples of line items/components for the SCSIA in the exposure draft were consistent with the Social Security Trustees' Report (see, for example, the 2007 Trustees' Report, Table IV.B9, page 66).

SFFAS 17, *Accounting for Social Insurance*, requires present value amounts for "the current year and separate estimates for each of the four preceding years." (SFFAS 27, par. 27(j)) Traditionally, information for each year is displayed on the face of the statement of social insurance ("SOSI"). (See attachment 2 for examples.)

An audit firm has asked for clarification regarding the requirement for a SCSIA. Clearly, the first year after the effective date the requirement is simply for one reconciling statement to present the reasons for changes during the latest year. However, SOSI presents amounts for five years and is arguably a companion statement for which the SCSIA provides explanatory information. The firm has asked whether five years after implementation the statement should present reconciling information to explain the change from the first open group amount presented (end of period balances for the first period presented) to the last open group amount presented; requiring four reconciliations.

DISCUSSION

Based on my discussions with selected members and others, I believe SFFAS 37 language is open to interpretation and the Board may wish to clarify its intentions. The meanings some have offered include:

- a) **Single-year SCSIA** – This reading is that SFFAS 37 requires a single reconciliation for the change between the prior and most recent open group amounts. The Board illustrated this approach and it may be a reasonable conclusion given the terminology used. The advantages of a single reconciliation include:

- i. a streamlined presentation since the narrative description of the reconciling items presented on the face of the SCSIA may change from one period to another
 - ii. prior year reconciliations may be more confusing and less relevant than current period reconciliations since the nature of estimates is that they are based on the best information available at the time they are prepared
 - iii. less burden on successor auditors who otherwise may assume responsibility for the work of predecessor auditors

- b) **Two-year SCSIA** – Where comparative statements are presented, some may view the “reporting period” as spanning two years. For example, the Social Security Administration states that it presents financial statements for fiscal years 2010 and 2009 in its FY 2010 Performance and Accountability Report. The advantages of a two-year reconciliation include:
 - i. ensures that comparative information is available for the two fiscal years covered by the basic financial statements when comparative statements are provided (note that FASAB does not require comparative statements)
 - ii. somewhat less burden on successor auditors than a four-year SCSIA

- c) **Align coverage with the SOSI (Four-Year SCSIA)** – Because the SOSI presents five open group amounts, some may view the reporting period for SOSI as a five-year period. (The SOSI does not present a beginning open group amount for the first of the five years so four reconciliations would be needed to cover the periods presented.) The advantages of a four-year SCSIA are that it aligns with the SOSI and would provide a history of changes. The disadvantages are that it would present a variety of reconciling items over time, the sequence of reconciling items may change from year to year if ordered by magnitude, and it would impose additional burden on any successor auditors. Further, if four-years are required to be presented then one may expect the notes and MD&A to address the most significant changes among the four-years.

I believe that the single-year SCSIA is slightly preferred over the two-year SCSIA and greatly preferred over the four-year SCSIA based on the advantages listed above. In contrast to the options above, the SFFAS 37 requires a table of key measures to include the open group amount from the SOSI and the change in the open group amount from the SCSIA and does not specify the number of periods to be reported. The SFFAS 37 illustration presents three-years of comparative information. Par. 25 notes that “The table in Appendix B is for purposes of illustration only. The preparer should determine the most effective format for communicating the critical financial information and the reasons for changes during the prior period.” Establishing that the minimum requirement is a single-year SCSIA would permit the preparer to establish requirements for additional presentations as needed to effectively communicate.

If the Board endorses either the single- or two-year SCSIA, wishes to permit flexibility, and believes the decision to be non-controversial because of the illustration and wording in SFFAS 37, I recommend that we document the decision in the minutes and communicate that decision to OMB via a letter from the chairman. Guidance in Circular A-136, *Financial Reporting Requirements*, would then clarify the number of years to be presented. Alternatively, an interpretation could be proposed.

Does the Board believe that guidance is needed to resolve the issue? If so:

a) How does the Board believe “reporting period” should be interpreted in the context of the Statement of Changes in Social Insurance Amounts?

b) What means of providing guidance does the Board prefer?

Appendix D: Illustrative Statement of Changes in Social Insurance Amounts

The following is an illustrative statement of changes in social insurance amounts.

Illustrative Statement of Changes in Social Insurance Amounts
Open Group Measure
For the Year Ended September 30, 2008
(in billions of dollars)

	Social Insurance, Open Group Measure				Total
	Social Security	Medicare HI	Medicare SMI	Other (e.g., Railroad Retirement)	
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year	\$(6,763)	\$(12,292)	\$(21,793)	\$ (100)	\$(40,948)
Reasons for changes in the NPV during the year:					
Changes in valuation period	XXX	XXX	XXX	XXX	XXX
Changes in demographic data and assumptions ¹	XXX	XXX	XXX	XXX	XXX
Changes in economic data and assumptions ²	XXX	XXX	XXX	XXX	XXX
Changes in law or policy ³	XXX	XXX	XXX	XXX	XXX
Changes in methodology and programmatic data ⁴	XXX	XXX	XXX	XXX	XXX
Changes in Medicare healthcare and other healthcare assumptions	XXX	XXX	XXX	XXX	XXX
Other changes	XXX	XXX	XXX	XXX	XXX
Net change in open group measure	208	(443)	(1,783)	(4)	(2,022)
Open group measure, end of year	\$(6,555)	\$(12,735)	\$(23,576)	\$(104)	\$(42,970)

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
STATEMENT OF SOCIAL INSURANCE
75-Year Projection as of January 1, 2010 and Prior Base Years
(in Billions)**

	2010 <i>unaudited</i>	Estimates from Prior Years			
		2009	2008	2007	2006
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) received from or on behalf of: (Notes 24 and 25)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained eligibility age					
HI	\$ 7,216	\$ 6,348	\$ 6,320	\$ 5,975	\$ 5,685
SMI Part B	12,688	16,323	14,932	12,112	12,446
SMI Part D	6,355	6,144	6,527	7,285	7,366
Have attained eligibility age (age 65 and over)					
HI	248	209	202	178	192
SMI Part B	1,972	1,924	1,785	1,648	1,606
SMI Part D	646	595	581	746	750
Those expected to become participants					
HI	6,944	5,451	5,361	4,870	4,767
SMI Part B	3,077	4,909	4,480	4,460	3,562
SMI Part D	2,714	2,632	2,856	2,735	2,134
All current and future participants:					
HI	14,408	12,008	11,883	11,023	10,644
SMI Part B	17,737	23,156	21,197	18,221	17,613
SMI Part D	9,715	9,371	9,964	10,766	10,250
<i>Actuarial present value for the 75-year projection period of estimated future expenditures for or on behalf of: (Notes 24 and 25)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained eligibility age					
HI	12,032	18,147	17,365	15,639	15,633
SMI Part B	12,587	16,342	14,949	12,130	12,433
SMI Part D	6,355	6,144	6,527	7,273	7,338
Have attained eligibility age (age 65 and over)					
HI	2,648	2,958	2,747	2,558	2,397
SMI Part B	2,166	2,142	1,986	1,834	1,773
SMI Part D	646	595	581	794	792
Those expected to become participants					
HI	2,411	4,673	4,506	5,118	3,904
SMI Part B	2,984	4,672	4,262	4,257	3,407
SMI Part D	2,714	2,632	2,856	2,699	2,121
All current and future participants:					
HI	17,090	25,778	24,619	23,315	21,934
SMI Part B	17,737	23,156	21,197	18,221	17,613
SMI Part D	9,715	9,371	9,964	10,766	10,250
<i>Actuarial present values for the 75-year projection period of estimated future excess of income (excluding interest) over expenditures (Notes 24 and 25)</i>					
HI	\$ (2,683)	\$ (13,770)	\$ (12,737)	\$ (12,292)	\$ (11,290)
SMI Part B	-	-	-	-	-
SMI Part D	-	-	-	-	-
Additional Information					
<i>Actuarial present values for the 75-year projection period of estimated future excess of income (excluding interest) over expenditures (Notes 24 and 25)</i>					
HI	\$ (2,683)	\$ (13,770)	\$ (12,737)	\$ (12,292)	\$ (11,290)
SMI Part B	-	-	-	-	-
SMI Part D	-	-	-	-	-
<i>Trust fund assets at start of period</i>					
HI	304	321	312	300	285
SMI Part B	76	59	53	38	23
SMI Part D	1	1	3	1	-
<i>Actuarial present value for the 75-year projection of estimated future excess of income (excluding interest) and Trust Fund assets at start of period over expenditures (Notes 24 and 25)</i>					
HI	\$ (2,378)	\$ (13,449)	\$ (12,425)	\$ (11,993)	\$ (11,006)
SMI Part B	76	59	53	38	23
SMI Part D	1	1	3	1	-

Note: Totals do not necessarily equal the sums of rounded components.
With the exception of the 2007 projections presented, current participants are assumed to be the "closed group" of individuals who are at least age 15 at the start of the projection period, and are participating in the program as either taxpayers, beneficiaries, or both. For the 2007 projections, the "closed group" are assumed to be individuals who are at least 18 at the start of the projection period, and are participating in the program as either taxpayers, beneficiaries, or both.

