Federal Accounting Standards Advisory Board

March 28, 2008

To: Members of the Board

From: Richard Fontenrose, Assistant Director

Thru: Wendy M. Payne, Executive Director

Subject: Social Insurance,[1] Tab C

MEETING OBJECTIVE

The objective for this meeting is to decide whether to approve the staff's proposal for a revised social insurance accounting standard as outlined in the pro forma illustrative displays in this Tab. If the proposal is approved, staff will develop an exposure draft.

BRIEFING MATERIAL

This Tab presents pro forma illustrations in the following Attachments:

1. Attachment 1 – Pro forma highlights table
2. Attachment 2 – Pro forma balance sheet
3. Attachment 3 – Pro forma statement of operations
4. Attachment 4 – Pro forma statement of social insurance (SOSI)
5. Attachment 5 – Pro forma statement of SOSI changes
6. Attachment 6 – Table of FASAB decisions and consensus views
7. Attachment 7 – Mr. Allen's e-mail regarding a meeting with former Comptroller General Walker

BACKGROUND

At the December meeting, the Board continued its discussion of the nature and display of social insurance information. Staff proposed a compromise approach whereby a benefit obligation would be displayed (1) in ***a highlights table*** and (2) on the face of certain principal financial statements, including the statement of social insurance (SOSI). This display would have been in addition to a "statement of changes in the SOSI amounts" that the Board has favored and the required supplementary information (RSI) currently required in SFFAS 17. [2]

[1] 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.
[2] *Accounting for Social Insurance*, August 1999.

441 G Street NW ♦ Mailstop 6K17V ♦ Washington, DC 20548
♦ (202) 512-7350 ♦ fax (202) 512-7366

There was some support in December for displaying an accrued benefit obligation or the closed group net present value of expenditures over contributions (NPV) in a highlights statement and on the face of the balance sheet and the SOSI, and for displaying changes therein on the operating statement and on a new “statement of changes in SOSI amounts.” The Board directed the staff to provide additional pro forma options at the February FASAB meeting. The discussion was postponed until April to give the fiscal sustainability project more time to “get out in front” of the social insurance project. In the interim, Mr. Allen met with then Comptroller General Walker, and both preferred that the project move forward expeditiously. (See Attachment 7 for Mr. Allen’s e-mail to Board members and staff regarding his views and his meeting with the CG.)

Staff notes that in mid-December the Treasury Department published the consolidated Financial Report of the United States Government (CFR) for fiscal year (FY) 2007 that contained a new highlights table in the introductory “Citizens’ Guide” section. In addition, the SOSI in the FY 2007 CFR contained a new summary section that provides present values by age cohorts and for the closed and open group of participants. Staff has adapted this display for its current proposal, as explained below.

STAFF PROPOSAL

The pro forma illustrations described below provide an outline of the staff’s proposed standard. The standard would require two new financial statements, new line items for current statements, and continuation of all SFFAS 17 requirements. Each proposed new statement and the new proposed line items on current statements would be “basic information.”[3]

The proposal focuses on the closed and open groups and the 75-year projection period. These groups and projection period are well known to those interested in social insurance and presumably would be understandable those with some financial reporting knowledge.

Regarding the conceptual basis for the standard, staff proposes that the basis for conclusions explain that the standard is a compromise between two strongly held views regarding when the liability and expense definitions are met within the social insurance programs. The basis for conclusions would explain that the standard provides additional information not currently provided; that the Board is not characterizing the new information as “elements” of financial statements within the SFFAC 5 definitions; that the new information does not affect “net position”; and that the Board has other conceptual projects underway and will consider in due course whether the new reporting affects current concepts.

[3] A note on terminology: the December social insurance briefing memorandum included the RSI in SFFAC 17 in the staff’s recommended “essential information.” However, the draft exposure draft, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* (*Distinguishing Basic Information*) defines “basic information” as that which “is essential for financial statements and notes to be presented in conformity with [GAAP]”. Thus, “basic information” is “essential” and RSI is not, by definition, “basic information.” In order to avoid possible confusion, the social insurance project staff will refrain from using the term “essential information” with respect to the RSI in SFFAS 17. However, staff believes the RSI in SFFAS 17 is very important and proposes to retain it.

The proposal includes the following:

Highlights Statement (Attachment 1)

As mentioned, the standard would create a Highlights Statement (HS) as one of two new statements. The proposed Highlights Statement (see Attachment 1) is based on Treasury's "Table 1 – The Nation by the Numbers – An Overview" in the 2007 CFR (CFR Table 1). The HS has the same sections as CFR Table 1, that is, it has sections for (1) cost; (2) assets, liabilities, and net position; (3) social insurance exposures; and (4) budget results. However, the HS includes some additional line items.

The new HS line items involve two of the CFR Table 1's four sections. In the first section on "Costs", two line items would be added for: (1) the increase/decrease in the NPV for the closed group, and (2) "total cost attributed to the current year." The latter is the sum of the current Table 1 line item "net operating costs" and the new line item for the "increase/decrease) in the NPV for the closed group." Both of these line items match identical new line items at the bottom of the operating statement. (See pro forma CFR operating statement at Attachment 3, Illustration 3.1.) In addition, the line item "increase/decrease in the NPV for the closed group" links with a detailed cost presentation on the new "statement of changes in SOSI amounts (closed group)," on which more shortly. (See pro forma CFR statement of changes in SOSI amounts (closed group) at Attachment 5, Illustration 5.1.)

The HS also expands another section of current CFR Table 1. As shown in Attachment 1, the HS adds line items to the current CFR Table 1 section on "Social Insurance Exposures" – which currently presents line items for the closed and open groups NPV. The HS adds a line item for "Treasury securities and assets" and then a line for the sum of the NPVs and the "Treasury securities and assets" entitled "closed and open group unfunded obligations."

The Social Security Trustees define the Social Security open and closed group unfunded obligations. The "open group unfunded obligation" is "the excess of the present value of the projected cost of the program over a specified time period (for example the next 75 years or the infinite future) over the sum of (1) the value of trust fund assets at the beginning of the period and (2) the present value of the projected tax income of the program, assuming scheduled tax rates and benefit levels."[4] The "closed group unfunded obligation" is a measure like the "open group unfunded obligation except that individuals under the age of 15 (or not yet born) are excluded. In other words, only persons who attain age 15 or older during the first year of the projection period are included in the calculations."[5] In addition, Treasury Secretary Paulson noted in his press release of March 25, 2008, which commented on the 2008 Social Security and Medicare Trust Fund Reports, that "Social Security's unfunded obligation—the difference between the present value of Social Security inflows and outflows less the existing Trust Fund—equals $4.3 trillion over the next 75 years and $13.6 trillion on a permanent basis."

---

[4] *The 2008 Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Federal Disability Insurance Trust Funds*, (*Trustees' Annual Report*) Glossary, p. 208.
[5] *Trustees' Annual Report*, Glossary, p. 201.

The existing and new line items will provide information on NPVs and draw attention to the accumulated contributions. Although the Treasury securities – like other claims on the General Fund – are eliminated during consolidation, the HS and the other SI displays afford an opportunity to highlight the link between these contributions and the programs.

The staff proposal also calls for the NPVs of the closed and open groups, the Treasury securities and assets, and the unfunded obligations to appear in the summary section of the CFR SOSI (see Attachment 4, Illustrations 4.1—CFR SOSI) and on component entity's SOSI (see Attachment 4, Illustrations 4.2—Social Security SOSI). In addition, the proposal calls for display of the closed group portion of this information on the balance sheet (see Attachment 2).

Regarding the line item "Treasury securities and assets," this line item includes (1) Treasury securities and (2) assets as two separate items. Treasury securities are not assets at the consolidated level. They do not meet definitions of elements from the perspective of the federal government as a whole.[6] For Social Security and other component SI entities, on the other hand, Treasury securities are recognized as balance sheet assets. FASAB standards require the entity to explain the nature of Treasury securities held by federal entities when such information is provided and the proposed standard would follow suit.

In addition to what the staff is proposing for the HS as illustrated in Attachment 1, the members have discussed the possibility that a highlights statement might be linked to the sustainability information. For example, the HS could display a line item(s) from the sustainability package, e.g., the fiscal imbalance. This possibility is included for the Board's consideration in the "decision box" for this section below.

There is a question regarding where the HS should appear. Although, as noted above, Treasury located the FY 2007 CFR Table 1 in the "Citizen's Guide" section rather than in the MD&A or other section of the CFR, the staff proposes that the HS be designated basic information. Geography is a question. The draft exposure draft *Distinguishing Basic Information* states that the classification of basic information, RSI, and OAI does not constrain the form of presentation and that the information may be integrated as long as it is clearly labeled.[7] Either the HS could be located in the MD&A and labeled "audited" or it could be located with the principal statements. The rationale for making it a principal statement is that the information on the HS is taken from basic information and doing so elevates its importance for users.

Finally, the proposal would amend the display provisions of SFFAC 2, since an HS is not mentioned there.

Image 1, page 11, provides a graphic illustration of the linkages between and among proposed new and current statements.

[6] SFFAC 5, par. 14.
[7] ED par 9, which adds a new paragraph (#55A) to SFFAC 2.

Does the Board agree that a Highlights Statement should be required in the CFR?

If so, does the Board agree that the items illustrated in Attachment 1 are appropriate. If not, what would the Board add or subtract?

Should the Highlights Statement include the fiscal imbalance or other line item(s) from the sustainability package?

Does the Board agree that the Highlights Statement should be basic information?

Image 1 – Navigating the New Statements

HS links with other statements

Figure 1 -- Highlights Statement (HS)

(billions)	2007
Costs	
Gross costs	$ (3,157)
+ Total taxes	2,627
Net operating costs	(276)
+/-SI NPV(closed group)	(915)
Total cost for year	$ (1,191)
Net Position	
Assets	$ 1,581
(-) Liabilities	(10,787)
(=) **Net Position**	$ (9,206)
Social Insurance Exposures	
NPV (closed group)	$ (45,062)
(+) Treasuries & assets	2,380
(=) Closed group unfunded obligation	$ 42,682
NPV (open group)	$ (40,948)
(+) Treasuries & assets	2,380
(=) Closed group unfunded obligation	$ 38,568
Budget Results	
Unified Budget Deficit	$ (163)

Figure 2 -- Balance Sheet

(billions)	2007
Assets	$ 1,581
Liabilities	$ 10,787
(+) Net Position	(9,206)
(=) **Total liabilities & net Position**	$ 1,581
Social Insurance Commitments	
NPV (closed group)	$ (45,062)
(-) Treasuries & assets	2,380
(=) Closed group unfunded obligation	$ (42,682)

Figure 3 -- Operating Statement and Statement of Changes in Net Position

(billions)	2007
Operating Revenue & Costs	
(+) Revenue	2,627
(-) **Net Cost**	(2,910)
(=) **Net Operating Cost**	(276)
Change in Net Position	
Net Position (BOY)	$ (8,916)
Net Operating Cost	(276)
(=) **Net Position** (EOY)	$ (9,206)
Total Cost Attributed to Current Year	
Net Operating Cost	$ (276)
+/-SI NPV(closed group)	(915)
Total cost for year	$ (1,191)

Figure 4 -- Statement of Social Insurance

(billions)	2007
Current Participants	
NPV of participants of eligibility age	$ (10,348)
(+) NPV of participants 15-61	(34,714)
(=) Closed group NPV	(45,062)
(+) Treasuries & assets	2,380
(=) Closed group unfunded obligation	(42,682)
Future Participants	
(+) NPV of future participants	4,114
(=) Open group NPV	(40,948)
(+) Treasuries & assets	2,380
(=) Closed group unfunded obligation	$ 38,568

Figure 5-- 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	(915)
NPV (EOY)	$ (45,062)

Balance Sheet (Attachment 2)

As shown in Attachment 2, staff is proposing to display the closed group NPV, Treasury securities and assets, and the unfunded obligation on the balance sheet. (The pro forma illustration in Attachment 2 is adapted from the FY 2007 CFR balance sheet.) These lines match identical lines on the HS and SOSI, which present the full context of the program.

The proposal does not include displaying the open group NPV on the balance sheet. There was some support for displaying closed group NPV on the balance sheet but not for the open group NPV. The closed group involves current participants and is conceptually closer to balance sheet amounts, and there is less uncertainty about the closed group than about the open group.

Attachment 2 will also serve to illustrate what the Social Security Administration's and other SI entity's balance sheets would look like, except that Treasury securities are balance sheet assets for component entities.

Does the Board agree that new line items should be required for the balance sheet in the CFR and for component entities?

If so, does the Board agree that the line items illustrated in Attachment 2 are appropriate? If not, what would the Board add or subtract?

Operating Statement and Statement of Changes in Net Position (Attachment 3)

Attachment 3 contains two pro forma operating statements, one for the CFR (Illustration 3.1) and one for component entities (Illustration 3.2).[8] The CFR pro forma operating statement is a modified version of the FY 2007 CFR "statement of operations and changes in net position." It condenses FY 2007 CFR information, deletes FY 2006 columns, and, most importantly, adds a new section at the end of the statement for SI costs, like the ones in the "Cost" section of the HS. In addition, it ties to the statement of changes in SOSI amounts (closed group) (see Attachment 5, Illustration 5.1.)

Since the proposal would not affect net position, no changes are proposed for the statement of changes in net position (SCNP).

> Does the Board agree that new line items should be required for the operating statement in the CFR and the SNC for component entities?
>
> If so, does the Board agree that the line items illustrated in Attachment 3 are appropriate? If not, what would the Board add or subtract?

Statement of Social Insurance (Attachment 4)

Attachment 4 presents two SOSI, one for the CFR (see Illustration 4.1) and one for Social Security, which illustrates SI component entity display (see Illustration 4.2). The pro forma CFR SOSI (Attachment 4, Illustration 4.1) follows the FY 2007 CFR SOSI illustration. It shows the concluding summary section for all SI programs disaggregated by age cohort and by closed and open groups. The proposal calls for additional line items for this section for the closed and open group unfunded obligations. These lines would match identical lines on the HS (see Attachment 1) and the balance sheet (see Attachment 2).

Component entities would be required to follow the SOSI format shown in the CFR summary section (Attachment 4, Illustration 4.2). Thus, the component entity's SOSI would be disaggregated by age cohort and by closed and open groups and display line items for the closed and open group unfunded obligations.

> Does the Board agree that the CFR SOSI should have a concluding summary section?
>
> If so, are the proposed line items illustrated in Attachment 4 appropriate? If not, what would the Board add or subtract?
>
> Does the Board agree that SI component entities' SOSI should contain the same information as in the revised SOSI summary section, as shown in Attachment 4, Illustrations 4.1 and 4.2?

---

[8] Staff notes that the format of the CFR and component entities' operating statements differ. Following SFFAC 2, *Entity and Display* (and Circular A-136), component entities, of course, title their operating statement "statement of net cost," which displays total costs less earned/exchange revenue. Non-exchange and other financing sources are displayed on the component entities' statement on change in net position. The CFR combines operating results and changes in net position.

Statement of Changes in Social Insurance (Attachment 5)

Staff is proposing two statements of changes on SOSI amounts, one for the closed group (Attachment 5, Illustration 5.1) and another for the open group (Attachment 5, Illustration 5.2). Having a statement for both groups instead of putting everything in one statement and on one page, is the most effective way to display both the closed and open group amounts. The staff believes display of both groups is necessary. Both the closed and open group NPV amounts are part of the SI discussion and are displayed in the HS and SOSI.

The format of the pro forma statement of changes in SOSI amounts reflects the Alternative View illustration in the Board's *Preliminary Views*, which in turn reflects a presentation in 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 in 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.

Mr. Steinberg has noted that five reasons for change in SOSI present values were discussed in September 2007: (1) additional work done by participants, (2) additional participants, (3) policy changes, (4) additional income, and (5) the impact of adding a year at the end of the 75-year period. He suggested using these line items.

Staff believes that the line items in the Trustees' Report are clear and would create a linkage between the CFR statements and the Trustees' Report that would make the former more understandable. Staff believes the line items in the Trustees' Report would include the items discussed in September 2007. The line "**(1) additional work done by participants**" is not applicable since each 75-year projection includes the effect of all the work done or that will be done during the period. The item "**(2) additional participants**" would be captured in the line "changes in demographic data and assumptions." The item "**(3) policy changes**" is a line item. The items "**(4) additional income**" and "**(5) impact of adding a year …**" would be covered in the line item "changes in valuation period," as would the effect of interest on the obligation due to the use of present valuation. Alternatively, there could be additional or different disaggregation if the Board considered that beneficial.

The format in Attachment 5 also includes beginning of the year and end of year present values, which would agree with the SOSI. This will illustrate the link between current and prior years.

Assuming the Board agrees that a statement of changes in SOSI amounts should be required in the CFR and for component entities, does the Board agree that the items causing change during the period that are illustrated in Attachment 5 are appropriate? If not, what would the Board add or subtract? Does the Board agree that the Statement should be a basic statement?

ATTACHMENT #1 – HIGHLIGHTS TABLE

Attachment 1 – Highlights Statement

Highlights Statement			
	billions of dollars		
Costs	2005	2006	2007
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)
(Increase)/decrease in social insurance net present value (NPV) (closed group)	(2,759)	(4,109)	(915)
Total cost attributed to current year	($3,519)	($4,559)	($1,191)
Net Position			
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)
Social Insurance Exposures			
Net present value (NPV) for current participants (closed group)	($40,038)	($44,147)	($45,062)
Treasury securities and assets	2,003	2,197	2,380
Closed group unfunded obligation	(38,035)	(41,950)	(42,682)
NPV for current and future participants (open group)	(35,689)	(38,851)	(40,948)
Treasury securities and assets	2,003	2,197	2,380
Open group unfunded obligation	($33,686)	($36,654)	($38,568)
Budget Results			
Unified Budget Deficit	($319)	($248)	($163)

ATTACHMENT #2 – BALANCE SHEET

Attachment 2 – Balance Sheet

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

	2007	2006
Assets:		
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)
Treasury securities and assets	2,380	2,197
Closed group unfunded obligation	($42,682)	($41,950)

ATTACHMENT #3 – OPERATING STATEMENT AND STATEMENT OF CHANGES IN NET POSITION

Attachment 3– Operating Statement and Statement of Changes in Net Position

Illustration 3.1 -- CFR

Financial Report of the United States Government
Pro Forma Statements of Operations & Changes in Net Position
For the year ended September 30, 2007

billions	Non-earmarked funds	Earmarked funds	Consolidated
Operating Revenue and Costs			
Revenue	$ 1,666.9	$ 1,153.1	$ 2,820.0
Eliminations			(192.7)
Net revenue			2,627.3
Net cost	1,815.3	1,286.9	3,102.2
Eliminations			(192.7)
Net cost			2,909.5
Intragovernmental transfers	(320.9)	327.6	6.7
Net operating revenue or (cost) (**to equity**)	($469.3)	$193.8	($275.5)
Change in Net Position			
Net position, beginning of period	($9,350.6)	$420.3	($8,930.3)
Net operating revenue or (cost) (**to equity**)	(469.3)	193.8	(275.5)
Net position, end of period	($9,819.9)	$614.1	($9,205.8)
Total cost Attributed to Current Year			
Net operating revenue or (cost) (***to equity)***	($469.3)	$193.8	($275.5)
(Increase)/decrease in social insurance net present value (closed group)		(915.0)	(915.0)
Total cost attributed to current year	($469.3)	($721.2)	($1,190.5)

ATTACHMENT #3 – OPERATING STATEMENT AND STATEMENT OF CHANGES IN NET POSITION

Illustration 3.2 – Component Entity SNC

Social Security Administration Pro Forma Statement of Net Cost for the Years Ended September 30, 2007, and September 30, 2005	2007 billions	2006 billions
OASI Program		
Benefit Payments	$ 481	$ 452
Operating Expenses (Note XX)	3	3
Total Cost of OASI Program	484	455
Less: Exchange Revenues (Notes YY and ZZ)	*	*
Net Cost of OASI Program	484	455
DI Program		
Benefit Payments	97	91
Operating Expenses (Note XX)	3	3
Total Cost of DI Program	100	94
Less: Exchange Revenues (Notes YY and ZZ)	*	*
Net Cost of DI Program	100	94
Total Net Cost	$ 584	$ 548
Net operating revenue or (cost) (***to equity)***	$ 584	$ 548
(Increase)/decrease net present value (closed group)	1,289	1,393
Total cost attributed to current year	$ 1,873	$,941

ATTACHMENT #4 – STATEMENT OF SOCIAL INSURANCE

Attachment 4 – Statement of Social Insurance

Illustration 4.1 – SOSI in the consolidated Financial Report of the United States Government (CFR)

FY 2007 FR SOSI

United States Government

Statements of Social Insurance

			********UNAUDITED***********		
(In billions of dollars)	**2007**	**2006**	**2005**	**2004**	**2003**
Federal Old-Age, Survivors and Disability Insurance (Social Security):					
Contributions and Earmarked Taxes from:					
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	26,148
Expenditures for Scheduled Future Benefits for:					
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)	(35,153)	(32,929)	(31,075)

ATTACHMENT #4 – STATEMENT OF SOCIAL INSURANCE

Net present value of future expenditures less future revenue	(6,763)	(6,450)	(5,703)	(5,230)	(4,927)
Federal Hospital Insurance (Medicare Part A):	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	$ 178	$ 192	$ 162	$ 148	$ 128
Participants who have not attained eligibility age	5,975	5,685	5,064	4,820	4,510
Future participants	4,870	4,767	4,209	4,009	3,773
All current and future participants	11,023	10,644	9,435	8,977	8,411
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(2,558)	(2,397)	(2,179)	(2,168)	(1,897)
Participants who have not attained eligibility age	(15,639)	(15,633)	(12,668)	(12,054)	(10,028)
Future participants	(5,118)	(3,904)	(3,417)	(3,246)	(2,653)
All current and future participants	(23,315)	(21,934)	(18,264)	(17,468)	(14,578)
Net present value of future expenditures less future revenue	(12,292)	(11,290)	(8,829)	(8,491)	(6,167)
Federal Hospital Insurance (Medicare Part B):	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	433	409	363	332	283
Participants who have not attained eligibility age	3,184	3,167	2,900	2,665	2,148
Future participants	1,172	906	924	891	688
All current and future participants	4,789	4,482	4,187	3,888	3,119
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(1,834)	(1,773)	(1,622)	(1,475)	(1,306)
Participants who have not attained eligibility age	(12,130)	(12,433)	(11,541)	(10,577)	(8,845)
Future participants	(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)
Net present value of future expenditures less future revenue	(13,432)	(13,131)	(12,384)	(11,441)	(9,654)

ATTACHMENT #4 – STATEMENT OF SOCIAL INSURANCE

Federal Hospital Insurance (Medicare Part D):	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	167	173	185	176	
Participants who have not attained eligibility age	1,627	1,700	1,790	1,857	
Future participants	611	492	572	618	
All current and future participants	2,405	2,365	2,547	2,651	0
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(794)	(792)	(880)	(773)	
Participants who have not attained eligibility age	(7,273)	(7,338)	(7,913)	(7,566)	
Future participants	(2,699)	(2,121)	(2,440)	(2,431)	
All current and future participants	(10,766)	(10,251)	(11,233)	(10,770)	0
Net present value of future expenditures less future revenue	(8,361)	(7,886)	(8,686)	(8,119)	0

Railroad Retirement	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	5	5	4	4	4
Participants who have not attained eligibility age	41	40	37	37	40
Future participants	54	56	41	39	41
All current and future participants	100	101	82	80	85
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(93)	(92)	(84)	(81)	(80)
Participants who have not attained eligibility age	(86)	(84)	(73)	(72)	(73)
Future participants	(26)	(25)	(16)	(14)	(14)
All current and future participants	(205)	(201)	(173)	(167)	(167)
Net present value of future expenditures less future revenue	(105)	(100)	(91)	(87)	(82)

ATTACHMENT #4 – STATEMENT OF SOCIAL INSURANCE

Social Insurance Summary	**2007**	**2006**	**2005**	**2004**	**2003**
Participants who have attained eligibility age:					
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)	(7,171)
Participants who have attained age 15 up to eligibility age:					
Revenue (e.g., Contributions and earmarked taxes)	28,342	27,160	25,081	23,767	20,274
Expenditures for scheduled future benefits	(63,056)	(61,699)	(56,137)	(52,687)	(39,961)
Present value of future expenditures in excess of future revenue	(34,714)	(34,539)	(31,056)	(28,920)	(19,687)
Closed group -- Total present value of future expenditures in excess of future revenue	(45,062)	(44,147)	(40,038)	(37,279)	(26,858)
Less: Treasury and other assets held by the programs*	2,380	2,197	2,003	1,838	1,670
Closed group unfunded obligation	($42,682)	($41,950)	($38,035)	($35,441)	($25,188)
Future participants (under age 15 and births during period):					
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 expenditures in excess of future revenue	4,114	5,294	4,350	3,915	6,032
Open group -- Total present value of future expenditures in excess of future revenue	(40,948)	(38,853)	(35,688)	(33,364)	(20,826)
Less: Treasury and other assets held by the programs	2,380	2,197	2,003	1,838	1,670
Open group unfunded obligation	($38,568)	($36,656)	($33,685)	($31,526)	($19,156)

ATTACHMENT #4 – STATEMENT OF SOCIAL INSURANCE

Illustration 4.2 – SOSI in a Component Entity's Financial Statements

Social Security Administration
Pro Forma Statements of Social Insurance

(In billions of dollars)	2007	2006	2005	2004	2003
			********UNAUDITED***********		
Federal Old-Age, Survivors and Disability Insurance (Social Security):					
Participants who have attained eligibility age:					
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)
Participants who have attained age 15 up to eligibility age:					
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)
Closed group -- Total present value of future expenditures in excess of future revenue for current participants	(16,265)	(14,976)	(13,583)	(12,552)	(11,742)
Less: Treasury securities and assets held by the programs*	2,048	1,859	1,687	1,531	1,378
Closed group unfunded obligation	($14,217)	($13,117)	($11,896)	($11,021)	($10,364)
Future participants (under age 15 and births during period):					
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
Open group -- Total present value of future expenditures in excess of future revenue for future participants	(6,763)	(6,450)	(5,703)	(5,230)	(4,927)
Less: Treasury securities and assets held by the programs	2,048	1,859	1,687	1,531	1,378
Open group unfunded obligation	($4,715)	($4,591)	($4,016)	($3,699)	($3,549)

ATTACHMENT #5 – STATEMENT OF CHANGES IN SOSI AMOUNTS

Display #5 – Statement of Changes in SOSI Amounts
Illustration 5.1—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
Net present value (NPV) of future expenditures in excess of future revenue for current participants, beginning of FY 2007	($14,976)	($12,153)	($16,887)	($126)	($44,147)
Reasons for changes in the net present value of future expenditures in excess of future revenue:					
Changes in valuation period [*includes interest on the obligation*]	XXX	XXX	XXX	XXX	XXX
Changes in demographic data and assumptions [*includes additional participants*] …………………………………………..	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	(1,289)	109	267	(2)	(915)
NPV of future expenditures in excess of future revenue, end of FY 2007[1]	($16,265)	($12,044)	($16,620)	($128)	($45,062)

Illustration 5.2—Open Group

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

	Social Security	Medicare HI	Medicare Parts B & D	Other (e.g.,RR Ret.)	Total
Net present value (NPV) of future expenditures in excess of future revenue for all participants, beginning of FY 2007	($6,449)	($11,290)	($21,015)	($97)	($38,851)
Reasons for changes in the net present value of future expenditures in excess of future revenue:					
Changes in valuation period [*includes interest on the obligation*] ………..	XXX	XXX	XXX	XXX	XXX
Changes in demographic data and assumptions [*includes additional participants*]	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	(314)	(1,002)	(778)	(3)	(2,097)
NPV of future expenditures in excess of future revenue, end of FY 2007	($6,763)	($12,292)	($21,793)	($100)	($40,948)

Attachment 6 – Table of FASAB Decisions

	Board Majority View	Board Minority View
Question #1 – What attribute should be measured for social insurance? **Staff recommends present value.** 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.	The members agreed with the recommendation.	No disagreement was expressed.
Question #2 – Should OASDI and Medicare liabilities include projected amounts in excess of the current statutory limit? **Staff recommends including the full cost and full liability to the participants.** The probability that the Government would ignore the shortfall and then default on a large percentage of the	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. <u>Some of the rationales expressed</u>: Mr. Reid said that a computation that was limited to statutory provision would be incomplete. Ms. Cohen said that current law does not limit the benefits per se. The projection shows a shortfall,	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. <u>Some of the rationales expressed</u>: 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.

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

	Board Majority View	Board Minority View
benefits is remote. [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. Secondly, this appears to be a "funding" issue, and the Board has said that funding should not affect liability recognition. 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.]	but the projection is based on assumptions and estimates and may be change. Current law merely makes it a self-financing program.	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.
Question #3 – What assumptions should be used in projecting cash flow?	The members agreed with the recommendation.	No disagreement was expressed.

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

	Board Majority View	Board Minority View
The staff recommends a general requirement as in SFFAS 5 with a reference to actuarial standards of practice. The recommendation is a pragmatic approach to this very difficult subject and has been effective for past FASAB standards. Also, from a cost-benefit perspective, one might question not availing of the current process.		
Question #4 – How should uncertainty be illustrated? **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."** 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 is acceptance in the private sector and is worth exploring for social	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.	No disagreement was expressed.

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

	Board Majority View	Board Minority View
insurance.		
Question #5 – What should be recognized as social insurance "expense" or "cost"? **The staff recommends four components.** 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. 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	A majority of the Board agreed with the recommendation.	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. 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. Mr. Torregrosa said that CBO does not distinguish between Social Security and Medicare Hospital

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

	Board Majority View	Board Minority View
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.		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.
Question #6 – What should be recognized as the social insurance liability? **The staff recommends that liability be the accumulated cost.** Accrued costs and liabilities for social insurance would exclude costs attributable to obligating events occurring in the future.	Chairman Mosso polled the Board. A majority agreed with the staff recommendation that the liability is the accumulated cost.	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.
Question #7 – What should be displayed for social insurance on the statement of net cost, balance sheet, and other statements? **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.**	The Board did not have an opportunity to address this question at this time. 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. 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	

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

	Board Majority View	Board Minority View
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.	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. 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. Chairman Mosso said he preferred that actuarial gains and losses not be reported directly to net position. They ought to flow through a statement.	
Question #8 – What should be disclosed about social insurance in the notes? **The staff recommends … to be determined.**	The Board did not have an opportunity to address this question at this time.	
Question #9 – What should be done with RR Retirement, Unemployment Insurance, and Black Lung Benefits? **Staff recommends the following:** **Railroad Retirement – analogize to OASDI and SMI.**	The Board did not have an opportunity to address this question at this time.	

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

	Board Majority View	Board Minority View
Unemployment Insurance – continue to apply SFFAS 17 **Black Lung Benefits – continue to apply SFFAS 17** 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.		
Question #10 – What is the reporting objective for social insurance? **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.** 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.	A majority of the Board agreed with the recommendation.	No disagreement was expressed, but see Mr. Patton's issue in Question #5 above.

ATTACHMENT 6 – TABLE OF FASAB DECISIONS

<table>
<tr><td></td><td>Board Majority View</td><td>Board Minority View</td></tr>
<tr><td colspan="3">Consensus Items, December 2007</td></tr>
<tr><td>There is a consensus among members regarding the following components of a social insurance standard, which primarily involve display:</td><td colspan="2">1. 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.
2. 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.
3. Retain the SFFAS 17 required supplementary information (RSI).
4. 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.
5. Congress's ability to change a social insurance program, by itself, does not mean that obligations under the program are not liabilities.
6. 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.</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

ATTACHMENT 7 – Mr. Allen's E-mail Regarding a Meeting with Former Comptroller General Walker

Attachment 7 – Mr. Allen's E-mail Regarding a Meeting with Former Comptroller General Walker

2/23/2008

Wendy,

… The main reason for this memo is to state the reasons I believe we should place the social insurance project back on an aggressive agenda status. After our public hearing, a conscious decision was made (as suggested in the public hearing and by some board members) that the sustainability reporting project would outrun the social insurance project. First, because everyone supporting going forward with sustainability and secondly because of the desire to see if it would answer some of the objectives of the social insurance project which is a more controversial project.

A few comments about FASAB's objectives and Social Insurance reporting.

Current FASAB Standards Focus

FASAB's expectations are most clearly set forth in SFFAC 1. These are fresh on all of our minds as FASAB's *Strategic Directions* report, issued 11/06 which focused on SFFAC 1 objectives was included in our TAB A reading material for last week's meeting. I know everyone is familiar with these but since we said Objective 2, Operating Performance, and Objective 3, Stewardship, were FASAB's most important focus, I have repeated a couple of the specific reporting objectives.

> 2A. The cost of providing specific programs and activities and the composition of, and change in, these costs.
>
> 2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.
>
> 3A. Whether the government's financial position improved or deteriorated over the period.

These are the three that speak most clearly about financial statements showing costs associated with a specific period and the impact these costs have on an entities financial position.

SFFAS 4, Managerial Costs Accounting Standards and Concepts, helps define what "cost" means. In addition, paragraph 49 talks about the need to understand cost from a budget viewpoint but most importantly from a financial reporting standpoint.

> 49. Managerial cost accounting should also provide budgetary accounting with cost information. However, the two are not as closely aligned as is the case with financial accounting. Mostly, this is because costs are usually recorded, accumulated, and allocated by managerial cost accounting on an accrual basis of accounting which is

different from the obligations or cash basis generally used in budgetary accounting. (My note - obligation budgeting in a state and local government is often referred to as encumbrance budgeting; where budget expenditures are recorded when goods are ordered even if they are not received by the end of the accounting period).

Accrual accounting referred to in SFFAS 4 in regard to expenses has a universal definition. That definition reflected in accounting text is that expenses are recognized when incurred. These text explain that only through accrual accounting can cost or financial position of an entity be measured, which is why GAAP is based on accrual accounting.

Financial reporting standards require footnote disclosure of the Basis of Accounting used by the reporting entity. In footnote B of the U.S. governments consolidated financial statements it states: "Expenses are generally recognized when incurred except that the cost of social insurance programs including Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment Insurance are recognized only for amounts currently due and payable."

I'm not arguing about how to report social insurance. I am only making the point that the three reporting objectives quoted from SFFAC 1 are not being met.

Statement of Social Insurance and Proposed Sustainability Reporting

Both of these statements do a very good job of meeting SFFAC 1 objective 3B. "Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due." They also contribute to meeting objective 3C. "Whether government operations have contributed to the nation's current and future well being."

Information from the SOSI if combined with other financial statement information could help meet objective 3A relating to changes in the governments financial position. This will be especially true when the FASAB adds a statement of changes for the SOSI. Thankfully, this part of the Social Insurance project seems to be supported by all board members.

The proposed Statement of Sustainability and the proposed accompanying narrative and graphics are very informative when looking into the future and I am strongly supportive of this project. However, the proposed statements are primarily cash based projections and as such don't contribute to financial reporting objectives 2A and B and 3A.

A Shared Vision

As I reported to you on the second day of the December FASAB meeting, the Comptroller General and I had been on the same panel the previous day at the International Federation of Accountants Conference. Before our meeting last Thursday I met with Mr. Walker; partially to follow-up on comments made on our December panel discussion and partially because I wanted to explain my thoughts and get his reaction to moving forward with the social insurance project as rapidly as possible.

ATTACHMENT 7 – Mr. Allen's E-mail Regarding a Meeting with Former Comptroller General Walker

Mr. Walker was supportive of moving forward with the project and our shared vision of this project and financial reporting in general included the following points:

1. The value and credibility of current financial reporting is negatively impacted by three bottom lines. The budget deficit, the GAAP deficit, and the government's change in financial position taking into account social insurance programs. Even though the last of these three isn't currently reflected in the Financial Statements, it is the one both of us focus on when making presentations. It is the one we would hope others such as the President and Congress will also focus on.

2. The third and most important bottom line could be fairly easily reflected within the governments financial statements without the liability argument being resolved by taking the Social Insurance Exposure information at the bottom of Table 1 in summary information and moving it up as a separate category after the liability line. This could actually be a basic financial statement with cross references to the other financial statements where this information comes from. If this were the case, it would probably be called the statement of financial position, you would probably need another heading for what is currently called the balance sheet, and you may want a similarly summarized statement of changes in financial position which could be cross-referenced to the more detailed other financial statements.

3. One of the main problems with not having a comprehensive statement of financial position is the impact of changes in laws such as social insurance modifications is not comprehensively captured in the financial statements of the period the changes are made. …

4. The time to move forward is now. This project, which is greatly impacted by political positions, has its best chance for its most meaningful resolution very early in a new administration. … I told Mr. Walker I would support moving quickly forward with an ED even if I was in a minority position. I still have hope we can compromise in such a way that we can have all board members support a position that lets us meet our reporting objective while still being sensitive to the objectives of Primary View, the Alternative View, and some good points made by commentors and testifiers that were somewhat different from both Board positions.

…

If you have thoughts regarding how he might productively proceed, I am sure [staff] would welcome them. If you also want a detailed analysis of possible reasons commentors responded the way they did, we can have that discussion. While this is normally an important and sometimes long part of redeliberation, I personally don't favor spending a lot of time on this debate because 1) the responses were fairly well divided and 2) many of the comments were not about accounting issues but rather about the political and other implications of reporting or not reporting. However, I do believe many of the comments and suggestions were highly valuable to help educate the FASAB as we seek ways to move the project forward. …