TAB C (October 2009), Attachment 1

Federal Accounting Standards Advisory Board

Social Insurance: Additional Requirements for Management's Discussion and Analysis, Basic Financial Statements, and Disclosures

Statement of Federal Accounting Standards 37

DRAFT

March 1, 2010

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board ("FASAB" or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget ("OMB"), and the Comptroller General in October 1990. It is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles ("GAAP") for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standard is published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation to comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard, with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Interpretations and also for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- *"Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"*

- *"Mission Statement: Federal Accounting Standards Advisory Board"*

Exposure drafts, Statements of Federal Accounting Standards and Concepts, Interpretations, FASAB newsletters, and other items of interest are posted on FASAB's website, at www.fasab.gov.

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Summary

Social Insurance comprises five programs – Social Security, Medicare, Railroad Retirement, Black Lung and Unemployment Insurance. However, two programs, Social Security and Medicare, are of special significance because of the high rate of participation among citizens, the fiscal challenges related to the programs, and the challenges associated with incorporating estimates of future cash flows of this magnitude in financial statements. Therefore, the Federal Accounting Standards Advisory Board ("FASAB" or "the Board") has devoted substantial resources to considering how fundamental questions about social insurance programs should be addressed through federal financial reporting. These questions include whether programs are sustainable as currently constructed; whether the government's financial condition improved or deteriorated as a result of its efforts to provide these and other programs; and what is the likelihood that these programs will be able to provide benefits at current levels to those who are planning on receiving them.

From the outset of this project, members have agreed on the objectives of financial reporting for social insurance programs and yet have had different views about how best to achieve the objectives. For example, all members have agreed that it is extremely important to provide useful financial information about the sustainability of social insurance programs, and that such information should be presented for the government as a whole in the consolidated *Financial Report of the United States Government*.[1] Members have agreed that social insurance information should be included in the basic financial statements, should be audited, and should be "transparent" – that is, readily understandable to an interested, non-expert reader. Members also have agreed that the financial report should highlight any long-range fiscal imbalances anticipated in social insurance programs. All members have supported several innovations, including a new basic statement presenting changes in the amounts presented on the statement of social insurance. However, members have had different views about what should be reported on certain financial statements.

The key difference among members is in regard to the timing of the recognition of expense and liability for social insurance programs. Some members believe that an expense is incurred and a liability arises for social insurance programs during the working lives of participants, and that some portion of the benefits accumulated at the balance sheet date should be recognized as a liability. Other members agree with Statement of Federal Financial Accounting Standards ("SFFAS") 17, *Accounting for Social Insurance* that an expense is incurred and a liability arises for social insurance programs when the participants have met all eligibility requirements and the

[1] To that end the Board recently issued Statement of Federal Financial Accounting Standards 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U. S. Government*.

amount is "due and payable."

This Statement represents a compromise. It provides enhanced reporting but does not resolve the 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. Therefore, the Statement does not change the liability and expense recognition and measurement from that required in SFFAS 17.[2]

The Statement requires the following additional information:

1. Critical information about costs, assets and liabilities, social insurance commitments, budget flows, and the long-term fiscal projections in the section in management's discussion and analysis (MD&A) devoted to financial statement analysis.

Staff Note: The next item on this list, the table in the MD&A, was optional in the exposure draft. The staff has drafted this final standard to require a table (see paragraph 26 in the standard), believing that that is the Board's preference as part of its decision not to develop a new basic statement at this time. The staff recommends that the table be mandatory because it summarized key measures and communicates the basic message – without the technical aspects of a basic statement. The staff is presenting question of whether the MD&A table should be required or optional for the Board's consideration in October (see staff memorandum). In June, 2009, the Board unanimously approved the MD&A standard with the changes to the relevant sub-paragraph (Issue 3). See Table 18 in Attachment 2 of the staff memorandum. However, the discussion in August raises this additional issue.

2. A table of key measures in the MD&A.
3. A new summary section for the statement of social insurance.
4. 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.
5. Other information.

[2] SFFAS 17 established a "due and payable" liability standard for social insurance programs. Under that standard the expense recognized for the reporting period is the benefits paid during the period plus any increase (or less any decrease) in the liability from the end of the prior period to the end of the current period. The liability is the social insurance benefits due to be paid to or on behalf of beneficiaries at the end of the reporting period but not disbursed until after the end of the period, including claims incurred but not reported.

Although opinions continue to differ regarding when the obligating event occurs for social insurance programs, and thus the question of when the liability and expense occur within those programs continues to be discussed, this Statement fulfills a desire held by all the members to present other information that will significantly improve readers' understanding of the status and results of the government's social insurance programs.

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Introduction

Purpose

1. Federal financial reporting should provide accurate and transparent information to citizens so that they can make well-informed decisions for themselves and their government. In this regard, such reporting must include information on the government's long-term commitments for social insurance as well as all other government programs. This Statement supports that objective.

2. This Statement amends Statement of Federal Financial Accounting Standards ("SFFAS") 17, *Accounting for Social Insurance*. In addition to the current requirements in SFFAS 17, the standard requires:

    a. for component entities that present Statement of Social Insurance ("SOSI") and the government-wide entity, a summary of key measures in the management's discussion and analysis ("MD&A") providing critical information about costs, assets and liabilities, social insurance commitments, budget flows, and long-term fiscal projections;

Staff Note: Again, as noted above, the next item on this list, the table in the MD&A, was optional in the exposure draft. The staff has drafted this final standard to make it a requirement, believing that that is the Board's preference as part of its decision not to develop a new basic statement at this time. (See paragraph 26 in the standard and, in the basis for conclusions, paragraph A63.) The staff recommends that the table be mandatory because it will summarize key measures and will help to communicate the basic message. The staff is presenting the question of whether the MD&A table should be required for the Board's consideration in October (see staff memorandum). In June, 2009, the Board unanimously approved the MD&A standard with the changes to sub-paragraphs (Issue 3). See Table 18 in Attachment 2 of the staff memorandum. However, the discussion in August raised this additional issue.

    b. a table of key measures

    c. a section within the SOSI summarizing the net present values of cash flows and presenting certain subtotals and totals (see Appendix C: Pro Forma Statement of Social Insurance);

    d. a statement of changes in social insurance amounts ("SCSIA") presenting the reasons for changes in the open group measure from the end of the

previous reporting period (see Appendix D: Pro Forma Statement of Changes in Social Insurance Amounts); and

Staff Note: The next item on this list, the note disclosure of an accrued benefit obligation, presents another issue (Issue 6, from prior staff memoranda) for the Board's consideration. The staff recommends this disclosure. (See paragraph 34 of the standard and paragraphs A83 of the basis for conclusions.)

e. note disclosure of the **accrued benefit obligation**.[3]

3. The federal financial reporting model is unique. The model includes, in addition to a balance sheet and statements of net cost and changes in net position, unique financial statements designed for the federal government, including a statement of budgetary resources and a SOSI. In addition, a MD&A is a required component in federal financial reports. This Statement provides for additional reporting within this model.

Background

4. As noted in Statement of Federal Financial Accounting Concepts ("SFFAC") 1, *Objectives of Federal Financial Reporting*, the federal government is unique when compared with any other entity in the country. In SFFAC 1, the Board established four major reporting objectives for Federal accounting standards:

    1. Budgetary Integrity (the integrity and legality with which the federal government uses the people's money);
    2. Operating Performance (the effectiveness and efficiency with which the federal government operates and delivers services);
    3. Stewardship (the sustainability of the federal government's service delivery, considering its current and projected revenues); and
    4. Systems and Control (the quality of its data, systems and controls).

5. Although all four of the objectives are equally important, Objectives 2 and 3 guided the development of the social insurance standard. Objective 2 states that federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.

6. Objective 3 states that federal financial reporting should assist users in assessing the impact of the government's operations and investments for the period and how the government's and the nation's financial condition has changed and may change in

[3] Terms defined in the Glossary are shown in **bold-face** the first time they appear.

the future. This objective is based on the government's responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services, but on the requirement that the government report the broad outcomes of its actions.

7. In light of Objective 3, fundamental questions about social insurance programs should be addressed by accounting standards, including whether these programs are sustainable as currently constructed; whether the government's financial condition improved or deteriorated as a result of its efforts to provide these and other programs; and how long these programs will be able to provide benefits at current levels. The information that is proposed will help users address these questions.

8. The SOSI was a first step in the process of developing information for an assessment of sustainability of specific programs in government-wide financial reports and in the financial reports of component entities that administer social insurance programs. The SOSI is based on long-range actuarial estimates of future costs. SFFAS 17 requires certain supplementary information as well, including graphic presentations of future cash flow as a percentage of taxable payroll and GDP. The SOSI and required supplementary information ("RSI") provide information that helps users analyze the effect of benefit payments to different participants under current law, as well as economic and demographic changes (e.g., in the cost of health care and in life expectancies).

9. Social insurance involves major programs. They are not only a component of federal operations, but an essential part of the national economy. This Statement requires critical contextual information that is not currently provided. Specifically, it requires management to discuss and analyze in the MD&A critical measures of social insurance in the context of other critical measures presented in the basic financial statements. In addition, it requires a table of key measures in the MD&A; a new summary section would be included on the SOSI; a new statement of changes in social insurance would be presented; and an accrued benefit obligation would be disclosed in the footnotes.

<u>Materiality</u>

10. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

11. The information required by this Statement will be presented in reports beginning in fiscal year 2011.

Accounting Standard

Scope

12. This Statement is applicable to the consolidated financial report of the U.S. government as well as to the financial reports of component entities that present Statement of Social Insurance ("SOSI"). Social insurance standards for these entities are provided in SFFAS 17.

13. This Statement amends Statement of Federal Financial Accounting Standards ("SFFAS") 17. It does not affect provisions of SFFAS 17 that are not explicitly described and illustrated in paragraph 41 of this standard. For the government-wide entity and entities that present a SOSI, the Statement supplements SFFAS 15, *Management's Discussion and Analysis*; it does not affect the MD&A requirements of other entities.

14. The following five programs are the sole programs subject to social insurance amendments adopted through this Statement:

    a. Old-age, Survivors, and Disability Insurance ("OASDI" or "Social Security");
    b. Medicare Hospital Insurance ("Medicare HI") ("Part A") and Medicare Supplementary Medical Insurance (Medicare SMI) ("Part B" and "Part D");[4]
    c. Railroad Retirement benefits ("RRB"[5]);
    d. Unemployment Insurance for the general public ("UI"); and
    e. Black Lung benefits ("BLB").

[4] Medicare also includes a "Part C." The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA") created the Medicare Advantage ("MA") program that is sometimes referred to officially as Part C. MA provides Parts A, B, and now D through private health insurance plans. Those who are entitled to Part A and enrolled in Part B may choose to join a MA plan, if there is a plan available in their area. MA plans have their own providers or a network of contracting health care providers. All MA plans are currently paid a per capita premium, assume full financial risk for all care provided to beneficiaries, and must provide all Medicare covered services. Many MA plans offer additional Medicare services such as prescription drugs, vision and dental benefits to beneficiaries. The federal government's commitment for components of Part C (i.e., hospital, physician, drugs) would be the same as for Parts A, B, and D and would be accounted for accordingly.

[5] Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and Social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

Definitions

15. Accrued benefit obligation

An accrued benefit obligation is a measure of the present value of future benefits scheduled to be paid to or on behalf of current participants based on past events [e.g., for Social Security and Medicare Hospital Insurance (Part A), work in covered employment; or, Medicare Supplementary Medical Insurance (Parts B and D), insurance coverage in effect] as of the **valuation date**. Because it is based on past events, e.g., past work in covered employment, the accrued benefit obligation applies only to **current participants** in the programs as of the valuation date.

16. Closed group population

Those persons who, as of a valuation date, are participants in a social insurance program as beneficiaries, covered workers, or payers of earmarked taxes or premiums.

17. Closed group measure

The closed group measure is the net present value of all expenditures to or on behalf of the closed group population participating in a social insurance program and all contributions or other income from or on behalf of those participants over a given projection period.

18. Closed group unfunded obligation

The closed group unfunded obligation is the **closed group measure** minus the value of the assets held by the program at the beginning of the reporting period. It is computed like the **open group unfunded obligation** (see below) except that it involves the closed group population.

19. Current participants

All individuals currently participating in a social insurance program, e.g., for Social Security, those who are 15 years and older and working in covered employment and retirees as of the valuation date. An entry age for work in covered employment of 15 years is assumed.

20. Future participants

Individuals who are not currently participating in a social insurance program but who are projected to participate in the future over a given projection period as contributors or beneficiaries or both. For example, for Social Security, future workers and beneficiaries who are under age 15, not yet born, or not yet immigrated as of the valuation date.

21. Open group population

The open group population includes current and future participants.

22. Open group measure

The open group measure is the net present value of all expenditures to or on behalf of the **open group population** and all contributions or other income from or on behalf of the open group population over a given projection period, e.g., 75 years.

23. Open group unfunded obligation

The open group measure minus the value of assets held by the program at the beginning of the reporting period.

Management's Discussion and Analysis

Paragraph 24 immediately below requires a discussion of major changes and the causes thereof, and especially what that implied for the entity. It goes beyond SFFAS 15 to require discussion of possible future effects of anticipated future events, which SFFAS 15, paragraph 3, encourages but does not require. In addition, paragraph 25 below specifies what information, at a minimum, the entity should present and explain (costs, net position, social insurance commitments, the open and closed group measure and changes in the open group measure, key budgetary amounts, and the long-term projections. And paragraph 26 requires a table containing these measures.

24. Component entities that prepare a SOSI and the government-wide entity should discuss critical measures from their basic statements in the section of their management's discussion and analysis ("MD&A") devoted to financial statement analysis. They should explain the significance of key amounts. The entity should explain the major changes in amounts reported for key items during the reporting period, and the causes thereof. In particular, the entity should explain why the changes occurred and what that indicates or implies for the program's operation. The entity should explain how costs and commitments incurred during the period were or will be financed. The entity should describe important existing and currently-known demands, risks, uncertainties, events, conditions—both favorable and unfavorable—that affect the amounts reported in the basic financial statements. The discussion should go beyond a mere description of existing conditions to include possible future effects of those factors. The discussion should encompass the possible future effects of anticipated future events, conditions, and trends regarding social insurance programs. Where appropriate, the description of possible future effects of both existing and anticipated factors should include quantitative forecasts or projections.

25. At a minimum, component entities that present a SOSI and the government-wide

entity should present and explain, as described in paragraph 24, the following measures except as noted:

a. Costs as follows:

   i. Net costs
   ii. Total financing sources and net change of cumulative results of operations (for component entities only) and
   iii. Total revenue and net operating costs (for the government-wide entity only)

b. Net position as follows:

   i. Total assets
   ii. Total liabilities
   iii. Net position

c. Social insurance commitments as follows:

   i. The open group measure; the entity should present the closed group measure and explain how it differs from the open group measure[6] and the significance of the difference.
   ii. The change in the open group measure during the reporting period(s). This amount will also be shown on the statement of changes in social insurance amounts ("SCSIA").

d. Key budgetary amounts as follows:

   i. Key amounts from the statement of budgetary resources (for component entities only)
   ii. Key budgetary amounts (for the government-wide entity only):
      (a) Total unified budget receipts
      (b) Total unified budget outlays
      (c) Total unified budget deficit or surplus

e. Key measures from the statement of long-term fiscal projections and associated disclosures such as the net present value of the excess of spending over receipts and the **fiscal gap** (for the government-wide entity only) [This measure is discussed extensively in SFFAS 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*.]

[6] See the definitions of "closed group" and "open group" in pars. 15—23.

Staff Note: As noted above, a table of key measures in the MD&A was optional in the exposure draft. The staff has drafted this final standard to require a table, believing that that is the Board's preference as part of its decision not to develop a new basic statement at this time. The staff recommends that the table be mandatory because it will summarize key measures and will help to communicate the basic message – without the technical aspects of a basic statement. The staff is presenting this question for the Board's consideration at the October FASAB meeting. In June, 2009, the Board unanimously approved the MD&A standard with the changes to certain sub-paragraphs (Issue 3). See Table 18 in Attachment 2 of the staff memorandum. However, the discussion in August raised this additional issue.

26. The MD&A will include a table containing the above measures (see the illustration for the government-wide entity at Appendix B: Table of Key Measures). 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.

27. Each critical measure above (costs, net position, etc., see paragraph 25) may be disaggregated into sub-measures. For example, regarding assets, component entities may separately present Treasury securities held, and liabilities may be disaggregated into major items, i.e., into line items for employee pension liabilities, environmental liabilities, etc.

28. The amounts discussed in the section of the MD&A devoted to financial statement analysis for the open group measure will be the same as the amount in the summary section of the SOSI (discussed below and in Appendix C: Pro Forma Statement of Social Insurance), and the SCSIA (discussed below and in Appendix D: Pro Forma Statement of Changes in Social Insurance Amounts).

<u>Statement of Social Insurance</u>

[*See* Appendix C: Pro Forma Statement of Social Insurance*. There are two illustrations, one for the government-wide entity (Part I) and another for the component entity (Part II)* .]

29. The government-wide entity and component entities that present a SOSI pursuant to SFFAS 17 (currently the Social Security Administration, the Department of Health and Human Services, the Railroad Retirement Board, and the Department of Labor) should conclude the SOSI with a summary section that presents the closed group measure and open group measure (see Appendix C). The open group measure line item should be the same as lines on the beginning-of-year and end-of-year amounts on the SCSIA (see below and Appendix D).

30. The summary section of the component entity SOSI should include the assets held by the programs, if any, and totals for the **open group unfunded obligation** (see

Appendix C, Part II, summary section for component entities).

31. This Statement should not be construed to preclude presenting subtotals by age cohort.

Statement of Changes in Social Insurance Amounts

[*See* Appendix D: Pro Forma Statement of Changes in Social Insurance Amounts.]

32. The government-wide entity and component entities that present a SOSI should present a statement of changes in social insurance amounts ("SCSIA") (see pro forma example at Appendix D). The SCSIA will reconcile beginning and ending open group measures and present the reasons for changes in the open group measure from the end of the previous reporting period.

33. The SCSIA 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 healthcare assumptions; the changes in law, regulation, and policy; and the amounts associated with each type of change (see Appendix D). 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 as possible without detracting from understanding. The most significant changes should be explained in the entity's MD&A as well as in disclosures associated directly with the SCSIA.

Staff Note: The next item, the note disclosure of the accrued benefit obligation, presents another issue (Issue 6, from prior staff memoranda) for the Board's consideration. The staff recommends this disclosure.

Required Disclosure

34. The entity should disclose an **accrued benefit obligation** amount in the notes to the financial statements. In order to depict trends, five years of data should be presented. The data should be accumulated prospectively. The preparer should select and describe in the notes to the financial statements the method used for calculating the accrued benefit obligation. In addition, the preparer should explain that the disclosure provides a perspective on social insurance programs from the point of view of a deferred benefit or an insurance obligation for those users who value such information.

Required Supplementary Information other than MD&A

35. As required in SFFAS 17, paragraph 27(1), actuarial projections of annual cash-flow as a percentage of taxable payroll and gross domestic product (GDP) are required for component entities that present a SOSI and for the government-wide entity. For the OASDI and HI programs, the actuarial projections should be expressed as a percentage of taxable payroll and GDP. For the SMI program, the actuarial projections should be expressed as a percentage of GDP. For the RRB program, the actuarial projections should be expressed as a percentage of taxable payroll. For the Black Lung and UI programs, the actuarial projections should be expressed in inflation-adjusted or constant dollars. The percentages or amounts should be reported for at least every fifth year in the projection period for total cash inflow excluding net interest on intra-governmental borrowing/lending and total cash outflow. Actuarial projections of annual cash-flow in nominal dollars are no longer required of component entities that present a SOSI and the government-wide entity.

Valuation Date

36. All projections and estimates should be made as of a date (the valuation date) as close to the end of the fiscal year being reported upon as possible and no more than one year prior to the end of the reporting period. This valuation date should be consistently followed from year to year. If, after the valuation date, but prior to the end of the fiscal year, policy reforms are enacted or other major factors change that could materially affect the basic statement, the projections should be adjusted, if feasible, as if the policy reforms had taken place as of the valuation date. If policy reforms are enacted after the end of the fiscal year, but prior to the issuance of the financial statements, the financial statements should disclose the nature of the policy reform and, if known, the estimated effect on the projections.

37. The entity should provide a brief statement explaining that the SOSI amounts are estimates based on current conditions, that such conditions may change in the future, and that actual cost may vary, sometimes greatly, from the estimated cost. For example:

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

Sensitivity Analysis

38. The entity should provide sensitivity analysis of the closed and open group measures appropriate for their circumstances.[7] The objective of sensitivity analysis is to illustrate how an estimate or projection would change if assumptions, data, methodologies or other inputs change. The SSA, Medicare and Railroad Retirement programs should provide sensitivity analysis of the open group measure in the SOSI summary. The entity should state that the amounts of the open (and closed) group measures depend on the assumptions used and that actual experience is likely to differ from the estimate.

39. When determining the type of sensitivity analysis to provide, the entity should consider future trends, the utility of the information to the users and policy-makers, and the relative burden on the component entity resources. Providing analysis or disclosure for one or more periods will not imply that such analysis or disclosure is appropriate in the future, although the reasons for discontinuing a particular sensitivity analysis should be addressed in the annual report.

Government-wide Entity Accounting and Reporting

40. The proposed standard for government-wide accounting and reporting for social insurance programs is the same as that for component entities that present a SOSI. However, the level of detail at the government-wide level should be less than at the component level.

Effect on SFFAS 17

41. The proposed Statement provides additional requirements for presentation, disclosure, and supplementary reporting for social insurance programs. SFFAS 17 is amended as follows to conform to the changes in this Statement:

> 26. ~~All projections and estimates required in these standards should be made as of a date (the valuation date) as close to the end of the fiscal year being reported upon ("current year") as possible and no more than one year prior to the end of the current year. This valuation date should be consistently followed from year to year.~~
>
> All projections and estimates should be made as of a date (the valuation date) as close to the end of the fiscal year being reported upon as possible and no more than one year prior to the end of the reporting period. This valuation date should be

[7] See Actuarial Standards of Practice 32, paragraph 3.5.

consistently followed from year to year. If, after the valuation date, but prior to the end of the fiscal year, policy reforms are enacted or other major factors change that could materially affect the basic statement, the projections should be adjusted, if feasible, as if the policy reforms had taken place as of the valuation date. If policy reforms are enacted after the end of the fiscal year, but prior to the issuance of the financial statements, the financial statements should disclose the nature of the policy reform and, if known, the estimated effect on the projections.

26A. The entity should provide a brief statement explaining that the SOSI amounts are estimates based on current conditions, that such conditions may change in the future, and that actual cost may vary, sometimes greatly, from the estimated cost. The entity should state that the amounts of the open (and closed) group measures depend on the assumptions used and that actual experience is likely to differ from the estimate. For example:

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

27 (1) *Cash-flow Projections –* …

~~(a)~~ Actuarial projections of the annual cash-flow~~, in nominal dollars,~~ with amounts reported for at least every fifth year in the projection period. The cash-flow information should show

i. total cash inflow from:

a. all sources and
b. excluding net interest on intra-governmental borrowing/lending, and

ii. total cash outflow.

~~b)The actuarial estimate provided in 27(1)(a)(i)2) and 27(1)(a)(ii) immediately above as a percentage of~~
~~(i)**taxable payroll**[7] and~~
~~(ii) **Gross Domestic Product** (GDP).[8]~~

For the OASDI and HI programs, the actuarial projections of the annual

cash-flows should be expressed as a percentage of taxable payroll and gross domestic product (GDP). For the SMI program, the actuarial projections should be expressed as a percentage of GDP. For the RRB program, the actuarial projections should be expressed as a percentage of taxable payroll. For the Black Lung and UI programs, the actuarial projections should be expressed in constant (or inflation-adjusted) dollars.

~~[7] Certain social insurance programs (i. e., SMI , Black Lung benefits, and UI) are either not financed by earmarked payroll taxes or are financed by state-determined payroll taxes on employers that can vary by state and by employer; therefore these programs are not required to provide this estimate.~~
~~[8] This requirement does not apply to the RRB, Black Lung, and UI programs.~~

…

(4) *Sensitivity Analysis* –

(a) ~~For a~~All programs ~~except UI, illustrate the sensitivity of the projections and present values required by paragraph 27(1) and 27(3) to change in the most significant individual assumptions. For example, using the entity's "best estimates" cost assumptions as a baseline, show the effect of varying several significant assumptions one at a time to show the effect on the projection. At a minimum, the OASDI and Medicare programs should analyze assumptions regarding the birth and death rates, net immigration, the real wage differential, and the real interest rate. The real-wage differential is the difference between the annual percentage increase in wages in covered employment and the inflation rate, as measured by the CPI. The Medicare program should also analyze the health care cost factors and their trend.~~ should provide sensitivity analysis appropriate for their particular circumstances. The objective of sensitivity analysis is to illustrate how an estimate or projection would change if assumptions, data, methodologies or other inputs change. The SSA, Medicare and Railroad Retirement programs should provide sensitivity analysis of the closed and open group measures presented in the SOSI summary. Appropriate considerations include future trends, the utility of the information to the users and policy-makers, and the relative burden on the component entity resources. Providing analysis or disclosure for one or more periods will not imply that such analysis or disclosure is appropriate in the future, although the reasons for discontinuing a particular sensitivity analysis should be addressed in the annual report. The entity should state that the amounts of the closed and open group measures depend on the assumptions used and that actual experience is likely to differ from the estimate.

~~(b) For UI, illustrate the sensitivity of the projections required by paragraph 27(1) to changes in the unemployment rate assumption. The illustrations should reflect the effect of increasing the unemployment rate (1) by approximately one percentage point and (2) to a level sufficient to put stress on the system (e.g., to simulate the largest recession occurring within the last 25 years).~~

32. … (4) *Sensitivity Analysis* – For all social insurance programs, indicate that relevant sensitivity analysis is available in the component entity's financial report.~~provide a summary of the sensitivity analysis required under the standard for component entities (see par. 27(4)). At a minimum, the summary should present the OASDI, HI, SMI, and UI separately.~~

Effective Date

42. The information required by this Statement will be presented in reports beginning in fiscal year 2011.

The provisions of this statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this statement---not the material in this appendix---should govern the accounting for specific transactions, events or conditions.

Background

A1. Expense and liability recognition for social insurance programs (as well as potential expense and liability recognition for other non-exchange transactions and government-acknowledged events) has been a long-standing source of controversy. In its 19 years of operation the Board has issued several exposure drafts, a standard, and a preliminary views document related to social insurance reporting as follows:

- A 1995 exposure draft entitled *Accounting for Liabilities of the Federal Government*
- A 1998 exposure draft entitled *Accounting for Social Insurance*
- SFFAS 17, *Accounting for Social Insurance*, in August 1999
- A 2002 exposure draft entitled *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, which resulted, in 2003, in SFFAS 25 of the same title
- A 2004 exposure draft entitled *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, which resulted, in 2004, in SFFAS 26 of the same title
- A 2006 preliminary views document entitled *Accounting for Social Insurance, Revised*
- A 2008 exposure draft entitled *Accounting for Social Insurance, Revised*

A2. For SFFAS 17 the Board identified five programs as social insurance programs.

- Old-Age, Survivors, and Disability Insurance (OASDI or Social Security);
- Hospital Insurance (HI) and Supplementary Medical Insurance (SMI); known collectively as "Medicare;"
- Railroad Retirement benefits;
- Black Lung benefits; and
- Unemployment Insurance (UI).

A3. The issue of social insurance accounting was addressed in SFFAS 17 through compromise between strongly opposing views. The compromise featured:

a. liability recognition at the point when social insurance benefit payments are due and payable and with revenue and expenses on a cash flow basis, plus or minus the change in the due and payable liability during the reporting period;
b. a statement of social insurance (SOSI) and accompanying disclosures; and
c. other narrative and graphic information, e.g., graphs of long-term cash flows projections using nominal dollars and as percentages of taxable payroll and GDP, the "dependency ratio," and sensitivity analysis.

A4. Through SFFAS 25 and 26, the Board re-classified the SOSI from "required supplementary stewardship information" to basic information, and the SOSI became subject to a full audit in fiscal year 2006; and required significant assumptions to be disclosed.

A5. SFFAS 17, 25 and 26 substantially improved the information presented in general purpose external financial reports of the U.S. government and its component entities. However, in 2004 the Board decided to reconsider the question of liability and expense recognition. A majority of members serving at that time concluded that the compromise that produced SFFAS 17 did not recognize the accruing cost of social insurance programs in each reporting period and the accumulated liability for benefits payable at a determinable date under current law. Nor did it fully explain the change in the net present value of program-related cash flows. Hence, in 2004, the Board initiated a new social insurance project, and a *Preliminary Views* document was issued in October 2006.

What the Preliminary Views Document Proposed

A6. In the *Preliminary Views* document, the Board presented two views of proposed improvements in the information provided about the effect of social insurance programs. Under the Primary View proposal, social insurance expense would have been recognized on the statement of net cost when participants become **fully insured** and thus substantially meet the eligibility conditions for future benefits and as scheduled benefits increase due to additional work in covered employment by fully insured individuals.

A7. In addition to changing the expense and liability recognition points, the Primary View would have linked the SOSI amounts with amounts reported for social insurance on the balance sheet and statement of net cost. For the Primary View members, such linkage or "articulation" would have illustrated how the amounts reported on the basic financial statements relate to the present values of the cash inflow and outflow over the next 75-years that are presented in the SOSI.

A8. The Alternative View in the *Preliminary Views* document proposed to maintain the recognition and measurement of expense and liability for Social Security, Medicare, and Railroad Retirement programs currently required in SFFAS 17. That is, the entity would recognize a liability and a related expense for social insurance benefits when all eligibility criteria are met such that an individual beneficiary is entitled to receive a benefit (e.g., a cash payment, goods or services), which includes the point when benefit payments are "due and payable."[8] Thus, under the Alternative View the amounts reported on the balance sheet, statement of net cost, and statement of social insurance presentation would not have changed from what is currently reported under SFFAS 17.

A9. The Alternative View in the *Preliminary Views* document would have added a new basic financial statement entitled the "statement of changes in social insurance amounts," that would show the reasons for all changes during the period in the amounts (net benefits less receipts) presented in the statement of social insurance. The Primary View members agreed in principle that such a statement should be required.

A10. In addition, the Alternative View in the *Preliminary Views* proposed to break new ground. It proposed a new statement of "**fiscal sustainability**" for the consolidated *Financial Report of the United States Government* (*CFR*) that would provide sustainability information on the entire Government, including information necessary to assess the sustainability of social insurance programs and information on intergenerational equity, as required supplementary information.

A11. The members supporting the Primary View welcomed and encouraged the development of additional supplementary sustainability information. However, they believed it should be the subject of a separate project because it has implications for a wide variety of issues.

A12. The FASAB subsequently undertook a project on sustainability that resulted in SFFAS 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U. S. Government* .

Different Views Regarding the Obligating Event

[8] SFFAS 17 established a "due and payable" liability standard for social insurance programs. Under that standard the expense recognized for the reporting period is the benefits paid during the period plus any increase (or less any decrease) in the liability from the end of the prior period to the end of the current period. The liability is the social insurance benefits due to be paid to or on behalf of beneficiaries at the end of the reporting period but not disbursed until after the end of the period, including claims IBNR.

A13. Supporters of the Primary and Alternative Views differed as to the event or transaction that would trigger an expense and a liability for social insurance programs. The members supporting the Primary View believed the critical point at issue among Board members and generally among participants in the debate involved the timing of the event that creates a liability. The Primary View was that conditions for receiving a future benefit are *substantially met* when the participants become fully insured, and the omission of the effects of these events results in an incomplete reporting of costs and liabilities.

A14. Members supporting the Alternative View in the *Preliminary Views* document saw a fundamental distinction in financial reporting of exchange transactions, which are voluntary market exchanges of goods and services for a price, and nonexchange transactions resulting from decisions made collectively by the Congress and the President to levy taxes and to authorize programs. They noted that this distinction is made in FASAB concepts, standards, and financial statements, e.g., the statement of net cost, as well as by other standard setters, including the Governmental Accounting Standards Board (GASB) and the International Public Sector Accounting Standards Board (IPSASB); and that it is also the difference between offsetting collections and governmental receipts in the Budget.

A15. Members who supported the Alternative View in the *Preliminary Views* document believed that although the basis for recognition of a liability and cost for social insurance established in SFFAS 17 (e.g., due and payable) remains appropriate, the set of information required by SFFAS 17 was inadequate. They argued that SFFAS 17 does not (1) recognize important information concerning the fiscal sustainability of social insurance programs, or (2) fully explain the change in the net present value of program related cash flows. They believed that the fundamental nature of social insurance is richer and more complex than the federal government's current accounting model could accommodate.

A16. It is extremely important to note that both the Primary View and the Alternative View in the *Preliminary Views* document called for sustainability reporting. Those members who supported the Primary View believed that the Board should consider additional sustainability reporting in a future project. As noted above, the FASAB subsequently undertook a project on the subject that resulted in SFFAS 36.

Fiscal Sustainability Reporting

A17. After the public hearing on the *Preliminary Views* on social insurance on May 23, 2007 and initial discussions in the summer of 2007, the Board decided to suspend work on the social insurance standard briefly while it developed fiscal sustainability reporting further. The *Preliminary Views* document mentioned the Board's unanimous interest in fiscal sustainability reporting and the Alternative View

presented examples of what it might look like. The members wanted to know if the fiscal sustainability project would address some of the objectives of the social insurance project.

A18. The Board issued an exposure draft on fiscal sustainability[9] in August 2008, and subsequently a final standard, SFFAS 36, in September 2009.[10] The standard requires that the *CFR* present information addressing the fundamental question of whether the government can sustain public services and meet its obligations as they come due, including social insurance. The Board concluded that answering this question requires analyzing current and projected levels of all federal spending, federal receipts and federal debt in relation to the economy.

A19. The fiscal sustainability standard is comprehensive. It requires:

a. A basic financial statement in the consolidated financial report of the U. S. government (CFR) presenting the present value of projected receipts and non-interest spending under current policy without change for all activities of the Federal Government, including social insurance; how those amounts relate to projected GDP; and changes in the present value of projected receipts and non-interest spending from the prior year.
b. Required supplementary information explaining and illustrating the projected trends in:
    1. The relationship between all federal government receipts and spending,
    2. Deficits or surpluses, and
    3. Treasury debt as a share of GDP.
c. Disclosures also explaining and illustrating:
    1. The assumptions underlying the projections,
    2. Factors influencing trends, and
    3. Significant changes in the projections from period to period.

A20. The Board believes that these projections will provide meaningful information essential to assessing whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, including social insurance obligations.

Social Insurance Revisited in November 2008 ED

A21. Having developed the proposed fiscal sustainability standard, the Board returned to

[9] *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government,* Issued August 29, 2008.
[10] September 28, 2009.

social insurance. In November 2008, the Board issued the exposure draft *Accounting for Social Insurance, Revised* ("SI ED"). The Board noted in the SI ED that the Board's fundamental difference of opinion on the question of liability and expense recognition for social insurance was reflected in the views of the respondents to the *Preliminary Views* document itself. Indeed, the difference of opinion has persisted since the Board's initial consideration of the social insurance liability question during the development of SFFAS 5 and especially during the development of SFFAS 17.

A22. SFFAS 17 presented a compromise between two strongly held views regarding liability and expense recognition for social insurance programs. For SFFAS 17, the Board concluded that the best approach was to recognize the annual cash flow effects of the social insurance programs in the basic financial statements; that is, revenue is the cash inflow during the reporting period from payroll tax contributions and income tax on social insurance benefits and expenses are the cash outflow during the year plus or minus the change in a "due and payable" liability. However, the Board also required a package of information that it characterized as "required supplementary stewardship information" ("RSSI").

A23. For the RSSI section, the Board required an array of present values by age cohort in what became the statement of social insurance ("SOSI"). In addition, the Board required other narrative and graphic information, e.g., graphs of cash flows over long-term projection periods using nominal dollars and as percentages of taxable payroll and GDP.

A24. The Board decided that the "bottom line" of the SOSI should be an open group measure. That bottom line represents the total excess of actuarial present values of future benefit payments over future contributions and tax income for current and future participants over a period sufficient to illustrate long-term sustainability. There had been much debate during the development of the standard over whether to present the open group measure or the closed group measure.

History of The Closed Group Measure

A25. The term "group" simply refers to the participants included in a measure. The "closed group" includes current particpants only, e.g., for Social Security, current retirees and covered workers. It does not include future participants; those projected to become participants during the projection period but after the valuation date. It contrasts with the "open group" that does include those who are currently participating and those who will participate in the future during the projection period. The open and closed group measures include all future flows related to the specified group. These measures contrast with an accrued benefit obligation measure which includes only future benefits attributed to past work in covered employment by

current participants as of the reporting date.

A26. The closed group measure has been an option for federal financial reporting for a long time. From 1985 through 1994, the closed group measure was disclosed in a footnote in the "prototype" *Consolidated Financial Statements of the United States* (prototype *CFS*). Before that, from 1976 to 1985, a liability had been recognized for Social Security in the prototype *CFS*, using a calculation similar to that called for by private sector accounting standards.

A27. Ultimately, for SFFAS 17, the Board decided, as part of a compromise solution, to develop the SOSI to provide actuarial present values of future contributions and benefits for the open group of participants but not the closed group per se. The Board concluded that the SOSI so constituted would be useful for analysis of sustainability and financial position of social insurance programs.

A28. The vote for SFFAS 17 was not unanimous. Three members dissented. They focused primarily on the switch from the closed to the open group bottom line. One of the dissenting members said the closed group deficit was a very important measure in evaluating alternative proposals for social insurance financing. Even though SFFAS 17 required instructions in a footnote on how to calculate the closed group measure, the member felt that, if the Board truly wished to establish standards that meet the information needs of citizens, elected officials and program managers, the standard should require the prominent presentation and explanation of the closed group measure rather than a footnote explaining how to calculate the closed group measure. The member did not see how that could possibly be interpreted as satisfying the mission of the Board.

A29. Another member dissented because he felt SFFAS 17 did not require a clear unambiguous disclosure of a reasonable estimate of the government's social insurance liability/obligation. That member argued that the due and payable liability would result in a reported financial position that will appear to many as significantly misleading, at best, and clearly not commensurate with the significant financial implications of this critical national issue. The member noted that SFFAS 17 required the net present value of future benefits related to the open group but not the closed group; and that the absence of the specified closed group measure is significant because some suggest that the closed group measure represents an appropriate estimate of the social insurance liability.

A30. Lastly, a third dissenter argued that the removal of the closed group number from the published financial statements removed any forthright indication of the existence of any obligations to participants. He asked what the Government's repeated promises meant if there is no obligation to the participating public. He argued that the closed group number is an important indicator of financial stress to be faced by the next

generation of Americans, and is a proxy for an economic liability or an "implicit" liability. He mentioned that proposals to add social insurance benefits or increase social insurance taxes or to make other changes in the program should be evaluated by Congress and the public against these absolute numbers and the strength of the government's commitment to honor the indicated obligations. Finally, he argued that the SOSI should be a basic financial statement, which it later became with SFFAS 25 and SFFAS 26.

A31. Some current Board members believe that the closed group measure is the best measure of the social insurance obligation. However, they do not believe it is appropriate for the balance sheet or that the change in this measure during the reporting period is appropriate for the statement of net cost. They view future revenues that are included in the measure as contingent revenues, and they believe all other future inflows and/or revenues included in the balance sheet and the statement of net cost relate to earned revenues.

A32. Others counter that insurance accounting and fair value measures currently incorporate future inflows and outflows in the measure of liability and expense. Some argue that the basis for including future revenue in current year cost and liability measures depends on the obligating event to which they relate. If they related to a past event, e.g., an insured event, then they are appropriate measures of cost. If they relate solely to a future event, e.g., future insurance policies in the program, then they should be excluded from current costs and from liability measurement. The key is the event not the fact that the cash flow is in the future. They cite current FASAB insurance standards in SFFAS 5[11] that include future revenue when calculating the net liability.

A33. Since the two views regarding liability and expense recognition persisted and the likelihood of achieving a satisfactory majority one way or the other was remote, and since the Board wished to further improve social insurance reporting, the Board concluded that a compromise was in order. In developing the exposure draft of November 2008 ("SI ED"), the Board believed that a fair presentation of the financial position, condition, and results of operations requires that the closed group measure be provided as part of a balanced package of information. The Board believed that the closed group measure represents a reasonably good estimate of the net

[11] SFFAS 5, par. 113: The liability for life insurance includes both the liability for unpaid claims … and a liability for net future policy benefit outflows…. The [latter] represents the expected present value of future outflows to be paid to, or on behalf of, existing policyholders, less the expected present value of future net premiums to be collected from those policyholders. The liability is estimated using appropriate financial or actuarial methods that include assumptions … applicable at the time the insurance contracts are made and in accordance with existing law and related policy …. Changes in the liability for future net policy benefit outflows that result from periodic re-estimations would be recognized as expense in the period in which the changes occur. …

responsibility of future taxpayers, under current laws, to pay benefits to current participants. Although this amount is subject to change due to changing long-range demographics and other factors, it is not as volatile as the computation under the open group measure that includes all current and future participants over a projection period, e.g., the next 75 years. It relates only to individuals who already are participating in the program.

A34. The open group measure represents the net present value of all expenditures to or on behalf of the open group population and all contributions or other income from or on behalf of the open group population over a given projection period, e.g., 75 years. It is used to estimate the future financing shortfall in social insurance programs. The closed group measure involves only those participating in the social insurance program at the reporting date. It represents the same measurement methodology as for the open group, applied to a closed population; that is, it is the net present value of all expenditures to or on behalf of the current participants and all contributions or other income from or on behalf of the current participants over a given projection period.

A35. The open group measure is inherently more sensitive to assumptions about the distant future than the closed group measure. The greater sensitivity is inevitably true, despite the best efforts of actuaries, economists, and other professionals involved in making these projections. It is mainly caused by the fact that a closed group dwindles over time, so that uncertainty about what will happen in the distant future has less impact than is the case for an open group that grows larger during the projection period.

A36. For the SI ED, the Board proposed changes to highlight the closed group number. The SI ED would have required:

a. a discussion and analysis by management of the closed group measure of social insurance along with other critical measures in the MD&A;
b. a separate line presenting the closed group measure that would be presented on the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications;
c. new summary presentations on the SOSI for closed and open group measures;
d. a new statement of changes in social insurance using the closed group measure;
e. note disclosure of an accrued benefit obligation; and
f. continuation of the projections and other supplementary reporting currently required by SFFAS 17 but with amendments to the display of cash flow information, the valuation date and the sensitivity analysis.

Again, the SI ED did not propose to change the SFFAS 17 liability and expense recognition standard. See SFFAS 17, paragraphs 22-23 and 30.[12]

Respondents Comments on the Exposure Draft

A37. The social insurance exposure draft of November 2008 ("SI ED") received 20 responses as follows:

	FEDERAL (Internal)	**NONFEDERAL (External)**
Users, academics, others		14
Auditors	1	
Preparers and financial managers	5	

What the Exposure Draft Proposed regarding the Balance Sheet

A38. Balance sheet presentation raised difficult issues for the Board with respect to the SI ED. In the *Preliminary Views* document of October 2006, the Board had discussed its differing views of liability and expense recognition, views which have been and remain divergent.

A39. For the SI ED the Board proposed a compromise. Instead of changing the "due and payable" liability measure of SFFAS 17, the Board proposed new reporting featuring the closed group measure of the social insurance commitment as the link or common thread among the MD&A, the balance sheet, the SOSI, and the new statement of changes in social insurance amounts. Thus, the closed group measure would have been presented, among other places, as a line item on the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications, and be part of a package of information.

[12] SFFAS 17, paragraphs 22-23 and 30 state that, except for Unemployment Insurance, the government-wide and component entities should recognize a liability (and a related expense) for those social insurance benefits that are due and payable to or on behalf of beneficiaries at the end of the reporting period, including claims incurred but not reported (IBNR). For UI, a liability (and related expense) would be recognized for (1) amounts due to states and territories for benefits they have paid to beneficiaries but for which the states and territories have not withdrawn funds from the federal unemployment trust fund (UTF) as of fiscal year end, and (2) estimated amounts to be withdrawn from UTF and benefits paid by states and territories after fiscal year end for compensable days occurring prior to fiscal year end. A UI expense will also be recognized for the reporting period for amounts withdrawn from the Federal UTF by states and territories to pay benefits to beneficiaries that pertain solely to the current reporting period. Such costs would be recognized as a component of expense and not as a reduction of the recognized liability. Amounts paid that pertain to and reduce the liability recognized in the prior reporting period pursuant to this paragraph, items (1) and (2), would not be recognized as an expense of the current reporting period.

A40. In the SI ED, the members who supported this proposal stated their belief that the closed group measure is important for analysis of social insurance. The closed group measure represents the net present value as of the reporting date of the commitment of future social insurance participants and future general taxpayers to provide benefits to current participants over the latter's lifetime, based on the current participants' past and future work in covered employment. The closed group measure also provides a perspective on the financing challenges for the program. It would be relevant to those who are assessing options for dealing with those challenges. The measure would not only draw attention to the challenge but would also quantify it in a way that can support further analysis and decision-making.

A41. The closed group measure is a concise and familiar depiction. It is a "stock" number, rather than a "flow" number, and captures much information about the future.

A42. "Stock" numbers are sometimes criticized for failing to address the timing of any shortfall. However, many point estimates are used for reporting under general accepted accounting principles. The timing of the shortfall is the subject of required supplementary information ("RSI") about social insurance, which presents cash flow projections.

A43. The proposed balance sheet reporting would have affected the reporting model. Again, the proposal was to present the closed group measure as a line item on the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications. The line item was not presented formally as a new element of financial statements within the context of the SFFAC 5[13] definitions e.g., a "commitment." The Board explained that it was not formally proposing a new definition or concepts underlying a new reporting model at this time. In order to offer improvements in a timely manner, the Board left open certain questions regarding the reporting model and the elements of federal financial reporting. However, the Board indicated there were areas where additional conceptual work will be undertaken.

A44. Members believe that the current concepts need to do a better job of explaining unique federal accounting issues. They need to explain, for example, why the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government, why current deficits are indeed bad but that the problem is actually long-range rather than short-range, why the timing of a cash flow problem is important; and why the point estimates on the balance sheet

[13] SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*

have limitations for assessing financial condition. They believe that the fiscal sustainability reporting established in SFFAS 36 substantially improves the information communicated regarding financial condition. The Board plans to continue to consider this issue in the Financial Reporting Model Phase of its Concepts Project.

A45. The subjects of the balance sheet and the open vs. closed group measure of the social insurance commitment raise fundamental issues. Over the years, some members and others have asked why social insurance should be treated differently than other programs that provide annual government services, and why social insurance should be selected for the balance sheet but not other programs, e.g., food stamps, school lunches. They do not believe that a strong basis has been established for saying social insurance programs are the ones to highlight through liability recognition and others can be excluded. In this regard some members believed one of the drawbacks of the SOSI is that it does not provide a comprehensive view of government liabilities-commitments-expectations. They note that the information provided pursuant to SFFAS 36 will provide that view.

Respondents' Comments regarding the Balance Sheet

A46. Respondents opposed a line item on the balance sheet by a margin of more than 2 to 1. Various objections were raised. Some cited the SI ED's Alternative View position that the lack of a clear definition of a "commitment" on the balance sheet makes the line item a source of confusion. Others objected that the closed group measure was misleading regarding the commitment to social insurance participants.

A47. Some objected from the opposite perspective. They objected to the absence of a liability on the balance sheet beyond "due and payable" and found the new line item an unacceptable substitute.

A48. Some respondents who favored a line item on the balance sheet agreed with the Board's argument that it was a compromise between opposing positions.

The Board's Conclusions regarding the Balance Sheet

A49. The Board was of two views on the question of displaying the closed group measure (or any similar measure) on the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications. Some members favored the compromise approach and wished to alter the presentation – either through changes to the balance sheet or development of a new basic financial statement. Those who opposed the new line item on the balance sheet argued that readers would not have a basis for understanding the new element on the balance sheet, and/or that the closed group measure is not comparable to amounts reported

on the balance sheet, and/or other significant long-term commitments should be presented, and/or the SOSI is adequate. Further, these members were not persuaded that the proposals presented to alter the presentation on the balance sheet by presenting the open group instead of the closed group or to instead create a new basic financial statement were necessary. Thus, since the Board could not establish a clear majority in favor of the new line item, it decided not to go forward with the proposed balance sheet presentation of the closed group measure as a commitment.

What the Exposure Draft Proposed regarding the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts

A50. Regarding the statement of social insurance ("SOSI"), in the SI ED the Board proposed to require the closed and open group measures in a new SOSI summary section of the consolidated financial report of the United States Government ("*CFR*"), which the FY 2008 and 2007 and *CFR* provided even though SFFAS 17 does not currently require it. The Board also proposed a new basic statement, the statement of changes in social insurance amounts ("SCISA") that presents the changes during the reporting period for the closed group measure. The line items/components of the SCSIA are consistent with the Social Security Trustees' Report (see, for example, the 2007 Trustees' Report, Table IV.B9, page 66).

Respondents' Comments regarding the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts

A51. A majority of respondents supported a summary section for the SOSI as described in the SI ED. Those that did not support it objected mainly to the presence of the closed group measure as a component of that summary. Their objections to the closed group measure are noted above regarding other issues. Some respondents objected to a requirement for a SOSI summary section, although they did not disapprove of it in concept. They preferred allowing the preparer to decide whether to include it. Most respondents supported the SCSIA.

The Board's Conclusions regarding the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts

A52. The Board concludes that the SOSI should have a summary section as described in the SI ED. The summary will present both the net present value of the commitment to the current participants (the closed group measure) and to all participants (the open group measure) over the projection period. The Board decided that the closed group measure should be presented on the SOSI – and discussed in MD&A – to enrich the discussion of the open group measure and to give the reader a better understanding of the generational implications of financing

social insurance programs.

A53. The Board concludes that the SCSIA should be required since it has substantial support in the community as well as among Board members.

What the Exposure Draft Proposed regarding Management's Discussion and Analysis

A54. As stated above, the Board provided MD&A standards and guidance in SFFAS 15 and SFFAC 3, *Concepts for Management's Discussion and Analysis*. SFFAC 3 provides concepts and a foundation for the standards presented in SFFAS 15.

A55. The MD&A standards in SFFAS 15 are brief. SFFAS 15 requires the entity's financial report to include a MD&A, which it categorizes as required supplementary information. SFFAS 15 requires the entity's MD&A to contain sections that address the entity's mission and organization structure, performance goals and results, financial statements, and systems, controls, and legal compliance.[14] SFFAS 15 does not specify the contents for each section. SFFAC 3 provides some concepts in that regard.

A56. For the social insurance SI ED, the Board proposed to provide additional specific standards for the financial statement analysis section of the MD&A for the government-wide entity and for component entities that present a SOSI. Based on SFFAC 3,[15] the Board proposed that, in the section devoted to financial statement analysis, management should explain critical measures and key amounts and why changes occurred and what the change indicates or implies for the program; and, how the costs and commitments incurred will be financed.

A57. In addition, in the SI ED the Board proposed to require forwarding-looking information about anticipated future demands, events, conditions, and trends. In SFFAS 15 the Board requires the MD&A to include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions, and trends,[16] while encouraging[17] forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. In SFFAC 3, the Board had said management should include information about anticipated future demands and events "to the extent feasible and appropriate."[18] In the SI ED, the Board proposed to require

[14] SFFAS 15, par. 2.
[15] See SI ED pars. 24-28.
[16] SFFAS 15, par. 3.
[17] SFFAS 15, par. 21.
[18] SFFAC 3, par. 33.

discussion of anticipated events, demands, etc.

Respondents' Comments regarding MD&A

A58. The respondents favored the MD&A requirement by a margin of about to 2 to 1. Those who favored the standard mentioned the benefits of management's analysis of key measures and of greater transparency. Almost all agreed that key or critical measures should be discussed in the MD&A.

A59. Some respondents objected to aspects of the MD&A requirement. Some objected to the focus on the closed group measure, which, as noted elsewhere, many assert is misleading. Some argue that the open group measure is essential to an assessment of financial sustainability; that the closed group measure does not reflect what they describe as the program's pay-as-you-go financing; and that the Social Security and Medicare Trustees' Reports emphasize almost exclusively the open group measure. Other respondents noted that those who object to the closed group measure on the grounds that it does not reflect social insurance financing misunderstand accrual accounting, which seeks to capture economic events, not necessarily financing.

A60. Some said the proposed MD&A standard would be too prescriptive or that it would require too much detail or repeat information that is already in the notes or RSI. Some objected to a standard on social insurance that would require additional MD&A discussion beyond what SFFAS 15 requires or that, in their view, would be unrelated to social insurance.

The Board's Conclusions regarding MD&A

A61. The Board concludes that the MD&A provisions of the social insurance standard provide flexibility and are not overly prescriptive; nor will they result in redundancy. The Statement incorporates MD&A concepts from SFFAC 3 that currently are not being adequately addressed. Moreover, the Board believes that the long-term nature of social insurance programs requires that management discuss anticipated future demands, events, conditions and trends as well as those currently existing.

A62. However, the Board did make a significant change to the proposed standard after considering respondents' comments and the views of Board members. The Board decided to feature the open group measure rather than the closed group measure in the new MD&A reporting.

A63. In addition, the Board decided to require a table of key measures in the MD&A rather than make it optional, as proposed in the SI ED (see paragraph 26). In the SI ED, the Board had required – and continues to require – a narrative discussion of key measures in the MD&A of the government-wide entity and component entities that

present a SOSI, as described in paragraphs 24-28. The SI ED had provided an option whereby the entity could array the key measures in a table or schedule. The Board believes that a table or schedule will significantly enhance the presentation by helping users grasp the relationship between social insurance amounts and other costs, assets and liabilities, budget deficits, and sustainability projections, and therefore the table or schedule should not be optional.

What the Exposure Draft Proposed regarding the Statement of Net Cost

A64. The proposed standard did not affect the statement of net cost of social insurance entities and the government-wide entity. Some argued that the change in the social insurance closed group measure or other net present value during the reporting period is an economic cost. The economic cost of social insurance programs has been debated by the Board over the years. Some current Board members noted the effect of changes in the closed group measure was not presented on the statement of net cost. These Board members were concerned that this cost was not highlighted in the SI ED's compromise proposal.

A65. They noted that SFFAC 5 defines expense as an outflow of or other decrease in assets, an increase in liabilities, or a combination of both that results in a decrease in the government's net position during the reporting period.[19] SFFAC 5 defines liabilities as a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.[20] A present obligation requires a past transaction or other event.[21] These members believed that a past transaction or other event occurs when social insurance participants work in covered employment and pay payroll taxes, that an economic cost is being incurred.

A66. Some members noted that accrual accounting has a universal definition: expenses are recognized when incurred. They believed that only through accrual accounting can cost or financial position of an entity be measured, which is why generally accepted accounting principles primarily require accrual accounting. They believe the current focus on cash flow – or on "pay-as-you-go" financing with payroll taxes matched against current benefit payments – is misleading. They believe that payroll taxes received from those currently working in covered employment should be matched not against benefits payments to current retirees but against the economic cost being incurred, in order for accrual accounting to provide a decision-useful additional perspective.

[19] SFFAC 5, par. 53.
[20] SFFAC 5, par. 39.
[21] SFFAC 5, par. 42.

A67. As is discussed above and in the *Preliminary Views* document, Board members, respondents to the *Preliminary Views* document, and, historically, all groups who considered the question have disagreed over the past transaction or event that creates a liability and expense for social insurance programs.

A68. Those FASAB members who were concerned that the economic cost of social insurance is not being highlighted note that FASAB expectations regarding objectives of federal financial reporting in general and social insurance in particular are most clearly set forth in SFFAC 1, *Objectives*. The FASAB's *Strategic Directions* report, issued November 2006, focused on the objectives in SFFAC 1, and established Objective 2, "Operating Performance," and Objective 3, "Stewardship," as FASAB's most important focus. With respect to social insurance, these members note especially sub-objectives 2A, 2B, and 3A regarding the need for information about costs.

A69. These three sub-objectives speak most clearly about financial statements showing costs associated with a specific period and the impact these costs have on an entity's financial position.

A70. Other FASAB Objectives speak about financial statements showing other elements of financial position. The members who are concerned about economic costs believed that SOSI and the new SCSIA will do a very good job of meeting SFFAC 1, *Objectives*, Objective 3B, "Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due." These statements would also contribute to meeting Objective 3C, "Whether government operations have contributed to the nation's current and future well being."

A71. In addition, these members noted that information from the SOSI, if combined with other financial statement information, could help meet Objective 3A, which relates to changes in the government's financial position. Moreover, they believed that the proposed SCSIA, which all members support, will help meet Objective 3A.

A72. However, these members believed that the proposed standard can be criticized for failing to address Objective 2A and 2B, noted above, unless something is reported on the operating statement. For the SI ED, they suggested adding a line item to the statement of net cost to show the change in the social insurance commitment during the period in close proximity to other costs, an approach similar to the new line item that was proposed in the SI ED for the balance sheet.

A73. Other members disagreed that the change in the social insurance commitment should be on the statement of net cost. They believed that cost should represent the goods and services provided during the period. They argued that the change in

social insurance, although meaningful, is not a good or service provided, and should not be associated with such costs. They argued that presenting the change in the social insurance commitment on the statement of net cost would be misleading; that the SOSI amounts are purporting to represent something entirely different from what is on the balance sheet and statement of net cost; and that people expect customary elements on the operating statement for which SOSI amounts are too uncertain.

A74. They noted that the Board made the SOSI a basic statement and proposed that the SCSIA be a basic statement, and that the SOSI and SCSIA are to be presented in close proximity to the balance sheet and operating statement. They believed that that approach is appropriate. For them, the change in the social insurance commitment during the reporting period should be presented apart from the costs of the period and clearly labeled as, for example, "social insurance exposures." They concluded that associating the change with period costs is inappropriate because it does not represent the complete change in the government's financial condition, and that proposed fiscal sustainability reporting, which is now required pursuant to SFFAS 36, provides context and focuses on the government's financial condition.

A75. The SI ED did not require that the change in the closed group measure be recognized as an operating cost of the government on the statement of net cost and the statement of changes in net position. The Board decided to continue the SFFAS 17 approach with respect to expense recognition for social insurance. However, the Board did ask respondents to comment on the issue raised by members regarding the statement of net cost.

Respondents' Comments regarding the Statement of Net Cost

A76. The respondents overwhelmingly favored the Board's decision not to include a line item for the change during the period in the closed group measure on the statement of net cost. Many of these respondents asserted that they agreed with the position that the change in this measure is not a period cost, and that that position is consistent with the view that the closed group measure should not be presented on the balance sheet.

The Board's Conclusions regarding the Statement of Net Cost

A77. The Board concludes that there is substantial support in the community for the majority position not to include a new line item on the statement of net cost regarding the statement of net cost as presented in the SI ED

What the Exposure Draft Proposed regarding Note Disclosure

A78. The SI ED required note disclosure of an accrued benefit obligation. The objective of the disclosure is to provide information for the many users who are interested in knowing what such an amount would be and in evaluating the obligation in this way. An accrued benefit obligation is a measure of the present value of future benefits scheduled to be paid to or on behalf of current participants based on past transactions or events as of the valuation date. For example, for Social Security and Medicare Hospital Insurance (Part A), past work in covered employment; or, Medicare Supplementary Medical Insurance (Parts B and D), insurance coverage in force. Because it is based on past events, the accrued benefit obligation applies only to current participants in the programs as of the valuation date.

A79. Several methods for calculating an accrued benefit obligation were acceptable.[22] For example, the Social Security Administration provides, through its Office of the Actuary, an accrued benefit obligation for Social Security in a periodically updated Actuarial Note.[23] The Actuary Note discusses two liability-number candidates: the accrued benefit obligation and the maximum transition cost (MTC). The accrued benefit obligation 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.[24] 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 only difference between the accrued benefit obligation and the MTC is that assets held by the Social Security program are subtracted in calculating the MTC.

A80. Other approaches for calculating an accrued benefit obligation were acceptable. For example, the Primary View in the FASAB's *Preliminary View: Accounting for Social Insurance, Revised*, provided methodology for calculating a liability amount for social insurance programs.

A81. The Board stated that the accrued benefit obligation would give interested users a generally understood frame of reference. The accrued benefit obligation is intended to provide a perspective on social insurance programs from the point of view of a deferred benefit or an insurance obligation for those users who value such information. It is equivalent to the measure that the Board members who then held the Primary View believed should be recognized as a liability. The amount thus provided can be compared to the other measures and provide a full array of

[22] See http://www.ssa.gov/OACT/NOTES/actnote.html.
[23] Actuarial Note: Unfunded Obligation and Transition Cost for OASDI.
[24] SSA Actuarial Note 2006-1, Definitions, page 3.

information. Finally, this number is not currently available in Federal financial reports.

Respondents' Comments regarding Note Disclosure

A82. Respondents were nearly evenly dividing regarding the note disclosure. Some said the accrued benefit obligation did not reflect the realities of the program; they argue that it represents a termination valuation and would not be meaningful for social insurance. Others asserted that it would require yet another number and this constitutes "information overload." Others objected to the use of the term "obligation" because they believe it implies the government has an obligation to participants, and they do not think there is any more of an obligation to social insurance participants than to annual programs.

A83. Those supporting the disclosure of the accrued benefit obligation mentioned several rationales. Some noted that comprehensive financial reporting requires the accrued benefit obligation perspective, which they say is the only measure of financial status of social insurance programs that can be thought of as a liability because it only involves past transactions and events. They say the accrued benefit obligation provides valuable information to the public about programs upon which participants depend for retirement income and benefits. Another respondent felt that the disclosure would help the reader relate social insurance obligations to federal employee pensions and other retirement benefits. Others felt that the "due and payable" liability measure was simply not based on the proper accounting theory and concepts.

The Board's Conclusions regarding Note Disclosure

A84. The Board continues to believe that the accrued benefit obligation will give interested readers a generally understood frame of reference and a needed perspective on social insurance programs. The amounts thus provided can be compared to the other measures and provide a full array of information. This perspective currently is not readily available or not available at all. Moreover, the standard is flexible. It allows the preparer to select and describe the methodology used for preparing an accrued benefit obligation.

Appendix B: Table of Key Measures

Table of Key Measures	billions of dollars		
	2008	2007	2006
Costs			
Net costs	($3,671)	($2,903)	($2,890)
Total taxes and other revenues	2,661	2,627	2,441
Net operating cost	(1,010)	(276)	(449)
Net Position			
Assets	$1,975	$1,581	$1,497
Less: Liabilities, comprising			
Federal debt held by the public	5,836	5,078	4,868
Federal employee & veterans benefits	5,319	4,769	4,679
Other liabilities	1,023	940	866
Total liabilities	12,178	10,787	10, 413
Net position (assets net of liabilities)	($10,203)	($9,206)	($8,916)
Social Insurance Commitments			
Net present value (NPV) of future cash flows for all participants over the next 75 years (open group), end of fiscal year	($42,970)	($40,948)	($38,851)
NPV of future cash flow for all participants over the next 75 years (open group), beginning of fiscal year	(40,948)	($38,851)	($35,689)
Change in NPV	(2,022)	(2,097)	(3,162)
Budget Results			
Unified Budget Deficit	($455)	($163)	($248)
Spending in Excess of Receipts			
Spending in excess of receipts as of January 1 (see Long-Term Projections Statement)	($XX,XXX)	($XX,XXX)	($XX,XXX)

Appendix C: Pro Forma Statement of Social Insurance, Part I, Government-wide SOSI

United States Government
Statement of Social Insurance

********UNAUDITED**********

(In billions of dollars)	2008	2007	2006	2005	2004
Federal Old-Age, Survivors and Disability Insurance (Social Security):					
Contributions and Earmarked Taxes from:					
Participants who have attained age 62	$ 542	$ 477	$ 533	$ 464	$ 411
Participants ages 15-61	18,249	17,515	16,568	15,290	14,388
Future participants (under age 15 and births during period)	17,566	16,121	15,006	13,696	12,900
All current and future participants	36,357	34,113	32,107	29,450	27,699
Expenditures for Scheduled Future Benefits for:					
Participants who have attained age 62	(6,958)	(6,329)	(5,866)	(5,395)	(4,933)
Participants ages 15-61	(29,091)	(27,928)	(26,211)	(23,942)	(22,418)
Future participants (under age 15 and births during period)	(6,933)	(6,619)	(6,480)	(5,816)	(5,578)
All current and future participants	(42,911)	(40,876)	(38,557)	(35,153)	(32,929)
Net present value (NPV) of future expenditures less future revenue (open group measure)	$ (6,555)	$ (6,763)	$ (6,450)	$ (5,703)	$ (5,230)

Federal Hospital Insurance (Medicare Part A):	**2008**	**2007**	**2006**	**2005**	**2004**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	$ 202	$ 178	$ 192	$ 162	$ 148
Participants who have not attained eligibility age	6,320	5,975	5,685	5,064	4,820
Future participants	5,361	4,870	4,767	4,209	4,009
All current and future participants	11,883	11,023	10,644	9,435	8,977
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(2,747)	(2,558)	(2,397)	(2,179)	(2,168)
Participants who have not attained eligibility age	(17,365)	(15,639)	(15,633)	(12,668)	(12,054)
Future participants	(4,506)	(5,118)	(3,904)	(3,417)	(3,246)
All current and future participants	(24,619)	(23,315)	(21,934)	(18,264)	(17,468)
NPV of future expenditures less future revenue (open group measure)	$(12,736)	$(12,292)	$(11,290)	$ (8,829)	$ (8,491)
Federal Hospital Insurance (Medicare Part B):	**2008**	**2007**	**2006**	**2005**	**2004**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	$ 461	$ 433	$ 409	$ 363	$ 332
Participants who have not attained eligibility age	3,859	3,184	3,167	2,900	2,665
Future participants	1,158	1,172	906	924	891
All current and future participants	5,478	4,789	4,482	4,187	3,888
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(1,986)	(1,834)	(1,773)	(1,622)	(1,475)
Participants who have not attained eligibility age	(14,949)	(12,130)	(12,433)	(11,541)	(10,577)
Future participants	(4,262)	(4,257)	(3,407)	(3,408)	(3,277)
All current and future participants	(21,197)	(18,221)	(17,613)	(16,571)	(15,329)
NPV of future expenditures less future revenue (open group measure)	$(15,719)	$(13,432)	$(13,131)	$(12,384)	$(11,441)

Federal Hospital Insurance (Medicare Part D):	2008	2007	2006	2005	2004
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	$ 123	$ 167	$ 173	$ 185	$ 176
Participants who have not attained eligibility age	1,380	1,627	1,700	1,790	1,857
Future participants	604	611	492	572	618
All current and future participants	2,107	2,405	2,365	2,547	2,651
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(581)	(794)	(792)	(880)	(773)
Participants who have not attained eligibility age	(6,527)	(7,273)	(7,338)	(7,913)	(7,566)
Future participants	(2,856)	(2,699)	(2,121)	(2,440)	(2,431)
All current and future participants	(9,964)	(10,766)	(10,251)	(11,233)	(10,770)
NPV of future expenditures less future revenue (open group measure)	$(7,857)	$ (8,361)	$ (7,886)	(8,686)	$ (8,119)
Railroad Retirement	**2008**	**2007**	**2006**	**2005**	**2004**
Contributions and Earmarked Taxes from:					
Participants who have attained eligibility age	$ 5	$ 5	$ 5	$ 4	$ 4
Participants who have not attained eligibility age	43	41	40	37	37
Future participants	54	54	56	41	39
All current and future participants	102	100	101	82	80
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age	(97)	(93)	(92)	(84)	(81)
Participants who have not attained eligibility age	(88)	(86)	(84)	(73)	(72)
Future participants	(26)	(26)	(25)	(16)	(14)
All current and future participants	(212)	(205)	(201)	(173)	(167)
NPV of future expenditures less future revenue(open group measure)	$ (109)	$ (105)	$ (100)	$ (91)	$ (87)
Black Lung (Part C):	**2008**	**2007**	**2006**	**2005**	**2004**
NPV of future revenue over future expenditures (open group measure)	$ 5	$ 5	$ 4	$ 5	$ 4
Total NPV of future expenditures in excess of future revenue (open group measure)	$(42,970)	$(40,948)	$(38,853)	$(35,688)	$(33,364)

Social Insurance Summary	**2008**	**2007**	**2006**	**2005**	**2004**
Participants who have attained eligibility age:					
Revenue (e.g., Contributions and earmarked taxes)	$ 1,333	$ 1,260	$ 1,312	$ 1,178	$ 1,071
Expenditures for scheduled future benefits	(12,369)	(11,608)	(10,920)	(10,160)	(9,430)
Present value of future expenditures in excess of future revenue	(11,036)	(10,348)	(9,608)	(8,982)	(8,359)
Participants who have attained age 15 up to eligibility age:					
Revenue (e.g., Contributions and earmarked taxes)	29,851	28,342	27,160	25,081	23,767
Expenditures for scheduled future benefits	(67,950)	(63,056)	(61,699)	(56,137)	(52,687)
Present value of future expenditures in excess of future revenue	(38,099)	(34,714)	(34,539)	(31,056)	(28,920)
Closed group -- Total present value of future expenditures in excess of future revenue for current participants	(49,135)	(45,062)	(44,147)	(40,038)	(37,279)
Future participants (under age 15 and births during period):					
Revenue (e.g., Contributions and earmarked taxes)	24,743	22,828	21,227	19,442	18,457
Expenditures for scheduled future benefits	(18,578)	(18,714)	(15,933)	(15,092)	(14,542)
Present value of future expenditures in excess of future revenue	6,165	4,114	5,294	4,350	3,915
Open group -- Total present value of future expenditures in excess of future revenue for current and future participants	$(42,970)	$ (40,948)	$ (38,853)	$ (35,688)	$(33,364)

Component Entity Pro Forma Statement of Social Insurance
Social Security Administration

(In billions of dollars)	2008	2007	2006	2005	2004
			********UNAUDITED**********		
Federal Old-Age, Survivors and Disability Insurance (Social Security):					
Participants who have attained eligibility age:					
Contributions and earmarked taxes	$ 542	$ 477	$ 533	$ 464	$ 411
Expenditures for scheduled future benefits	(6,958)	(6,329)	(5,866)	(5,395)	(4,933)
Present value of future expenditures in excess of future revenue	(6,446)	(5,852)	(5,333)	(4,931)	(4,522)
Participants who have attained age 15 up to eligibility age:					
Contributions and earmarked taxes	18,249	17,515	16,568	15,290	14,388
Expenditures for scheduled future benefits	(29,021)	(27,928)	(26,211)	(23,942)	(22,418)
Present value of future expenditures in excess of future revenue	(10,772)	(10,413)	(9,643)	(8,652)	(8,030)
Net present value of future expenditures in excess of future revenue for current participants (closed group measure)	(17,218)	(16,265)	(14,976)	(13,583)	(12,552)
Plus: Treasury securities and assets held by the programs*	2,238	2,048	1,859	1,687	1,531
Closed group unfunded obligation	(14,980)	($14,217)	($13,117)	($11,896)	($11,021)
Future participants (under age 15 and births during period):					
Contributions and earmarked taxes	17,566	$ 16,121	$ 15,006	$ 13,696	$ 12,900
Expenditures for scheduled future benefits	(6,933)	(6,619)	(6,480)	(5,816)	(5,578)
Present value of future expenditures in excess of future revenue	10,633	9,502	8,526	7,880	7,322
Net present value of future expenditures in excess of future revenue for current and future participants (open group measure)	(6,585)	(6,763)	(6,450)	(5,703)	(5,230)
Plus: Treasury securities and assets held by the programs	2,238	2,048	1,859	1,687	1,531
Open group unfunded obligation	$(4,344)	($4,715)	($4,591)	($4,016)	($3,699)

Appendix D: Pro Forma Statement of Changes in Social Insurance Amounts

The following table contains a pro forma illustration of a statement of changes in social insurance amounts.

Illustrative Statement of Changes in Social Insurance Amounts
0pen Group Measure
For the Year Ended September 30, 2008
(in billions of dollars)

	Social Insurance, Closed Group Measure				
	Social Security	Medicare HI	Medicare SMI	Other (e.g., Railroad Retirement)	Total
Net present value (NPV) of future expenditures in excess of future revenue 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)

The following note examples are adapted from the Social Security Trustees' Report. The explanations of the changes will depend on the social insurance program in question.

1. Changes in the demographic starting values and the transition to ultimate assumptions and changes in the ultimate mortality and legal immigration assumptions have largely offsetting effects. They combine to have little net effect on the closed group measure. Final mortality data for 2007 result in slightly lower starting death rates and faster near-term declines in death rates than in last year's report. Also, slightly faster rates of decline in death rates are assumed ultimately for ages 15-64 in this year's report. These changes in ultimate rates are based on the continuing strong declines in mortality recently experienced by men at these ages and a belief that the lower rates of decline experienced by women since 1982 will not continue in the future. All of the mortality changes result in a decrease (worsening) in the closed group measure of about $106 billion. Partially offsetting the effect of the mortality changes is an increase in the assumed ultimate level of net legal immigration in this year's report. Based on data since 2000, the ultimate level of net legal immigration is assumed to increase from 600,000 to 750,000 persons per year. This change results in an increase (improvement) in the closed group measure of about $103 billion. Other demographic changes are made to the starting values of birth rates and numbers of people in the Social Security area. Birth rates for the first 25 years of the projection period are higher than in last year's report, based on preliminary birth data for 2006 and 2007 which indicate higher than expected numbers of births. These changes in birth rates and the starting population result in an increase (improvement) in the closed group measure of about $102 billion.

2. Ultimate economic assumptions are unchanged from last year's report. Changes in starting values for the economic assumptions and in the near-term transition to the ultimate economic assumptions have a negligible effect on the social insurance closed group measure.

3. There were no legislative changes since the last report that are projected to have a significant effect on the long-range OASDI actuarial balance.

4. Several methodological improvements and updates of program-specific data are included in the 2008 measures. These changes to programmatic data and methods result in a combined increase (improvement) in the open group measure of about $171 billion. The most significant of these changes is a major revision in the methods used for projecting the other-immigrant (other than legal permanent resident) population. In previous reports, the other-immigrant population was projected using assumed annual numbers of net other immigrants with a static age-sex distribution. For this year's report, the annual numbers of net other immigrants are projected by explicitly modeling other immigrants and other emigrants separately. Under this approach, a large number of other immigrants is assumed

to enter the Social Security area at relatively young working ages, with the total annual number of other immigrants entering the area assumed to be about 1.5 million. Most of these immigrants are assumed to either: (1) leave the Social Security area (i.e., to depart from the area without having attained the legal status or work credits needed to become eligible for retired-worker benefits); or (2) attain legal permanent resident (LPR) status after several years of being in the other-immigrant population. Thus, this year's report results in a much larger other-immigrant population projected at working ages and a smaller number remaining in the Social Security area into old age. This change, along with the additional births due to the larger other-immigrant population at younger ages, results in a substantial increase in the number of working-age individuals contributing payroll taxes, but a relatively smaller increase in the number of retirement-age individuals receiving benefits in the latter half of the long-range period. This revision results in an increase (improvement) in the closed group measure of about $163 billion. Another area of methodological improvement is related to the projection of average benefit levels for workers who will become eligible in the future. The historical sample of new beneficiaries, which serves as the basis for the projection of average benefit levels, was updated from a 2004 sample to a 2005 sample. Also, additional records of beneficiaries who began receiving benefits after the year for which they were first found to be entitled are now included in the sample of newly entitled retired-worker beneficiaries. These changes in projecting average benefits, along with several other smaller changes, result in an increase (improvement) in the closed group measure of about $101 billion.

The combined effects of changes made in data, assumptions, and methods for this report more than offset the decrease in the OASDI long-range actuarial balance due to the new valuation period. This effect is indicated by the total $140 billion increase in the closed group measure, which, after rounding, changes the closed group measure from $\$XX_1$ trillion in last year's report to $\$XX_2$ trillion in this report.

Appendix E: Glossary

Eligibility under Social Security

Eligibility for benefits under the Social Security program requires some minimal level of work in covered employment. This requirement is established by a worker's accumulation of quarters of coverage (QCs). A worker must be fully insured to be eligible for a primary retirement benefit, and for his or her spouse or children to be eligible for auxiliary benefits. A deceased worker must have been either currently insured or fully insured at the time of death for his or her children (and their mother or father) to be eligible for benefits. If there are no eligible surviving children, the deceased worker must have been fully insured at the time of death for his or her surviving spouse to be eligible.

Fiscal Gap

The fiscal gap is the change in spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of GDP. The fiscal gap is the net present value of projected spending minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at the target level for the stated projection period. The fiscal gap may be expressed as: (a) a summary amount in present value dollars, (b) a share of the present value of the GDP for the projection period, and/or (c) a share of the present value of projected receipts or projected spending.

Fiscal Sustainability

The terms "sustainability" or "sustainable solvency" are used frequently with respect to social insurance programs. The dictionary definition of "sustain" that is closest to the financial accounting usage is "to keep up;" and "solvent" means to be able to pay all legal debts. The Government Accountability Office has defined "solvency" and "sustainable solvency" for Social Security as essentially being able to pay full benefits as they come due, permanently.

Fiscal Sustainability Reporting

In federal financial reporting, "Fiscal Sustainability Reporting" is the short term for "Comprehensive Long-Term Fiscal Projections and Accompanying Graphics and Narrative in the Financial Report of the U.S. Government."

Fully Insured

"Fully insured" status means that a social insurance participant is eligible for benefits. Social insurance benefits include pensions and health care for retirees and the disabled. For example, Social Security and Medicare participants become permanently fully insured when they attain at 40 quarters of work in covered employment (QC). Social Security and Medicare participants may be fully insured without being permanently fully insured. This is important with respect to disability benefits, which include subsistence payments and medical care. Disability benefits may be needed well before the participants attained

retirement age. A participant who receives disability benefits for 24 consecutive months is eligible for Medicare and, when if he or she continues receiving disability benefits until attaining retirement age, he or she is converted to Social Security pension benefits. To be fully insured, participants generally need a minimum of 6 QC. Once a worker has accumulated 40 QCs, he or she remains permanently fully insured, that is, no further QCs are required.[25]

The table below illustrates the numbers of QC needed to qualify for disability benefits:

Age	QCs Needed
24 and younger	6
25	8
26	10
27	12
28	14
29	16
30	18
31	20
32	22
33	24
34	26
35	28
36	30
37	32
38	34
39	36
40	38
41	40
42 and over	40

Intergenerational Equity

Intergenerational equity assesses the extent to which different age groups may be required to assume financial burdens to sustain Federal responsibilities. It is a concept involving relative contributions of current and future citizens. This concept focuses on fiscal obligations and responsibilities being accumulated by the current generation, however one defines it that are passed on to future generations.

Maximum transition cost

[25] 2003 OASDI Trustees' Report, page 111.

As defined by the Office of the Actuary, Social Security Administration, this measure represents the cost of meeting the **accrued benefit obligations** (see above) 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. For Social Security, 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.

Present value

Present value represents the amount of money that if invested today would grow to a specified amount in the future. Present value is an adjusted amount that takes the "time value of money" into consideration. The "time value of money" is illustrated by a question such as: "At ten percent annual interest, how much do I need to put into the bank to have $100 one year from today?" Clearly, the amount you would need today would be less than $100.

Projections

A projection is the calculation of future data based upon the application of trends to present data. Projections of deficits, or surpluses, and debt are a central feature of Fiscal Sustainability Reporting. Projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions–for example, what if current policy without change regarding Federal Government public services and taxation are continued in the future? Projections are useful in order to present alternative future scenarios, but it is important to clearly explain the nature of the information being presented.

Sensitivity Analysis

An analysis of the sensitivity of the program's closed group measure under reasonable, alternative scenarios that are different from expected experience. When the data used in setting assumptions is particularly sensitive to the assumptions, greater sensitivity testing is indicated.

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.

Appendix F: List of Abbreviations

ANPV	Actuarial net present value
APB	Accounting Principles Board
CFS	Consolidated financial statements
COLA	Cost of living adjustment
CPI	Consumer Price Index
DI	Disability Insurance (Social Security)
DOL	U.S. Department of Labor
ED	Exposure draft
ESAA	Employment Security Administration Account
EUCA	Extended Unemployment Compensation Account
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FECA	Federal Employees Compensation Account
FUA	Federal Unemployment Account
FUTA	Federal Unemployment Tax Act
GAO	Government Accountability Office
GDP	Gross Domestic Product
IBNR	Incurred but not reported
Medicare HI	Hospital Insurance (Medicare)
Medicare SMI	Supplementary Medical Insurance (Medicare)
OASDI	Old-Age, Survivors, and Disability Insurance (Social Security)
OASI	Old-Age and Survivors Insurance (Social Security)
OMB	Office of Management and Budget
PV	Preliminary Views
RSI	Required supplementary information
SCNP	Statement of Changes in Net Position
SFAS	Statements of Financial Accounting Standards
SFFAC	Statements of Federal Financial Accounting Concepts
SFFAS	Statements of Federal Financial Accounting Standards
SNC	Statement of Net Change
SCSIA	Statement of Changes in Social Insurance Amounts
SI ED	Social Insurance Exposure Draft dated November 2008
SOSI	Statement of Social Insurance
SSA	Social Security Administration
UI	Unemployment Insurance
UTF	Unemployment Trust Fund

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