Federal Accounting Standards Advisory Board

October 9, 2009

Memorandum

To: Members of the Board

From: Richard Fontenrose, Assistant Director

Thru: Wendy M. Payne, Executive Director

Subj: TAB C, Social Insurance[1]

MEETING OBJECTIVES

To consider the remaining issues regarding the proposed social insurance standard. Decisions made at the meeting will enable staff to prepare a final standard.

STAFF ANALYSIS

Staff memoranda for August, June and April, 2009, discussed issues regarding the social insurance exposure draft of November 2008 ("SI ED"). As of August 2009, the Board addressed all the primary issues identified by staff (which were numbered 1 thru 9) with the exception of Issue 6, which involves note disclosure of an accrued benefit obligation.

The Board had discussed whether to develop a new basic financial statement as part of the social insurance project. However, in August the Board decided to consider any new basic financial statements in the Financial Reporting Model Phase of its Concepts Project. (See Table 19 in Attachment 2, "Tables 10-19 of FASAB Decisions and Points of Consensus.")

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

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TAB C – Staff Memo (October 2009)

Staff is presenting a draft social insurance standard at Attachment 1 of this Tab for the Board's consideration. The draft reflects what the staff believes the members have agreed to through August 2009.

Please note that the draft standard at Attachment 1 of this Tab is not a "track changes" edition from the SI ED. Ideally, a "track changes" edition would have been provided. However, the many re-arrangements, editing, and re-formatting necessary to transform the SI ED (or any exposure draft) into a standard rendered a "track changes" edition extremely cumbersome. And the Word software put up strong resistance. The staff concluded that a "clean" edition would be best.

The changes to the standards section (paragraphs 12-42) from the SI ED reflect the Board's decisions this spring and summer, as shown in the tables of decisions in Attachment 2 of this Tab. The changes to the standards section are not extensive. The main changes are: (1) eliminate the line item on the balance sheet proposed in the SI ED, and (2) emphasize the open group measure instead of the closed group measure. In addition, the summary and introductory sections and the basis for conclusions of the standard have been rewritten in the appropriate format.

Two remaining issues for the Board's consideration are discussed briefly immediately below and are identified in the body of the draft standard at Attachment 1 of this Tab. They involve the questions of (1) whether the table specified in the standard for the management's discussion and analysis section should be required or optional; and (2) whether the note disclosure of an accrued benefit obligation should be required. In addition, the staff is seeking any other comments the members may have on the wording of the standard.

Please note also that the staff is proposing to change (1) the title of the draft standard to reflect its limited scope and (2) effective date of the standard from FY 2010 to FY 2011 to reflect the current timing of the project. The proposed new title is *Social Insurance: Additional Requirements for Management's Discussion and Analysis, Basic Financial Statements, and Disclosures*.

Should the Table in the MD&A Be Required or Optional?

In June, 2009, the Board unanimously approved the MD&A section of the standard with changes to certain sub-paragraphs (Issue 3) -- see Table 18 in Attachment 2. Although there seemed to be a consensus in August for making the table a requirement as part of the Board's decision not to develop a new basic statement at this time, there were some divergent views; and, thus, the staff is seeking to confirm that that is the Board's intent. The staff has drafted the standard to require a table of key measures in the MD&A (see paragraphs 26 and A63). The staff recommends requiring a table because it will serve to summarize and effectively communicate key measures.

Should the Table in the MD&A Be Mandatory or Optional?

In addition, the staff notes that the draft standard's MD&A provisions would require more than the current MD&A standard (i.e., SFFAS 15). In addition to emphasizing the need to discuss critical measures and key amounts from the basic statements, which is basically the same as SFFAS 15, the draft standard is more specific. It requires management to explain the major changes in these amounts 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. In addition, the proposed standard specifies what information, at a minimum, the entity should present and explain (costs, net position, social insurance commitments (i.e., the open and closed group measures), changes in the open group measure, key budgetary amounts, and long-range projections/the fiscal gap, see paragraph 25). Moreover, the draft requires analysis of the effects not only of existing events, demands, etc., but also of anticipated future events, demands, etc. about which SFFAS 15 is currently permissive rather than mandatory. The objective is to obtain a more robust management analysis.

Should the Standard Require Note Disclosure of an Accrued Benefit Obligation?

The question of note disclosure of an accrued benefit obligation has been presented in past staff memoranda as Issue 6, which the Board has yet to fully consider. The standard defines the accrued benefit obligation and requires the preparer to select and describe its methodology. (See paragraph 34 of the standard and paragraphs A84 of the basis for conclusions.)

The staff recommends this disclosure. It 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. 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 to provide a full array of information. This perspective currently is not readily available or not available at all. The staff believes that this disclosure presents no technical problems. The Social Security Administration currently presents an acceptable measure on its Web site. The entity merely has to choose a methodology and assumptions. In addition, staff is recommending that the effective date be FY 2011 instead of FY 2010, which will afford more time for any developmental work.

The Board asked staff to get feedback from the Center for Medicare and Medicaid Services ("CMS") on the technical difficulty, if any, of providing this disclosure. Ms. Payne spoke with CMS Chief Actuary Rick Foster who said he would be able to calculate an accrued benefit obligation if SSA can provide the fully insured population at the valuation date, which we assume they can since they produce the "Actuarial Notes" containing an accrued benefit obligation for Social Security. For Medicare Parts B and D, Mr. Foster indicated he would only include enrollees since past work is not sufficient to qualify them (they must enroll and pay premiums). Staff believes that approach would comply with the standard. He said it would not be 'horribly difficult' or costly. Mr. Foster added that he still holds the view

expressed in previous comments[2] to the Board that such information has value but potentially is confusing and therefore not something he would endorse.

Should the Standard Require Note Disclosure of an Accrued Benefit Obligation?

Do Board Members Have Any Other Comments on the Draft Standard?

The staff is seeking any comments the members have on the wording of or any other aspects of and/or edits to the draft.

Comments from Members on the Draft Standard?

[2] At an October 5, 1998, hearing on proposed accounting for social insurance, Mr. Foster responded to a question regarding presentation of the closed group amount by stating that "... the problem that we end up with ... is do you provide information that is not highly critical in terms of meeting your promises, but it might be of interest? Do you provide that at the expense of perhaps or even probably confusing a lot of people? In my mind, I would rather stick with what is really important."